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The Kenyan Banking System: From Colonial Expansion to Independence Uncertainty 1950-1970

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Declaration

I declare that this thesis is entirely my own work and does not contain material submitted for examination for a degree at any other university.

Christian Velasco

Abstract

This thesis is an historical analysis of the most import commercial banks in Kenya, the National Bank of India, the Standard Bank of South Africa and Barclays Bank Dominion Colonial and Overseas since post-war period up to the 1970 decade. The objective is to revaluate the important role of these multinational financial institution in the social political and economic life during the last decades of the Kenyan colonial period and the first years of independent life. The research sheds light on the adaptation process of the institutions during these convulsive years and explores the influence of the commercial banks in the construction of the financial system once Kenya achieved its independence.

The first chapter stablishes the time and geographical delimitation of the study as well as the theoretical framework for the analysis. The second chapter analyses the characteristics of the banks operating in Kenya. Their business strategy in the colony and their relations with the British and colonial authorities. The aim is to know the specific situation of each institution and so comprehend their behaviour and possibilities during the period of analysis. The third and fourth chapters examines the performance of the banks between the diverse independence processes along Africa at the end of the Second World War, the Mau Mau uprising in Kenya and the process of independence. These events altered the business and future performance of the banks in the colony, preparing the ground for the Africanisation process of the commercial bank. The particularities of this transformation are analysed in the fifth section of the thesis. The last section of the research studies the adaptation process of the commercial banks during the first years of Kenya independence, moment when the baking institutions had to negotiate with different government authorities, new development projects, a rising African economic elite and new financial institutions.

Abbreviations

ANZGB: Australia and New Zealand Group Bank

BDCO: Barclays Dominion Colonial and Overseas

BGA: Barclays Group Archives

CBK: Central Bank of Kenya

HKSB: Hong Kong and Shanghai Bank

KNA: Kenya National Archives

LABK: Land and Agricultural Bank of Kenya

LMA: London Metropolitan Archives

NBI: National Bank of India

NBK: National Bank of Kenya

NBSA: National Bank of South Africa

OTMB: Ottoman Bank

POSB: Post Office Saving Bank

SBSA: Standard Bank of South Africa

TNA: The National Archives

1 Introduction

Was the European colonisation of Africa motivated by economic gain, a natural step in capitalist development, or was this expansion led by a desire to preserve and increase national prestige in a time of euphoric chauvinism? This question has been thoroughly explored in the historiography of European imperialism, and most historians arrive at an answer that identifies a combination of causes in the expansion and rise of colonisation in the nineteenth century.[1] The drivers of imperial expansion of course shifted over time, and by the end of the nineteenth century, as East Africa was placed under European imperial rule, capitalism was fully developed in the quickly moved in to exploit the opportunities that colonisation presented. When European armies had subjugated the local populations and extended their dominion in East Africa, they were closely followed not just by the cross and bible but by the economic institutions essential to the capitalist economic system. In that sense, commercial banking was a pioneer in colonisation, vital as part of the financial system under which the gained territory and peoples would be ordered and controlled. As colonisation was secured, banking then played a fundamental role in the development of colonial territories over the long term. Despite the obvious importance of banking institutions to the functioning of the colonial economic system, the history of banking in individual colonies is a topic that has hardly yet been touched by historical research.

This thesis presents an historical analysis of the development of commercial banks in Kenya, from the post-war years of the 1940s, through to the end of Kenya's first decade of independence in the early 1970s. The study will consider the full range of financial institutions that operated in the colony over that period, but the substantial analysis of the operation of banking will focus mainly on three of the principal banks: the National Bank of India (NBI), Standard Bank of South Africa (SBSA), and Barclays Dominion Colonial and

[1] For an account of the debate over the motives behind the colonisation see: Ronal Robinson and John Gallagher, *Africa and the Victorians The Official Mind of Imperialism,* (London, 1961) and P.J. Cain and A.G. Hopkins, *British Imperialism: 1688-2015* (New York, 2016)

Overseas (BDCO). These were the first banks to be established in the colony and were the most important in terms of their number of clients, their business size and the quantity of their branches right through until the last decades of the twentieth century. Due to their importance and their extension throughout all of East Africa, these banks were known collectively as the "Big Three", a name that endured after independence when they initially maintained dominance of Kenya's major financial services. Fortunately, all three of these banks have large surviving collection of records that have been archived and are open to scholarly examination, and these historical papers form the basis of this study.

The thesis will explore multiple themes in the development of colonial banking, but the main research question to be answered is the role of commercial banks in the economic development of the colony, and how these financial institutions were at the same time transformed by the social and political events that occurred in the colony and surrounding areas. Concomitantly, the study reveals the relationship between the colonial development of the banks and the further of the financial system once Kenya acquired sovereignty. The research identifies the active role played by financial institutions within Kenyan colonial life, in opposition to an existing literature which has assigned a passive role to the commercial banking sector, seeing the banks as peripheral to the other transformations that took place in the colony.[2] Also, as this is the first monographic study of the main commercial banks in colonial and postcolonial Kenya, the research will fill a significant gap in the current literature on Kenya history and on British imperial history in Africa.[3] As this research will demonstrate,

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[2] Newlyn, Walter T., and Rowan, D. C., *Money and Banking in British Colonial Africa: A Study of the Monetary and Banking Systems of Eight British African Territories* (Oxford, 1954), Engberg, Holger L, 'Commercial Banking in East Africa, 1950-1963', *Journal of Modern African Studies,* 3 (1965), 175-200, Van, Zwanenberg, R. M. A, and King, Anne, *An Economic History of Kenya and Uganda, 1800-1970* (London, 1975), 280-281

[3] For example, the active role of banking institution lending to Africans in Nigeria and collusion practices along colonial West Africa have been extensively analysed by Austin Gareth and Chibuike Ugochukwu, Uche 'Collusion and Competition in Colonial Economies: Banking in British West Africa, 1916-1960', *Business History Review*, 81 (2007), pp. 1-26.; Chibuike Ugochukwu, Uche, 'Indigenous Banks in Colonial Nigeria', *International Journal of African Historical Studies*, 43 (2010), pp. 467-87.; Also, the South African banking history has been largely explored, see Jones, Stuart, *Banking and Business in South Africa* (Basingstoke, 1988).; Jones, F. Stuart. 'Business Imperialism and the Imperial Banks in South Africa'. *South African Journal of Economics,* 66 (1998), pp. 67-90.

the banks were important actors in the economic and social life of the colony, playing a prominent role in the historical processes that shaped the emergent nation.

1.1 Time Delimitation

The thesis focuses on a period that straddles the colonial- and post-colonial divide – a period of rapid social change, of major economic development, and of dramatic political transition.[4] The three decades that span the late 1940s to the early 1970s reflect a time characterised by the breakdown of old structures; a late transition in East Africa between the colonial structure, with its particular institutions and political practices, inherited from the long nineteenth century, to the short-lived era of twentieth century imperial policy.[5] This transition was characterised by the ending of the British Imperial world system and consequent transformation of the political order with the rise of nationalist movements within ex-colonies. In that sense, the years covered by the study allow us to observe the development of the chosen financial institutions in a time of the deconstruction and reconfiguration of imperial structures; a transformation that implied important changes at local and international level that altered both the fundamentals of the colony's economy and the operations of the businesses within. While the study is focused on these transformations and follows a chronological structure, it does not attempt to establish a link between the analysed periods in broader political terms, instead focusing upon the structural ruptures in the banking sector and how the financial institutions were themselves transformed.

As the 1940s drew to a close, at the international level world politics was dominated by the emergence of the global Cold War and by increasingly vociferous condemnation of imperialist practices from the international community.[6] This new international scenario, in

[4] For a synthesis of the period see: Frederick, Cooper, *Africa since 1940: The Past of the Present* (Cambridge, 2002).
[5] Eric. J. Hobsbawm, *The Age of Empire 1875-1914* (New York, 1989), 6.
[6] Odd Arne, Westad, *The Global Cold War: Third World Interventions and the Making of Our Times* (Cambridge, 2005), 86-87.

conjunction with Britain's post-war economic weakness, drastically altered the position of the colonies with respect to the metropolis.[7] Despite attempts to hold its international weight and preserve its world system, including the maintenance of sterling, the British government could not contain the spread of nationalistic claims throughout Asia and Africa.[8] Its "defence" of the Empire,[9] even among British citizens, became costlier and more unpopular. In the financial arena, British banks were also facing threats to their dominant position as a result of increasing competition from other countries, particularly the US banking sector which was expelling British banks from their traditional operational territories.[10]

At local level, the economic difficulties of the British government, combined with the pressure to be recognised as a civilising force rather than just a subjugator of the local population within its extended dominion, led to a major revision in the economic management and political control of colonies in both Asia and Africa. This new approach removed the older system of indirect rule, and replaced it with a more progressive and developmentalist colonial model, which as at once both more inclusive and more exploitative. John Lonsdale and Anthony Low were the first to label this post-war transformation in East Africa as 'the second colonial occupation',[11] an idea that was then taken up and described more fully in the writing of John Iliffe on Tanganyika.[12] 'The second colonial occupation' implied a fresh flow of resources into the colonies as the tap of

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[7] Michael, Kitson, 'Failure Followed by Success or Success Followed by Failure? A Re-Examination of British Economic Growth since 1949', in *The Cambridge Economic History of Modern Britain: Volume 3: Structural Change and Growth, 1939–2000*, ed. by R. Floud and P. Johnson (Cambridge, 2004), pp. 27-56.

[8] Jeronimo, Bandeira and Antonio, Pinto, 'Myths of Decolonization: Britain, France, and Portugal Compared', in *The Ends of European Colonial Empires: Cases and Comparisons*, ed. by Bandeira Jeronimo and Antonio Costa Pinto (Basingstoke, 2015), pp. 126-147; Matthew G. Stanard, *European Overseas Empire 1879-1999: A Short History* (New Jersey, 2018), 180-200.

[9] The Suez crisis in 1956 deteriorated the British international position, making it the main imperialist enemy for colonial and ex-colonial states, see: John Darwin, *The Empire Project: The Rise and Fall of the British World-System, 1830-1970* (Cambridge, 2009), 569.

[10] Geoffrey, Jones, *British Multinational Banking, 1830-1990* (Oxford, 1993), 255.

[11] D. A., Low, and John, Lonsdale, 'Introduction', in *History of East Africa Vol. 3*, ed. by D. A Low and Alison Smith (Oxford, 1976), 12

[12] John, Iliffe, *A Modern History of Tanganyika* (Cambridge, 1979), 436

development funding was turned on, but this met with resistance from both African and white settler populations, neither of whom welcomed the greater interference in their local affairs and the direction of their economies by the hand of the metropolis. At the same time, the post-war era in East Africa saw the rise of an economically powerful and increasingly politicised African class who, bolstered by the wave of international nationalism, were determined to achieve self-government. In Kenya, this alteration in the balance of power between white settlers, who had traditionally played a prominent role in the economic management of the colony, and an emergent class of African political and economic leaders, led rapidly to increased instability in the years following the Second World War. By 1952, Kenya was pitched into internal warfare by an armed uprising, the Mau Mau, the causes of which reflected the struggle for economic security around issues of land ownership and labour.[13] The Mau Mau rebellion would only be supressed by an expensive and immensely disruptive military counter-insurgency campaign.[14]

The convulsive decade of the 1950s was a watershed for the banking business in the colony. These financial institutions were by then multinational banks with boards and financial interests located in London, despite most of their branches being in East Africa. The banks' main business prior to the 1950s had been centred on increased savings and investment in the colony, short-term loans for export purposes, and the management of colonial accounts. As a result, the banks were traditionally used mostly by white settlers, while the local African population was left out.[15] The limited amount of business available to the banks within the colony, combined with the strict controls over the financial system imposed by the British government, did not allow the banking institutions to compete with one another for business. With this lack of competition prior to the end of the Second World

[13] David M. Anderson, *Histories of the Hanged: The Dirty War in Kenya and the End of Empire* (New York, 2005), 28-35; David Throup W., 'The Origins of Mau Mau', *African Affairs,* 84 (1985), pp. 399-433, 410

[14] Huw C., Bennett, *Fighting the Mau Mau: The British Army and Counter-Insurgency in the Kenya Emergency* (Cambridge; New York, 2013), 267

[15] Newlyn and Rowan, *Money and Banking*, 85

War, the banks seemed, more than any other business sector in the colony, to have embraced a shared destiny of the colonial system in Kenya and the white settlers who largely controlled it.[16]

This situation began to change during the 1950s, driven both by the rise of an important economic class of Africans and the flow of increased investment for colonial development. These changes encouraged a process of 'localisation' from the banking business, understood as the abandonment of the branch system in favour of the local registered banks with a large increase in the number of branches throughout the colony. Besides, the increasing profitability of new business in the colony and the necessity of attracting more African clients ushered in a new epoch of intensified competition between the banking institutions. The commercial banks also increased pressure on the colonial government to put an end to monopolistic practices. A factor that encouraged this expansionist behaviour in the colony by the commercial banks was the desire to secure future stability, in contrast to the convulsions they perceived to be occurring elsewhere in Africa with the shift to nationalist majority rule and the ending of colonialism. Indeed, the military defeat of the Mau Mau uprising by the end of 1956 was associated by Kenya's white community with the defeat of African pro-independence claims, and the influx of resources as a part of the development programme gave the impression to the commercial banks that British dominion might extend in Kenya for a further 20 or 30 years. These hopes would prove to be illusory in the longer-term, but more immediately the banks shaped their business strategies in accordance with a positive vision of a stable and largely unchanged future.

In reality, things turned out very differently. The military defeat of Mau Mau did not end the nationalistic claims of the political elite, and the pacification of the country was

[16] Zwanenberg and King, *An Economic History of Kenya and Uganda,* 294-295.

followed by a speedy independence process that saw Britain depart by December 1963.[17] The rapid transition was a time of tension for the banks. The Cold War scenario, the activism of white settlers to retain their privileged position, and the influence of socialist policies throughout the continent all increased uncertainties for the banks around their future in Kenya. This liberation process also implied that the boards of the banks would closely monitor the political situation and begin negotiations with the political actors poised to lead the country upon sovereignty. Finally, the end of colonial domination forced the institutions to be more prepared for the arrival of a government controlled by Africans which culminated in, among other changes, the rush to complete the Africanisation process that had begun in the second half of the 1950s.

Kenya acquired independence in 1963 and became a republic the following year. However, the political process by itself did not represent an immediate change to banking policies during the first years of the 1960s. The newly independent country inherited a colonial financial system that had hardly changed during the last years of British domination, the effects of the political transition not being transmitted immediately to the financial sector. Kenya still had to delineate its political policies and economic projects, a process marked by the necessity to consolidate state power throughout its institutions, and even to suppress political dissidence within the new state. The years immediately following the end of colonial rule can be thus described as a time of rapid consolidation and redefinition.

The new national policies across the financial system became more clearly defined only in 1966, after the project for the creation of an East Africa Federation was finally discarded, the East African Shilling was substituted by the Kenya Shilling, and the Central

[17] Prosser Gifford and William Roger Louis, *Decolonization and African Independence: the Transfers of Power, 1960-1980* (New Haven, 1988), 409; David Anderson, 'Exit from Empire', in *At the End of Military Intervention: Historical, Theoretical, and Applied Approaches to Transition, Handover and Withdrawal*, ed. by Robert Johnson and Timothy Clack (Oxford, 2015), pp 107-36, 125; Keith Kyle, *The Politics of the Independence of Kenya* (London, 1999), 171.

Bank of Kenya (CBK) launched its operations.[18] The creation of the central bank marked a change in the relationship between the commercial banks and government. This change affected particularly the NBI, which had previously worked, along with the East African Currency Board, as a central bank within the colony. The failure of the East African Federation, the creation of the NBK, and the adoption of a national currency also marked a sharp departure from the financial policies followed during colonisation.

The last important aspect considered for the periodisation imposed by this study was the introduction of a banking institution managed by government in the form of the National Bank of Kenya (NBK). The creation of this institution was encouraged by the initiative of important figures such as Tom Mboya, minister of economic planning and development under the Kenyatta regime from 1964 until his assassination in 1969, who considered that the multinational banks operating in Kenya were insufficient and not really interested in supporting government to accomplish its development projects.[19] Even when the amount of business managed by the NBK remained small in comparison to the multinational financial institutions, its establishment represented an important change in the relationship between government and the banks. The NBK was in direct competition with other banks for local resources and the government tended to put pressure on businesses that received any type of official support to move their accounts to the newly established institution. The multinational commercial banks, understanding the increasing economic role of the government in combination with the impossibility of competing for the limited number of business available in Kenya, began the 1970s seeking to establish a closer relationship with the administration through the creation of a commercial bank with shared capital. Not all of the commercial banks were successful in establishing an alliance with the government. BDCO

[18] Enock T., Nyorekwa and Nicholas M. Odhiambo, 'Monetary Policy Regimes and Economic Performance in Kenya', *Problems and Perspectives in Management,* 12 (2014), pp. 495-504, 496; Richard E. Mshomba, *Economic Integration in Africa: The East African Community in Comparative Perspective* (Cambridge, 2017), 50.

[19] See section 6.3

and SBSA had a bitter experience in their negotiations to create a new commercial bank and, thanks to their boards, voided any further approach to the Kenyan authorities.

In the early 1970s the Bretton Woods system began to erode as the regulatory system of financial institutions created after the Great Depression and Second World War started to unravel and a new dynamic emerged in the global financial system.[20] These international events, along with the frustrated attempts of Barclays and SBSA to create what could have been the largest bank in operation, marked a critical watershed for the old commercial banks from Kenya's colonial era. The adverse experience, rampant corruption, and lack of a clear strategy to guarantee the financial stability or economic health of the country, are factors that now defined the behaviour of multinational banks who dominated Kenya's financial system from the early 1970s up to the 1990s, when the Goldenberg scandal forced a major restructuring of the financial system.[21]

1.2 The Commercial Banks as Historical Actors

A commercial bank is defined as an intermediary between a borrower and lender. Ideally, the institution also channels the aggregate saving from an economy into productive use.[22] The internal organisation of these financial institutions was practically the same for all three banks that feature prominently in this study. The banks established in colonial Kenya were modern banking institutions that did not differ much from the practices and objectives of other contemporary commercial banks.[23] These institutions were managed by a chairman and board based in London, the world's financial centre, where their shareholders were located and the greatest increases in capital occurred. After the Second World War and the

[20] Filippo Cesarano, *Monetary Theory and Bretton Woods: The Construction of an International Monetary Order* (Cambridge, 2006), 190-91.
[21] Lilian Cherotich, 'Political Corruption and Democratization in Kenya: The Case of Goldenberg' (PhD thesis, University of Oxford, 2012).
[22] Richard Grossman, 'The Economic History of Banking ', in *Routledge Handbook of Modern Economic History* (Abingdon; New York, 2013), 189.
[23] The structure and characteristics of the commercial banks in Kenya are more extensively analysed in the next chapter.

rise of New York as a new financial centre, London did not become less important for the multinational bank with branches in colonial East Africa; on the contrary, such banks saw an increased dependency within the Commonwealth market as the British manipulated the colonial system to shore up their national economy.[24]

The immediate authority after the board was the local director in the colony who was in charge of the supervision of branches in the region. However, the power of the local director was limited as he could only make suggestions to the central board about how to improve the bank's local position, but had no power to alter its direction. The multinational banks remained highly centralised and with limited capacity to change their conditions. Any suggestions from branch managers had to pass through the local director to the board, which, after deliberation, would return its answer to the local director. The bank followed a global strategy rather than a local and adaptable one for the conditions of each territory. With the communication developments of the 1950s, radical improvements occurred in the reactions of central boards in their various representative locations; but even then, their processes remained highly centralised.

In the conduct of daily business, the banks relied upon a variety of cashiers, accountants, secretaries, and other lower rank positions, all of which posts were initially held by white Europeans who staffed the Kenyan branches. The social history of the banks, and the individual agency of its staff members, is a legitimate field of enquiry,[25] but the focus of this study is instead upon the banks as institutions and the dialectical process between those institutions and the other actors in the colony. Therefore, this thesis cannot properly be qualified as a history of banks in Kenya since those biographical studies have already been produced by each institution,[26] but instead as an analysis of the transformation of those

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[24] Tirthankar Roy and Giorgio Riello, *Global Economic History* (New York, 2019), 240.

[25] For a synthesis of the discussion around the analysis of the individual forces within the social structures and institutions, see: William H. Sewell Jr., *Logics of History: Social Theory and Social Transformation* (Chicago; London, 2005), 124-51.

[26] For NBI, see: *Geoffrey Tyson, 100 Years of Banking In Asia and Africa: 1863-1963* (London, 1963). The Barclays DCO history is described in: Richard John Holt Gillman and Anthony William Tuke,

actors throughout the interaction with existing social forces in the colony, including other commercial banks.

The National Bank of India, Barclays Dominion Colonial and Overseas, and the Standard Bank of South Africa were not the only financial institutions, nor the only commercial banks, operating in Kenya. Other institutions, including commercial banks, savings banks, building societies, governmental development corporations, and insurance companies, operated in the territory alongside numerous formal and informal financial institutions. However, this research focuses on those three banks in response to the fact that these were the most important financial institutions in the colony. In addition, they had been established in the early days of the colony and remained in business well after independence. In that sense, by taking these banks as the core of the analysis there is an opportunity to compare their performance during the diverse political, historical, and social conditions through which the colony transited. The comparison would not be possible with other institutions that were short-lived, those that arrived in Kenya at a different moment of its development, or those that followed different objectives unrelated to profit-making. The only exception is the Post Office Saving Bank (POSB), which will be examined in some depth as it was the only financial service specifically directed to serve the African population, working as a bridge between the informal financial institution and the commercial banks.

Another characteristic that made the commercial banks in Kenya a paradigmatic case of study, giving them an international dimension, is the fact that those institutions, and the others operating in Kenya, were multinational banks. Their administrative offices were based in London, however, and their interest was not just focused on Kenya or East Africa but other

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Barclays Bank Limited, 1926-1969. Some recollections by A.W. Tuke and R.J.H. Gillman (London, 1972); Julian Crossley and John Blandford, *The DCO Story: A History of Banking in Many Countries, 1925-1971* (London, 1975); Margaret Ackrill and Leslie Hannah, *Barclays: The Business of Banking, 1690-1996* (Cambridge, 2000). For a study of the SBSA, refer to: Stuart Jones, *The Great Imperial Banks in South Africa: A Study of The Business Of Standard Bank And Barclays Bank, 1861-1961* (Pretoria, 1996); Standard Bank of South Africa Limited, *The First Hundred Years of the Standard Bank* (London, 1963); George Thomas Amphlett, *History of the Standard Bank of South Africa Ltd*., 1862-1913 (Glasgow, 1914).

parts of Africa, Asia, and Europe. The policies and strategies followed in Kenya did not solely arise from the viewpoint of local affairs, but were in fact the result of bank's position in the international arena. This was particularly clear during periods of economic uncertainty in Kenya when the boards planned their strategies in accordance with the position of their business in the other territories in which they had interests. When the international conditions worsened in comparison with Kenya, as sometimes occurred in the Middle East and other African regions, Kenya still remained a relatively safer location for commercial banks despite its volatility.

Finally, as the City of London was the most important money market for these institutions the business strategy had to consider not only the experiences of the banks operating in the African territory, but also the perception of shareholders and possible investors in the financial centre. British government policy in relation to its colony, and the influence it could attain once Kenya achieved independence from 1963, affected this perception largely and was evident in the behaviour of commercial banks in the medium- and long-term, occasionally more so than domestic affairs. Negotiations around mergers and arrangements with other financial institutions also occurred in the metropolis, and were controlled by British regulatory authorities. The transformation of commercial banks thus derived in large part from their dependence on the centre of the financial system in London and its constant interaction with British public policy

The results of the operation of the commercial banks at international, regional, and local levels and the interactions between these levels is to be seen in the different amalgamations, name changes, and mergers that took place. The first commercial bank in Kenya, the NBI, was established in the territory in 1895. The bank merged its operations in 1958 with Grindlays Bank, and absorbed the Ottoman Bank in 1970. It continued operating in Kenya until 1993 when, after different mergers and then operating under the name ANZ

Grindlays, it concluded its business in Kenya after almost once century in the African nation.[27] The history of the SBSA is shorter; after its arrival in 1911 the commercial bank merged its operations with Standard Chartered, however, it continued operating in East and South Africa under the SBSA name up to the end of the 1960s, when the name South Africa had to be withdrawn from East Africa as a result of the increasing tension between African nationalism and South African apartheid policies.[28] BDCO was a subsidiary of Barclays Bank, the first bank to arrive in Kenya after the First World War. Contrary to the other two institutions, which were strongly international in perspective, the main interest of this multinational was located firmly in the London markets. BDCO was the largest bank, by its international extension, operating in East Africa and was also the most stable. The bank substituted the name Dominion Colonial and Overseas for Barclays Bank International in 1970.[29]

There were numerous administrative changes suffered by these three commercial banks at different levels, but these do not represent an impediment to treating the banks as single institutional historical actors. The historical significance of an institution is characterised first by its permanence, and through its capacity for self-reproduction.[30] Is an organisation or system of organisations created to accomplish an objective. The members of Kenya colonial financial structure accomplish differentiated roles defined in terms of tasks, and rules regulated the performance of those within the structure. The permanence of the institution is ensured by its capacity to adapt to changing conditions without loss of identity.[31]

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[27] Tyson, *100 Years of Banking In Asia and Africa*

[28] Jones, *The Great Imperial Banks*; Standard Bank of South Africa Limited, *The First Hundred Years*; Amphlett, *History of the Standard.*

[29] Gillman and Tuke, *Barclays Bank Limited;* Crossley and Blandford, *The DCO Story;* Ackrill and Hannah, *Barclays*

[30] Anthony Giddens, *The Constitution of Society: Outline of the Theory of Structuration* (California, 1984), 24.

[31] The definition of institutions or "social institution" is too complex to be analysed in this research; for a discussion around the definition and characteristics, refer to: Seumas Miller, Social Institutions, The Stanford Encyclopedia of Philosophy. Available online at: https://plato.stanford.edu/entries/social-institutions/. For a synthesis of the debate about Economic Institutions, see: W. Richard Scott, *Institutions and Organizations: Ideas and Interests* (3rd edn, London, 2008).

The commercial banks, despite the mergers, amalgamations, and name changes, modified both their strategies and approach to other social actors, particularly the African population. That said, they did not alter the character of their business within the colony, nor the search for profit through the provision of financial services to the population, government, or business. Furthermore, they remained as privately owned businesses. All of this emphasises the continuities in the management of these institutions over the period of the study.

For that reason, the names used to refer to the banks in this thesis do not change even when some institutions have modified their title. The modification in the brand name is only remarked upon when is relevant for the rest of the analysis. The aim is, first, to avoid the perception of disruption when a change in the name occurred, but not in any other process, and second, to avoid confusion when banks underwent rapidly repeated name changes. For example, we will refer to the National Bank of India as NBI even after changing its name to National Overseas and Grindlays Bank Limited, and later to Grindlays Bank Ltd. The Standard Bank of South Africa is SBSA, similarly, despite changing its name to Standard Bank Limited. Barclays Dominion Colonial and Overseas, BCDO, was the most enduring institution and did not alter its name until beyond the period covered by this study.

1.3 Why Do Commercial Banks Matter?

The influence of financial institutions in diverse aspects of social and economic life has been extensively analysed. In 1917, V.I. Lenin observed the importance of the banking system in the transition from the old capitalist system dominated by industry to a new phase characterised by the general domination of the financial capital over the remaining productive spheres.[32] In his pioneering work, *The Theory of Economic Development* published in 1934, Schumpeter also remarked on the importance of financial mediation in the economic

[32] Vladimir I. Lenin, *Imperialism: The Highest stage of Capitalism* (London, 2010), 57.

system, describing the money market as central for the capitalist system.[33] Some decades later, the discussion about the importance of the financial system in order to achieve economic growth was revived in an attempt to prove that financial development is strongly linked with economic progress in underdeveloped economies.[34] The main objective of these studies was to promote an agenda for the development of financial systems and financial instruments.

The literature relating to the financial sector with economic growth experienced a surge during the 1980s, led by Robert King, Rose Levine, Philip Arestis, Panicos Demetriades, Bencivenga, and Smith who introduced a new era of academic research.[35] Their works provided experiential evidence of economics in relation to analysing long-range data. The main objective of these scholars was to prove the correlation between higher levels of financial development and current and future rates of economic growth, physical capital, and economic efficiency. Their studies concluded that financial systems tending to fund private enterprises, and not just governmental institutions, were more advantageous for economic growth. Nevertheless, it was not possible to prove the causality of this relationship; in other words, they could not prove if economic growth was a consequence or effect of economic development. In their revisionist study of the same relationship, Demetriades and Hussein, using countries with no less than 27 annual observations for their sample, found the

[33] Joseph A. Schumpeter, *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and The Business Cycle* (New Brunswick, NJ., 1983), 126.

[34] John G. Gurley and E.S. Shaw, 'Financial Aspects of Economic Development', *American Economic Review*, XLV (1955), pp. 515-38; Raymond W. Goldsmith, *Financial Structure and Development* (New Haven, 1969).

[35] Robert G. King and Ross Levine, 'Finance and Growth: Schumpeter Might Be Right', *Quarterly Journal of Economics*, 108 (1993), pp. 717-37; Philip Arestis and Panicos Demetriades, 'Financial Development and Economic Growth: Assessing the Evidence', *Economic Journal*, 107 (1997), pp. 783-99; V.R. Bencivenga and B.D. Smith, 'Economic Development and Financial Depth in a Model with Costly Financial Intermediation', *Research in Economics*, 52 (1998), pp. 363-86. For a synthesis of the recent literature on financial development and growth, see: James B. Ang, 'A Survey of Recent Developments in the Literature of Finance and Growth', *Journal of Economic Surveys*, 22 (2008), pp. 536-76.

relationship between financial development and economic growth to be bi-directional and country specific, instead of unidirectional and general.[36]

The necessity to reduce the scope of analysis in order to gain a better understanding of the role played by financial institutions was followed by investigations with a more specific focus of analysis. The scholars tested the relationship in countries with the same development levels, common geographical regions, or economic structure.[37] With the rise of neo-institutionalism, the number of studies explaining the failure or success of the financial sector to increase economic growth through its interaction with the institutional framework, formal and informal, also increased. These researchers concluded that the institutional framework is more important to explain the influence of the financial sector in the economy than other factors. These investigations remarked on the necessity to increase the number of studies focused on the diverse structural aspects in which financial institutions are inserted, rather than on larger quantitative analysis.[38]

Despite the existence of diverse approaches, the relationship between financial development and economic growth has been well established by the literature specialised in finance and economics. This literature has also highlighted the strong relationship between the financial system and the institutional context that prevails in the region, suggesting the necessity of a contextualised approach in order to better understand its performance. In other words, to better understand the complex role of the financial system, it is necessary to

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[36] Panicos O. Demetriades and Khaled A. Hussein, 'Does Financial Development Cause Economic Growth? Time-Series Evidence from 16 Countries', *Journal of Development Economics*, 51 (1996), pp. 387-411.

[37] Some of the more relevant studies are: Klaus Neusser and Maurice Kugler, 'Manufacturing Growth and Financial Development: Evidence from OECD Countries', *Review of Economics and Statistics*, 80 (1998), pp. 638-46; Clive Bell and Peter L. Rousseau, 'Post-independence India: A Case of Finance-Led Industrialization?', *Journal of Development Economics*, 65 (2001), pp. 153-75; Jagdish Handa and Shubha Rahman Khan, 'Financial Development and Economic Growth: A Symbiotic Relationship', *Applied Financial Economics*, 18 (2008), pp. 1033-49, 1033.

[38] V. Murinde, 'Financial development and economic growth: Global and African evidence', *Journal of African Economies*, 21 (2012), pp. 10-56. Ross Levine, 'Bank-Based or Market-Based Financial Systems: Which Is Better?', *Journal of Financial Intermediation*, 11 (2002), pp. 398-428.

increase the amount of qualitative research studies that explore the various aspects influenced by the financial and historical context of the region in question.

The role of the financial system cannot be delimited only to the field of economic growth or even economic activities. In Kenya, the early establishment of the commercial banks denoted its importance in making feasible the British colonial project. The consolidation of the British authority in the central role of the commercial banks was closely connected to the wider state project of colonialism. The banking institutions were essential for the running of the colonial government and the economic structure that used commercial institutions as central banks. The colonial government required the support of the financial institutions when it tried to introduce a new currency, raise funds for war efforts, launch development plans, or even soften the critical political transitions. Finally, the commercial banks, in conjunction with other government institutions, played an active role in creating a first generation of African savers by helping in the transition of the local population into a market and fully monetarized economy. This transition was essential to allow the payment of tax, the maintenance of British dominion, and the transformation of the socioeconomic structure of the region.[39]

The role played by the commercial banks and, sometimes more important - its perception in the eyes of the new political elite once Kenya acquired sovereignty - was vital in defining the relationship between the new government and the private financial sector inherited from colonial times. As will be evident in later chapters of this thesis, parts of the independent Kenyan government believed that the role played by the banks during the colonial period had been peripheral and prohibitive for the local population. For the new authorities, the multinational banks were not successfully expanding the use of financial services among the local population and were even less effective in the Africanisation of their staff, which remained dominated by Europeans and Asians several years following

[39] For an analysis of the social implications of money and monetisation of the economy, see: Ann E. Davis, *Money as Social Institution: The Institutional Development of Capitalism* (Abingdon, 2017).

independence. Some Kenyan officials saw in the multinational banks a tool of continued neo-imperial domination. This view persuaded Kenya's independent government of the urgent necessity to create its own financial institutions, not just to respond to the financial service demands of the local population, but to accomplish the government's development agenda. At the same time, each of the commercial banks reacted to these challenges in accordance with their possibilities and institutional goals. Some continued working as purely commercial banks, while others sought a closer relationship with the regime of President Jomo Kenyatta. The transformation of the financial system during the first years of post-colonial life will be crucial for the future financial system, and economic condition of Kenya for the next few decades.

To have a better understanding of the different social forces that transformed Kenya, a deeper analysis of its financial system since the colonial period and the first years of independence is required. The financial system in Kenya, since its creation as a colony until today, is a bank-based one.[40] Moreover the development of those banks played a fundamental role in the economic life of the colony. Nevertheless, as this thesis will show, the influence of the financial institutions went far beyond the limits of the economic field. The institutions were a determinant for the political and social development of the colony, and its performance during the time of British domination created the basis for the later development of the free Kenya financial system. The thesis also shows how the influence of the financial system was not unidirectional, but rather involved a dialectical process between the commercial banks and the socio-economic conditions during colonisation and after independence. The banks were not passive observers but important protagonists in Kenyan history, and their activities in the region also transformed these institutions deeply. In this sense, the study of commercial banks acquires greater significance: on the one hand, it offers the opportunity to gain a better understanding of their influence in the historical

[40] For a definition and the difference between the bank-based and market-based financial system, see: Levine, 'Bank-Based or Market-Based'.

development of Kenya; while on the other, it enables the researcher to gauge the performance of banking institutions in times of significant political and social change.

1.4 Commercial Banks in Kenya, what do we know?

The literature analysing the role played by banks in the financial sector and in relation to wider patterns of economic growth has expanded greatly in recent years, and over the past decade there has been an increase in the number of studies focused on East Africa. However, the vast majority of these studies explore the later 1980s, following the liberalisation process of the financial system in Kenya, and do not try to establish a relationship between the colonial period and independence. The commercial banking history in colonial times has only been analysed as a part of general studies that offer a broad and generalised outline. The study undertaken by Newlyn and Rowan about banking and monetary policies in British colonial Africa, published in 1954, was one of the first to analyse the financial system in the African colonies. This pioneering study describes the system as weak in comparison to its close relationship with agricultural producers and was found to be subordinate to its cyclical fluctuations. They viewed the main impediment of the financial system to achieve greater development in the colony as being its close connection with the London headquarters: this encouraged Kenyan banks to rely upon the London financial market for liquid assets and the London security market for investment, rather than local investment and savings.[41] However, the necessity of the commercial banks to behave with caution was due to the absence of a central bank or any other a lender of last resort that could act in the case of liquidity problems or defaults in the commercial banking sector of the colonies.

Nevertheless, without giving further details, Newlyn and Rowan do suggest that some commercial banks, particularly BDCO, developed a certain autonomy from their

[41] Newlyn and Rowan, *Money and Banking*.

headquarters and reacted positively to the local demands of the colony. This autonomy allowed the banking sector to place part of the assets in local industry and agriculture and not just in international commerce. Despite this diversification, the major problem continued to be traditional attitudes and internal investment policies that made these institutions reluctant to satisfy the demands of medium-term credit in both the agricultural and industrial sector.[42]

More than one decade after Newlyn and Rowan's investigation, Holger Engberg published an analysis of commercial banks in East Africa between 1960 and 1963. In this study, he remarked on the high level of concentration in the East African financial system with the most important banks - NBI, SBSA and BDCO - controlling practically all of the banking business in the colonies and operating in effect as an oligopoly.[43] In accordance with Newlyn and Rowan, Engberg observed how the banks, through their dependency in the agricultural sector, were influenced by cyclical fluctuations. Fluctuations increased credit demand, forcing the banks to move funds amongst them in order to cover the peaks in demand throughout Kenya.[44] In that sense, Engberg explores the continuous communication necessary between bank brands and their officers in order to fulfil the credit demands within the agricultural and trade sectors.

Nevertheless, Engberg concludes that the commercial banks in East Africa played a small role in improving the local economies by their reluctance to cover the credit necessities of smaller producers, particularly African customers. The biggest impediments were the technical, social, cultural, and political issues that required navigation in order to lend money. The most important was the lack of creditworthy customers who adhered to the multinational bank standards. Africans, explains Engberg, had not yet understood the nature of debt obligation and represented a lending risk for the commercial banks.[45] The argument

[42] Ibid., 219.
[43] Engberg, 'Commercial Banking in East Africa', 188-89.
[44] Ibid.
[45] Ibid., 197.

in Engberg's study around this lack of understanding on the part of the African population was disputed by local chiefs and government staff in the colony; in the *Report of Committee on Agricultural Credit for Africans*, produced in 1950, it was emphasised that the banks' discriminatory practices in relation to the local population were based not on experience but on cultural presupposition – in other words, a prejudice against African participation.[46]

In a subsequent study, Engberg and Williams shed light on the expansion of bank branches throughout East Africa between 1957 and 1958 as a result of economic growth in the region. In this study, the competition between branches is briefly described as the increase in the number of branches was also led by a desire by the banks to pre-emptively operate in regions with expected economic growth. This expansion was led by the BDCO, the most active institution in the region, although it lost momentum with the rise of the nationalist movements.[47]

In a general study of the economic history of Kenya and Uganda, van Zwanenberg and King undertook a further exploration of the colony's financial system and its condition after independence. As in the previous studies, the authors explained that dependence on the London money market resulted in passivity in the colony. The study also denotes the characteristics of the banks as being institutions for the exclusive use of white farmers. The African population, van Zwanenberg and King argued, was inhibited in the use of commercial banking services due to the challenging economic conditions imposed upon borrowers, a lack of interest on the part of the banks to be more inclusive, and even by elements of the prevailing legislation. After 1948, when an African customer sought credit of more than £10,000, it was still necessary to get permission first from the local district officer.[48] At the same time, the financial institutions alleged that Africans lacked a "bank habit". While acknowledging that this "banking culture" might easily enough be cultivated, van

[46] Colony and Protectorate of Kenya, 'Report of Committee on Agricultural Credit for Africans' (1950).
[47] Holger L. Engberg and William A. Hance, 'Growth and Dispersion of Branch Banking in Tropical Africa, 1950-1964', *Economic Geography*, 45 (1969), pp. 195-208.
[48] Zwanenberg and King, *An Economic History of Kenya and Uganda*, 295.

Zwanenberg and King found that there was a lack of commitment among the banks to do so. Thus, they present the commercial banks as being part of a "vicious cycle" – that is to say that to serve the local population demanded a regular income and property, while the locals needed credit to satisfy the requirements of the commercial institutions.[49]

These studies all describe as a main characteristic of the banks in East Africa their high levels of monopolisation and collusion, with the big three controlling 85 per cent of the total bank branches in Kenya. The collusion practices between the main banks and the lack of interest in the African sector was recurrently identified as a main weakness of the commercial banks prior to independence. In a comparative study of the commercial banks in Africa, Brownbridge gave a brief description of the banks in Kenya before independence. Without differing from previous research, the study portrays the banks as institutions exclusively for white settlers that concentrated on short- term loans for large traders. This behaviour did not significantly change during the first years of independence, Brownbridge argues.[50]

More recently, with the revived interest in financial and business studies, a new body of studies has focused on the history of financial institutions in colonial Africa.[51] These investigations have started to unveil the complex history of banking institutions throughout British colonial Africa. For example, the active role of banking institutions lending to Africans in Nigeria and the collusion practices throughout colonial West Africa have been extensively analysed by Gareth Austin and Chibuike Uche. They question the traditional view of the banks, showing that collusion was encouraged by British authorities, which did not want to put in danger the financial stability of the region.[52] In a further study, Uche explains how the lack of regulation in Nigeria enabled the creation of indigenous banks. The nature of these

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[49] Ibid.

[50] Martin William Brownbridge, Charles Harvey, and Augustine Gockel, *Banking in Africa: The Impact of Financial Sector Reform since Independence* (Oxford, 1998), 81.

[51] For a synthesis of the development of the African economic historiography, see: Gareth Austin and Stephen Broadberry, 'Introduction: The Renaissance of African Economic History', *Economic History Review*, 67 (2014), pp. 893-906.

[52] Gareth and Uche, 'Collusion and Competition in Colonial Economies'.

institutions meant that they were poorly managed and capitalised, inclined to suffer bankruptcy and fraud to the detriment of the African population which formed the bulk of their clients.[53]

Following Engberg and Hance's documentation of the expansion of banking facilities in the colony of Kenya between 1950 and 1957,[54] it was Frances Bostock who then explored more deeply the effort made by banks to embrace a bigger share of population through the process of Africanisation. Such attempts of localisation were encouraged by the Colonial Office which, softening its conservative policy, pushed the commercial banks to become more active in colonial development. This transformation was led by the Development Agencies created by the banks and BDCO was the most committed institution. As Bostock explained, SBSA and NBI followed this initiative in order not to lose clients on the impetus of BDCO.[55]

In work focused not on Kenya, or indeed Africa, but rather an analysis of British multinational Banks across diverse regions, Geoffrey Jones explores their institutional characteristics and how these conditioned their behaviour in the colonies. Jones echoes the lack of commitment on the part of the commercial banks towards colonial development due to their strong dependency on the London market. However, the long range covered in his research allowed him to explore the transformation of multinational banks in East Africa at the end of the colonial period, which involved the already outlined expansion of branches and diversification of the business. Furthermore, the study explores the localisation process carried out in the implementation of different strategies in the colonies such as the mobile

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[53] Uche, 'Indigenous Banks in Colonial Nigeria'; Chibuike Ugochukwu, Uche 'Foreign Banks, Africans, and Credit in Colonial Nigeria, c. 1890-1912', *Economic History Review,* 52 (1999), pp. 669-91. South African Banking History is one of the best explored, see for example: Stuart Jones, *Banking and Bbusiness in South Africa* (Basingstoke, 1988); F. Stuart Jones, 'Business Imperialism and the Imperial'.; John Nerys, 'The Campaign against British Bank Involvement in Apartheid South Africa', *African Affairs* (2000), pp. 415-33.

[54] Engberg and Hance, 'Growth and Dispersion'.

[55] Frances Bostock, 'The British Overseas Banks and Development Finance in Africa after 1945', *Business History*, 33 (1991), pp. 157-76.

units designed to reach regions beyond the operation of the permanent bank offices.[56] As Jones proves, the Africanisation of financial institutions occurred after the Second World War was not confined to its client base, but also inside the banks which began to gradually increase the amount of African staff. However, as the same study clarifies, the inclusion of Africans was perilously slow, almost symbolic until the end of the colonial period.[57]

In a research article entitled 'Cultivating the African', focusing on the BDCO in Kenya from 1950 to 1978, James Morris explores for the first time the details of BDCO's branch expansion and Africanisation strategy. The article explains how the institution enlarged its services from the mid-1950s, guiding this growth toward local farmers. Paradoxically, the Mau Mau uprising did not adversely affect the bank's premises or interests, as the colony experienced an economic boom during the Emergency.[58] As Morris explains, the strategy was to launch an active campaign and win the confidence of Africans, establishing a strong bond with local producers. The institution, using its development agency, increased the amount of loans and introduced more flexibility to its requirements. The "cultivation" of the African customer base was considered the best strategy since its political weight was on the rise and it was expected by bank officials to further increase. Morris also undertook a pioneering exploration of the role played by BDCO as an active participant during the Kenyan process of independence through its negotiation with the future government. The study concludes, without providing much detail from the other banks, that while the institution did not expect independence when it initiated its reform, it was better positioned than its competitors to face the sudden process of liberation.[59]

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[56] Jones, *British Multinational Banking*, 312.
[57] Ibid., 295.
[58] Michael Mcwilliam, 'The Managed Economy: Agricutural Change, Development, and Finance in Kenya' in in *History of East Africa Vol. 3*, ed. by D. A Low and Alison Smith (Oxford, 1976), 253; David F. Gordon, 'Colonial Crises and Administrative Response: Kenya, 1945-60', *Journal of African Studies*, 6 (1979), pp. 98-111, 108.
[59] James Morris, 'Cultivating the African': Barclays DCO and the Decolonisation of Business Strategy in Kenya, 1950–78', *The Journal of Imperial and Commonwealth History*, 44 (2016), pp. 649-71.

Despite this relatively small emerging literature, banking history in East Africa, and particularly Kenya, has not received such extensive attention as other developing regions like Asia, the Middle East, Latin America, or even South Africa. The smaller size of these institutions in financial terms, alongside the early characterisation of the banking institution as passive and simply an extension of the British banking business, has certainly been the cause of some of this neglect. This lack of analysis is even more notorious in relation to colonial Kenya and the first few years of independence. However, the reinvigorated interest in financial institutions resulted in the re-examination of old perceptions, unveiling an unknown and more complex history in which the banks are protagonists and not simple observers. Nevertheless, such historiography shows just some hint of the complexity. There is a lack of more extensive studies that explore further the relationship of the banks to political, social, and economic changes within the colony. Moreover, a study limited to just one bank cannot explain the intricacy of the relationship between the commercial banks in Kenya, as each adopted its own strategy. Interactions between these institutions were not limited to the maintenance of the oligopoly, but embraced a variety of arrangements and procedures that defined their development. On the other hand, general studies focused on the economic aspects or commercial banks in terms of global development do not place necessary emphasis on their transformation, the influence of local forces, or the effect of the banking sector at local level.

1.5 A Business History of the Banks in Kenya

Even when the process of colonisation of Africa at the end of the nineteen century was not motivated by clear economic gains or the inclusion of new markets into the capitalist economic system as the Marxist literature assumed (see chapter 2). The control, exploitation and economic viability of the gained territories required the combination of private enterprises and government support. For that reason, the private initiative, since the first years of colonisation, played a fundamental role in the formation and transformation of the

economic life of East Africa. The entrepreneurs who decided to risk part of their capital into the recently gained territories had to adapt their business to the particular conditions of the colony. On the first private institutions that try to do business in British East Africa were the commercial banks. These multinational institutions faced along East Africa social and economic conditions dissimilar from those of their original regions having to be constantly adapted to the changing conditions of Kenya. These changes required a modification of their internal practices as the selection of personnel, client targeting and construction of political relations.

The fundamental role of the private enterprises defining the socioeconomic conditions in diverse geographical areas, along with the internal function of the private enterprises has been the objective of the business history field of study. The academic origins of the business history can be traced to the first half of the nineteen century, when the economic historians influenced by the Max Weber's works, started to focus their attention on the institutions in order to explain the dissimilar economic development. This generation of economic historians were particularly interested o agency problems and entrepreneurship. These studies were pioneering remaking the essential role of individual actors in the economic development that has been previously analysed from a wider perspective. These works focused in institutions have an important influence among the American economic historians in the Harvard Business School that in 1925 create the first business historical society and some years later the first full course of business history leaded by N. S. B. Gras.[60]

The research approach and methods of these first generation of business historians, concentrated on the American firm experiences and their internal development, were radically transformed during the post-war period. The new generation of scholars tried to

[60] Patrick Fridenson, 'Business History and History', in Oxford Handbook of Business History, ed. by Geoffrey Jones and Jonathan Zeitlin (Oxford, 2008), pp. 10-32.

combine tools and methods from other disciplines, particularly social sciences. However, despite of the effort to open the discipline to other areas, the historiography continued narrowly focused on the control and coordination problems of the firms and America continued as the main centre of historiographical production. It was not until the 1970's when field of business history started to acquire their current international character, whit economic historian exploring the development of the firms in regions as Latin America, Asia and Africa. This renovated interest in the field brought the development of new research questions and methodologies. The most important were the use of oral sources, the role of technological development in the development of the firms and the exploration of the international networks created and maintained by the corporations.[61]

At the same time, these new approaches tried once again to put an end to the isolation of the discipline, increasing the links of the field with economic theory, sociology, new economic history and general history. For that reason, the last decades have seen an increase in the studies following historiographical trends as gender and cultural studies. In the recent years, business historian have broken their academic, geographical and methodological isolationism, and even when the still have a defined subject of the study it has consolidate its value in the economic history field by the importance that the management that small and large business played in the development of economic and social development.[62]

But how can we define the business history object of study and what make it different from closer fields of study as Economic History? The contemporary agreement defines the field as the study of the organisation of the production and delivery of goods and services in the past. This could be carried out by an individual, a sole of a group of traders, a

[61] Matthias Kipping, Takafumi Kurosawa and Daniel R Wadhwani, 'A Revisionist Historiography of Business History: A Richer Past for a Richer Future', in *The Routledge Companion to Business History*, ed. by John F Wilson (Florence, 2016), 3-35
[62] Ibid.

partnership, or a joint stock. However, it does not do this analysis in isolation but considering the historical context that surround the firm. At the same time the relation is not unidirectional but bidirectional and dialectical. In other words, the current historiography centred on the exploration of business tried to elucidate how the firm affect or define their wider context.[63] In that sense, the difference between the economic and business history is not in the objectives, as both attempt to understand particular economic development, but in the emphasis of the analysis. While economic history is focused in the establishment of economic generalisations, business history refers to the microlevel analysis. Exploring how the firms are affected by economic conditions, regulation, relations with the government, labour, technology, competition and the historical development of the workplace.[64]

Exploring the commercial banks during the last years of colonial rule and the independence process. The current research attempts to do a main contribution to the historiography on business history. The thesis, explores how the NBI, BDCO and SBSA, private and multinational financial institutions, adapted their business in a settler colony as Kenya, with an overwhelming majority Africans that represented more than 90 percent of the total population, but directing their services mostly to the white Europeans. The research sheds light on the motivations that encouraged the banks to expand their branches into a region not clearly profitable. On doing this, the thesis explores the relation between the internal management of the financial institutions and the world economic conditions that pushed the bank to the star doing business in colonial Africa. The relationship, and negotiations, between the financial institutions and the colonial authorities was also fundamental determining the relation between the institutions and their clients. In that sense, this study is also pioneering in its analysis of how business in a colonial environment dealt with different levels of

[63] Peter Claus and John Marriot, *History: An Introduction to Theory, Method and Practice* (London, 2014).
[64] Louis Galambos, 'Identity and the Boundaries of Business History: An Essay on Consensus and Creativity', in *Business History around the World*, ed. by Franco Amatori and Geoffrey Jones (Cambridge, 2003), pp. 11-30.

government, the central and the local authorities, currently with dissimilar agendas. The research also explores how the financial institutions compete against each other for clients in an environment that restrict financial competition.

The necessity of adaptation and the negotiation with the authorities in a local an international level, allows this thesis to explore the influence that particular individuals in managerial positions had inside the institutions. One of the most important examples explored is the case of Whitcombe, local director of BDCO in East Africa during the second half the 1950's. The local director, with experience consolidating BDCO in new territories, tried to stablish a more advantageous position of the bank in Kenya using personal connections in the colony and the foreign office. Strategies contested by the other financial institutions, particularly the NBI, who do not want to surrender its privileges. The research also explores what the economic theory literature classifies as the first agent problem,[65] in this case exemplified by the dissimilar interest and objectives of the authorities in London, the interest of the colonial authorities at different levels inside Kenya and the commercial banks.

Finally, the investigation answers a fundamental, but poorly studied by both, the economic and business history literature. How the banks adapted a business model created to operate under the colonisation, to a profitable business operating in a sovereign state? In answering this research question, the study explores and compares the rapid transit carried on by the three main banks, a transformation that implies a rapid change in the managerial local level and central level of the banks. The changes, required the creation of a new base of clients, the hiring of new personnel, altering the racial profile of it, and negotiate their position with new political authorities with their own development agendas and perspectives around the role that the financial institution should have in the new countries.

[65] Susan Shapiro P., 'Agency Theory', *Annual Review of Sociology*, 31 (2005), 263-84.

Exploring these factors, the research does not attempt to create a general theory around the performance of the banks under every colonial administration and the independence process. On the contrary, it tries to contribute to the business history scholarship remarking first, that the private financial institutions had a fundamental role in the economic and social life of the colony. Secondly, that even when the commercial banks in Kenya were British multinational banks with a central board that defined their policies from an international level. The local difference and adaptation process existed and the reaction of the local officials to the changing conditions of Kenya had an important role defining the performance of the banks. In short, the research shows how the success of the failure of the international firms is decided by their local polices, taking the focus of analysis from the multination perspective to a particular case of study that explores the performance of the banks at country, regional, branch and even personal level.

1.6 The Sources: Advantages and Limitations

A more comprehensive history of commercial banks in Kenya thus requires a focus on more than one banking institution. This has proved possible with the comprehensive use of an extensive variety of previously unexplored archival sources. This section will explain the background to and context of these sources, and how they have been used in compiling the thesis.

The three commercial banks on which this investigation centres its analysis were centralised institutions with headquarters in London. This characteristic forced them to establish a continuous communication with their headquarters which maintained extensive records of such communications. These sources are numerous, and thanks to the archival policies of all three banks they are now accessible to scholarly investigation. But due to the multinational character of the three institutions, all of which underwent significant international changes in organisation and administrative structure during the period under

study, the archives of local events in Kenya have subsequently been merged with those of the international operations of the multinationals. These changes resulted in the constant relocation of historical records, sometimes resulting in the loss of parts of the records or in their destruction. Locating the sources therefore required a wide-ranging search of global scale.

The first challenge was to locate the possible archive materials that had survived. The sources collected for investigation are spread across multiple repositories. One of the best organised and most complete collections held by a bank is safeguarded by the Barclays Group Archives (BGA) in Manchester. The BGA keeps a significant number of letters between the bank's distinct administrative levels, the central offices, and various branches in East Africa. The archive also contains the annual accounts of diverse branches in East Africa, from its first years in the colony up to the 1990s. These records were essential to undertake an extensive analysis of the bank and its offices in the regions. The material, unlike other records, provides detailed information at local level - information that could be contrasted with the perspectives of the central offices. Also, as a by-product of the continuous communication of BDCO with other banking institutions and the government, the BGA was useful for filling in the gaps that were evident in the lack of sources from some other institutions.

The NBI also initially kept its records in its London Central Office, but when the bank was bought by the Australia and New Zealand Banking Group in 1984 the records were combined with the ANZGB archive and relocated to Melbourne, Australia. As well as correspondence files, the archive contains a full collection of annual reports and magazines that were circulated to staff. These reports, created for shareholders as well as bank personnel, provide an institutional view of NBI and allows for a consecutive analysis of its business strategy. The reports are not focused solely on East Africa, but include all countries where the bank had interests. This enables a comparison of the perception across the region with other countries and leads to an understanding as to why Kenya remained important for the NBI's business despite its political convulsions. In 1965, the Bank established a regional

committee to deal with its African business, and the records of the monthly meetings of this group provide an account of the daily business of the bank and the perceptions of its local directors. Furthermore, as discussions at the meetings were confidential, since the objective was to solve immediate problems and inform the central board, the information tends to be more realistic, describing facts normally omitted from annual reports.

As Kenya was a British Colony, and with the central boards of commercial Banks located in London, the collections of the British public archives were essential in providing sources for this study. The collection of the Colonial, Foreign, and Commonwealth Offices and the National Savings Committee, housed in The National Archives, Kew (TNA) offer evidence of the relationship between the financial institutions and different levels of British government. The material shows the close negotiations of commercial banks with the British authorities which established different agreements in terms of interest rates, services provided to local authorities, or even the expected relationship of the banking institutions with local clients.

This important information was complemented with another set of records held in London, those of the London Metropolitan Archives (LMA). The LMA, home to the main papers of the Standard Chartered Bank, retains most of the surviving records of SBSA operations throughout East Africa. The material consists of annual records, minutes, reports of visits to East Africa from bank officials, and internal communications with other financial institutions and the government. However, the most useful source of information in this collection were the internal letters, mostly classified as secret, from staff members including the chairman of the SBSA. This correspondence is a significant source of information as their accounts are not limited to bank affairs but cover diverse topics including ethnic difficulties, political instability, and the communist influence in the region.

The sources held in these diverse archives are copious, but tend to be constrained to the internal businesses of the commercial banks or their relationship with the British government. The extensive collection held by the Kenya National Archive, Nairobi (KNA),

provided the most abundant source material used in this research to analyse the relationship with the multinational banks, colonial and independent governments, political actors, other financial institutions, and the African authorities. The KNA records were essential to achieving these broader research objectives because they enable the reconstruction of the complex relationship between the commercial banks with the Land and Agricultural Bank of Kenya (LABK), the currency board, and colonial authorities, and to provide a context into which these relationships might be set. Among the most important files used in this analysis are those concerned with the relationship between the NBI and colonial authorities, records which shed light on the position taken by colonial authorities in relation to the attempts made by competing banks to end the monopoly held by the NBI on government contracting. This collection also holds the largest amount of records related to the POSB, that established the base for greater inclusion of the African population to the financial system, and maintained a constant dialogue with the numerous other financial institutions operating in the colony.

Finally, the section of the analysis focused on the independence process and the first years of sovereignty would be weak without the record of both the Cooperative Bank and the Kenya Commercial Bank, institutions created by the independent government to support the country's economic development. Information related to the POSB and the position taken by financial institutions during and after the process of independence was complemented with records from the Bank of England (BOE) and the International Savings Bank Institute, based in Brussels.

Not all of the institutions or period covered by the study are represented equally throughout these sources, and the material was not always of equal quality or insight. It was therefore important to triangulate sources between the various archives wherever this was possible. But for some topics one archive would provide the dominant body of material, and might even be relied upon in the reconstruction. The most complete and best organised archive from a single institution is the BGA, and it will be apparent in the chapters that follow

how important this archive is at certain points in the analysis. The SBSA is, on the other hand, is the least represented bank in terms of archival sources accessed for this thesis. The SBSA records, most deposited in the LMA, are scattered and present significant time lapses - gaps which could only be filled with information produced by other banks, government institutions, and secondary sources.

Abundance of material, and not the lack of sources, was happily the main problem to be tackled in shaping the study in the chapters that follow this introduction. As the main objective of the research is to understand the mutual influence between the banks and the political, social, and economic structure prevailing in East Africa at different historical periods, and not the health of the banking business, sources are favoured that offer a qualitative account; quantitative records are used only occasionally to provide support. Among the large number of qualitative records, the investigation prioritises the use of letters and reports of visits from local offices to the diverse branches. The private character of these communications and their detailed accounts offers a more accurate perspective of the vicissitudes of banks throughout the region. Besides, letters and reports from the local source produced on a daily basis can be contrasted and assessed against the yearly reports. Not all the material collected could of course be included here, but the account offered fairly reflects the types and quality of available materials.

1.7 Research Structure

The thesis broadly follows a chronological structure through its five substantive chapters that follow this introduction (Chapters Two to Six). Chapter Two first portrays the character of the big three banking institutions in colonial Kenya, before analysing the conditions of the British financial system and its role played in the colonisation enterprise. The next subsection of the chapter explores the diverse categories of banks operating in the colonial dominions - Imperial, colonial, and multinational - and the characteristics from each type of banking institution. The objective is to understand in which of these categories the NBI, SBSA, and BDCO can be located. This classification is essential for the later analysis

because it allows for the contextualisation of the origin, procedure, and nature of each bank, and thus its goals and boundaries in the long-term.

Chapter Three is focused on the period from the end of the Second World War to the pacification of the colony after the Mau Mau uprising. The chapter pays special attention to the conditions under which the commercial banks operated over these politically tumultuous years. It also charts the reactions of the banks to the development plans put forward by government, and the new approach of the British government toward other independence movements throughout Africa. The chapter then analyses the beginning of the Mau Mau conflict with the objective of understanding how the insurgency altered the perceptions of commercial banks in the post-war period, the consequences in terms of their development plans once the military had suppressed the belligerents and restored "peace" in the colony. This chapter will establish the background to procedures of the commercial institutions up to the imminence of independence.

Based on the findings presented in Chapter Three, the following chapter (four) examines the banks' performance during a period considered by these institutions to be a time of political and social stability in comparison with the rest of Africa. The first section elucidates how the growing economic expansion of the colony and the rising importance of government accounts altered the relationship between the main banks that were trying to end the monopoly of the NBI in government contracting. The chapter also clarifies the limits of this rivalry between banking brands, noting that despite emerging competition between the big three they tended to present a solid front against internal and external rivals. As the financial system developed further, challenges from new rivals became more common.

Chapter Five departs from the chronological arrangement of the previous chapters, to focus on the theme of localisation as it was undertaken by the commercial banks during the 1950s. First, the chapter briefly explores some of the most extended practices of saving and investment by the local population, and the position of the banks in relation to these potential clients. Next follows a discussion of the reasons behind the banks' transition from

early reluctance to a more active role in acquiring African clients. The chapter then explores the strategy, and achievement, of enlarging the African client base, offering a comparison between each of the main institutions. This is followed by an analysis of the Africanisation process at staff level. Overall, the chapter aims to create a more complete picture of the position occupied by the commercial banks as colonisation came to an end in 1963, as the levels of Africanisation of clients and staff in the banks would prove fundamental for the post-colonial development of these institutions.

Kenyan independence seemed to those running Kenya's financial institutions at the time to be a sudden process for which neither they, nor the white settlers, or the British colonial authorities were fully prepared. Chapter Six analyses how this abrupt process of liberation forced the banks to alter their business strategies in the colony over a short period. The section unveils the perception of the financial institution in relation to Kenya's political future, particularly expectations around the influence that the British government could exert over the new administration to guarantee some economic stability, and protect the interests of the foreign capital. The concluding part of the chapter explores the relationship of the banks with the independent government led by President Jomo Kenyatta. The process of adaptation to new economic policy was sharpened through the creation of new financial institutions, such as the CBK, and the emergence of new commercial banks managed by the government. The chapter ends with a brief examination of the new position adopted by the NBI, SBSA, and BDCO by the second half of the 1970s.

The last section of the thesis, Chapter Seven, summarises the findings from each chapter and remarks the connections between the different sections that constitute the investigation, giving a general conclusion for the research. This last part also evaluates to what extend the research questions were answered and the objectives accomplished. Finally, the section identifies the potential of expansion for some important topics in the thesis and the possibilities for a future research agenda in the field of commercial banks and saving institutions along East Africa.

2 The British Banking System during the Post-War Period

During the general meeting of the National Bank of India held on 31 May of 1931, in representation of the shareholders, Mr. Irwin Davis remarked how the future prosperity of the British Empire rested on the strength of the credit given by banks. However, there was no reason for uncertainty about the future because, even in the context of a world economic crisis, he stated:

> The Bank has weathered the storm without hurt or damage, its stability unimpaired and ready, when peace and normal conditions have been restored, to take advantage of the tide, which we hope may lead to an era of still greater prosperity than hitherto … Britain holds the records for land, sea and air, but as recent events have proved, she has added yet another record of far greater importance than either of these—our Chairman I think was too modest to mention it. Britain banking leads the world.[1]

The confidence showed by the shareholders about the future of the banks established by the British Empire was not easily constructed. On the contrary, the arrival of the banking system into British East Africa was a hazardous, uncertain and not entirely organised process, just as the colonisation itself had been.

The aim of this chapter is to shed light on the arrival of banks during the colonisation period and explore briefly their development during these formative years until the Second World War. In doing that, the section defines first the characteristics of the commercial banks analysed as part of the research. Then, it explains the economic and political conditions that encouraged the financial institutions to establish branches throughout the territory and how these conditions were transformed. Finally, the chapter explores how these institutions had to change during the first years up to the time of the Second World War. In doing this, the chapter briefly describes the position and role of the banks during the African scramble, as

[1] NBI, 'One-Hundred-And-Seventeen Report by the Directors of the National Bank of India Limited' (1931).

well as explaining the nature of the banking system. That means to discern between what the historiography has catalogued as an imperial, colonial, or multinational bank. This last point is essential in order to understand the banks' objectives within the colony, and consequently their historical development.

2.1 The Banks in Colonial Kenya: Characteristics and Origins

Britain's colonisation of East Africa was immediately followed by the incursion of financial services. The first of banks in the colony NBI and SBSA, were financial organisations created and developing most of their business in overseas territories of the Empire: South Africa and India. However, this organisation had important interest in the London money market and soon moved their headquarters there. It was not until the post-war period when the first bank established and based in London, Barclays Bank, arrived into the colony.[2] As result of this early development, the financial system in Kenya, during the colonial period and the first years of independence, was dominated by British multinational banks.[3]

The only exceptions were the POSB, funded in Kenya in 1910 and controlled by British Postal service, and the LABK. However, the function and client focus of both institutions differed from that of the commercial banks and did not represent a competition to the multinational financial institutions already established in the colony. The POSB was a non-profit institution that had small savers as a target, especially the Asian and African communities. The savings bank also had the largest representation in the colony in terms of the number of branches, reaching zones disregarded by the commercial bank. However, the interest rates offered to these savers were lower than those offered by the commercial banks, and the amount of the savings managed by the POSB remained small in comparison to the other financial institutions. Neither did it offer any kind of loan to its clients.[4] This role

[2] However, this incursion was made under the name of Barclays Dominion Colonial and Overseas.
[3] For the definition of colonial and multinational banks, see above.
[4] Newlyn and Rowan, *Money and Banking*, 85.

was intentional, the result of the POSB commitment of not interfering in any way with the commercial banking institutions operating in the colony.

The LABK, on the other hand, was founded in 1931 and obtained most of its capital in the London money market. Its objective was to provide some relief to European producers through the facilitation of long-term loans during the 1930s crisis at a lower interest rate than the commercial banks.[5] The discussion about the establishment of this bank in Kenya had begun in 1928, however, at that time it attracted the opposition of commercial banks which saw in it an interference of the state in the colonial business. Nevertheless, when the slump in the price of land and commodities occurred - a consequence of the global economic depression - their opposition ended. The indebtedness of farmers increased and the commercial banks saw in the creation of the LABK the only way to ensure repayment.[6] The Land Bank had a relevant role again at the end of the colonial period as a lender for the purchase of land from white settlers.[7]

In British East Africa, the first financial institution to be established was the NBI. As its name shows, the origins of the NBI can be traced into the Indian Colony. It was funded by British and Indian expatriates in 1863 under the name of Calcutta Banking Corporation. Three years later, along with other multinational banks, it moved its headquarters to London despite not doing business there. The interest of the NBI in the territory of East Africa began with an increasing level of trade and it established and agreement with the short-lived Imperial British East Africa Company (1888-1895) to operate as its bank agency. However, once the company surrendered its charter and the territory passed to direct British control, the bank negotiated to function as the governmental bank in the region. The institution then

[5] Ibid., 123-24.
[6] Paul Van Zwanenberg, 'Kenya's Primitive Colonial Capitalism: The Economic Weakness of Kenya's Settlers up to 1940', *Canadian Journal of African Studies*, 9 (1975), pp. 277-92, 284-85.
[7] Gary Wasserman, *Politics of Decolonization: Kenya Europeans and the Land Issue 1960–1965* (Cambridge, 1976), 78.

opened its first branch in Mombasa in 1895, just two years after opening of its first African branch in Zanzibar.[8]

The NBI remained as the only bank doing business in the protectorate up to the first decade of the twentieth century and managed government finance until the last years of colonial rule. However, its commercial interests extended beyond the government. Through its close relations with British India, the NBI had a strong relationship with the Punjab migrants who arrived in Kenya to work on the construction of the Uganda railway. The number of such workers numbered 32,000 between 1896 and 1901.[9] Part of this community, around 20 per cent of the original workers who had migrated, remained in the territory permanently as traders in the towns that emerged along the new rail lines. The Indian community was a dynamic economic and political force in the colony from the early years and their relationship with the NBI was fundamental to the institution's development.[10] In addition, the strong connection between the banks and the railway continued after its construction, and in 1908 the NBI signed an agreement with this government company to become the sole bankers for the railways for the following ten years in exchange for guaranteeing interest rates in its provident funds.[11]

The economic development of the colony, and increased appreciation of colonial territories as a source of profit, soon attracted more financial institutions to challenge the monopoly of the NBI. In 1911, the SBSA was the second bank to establish offices in the territory. It was established through an initiative of South African traders with Mr. John Paterson, an important merchant from Port Elizabeth, who was its first chairman. The merchants in Port Elizabeth saw, in the increasing level of commerce opening up in the region, an opportunity and indeed necessity to enlarge the number of financial institutions in the territory. In common with the rest of the British multinational banks, the SBA was

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[8] Tyson, *100 Years of Banking*.
[9] D.A. Low and Alison Smith, *History of East Africa Vol. 2* (Oxford, 1965), 267.
[10] R. Mugo Gatheru, *Kenya: From Colonization to Independence, 1888-1970* (Jefferson, N.C., 2005), 12-15.
[11] Tyson, *100 Years of Banking*, 213.

registered in London in 1862 and despite not doing any banking business there, it was in London where the institution would try to raise its capital.[12]

The bank extended its offices around South Africa, opening a branch in the region of Durban in 1862 and two years later in Cape Town. Its aim of being a preponderant financial institution in the rising economy of South Africa encouraged rapid expansion. It was pioneering in the establishment of branches in the diamond fields of Griqualand West in 1870 and seven years later in the gold fields of Transvaal, with branches at Potchefstroom and Pretoria. A few years later the SBSA expanded its representation once more, this time beyond South Africa when it opened branches in Bechuanaland (known today as Botswana) in 1890 and Rhodesia (today known as Zimbabwe) two years later. Such expansion was 'on a scale never previously witnessed in its history',[13] and continued into the Portuguese East Africa district, Mozambique in 1894, and modern Lesotho in 1901. Ten years later, the bank began its incursion into East Africa, opening branches in Nairobi and Mombasa in 1911 and two years later in Uganda.

The expansion into the East Africa was encouraged and very well received by the Indian community which had for more than a decade accepted the monopoly of the NBI. The necessity of attracting the business of Indian clients forced the bank to employ Indian personnel from Mozambique to improve the bank's commercial opportunities within this important economic sector. However, the profit expectations were well above the real possibilities of the weak East African economy and the SBSA soon found itself in financial difficulty. These difficulties were deepened by the economic crisis triggered by the war and hitches in currency transition. Its financial troubles did not begin to improve until 1925, the same year the bank's administration was centralised. Its headquarters, which had remained

[12] Amphlett, *History of the Standard Bank*.
[13] Ibid., 193.

in Port Elizabeth since the foundation of the bank, were transferred to London, now at the helm of the development of the East African branches.[14]

The final bank to be analysed in this research is the Barclays Bank Dominion Colonial and Overseas, the first bank to arrive in the colony after the First World War. This institution was, as declared by its executives, 'a combination of 20 banks'.[15] However, this characteristic was, at the time of its overseas expansion, shared with other British banks. The amalgamation of financial institutions had been the norm in the financial system since the last years of the eighteenth century.[16] On the other hand, contrary to both the SBSA and NBI, the Barclays Bank Limited was the only multinational bank which undertook the bulk of its business in England and not overseas. Nevertheless, the increasing involvement of bank clients with trading encouraged its chairman, F.C. Goodenough, to increase its representation overseas. Barclays Bank then decided to create an association with the Colonial Bank, an institution that already had representation in the West Indies and West Africa. The association that took place in 1919 was transformed soon into the total control of the bank.

The first contact between Barclays Bank and Kenya occurred two years later when Barclays acquired a large number of shareholdings of the National Bank of South Africa (NBSA). The NBSA, an institution founded in 1890, had been established in Kenya since 1916. The relationship between both institutions was later strengthened when A.B. Gillet, director of Barclays Bank, was appointed to the NBSA committee in London. Following the acquisition of the Anglo-Egyptian Bank, Barclays made an offer to amalgamate the NBSA that, despite an important and extended representation in Africa, was facing serious financial problems. The amalgamation of the Colonial Bank a subsidiary of the Barclays Bank Limited, with the Anglo-Egyptian Bank and the National Bank of South Africa was complete in 1925. The bank changed its name to Barclays Bank, Dominion Colonial and Overseas and was referred to as

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[14] Standard Bank of South Africa Limited, *The First Hundred Years*.
[15] Ackrill and Hannah, *Barclays*.
[16] Mark Thomas, 'The Service Sector', in *The Cambridge Economic History of Modern Britain: Volume 2: Economic Maturity, 1860–1939*, ed. by R. Floud and P. Johnson (Cambridge, 2004), pp 99-132, 118.

the 'First Empire Bank' because it covered most, but not all, of the British Empire in comparison with other British multinational banks.[17]

After the Second World War, a number of factors attracted more financial institutions: together with the development plans, the partial defeat of the Mau Mau was associated with the downfall of the independence movement and gave rise to subsequent perceptions of political stability. The Bank of India, Bank of Baroda, Habib Bank Overseas, the Ottoman Bank, and the Commercial Bank of Africa were established during the colonial period. These institutions, despite offering increased options for Kenyan clients, could not break the monopoly of the big three commercial banks, which continued to control 87 per cent of branches in the colony and most African savings. In addition, the recently arrived institutions did not improve access to loans for African farmers.[18] This cohort had to wait until independence and the creation of the Co-operative Bank and National Bank of Kenya to see its credit restrictions diminished.

2.2 The African Colonisation and the Arrival of British Multinational Banks

The arrival of the banking institutions in Kenya can be divided into different historical moments or waves. The first runs from the end of the nineteenth century until the First World War. This early banking development was related to the first attempts of colonisation and the extension of imperial institutions into East Africa. As a result, the financial institutions were connected to these first attempts of colonisation while their business responded to the necessities of one company or the recently established colonial government. The main example is the NBI which arrived in the colony as part of the British East Africa Company's incursion into the territory.

The scramble for Africa has been largely discussed by the historiography, but it is now accepted that this rush cannot be explained as a direct consequence of the development

[17] Crossley and Blandford, *The DCO Story*, 18-23.
[18] W.R. Ochieng' and Robert M. Maxon, *An Economic History of Kenya* (Nairobi, 1992), 256-57.

of the monopolistic financial institution and its need for new markets and access to surplus capital, as assumed by Marxist literature.[19] Instead, it was a complex process that did not respond entirely to economic or political motivation.[20] Beyond Leopold II of Belgium, the only European leader who was apparently moved by the economic perspective of African colonisation, no other nation or national bourgeoisie, either financial or industrial, was so convinced about the economic advantages of imperial possessions. African exploitation was risky while the amount of commerce in the region was slight. Thus, despite the increasing perception of Africa as a rich land, a new 'El Dorado', and the alleged economic interest towards the end of the nineteenth century, the procurement of immediate profit was unclear.[21]

In that sense, the colonisation of tropical Africa at the end of the nineteenth century responded to different incentives. It presented economic advantage but was a symbol of status, it was necessary to acquire a colony in order to be considered a real European power. The apparent weakness of Britain at the eve of the rise of new powers, pushed it along with other European nations to enlarge its presence in the continent. This encouraged some politicians to see in the colonial adventure a way to preserve its credibility as a superpower. Britain then, it was reasoned, should spearhead the extension of governmental institutions and infrastructure beyond its traditional zone of influence. The era of the informal empire was paving the way to the *Uti possidetis iuris*.

The constant challenges from France, Germany, Italy, Belgium, and even Portugal, and the desire of the British government to enlarge and consolidate its traditional African zone of influence. Forced Britain to establish a real dominion along the coast and inside the

[19] The particularities of the scramble for Africa are well beyond this study, however it has been largely analysed by the literature in a comprehensive synthesis of the historiographical debate, see: Roland Anthony Oliver and Neville Sanderson, *The Cambridge History of Africa. Vol. 6, From 1870-1905* (Cambridge, 1985).
[20] Cain and Hopkins, *British Imperialism*, 331.
[21] Oliver and Sanderson, *The Cambridge History of Africa*, 100.

African territory before its competitors.[22] In that sense, the commitment and success of the British government to encourage business diffusion in the continent differ by region and time. For the case of tropical Africa, those incentives responded mostly to world political events, specifically German attempts at colonisation. But even then, neither Britain nor Germany were thinking about direct control of the territory but rather exerting an indirect influence throughout the companies or groups of 'prominent capitalists'.[23] It was when these companies proved their incapacity in doing so that the governments decided or were forced to make direct intervention.[24]

However, while clear economic necessity cannot be counted among the main reasons for the African scramble and consequent establishment of financial institutions, there were other aspects that allowed British incursion and the consequent spread of banks throughout tropical Africa. Among the most important was the reduction in the cost of transportation during the second half of the twentieth century. This fall in prices, as a result of the technological development, allowed for deepest world market integration and the improvement of communications.[25] Finally, the technological asymmetries between the western armies and the rest of the world had seen a dramatic increase since the eighteenth century, making the physical control of territories less resource intensive and reduced the human cost for the military. The European powers, and even those that could not be counted as real powers, acquired the possibility to gain control of overseas territories, not just at the expenses of local rulers but also weaker imperial powers, such as the Ottoman Empire which lost its territories in North Africa and the Balkans.[26]

On the other hand, by the last years of the nineteenth century, the first 'international bunching of banking crises' occurred. Known as the Baring Crisis, it involved the Argentinean

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[22] Low and Smith, *History of East Africa*; Leonard Woolf, *Empire and Commerce In Africa: A Study In Economic Imperialism* (London, 1920), 27.
[23] Woolf, *Empire and Commerce*, 244.
[24] Robert M. Maxon, *East Africa: An Introductory History* (Morgantown, 1986), 134.
[25] Jones, *British Multinational Banking*, 69.
[26] Ronald Findlay and Kevin H. O'Rourke, *Power and Plenty: Trade, War, and The World Economy in the Second Millennium* (Princeton, N.J.; Woodstock, 2007).

and London financial systems and spread to other countries such as Australia and New Zealand, it was finally overcome at the beginning of the twentieth century and the subsequent economic recovery certainly allowed for banking expansion.[27] The financial institutions that survived the *fin de siècle* financial convulsion, were ready to extend their services and found new business opportunities in the European expansion in the continent. The British banks were the most capable of starring in the African expansion without fear of competition from other multinational banks. The British financial sector remained, in both size and performance, the most skilled at exportation to the international arena.[28] Its financial institutions were also not just the most advanced, but had broader experience in international business as well as the capacity to raise funds in The City, the world financial centre that was enjoying its 'golden years'.[29]

The imperialist expansion, while certainly not necessary for the survival of the European capitalist system, boosted the demand of services along the new territories. It allowed for specialisation among different sectors related to trade, finance, insurance, shipbuilding and large exportation industries.[30] Additionally, the potential of the territory as an important source of raw materials meant an end to the dependency of British industry on external trade. This was clearly exemplified by Winston Churchill who, in his role of under-secretary of state for the colonies, declared in 1907 to the Royal African Society the importance of the African empire which 'promises to be of enormous service to the people of this country', particularly cotton production 'because at the present we are forced in Lancashire to depend largely, almost exclusively, upon the supply of cotton from United

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[27] Carmen M. Reinhart and Kenneth S. Rogoff, *This Time is Different: Eight Centuries of Financial Folly* (Princeton, 2009), 241-42. For an account of this crisis, see: A.G. Ford, 'Argentina and the Baring Crisis of 1890', *Oxford Economic Papers*, 8 (1956), pp. 127-60.

[28] Stephen Broadberry and Kevin H. O'Rourke, *The Cambridge Economic History of Modern Europe: Volume 2: 1870 to the Present* (Cambridge, 2010), 81-83.

[29] S.N. Broadberry, *Market Services and The Productivity Race, 1850-2000: British Performance in International Perspective* (Cambridge, 2006).

[30] Avner Offer, 'The British Empire, 1870-1914: A Waste of Money?', *The Economic History Review*, 46 (1993), pp. 215-38.

States'. This situation meant that during bad years of cotton production, British industry found itself 'at the mercy of the speculators'.[31]

In that sense, from the first years of the twentieth century, the colonial economy was commercial and commodity directed to fulfil the needs of British industry and as a result of international price increases of the products it required. For that reason, the first banks established on the mainland of the continent arrived there in response to the credit necessities of trade, commodity production business and with those investments concerned with the infrastructural development necessary for colonial consolidation and exploitation of resources.

These economic and political factors allowed British multinational banks to expand their services between 1860 and 1913. However, the incursion of these financial institutions in East Africa was led not by metropolitan banks, but institutions created and already established in the colonies, which decided to increase their zone of influence to these new territories. In that sense, the financial incursion into East Africa should be understood as an enlargement of African and Indian imperialism. This expansion was more important in those regions with the largest economic growth, such as Australia and South Africa. Together, both regions accumulated more than 60 per cent of the total multinational bank branches and 31 per cent of the total assets. East Africa, on the contrary, was left behind and by 1913 it had just 1 per cent of the total bank branches and the region stood for just 2 per cent of the total international assets. However, the importance of Africa for the multinational banks increased substantially after the Second World War, when economic and political events made the continent a more profitable location for the commercial banks.[32]

[31] Cited in: Winston Churchill, 'The Development of Africa', *Journal of the Royal African Society*, 6 (1907), pp. 291-96, 292-93.
[32] Jones, *British Multinational Banking*, 414-17.

2.3 Colonial, International, and Multinational Banks

The different institutions, governmental and private, necessary to establish and run an empire have been the topic of important debate among the scholars since the very beginning of African colonisation. The development of the institutional framework was seen by imperial supporters as a normal step in African integration. In addition, the colonial institutions were, for supporters of colonisation, a civilising and moral force deemed necessary in a continent with the deepest economic blackguard and worst moral degradation among the population. These ideas, strongly linked with social Darwinism, were later disguised under the argument that Europeans through colonialism were the developers of educational institutions, infrastructure, and even the legal system.[33] Just in 1920 the governor of the Kenyan colony proclaimed the advantages of the African's compulsory work for the Empire, the Protectorate and the 'native whom we must protect'.[34]

While some of the announced developments were carried out by colonisers, Walter Rodney remarked how 'the limited social services within Africa during colonial times were distributed in a manner that reflected the pattern of domination and exploitation'[35] - a statement later proven by different case studies focused on education, the legal system, media control, and selective development of infrastructure.[36] A replica of this segregationist development model can be easily traced to the financial system of British East Africa. In the colony, the establishment of the first banks were in service to the colonial authorities, white

[33] However, the real use of the concept by the supporters of the imperialism has been object of some debate, see: Paul Crook, 'Social Darwinism and British "New Imperialism": Second Thoughts', *The European Legacy*, 3 (1998), pp. 1-16.

[34] Quoted in: L.C.A. Knowles, *The Economic Development of the British Overseas Empire* (2nd edn, London, 1928), 180-81.

[35] Walter Rodney, *How Europe Underdeveloped Africa* (Dar-Es-Salaam, 1973).

[36] For an analysis of education, see: Kilemi Mwiria, 'Education for Subordination: African Education in Colonial Kenya', *History of Education*, 20 (1991), pp. 261-73. For the case of forced work and the inequalities of the punishment system, refer to: David M. Anderson, 'Master and Servant in Colonial Kenya', *Journal of African History*, 41 (2000), pp. 459-85. And for investigation of the media: Frederiksen Bodil Folke, 'Print, Newspapers and Audiences In Colonial Kenya: African and Indian Improvement, Protest and Connections', *Africa: Journal of the International African Institute* (2011), pp. 155-72.

settlers, and Indian traders. And lastly, not before the post-war period, the commercial banks in Kenya began to view in Africans potential clients, although only for savings accounts.

Nevertheless, is important to remark that while the financial sector followed more of the segregation policies than other colonial institutions, it remained apart from the imperialist campaign. In the specific case of the banks, the imperial question was totally absent from the agenda. There was no pressure or particular lobby from the financial sector to encourage the extension of the imperial dominions. Neither did the Central Association of Bankers, founded in 1895, mention anything about the empire beyond that strictly related with business.[37] Nevertheless, the growing popularity of colonial Africa as an attractive location for business among British bankers during the last years of colonialism cannot be so easily disregarded. An example of this growing interest can be found in the educational organisation of the Central Association of the Bankers, known as the Institute of Bankers.

In 1890, this institution organised a series of conferences about the current state and future of the empire. In presentations delivered by the geographer John Scott Keltie, the natural characteristics and commercial potential of Africa was noted. Indeed, he remarked that despite the apparent poverty of the continent in terms of recourses, there was 'ample room for industrial and commercial enterprises'. Britain, Keltie recommended, should not neglect any market or source of supply, particularly at that moment when the 'commercial competition among the nations was so intense'.[38] The economic potential of the British Empire as a means to meet the rising competition of other economies began to gain traction. Keltie's advice was prophetic when the British multinational banks were expelled by both government and competitors from their traditional zones of influence, Latin America and Asia, and were forced to rely on the protected imperial territories.

[37] A.N. Porter and R.F. Holland, *Money, Finance and Empire 1790-1950* (London, 1985), 119-20.
[38] John Scott Keltie, 'Commercial Geography: Delivered Before the Institute, Wednesday, February 12th, 1890', *The Journal of the Institute of Bankers*, 11 (1890)

Besides the purposes that attracted the banks to become established in East Africa, it is important to examine the role they played in the colonial economy. In doing so, it is necessary to define whether the banks in Kenya were committed to supporting the development of colonial business and increasing the level of financial inclusion, or if they were just a financial instrument created to 'dispossess Africa of its wealth'.[39] To clarify: it is useful to understand if the banks that arrived in East Africa during the colonial period can be defined as colonial, imperial, or multinational according to their roles. It is also important to comprehend that along with the social and political transformation of the colony, these institutions also changed and adapted to conditions there.

The suitability of the concepts around colonial, imperial and multinational banks as an analytical tool has been the object of some discussion in the historiography specialised in the banking and business history. However, the relevance of these concepts to this study is that, by using these categories, we can understand the characteristics shared by the financial institutions. This is fundamental in order to recognise the conditions in which the banks arrived, and the role played during their period in the colony. In addition, it helps us to comprehend the changes made by the banks to adapt to the fluctuating conditions during the colonial period and afterwards.

A colonial bank can be categorised as a financial institution strongly supported by the state that ensures its monopoly in the territory.[40] Further, these banks were the only institutions allowed to issue bank notes and manage the accounts of the colonial military and bureaucracy. The colonial banks responded not to market, but governmental necessity, particularly the establishment of some order to the colonial monetary system and to enable the subjugation of the colonial economy for the metropolis.[41] The imperial banks were involved in international business although they were close to specific companies in the

[39] Rodney, *How Europe Underdeveloped Africa*, 26.
[40] Valério Nuno and Bonin Hubert, *Colonial and Imperial Banking History* (London; New York, 2015).
[41] Albert S.J. Baster, *The Imperial Banks* (London, 1929).

colonised territories. However, one of the most important characteristics of the colonial banks was its weakness. This was in the form of its incapacity to adapt to an independent country. For that reason, most colonial banks were shut down once independence was achieved in the countries in which they were established. This was mostly due to incapacity and a lack of interest in the market of the free governments and development projects.

Colonial banks were established by different imperial powers along diverse acquisitions including Cuba, Brazil and Puerto Rico. In Africa, the Banco Nacional Ultramarino was established in 1860 by a public and private initiative as a bank of issue and was established throughout the Portuguese Empire: Angola, Luanda Praia, Cabo Verde, São Tomé and Príncipe, Goa, and Mozambique. It is one of the institutions that, due to its characteristics, can be more easily identified as a colonial bank. It enjoyed a monopoly during the first years of colonial rule and the government saw it as an instrument for colonial development. The bank remained as the only financial institution active in the empire until 1920 when it began to face more competition from other financial institutions. Finally, the Banco Nacional Ultramarino was closed down following Angolan independence and the later nationalisation of the entire Angolan financial system.[42]

An imperial bank is, contrary to its colonial counterpart, a financial institution active in the colonies as well as the independent territories. This situation compels the bank to adjust its procurement in order to be effective in the different regions in which the institutions were established. It follows that the bank is less dependent on a single business or government within the colony. However, its connections with imperial governments remained strong and to some extend the imperial banks represented governmental interest in the zone of influence.[43] The role of the imperial banks varied throughout the territories, but among their main functions was the mobilisation of capital, commitment to make loans,

[42] Nuno and Hubert, *Colonial and Imperial Banking*, 104-5.
[43] The Bank of Persia is one of the best examples of an imperial bank and for a well analysed case, see: Geoffrey Jones, *Banking and Oil* (Cambridge, 1987).

and provide the means to make and receive payments. However, their aim was not to develop the economy by financing stimulus, but to cover the necessities of the market in terms of work and not fixed capital. At the same time, the imperial banks, as per the rest of the British financial system, by their characteristics were more concentrated in the agricultural trade than industry. These characteristics were common in the colonies as a result of the existing economic factors.

Finally, a multinational bank is a much wider concept that differs from its colonial and imperial counterparts because its links with the colonial government are not so clear. These banks also contrast from other commercial banks, such as clearing banks and join-stock banks with multinational operations, by the fact that they controlled a variety of banks and branches in different countries.[44] The multinational institutions made most, if not all, of their business abroad, but maintained their headquarters in one city.[45] The multinational banks established in the British colonies maintained their headquarters in London. It was there that these institutions raised their capital and made managerial decisions.[46] This strict centralisation began to be the rule particularly at the beginning of the twentieth century when the multinational banks discarded the use of local boards in favour of a more centralised management. This decision was taken mostly due to the mismanagement of local branches and antagonism between local and central bank authorities. Another factor was the improvement in communications which allowed the central board to adopt a better position to supervise the international branches.[47]

The three concepts, despite the characteristics that define one another are also deeply associated. In the case of Kenya, the definition of each institution can be placed on the bank under analysis, as well as in the historical moment experienced by the colony and how the institutions adapted their business to the changing reality of the colony. However,

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[44] C. Kobrak, 'From Multinational to Transnational Banking', in Youssef Cassis, Richard Grossman, and Catherine Schenk (eds), *The Oxford Handbook of Banking and Financial History* (Oxford, 2016).
[45] Porter and Holland, *Money, Finance*, 110.
[46] David J. Jeremy, *A Business History of Britain, 1900-1990s* (Oxford, 1998), 236.
[47] Jones, *British Multinational Banking*, 44.

we can be certain that a colonial bank was non-existent in British East Africa. No bank was created with the exclusive objective of serving the East African colony or acted as an issue bank. When British settlement began in the region, the rupee was already the customary standard coin and it remained the colonial currency until the creation of the East African Currency Board in 1919.[48] On the contrary, it was the development of the colony that attracted more financial institutions to it.

2.4 Banks in Kenya, Imperial or Commercial Enterprises?

The NBI was one institution that could be catalogued as imperial bank. Its arrival in British East Africa was motivated by the possibility of the coveted position of bankers to the Imperial British East Africa Company. Once the company was dissolved and substituted for direct British rule, the institution remained in the territory managing the finances of the colonial government. At the same time, it was close to other projects such as the Uganda railway. However, it also remained as a source of finance for other schemes over the rest of the colonial period.

Even when the NBI did not enjoy any formal monopoly in the territory, it often used its position as governmental bank to appear as the most trustworthy financial institution in the colony. The bank also influenced new business to open accounts with it, even when it had no representation in the territory where the new enterprise was to be established. As an imperial bank, it did not have any concern for the economic development of the colony. Its relationship with other colonial business remained in the form of short-terms loans or channelling metropolitan resources into the colony, a position used to secure its monopoly.[49]

The monopolistic practices of the NBI's business continued until the second half of the twentieth century when it began to face more active competition from Barclays Bank,

[48] G.L.M. Clauson, 'The British Colonial Currency System', *Economic Journal*, 54 (1944), pp. 1-25, 11-12.
[49] The specific characteristics of this are analysed in the fourth chapter.

the SBSA and other banks recently arrived in Kenya, such as the Ottoman Bank, the Habib Bank, and the Bank of Baroda. These institutions were especially critical of the role played by the National Bank of India as a governmental bank, particularly because this condition affected the possibility of enlarging their business in the territory.[50] The NBI was merged in 1958 to become the National Overseas and Grindlays Bank.[51] It continued doing business in Kenya but as a multinational bank and struggled to adapt to the new conditions, particularly independence. While it did not disappear, as did the colonial banks, it was overtaken in terms of business by BDCO and the recently established governmental banks.

On the other hand, different goals attracted the Standard Bank of South Africa (1911) to Kenya. This institution was never linked with the colonial government or a single business in Kenya and, being the second bank to arrive in the colony, it could not aspire to gain a monopoly over government business. It began operating in the colony when the popularity of the African territory as an economic valuable territory was growing, along with the penetration of white settlers. In that sense, the SBSA responded to the increasing demand of banking services from white settlers and Indian traders. These sectors had to conform to the services of the NBI, which was not particularly active as it was concentrated on its business with the colonial government. However, rather than encourage the growth of business through credit access, the branches in Nairobi and Mombasa had the main objective of working as a bridge between South Africa and Europe, a similar function to its New York agencies which functioned as a contact for the South African business.[52] Nevertheless, after the First World War, and as a result of the economic development of the colony, the relationship between the bank and traders began to increase, particularly with coffee traders.

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[50] This bank was also particularly critical of the close relationship between the colonial government and the NBI. This is extensively discussed in Chapter Four.
[51] National Overseas and Grindlays Bank Limited, 'Report of the Directors and blance sheet for the year ended 31st December 1957' (1958).
[52] Standard Bank of South Africa Limited, *The First Hundred Years*, 196.

The Kenyan financial system remained *de facto* divided between the SBSA, the bank for the trades, and the NBI which was concentrated on governmental business. In that sense, the bank acted purely as a multinational institution in the colony. The SBSA cannot be categorised as an imperial bank since its arrival and expansion incentives were not the result of any active policy or direct pressure by the British or colonial authorities, but a consequence of the underdevelopment of the British East African economy that forced the bank to look after a major number of business in its area of operation. The only advantage of the financial institution was its collusion with the other banks. And even there, the SBSA faced, unsuccessfully, the active competition of BDCO and other recently arrived financial institutions that also had no opportunity to challenge the NBI for governmental business.

Finally, Barclays Banks, as previously mentioned, was the only bank with the bulk of its business located in London and not overseas. However, this began to change slightly from 1919 with the encouragement of Frederick Craufurd Goodenough, chairman of Barclays Bank limited and founder of the BDCO.[53] The reasons behind this overseas expansion were mainly ideological; Goodenough believed in the imperial enterprise and saw it as a way to avoid increasing dependency on the New York money market. He was also concerned by the rise of the German banks which he considered a threat to British international trading.[54]

The case of Barclays bank is particularly interesting and deserves further analysis since it was not a bank that expanded services from its founding location to surrounding territories, as per the NBI and SBSA. On the contrary, it was created with the clear objective of being located in overseas territories. In that sense, BDCO exemplifies the necessity of the banks to increase their representation, the result of the impossibility of competing in other fields due to the elevated levels of concentration in the British financial system. The

[53] The Barclays Dominion Colonial and Overseas should not be confused with Barclays International, the history of which can be traced since the final years of the seventeenth century. See: Ackrill and Hannah, *Barclays*.
[54] Ibid., 81; Gillman, Tuke, and Gillman, *Barclays Bank Limited*.

economic crisis increased this concentration; the number of join-stock banks in the market was just 12, with the 'Big Five' controlling around 80 per cent of the total deposits in UK.[55]

The expansion of Barclays Bank should be seen as the only possibility to continue its business expansion because, even when some other regions were potentially more profitable, such as North America, the British financial institutions did not have the capacity to expand their services into other territories due to the growing protection measures of the interwar period. Moreover, they were not capable of competing with other financial institutions in territories beyond their colonial or semi-colonial dominions. The withdrawal of British multinational banks from North and South America was compensated by increased representation in South Africa.[56]

On the other hand, its incursion into East Africa is an example of expansion by economic expectations and defence of its economic dominance against possible European rivals. The founder of BDCO was among the pioneers who saw in the imperial expansion a way to boost not just its bank but also the British economy, which was seen as less active than the continental countries. This perception is remarkable and contradictory due to the fact that the British financial system was actually the strongest and leading productive sector in comparison with the rest of the economy before the Second World War.[57] On the contrary, the German financial system, of which Mr. Goodenough was most afraid, remained, in comparison with the British, behind in terms of productivity and could even be qualified as underdeveloped.[58]

This was particularly clear during the interwar period when the German banks had to abandon their role as lenders for industrial development. The real catch up by the German

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[55] The British Banking system during the interwar period was controlled throughout cartelisation by the 'Big Five' (Barclays Bank, Midland Bank, Lloyds Bank, National Provincial Bank, and Westminster Bank). See: Roderick Floud, Jane Humphries, and Paul Johnson, *The Cambridge Economic History of Modern Britain*. *Volume 2: 1870 to the Present*, New edition/edited by Roderick Floud, Jane Humphries, Paul Johnson (Cambridge, 2014), 355.
[56] Jones, *British Multinational Banking*, 136.
[57] Eric J. Hobsbawm, *Industry and Empire* (Harmondsworth, 1990), 210-11.
[58] Broadberry, *Market Services*, 30; Broadberry and O'Rourke, *Economic History of Modern Europe*.

financial services had occurred in the manufacturing sector that was, before the war, helped by the financial sector, particularly by join-stock credit banks; these banks remained small and locally focused, however, in comparison with the British financial institutions.[59] Paradoxically, BDCO, despite its alleged growth concerns and British competition, remained as conservative as the rest of the British financial sector. It was focused on trade and short-term loans instead of industry or any other risky enterprise almost until the 1950s when it began to support different economic sectors in Kenya through the creation of development corporations.

On the other hand, despite being named the 'First Empire Bank', BDCO operated in Kenya not as an imperial, but purely commercial institution.[60] Links with the government business were small and always difficult to expand due to the monopoly of NBI. Therefore, Barclays was the most active financial institution in the colony, and it tried to implement new ways to attract a greater number of savers from the first year of its arrival in the territory. This is exemplified in the case of the town of Thika which had been decried by the BDCO inspectors in 1929 as a small town situated at the centre of coffee and sisal plantations, with just a 'District Commissioner's Office, Post Office Hotel and dozen Indian *dukas* (small trading stores)'. However, it was considered a good place to establish a bank office. The absence of other banks, a situation that would ensure its monopoly, was but one draw with the constant demand for money from the planters to pay native wages being an attractive prospect. This service, remarked the inspector, 'would form a connecting link which might attract to us clients of other banks'.[61] BDCO, as the bank most recently established in the colony, had to compete for its segment of customers.

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[59] However, the role of the German bank in boosting German industrialisation has been the object of discussion among scholars - for some highlight about this debate, see: Carsten Burhop, 'Did banks cause the German industrialization?', *Explorations in Economic History*, 43 (2006), pp. 39-63; Hugh Neuberger and Houston H. Stokes, 'German Banks and German Growth, 1883-1913: An Empirical View', *The Journal of Economic History*, 34 (1974), pp. 710-31; Author Caroline Fohlin, 'Relationship Banking, Liquidity, and Investment in the German Industrialization', *The Journal of Finance* (1998), pp. 1737-58.

[60] Crossley and Blandford, *The DCO Story*, 18-23.

[61] BGA 12B/07/3/0011-1075, Nairobi Inspection Report. Dated 14th March 1929.

The remained of the financial institution that arrived into the colony after the 1950s were also purely commercial institutions, without any direct relationship with the colonial government, business, or any specific economic sector. As has been mentioned, the recently arrived institutions did not represent a challenge to the already established financial system in the colony. The field of action of the new banks were small, and they had to face the collusion practice of the three bigger institutions. The banks of the 1950s generation acted as purely commercial institutions, competing throughout the colony with the offer of better service as per the Ottoman Bank did or, as in the case of the Habib Bank, focusing in specific places or social groups. The latter, with a single branch in Mombasa and just a dozen staff members, was successful in attracting a 'certain volume of Muslims deposits' as the officials of Barclays bank recognised in 1957.[62] However, the newest commercial banks remained small players in the colonial financial system.

As demonstrated, the distinct categories into which the various institutions fit are historically determined and should not be taken as immovable for each organisation. On the contrary, these categories are useful in elucidating the political and economic transformation of the colony that compelled the banking institutions to change in order to remain significant within the colonial economy.[63] In that sense, the first generation of banks, the NBI and SBSA, could be more closely related to the role of the imperial banks due to their closer relationship with specific business and government projects. However, this role began to change following the arrival of the first purely commercial bank in the colony, the BDCO. This new rivalry for customers first affected the SBSA; however, the NBI, which had been rebranded in 1958 as National and Grindlays Bank, was also forced to adjust its business strategy to become a purely commercial institution once the independence process was underway and sovereignty achieved.

[62] BGA 21/07/5/0029-0335, Local Director's Visit to Mombasa Branches and Malindi Branch, 19th to 24th June 1957.

[63] However, the institutional transformation is in the end bidirectional, and the transformation of this institution also transformed the colony.

It is also remarkable that a characteristically colonial bank was not developed in Kenya as occurred in other parts of the empire. This absence reveals a lot about colonisation, political development, and the socioeconomic changes in the colony. Contrary to what happened in Egypt or Iran, the acquisition of African territories was a rushed and chaotic process. The British government avoided direct involvement in the colonisation process, but once it found this compromise impossible to evade, it reacted by expanding its dominion and creating an economic programme. This absence of central pacification, along with the unpopularity of colonisation among the London financial market, resulted in the British East African financial system being an extension of the more developed surrounding areas of the empire.

In that sense, the British East African financial structure was bonded in the first instance to the Indian Ocean economic dynamic. The construction of the Uganda railway and the influx of Indian workers needed by the project meant that the well-established Indian Rupee became the currency of circulation in the territory. Indeed, it remained as the currency for local and international trade until its substitution by the East African Shilling in 1923.[64] This made the monopoly for one institution to create bank notes unnecessary. However, at the same time this close relationship with the Indian economy was fundamental in attracting the NBI to the territory. It saw in British East Africa a natural extension to its business in India and the possibility of being, if not a colonial government bank, in service to the colonial authorities. In this manner it paved the way for its participation in diverse business.

The SBSA, as well as the NBI and the National Bank of South Africa, were attracted by the prospects of business enlargement. These banks had already embarked on an expansion process within South Africa and the northern territories.[65] Their extension into British East Africa can be seen just as the next step in this continental enlargement policy.

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[64] Wambui Mwangi, 'Of Coins and Conquest: The East African Currency Board, the Rupee Crisis, and the Problem of Colonialism in the East African Protectorate', *Comparative Studies in Society and History*, 43 (2001), pp. 763-87.
[65] Standard Bank of South Africa Limited, *The First Hundred Years*, 118.

Furthermore, the SBSA bank viewed this expansion as a way to connect British East Africa to the South African economy, where its greater bigger interests lay. This connection remained during the colonial period and even the Kenyan colonial government used SBSA, instead of NBI, for transactions related to its interest in South Africa in terms of payment on leave, pensions, etc.[66] The institutional policy was to increase its position as the bank for South African business connected with Kenya, rather than being the bank for local commercial industries.

2.5 Conclusions

As has been analysed, the arrival of the commercial banks in Africa was an early process that began along with the internal dominion of the territory. However, this first development was not centrally directed; on the contrary, the arrival of the banks responded to the motivations and possibilities of each institution in the territory that was not attractive to financial institutions or even the British government. For that reason, the first banks to be established in the area were those multinational institutions surrounding the new dominions: South Africa and India. This lack of central planning in financial terms, coupled with the fact that the recently conquered territories were already in the orbit of the Indian economy, did not allow for the creation of a colonial bank but only the establishment of commercial institutions that in the case of the NBI could be catalogued as an imperial bank. However, the absence of a politically granted monopoly did not free the colony from the almost total dominion of the three major banks in colonial Kenya despite the later arrival of more commercial financial institutions, the existence of the POSB, and the Kenya Land and Agricultural Bank.

[66] LMA CLC/B/207/ST03/01/53/014, Import of maize into East Africa, Letter from the Nairobi Superintendent's Office to the Manager's Head Office in London, 5th August 1953.

3 Political Uncertainty: The African Fight for Freedom and New Horizons for Banks

The independence of Ghana in 1957 marked the beginning of a liberation wave along the European dominions in Africa, opening the door to political self-determination in the former colonies. This political turmoil was also a challenge for the European settlers and foreign business that remained in the territories. However, superimposed on the spread of nationalistic liberation in Africa, the colonial authorities in Kenya had since 1952 been fighting a bloody war against the Mau Mau rebellion. Despite the incapacity of the insurgency to jeopardise British dominion, and the relative speedy defeat of the movement which delayed the independence process, the insurgent uprising and later suppression of this liberation crusade drastically altered the social conditions in the colony. This was evident in the development plans of the financial institutions that had begun to see in Kenya an oasis of political stability from the turmoil of the African and Asian independence process.

This chapter analyses the development of the banks during this time of political uncertainty. The first part analyses the position of the banks after the second war. Their expectations in the colony after peace was restored are fundamental to understand how these plans and future perspectives suffered and were altered by the later social and political uncertainty. The second section explores how the commercial banks were affected by the Mau Mau uprising, not just in terms of material losses during the struggle but in relation to their short- and long-term expectations once the insurgents were in evident retreat. The aim is to understand the circumstances that encouraged the commercial banks to expand their representation in the territory during the post-war period and why the second half of the 1950s saw the banks enlarging their representation in the colony and more financial institutions arrived there. The understanding of this context is also fundamental to explain the increasing rivalry between commercial banks for governmental accounts and their processes of Africanisation, both themes of the successive chapter.

3.1 The End of the War and Commercial Banking in Kenya

At the end of the Second World War, the economies of Britain and its European neighbours were exhausted. At the same time, the mere existence of colonial dominions received condemnation not just from the ideological, anti-imperialist socialist block but also, for the first time, from the USA which compelled for the liberation of colonial territories. This political condemnation was softened once the colonies began to be seen as a barrier to communist expansion.[1] For the British government, the potential of the colonies attracting dollars was crucial to its reconstruction plan. Nevertheless, to accomplish the desired economic role, and minimise world condemnation regarding imperial possessions, the colonial dominions needed to be economically relevant and socially developed. For that reason, the British government tried to encourage economic progress in its colonial dominions, and it was clear that the political policy of indirect rule and self-colonial development was no longer suitable to accomplish its post-war economic and political goals. Indirect rule needed to be replaced by a policy of economic expansion and closer governmental intervention.[2]

Renewed imperialism during the second half of the twentieth century changed not just the relationship of white settlers with the metropolis, but also that between Africans and the colonial powers through the "modernisation" of the colonial state. The British authorities understood this renewal as a professionalisation of the bureaucratic apparatus in the colony. The transformation of the colonial dominions, led by development programmes and the intensification of the capitalist economy, implied the enlargement of colonial rule throughout the territory. In other words, the colonies could not be left in the hands of just a few government representatives. It was imperative that the bureaucratic machinery be extensively enlarged in order to establish real dominion across different aspects of Kenyan

[1] Cain and Hopkins, *British Imperialism*, 670.
[2] Low and Lonsdale, 'Introduction', 157.

society to achieve its transformation.[3] Otherwise, even the resources granted by the British government for colonial development could not have the desired effect. The colonial government had already displayed its incapacity to manage a great amount of resources. The disparity between the amounts approved by the colonial development advisory committee and the resources used had increased since 1929 and reached its highest point between 1945 and 1950. The disparity can be attributed to the lack of a planning apparatus, supervision staff, and absence of knowledge about colonial need.[4]

With the renewed influx of money and enlargement of colonial bureaucracy, the British government tried to erase the remaining pre-capitalist economic and social practices of the local population, which worked against the expected profitability of the colony. The effort was particularly significant in the agricultural sector where the "liberation" of African labour from their natural economies was undertaken for the benefit of the market economy.[5] The East and Central Africa board, for example, remarked on the importance of a housing programme due to the necessity 'to decrease the number of workers who have one foot in the reserve and the other in the employment'.[6]

Additionally, the British government increased its efforts to attract more Africans into colonial economic institutions. In the financial sector, the POSB led the initiative. Established in 1910 in the colony, it had the objective to cultivate a thrift mentality among the local population. With economic transformation, the colonial authorities tried to use it as an instrument to decrease those investment and savings practices popular among locals but considered by Europeans as economically sterile. One of the most important and thus

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[3] Peter Crooks and Timothy Parsons, *Empires and Bureaucracy in World History: From Late Antiquity to The Twentieth Century* (Cambridge, 2016).

[4] E.R. Wicker, 'Colonial Development and Welfare, 1929-1957: The Evolution of a Policy', *Social and Economic Studies*, 7 (1958), pp. 170-92, 176.

[5] The scarcity of labour and necessity of attracting Africans into the white fields was imperative for colonial settlers, particularly in order to keep wages at low levels. To guarantee this, the government use the "Kipande", a worker record that made it virtually impossible for workers to freely leave a job, ending freedom of labour, see: Anderson, 'Master and Servant'.

[6] Alice Hoffenberg Amsden, *International Firms and Labour in Kenya, 1945-70* (London, 1971), 49.

most difficult to eradicate was the accumulation of livestock, the "goat economy".[7] The population, particularly in the reserves, considered livestock to be the most important or even unique means of investment. It also provided high interest rates and social prestige and, as the colonial authorities admitted, the liquidity of the livestock made it more advantageous than other savings alternatives.[8]

Nevertheless, the renewed interest in the colony's economic development did not change the fundamental nature of its economic system as a producer of raw materials and consumer of capital in favour of metropolitan powers. On the contrary, it was taken to a bigger scale and deepened in other economic sectors.[9] Tourism, for example, in the post-war period received considerable promotion, creating an image of Kenya as a land for "wild adventures" and safaris for the western upper classes.[10] The post-war economic policy was also focused on trade and investment, exploiting those regions considered to be underdeveloped along East, West, and Central Africa. European producers, economically and politically weak during the first years of colonial life, began from the 1940s to be a considerable force and central to the economic plans of the metropolis after the war.[11] Furthermore, since the post-war period, white settlers enjoyed a stronger position from which to demand the continuation of governmental support, both economic and political, against any direct competition from African and Asian farmers.

The preponderance of European agriculture is noted since the first *Colonial Development Act* of 1929. The government channelled the resources for the development of the colonies though investment schemes, with the first post-war scheme included in the *Ten*

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[7] David Anderson and Vigdis Broch-Due, *The Poor Are Not Us: Poverty & Pastoralism in Eastern Africa* (Oxford, 1999), 34.

[8] However, the effort to attract the largest number of savers to the POSB had begun since the Second World War, though with the aim not to develop a capitalist mentality but to finance, with colonial resources, the war effort.

[9] Richard D. Wolff, 'Economic Aspects of British Colonialism in Kenya, 1895 to 1930', *Journal of Economic History*, 30 (1970), pp. 273-77, 273.

[10] For an analysis of the cultural construction of the creation of Kenya as a touristic destination, see: Will Jackson, 'White Man's Country: Kenya Colony and the Making of a Myth', *Journal of Eastern African Studies*, 5 (2011), pp. 344-68.

[11] Van Zwanenberg, 'Kenya's Primitive Colonial Capitalism'.

Years Development Plan of 1945 for the Kenyan colony directing £2 million to European settlements in the Highlands. In comparison with other development schemes such as those implemented in Nigeria which were focused primarily on education[12], the Kenyan plan was designed to specifically achieve economic purposes on a short-term basis.[13] For that reason, the investment schemes tended to ignore small-scale producers, most of them Africans, in favour of the bigger European business that controlled the larger and more capital-intensive industries.[14] European agriculture was seen as the fastest way to develop agrarian production in the colony and was the political base from which British dominion was reinforced in the territory.[15] At the same time, African agriculture was considered by the British authorities as underdeveloped and unprofitable, while the African population was deemed unprepared to be part of a market economy and profitable business without European supervision.

The implementation of the development schemes was particularly beneficial for the commercial banks and altered the relationship of these institutions with the government. The absence of a central bank in the colony, and the incapacity of the LABK to deal with the development schemes, compelled the colonial authorities to use the services of the commercial banks to direct monies for the different development projects.[16] For that reason, the new development policy, and the implementation of development programmes in relation to the colony, was actively supported by bank authorities which hoped to see an increased in the amount of business generated. This was soon confirmed when in 1950 the colonial authorities tried to raise, among the main banks in the colony, a £6 million loan. As the bank officials of the SBSA described it, the colonial authorities planned to use the money for development projects. This credit pretends to be the first of a series of different credits

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[12] Wicker, 'Colonial Development', 171- 72.
[13] Robert L. Tignor, *Capitalism and Nationalism at the End of Empire: State and Business in Decolonizing Egypt, Nigeria, and Kenya, 1945-1963* (Princeton, 1998), 301.
[14] McWilliam, 'The Managed Economy', 261.
[15] Reid, *A History of Modern Africa*, 254.
[16] Some discussion about the possibility of establishing a Central Bank for Kenya, Uganda, and Tanganyika occurred, however, this institution was created not until 1966, two years after Kenyan Independence (1964). See: Central Bank of Kenya, *The First Ten Years* (Nairobi, 1976).

with development objectives. In addition, it was the first to be secured solely by the Kenyan colonial government, without liability from 'His Majesty's Government'.[17] These type of loans were a part of an East African economic strategy as it was preceded by another loan, on similar terms, by the Tanganyika government.

At time that the new economic policy was launched, the British multinational banks conducting business in the colony found themselves in perfect conditions to actively participate in the growing business activities. These financial institutions had experienced practically no harm during the Second World War. Contrary to the long-standing military efforts incurred by the colony between 1914 and 1918, the "big offensive" expected from the north never occurred, frustrating the impetus of settlers to be involved in the conflict but also sidestepping the possibilities of major economic distress. The main concern for the settlers during the conflict was not in the military field but remained in the agricultural and the political dominion of the colony, the only arena in which they could support the Allies and fight for their own interests at the same time. The continuation of economic activities received the support of the British government and this was, at the same time, a favourable situation for the multinational banks.[18] As the NBI's chairman reported during the paramount of the armed conflict. The banks were experimenting in a favourable economic position in East Africa. The lack of personnel who had to leave in order to carry out military duties was almost their only difficulty.[19]

The repercussions of the personnel shortages were already noticeable during the conflict, but the situation clearly worsened after the war. Post-war unavailability of labourers came not from military mobilisation, but from economic expansion. The increasing amount of business and competition for qualified employees led to an insufficient number of clerks.

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[17] LMA CLC/B/207/ST03/01/53/015, The Standard Bank of South Africa Limited, Proposed Kenya Loan, Letter from the Superintendent in Nairobi to the London Board, 23rd September 1950.
[18] Ian Spencer, 'Settler Dominance, Agricultural Production and the Second World War in Kenya', *The Journal of African History*, 21 (2009), pp. 497-514.
[19] NBI, 'One-Hundred-And-Twenty-Ninth Report by the Directors of the National Bank of India Limited' (1943).

This was clearly remarked upon in 1950 by the representatives of the SBSA in East Africa to its London board: 'Our East African staff has been working overtime far too many years'. The letter located the origin of this situation as being almost since the entry of Italy into the conflict in 1940.[20] However, the reasons for the increasing shortage of personal originated not only in enlistment and military causalities. The technical training required for bank personnel made the incorporation of new workers difficult and slow, and the institutional expansion carried out by the government since the end of the 1940s meant that the colonial government was draining banks of qualified workers. In Dar es Salaam, for example, the SBSA reported the loss of '154 trained and partially trained Asians during the years 1947 to 1949', most of them were incorporated into diverse government departments.[21] Similar personnel shortages were faced by the other two banks established in the colony: BDCO had to close two of its branches in East Africa, Bukoba and Tabora, due to the impossibility of finding the necessary staff to keep them open.[22]

It was difficult to stem the loss of personnel due to the scarcity of trained workers in the colony and the migratory restrictions imposed on Indian migration since 1943. On the other hand, the Africans that could alleviate the scarcity were used as clerks and messengers and were not considered qualified or trusted enough to fill positions of responsibility within the branches. Besides, the reluctance of the European settlers, the banks' more important clients, to deal with non-whites in their financial matters was an important barrier to the maintenance of a strict colour bar. For that reason, the search for new European staff to fill the vacancies was encouraged by bank directors located in East Africa who were expecting the continuous expansion of financial services over the next few decades. The government's engagement with a development policy for colonial dominos brought to the colony the

[20] LMA CLC/B/207/ST03/03/07/001, Mr. Gray's Letter to Mr. Gibson, Standard Bank of South Africa, Ltd. London, 22nd May 1950.
[21] Ibid.
[22] KNA MSS/95/1, Transcript of Chapter Eleven of a Projected History of Barclays Bank DCO.

feeling of future economic progress and development, despite some financial difficulties that had to be faced.[23]

The chairman of the NBI, Langford James, remarked on these positive perspectives three months after the surrender of the Japanese army in August 1945. In his annual statement, he declared, in relation to East Africa that 'the War has left the territories in which we are interested in a healthier condition financially that in which it found them'. Langford James also noted the important influx of the 'agriculturalist' expected in the colony and outlined the preparations that should be made to progress along with the country.[24] By 1947, the new chairman of the NBI, J.K. Miche, maintained the good perspectives for Kenya, particularly the agricultural development scheme that projected to create 25,000 jobs and expand groundnut cultivation by 3.5 million acres. In the words of the NBI's chairman, 'This and other developments in East African territories cannot but lead to a great expansion of their whole economy and to a general rise in the standard of living'.[25]

It can be argued that the positive attitude of the NBI's chairman was justified by its role as governmental bank in Kenya and Tanganyika. However, the other two established banks, SBSA and BDCO, shared the good forecast in terms of the economic development of the colony and consequent increase in the amount of bank business. BDCO was planning to start the refurbishment and expansion of all their inadequate offices in Kenya. In addition, in 1945 it created a subsidiary company, the Barclays Overseas Development Corporation, which was committed to providing long-term loans.[26] The necessity for a development agency, declared Sir William Goodenough, chairman of the BDCO, was the future development of the Empire, 'with the millions allocated to the Colonial Welfare and development enormous sums have already been earmarked for measures of social reform'. Besides, the development agency and expansion of other financial services, Mr. Goodenough

[23] McWilliam, 'The Manged Economy', 255.
[24] NBI, 'One-Hundred-And-Thirty-Second Report by the Directors of the National Bank of India Limited' (1946).
[25] NBI, 'One-Hundred-And-Thirty-Third Report of the Directors' (1947).
[26] Ackrill and Hannah, *Barclays*, 280.

assured, would be necessary to guarantee the economic growth of colonial territories.[27] In that sense, the plans of the chairman echoed the British policy towards the colony.

Parallel to these strategies, the SBSA officials based in Cape Town also anticipated an increase in the amount of business in South and East Africa, a consequence of agricultural expansion and expected migratory influx as had occurred after the First World War. For that reason, they expected increasing competition from the BDCO and NBI along South and East Africa.[28] This motivated SBSA officials in Africa to suggest the creation of a local board to accelerate the decision process in term of local policies in a more dynamic post-war economy.[29] Nevertheless, the London-based central board did not accept the proposal, alleging the problematic relation that had existed with the local boards in the past.[30] However, the central board could not ignore the increasing importance of East African business, particularly in terms of deposits. So, even when the idea of a local board for East Africa was categorically rejected, they appointed to the London headquarters an officer with extensive experience in the East African colonies in order to receive guidance about future policies that the SBSA should implement in the region to ensure the expansion of its business.

The main fear for the commercial banks in relation to the development of the colony and their future in East Africa during the post-war period was related to possible political unrest throughout the British Empire. Indian and Pakistan independence occurred in 1947 and was an important alarm, mostly to the NBI which had 12 of its 32 branches shared between the countries. For that reason, and despite the alleged support and faith of the bank in the Pakistan and Indian governments,[31] the NBI official considered as a good signal, the

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[27] LMA CLC/B/207/ST03/03/06/001, Letter from the Chairman of The Week Standard Bank of South Africa to Mr. Clough Informing of the New Pojects of Barclays Bank. London, 30th November 1945.
[28] LMA CLC/B/207/ST03/03/06/001, Letter from W.G. Hall Secretary SBSA to the General Manager, Mr. Clough in London, 21st January 1946.
[29] LMA CLC/B/207/ST03/03/06/001, Letter from the Chairman of The Week, Standard Bank of South Africa to Mr. White in relation to his recent appointment as General Manager, London, 4th March 1948. Even when the Business in South Africa was directed to a local board, East African bank policies were directed from the central board in London.
[30] Jones, *British Multinational Banking*, 44.
[31] Tyson, *100 Years of Banking*, 189.

apparent absence of contagion of Asian political unrest and independence aims in East Africa.[32] The banks were very conservative institutions in both the economic and social fields, supporting the *status quo* of colonial stratification rather than integration of the ethnic groups in Kenya. In other words, in accordance with the policy implemented by the government, the commercial banks were interested in the increasing exploitation of the colony in service to the white settler and the metropolis. Their apparent compromise with the development policies took the form of loans to the colonial government and European companies, instead of launching a campaign in support of the development of the local population. Even the BDCO, the bank linked most strongly with the African population, directed until 1960s the major part of its loans to British companies operating in the colonial territories rather than local enterprises owned by Asians or Africans.[33] These Africans were absent from the plans of the commercial banks until the Mau Mau rebellion which forced them to take notice.

3.1.1 Africans and Asians

The economic weakness of the African and Asian population was the main argument given by the commercial banks for the lack of inclusivity towards them. Many arguments have been made in support of the non-existent involvement of Africans in financial services: the alleged commercial unimportance of the African population, lack of securities, the poor banking services available to them, along with their limited understanding in the financial system or underdeveloped "banking habit".[34] However, even when social conditions left the African population in a weaker economic position than other ethnic groups, the financial institutions underestimated their importance as savers and borrowers until almost the second half of the

[32] NBI, 'One-Hundred-And-Thirty-Third Report of the Directors'.
[33] Ackrill and Hannah, *Barclays*, 281.
[34] Van and King, *An Economic History*, 295.

1950s when the commercial banks and other non-banking financial institutions began to realise their potential.

On the other hand, the willingness of Africans to save their money in commercial banks is difficult to measure but could be estimated by the number of savers in other financial institutions such as the POSB. The postal bank in Kenya, with more flexible policies and larger representation than the commercial banks, reported having more than 15,500 savers in 1935, of which 3,800 were African. This was even larger than the number of European savers (2,500) and a little less than Asians (6,600). During the first decade of the post-war period, the number of Africans using POSB services surpassed 100,000 savers.[35] It is thus clear that it was not a lack of knowledge about the market economy that prevented Africans from engaging with the commercial banks, as alleged by the banks and colonial institutions. Rather, the motives for the African population in using different savings and investment methods than those offered by colonial authorities and the commercial institutions was, in fact, down to the economic advantages of those alternatives such as livestock investment, education, or the simple burying of money over the rest of the options (see table 1).

[35] The rise in the number of savers can be attributed to the Mau Mau war; however, since 1926 the number of Africans using the services of the Saving Bank in Kenya saw steady growth. Source: Colony and Protectorate of Kenya and Uganda Protectorate, 'Abridged Report on the Post and Telegraph Department', Colony and Protectorate of Kenya and Uganda Protectorate (Nairobi, 1927, 1931-1934).

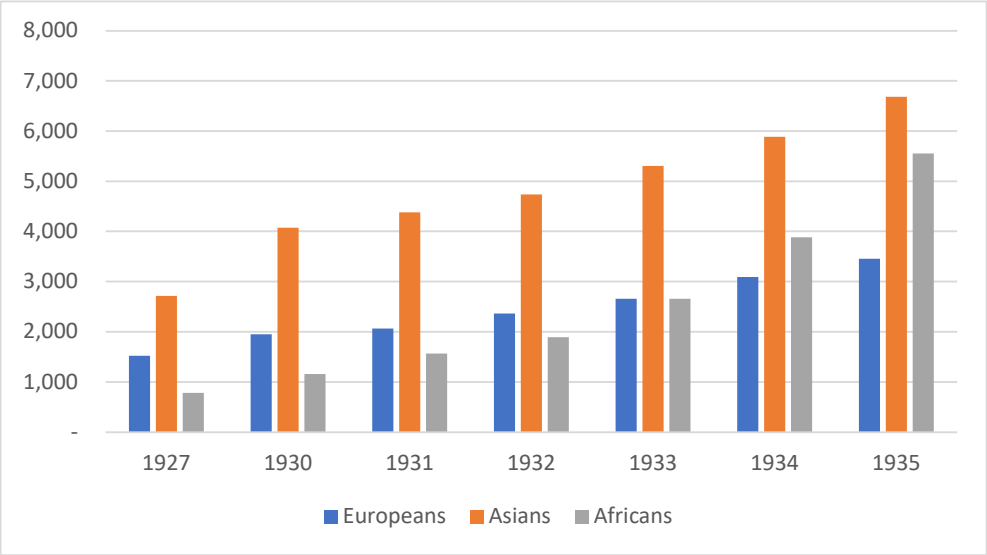

Table 1: POSB Savers in Kenya 1927-1936.
Source: Abridged Report on the Post and Telegraph Department (Various Issues)

Indian traders managed, in their small shops called *dukas,* savings facilities, and despite the fact that no interest was offered for the amount deposited, those were much more widely spread among the reserves than any of the official institutions. In addition, the personal relationship with customers in the communities offered easier and faster access to savers in addition to the possibility of obtaining consumer credit.[36] The interest rates offered by the POSB or commercial banks on saving accounts, one of the most important advantages of savings institutions, did not compensate the expenses incurred by savers to use these formal bank facilities. The provincial commissioner of Nyanza, the most populated province in the colony, was nearly exaggerating when he declared that unless the office of a savings bank was opened at 'any point' for the use of the two or three potential savers that surround it, the institution would remain unpopular to the reserves.[37] 'The African will not go to the trouble of travelling long distances to deposit his small savings' as this process implied 'to walk or pay bus fare to his nearest Savings Bank Office'.[38]

[36] KNA PC/NZA/3/10/145, War Saving Camping Committee, Letter from District Commissioner Kericho to the Head Post Master in Mombasa, 10th January 1941.
[37] Colony and Protectorate of Kenya, 'Statistical Abstract' (1960).
[38] KNA PC/NZA/3/10/145, Post Office Savings Banks: Kisumu Refers, Letter Addressed to the Postmaster from the Provincial Commissioner, Nyanza Province, 7th November 1941.

At the same time, goats and other livestock remained among the most popular means of savings and investment. Livestock was a liquid asset, and as a means of investment offered higher and more visible profit than the 2.5 per cent annually of the POSB. This made more acceptable to Africans the risks that had increased since the Second World War, namely theft, drought, and disease. For that reason, when the colonial government tried to reduce stock levels by the auction system in the reserves and promote the use of the savings bank as an alternative to an immediate purchase of new stock by Africans, the measure had just a limited success.[39] The economic advantages of the savings bank were not much better than those offered by the commercial banks. Besides, ownership of an extensive livestock between pastoralist communities was associated with social prestige and even social belonging. This prestige also represented an economic incentive, as this could bring about more opportunities to obtain informal credit, political power, and even open the doors for social escalation.[40] On the contrary, none of these real or imagined advantages were offered by the deposit receipt and passbook given to savers in the formal institutions.[41]

The inclination not to include African savers, adapting their practices and requirements to local necessities and possibilities, was extended to the official financial institutions in the colony such as the LABK. The government bank, created in 1931 to offer relief to Kenyan farmers during the economic depression of that decade, advanced money to farmers paying a mortgage or in the process of acquiring land.[42] The money borrowed could be used for permanent agricultural improvements, the acquisition of more land, or to provide

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[39] KNA PC/NZA/3/10/145, Memorandum: Native Bank Facilities in Relation to the Overstocking Problem, Letter from the District Commissioner North Kavirondo, 1942. The reduction of live stock in the reserves had been a priority of the colonial authorities to stop the degradation of the soil since the 1920s, see: David, Anderson, 'Depression, Dust Bowl, Demography, and Drought: The Colonial State and Soil Conservation in East Africa During the 1930s', *African Affairs,* 83 (1984), pp. 321-343.

[40] This economic and social implication around the ownership of cattle is widely analysed in Anderson and Broch-Due, *The Poor Are Not Us*.

[41] However, the small home safes distributed by the POSB decorated the houses as a symbol of the savers' status as told by the colonial authorities: KNA AG/38/71, Africans Savings, Letter from R.M. Jenkins, Provincial Commissioner to the Secretary for African Affairs, 20th October 1955.

[42] Van Zwanenberg, 'Kenya's Primitive Colonial Capitalism', 283.

some relief on a mortgage.[43] However, the support of the banks was concentrated on white settlers, the only ones who had the possibility of acquiring the security and capital requirements from the banks' perspective. The LABK did not soften its requirements for African farmers; on the contrary, the requirements were even harder for local farmers. In order to guarantee a loan, Africans needed the authorisation of the district commissioner, the acceptance of an agricultural adviser imposed by the bank, and the support of its local chief. Besides, the loan amount offered to Africans was limited, with the exception of special circumstances, to £50.[44] European settlers did not have any of these obstacles, particularly in terms of the borrowing amount as settlers had no limits imposed.

The lack of any real compromise to involving Africans in the development projects supported by the Land Bank can be exemplified by the fact that it was not until 1945, 14 years after the establishment of the LABK, that its board received the first application from an African farmer. The bank granted the loan, but only after the approval of the local chief native commissioner, the district commissioner, and the officers of the agricultural and veterinarian departments; a total amount of £500 was granted, one-third of the application. The whole depiction of this imbalance can be better appreciated when it is considered that, since its foundation and up to 1945, the bank had already issued a total 1,400 loans valued at £1,221,887.[45] Besides, as the agricultural officers admitted, this first loan to an African had an experimental character and if this experiment failed, 'The Land Bank would obviously be very chary of making other loans'. Success, on the other hand, would encourage other loans.[46] Clearly, the board of the Land Bank was not sure about the creditworthiness of the local population. The agricultural officers were particularly worried about the possibility that

[43] 'A Bill to Establish and to Regulate the Managment and Control of a Land and Agricultural Bank for the Colony and Protectorate of Kenya', Colony and Protectorate of Kenya (Nairobi, 1929).
[44] This amount was later increased to £100, however, the other requirements remained. KNA DC/LAMU/2/9/3, Agricultural Loans to Africans, Letter from a Member of Agricultural and Resources, 28th July 1952.
[45] Colony and Protectorate of Kenya, 'Report of the Land and Agricultural Bank of Kenya 1945' (1946).
[46] KNA BV/23/10, Loan to Crispus Mwaniki, letter from the Assistant Agricultural Officer to the Director of the Agricultural Department, Nairobi, 29th June 1945.

the money loaned to African famers would be used in the construction of small shops instead of for agricultural purposes.[47] The applications of European farmers were less complicated despite the larger amounts borrowed. Communications from the agricultural officers who inspected the farms showed that bank authorities were more disposed to give approval for loans despite the doubtful profitability of the development projects or credit of the farmers.

This underrepresentation was extended to the Arab and Indian communities. However, while economic weakness and lack of understanding of financial practices was presented as the main reason to leave Africans aside, this was a less acceptable argument against the Asian community. The Indians and Arabs were a strong economic force in the colony and thus a potential cohort of bank users as either creditors or savers. However, the commercial banks, along with other colonial institutions, tended to neglect the Asian potential as unprofitable family businesses despite the increase in their weight as an important economic force, particularly after the war.[48] This prejudice did not allow the banks to see the real potential of the Asian community as savers despite the fact that, as in the case of Africans, could be partially predicted by the number of the savings accounts in the POSB held by this ethnic group.

For POSB, the Asians were the most important group accessing bank facilities by the number of savers, 2,700 since 1927. This amount, as with the African cohort, increased at the end of the Second World War and the number of accounts owned by Asians numbered around 7,000, almost the double those held by Europeans. Furthermore, this number increased to 38,000 in 1953.[49] The advantages of the POSB over the commercial banks for the use of the Asian business base were similar to those of Africans in terms of proximity. However, the savings bank, contrary to the commercial institutions established in the colony offered the opportunity to reject the interest rate offered by the savings accounts. This was

[47] KNA BV/23/9, Land Bank Application for Loans and Correspondance, 1949-1957.
[48] D.A. Low and Alison Smith, *History of East Africa Vol. 3* (Oxford, 1976), 482-84.
[49] Colony and Protectorate of Kenya and Uganda Protectorate, *Abridged Report on the Post and Telegraph Department*.

a fundamental option that allowed the Muslim community to use banking services and, as indicated by different bank reports, it was a common practice of the clients of the Muslim faith to use this prerogative in order to access the savings bank.[50]

On the other hand, the relationship of the Asian community with the LABK, despite their economic importance, was minor. One of the reasons was that, contrary to what happened in Uganda or Tanganyika, Indians and Arabs were not extensively related to the agricultural sector in Kenya.[51] However, some applications for loans from these communities do exist in bank files. These applications, contrary to those of the African community, did not have to surpass large amounts of bureaucracy. However, in the reports issued by the agricultural officers it was important to remark on the "Arab practices" used by agriculturalists and how, despite these, their farms were profitable and so the borrower had the potential to repay their debt to the bank.[52] As analysed in the next section, contrary to loyalist African farmers who saw their possibilities for credit increase as a result of development projects during the Mau Mau uprising, the Asian community, despite its representation on the LABK board by one Indian member, did not receive particular attention from the colonial authorities in terms of financial support as a result uprising.

3.2 The Mau Mau Uprising and New Perspectives for the Banks

The Mau Mau war was a social uprising in colonial Kenya that took place between 1952 and 1960. The struggle involved mostly the Kikuyu people against the colonial and British government along with what the rebel group considered to be collaborationist. The armed conflict affected all ethnic groups in the colony. However, the African population was the most impacted. The causalities among Mau Mau fighters have been calculated at 12,000 but

[50] Even when the bank's records did not make a division between the Arab and Indian communities, its authorities recognised the institution's popularity in the Muslim community and the use of this prerogative in various bank communications. See, for example: KNA AG/38/71, The Savings Bank Act Correspondence, 1910-1944.
[51] Wasserman, *Politics of Decolonization*, 25.
[52] KNA BV/23/10, Report on Application for Land Bank Loan by Kassim Bin Omar of Mambrui, 5th June 1953.

this amount could be closer to 20,000. Additional to the causalities, 150,000 were detained, most without trial or clear relationship to the movement. These detentions tended to be punitive and were used by the British authorities as a warning against future uprisings from other tribes or ethnic groups.[53] The Asian community based in the interior of the country also suffered heavy material losses. The government viewed them as suspicious and the rebels as allies of the colonial government and so for that reason they could not avoid being in the middle of the conflict.[54]

The historiography recognises this outbreak as a watershed in the history of Kenya because it transformed the post-war development plans of the colony. The social rebellion, which in the first instance was considered by colonial authorities as an intermittent manifestation of violence, soon revealed its depths, roots, extension, and lifespan. The uprising, even when it was defeated by the military within a relatively short timeframe and did not jeopardise the dominion of the colony, altered the power dynamic between the colony and metropolis. It eroded the political dominion acquired by the white settlers during the Second World War in favour of the more direct control of the British government over the territory. The settlers had shown their incapacity to maintain the peace within the territory. Simultaneously, the uprising compelled, almost from the metropolitan authorities, a recognition regarding the impossibility of a simple repression policy to maintain political order in the dominions; in other words, it forced the slow abandonment of the colour bar, heavily supported by the white settlers. Later on, when the political and social agitation derived from the uprising was untenable and the power of the white settlers too small to oppose, the African politicians finally won independence for Kenya. For that reason, it can be argued that the final consequence of the Mau Mau insurgency was in fact the political

[53] For a complete analysis of the fight, with special attention to the detention camps and trial, see: Anderson, *Histories of the Hanged.*
[54] Sana Aiyar, *Indians in Kenya: The Politics of Diaspora* (Cambridge, MA, 2015), 208-09.

independence of the colony, even if the demands of the fighters and their significance in agitating for Kenyan sovereignty were recognised by the first independent governments.[55]

The recognition of the importance of the uprising has encouraged an increasing amount of literature around the origins, development, and consequences of the Mau Mau war from different perspectives. However, there is consensus among researchers to localise the immediate origins of this social movement on the increasing pressure placed by white to Kikuyu land in the central provinces. The economic conditions during the Second World War had increased the profitability of agricultural land and this renewed profitability encouraged white settlers to reduce the amount of land cultivated by the squatters. The squatter system had been rising since the end of the 1920s and among its social and economic implications, it worked as an escape valve for the increasing Kikuyu landless population.[56]

This changed in 1945 when the settler district councils passed legislation reducing the land for squatter families, limiting it to two acres. The legislation also restricted herds to ten goats or sheep, denying to the families the right to have cattle. The consequences of these measures for tenants were devastating, causing income to fall quickly from 1,400 shillings per year in 1942 to just 300 in the first year after the introduction of the legislation.[57] At the same time, prices increased, particularly for food products. The housing situation worsened with the increasing depravation of land, population growth, and consequent migration from rural areas to the city. By 1947, about 1,600 Africans in Nairobi were homeless and spent the night on the streets or in buses. Parallel to their own pauperisation, the African population witnessed the increasing economic prosperity, rampant elitism, and racism of the white settlers.[58]

Along with deteriorating economic conditions, the local population had to face an enlarged compulsory work burden, particularly in relation to the communal work used to

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[55] Daniel Branch, *Defeating Mau Mau, Creating Kenya: Counterinsurgency, Civil War, and Decolonization* (Cambridge, 2009).
[56] Throup, 'The Origins of Mau Mau', 412.
[57] Ibid., 412-17.
[58] David W. Throup, *Economic and Social Origins of Mau Mau 1945-53* (1987), 190.

construct infrastructure projects,[59] the prevalence of racist practices (colour bar) throughout colonial institutions, and cultural deprivation.[60] Female circumcision was one of the most polemical aspects related to cultural depravation and control. This practice had been fought since the 1920s by the colonial authorities and missionaries, but Africans and their leaders related it to national identity and Kikuyu culture. Jomo Kenyatta, the first president of Kenya, wrote in *Facing Mount Kenya*, published in 1938, about this alleged relationship between female circumcision and cultural identity.[61]

The situation of oppression was particularly hideous for those Africans who had fought in the Second World War and acquired some privileges and skills during the conflict. The demobilised fighters had to face, upon their return to the colony, a racist society that was the consequence of high unemployment rates and offered few opportunities to accomplish their high expectations in terms of personal development as compared with their white counterparts who enjoyed better opportunities after demobilisation. This frustration, combined with their changing attitudes towards Europeans with whom they had closer contact during the war, caused Africans to be more willing to challenge white privilege and political dominion.[62] The incapacity to solve or even recognise the increasing social, economic, and cultural problems between the colonised and colonisers further widened the gulf between Africans and their colonisers. This increasing unrest, combined with the mass

[59] This tax should be paid in cash and, along with the institutionalisation of the *Kipande*, used as a means to establish compulsory work and avoiding calling it "compulsory", see: G.H. Mungeam, 'Masai and Kikuyu Responses to the Establishment of British Administration in the East African Protectorate', *Journal of African History*, 11 (1970), pp. 127-43; Anderson, 'Master and Servant'.

[60] Kinuthia Macharia and Muigai Kanyua, *The Social Context of the Mau Mau Movement in Kenya (1952-1960)* (Lanham, MD., 2006), 11-14.

[61] For an analysis of the political issues and cultural significance of female circumcision, see: Penelope Hetherington, 'The Politics of Female Circumcision in The Central Province of Colonial Kenya, 1920-30', *Journal of Imperial & Commonwealth History*, 26 (1998), pp. 93-126.

[62] The literature has challenged the idea about the destruction of "white prestige" during the war. It has been argued that such prestige existed only in the head of the coloniser and not the Africans; in that sense, what the ex-soldiers wanted to terminate was white privilege imposed by force, see: David Killingray, with Martin Plaut, *Fighting for Britain: African Soldiers in the Second World War* (Oxford, 2010), 252-54.

mobilisation capacity of Kikuyu leaders who found the new state demands to incompatible with their political aspirations, prepared the ground for social rebellion.[63]

The spread of the rebellion surprised both the colonial and British authorities, but the Mau Mau fight was also unanticipated by the financial institutions. Six months before the declaration of the state of emergency (October 1952), the chairman of the NBI reported a good forecast for future economic growth in East Africa to a board meeting. The positive viewpoint was particularly strong for Kenya with agricultural production in continuous expansion and, as declared by the chairman, political stability.[64] Despite warnings from the countryside about the increasing violence, commercial bank officals seemed to believe the version offered by the colonial government, particularly from its governor, Philip Mitchell, about the meaninglessness of the agitation or the Mau Mau's oath.[65] However, the effects of the violence generated by the uprising were soon felt by the colonial population and political actors, together with the economic institutions. The violence was focused in specific territories near the colony's most important urban centres and the "white highlands", putting commercial institutions close to the front line. Besides, the economic interests of the banks were closely related to the different productive sectors in the colony and the development plans actioned by the governmental authorities. As a result, their concerns about the ferocity of the uprising quickly escalated.

The commercial banks, in accordance with the governmental authorities, did not recognise in the uprising any social or political legitimacy. The palaeontologist L.S.B. Leakey, a contemporary witness of the uprising described how European society tended to accept the suggestion that the Mau Mau movement was not motivated by economic or political

[63] Along with other factors, these conditions have been recognised by the literature specialised in the theory of social uprising and revolution, for synthesis and analysis of the main theories, see Chapter 1: Theda Skocpol, *States and Social Revolutions: A Comparative Analysis of France, Russia, and China* (Cambridge, 2015).
[64] ANZGB S 591/3, The Satement by the Chairman J.K. Michie, Esq. Relating to the Accounts to be Submitted to the Annual Meeting to be held on 1st April 1952.
[65] Throup, *Economic and Social Origins*, 224-31.

grievance, just by fanatical beliefs.[66] This statement held true for J.K. Michie, chairman of the NBI, who described the Mau Mau as an organisation 'created by a small but fanatical section of the Kikuyu tribe'. However, the chairman also recognised the disruption caused by the fight in the economic development of the colony, and even when it was expected to be suffocated soon by government forces, J.K. Michie regretted the cancellation of 'certain schemes of development'.[67] These worries were echoed by officials of the BDCO who characterised the years under the emergency as a time of 'uncertainty'.[68] The main fear for the commercial banks, even beyond the possible attack of their branches, was the economic cost of the uprising in two senses: the expenditure of government resources and the dislocation of the internal market which had been growing steadily since the end of the Second World War.

As noted by J.K. Michie, the emergency was preventing the launch of development schemes, but was also draining the resources of the colonial government – a situation that concerned the banks as they relied on colonial expenditure for their own development and even survival. By 1953, the manager of the BDCO branch in Nairobi calculated that the cost of fighting the upraising had already reached £25 million, a huge amount by the standards of the colonial government resources. However, the same bank official remarked that the main issue was the disruption of the economic life of the reserves. Particularly harmful for trade was 'the embargo by Mau Mau on the consumption of Africans of Europeans brewers beer'.[69] The branch manager in Mombasa who remarked on the adverse repercussions of the upheaval in the local bazaar shared this perspective. He also explained that in the Central and Rift Valley provinces, trade 'has been reduced to a very low level'.[70] The notable

[66] L.S.B. Leakey, *Mau Mau and the Kikuyu* (London, 1952), 105.
[67] NBI, 'One Hundred and Thirty-Ninth Report of the Directors and Balance Sheet for the Year Ending 31st December 1952' (London, 1953).
[68] BGA 12B/03/3/0029-0049, Results, Statistics and Review of the Period Ending 30th September 1953, Queensway, Nairobi Branch.
[69] Ibid.
[70] BGA 12B/03/3/0029-0049, Results, Statistics and Review of the Period Ending 30th September 1953, Mombasa Branch.

difficulties of the agricultural trade and production in rural areas as a result of the conflict were also recognised by the emergency committee in the Central Province. The committee recommended the declaration of a moratorium on the repayment of loans from the LABK for farmers affected by the violence.[71]

While the ferocity of the fight raged, security risks for the banks grew too, with one of the worst incidents occurring at the Athi River's BDCO branch. The agency suffered an alleged attack by Mau Mau fighters when an amount of cash was moved to the branch. The official in charge of the branch was injured trying to stop the assault and killed a gang member.[72] It is difficult to know if these raiders were truly part the Mau Mau gang or just common criminals. However, such incidents denoted the increasing violence in the colony and encouraged the banks to take more precautions in terms of security in order to avoid an escalation of violent episodes. Besides, it was among the main concerns for the government and commercial banks to block any possibility of the rebels acquiring cash from the banks or any other available sources.

The increase in violent incidents, despite the implementation of more security measures, caused bank officials to be more critical regarding what they considered the slow reaction of colonial authorities to suppress the rebels. This growing anxiety about the official response was encouraged by the mistaken opinion of branch managers in the colony that the Mau Mau was no more than a police problem that could easily be solved with more political unity and decisions from the government to fight against the gangs.[73] For example, the East Africa local director of BDCO, E.V. Whitcombe, remonstrated the administration for its tardiness in creating a regular and effective police force and instead recruiting Asians and Europeans to undertake security work, a strategy qualified by the local director as 'a most unsatisfactory alternative'. However, Whitcombe considered it important to point out that

[71] KNA AG/22/612, Letter to C.C. Sergeant, Secretary of the Land and Agricultural Bank of Kenya with an extract of the minutes of the Central Province Emergency Committee Meetting, 12th August 1953.
[72] KNA MSS/95/1, Transcript of Chapter Eleven of a Projected History of Barclays Bank DCO, 18.
[73] BGA 12B/03/3/0029-0049, Results, Statistics and Review of the Period ending 30th September 1953.

the situation, despite the violent incidents, was not 'as bad as many people make out', particularly in terms of the economic conditions of the colony.[74]

Despite the growth in violence and the original relaxed reaction of the colonial authorities to contain the revolt, officials of the financial institutions trusted in the promise of the final pacification of the colony and continuation of its economic development. Many bank officials declared, almost publicly, the impossibility of a later escalation or independence due to the uprising. Their main fear was the minor outbreaks in economic life and the normalisation of violence in certain areas, making branch operation more difficult. Besides, after the first incidents were quickly counteracted by the use of armed escorts and other security preventions, the banks were no longer a target for the Mau Mau forces. The motive behind this abandonment of the financial institution despite the possibilities of stealing its money could be attributed to the danger represented by this secure, central institution for the fighters, combined with the difficulty presented by exchanging large sums of cash for valuable supplies. Besides, soon the rebellion targeted African collaborationist chiefs and large landowners rather than European or private institutions.[75]

For that reason, the commercial banks were not forced to halt their expansion in the colony and continued opening more branches and identifying a wider number of clients in both urban and rural settings. The NBI increased its representation from four branches in 1949 (in Mombasa, Nairobi, Nakuru, and Kericho) to ten, opening between 1952 and 1953 a second branch in Nairobi and new branches in Thika, Naivasha, Sotik, and Eldoret. The SBSA followed a similar expansion path, opening branches in Kisii, Sotik, and Lumbwa. Parallel to this expansion, BDCO did not decrease its policy of branch opening throughout Uganda, Kenya, and Tanganyika. However, the best example of trust in the anticipated pacification of the colony on the part of the financial sector, is the arrival of two more commercial banks - the Bank of Baroda and the Bank of India Ltd. which opened in 1953. Institutions that, in the

[74] Ibid.
[75] Anderson, *Histories of the Hanged*, 54-55.

words of Whitcombe, would contribute to the already severe competition between the banks.[76]

It is also remarkable that fears around access to monetary resources on the part of insurgents encouraged the colonial authorities to increase the use of formal financial institutions among the African community, particularly in the reserves. The lead in this development was taken by the POSB that had started to open more offices inside the reserves at the time and sent its mobile units to the different sales points where workers were paid. The objective of the bank was to prevent the money involved in the transactions ending up 'as it had previously, into the hands of the Mau Mau'.[77] These measures, along with the increase in the number of POSB permanent facilities near the reserves, the growing uncertainties derived from the violence to recover buried money, and the villagisation programme dramatically amplified the number of African savers willing or forced to use the savings bank facilities during the years of the conflict.

From 5,551 African savers banking with the POSB in 1939, the numbers had swelled by 1953 to more than 100,000. Africans represented the large majority among the different ethnic groups using the POSB in the colony, with the total number of savers at a total of 172,000. Two years later, the Africans customer base represented 62 per cent of POSB's total clients. For that reason, it can be argued that the first Africanisation in a financial institution in Kenya, almost in terms of users, occurred inside POSB, a situation that would not occur in the rest of the Kenyan financial system before the second half of the 1950s (see table 2).

[76] BGA 12B/03/3/0029-0049, Results, Statistics and Review of the Period ending 30th September 1953.
[77] KNA AD/40/11, Post Office Savings Bank, Letter to the Secretary of the Treasury in Nairobi to Inform the later Development of the Savings Bank, 1955.

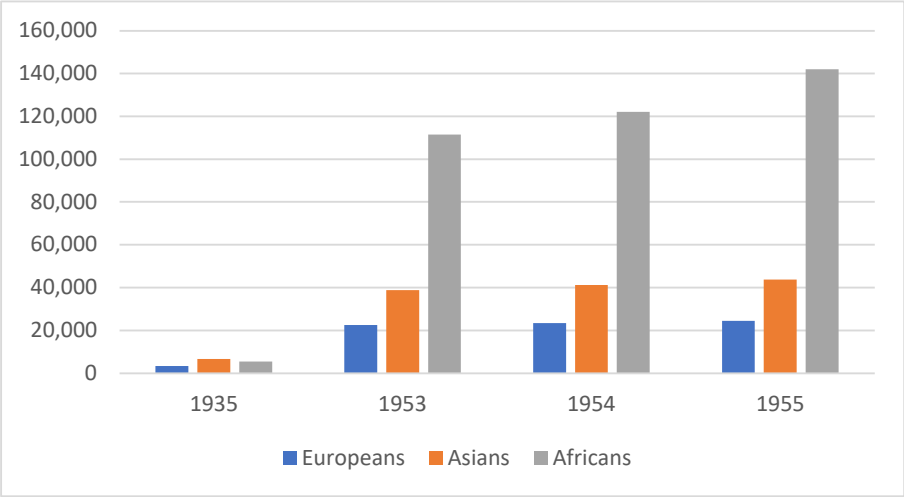

Table 2: Expansion of POSB Savers in Kenya 1935-1955.
Source: *Abridged Report on the Post and Telegraph Department* (Various Issues)

The potential of African savers, spotted by the POSB, was soon recognised by the commercial banks which had started to see in the increasing wealth and monetisation of cohort a fertile field for their own business. The commercial banks had a 'good perspective for the African savings' and sought to attract this money into their own institutions in order to acquire more resources and increase the share of their loans.[78] Because of the interest in African savings, during the years of the emergency, institutions such as the BDCO and SBSA began to operate and promote their own savings bank facilities and even launch mobile bank units throughout the colonies. This policy soon accrued benefits, and the local director of the BDCO could report on a steady increase in the number of savers despite some adverse economic conditions.[79]

The positive results encouraged development savings bank services in other areas of the colony. The Kisumu branch manager, for example, recommended to the local head office of BDCO an expansion of the bank in Kisii because the township was growing and 'new business plots have been and are being located'. The manager also remarked on the 'good prospects for their Saving Bank Deposits due to the growing prosperity of the Africans in the area'. Particularly important for this economic prosperity had been an increase in the volume

[78] BGA 12B/07/2/0011-1013, Summary of the Most important Point of the Local Director's Visit to Kisii, South Nyanza on Thursday, 28th October 1954.
[79] BGA 12B/03/3/0029-0049, Results, Statistics and Review of the Period ending 30th September 1953.

of business between Kisii and Tarime (Tanzania).[80] The institutional expansion led by the colonial government constituted at the same time an important incentive for the banks to expand their services. In Kisii, the necessity of government officials from banking facilities and the difficulties that arose for them travel to nearest branch of the bank in Mwanza (Tanzania) was another reason behind the establishment of a new branch there.[81]

3.2.1 The Economic and Military Counteroffensive

Despite the apparent positive perspectives of the banks and later declarations that they had emerged from the emergency almost without harm,[82] the rising violence brought significant problems to the commercial banks in Kenya. The dislocation of both the economy and workers deepened the recession that had been perceptible before the escalation in violence. As mentioned before, the financial institutions were not necessarily afraid of an escalation of violence that would jeopardise European dominion in the colony, but this cannot be understood as a total absence of distress in the economic outlook as some researchers suggest.[83] The commercial banks, as expressed by their central boards in London, had to make some adjustments. The institutions believed, almost until the first year of the uprising, that the oncoming larger dislocation of the colonial economy meant gloomy days ahead for business. However, the distress and possible increase to the economic difficulties felt by the banks changed quickly with the military advances of the British government against the Mau Mau insurgent army. The launch of Operation Anvil in April 1954 marked the beginning of country pacification whereas the introduction of the Swynnerton Plan tried to erode social support for the insurrection, boosting the colonial economy and advantages for the African loyalist.

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[80] BGA 12B/07/2/0011-1013, Branch Expansion Kisii, letter from the Kisumu Branch Manager Barclays DCO to the Local Head Office in Nairobi, 12th December 1953.
[81] Ibid.
[82] Crossley and Blandford, *The DCO Story*.
[83] Tignor, *Capitalism and Nationalism*, 327.

The plan presented by the assistant director of agriculture, Roger Swynnerton, in 1953 became official policy in 1954. It was an economic response to the Mau Mau uprising that attempted to intensify agricultural production in the colony, transforming the remaining subsistence-based production in the reserves to become more commercial. To accomplish its objectives, the plan proposed a radical transformation of the communal land tenure to individual appropriation in the African reserves. The establishment of credit facilities and provision of farming planning services combined to realise the objective which was the creation of an upper and middle African class of landowners in the reserves. The strategy also aimed to encourage the enlargement of a landless and poor class that, in the plans of its designers, would fill the work necessities of the new private medium and large landowners.[84] Throughout the land consolidation and advantages associated with it, the authorities rewarded Africans who were not involved with the Mau Mau. These loyalists were able to improve their economic conditions in contrast with the impoverishment and waning political influence experienced among the Mau Mau supporters.[85]

The transformation in land tenure, along with the end of the prohibition against Africans cultivating high value cash crops, were a fundamental part in the plan to generate incentives to produce cash crops in the native areas, particularly coffee. These incentives, along with the price surge resulting from the Korean War, caused an expansion in the number of coffee plantations to the tune of 5,000 acres per year. Similar growth was seen in the agricultural yields of tea and pyrethrum.[86] The development programmes were financed with British funds, the financial infusion of resources totalled £31 million as part of a grant and £6 million as interest free loan repayable over 28 years.[87] It should be stated that the almost three decades conceded to repay the loan should be seen as an indicator of the future

[84] M. Hodge Joseph, 'British Colonial Expertise, Post-Colonial Careering and the Early History of International Development', *Journal of Modern European History* (2010), pp. 24-46.
[85] Branch, *Defeating Mau Mau*, 121.
[86] Gordon, 'Colonial Crises and Administrative Response', 106.
[87] Tignor, *Capitalism and Nationalism*, 338.

perception of the colony in terms of economic growth and political stability, ergo its prospective maintenance as British dominion.

The more active strategy of the government to fight the uprising was well received by the commercial bank officials. The NBI's chairman, J.K. Miche, declared as Operation Anvil was launched (April 1954) that defeat by military means of the uprising could be completed by the end of the year. However, his opinion about the extension and penetration of the uprising drastically differed from that given in December of 1952. The chairman had to admit that with a potentially swift military victory, the eradication of the movement's roots throughout the colony were deeper than he had been disposed to accept two years before. For that reason a complete solution was out of sight and it could be a 'larger and longer task about which I will not speculate'.[88]

However, he trusted in the continued development of the colony particularly because despite the emergency, production levels remained high and industrial development was progressing. The Chairman recommended the continuation of the development of ports, railways, and water conservation in the region. Michie's positive perspective was encouraged by the announcement in 1954 of a £10 million grant and £4 million free loan from the British government to finance the expenditure of the emergency; this, combined with high international coffee prices and favourable weather conditions signalled prosperity despite the apparent adverse political circumstances.[89]

The local director of the BDCO, E.V. Whitcombe, had a similar opinion. He expressed his confidence in the Swynnerton Plan to boost coffee production among Africans. In Kisii, different nurseries 'from which the young coffee plants are sold to the Africans' were established, and Whitcombe remarked that the project aimed to increase the number of acres to 1,000 annually, reaching 15,000 by 1968. Over the next 18 years, he calculated, the production could obtain 'on a conservative basis' an output of five thousand tons of coffee

[88] NBI, 'Report of the Directors and blance sheet for the year ended 31st December 1953' (1954).
[89] NBI, 'Report of the Directors and blance sheet for the year ended 31st December 1954' (1955).

with an annual revenue of £2 million for the region.[90] The positive projections for Kenya allowed him to increase even more the pressure on the bank's central board to open new branches or sub-branches throughout the colony. Such expansion was also a commercial policy followed by the SBSA and NBI to obtain the maximum amount of accounts from the rising number of cash-crop farms and co-operative societies managed by Africans.[91]

By 1955, the British forces had managed to push the Mau Mau fighters out of the main urban centres, particularly the surrounding areas of Nairobi, erasing any doubt about the final defeat of the insurgents. To avoid any revival of the violence, local farmers continued receiving governmental support once the backbone of the uprising was broken. From 1954 the Africans, Kikuyu, Embu, and Meru farmers 'who stood loyal to the Government from the beginning of the Emergency and did not wait to see which way the wind was blowing' were rewarded with the introduction of short and medium term loans from the Fund for European and African Farmers.[92] The loans had softer requirements than previously available credit but required a "certification of integrity" for the applicant. The certificate should detail that the applicant was no implicated or participated in the revolt and noted their support of the government.

Contrary to the LABK, the application for the loan was made through the provincial commissioner. To obtain the loan, the solicitor did not require extensively specific information as to its purpose, rather a general application. Once the majority of the fund was allocated, a small surplus of £12,000 was left aside solely for loans 'to members of the loyal tribes' whose holdings were affected by the uprising. The decision to direct the loans just to Africans responded, as the Emergency Loan Committee admitted, to 'important political reasons'. The main requirement to accessing the very generous loan terms was to prove that

[90] BGA 12B/07/2/0011-1013, Memorandum on Local Director's Visit to Kisii, South Nyanza - Thursday, 28th October 1954.

[91] The competition between banks was limited to the accessibility of the bank branches and the relations of the branch manager with the potential clients, see chapter 4

[92] KNA DC/LAMU/2/9/3, Special Emergency Loan Assitance Fund for European and African Farmers, Letter to the District Commssioner of Lamu from W.I. Lang (Colonel) Secretary to the Special Emergency Loand Assistance Fund. Nairobi, 8th August 1956.

the development of their properties had been in any way arrested by the emergency.[93] In that sense, the fund attempted to work as a reward particularly for those Africans who were part of the security forces or provided any service to government in the pacification of the colony.

While the main concern of colonial authorities was to support the agricultural development of loyal Africans, they did not include other ethnic groups such as the Arab and Asian farmers who also wanted to obtain an economic benefit from the development schemes. However, whereas the Asian and Arab communities had greater job opportunities and held more prominent positions in the private and public sector when compared with Africans, this was not the case in terms of agricultural and development loans. As mentioned, the colonial authorities distrusted the Asian businesses and farms and the tenure, as in the case of the Africans, represented and impediment to authorities as a result of the lack of securities. A larger number of people, the heirs of the original owners held the titles, declared one of the provincial commissioners. These difficulties, stated the coast provincial commissioner, had received 'very considerable thought' from the colonial administration and the agricultural department, to find a satisfactory scheme for the granting of loans to Arab farmers.[94] Despite the apparent attempt from the agricultural department to find a solution for Arab tenures, the lack of institutional support for these farmers was endemic during the colonial period. It is probable that the colonial institutions, heavily influenced by white settlers, did not want, as in the case with the Africans, to face competition from potentially productive Indian and Arab farmers.

The African farmers, on the other hand, began to receive an increasing amount of money. The resources were available to the wealthy and those who had moderate means,

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[93] KNA DC/LAMU/2/9/3, Special Emergency Loan Assistance Fund for European and African Farmers, Letter from G.P. Lioyd, Ag. Secretary of African Affairs to the Provincial Commissioners, Nairobi, 31st January 1957. Lloyd?

[94] KNA DC/LAMU/2/9/3, Loan to Non-African Farmers Farmers in Non-Scheduled Areas, Letter from the Provincial Commissioner Coast, Desmond O'Hagan to the Secretary for Agriculture in Nairobi, 30th January 1957.

increasing the possibility of further development and land appropriation. This economic expansion enabled the development of other business beyond those related with livestock or agriculture. As previously mentioned, one of the consequences of the increasing amount of cash was the popularity of small shops as a means of investment for Africans. The boost in this small business was so important that the wholesale trading business increased its relationship with the local communities. The wholesale company, Philipsons Limited, was one of the enterprises that wrote to the districts and provincial commissioners in Kenya to express an interest '[T]o develop African trading' and get in touch with 'as many African petty traders as possible in the reserves'.[95] The popularity of these small businesses was such that the financial institutions, such as LABK which specialised in agricultural development, started to take precaution against the potential use of their loans to finance small shops rather than agricultural projects.[96]

Another institution that experienced an important expansion as a result of the fighting against the uprising was the POSB. It has previously been explained how the number of African savers collected by the POSB had been growing since the beginning of the emergency and resulted in the active role of the Savings Bank and uncertainties produced by the uprising, particularly the villagisation programme. Villagisation was the forced resettlement of almost all of the rural population in the Central Province into recently constructed villages. This strategy, already applied in order to fight other uprisings in Asia, was implemented in Kenya to break the economic and social support of the rebellion in the countryside. The resettlement of the population to new concentrated areas facilitated surveillance and separated the communities from the fighters.

This made it more difficult for possible supporters to give any backing in terms of reinforcements, food, or even propaganda to the Mau Mau insurgency. The population was

[95] KNA DC/LAMU/2/9/3, African Traders in Location and Reserves, Letter from Philipsons Limited to the Provincial and District Commissioners, Nairobi, July 1956.
[96] KNA BV/23/10, Land Bank-African Borrowing. Letter From the Senior Agricultural Officer Central Province J.I. Moon to the Department of Agriculture in Machakos. Nyeri, 22nd January 1949.

moved from its original settlements to different villages that concentrated a population up to 500 inhabitants and were established near a guard post that supervised the life of the residents. Two different types of village existed: those that operated as punishment camps for Mau Mau supporters or suspected supporters, and protective camps for the African loyalist.[97] The villagisation programme forced the use of institutional savings facilities because the population could not bury their money or return to it since the forced relocation was rushed, and the destruction of the old villages often occurred in less than 24 hours and without warning by the British forces.[98]

The recently acquired liquidity of the Africans attracted other institutions; The First Permanent Building Society, incorporated in Northern Rhodesia in 1948 with the financial support of that government, was a paradigmatic case. This Building Society defined itself as a multiracial financial institution and claim as its main objective to 'encourage thrift' throughout its operation in Kenya, Uganda, and Tanganyika using mobile bank service unites similar to those used by the POSB.[99] In that sense, the main interest of this institution was in the countryside rather than the urban centre. With a fleet of five mobile units, it attempted to cover 30 different towns on a monthly basis. Besides, it offered easier deposit and withdrawn procedures than any other existing institution in Kenya with an interest rate offered to savers of five per cent. This interest was higher than that offered by the POSB or commercial banks, which fluctuated at around 2.5 per cent to three per cent.[100]

Its high interest rates and aggressive policy used to collect African savings was viewed with suspicion by colonial authorities which doubted the reliability of this institution. The secretary of African affairs declared, without giving more detail, the alarm of the treasury around the building society after an analysis of its business, particularly in the years 1954 and

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[97] Branch, *Defeating Mau Mau*, 107-08.
[98] For a description of the brutal conditions of this forced movement and the poor conditions of leaving in the villages, see: Caroline Elkins, *Britain's Gulag: The Brutal End of Empire in Kenya* (London, 2005).
[99] KNA BB.PC/ESR/2/18/10, First Permanent Building Society, Inauguration of Mobile Banks Services in Kenya. Letter to the District Commissioner in Kilifi. Nairobi, 13th June 1956.
[100] KNA AD/40/11, Controller of Savings Banks, Letter to the Treasury from the Post Master General in Nairobi, 20th April 1956.

1955. For that reason, even when it could not legally ban their operations in Kenya, it was most 'unlikely that district commissioners will be authorised to encourage its activities in the African areas'.[101] The colonial authorities also stated that they did not want to undermine the activities of the POSB which had a proven reputation in offering an adequate service to Africans. The treasury, in the opinion of the district commissioner of Machakos, 'may not wish to see potential deposits diverted from Kenya Post Office Saving Bank'.[102]

On the other hand, one of the premises of the authorities was to provide certainties to African savers but in this particular moment of social tension, it was imprudent to test the trust of this cohort as it had relied on a governmental institution to look after its savings. For that reason, the provincial commissioner in the southern provinces instructed that 'no officer of the Administration should do anything to suggest that this Saving Movement is officially sponsored', and even when he recognised its superiority in terms of interest rates and withdrawal facilities declared that administration officers 'should not recommend the use of its services among the community'.[103] Contrary to the savings kept by the POSB, the monies invested in the building society had not been guaranteed by the government in the case of default and it was colonial policy to prevail certainty over profits as it sought to avoid any unnecessary distress due to economic causes in an already problematic situation.

The objections of the colonial authorities against the First Building Permanent Society and its attempts to attract African savings were not replicated in the case of the commercial banks, which were also trying to attract the African savers. Their reputation as stable institutions with close relationships with the government made them valued organisations. In that sense, the colonial authorities avoided any interference with the commercial banks. It was policy to encourage their expansion, even when this could work

[101] KNA BB.PC/ESR/2/18/10, First Permanent Building Society, Letter from L.F.G. Pritchard, Secretary for African Affairs to the Provincial Commissioners (marked as confidential), Nairobi, 28th August 1956.
[102] KNA BB.PC/ESR/2/18/10, First Building Society, letter to the District Commissioner of Machakos from the Provincial Commissioner, Southern Province, 27th June 1956.
[103] KNA BB.PC/ESR/2/18/10, First Permanent Building Society, Letter to the District Commissioner Macakos to the Provincial Commissioner Southern Province, 25th July 1956.

against the interest of the POSB or government. For that reason, when the local director of the BDCO made public the desire to start a mobile service unit throughout the different African territories, the acting controller of savings banks in Kenya did not want to discourage the commercial banks 'from persuading Africans to open bank saving accounts'. For that reason, the POSB's controller supported the initiative from the commercial banks even when the government required the resources from the POSB from different development projects.[104]

The savings held by POSB, contrary to those of the commercial banks, could be channelled into local loans and the money 'can therefore be used in this way for development'.[105] The use of the POSB savings in colonial development was also a policy created to respond to the economic necessities of the colony in a time of emergency. The original operational rules of the saving bank did not allow the investment of the resources from the POSB in Kenya. Since 1910 up to the post-war period, the rules stated clearly that any bank funds should be used for development projects in the colony, all investments should be made in 'England or elsewhere'.[106]

The reason behind this restriction should not be understood only as an attempt to transfer funds from the colony into the metropolis for the development of the latter, particularly because of the small amounts of money managed by the POSB. The restriction was established to avoid corruption practices and financial difficulties that could rise from putting money into volatile and potentially poorly regulated investments in colonial territories. Nevertheless, even when the financial necessity and development approach had softened this restriction, the relationship between the colonial development and the Savings Bank remained weak. Most bank investment was still directed to foreign securities. By 1958, just three per cent of total bank investments were used to finance the development projects

[104] KNA AD/40/14, Minute of the Government about the Operation of the Saving Bank Vans, Letter from J. Butter, Treasury in Nairobi, 1st December 1956
[105] KNA AD/40/14, Minutes of the Government related with the Operation of the Saving Bank Vans, J.H. Butter, Treasury in Nairobi, 26th September 1956.
[106] TNA NSC 9/1127, The East Africa Post Office Savings Bank Ordinance, 1909.

of the colony; even after independence, the POSB was still financing the municipal structure in the U.K.[107]

3.3 Pacification

The established commercial banks were very sensitive to the development and fast retreat of the Mau Mau fighters. The banks' increased positive perceptions regarding the final pacification of the country were recognised by their boards. The declaration of J.K. Michie at the Annual Meeting of the NBI in 1957 was illustrative on this matter. The bank had opened, during 1956, three branches in East Africa and it was 'good to report that the Mau Mau Problem has now reached the constructive stage of rehabilitation' as long as the main 'destructive forces of the movement to all intent and purposes' were exhausted. The chairman also congratulated the government on the 'enlightened way' it had dealt with the recovery of the Africans involved in the uprising.[108] The position of the NBI's director is illuminating by the fact that the idea of British pacification in a fair way, against what were considered destructive and barbaric forces, was a conviction among white settlers adopted by the commercial banks and their boards in London.

While the condescending opinion about the central offices of the banks could be attributed to a lack of knowledge about the real situation in Kenya, the endemic violence of British pacification forces in the colony against the local population considered to be Mau Mau supporters could not be so easily overlooked by staff established along the territory. This was mostly because the local directors of the three banks travelled constantly throughout the territory supervising their branches, business, and bank interests. Besides, the atrocities committed by the counterinsurgency began to leak continuously to the public from 1955. Despite British efforts to disguise them and thus preserve its image as a

[107] KNA AD/40/10, Saving Bank Securities-Kenya 1958. Postbank, *The Post Bank Story: A Century of Wealth Creation through Savings* (Nairobi, 2010), 11.
[108] NBI, 'Report of the Directors and balance sheet for the year ended 31st December 1956' (1957).

"civilising" force, the reports included detention without trial, physical violence in the camps, and awful living conditions in the villages.[109]

E.V. Whitcombe, local director of the BDCO based in Nairobi, nevertheless remained positive about the pacification of the colony and declared that despite its political problems it 'was not oppressive' to the population.[110] Indeed, he celebrated the first election in which Africans were allowed to vote in 1957. The electoral process put eight African members, from 54 representatives, on the Legislative Council. Whitcombe, along with most of the European population, was optimistic about the election. He understood this representation of loyalist Africans[111] in the terms of the liberal party, The United Country Party, as a first step in the political education of locals.[112] In that sense, he was condescending in his comments when he described the participation of the first African congressmen, noting their lack of experience and excessive passion; he declared, without reserve about the eight elected members, that '[I]n their immaturity they have talked good deal of nonsense, but they should quieten as first wave of enthusiasm passes and as they gain in experience'.[113] That so-called "nonsense" discussion of the African representatives was part of their efforts their representation and put an end to the state of emergency that constrained their political liberties.

Whitcombe's prediction about the decline of this first wave of enthusiasm of the African representatives to the legislative council did not occur. On the contrary, they were crucial in encouraging the political participation of a wider share of the population and their

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[109] Elkins, *Britain's Gulag*, 275-310. However, there are many aspects of the war that have just recently received attention; see, for example: David M. Anderson and Julianne Weis, 'The Prosecution of Rape in Wartime: Evidence from the Mau Mau Rebellion, Kenya 1952–60', *Law and History Review*, 36 (2018), pp. 267-94.

[110] BGA 12B/03/3/0029-0052, Results, Statistics and Review of the Period Ending 31st March 1957.

[111] For a discussion about the different terms acquired regarding the idiom "loyalist" in the Kenyan context and its implications for the development of the colony, see: Daniel Branch, 'Loyalists, Mau Mau, and Elections in Kenya: The First Triumph of the System, 1957-1958', *Africa Today*, 53 (2006), pp. 27-50.

[112] For a detailed analysis of the United Country Party and its heir, The New Kenya Group, see: Wasserman, *Politics of Decolonization*, 37-55.

[113] BGA 12B/03/3/0029-0052, Results, Statistics and Review of the Period Ending 31st March 1957.

increased representation in the political life of the colony. Their pressure was decisive to the repeal of the Lyttleton Constitution and establishment of the Lennox-Body Constitution in December 1957. The new legislation increased the number of African representatives to 14, in balance with the Europeans. European predominance, however, was maintained through the creation of special seats against which the African representatives fought.[114] The apparent political turmoil, directed to obtain publicity and enlarge the political base of African representatives rather than participating in a government of which they were a minority group, was not understood by Whitcombe who considered this another example of the immaturity and lack of political understanding on their part. In support of his statement, he considered it important to refer to the BDCO central board how two African clerks in Kisumu excused the abandonment of the African elected members from the legislative council against the negative opinion of an accountant. 'One of the Africans replied ''But Sir, will not the Government only think is a prank as they know we are childish people''!!!'.[115]

This perception, in relation to the immaturity of the African population does not belong purely to the genre of the anecdotic. On the contrary, it was important in other aspects to the financial institutions and consideration was given in the creation of bank policies during the rest of the colonial period. The consideration of the perception of Africans as childish or immature in relation to financial decisions made their inclusion in the banks more difficult. As will be analysed in the next chapter, the Africans faced enormous difficulties to receive loans. Besides, despite the need for local personnel in a time of expansion, the banks did not appoint the locals in managerial positions. Another consequence of supposed African immaturity, along with the military defeat of the Mau Mau, was that this gave to the banks in the colony the signals to expect political stability. Stability was understood as the continuation of British rule, contrary to the independence processes

[114] George Bennett and Alison Smith, 'Kenya: from 'White man's country' to Keyatta's State 1945-1963', in *Oxford History of East Africa Vol. 3*, ed. by D.A. Low and Allison Smith (Oxford, 1976), pp 109-55, 142.
[115] BGA 21/07/5/0029-0335, Local Director's Visit to Kisumu, 18th and 19th November 1958.

that were occurring along other territories in Africa and beyond. Kenya became the new jewel in the Crown in terms of the spoils of the British Empire. This sentiment also influenced the bank managers who trusted in the long-standing support of the British government regarding colonial development and political dominion due to its economic and strategic importance. For that reason, the 1957-1960 development project launched by the government of Kenya was seen by NBI managers as the first step in a long-term economic project for the colony.[116]

The banks' expansion projects already established in the colony, the pacification and apparent social peace, combined with the expected long-standing support of the British government for the economic development of the colony. Allowed a new wave of commercial bank arrivals expecting to take a share of the business. These banks were the Habib Bank Overseas Limited which arrived in Kenya in 1956, the Ottoman Bank which opened its offices two years later, and the Commercial Bank of Africa in the same year. The National Bank of India merged its operations with Grindlays Bank Ltd., taking the name National Overseas and Grindlays Bank Limited. The expectations of European settlers in colony and the renewed key role of the banks in the economic future was partially revealed in a colonial newspaper account about the inauguration of the Ottoman Bank. The event was described as having attracted the 'most prominent citizens'.[117] The offices of the bank were established in what had formerly been Torr's Hotel and the press described these modern facilities as a symbol of how 'The old East African epoch', characterised by the 'White Hunter', was left aside by the era of modern banks. A busy and 'noisy place, with its electric

[116] 'A new Chapter in Overseas Banking: N.B.I. and Gindlays Amalgamation Plans', *The N.B.I. Review*, April 1957.
[117] LMA CLC/B/172/MS24036/002 Photograph Albums and Newspaper Cuttings.

calculators', glass doors and African assistants who were required to be schooled by the bankers 'with great patience' about elementary banking ethics.[118]

Figure 1: Photo from Exterior of the Ottoman Bank in Nairobi, 1958. Source: LMA, CLC/B/172/MS24036/02 "Photograph Albums". Ottoman Bank/Photograph Albums

3.4 Conclusions

The 1950s were a time that deepened the economic and social contrast that had already characterised the colony since the British invasion. The white settlers and those large African landowners who remained separate from the Mau Mau insurgency saw an improvement in terms of economic and political opportunities. At same time, the pauperisation of the gross population continued, and this was particularly evident in the city centres where the common poverty of the rural areas coexisted with overcrowding and crime. The economic situation was so harsh that even the *Report of the Committee on African Wages* recommended a change in the social conditions of the colony in order to transform Kenya into a high wage economy. The idea was to allow a minimal subsistence for workers,

[118] Ibid.

particularly in the urban centres.[119] Furthermore, alongside the details of the brutal suffocation of the uprising, the harsh conditions of the detention camps became public knowledge. Bitterness against white dominion and social condemnation of the British Empire increased, reaching unmanageable levels after the Hola Camp incident that cost the lives of seven prisoners when the custodians of the camp clubbed them to death.[120]

However, between the victories against the Mau Mau and the British government's acceptance of its impossibility to retain Kenya, the commercial banks in the colony trusted in the maintenance of British dominion and experienced the "Golden Age" of their business. For that reason, they accelerated the expansion process that they had been following since the end of the Second World War. Nevertheless, the new political and economic conditions, particularly the increasing weight of the Africans in the economy and the rising importance of the government development schemes, along with the establishment of new banks and non-banking financial institutions, altered the classic operation of these financial institutions within the territory. As will be discussed in the next chapter, the new economic bonanza increased the competition between the banks and their desire to include African savers, but also as staff. In that sense, whereas the time between the end of the Second World War and the decisive victories against the uprising is characterised by uncertainty and growth, the final years of the colony were a time characterised by security, competition between institutions, and attempts of Africanisation in which each institution had dissimilar success.

[119] Gordon, 'Colonial Crises and Administrative Response', 106.
[120] Anderson, *Histories of the Hanged*, 326-27.

4 The Standing Colony: The Commercial Banks between Pacification and Independence

The general meeting of the SBSA's managers held in Johannesburg between the 15th and 23rd September 1960, nine months after the Lancaster Hose conference that marked the final phase in the independence of Kenya, was characterised by gloomy perspectives of the bank's immediate development in Eastern Africa.[1] The chairman of the South African board of the SBSA, Mr. G.H.R. Edmunds, remarked to local managers about the 'serious times throughout which Africa was passing', particularly the political distress that countries in the region were transient and the economic consequence felt by SBSA.[2]

> As a result of political developments in all the East African territories during the past year the inflow of capital had virtually ceased and marked outflows was now seriously embarrassing the banking system. From the 1st February, 1960 to the 31st August, 1960 Kenya had lost £7.1 million of deposits of which the share of this bank had been £3million … There was at present no indication of a marked diminution in the outflow although it might soon be found that readily reliable capital assets had come to an end.[3]

The negative perspectives were not exclusive to the SBSA and were echoed by the remainder of the commercial banks in the colony; one BDCO local director who, two years after Edmunds' declaration lamented the difficult conditions in the colony that occasioned a significant fall in bank profits.[4] In 1960, an economic crisis was hitting the colony, with flying capital that reached £1 million per month.[5]

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[1] Bennett and Smith, 'Kenya', 147.
[2] LMA CLC/B/207/ST03/02/34/010, General Manager's Conference, SBSA, Johannesburg, 15th to 23rd September 1960.
[3] Ibid.
[4] BGA 12B/03/3/0029-0092, Results, Statistics and Review of the Period ending 31st March 1962.
[5] Bethwell A. Ogot and William R. Ochieng', *Decolonization and independence in Kenya 1940-93* (London, 1995), 69.

The worries around instability and the precarious financial situation of the banks since 1960 contrasted with the perception of the same banks just a few years before. At the general managers' conference of the SBSA in 1958, bank officials expected an expansion in the amount of lending and a steady increase in the number of deposits throughout East Africa. This expansion, it was declared, was required in order to solve the increasing amount of staff necessities to maintain the phase of growth. At the same time, the level of the SBSA's future profits was calculated at £400,000, just £110,000 less than the 'exceptional' profits reported in 1958.[6] The other two biggest banks in Kenya, BDCO and NBI, were also positive about the future development of the colony, and attempted to continue their expansion in terms of branches, business, and personnel.[7]

The contrast between the two attitudes in the declaration separated by just a couple of years can be explained by the independence process which took by surprise business, settlers, and even the authorities in Kenya. As discussed in the last chapter, after the military defeat of the Mau Mau uprising, the commercial banks expected a period of political stability. This stability, even when contemplating the slow integration of Africans into the colonial government, also anticipated a lengthy dominion of white settlers in the legislative council and public institutions; thus, the permanence of Kenya as British colony for a considerable period was expected. This perception was invigorated by important colonial officials such as Sir. Michael Blundell, minister of agriculture and founder of the first Kenyan multiracial political party known as the New Kenya Party. Blundell remarked, after the first Lancaster House conference, on the absence of a clear strategy to guarantee colonial independence. For that reason, a hypothetical timetable for the Independence of East Africa considered that

[6] LMA CLC/B/207/ST03/02/34/010, General Manager's Conference, June 1958. Could you check this, as you have General Managers' in the text, I'd suggest it's correct in the text but writing styles have changed over the years so best to go back to the document itself if you can

[7] Maxon, *An Economic History*, 256.

Tanganyika and Uganda could be the first countries liberated in 1970, while the independence of Kenya should wait almost until 1975.[8]

The other important circumstance playing in favour of the perception that Britain would maintain Kenya as a colony was the Cold War context. Imperialism had received condemnation from both the USSR and USA since the end of the Second World War, however, the USA had begun to soften its rhetoric, worried by the possibility that the colonial governments could be substituted by communist regimes throughout Africa. For the Western allies, the prevention of any possible spread of communism in Kenya was even more significant than independence. It was for this reason that British intelligence followed the most important leaders; one of these was Kenyatta. Their goal was to identify his possible relations with the Soviet Union and political views in the case that an independence movement gained traction.[9] At the same time, the possible dangers of a nationalist uprising, as happened throughout the British Empire in Africa and which included the potential abandonment of the colony, tended to be moderated by the public opinion of settlers in Kenya with assertions around the military's strategic importance in the territory to safeguard the British interest in the Middle East. It was also seen as a central defensive point against any potential Soviet advance from the East.[10] These characteristics, along with the recent defeat of the Mau Mau, were understood as guarantees for the longstanding domination of this part of Africa.

The perception of, and hopes for, the persistent dominion of Kenya was believed and supported mostly by the white settlers, small and medium landowners who could not afford to leave as the upper classes or international business could. These small and medium farmers were truly afraid of the possible redistribution of the land under an African

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[8] Michael Blundell, *So Rough a Wind: The Kenya Memoirs of Sir Michael Blundell* (London, 1964), 261-62.

[9] Poppy Cullen, ''Playing Cold War Politics': The Cold War in Anglo-Kenyan Relations in the 1960s', *Cold War History*, 18 (2018), pp. 37-54, 39.

[10] David A. Percox, *Britain, Kenya and the Cold War: Imperial Defence, Colonial Security and Decolonisation* (London, 2004).

government. For that reason, they constantly demanded support from the colonial authorities and British government.[11] To a large extent, the commercial banks also shared this perception about an unseen end to British domination in the colony. The NBI remarked in its *Annual Review* of 1957 on the importance of the colony for Britain in the field of military strategy. A major overseas military base was planned for construction in the colony and this, along with the infrastructural works required by a project of this magnitude, was expected to work as 'a further tonic' to 'the whole economy'.[12] The launch of major infrastructural work was seen with optimism by bank authorities, which perceived with distress the increasing difficulties of the Kenyan colonial government to raise money in the London market; this came as the result of the political disharmony elsewhere in the continent that could soon influence Kenya and all of East Africa.

Rarely did the officials of the banks make public their support around the continuation or dismantling of the British Empire. The only exception occurred during the Second World War when they constantly referred to the necessity to support the empire. However, the use of the word "Empire" within the reports and communications of the banks decreased during the second half of the twentieth century. Even during the Mau Mau war, banks' representatives referred to the necessity to defeat the rebel forces, not for the maintenance of the British Empire but as a requirement to maintain the peace, protect the entire population in the colony, and guarantee economic progress. On the contrary, their communications tended to express a favourable opinion to any new political adjustment just when it was unstoppable.

However, through the growing importance of the amount of business in Africa, it was understandable that the commercial banks supported the continuation of Kenya as a British dominion as a guarantee of stability. For that reason, even when no single bank openly

[11] Wasserman, *Politics of Decolonization*, 17.
[12] NBI, 'A new Chapter in Overseas Banking: N.B.I. and Gindlays Amalgamation Plans', *The N.B.I. Review*, April 1957.

declared its opposition to Kenyan self-government with an African majority, the banks certainly preferred to believe that the independence processes of Africa were over. It was, they felt, an historical moment now contained 'between the passage through Parliament of the Indian and the Ghana Independence Acts', moments that will be seen as 'the great watersheds on the human affairs, dividing one era from another'.[13]

The hopes around future political and social stability, once the uprising was defeated and the colonial economy boosted by diverse development schemes, drastically altered the development of the commercial banks whose economic interests were mostly in Africa. The government, through growing interference in the colonial economy, increased in its importance for the banking business there. However, the maintenance of the British rule in Kenya was not understood as a complete end to socio-political development in the colony or a turning point to a pre-Mau Mau war political condition. Despite not expecting independence in the short time, the commercial banks were not blind to the social changes, particularly the increasing influence of the African elite.[14] For that reason, they tried to adapt to the new conditions of the colony. The attempts of adaptation occurred in two ways. With the increasing amount of resources managed by the colonial authorities came the opportunity for the financial institutions, particularly BDCO, to end the NBI's monopoly over the colonial accounts. As one bank official argued, the monopoly was halting the development of financial services in the colony and even the possibilities of the banks extending their services to a larger share of the local population.[15] Parallel to this, in response to the increasing economic importance of the African population, the three banks began a process of Africanisation in terms of both clients and staff.

This chapter analyses the performance of the banks during these periods of exceptionalism in which they projected a politically stable and economically dynamic colony

[13] Ibid., 7.
[14] Morris, 'Cultivating the African', 654
[15] Tignor, *Capitalism and Nationalism, 340*

for almost the next 20 years. The first section of this chapter analyses how the growth in the amount of business and colonial resources altered the relationship between the three most important commercial banks, ending what had been a smooth affiliation and share of the market between the banks to a more intense competition in which the colonial government played a fundamental role. The second part studies the characteristics of the struggle between the financial institutions to end the monopoly of the NBI. Finally, the last section analyses the boundaries of this competition and the attempts of the BDCO, NBI, and SBSA to retain their oligopoly despite the competition.

The main objective of the chapter is to debunk the perception of the banks as highly colluded institutions with no interest or necessity to adapt themselves to the local circumstances until independence. This is also fundamental to understand the motivations of the banks behind their Africanisation policy, their incentives to launch it, and their dissimilar success - a subject analysed in the next chapter. Understanding the change to the relationships between the commercial banks and colonial authorities is also fundamental to comprehend the evolution of the banks during the turbulence brought about by the independence process to the whole economic and financial system in Kenya.

4.1 The End of the Gentlemen's Agreement: Commercial Bank Rivalry after Pacification

The commercial banks in colonial Kenya have been classified as highly colluded institutions. Due to the small size of the colonial business available, they decided to minimise the competition by sharing the diverse available business at the time which did not enable the growth of other financial actors. This policy tended to be encouraged by the colonial and British governments which, despite alleging their support of a free market economy, did not want to risk the financial stability of the colony. In comparison, the financial system in British East Africa was no different to the metropolitan one. In The City the prevailing monopoly of the "big five" banks in the London market did not allow for real competition between bank

brands since they were part of a gentlemen's agreement to avoid competition, particularly in terms of the interest rates for savings and loans.[16] The British banking system tended to be conservative in its lending policy, restricted by a strategy that favoured their prudential behaviour.[17]

The monopolisation of the banking services by two of three banking institutions was not exclusive to Kenya, but common in the British colonial Africa financial market. This situation was even more normalised for French and Portuguese colonial Africa where the financial system was less developed and monopolised by Imperial Banks.[18] Besides, the French foreign banks doing business in Africa were French in name only as their capital, management, and headquarters were based in London.[19] In the case of British West Africa, the financial system was monopolised by the Bank of British West Africa and BDCO.[20] The only exception was Nigeria which had an early development of indigenous banking and local competition between the bigger commercial banks, particularly during the "currency revolution" - the transition between traditional currencies to European monetary systems.[21]

In the case of commercial banks established in the colony of Kenya, the agreement in relation to market share of was broken by the increasing amount of business and foreign resources pumped into the colony. Governmental accounts were the most significant business for the banks and a necessary component in their expansion plans for the colony. It

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[16] The definition of the "Gentlemen's Agreement" used corresponds with that of Collusion as the joint action of an oligopoly to control prices and market share, see: Donald Rutherford, *Routledge Dictionary of Economics* (3rd edn, London; New York, 2013). However, while these practices are normally illegal in most capitalist countries, in the case of Kenya the collusion between commercial banks was encouraged by the colonial and British authorities in the name of financial stability.

[17] However, the monopoly of the banks did not stop the development of other non-banking financial services, see: Anthony C. Hotson, *Respectable Banking: The Search for Stability in London's Money and Credit Markets since 1695* (Cambridge, 2017), 184; Jones, *British Multinational Banking*, 68.

[18] For an analysis of the role of the Commercial Banks in Colonial Algeria, see: Hubert Bonin, 'Les banques et l'Algérie Coloniale: Mise en Valeur Impériale ou Exploitation Impérialiste ?', in *Outre-mers*, 96 (2009), pp. 213-25.

[19] Porter and Holland, *Money, Finance*, 110.

[20] Gareth and Uche, 'Collusion and Competition in Colonial Economies'.

[21] However, much of the local commercial banks were short-lived businesses due to lack of management skills and the colonial legislation that favoured the monopoly of the larger banks, see: Uche, 'Indigenous Banks'. For competition between banks during the first decades of the Twentieth Century, refer to: Uche, 'Foreign Banks'.

was for that reason that the financial institutions, particularly BDCO, tried during the 1950s to end the NBI monopoly over the colonial government accounts. Of course, as expected, it faced resistance not only from the NBI but also the colonial government which was reluctant to end the monopoly. BDCO also attempted to surpass the SBSA in terms of the number of accounts it held from individuals and African business. The co-operatives were particularly important for the banks as a result of their increasing economic relevance.

4.1.1 The Origins of the Monopoly

The NBI operated as bankers to the colonial government until the last days of British dominion. Its monopoly was a direct result of being the first bank to establish itself in the colony. The economic goals of the NBI in opening a branch in East Africa are not clear, as the first economic incentive vanished after the extinction of the Imperial British East Africa Company. At the same time, the possible economic gains of imperial expansion were not shared within the financial sector. The literature has tried to explain this expansion as a result of the strong relationship between the bank and the Punjab migrants who arrived into the colony, including 32,000 between 1896 and 1901, to work on the construction of the Uganda railway.[22] However, the possibility of attracting the savings of migrant workers was not profitable enough to justify the establishment of a new branch in the Kenyan territory.

A letter from the Crown's advocate in 1909, discussing the introduction of the 1910 Bank Ordinance in the colonial territories sheds light on the real motives that influenced NBI to expand into Kenya. In the letter, the advocate expressed his concern about an ordinance that could damage its business:

> The company came here on the invitation of the Government and have been of considerable assistance to the Government and we are, therefore, under obligation

[22] Tyson, *100 Years of Banking*.

to them not to do anything which will prevent them from reaping the reward for the unprofitable work which they have done in past.[23]

For that reason, the advocate asked that the authorities exempt NBI from the regulations of the ordinance as it could damage its business.

The implication of the Crown advocate's petition was an important precedent that would be replicated in future correspondence between the bank and government authorities. The reasons behind the NBI's arrival and permanence in the colony was not the positive perspective of short-term economic gains from offering banking services to private enterprises, but rather to support an effective colonisation. In that sense, it had been agreed since the first days of colonisation that the bank's operations needed the long-term support of government to guarantee some economic benefit. However, the colonial authorities reciprocally recognised the bank's dependency to guarantee the stability and progress of the colony. One of the first rewards for the service of the bank came in 1908 when the NBI signed an agreement to be sole banker to the government railway company for a ten year period; in exchange, it was guaranteed interest rates on its provident funds.[24] Despite some attempts from the railways to modify the agreement after its expiration, this did not change after the decade was up but was maintained for most of the colonial period.

The advantages and importance of the NBI as government bank grew with the development of the colony, and this privileged position was so evident that even its superintendent for the East African branches recognised in 1946 that 'they had built a very palatial office in Nairobi, much bigger than they would have done if they had not this business', referring to the bank's management of the colony's railway and harbour accounts.[25] The NBI's dominion over the railway accounts came as a result of its predominant

[23] KNA AG/48/77, Letter from the Crown Advocate's Office in Mombasa to discuss the introduction of the Bank Ordinance, 23rd November 1906.
[24] Tyson, *100 Years of Banking*, 213.
[25] KNA AD/35/5, Letter to J.F.G. Troughton, Nairobi Financial Secretariat, to discuss the new Interest Rates of the NBI, 9th April 1946. The "palatial" offices described by the superintendent today hosts the Kenyan National Archive.

status as a pioneering bank. Indeed, when in 1946 the NBI changed the terms of the agreement with the railways and the general manager of the railways in Nairobi suggested to end the current contract and call for proposals from other banks.[26] The NBI's superintendent for the East African branches complained directly to the financial chief secretary: 'an approach to the Railway Administration of this kind is contrary to the spirit under which the Banks operate in East Africa'. The NBI's official also discredited the allegations about the supposed interest from SBSA or BDCO to manage the railways account. For that reason, the superintendent of the NBI declared 'I would suggest that it may not now be necessary to give them an opportunity of submitting their proposal in connection with the Railway Administration business'.[27]

Despite the arguments from the secretary of the railways about the necessity to negotiate better terms from other banks, H.S. Potter, financial secretary of the colonies, compelled the secretary of the railways to accept the terms offered by the NBI. The reasons given by Potter were not defined in economic terms; he evoked the different commitments honoured by institution had as bankers for the government of Kenya and to the railway. Besides, he declared, in relation to the SBSA and BDCO, 'we cannot get better terms from them than for the National Bank of India'.[28] The impossibility of the other banks to offer better terms to colonial institutions should be understood in relation to the prevalent collusion practices undertaken by the banks in the colony until the post-war period, and not as the result of a real impossibility to improve the agreement. Neither the SBSA nor the BDCO tried to win the monopolised accounts of the NBI in the colony during this period.

In addition to the management of the railways accounts, the NBI also enjoyed a de facto monopoly over branch expansion throughout the colony. The bank was granted the

[26] KNA AD/35/5, Letter from the General Managers Office, Kenya and Uganda Railways and Harbours to the Acting Financial Secretary in Nairobi, 8th March 1946.
[27] KNA AD/35/5, Government of Kenya, Government of Uganda and Kenya & Uganda Railways. Letter from the Superintendent, East African Branches NBI, to the Chief Secretary in Nairobi, 23rd March 1946.
[28] KNA AD/35/5, Letter to J.F.G. Troughton, Nairobi Financial Secretariat, to discuss the new Interest Rates of the NBI, 9th April 1946.

government account in any territory where its representation existed. The most controversial part of this treaty was that once the government bank arrived in a territory within the colony, all government accounts passed to it. This took place regardless of the length of time the other bank had been managing the government accounts in the region. The practice took place even when the bank agreement with the colonial government did not clearly establish the dominion of colonial accounts to the bank in regions where the latter had no representation, nor was there legislation around the transfer of these accounts from other banks to the NBI.

The bank agreement of 1910 ensured that it was the prerogative of the NBI to 'transact all such banking business of government as the Bank may from time to time be required'.[29] This statement remained without alteration during the colonial period and motivated an extensive discussion about its implications, not just between the banking institutions but even among colonial officials. For J.H. Butter, secretary of the treasury in Nairobi, there was no conclusive rule. However, even when 'the Agreement is silent on this point', he remarked that it was desirable, in order to honour the agreement, to transfer government accounts to the bank of the government once the 'Government Bankers opens a new branch at a place where there was formerly only a branch of one of the other Banks'.[30] In that sense, the position of the pioneer bank in a territory should be irrelevant in comparison to the rights of the NBI. Nevertheless, this prerogative could discourage the expansion of other banks within the colony due to the possibility of losing any government business once the NBI arrives into a new territory.

Conversely, H.G. Shirin, the senior crown counsel, stated that this was a mistaken interpretation of the agreement. He alleged that the colonial government should not be bound in any way to a single banking institution. Despite recognising that the transfer of bank

[29] KNA AD/35/7, Agreement with the National Bank of India, Limited, as to Transaction of the Banking Business of the Government, 7th April 1910.
[30] KNA AD/35/2, Letter from the Secretary to the Treasury, J.H. Butter, to Attorney General Discussing the Agreement between the Government and the National Bank of India Limited, 28th November 1956.

accounts to the NBI was a recurrent practice in the colony once a branch opened in a new territory, he considered that the 'agreement did not require it so to do'. The counsel argued that the NBI had 'forfeited its priority in places where it failed to offer services'.[31] In other words, the rights of the pioneer bank should prevail over any attempt to monopolise government accounts by the NBI, a position validated by the lack of a clear rule over that in the bank agreement.

The interpretation of the crown council was later supported by the secretary of the treasury in Nairobi, S.W.S. Mackenzie. Mackenzie informed the commercial banks in the colony that even when there was no clear instruction in the agreement with the NBI about what action should be taken by the government 'when the Government Bankers open a new branch at a place where the Government had previously had its account with another bank', the rights of the pioneering banks should prevail over monopolistic privileges. In other words, the government should keep its local accounts with the bank initially in situ. When this policy was finally adopted, Mackenzie explained that it was done in order 'to encourage the development banking in areas not now served by banks'.[32]

The profitability represented by the government business encouraged the authorities of the NBI, on the other hand, not just to protect but even enlarge this unwritten monopoly to all accounts related to government at all levels. In that sense, when the NBI announced its intention to open a branch in Kakamega in response to the region's economic growth in specifically 'African Agriculture', it demanded that the colonial authorities transfer to it the accounts associated with that region. Similarly, in 1955 when the NBI was interested in the North Nyanza and the Western Region educational boards accounts controlled by SBSA and BDCO respectively, the NBI superintendent for the East African branches, D.M. Simpson,

[31] KNA AD/35/2, Letter from the Senior Crown Counsel, H.G. Sherrin, to the Secretary of the Treasury to Discuss the Agreement Between the Government and the National Bank of India Ltd., 1st December 1956.

[32] KNA AD/35/2, Letter from K.W.S. Mackenzie, Secretary of the Treasury in Nairobi, to discuss the terms of the agreement of the National Bank of India with the Colonial Authorities as Governmental Bankers, 11th May 1957.

pressured the acting secretary of the treasury to transfer the accounts, reminding him that 'all government banking business should be conducted with this bank in terms of the agreement between us'.[33]

The colonial authorities had been using the services of BDCO and SBSA in Eldoret and Kakamega since 1936 when the NBI closed down its branch there and had no other representation in the county. However, the government bank representative alleged that even though the bank had no past representation in Kakamega, contrary to the other financial institutions, the accounts linked with the government should be moved to NBI's nearest office at Kisumu once the other banks closed their representations in Kakamega and transferred the management of those accounts to other branches. The central government, honouring the agreement, transferred the account to NBI which was then managed by its Kisumu branch. Nevertheless, the decision to transfer the account to the NBI did not satisfy all of the colonial officers. The officials who had to use the service of the NBI for daily district transactions described the services offered by the institution as being not as efficient as the other banks previously managing the accounts.

The district commissioner in North Kavirondo, F.D. Hislop, for instance, requested to the provincial commissioner to consider a return to the use of SBSA services rather than continuing with the NBI. Hislop accused the bank of mismanagement of the government accounts in Kakamega, particularly due to its lack of personnel. The official referred to the impossibility of withdrawing the remittances of the district due to the absence of a European assistant, the only personnel allowed to deal with that category of transactions. NBI personnel, reported the district commissioner, 'said that Monday afternoon was the most likely time when he would do any notes, and probably he would be able to get onto the coin on Tuesday afternoon; if not, then Wednesday afternoon'. The difficulties around this

[33] KNA AD/35/2, Letter from the Superintendent of the National Bank of India to the Acting Secretary to the Treasury to discuss the Transfer of the Education accounts in Nyanza and the Western Region, 3rd June 1955.

transaction proved to district commissioner Hislop that the NBI was not 'in a position to deal properly with the Kakamega account'. Finally, he remarked upon the absence of any attempt by the bank to improve its services in the region and explained that there was no incentive to do so because the bank authorities were aware that he could only use their facilities.[34] The colonial official was not mistaken as, despite his complaints, no attempt was made to allow the change he demanded.

A similar quarrel erupted over government accounts eight years later when the NBI demanded control over the accounts of the North Kavirondo district education board and the local native councils banking account, which were at that point in the hands of the SBSA. The motive of the NBI's manager in the region to claim control over the accounts was the same as in earlier years. 'This is a semi-Governmental account', explained the NBI to the provincial commissioner in Nyanza, and it 'should be kept with this Bank'. The authorities of the institution also explained the reason for accepting the original transfer in 1943 of the government account from the NBI branch in Kisumu to the SBSA in Kakamega. At that time, the NBI had no representation in Kakamega while the SBSA did, but when SBSA closed its office there in 1947, the NBI manager considered that the account should be transferred back to the Kisumu branch of his bank where it had always been.[35]

Nevertheless, this time the NBI's attempts to monopolise control of the educational boards and local native council's bank accounts faced important resistance from the other commercial banks operating in the colony, and even from the Kenyan authorities. The resistance from the central authorities was particularly harsh in comparison with local ones, mostly because the agreement was less ambiguous about how to deal with the account of the boards and the right of the bank over them. For the same reason, the weak position of the district authorities against the NBI's attempt to monopolise the accounts can be better

[34] KNA PC/NA/3/10/143, Bank Remittances, Letter from F.D. Hislop, District Commissioner North Kavirondo, to the Provincial Commissioner, 24th March 1945.
[35] KNA PC/NZA/2/19/120, North Kavirondo Local Native Council Account, Letter from the National Bank of India Manager to the Provincial Commissioner in Nyanza, 7th January 1947.

explained by deficient information among the distinct levels of government in relation to the government agreement with the bank, rather than any clear complicity between the regional authorities and NBI.[36] Cases that demonstrate the lack of information and understanding about the Bank Agreements in Kenya and how the government bank, conscious of this, tried to enlarge its monopoly can be traced to different moments during the colonial period.

One of the most illustrative attempts was made in 1955 over accounts managed by the educational board. The educational boards were established after the First Word War as part of the British attempt to raise educational standards in the colony among the African population which had relied solely on the religious missions. The policy of the British authorities toward African education had changed as a result of criticism of the disparities in the education conducted by the missions, and the lack of unified curriculum and adaptation to the particular necessities of each community.[37] After the Second World War, the government increased its efforts to boost the number of Africans in schools, which quadrupled between 1930 and 1950.[38] Greater numbers of children in formal education, together with efforts of the British authorities to expand access to elementary education, saw an increase in the education budget, and with that the money managed by the education boards. This attractive scenario caused the NBI to defend its alleged monopoly over the board in its capacity as the government's bank.

The director of the educational board in Nairobi received pressure from NBI officials to transfer the accounts of a recently created district educational board to the bank. The bank officials demanded the transfer, alluding to the current bank agreement. The director, unaware of the legal conditions of the district and regional educational boards, was inclined to agree with the NBI's demand to fulfil the agreement. In his words, it was 'compulsory for

[36] However, this should not be understood as the total lack of collusion practices between the authorities and the NBI, this practice existed and was denounced by the rest of the commercial banks, as discussed in the next section of the chapter.
[37] George E. Urch, 'Education and Colonialism in Kenya', *History of Education Quarterly*, 11 (1971), pp. 249-64.
[38] Bob W. White, 'Talk About School: Education and the Colonial Project in French and British Africa (1860-1960)', *Comparative Education*, 32 (1996), pp. 9-25, 13.

Government accounts to be placed with branches of this bank', even when he remained unsure if these types of accounts were part of the treaty.[39] The secretary of the treasury responded to this inquiry, reminding the NBI that the accounts of either the regional or district educational board 'do not fall under the agreement with your Bank and, therefore, it is not possible to instruct these Boards that their accounts must be kept with your bank'. The boards were decentralised and as such were not strictly part of the educational department.[40] Therefore, each educational board had the right to choose the services of any of the commercial banks convenient to it.

The NBI also attempted to gain control over other accounts that received funds from the government but were managed by autonomous institutions in the colony. A paradigmatic example occurred in 1946 when the NBI's officials demanded the management of the local native councils in North Kavirondo. However, the NBI faced bigger resistance from the colonial authorities that did not want to constrain all the institutions in the colony to the use a single bank, particularly those not under direct management. These local bodies were created by the education ordinance of 1931 to give some responsibility in the administration of educational matters to locals and had the right to use the banking services of any institutions convenient to them without government intervention.[41] Therefore, the NBI have not right over the native council' accounts even when received government funding. The resolution established the limits of the NBI privileges and stated the desire of the colonial authorities to mark its distance from the financial actors. Otherwise, the colonial authorities 'may be required to defend decisions against representation from bankers which is

[39] KNA AD/35/2, Letter from the Local Director of Education to discuss the demand of the National Bank of India to control the accounts of the Education Accounts in North Nyanza and Western Region, 8th June 1955.

[40] KNA AD/35/2, Letter from the Secretary of the Treasury, K.W.S. Mackenzie, in Nairobi to the Superintendent of the National Bank of India East African Branches, Discussing the Educational Boards' Accounts, 24th June 1955.

[41] KNA PC/NZA/2/19/120, Letter to the Provincial Commissioner in Kisumu from the Chief Secretary to discuss the appointment of Bankers to the Native Councils, 21st February 1946.

undesirable'. [42] The NBI was the bank of the government in Kenya but do not enjoy a complete monopoly over the financial market in the colony.

4.2 Government Accounts, Bank Competition, and the Expansion of BDCO

Further to the efforts of colonial authorities to separate themselves from any attempt to tie them to a single banking institution, other commercial banks in Kenya sought to challenge the NBI's monopoly of government accounts. The SBSA was the first bank to request a more open policy related to the management of the account in the colony when, in 1931, its board demanded a share of government business in Kenya. In correspondence with the colonial governor, discussing the governmental agreement with the NBI, the SBSA's superintendent of the East African Branches, in charge of the petition, noted the different factors that made the bank worthy of consideration in the repartition of the government business.

The SBSA's superintendent declared, in support of the application, 'this Bank has been established in Kenya colony since 1911, and that it has, at the present time, the largest establishment of branches, not just in Kenya but in the Eastern African dependencies'. Along with the allegations around the extension and period of the bank in the colony, the superintendent mentioned the support of the Crown agents to a share of colonial business as had occurred in other territories, such as Tanganyika. In this territory, the agreement between the government and commercial banks dictated that 'wherever possible, the Colonial Government's Banking business should be divided amongst those Banks in the respective Territories', particularly among those financial institutions that 'have taken active and material interest in the development of the Colony'.[43] This policy, in the words of the bank superintendent, had already been discussed with the Crown agents and governor of the colonies who declared his sympathies to SBSA director Mr. E. Clifton Brown.

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[42] Ibid.

[43] KNA AD/35/2, Letter from the Superintendent of East African Branches of the Standard Bank to Sir. Joseph Byre, Governor of the Colony and Protectorate of Kenya, Related to the share of Governmental Business in the Colony, 6th August 1931.

Nevertheless, the colonial authorities rejected the SBSA petition, alleging the good quality of services and - as in the case of the discussion about the possibility of exempting the NBI from the regulations in the *Bank Ordinance* previously analysed - noted that the NBI offered the 'greatest assistance' to the colonial government. So, the colonial authorities, despite sympathising with the desire of the Standard Bank of South Africa to secure a share of the Banking business of this government, declared the desire to retain the existing agreement without disruption. The treasurer, probably in an attempt to show the futility of the request and avoid future confrontation around the issue, denied being aware of any declaration by the governor to the SBSA's superintendent or its director about any possibility of sharing government business with the other banking institutions in operation.[44] After this unsuccessful attempt, the SBSA abandoned its request without further confrontation with the colonial authorities. The bank, being the second to arrive in Kenya, already had an important share of private business in the colony and most of the government business available in Tanganyika where it was the government bank.

It should be noted, however, that among the arguments given by the superintendent of the board to support the SBSA application to share the colonial business between it and the NBI, no consideration was given to offer better services to the colonial government, such as higher interest rates paid on government accounts or a reduction in the fees charged for its management. As examined in the case of the general manager of the railways and harbours, the commercial banks did not compete in monetary terms. The SBA's arguments in requesting for a share in the governmental business were related to its reliability and certain rights acquired by its permanence in the colony. The relationship between the bank and government was not the same as with other clients. In that sense, the competition relied on meritocracy; the major assets of the financial institutions to claim a part of the business was their reliability, endurance, and promises to continue an expansion of the offered

[44] KNA AD/35/2, Bank Business of Government, Letter from H.H. Rusthon, Treasurer of the Colony to the Colonial Secretary, 19th August 1931.

services in the colonial territories. These limitations in the terms of competition changed briefly during the colonial period.

Just a few years after the failed attempt of the SBSA to encourage a share of the government business in the colony, BDCO also offered its services to manage the government accounts in Kakamega and Eldoret, both territories without NBI representation. The management of the accounts in these territories required from the government the compromise to cover all possible expenses incurred by the bank, such as transportation costs of transferring money from one branch to another.[45] Similar worries around the cost incurred when managing government accounts were remarked upon by the superintendent of the SBSA to the financial secretary in Nairobi. In the communication, the bank official complained about the bank's expenditure when managing accounts with negligible value, a situation that normally occurred in the Kakamega. The main issue, explained the superintendent, was that as long as the NBI managed the bulk of the colonial government accounts, the SBSA could not compensate the losses in one region with the surpluses from the other as undertaken by the government's bankers. Even the money bags were becoming an important drain of cash for commercial banks which demanded that government return these bags once used, as 'we do not wish to institute a charge for the bags. If, however we have to re-bag at our own expense, the present system of free circulation is threatened'.[46]

In that sense, the commercial banks did not really find it profitable to carry the business of the government in the interior of the colony. On the contrary, to manage these accounts under this circumstance could represent a drain of resources for the financial institutions, a situation that tended to soften the struggle to acquire local accounts. Nevertheless, the quarrel of the commercial banks around colonial business, along with the criticisms of NBI as the government bank in Kenya, was revitalised after the Second World

[45] BGA AD/35/2, Conditions of Barclays DCO to manage the Government Accounts in Kakamega, Letter sent from the Local Head Office in Nairobi, 25th January, 1935.
[46] KNA AD/35/2, Accounts in the Name of the Kenya Government conducted at Branches of the Standard Bank of South Africa Ltd. in Kenya. Letter sent to the Financial Secretary in Nairobi, 12th January 1943.

War. As analysed in previous chapters, the British post-war economic policy contrasted with the alleged austerity of the Victorian Imperialism that tried to maintain government representation and expenditure at a minimum with the aim of encouraging private initiatives.[47] This altered the relationship between the banks and the government. The post-war commitment to development focused on the expansion of agriculture, which enlarged government representation and brought an important influx of resources directed towards large-scale agricultural production and importation.

The first step in the post-war struggle to secure a larger share of the government business acquired by BDCO can be traced to a 1954 memorandum related to the banking business in East Africa, the same year as the publication of the Swynnerton Plan. In the document the bank openly admitted its desire to gain control of these funds '[I]n the early days of British control in East Africa'. It stated that 'the business of the government was on a relatively small scale', giving 'little justification at that time for such banking business being divided'. However, the financial institution declared that the formidable growth of government resources for diverse objectives, including expanding revenue, granting loans, and other contributions to colonial welfare, meant that the 'Governmental bank in any territory carries very substantial deposits on Government accounts'.[48]

The memorandum denounced the colonial government for favouring the NBI, the important economic advantages that this gave it over its competition, and the reluctance of the colonial authorities to modify the situation. BDCO was, in the opinion of its officials, the less favoured institution among the three most important banks in East Africa with the present arrangement.

> At the Present time the National Bank of India Ltd. (N.B.I) are bankers to the Government in Kenya, Uganda and Zanzibar. The Standard Bank of South Africa Ltd.

[47] However, expenditure was high even in Victorian times despite the small size of the colonial government, see: Leigh Gardner, *Taxing Colonial Africa: the Political Economy of British Imperialism* (Oxford, 2012), 32.

[48] BGA 30/04/1/0080-3570, Memorandum: Government Banking Business-East Africa, 13 October 1954.

> (S.B.S.A) are bankers to the government in Tanganyika. Barclays Bank D.C.O (Barclays) have the Tanganyika business of the East African Railways and Harbours but the accounts of the Railways Administration in Uganda and Kenya, where the Business is of far greater significance, are maintained with the N.B.I.[49]

The management of the railways accounts was the most evident advantage that the government was giving to the NBI over its competitors, but not the most important. With the management of the government monies, the administration was allowing the bank to have more available resources for 'its borrowing customers' in the colony.[50] This situation could have the effect of draining clients from other banks in favour of the NBI when they became aware of the better lending conditions it offered. This allegation was particularly strong in the case of the British bank that based its borrowing in short-term loans as a measure to avoid default instead of fostering a closer relationship with clients and their business affairs or *vice versa*.[51] For that reason it was easy for the clients to jump from one institution to another in pursuit of better loan accessibility.

However, BDCO remarked on two other important advantages that the bank had over their competitor. As it was responsible for government business, the institution also enjoyed great prestige among potential savers and included the personal accounts of government officials, bringing with them the possibility of establishing better government relations. Finally, the NBI enjoyed not just the monopoly of current business but also the unwritten control of future business in the colony launched with governmental funds. The situation was denounced by the banks as intolerable and against the principles of the government, which should have opposed the existence of monopolies. For that that reason, the board of BDCO decided to continue pushing the government to end the special relation between it and the NBI in East Africa.

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[49] Ibid.
[50] Ibid.
[51] The effects of this process are widely analysed by Mae Baker and Michael Collins, 'Methodological Approaches to the Study of British Banking History: A Select Illustration from Bank-Firm Relationships', *Revue Economique*, 58 (2007), pp. 59-78.

The struggle against the NBI monopoly was led by the newly appointed local director of Barclays Bank in East Africa, E.V. Whitcombe, whose lengthy experience included successfully expanding the bank's business in convulsive territories such as Palestine, Cyprus, and Ethiopia.[52] Whitcombe was fully aware of both the importance of government accounts and other development projects in the bank's new territory expansion plans and the obstacles represented by NBI as the government bank. For that reason he opted for a more aggressive expansion of the bank in the colony and more direct pressure against the colonial authorities to break this monopoly.

With this in mind, he recommended to the central board of Barclays that it open a branch in Kisii to benefit from the recent introduction of coffee plantations in the district. Despite acknowledging that the process to obtain profits in Kisii was not completely safe of risk and should be planned on a medium-term basis, he remarked that if the board decided to accept that risk, it was necessary to do it 'now, or in the very near future'. The reason being that if the NBI followed suit and opened its own representation there, 'they would, of course, take all the governmental accounts'.[53] Of course, this would render the branch unprofitable. In the end, it was not the NBI, but the SBSA that opened the first branch in August 1954 and 'inevitably acquired the official and demi-official business, therefore having the cream of deposits' in Kisii.[54]

Whitcombe was very critical around the argument in favour of the NBI monopoly, that it provided good and trustworthy services to the colony. He remarked that this situation was inequitable and did not correspond with the current reality of the colony then characterised by the increasing amount of governmental funds. For that reason it was necessary to revise the arrangement to the benefit of the colony instead of rewarding the

[52] Crossley and Blandford, *The DCO Story*.
[53] BGA 12B/07/2/0011-1013, Memorandum on Local Director's Visit to Kisii, South Nyanza - Thursday, 28th October 1954.
[54] BGA 12B/07/2/0011-1013, Memorandum for the Central Board: Branch Expansion in Kisii, 25th Novmember 1954.

NBI for past services.[55] He also declared that by keeping all of its accounts with one bank, the colonial government would be endangered if the government bank were to suffer financial difficulties, a situation that should be avoided. In one of the letters that Whitcombe directed to A.N. Galsworthy of the Colonial Office to discuss the issue, he observed the financial danger for the colony augmented by dealing with multinational banks whose main interest were not in East Africa. 'Supposing, for example, the lending policy of one of the three banks concerns were for some reason or other, to be unduly influenced by the particular circumstances affecting its business outside East Africa'.[56] This vulnerability was not illusory as the main banks focused most of their financial interest outside Kenya.

Finally, Whitcombe explained that if the colonial government's agenda was to expand financial services within the colony, the preservation of the monopoly represented a brake 'on the expansion of banking services in unpioneered areas'. The reason being that an incursion required the rent, purchase, or even construction of a new building to host its offices, as well as the hiring of personnel that normally included a European manager. The financial institutions needed to take into account the expense of any potential deposits, the bulk of which would come from government and local government accounts in the Kenyan context. And the difficulties for the commercial bank were such that even when there was no compulsory order for the local government to use the NBI, local authorities tended to use the same banking services as the central authorities. 'The result', conclude Whitcombe, 'is that some centres, which would support one bank but not two, go underbanked altogether, or else become over banked to the detriment of other deserving areas'.[57] His denunciation was not totally mistaken, as the concentration of banking services around the Uganda railway and the highlands continued despite the post-war expansion process. For most communities,

[55] BGA 30/04/1/0080-3570, Letter to Macdona from Whitcombe Local Director Barclays, abut the recent comments of Sir. Andrew Cohen to share the government business in East Africa, 18th October 1955. Is that the correct spelling of Macdona?
[56] BGA 30/04/1/0080-3570, Government Business-East Africa, letter to Mr. Galsworthy from E.V. Whitcombe Local Director Barclays DCO, 20th September 1956.
[57] Ibid.

the only accessible commercial banks remained in the major towns or came in the form of the POSB (see Figure 2).

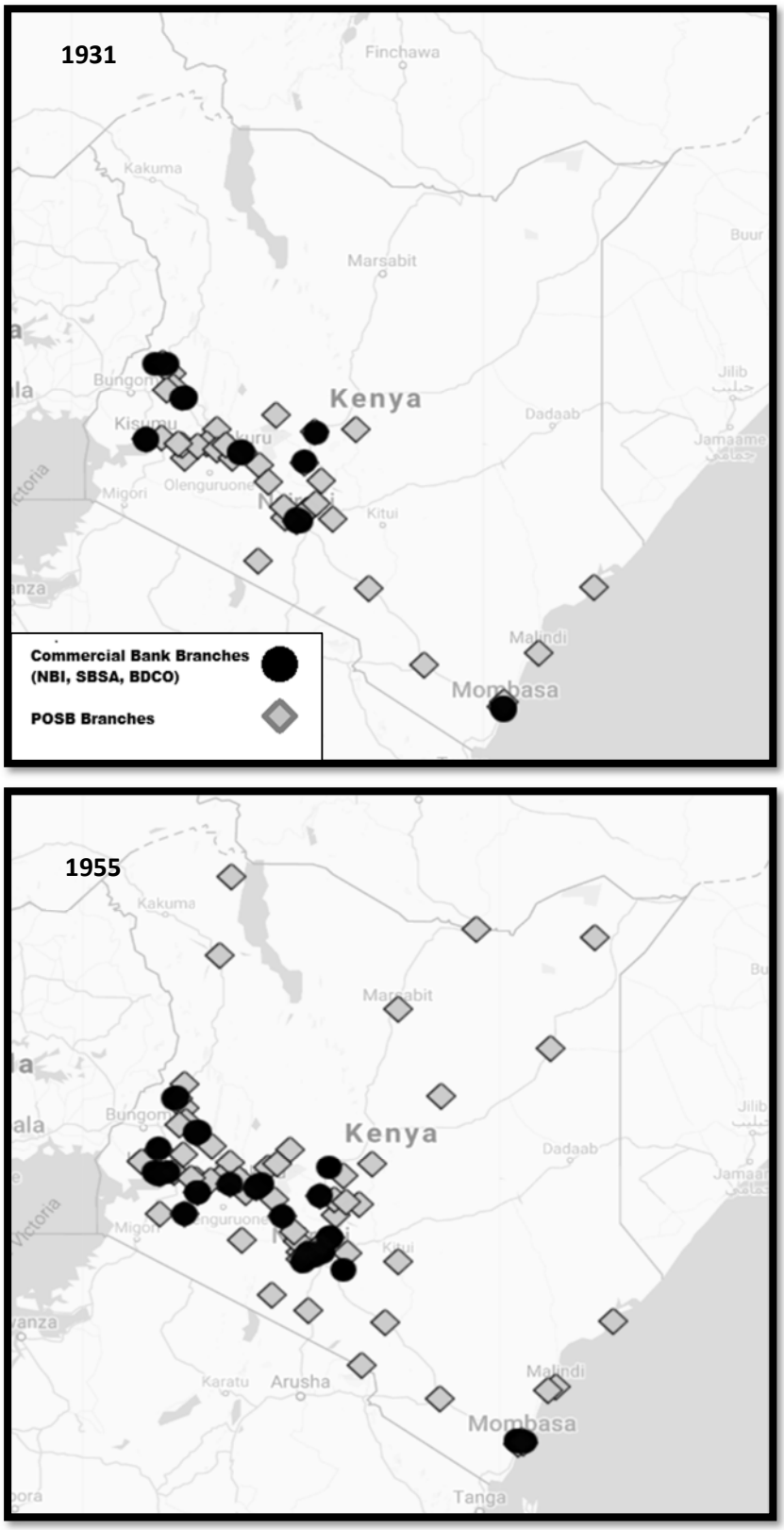

Figure 2: Expansion of Commercial Banks and POSB branches 1931 and 1955. Source: Protectorate, Colony and Protectorate of Kenya and Uganda, *Abridged Report on the Post and Telegraph Department* (Nairobi: Colony and Protectorate of Kenya and Uganda Protectorate, Various Issues). *Kenya Blue Book* ed. by Kenya Colony and Protectorate (Nairobi: Colonial Office, 1931 to 1946).

The arguments presented by Whitcombe around the negative consequences of the special relationship between the NBI and the government were common to other banks. As has been exemplified with the case of the educational boards, the NBI followed a policy of pressure against government functionaries of different levels to deposit their money in the NBI. However, this was not exclusive to government accounts, but to any private business that involved government funds. In a sequence of letters between banking and governmental authorities, Barclays officials protested again the negligence of government authorities with regard to NBI's illegitimate practices. The most mentioned was the pressure placed by bank staff on enterprise managers to align their business accounts 'with the government bank', a practice which would persist as long as they assumed that any enterprise involving government funds should be under their management.[58]

Whitcombe first attempted to remedy the situation in the favour of Barclays and break the NBI resistance by winning the support of local officials to his cause. One such individual was Sir Andrew Cohen who was the governor of Uganda. Whitcombe felt that with the backing of Sir Andrew, who had already provided support for improved repartition of colonial business and the crusade started by BDCO, he could encourage other governors from Tanganyika, and particularly Kenya, to share their business with the other financial institutions.[59] However, these attempts failed due to the absence of compromise among the governors to share their accounts. Even Cohen, considered by Whitcombe as fundamental in changing this policy, did not express sympathies publicly nor continue pushing in favour of Barclays. On the contrary, facing the resistance of the local bureaucracy, in particular his financial secretary, he abandoned any attempt to take the matter further.[60]

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[58] BGA 30/04/1/0080-3570, Memorandum: Government Banking Business-East Africa, 13th October 1954.

[59] BGA 30/04/1/0080-3570, Letter to Macdona from Whitcombe Local Director Barclays, abut the recent comments of Sir. Andrew Cohen to share the government business in East Africa, 18th October 1955.

[60] BGA 30/04/1/0080-3570, Letter to Cohen from Julian Crossley to Discuss the placing of the Government Banking Business in East Africa, 26th October 1955.

The financial secretary in Uganda was not the only one opposed to the attempt of BDCO; resistance also came from the 'the local officialdom as the status quo is bound to be less trouble for them'.[61] The financial minister in Nairobi, Mr Vassey, clearly expressed his negative thoughts in regard to the division of business. Whitcombe accused the minister of being '[A] little bit influenced by the additional work which may be caused at the Treasury by having Government accounts divided between the three banks'.[62] For the treasurers, it was easier to keep all accounts in one institution instead of dealing with different commercial banks. In addition, the financial minster also used the rumours of the possible creation of a central bank for East Africa in order to avoid any change in the short term. The potential for the creation of a central bank was seen by Barclays as not unlikely due to the support for this idea in the Colonial Office and, by the reluctance of the colonial authorities, this was probably the best possibility to end the advantageous position of the NBI. However, Barclays could not depend only on the formation of the East African Central Bank as this would be a long-term process and continued fighting against what was considered an unfair monopoly that 'should not be perpetrated'.[63]

Despite Whitcombe's efforts, BDCO, as in the case of SBSA before, faced a negative response from different levels of the colonial government to share those accounts already managed by the NBI. However, BDCO authorities did not abandon their aims and instead revitalised discussions about the need to preserve the privileges of pioneering banks: the right of the first bank in a new territory to retain local government accounts even when a branch of the government bank later opened. Despite the negative results obtained in trying to influence the colonial bureaucracy, BDCO decided to take this discussion directly to the

[61] BGA 30/04/1/0080-3570, Letter to Macdona from Whitcombe Local Director Barclays about the reaction of Sir. Cohen after his talk with the Financial Secretary. Nairobi, 8th November 1955.
[62] BGA 30/04/1/0080-3570, Government Business, Letter to Macdona from Whitcombe, Local Director Barclays DCO, 9th January 1957.
[63] BGA 30/04/1/0080-3570, Letter to Macdona from Whitcombe, Local Director of Barclays, informing about the latest developments in regard to the Government Business, 29th March 1956. However, the establishment of the Central Bank in East Africa had to wait until independence when each country established its own institutions, terminating British East Africa common financial interests in favour of national ones, see: World Bank, 'Kenya - The economy' (1967).

Colonial Office which, while not interested in backing a better division of business due to the possible creation of the East African Central Bank,[64] was disposed to support any policy in favour of spreading financial services throughout the country.

The possible gains for Barclays if it won this dispute were huge; it was the most active institution in terms of branch expansion in the post-war period, expanding its services throughout the colony and surpassing both the NBI and SBSA in terms of the number of offices opened along the territory, in addition advertising to attract a greater number of local savers.[65] For that reason, along with the campaign to divide banking business, from 1957 BDCO increased its pressure on the colonial government to place the rights of the pioneering bank over that of the government in new territories. Its demands appeared to be working well with the development of a new policy on the pioneering bank. As part of this, the colonial government committed itself to retaining and opening accounts with any bank in a region or centre that had no NBI branch. Crucially, K.W.S. Mackenzie, secretary of the treasury of the colonies, wrote to the NBI to inform it that the colonial government 'will continue to keep its account with that bank even if a branch of the National Bank of India is subsequently opened there'. However, as Mackenzie explained in the same letter to NBI officials: 'The Government would consult you before opening a new account at a centre where there was no branch of the National Bank of India'. The objective of this consultation was to know if the NBI had the intention to open a branch in the new centre in the near future, a factor that would be taken into account before placing the government accounts with another banking institution.[66]

Unsurprisingly, the London Board of the NBI did not consider it necessary to oppose any of the conditions imposed by the new agreement as long as the government keep its compromise to consult with J. Campbell, superintendent of the NBI in East Africa, regarding

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[64] BGA 30/04/1/0080-3570, Letter to Macdona from Whitcombe, Local Director Barclays, informing about the latest developments in regard of the Government Business, 29th March 1956.

[65] Engberg, 'Commercial Banking in East Africa', 188-89. The compromise and the process of this campaign can be traced in the different reports of the banks.

[66] KNA AD/35/2, Letter sent to the Superintendent of the National Bank of India in East Africa from K.W.S. Mackenzie, Secretary to the Treasury in Nairobi, regarding changes in the relation to the Governmental Bank, 10th April 1957.

its intentions to open a branch in a new location.[67] On the contrary, Whitcombe considered the new policy insufficient and even contrary to the petitions of the banks to end the NBI's privileged position. Even when the secretary of the treasury guaranteed to BDCO that consultation with the bank did not constitute veto power, and remarked that the final decision relating to choice of bank would respond entirely to government necessities,[68] the requirement for consultation with NBI officials to gauge government procedure afforded that bank the opportunity to learn in advance about the expansion plans of rival commercial banks, giving it time to make the necessary arrangements to maintain its monopoly.

Aware of this, Whitcombe stated his disagreement with the prerogative that the NBI be consulted, arguing with good reason that this nullified the new concession. The NBI had a strategy to follow other banks 'in order to protect its official accounts'.[69] He already had denounced to the Colonial Office the declaration of an NBI official who told him, without reserve, '[I]f you open we do, in order to protect our Government businesses'.[70] Whitcombe even gave an example of this policy:

> This has, in fact, happened at Fort Hall where we have been giving a full service for some months now, though the Government's accounts have remained with National Bank of India Ltd who, you will see from today's *East African Standard*, are only now providing a full service. Presumably they have taken this step to retain the official accounts. And it does seem a little hard on us who opened first.[71]

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[67] KNA AD/35/2, Letter from the Superintendent of the National Bank of India in East Africa to Secretary of the Treasury in Nairobi accepting the new agreement of the Governmental Accounts in the Colony, 1st May 1957.

[68] KNA AD/35/2, Letter sent to the Local Director of the Barclays DCO, Whitcombe, from the Secretary of the Treasury in Nairobi, K.W.S. Mackenzie, about the governmental business in Fort Hall, 9th August 1957.

[69] BGA 12B/07/3/0011-1075, Government Business, Letter from the Local Director to the Minster of Finance in London, 11th May 1957.

[70] BGA 30/04/1/0080-3570, Government Business-East Africa, letter to Mr. Galsworthy from E.V. Whiycombe, Local Director Barclays DCO, 20th September 1956.

[71] BGA 12B/07/3/0011-1075, Government Business, Letter from the Local Director to the Minster of Finance in London, 11th May 1957.

For Whitcombe, the government's reluctance to withdraw support from NBI was making impossible the administration's own goal of expanding banking services within the colony.

Allegations of unfair competition and how this was damaging to the expansion of other banks increased throughout the decade. The insecure placement of government funds and increasing rivalry with other banks led BDCO to expand its services, in ways that were not always led by clear commercial interest, into regions with no real necessity for new offices. Some new branches were opened just to guarantee access to government accounts, being the first bank established in a region with the certainty that the NBI had no immediate plans to follow them. In a 1958 a letter sent to the general managers, Whitcombe remarked that competition was forcing the bank to consider an expansion into unjustified locations. He then, contrary to his initial support of aggressive expansion, recommended a careful approach and to avoid opening branches in small towns and villages as they may not have the necessary resources to do business; this activity was already occurring in the new Ugandan branches of Masaka and Soroti.[72]

However, this behaviour could not be stopped and years later the adverse effects of the competition fought out by the banks to establish branches in pioneering s was observed. The perception of the banks' boards was that this activity resulted in East Africa being seriously "overbanked". Despite the efforts of the three main banks to cooperate in order to avoid this situation, the chairman of the SBSA declared that negotiations were just partially successful. The extension of a bank in a new area was immediately followed by the other institutions. The banks then had to spend years in an area without immediate potential 'sharing business barely sufficient to support one'. 'The Result', noted Sir. E.L. Hall-Patch of the SBSA, was 'an unduly expensive banking spread in relation to short-term derivable income'.[73] For that reason, instead of following the possible monopoly of private and

[72] Ibid., Letter to The General Managers: Branch Expansion, 24th January 1956.
[73] LMA CLC/B/207/ST03/03/02/002, Letter from Sir. E.L. Hall-Patch from the SBSA to Ridley to discuss the consequences of a possible merge of the bank, London, 16th May 1961.

government business within a region, the SBSA, as well as BDCO, needed to rationalise its expansion and discard the policy of being a pioneer bank in favour of a more careful study, area by area, in order to avoid the closure of branches - a situation that could harm the finances and reputation of banks in the colony.

The commercial banks then entered an impasse. As the government bank already managed the bulk of the business, others had no incentive but to be more adventurous, fearing that the NBI would follow them into a territory having been advised of such a move by the government. This situation worsened as a result of the entry into the colony of new non-banking financial intermediaries such as building societies and insurance companies. These, with better interest rates and more accessible requirements to open an account, attracted an increasing number of savings accounts from the population to the detriment of the banks.[74] The banks' fears soon proved justified when some branches of BDCO were forced to close or downgrade as they had too little business to carry on functioning. This was the case in important centres such as Kisii where the personnel were reduced to a minimum despite the growth prospects of the regional economy. At the same time, the branch in Molo in Nakuru County was downgraded to a semi-branch, while the bank board decided to close its agency in Nakuru as a result of continued losses and little opportunity to attract a greater number of non-governmental business.[75]

The increasing competition from other financial institutions was not the only obstacle faced by the commercial banks. The sudden interest of the banks in these areas and the consequent increase in the number of offices was the result of the speculation boosted by the increasing profitability of the cash crops and the land consolidation plan on the African land. Besides, the British government wanted to increase the African production by the introduction of a more technical farming and support to the more "progressive" African

[74] Engberg, 'Commercial Banking in East Africa', 198.
[75] BGA 12B/07/2/0011-1013, Unremunerative Branches, Letter from the R.G.V. Smith to the Barclays DCO Local Director in Nairobi, 5th June 1963.

farmers.[76] This encouraged the good perspectives over the future of these regions. However, the political and economic problems at the end of the colonial period debunked the initial overoptimistic perspectives of the banks about the profitability of the new branches or even the stability of the regions in the long-term.

Despite the constant efforts of Whitcombe and his predecessor, the debate around government business and the detailed rights of the pioneering banks over government accounts continued until the end of the colonial period, with little significant advance made by Barclays or any other financial institution to secure the government funds. At the bridge of independence the NBI, then under the name of National and Grindlays Bank, as bankers to the government still retained the major part of local securities, which amounted to £2.2 million.[77] As a result Barclays DCO concentrated its efforts on the local population, being the financial institution with the largest number of African savers in the colony. Of the 98,000 accounts managed by the bank in 1960, 70,000 were owned by Africans,[78] who started to refer to BDCO as *Banki Mkubwa* (the big bank).[79] NBI continued in its role as government bank until independence and the later creation of Kenyan government financial institutions, such as the Cooperative Bank, the National Bank of Kenya, and the CBK two years after independence. These marked the beginning of a new era in the relationship between commercial banks and government.

The second half of the 1950s also saw the arrival of new commercial banks into the colony with the Bank of India and Bank of Baroda in 1953, Habib Bank Overseas Limited in 1956, and finally the Ottoman Bank and Commercial Bank of Africa arriving in 1958. However, despite the initial enthusiasm and worries about how the arrival of the financial institutions could affect the business of the SBSA, NBI, and BDCO, the main business in the colony

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[76] John W., Harbeson, 'Land Reforms and Politics in Kenya, 1954-70', *The Journal of Modern African Studies,* 9 (1971), 231-51.
[77] BOE OV74/2, Kenya: Borrowing, Letter sent to Mr. Parson from the Overseas Office, marked as Confidential, 7th February 1961.
[78] Tignor, *Capitalism and Nationalism*, 317.
[79] BGA 21/07/5/0029-0335, 'Visit to Certain Tanganyka and Kenya Branches by E.M. Casson and Mr. G.W. Lambert, Barclays Bank Manager, 11th February to 1st March 1960'.

remained in the hands of the three banks. This was remarked on by Whitcombe who said that despite the fresh competition represented by the new arrivals for the rest of the commercial banks, the Ottoman Bank would find it hard to obtain deposits. Therefore, the only way forward for the bank was to find resources outside East Africa, otherwise the volume of its business would be limited.[80] Something similar occurred with the Commercial Bank of India which had no money to lend and remained small in terms of business offices and personnel numbers.[81] The forecast of Whitcombe around the difficulties of the recently arrived banks to generate a decent amount of business in Kenya was confirmed just one year later. During a visit to Mombasa he documented the small amount of business being done by the Ottoman Bank in that important economic region. This occurred, despite the existence of some significant building projects and the development of business with credit necessities such as the Mtwapa Bridge Company, the Old East African Trading Company, and the British Standard Portland Cement Company. Despite these opportunities for the Ottoman bank, which had an office in Mombasa, it was 'doing very little', commented Whitcombe.[82]

It should be remarked on that the discussion around the division of government business, and the rights of pioneering banks superseding the NBI's agreement, remained mostly between BDCO, SBSA, and NBI. The remainder of the commercial banks recently arrived in the colony did not manifest any support to the demands of BDCO, neither did they call for the support from any of those financial institutions to create a united front. There is not an explicit reason for this passivity, however, the lack of interest from the other banks was probably the result of their incapacity to increase their representation beyond the main urban centres, particularly Mombasa and Nairobi. The impossibility of opening a branch in the unbanked territories, along with their recent arrival, automatically excluded the newest banks from any possibility of gaining access to government business or accounts. The new

[80] BGA 21/07/5/0029-0335, Local Director's Visit to Mombasa Branches and Malindi Branch 19th to 24th June, 1957.
[81] Ibid.
[82] BGA 21/07/5/0029-0335, Local Director's Visit to Mombasa General Report, 18th to 19th February 1958.

commercial banks had to remain in the urban centres and attract particular groups, as undertaken by the Habib Bank. This bank, with its headquarters in Pakistan, had by 1957 a small office in Fort Jesus Road (Mombasa) with a 'dozen or so on the staff at the most' who were focused on attracting deposits from the Muslim population.[83]

4.3 The Boundaries of the Banking Competition

Despite intense competition between commercial banks in the colony during the 1950s for improved repartition of governmental accounts and business, in addition to the defence of the right of pioneering banks over the accounts in a new territory, the gentlemen's agreement between the commercial banks was not completely absent. On the contrary, as a reproduction of the policy of the "Big Five" banks in England, the competition between financial institutions did not transgress to the economic field. In other words, the collusion practices between commercial banks remained strong at that time to fix interest rates for loans and saving accounts for the public or government. With the entry of new competitors grew the necessity to reinforce the gentlemen's agreement in order to avoid tempting the new banks to take unnecessary risks to increase their charters, or indeed from the big three which could see their share of the business reduced by the new and more aggressive competitors putting at risk the stability of the colonial financial system.[84]

In that sense, the collusion practices and domination of the three banks over the rest of the banking and non-banking financial institutions were supported by colonial government and neither BDCO nor other commercial banks in the colony offered better terms in managing their accounts to the colonial government or any dependency. On the contrary, the cartelisation of the banks was strong in that moment in dealing with the colonial

[83] BGA 21/07/5/0029-0335, Local Director's Visit to Mombasa Branches and Malindi Branch, 19th to 24th June 1957.

[84] However, apprehension against instability by an increase of competition among the banking systems was not empirical as the relation between competition and financial stability is still in debate, particularly by the role of the borrowers in a monopolised financial markets, see: Franklin Allen and Douglas Gale, *Comparing Financial Systems* (Cambridge, MA, 2000), 267-69.

authorities. As has already been analysed, this lack of interest from the other financial institutions to contend between one another was manifested when, in 1946, the general managers of the railways and harbours, trying to find better terms for the banking services received no better proposal from the rival banks in the colony, and was even encouraged to accept the conditions offered by the NBI as the financial secretary in Nairobi recognised: 'The Banks were acting in unison because the offers of Barclays and the Standard were the same as the concessions demanded by the National Bank of India's proposal'.[85]

However, this was not an isolated case but common practice during the colonial period along East Africa as F.G. Troughton, financial secretary of the colonial government in Nairobi, recognised when the secretariat in Dar Es Salam asked him if the bank that held the government accounts in Kenya had been approached and informed about the reduction in the interest payable on current account balances; this was the result of the cancellation of this interest rate in Britain due to the low interest rates prevailing in the market. The secretariat asked also about the real soundness of the "Banking Front" in East Africa, as Barclays 'who carry our Railway account, have not approached'.[86] Troughton declared that when working together 'as a trio', the government of Uganda, Kenya, and the authorities in charge of the railways, they improved their negotiation capacity. This then allowed them to obtain the concession 'that the Government would be at liberty to rent money to and from London throughout the medium of the railway administration and vice versa without the remittance being made through the banking channels'. However, in relation to the change in interest rates, Troughton accepted the existence of a solid banking front - 'we had to capitulate', he said, and 'I fear that you will have to capitulate also' as soon as BDCO brings the question of the railway account.[87]

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[85] KNA AD/35/5, Letter to Leslie, Financial Secretary in Dar Es Salaam, from J.F.G. Troughton, Nairobi Financial Secretariat, to discuss the negotiations with the NBI, 6th May 1946.
[86] KNA AD/35/5, Enquiry about the approach of the bank of the Kenyan government around the reduction of the interest rates, Letter sent from the Secretariat of Dar Es Salaam to the Financial Secretary in Nairobi, 3rd April 1946.
[87] KNA AD/35/5, Letter to Leslie, Financial Secretary in Dar Es Salaam, from J.F.G. Troughton, Nairobi Financial Secretariat, to discuss the negotiations with the NBI, 6th May 1946.

The front of banking institutions in East Africa was also strong, keeping the external competition outside of these territories. The legislation of the colony in Kenya, *The Banking Ordinance of 1910*, established regulations for the commercial banks in East Africa. Among the most important were those articles that discriminated between the British Banks, constituted in Great Britain or Ireland, and the financial institutions registered somewhere else in the colonies. The ordinance did not explicitly forbid the entrance of other banks, but placed them under more severe supervision.[88] Thus the banks, such as the short-lived Exchange Bank of India & Africa that operated in Kenya between 1947 and 1949 when it was declared on default,[89] tried to present as British instead of foreign as 'under the Kenya Bank Ordinance is that the bank will then be subject to less rigorous conditions and supervision'.[90] However, the *Banking Ordinance of 1956* did not refer to any discriminatory practice between commercial banks, leaving them without this protection from external competition.[91] The new situation forced them to strengthen their front against possible external incursions.

One paradigmatic case occurred when the Hong Kong and Shanghai Bank (HKSB), as a part of an internationalisation process it had launched in the first years of the 1950s, apparently declared some interest in expanding its operations in East Africa through the acquisition of an already established banking institution. This possible expansion into East Africa even when described to Mr. V.A. Grantham, chairman of the Chartered Bank, as a rumour, was important to the SBSA officials. The SBSA chairman advised that a possible move to Africa from a major financial player such as the HKSB could not be regarded with equanimity 'as it would raise obvious difficulties for us both'.[92] This was not the first time

[88] Colony and Protectorate of Kenya, 'The Bank Ordinance 1910' (Nairobi, 1910).
[89] BOE OV74/1, Kenya, Letter to Mr. Powell to Discuss the establishment of the Nederlandsche Bank in the Colony, 24th October 1950.
[90] BOE OV74/1, Exchange Bank of India & Africa Ltd, letter from the Overseas and Foreign Office to discuss the establishment of this bank in Kenya, 18th May 1948.
[91] Colony and Protectorate of Kenya, 'The Bank Ordianance 1956' (Nairobi, 1956).
[92] LMA CLC/B/207/ST03/03/15/002, Note of Conversation with Mr. V.A. Grantham, Chairman of the Chartered Bank, on Thursday, 10th September 1959.

that a multinational bank planned to expand its operation in the territory. As mentioned, other financial institutions such as the Nederlandsche Bank, the Ottoman Bank, and the Habib Bank overseas were already operating in East Africa, however, the size of those institutions made them negligible competitors to the big three. The HKSB, on the other hand, was a formidable player that could break the dominion of the British banks in East Africa. For that reason, to be successful, its contention should be faced with the support of the London's "Big Five".[93]

The alleged rumours around the HKSB's entrance into East Africa were never confirmed by another source and, despite the existence of an expansion policy led by its Chief manager, Michael Turner, the HKSB, after a bitter experience in post-war China, was reluctant to experiment in potential convulsive territories as in East Africa with its erupting nationalist feeling.[94] However, those rumours were enough to motivate the banks in East Africa to call for a pact of resistance that needed to be extended to the commonwealth territories. Accordingly, Mr. V.A. Grantham declared to the chairman of the SBSA:

> We should resist the incursion into commonwealth territories of the HKSB because of the Hong Kong Registration. He felt strongly on this point as a Hongkong registered company the HSBK paid no United Kingdom taxation. This gave them a great competitively advantage and we should not just sit down and allow them to expand at the expenses of the British overseas banks operating from London. He has raised this point on several occasions with the governor of the Bank of England.[95]

Colonial Africa had been the last safe place to which the British commercial banks could escape the harsh competition arising from the American multinational banks. Geoffrey Jones

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[93] LMA CLC/B/207/ST03/03/15/002, Record of Conversation to discuss a closer association of the SBSA with the Lloyds Bank, marked as confidential, 5th August 1960.

[94] Even now The Hong Kong and Shanghai Banking Corporation only had representation in North Africa, the only recorded exploration of the commercial possibilities occurred in 1957 when a representative was sent to Southern Africa and reported negative perspectives. For a complete history of the HKSB, later HSBC, see: Frank H.H. King, *The History of the Hongkong and Shanghai Banking Corporation* (Cambridge, 1991), 488.

[95] LMA CLC/B/207/ST03/03/15/002, Note of Conversation with Mr. V.A. Grantham, Chairman of the Chartered Bank, on Thursday, 10th September 1959.

does not exaggerate when describing these territories as 'heaven for British Banks'.[96] While BDCO, the sixth largest bank in Britain, maintained a diversified interest and could face better competition from outside the commonwealth,[97] the smaller multinational banks with larger economic interests in East Africa did not want to surrender their comfortable position. This was mainly because for those banks any potential rivalry could jeopardise their survival as institutions.

At the same time, competition from outside the Commonwealth was contained by the established banks. Within the colony, the competition between branches tended to also be softened by the establishment of the agreements between banks. The arrangement, was similar to those subscribed by major banks in Australia, India, and West Africa, almost since 1929. The pact attempted to establish uniform interest rates, exchange rates, and commission charged on money transfers by the commercial banks.[98] The "Gentlemen's Agreement", as it was called, had to be expanded to include the other commercial banks doing business in Kenya. In a series of letters from 1960, which were marked as secret or confidential, the governor of Kenya was informed about intentions to launch a new gentlemen´s agreement between the banks. The objective was to avoid economic problems and finical instability to both the colony and the savers.[99] The treaties involved the three larger banks but tried to include the new institutions such as the Ottoman Bank, the Bank of Baroda, and the Habib Bank.

When the negotiation for the new agreements began, the banks remarked on the economic problems they were suffering because of the upcoming crop season that needed to be financed and the continuing outflow of resources from Kenya to Britain. For that reason, the commercial banks lobbied the Bank of England and the colonial authorities to increase the interest rates on advances and deposits in an attempt to alleviate their financial

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[96] Jones, *British Multinational Banking*, 306.
[97] Ackrill and Hannah, *Barclays*, 268-69.
[98] BOEA G1/202, The Summary of Banking Arrangements-East Africa the Blumenthal Report, 21st February 1963.
[99] TNA CO 822/2773, Bank rates, East Africa 1960-1962.

problems. The discussions, and the divergent points of view from the ministers of finance of Kenya, Uganda, and Tanganyika, indicated the different financial conditions and necessities in each territory and how those could be opposed. Mr. Melmoth, Uganda's secretary of finance, was opposed to increasing the interest rates due to the ongoing business recession in the territory.[100] A similar view was shared by the Tanganyika ministry of finance in the form of Sir Ernest Vasey, who deplored the decision of the banks to increase the rates, with the consequent rise in the cost of money, coinciding with the entrance of the new administration.[101]

However, the interests of the banks prevailed with the allegation that 'the crop season was coming and it had to be financed'. Besides, the British authorities that were presiding over the gathering remarked that colonial necessities could not interfere with the decision and needs of the banks.[102] It was also agreed that the announcement of the increase should be done, making it clear to the public that the decision to increase the interest rates from 10 October 1961 and squeeze credit was taken by a single front conformed by the main banks, together with the colonial and British authorities. The objective was to avoid the public interpretation that the banks had to increase interest rates to stop the outflow of capital, an idea that could jeopardise the financial and political stability of the colony by giving an impression of uncertainty. The explanation given to the public regarding the increase should be the strong links of the commercial banks with the Bank of England and the necessity to remain in accordance with its changes. The necessity to remark on the strong links between the East African financial system and the Bank of England, and the inevitable establishment of a single policy for the three countries that would conform after independence, certainly had the intention of upholding the future substitution of the East

[100] A similar view was shared by the Ministry of Finance.
[101] TNA CO 822/2773, Notes of Meeting: Bank Interest Rates in East Africa, Marked as Secret. Colonial Office, London, 26th September 1960.
[102] Ibid.

Africa Currency Board for an east African federation with a single central bank and the maintenance of a single currency after independence.[103]

Nevertheless, while the bigger banks tended to act as a single voice and were not reticent in subscribing to the agreements,[104] the smaller ones, not represented in the meeting and having a minor market share, were not so easily persuaded to act in conjunction with the big three despite the latter's declaration about the facility to bring them to the gentlemen's agreement. For that reason, when in June 1961 the banks, as a part of the pact, urged for an extension until almost December 1962 regarding the restrictions of credit that had been in operation since the beginning of the year throughout East Africa, unanimity could not be achieved and the treaty was immediately dropped.[105] The attachment to this pact from all of the banks, as informed by the Bank of England, was not complete. Some commercial banks were uneasy about the advantages of the 'forced agreement', while 'some other banks were at the best lukewarm', making the termination of the agreement unstoppable and necessary.[106] The impossibility of encouraging all of the banks to adhere to the agreement, together with the lack of supervision around their accomplishment, was a common complaint of the big three; the big three even suggested the option of penalising those institutions that were not accomplishing the deal, charging an extra fee for the operations between them and the dissident banks.[107] However, this proposal had to be withdrawn by its potential negative consequences, leaving any future agreement to rely on the goodwill and mutual convenience of the banks instead of coercion.

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[103] The creation of both the Central Bank for East Africa and a Federation was finally abandoned until 1965, see the discussion in chapter 6.

[104] LMA CLC/B/207/ST03/03/02/001, East Africa Interest Rates, Letter sent to Angus A. Lawrie from E.L. Hall-Patch, London, 15th September 1960.

[105] TNA CO 822/2773, Letter from G.T. Gillespie General Manager SBSA to D.J. Derx in the Colonial Office, London, 11th January 1962.

[106] TNA CO 822/2773, Letter from John Loynes, Bank of England to A.N. Galsworthy in the Colonial Office, London, 12th January 1962.

[107] However, this proposal had to be withdrawn by its possible negative consequence, LMA CLC/B/207/ST03/02/34/010, General Manager's Conference, SBSA, Johannesburg, 15th to 23rd September 1960.

4.4 Conclusions

As discussed during the chapter, the time between pacification and the independence process was a favourable period for the commercial banks as result of the economic expansion, government support, and perception of stability in the medium-term around the political life of the colony. However, the colony's economic importance and the colonial government accounts increased the incentives of the big three to put an end to the NBI's monopoly over those accounts. The last years of colonial rule in Kenya experienced an expansion in the number of financial services operating there.

The increasing amount of resources and growing importance of government business reinvigorated the ferocious competition between the commercial banks led by the BDCO and its attempts to break the NBI monopoly. Nevertheless, the competition that was circumscribed to the field of branches and clients did not destroy, in the first moments, the front created by the big three to impose their interest to the British and colonial authorities. It was successful in preventing the entry of bigger international players that could destroy their comfort zone. However, this should not be understood as the simple continuation of pre-war conditions because even when the NBI, BDCO, and SBSA tried to exercise full control over the financial systems in Kenya with the consent of the government, the smaller banks fought in their own way and resisted an oligopoly that ran against their intention to extend their business in the colony. For that reason, even when the new commercial banks were not capable of ending the monopolist conditions of the colony and could attract a limited number of clients, their arrival, along with the non-banking financial institutions, made the "Gentlemen's Agreement" less stable and useful, freeing the way to a more open financial market once full independence was achieved.

Continuous expansion in the colony would also determine the later response of the commercial banks once the political stability expected in Kenya had come to a sudden end by the imminence of independence. The increasing interest of the commercial banks in Kenya did not allow these institutions to leave the colony, making them resistant to future social

and political turmoil. However, the financial institutions were not unaware of the social and political changes taking place in the colony and began a process of localisation and Africanisation of its client base and staff in order to adapt to the new conditions in Kenya. The details of the Africanisation process are the topic of the next chapter.

5 From Britain to the Kenyan Banks: Africanisation and Localisation of the Kenyan Commercial Banking System.

Two of the most important newspapers in Kenya, *The East Africa Standard* and *The Daily Nation,* dedicated in 1965 some pages to the opening of a BDCO branch in the town of Garissa. The opening of an office in this township, located more than 300km from Nairobi, should be understood as an example of the commitment of commercial banks to lead the expansion process beyond the main cities and from what used to be the White Highlands, regions where the banks tended to concentrate their activities during the colonial period. At the same time, the photograph chosen by the newspapers, and their descriptions of it, illustrated the new policy of banks to potential clients (see figure 3). This was contrary to the narrative that ran in the media around the opening of the Ottoman Bank in 1958, these were focused in a modern but still European-dominated era for the colony (see chapter 3). The 1965 picture portrayed the use of the banks by African clients such as Mr. Nur Abdille who was a member of the provincial advisory council and a stock trader with 'whom the bank expects to do business', as remarked in the article.[1]

[1] 'New Bank Behind the Barbed Wire', *Daily Nation* (23rd March 1965).

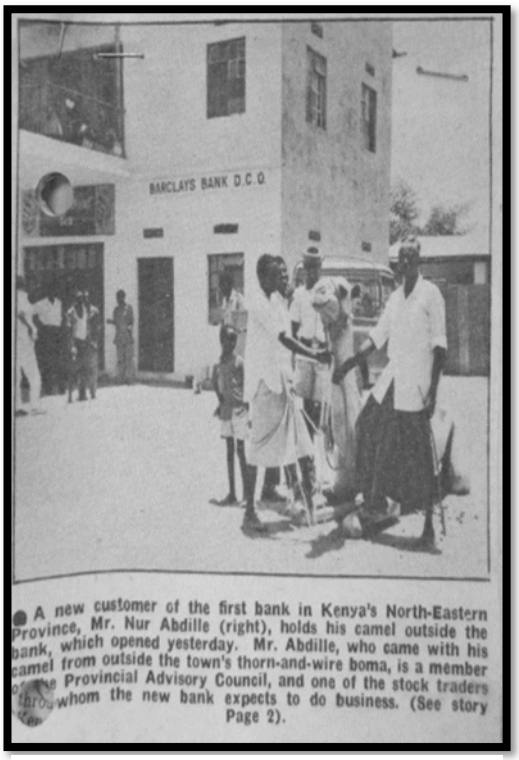

Figure 3: Picture taken at the inauguration of the Barclays DCO branch in Garissa, 1965.
Source: 'New Bank Behind the Barbed Wire', *Daily Nation*, (23rd March 1965)

However, the transition of the commercial banks from being institutions offering a service only to white settlers to gaining an African majority as clients was a process that cannot be explained solely as a result of independence. The Africanisation of the commercial banks was slow, and its origins can be traced up to the last decades of the colonial period. The institutional interest for the local population, on the other hand, was a result of the changing circumstances faced by these institutions after the Second World War. The main reasons for this transformation include the growing economic importance of Africans, the necessity to obtain more resources and face the competition of other banking and non-banking financial institutions, in conjunction with the impossibility of continuing with segregation practices. Some institutions, particularly the BDCO, also saw before others the

possibility of an independent Kenya thus, the necessity to be prepared to do business and win confidence of the new elite in charge.[2]

To a greater or lesser extent, all of the commercial banks began an Africanisation process between the post-war period and independence. However, the different experiences during colonisation, the possibilities for the banks as institutions and their perspectives around the future development of the colony shaped this process. Some commercial banks were more engaged in the process and so more successful, while others had to face additional problems in their adaptation. Further, the Africanisation that occurred on two different levels, the inclusion of African clients and staff, was not equal. The rest of the chapter is divided in two sections, the first analyses the inclusion of the banks in terms of clients, while the second studies the introduction of Africans as members of staff. The objective is to understand the different circumstances from which the institutions departed and the problems that were faced when launching their Africanisation programmes.

5.1 Modified saving practices: The Inclusion of the African in Formal Financial Institutions

The literature had assumed that savings practices and the use of the financial institutions was exclusive to the middle and upper class who had the possibility to dedicate part of their earnings to savings and investment. However, recent studies have begun to unveil the different savings and investment practices of the lower classes and their extended use of formal and informal institutions to do it.[3] This, along with the literature relating to economic development with access to financial services among the people with less economic resources, has inspired an increasing amount of research around the economic effects of financial services, particularly those accessible to the poor to improve their life conditions. Current scholars have also studied the programmes in which different countries have been

[2] Morris, 'Cultivating the African'.
[3] Stuart Rutherford and Arora Sukhwinder, *The Poor and Their Money: Microfinance From a Twenty-First Century Consumer's Perspective* (Rugby, 2009).

engaged related to the development of savings and credit institutions, services offered by non-banking sector.[4] In the case of Kenya, most of these investigations have been focused on the most recent advances in banking access and its effect in terms of palliating inequality and closing the gender gap.[5] As a result, the early attempts of the banks and the government to attract the local population into the formal financial system have been forgotten.

However, the imperial powers, as part of their "civilising mission" and the desire to "regenerate" the continent from being a land of slaves trading and moral degradation, to a territory of moral and Christian values,[6] considered it fundamental to introduce the recently colonised peoples to the market economy understood as a higher step in the civilising mission.[7] This renewal was related to the transformation of the local population's traditional economic practices to a more modern economic behaviour in terms of what was called rational and modern saving methods. Britain was particularly keen to introduce this, and it was in the British colonies where the implementation of a savings bank first occurred by the transfer of the POSB. The establishment of a savings bank among imperial territories was later followed by other European imperial powers such as France and Belgium, although to a lesser extent, and with varying degrees of success or compromise from these governments which were more interested in the creation of colonial banks; indeed, France faced more opposition from local communities.[8]

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[4] Some of the most studied cases are Europe, India, and Latin America while the case of East Africa is still neglected by the literature, see: Kristina Lilja and Dan Backlund, 'Savings Banks and Working-Class Saving during the Swedish Industrialisation', *Financial History Review*, 23 (2016), pp. 111-32; Eoin McLaughlin, ''Profligacy in the Encouragement of Thrift': Savings Banks in Ireland, 1817-1914', *Business History*, 56 (2014), pp. 569-91; Linda Perriton and Josephine Maltby, 'Savings Banks in England and Wales in the Nineteenth Century: A new insight Into Individual Saving and Spending', *Business Archives* (2012), pp. 47-64.

[5] John Akoten, Yasuyuki Sawada, and Keijiro Otsuka, 'The Determinants of Credit Access and Its Impacts on Micro and Small Enterprises: The Case of Garment Producers in Kenya', *Economic Development and Cultural Change*, 54 (2006), pp. 927-44.

[6] Cain and Hopkins, *British Imperialism*, 334; Stanard, *European Overseas Empire*, 33-35.

[7] "Civilized" and "uncivilized" were not antithesis or simple synonyms of bad and evil, but a stage in a continuing development. In that sense the bourgeoisie's values were taken as the rule. For the "civilising" concept, see: Norbert Elias, *The Civilizing Process: Sociogenetic and Psychogenetic Investigations* (Oxford, 2000), 49-52.

[8] International Thrift Institute, 'Colonial Savings Banks' (1938). For the case of France in Algeria and the problems of introducing banks to the Muslim population, see: Hubert, 'Les banques et l'Algérie Coloniale'.

The POSB had its origins not in the colonies but in England where the institutions had been established in 1861: to protect the labouring class from robbery, and facilitate economic development through the circulation of inactive money. The main objective of the POSB was to "induce a savings spirit" among the population. It was envisaged that, for workers, their savings would be particularity useful at the time of retirement.[9] The POSB was planned as a long-term savings institution that offered a trustworthy service to the extended British savings bank market. The creation of this organisation was necessary because the already established savings banks, most of them ruled by charities, had been the object of different frauds that compelled the government to increase regulation.

The POSB that was transferred to Africa, and almost all of the colonial territories, protectorates, and dependencies of the British Empire, was not a simple replica of the system operating in the metropolis. On the contrary, the establishment of the POSB into British East Africa, made under the guidance of the *Post Office Savings Bank Ordinance of 1909*, had to pursue different objectives as the possibilities for British authorities in introducing the POSB in Kenya differed from those in the metropolis.[10] The institution then had to be adapted to the inner conditions of the colony instead of applying the same process to the colonies. The dissimilar conditions in which the savings institutions had to work were the low number of Europeans, the recent attempt to spread the market economy among Africans, the lack of an extended working class in Kenya, and the use of other investment and savings practices. For that reason, the first aim of the savings bank established in the colony was not to prevent the working class from being robbed, but to attract the small savings of adults from all different ethnic backgrounds. In particular, a population sector that earned enough

[9] Sharman Henry Riseborough, *A handy book on Post Office savings banks: giving clear and complete instructions for opening, transferring, and closing accounts in them ... including copies of the Act by which they are created, and of the official regulations under which they are conducted*, (London, 1861), 13.

[10] TNA NSC 9/1127, The East Africa Post Office Savings Bank Ordinance, 1909.

resources to save but which otherwise would be ignored by the commercial banks established in the colony.[11]

Despite encouraging a more active role from the private financial institutions in the colony, the NBI, the only commercial bank established in Kenya until 1911, limited its function to short-term loans for European settlers and the provision of banking services to colonial authorities. At the time, that disregarded any relationship with the rest of the African population as its business as banker to the government, cutting any incentives to embrace a larger share of the population.[12] The arrival of the other commercial banks brought no change to this situation immediately, and even the POSB was not particularly committed to extending its services beyond a certain number of users concentrated in the main cities. However, the perception around the importance of encouraging better savings practices to overcome poverty began to gain popularity during the twentieth century.

This stimulated the creation of the International Thrift Institute; an institution formed to share strategies and promote frugality worldwide. This institution had its first meeting in 1924 and, during the congress, the representatives of different nations remarked on the necessity to encourage the development of these facilities through institutions created and managed by governments. The commercial banks, they said, should be encouraged to increase their attempts to embrace a wider share of the population in their territories of operation. 'It is obvious', remarked one report of the congress, 'that only in this way was it possible to overcome the obstruction of progress caused by the primitive and rudimentary form of preservation'.[13] For members of the thrift institute, such "primitive" preservations of economic resource were, as well as anything that does not involve banking or investment in the formal services, the result of a lack of understanding of bank functions

[11] TNA CO 323/1002/8, Minutes Regarding Policy of Depositing Large Sums of Public Money in The Post Office Savings Bank.
[12] Central Bank of Kenya, *The First Years*.
[13] Organising Committee, 'First International Thrift Congress' (Milan, 1924).

and their advantages. As the Manual of the POSB edited in 1956 explicitly explained to clients:

> In those countries where the standard of civilisation is relatively high, this fact is well known and appreciated by the population generally. For instance, in the United Kingdom one person in every two has a Post Office Saving Bank accounts.
>
> In East Africa the people really only just beginning to understand the value of saving, and in it is quite true to say that a large proportion of those who do so still bury or hide their money, were It can do no good and from whence it can be stolen or otherwise lost.[14]

This manual also remarked on how the necessity of saving was even more important in 'young and underdeveloped countries like Kenya, Uganda and Tanganyika'.[15] The alleged rudimentary mentality and lack of understanding around economics, which involved the use of formal financial institutions by the poorest sectors, was an opinion shared also by the commercial banks in Kenya. Paradoxically, this idea prevented the commercial banks from launching a more aggressive campaign to attract a major number of locals into the institutions. The managers of the banks, at central and local levels, were sceptical about the understanding of Africans regarding the banking practices, the profitability in managing small accounts, and even in their capacity to generate any savings.

At the same time, the local population mistrusted a system that was imposed by the colonisers. How could they be sure that this was not another way to part them from their wealth? These suspicions were combined with the resistance of the African population to cooperate in any way in their own imperial domination. The colonial authorities recognised this in 1940 when, as part of a campaign to persuade the local population to use the savings bank facilities with the intention to transfer the resources to finance the war efforts, the local authorities requested of POSB officials in charge of collecting the savings, that no reference

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[14] The Post Office Savings Bank, 'The Post Office Saving Bank', ed. by The Post Office Savings Bank: Kenya Uganda and Tianganyika (Nairobi, 1956).
[15] Ibid.

should be made to the fact that such savings would be lent to Great Britain for war purposes 'as such information would in my opinion cause many who would otherwise invest, to hold their savings'.[16] The banks had as a first task to familiarise the population with their service and then win the confidence of potential savers.

Nevertheless, as has historically occurred with colonisers, neither the British authorities nor the commercial banks understood the particularities of the economic practices of the local population and how they responded. It was not a lack of understanding on the part of the colonised peoples; on the contrary, the decision of Africans to stick to their traditional practices was rational and had inner logic that made them more beneficial within the economic relations that constituted their microcosms. These advantages were not present in the financial institutions imported by Europeans. In that sense, the economic relationships of production had to be transformed. The African population needed to first be completely alienated from its means of production before the financial institutions introduced by the colonisers, which belonged in Marxist terms to a more developed phase of the capitalist system, began to seem attractive for that community.[17] This assault against the remnants of these pre-capitalist economic relationships centred on communal redistribution and labour, and needed to be depended upon to allow a more extensive *proletarisation* of the Kenyan population that, despite the land crisis, remained strongly involved with communal production.[18]

Before the 1950s, the success of efforts to attract Africans to the financial institutions established by the Empire were limited by the consequent slow diffusion of the new saving practices. As has been mentioned, the most common way to keep money was through burial,

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[16] KNA PC/NZA/3/10/145, War Savings Campaign Committee, Letter sent to the District Commissioner Central Kavirondo to the Provincial Commissioner in Nyanza, 6th January 1941.

[17] In other words, there should be an absolute divorced between property and labour, see: David McLellan, *Karl Marx: Selected Writings* (2nd edn, Oxford, 2000), 400-03.

[18] For an analysis of class formation in Kenya and how different production system coexisted in the colony, see: Peter Rigby, *Cattle, Capitalism and Class: Ilparakuyo Maasai Transformations* (Philadephia, 1992). Particularly Chapter 3. The different attempts to force Africans to work in favour of the private and public interest and their resistance to these attempts have been analysed in: Opolot Okia, *Communal Labor In Colonial Kenya: The Legitimization Of Coercion, 1912-1930* (New York, 2012).

while the popular investment was the accumulation of stock.[19] For that reason, when the colonial government tried to reduce stock levels for the auction system in the reserves in order to promote the use of the savings bank as an alternative to the immediate purchase of new stock, it garnered limited success. The financial institutions were unable to cover an adequate share of the auctions, markets, and other sales points.[20] At the same time, high levels of illiteracy among the African population made it difficult for locals to deal with the necessary paperwork to open an account. Nevertheless, the main concern lay in the poor experience of trying to withdraw their money from the banks due to the inefficiency and complications throughout the process. These difficulties increased exponentially when beneficiaries sought to claim the savings in the account of a deceased relative.

No such inconvenience had to be suffered in the use of traditional savings methods that were better adapted to the local social conditions. This was remarked upon several times by local authorities which testified to the problems experienced by the savings institutions, and it was in that vein that the district commissioner of Kericho remarked that:

> The general criticism about the Post Office Savings Bank is that it is too difficult for an illiterate native to get his money out again. The Post Office, in its anxiety to see that the right person is getting the money out again, makes all sorts of difficulties, so that it compares badly with the alternative systems of banking with Indian dukas. In any case there are far more dukas in this class of business in the Reserves than Post Offices. In the case of the death of a depositor, the Post Office raises almost insuperable difficulties in the way of the legal heirs.[21]

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[19] Anderson and Broch-Due, *The Poor Are Not Us*. For an analysis of some of the economic problems of the pastoralist communities with two cases of study, see chapter 8: Fred Zaal and Ton Dietz, 'Of Markets, Meat, Maize and Milk: pastoral commoditization in Kenya'.

[20] This was remarked upon by the District Commissioner in North Kavirondo: KNA PC/NZA/3/10/145, Memorandum: Native Bank Facilities in Relation to the Overstocking Problem, Letter from the District Commissioner North Kavirondo, 1942.

[21] KNA PC/NZA/3/10/145, RE: War Saving Camping Committee. Letter from the District Commissioner Kericho to the Provincial Comissioner, Kisumu, 10th January 1941.

The insuperable difficulties denounced by the provincial commissioner around the operation of the POSB, despite its position as the institution with most flexible policies when opening an account and withdrawing savings, were minor in comparison to the requirement of commercial banks that required a greater process to open an account and make a withdrawal.

However, these were not the only disadvantages that diminished incentives for the population to extensively use colonial financial institutions. The use of the banks carried other problems for the members of a small and closely related community in that to do so would be equal to make a declaration of having extra money, making it more difficult for account holders to later refuse 'largess and loans to indigent relatives and others'.[22] This is a problematic issue even today, representing a break in the introduction of certain services such as debit cards and ATMS that facilitate the transfer of money.[23] For that reason the people, even when they had enough money to do so, chose not to travel to the POSB branch, wait in line, and make the deposit as the whole community would be aware of their financial activities.

In combination with these difficulties the non-monetary advantages represented by investments in cattle was an issue for commercial and savings banks. The ownership of cattle was related to prestige because it could open the door to social escalation and greater wealth. This was also useful when getting married and having a family as the possibility of finding a bride was directly related to livestock holding.[24] Meanwhile, those who lacked cattle or had just a small number tended to be associated with poverty.[25] In proportion, the advantages of visible and socially recognised prosperity could be offered by a chequebook or

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[22] KNA PC/NZA/3/10/145, Arising of the Minutes Post Office Saving Bank, Meeting Held on 21st and 22nd November 1939, 2nd December 1939. can you check? Arising from or Arising out of maybe?
[23] This has been analysed by, Simone Schaner, 'The Cost of Convenience? Transaction Costs, Bargaining Power, and Savings Account use in Kenya', *Journal of Human Resources*, 52 (2017), pp. 919-45.
[24] The relationship between marital success and livestock holding has been partially studied by Lee Cronk, 'Wealth, Status, and Reproductive Success among the Mukogodo of Kenya', *American Anthropologist*, 93 (1991), pp. 345-60.
[25] Anderson and Broch-Due, *The Poor Are Not Us*.

a bank account. For that reason, the postmaster, who was the official in charge of the POSB, recognised:

> The Saving Bank does not appear to be popular mean of saving amongst the type African one finds in the reserves. It is more popular among the educated classes who are in employment in the townships. The African in the reserve prefers hiding his money or investing it in goats and cattle which produce a more visible means of interest.[26]

In short, the urban population, with fewer boundaries to the rural community and access to continuous earnings, were the only ones with real a possibility and necessity to use formal financial institutions.

However, even those with a strong relationship to colonial institutions, such as the African militia that served during the Second World War and were obliged to use the POSB, were not easily persuaded about the alleged benefits of the savings banks.[27] Despite efforts to encourage thrift among soldiers, the introduction of these institutions was complicated by a lack of confidence in the services. Members of the African forces only used the bank to send remittances to their families and it was not until their district commissioners, in whose opinion of the colonial authorities the soldiers trusted, opened their own accounts that they started using the bank.[28] Even then, the opening of an account could not be understood as a continuous use of the savings bank. As reported by the *East African Standard* in 1947 and later broadcasted on a Nairobi radio station: 'The ex-askari are cashing their Post Office Savings accounts as fast as they can get to a Post Office'.[29] A soon as the soldiers were

[26] KNA PC/NZA/3/10/145, Post Office Savings Banks: Kisumu Refers, Letter Addressed to the Postmaster from the Provincial Commissioner Nyanza Province, 7th November 1941.
[27] Postbank, *The Post Bank Story*.
[28] KNA PC/NZA/2/19/75, Record of a Meeting at the Secretariat to Discuss Proposals for the Encouragement of the Saving African Soldiers, Nairobi, 8th June 1944.
[29] *Askari* was the name given to African soldiers in the service of the Imperial powers. KNA PC/NZA/3/10/145, Post Office Savings Bank: Letter sent by the Provincial Commissioner's Office in Nyanza to the District Commissioner in South Kavirondo, Kisii, 21st December 1945.

demobilised, their interest in using the bank decreased and even if they did not close their accounts, they tended to lie dormant.

The incapacity of the savings bank to increase its popularity in rural areas can be appreciated by the concentration of their users in the cities, particularly in Nairobi. There are no surviving records around the geographical origin of the bank's users, but this data can be partially reconstructed using the reports of lost passbooks and the denunciation of frauds. The surviving records provide information related to four different years and show a continuing concentration of accounts in Nairobi (see table 3). The concentration remained around 50 per cent and did not change considerably during the first years of the sample. However, by 1957 the concentration of accounts in Nairobi had decreased in favour of the regions, classified as "Other territories". The branch located in Nyeri, an important urban centre, also increased its importance through its number of savers. Ultimately what this data shows is that despite an increase in the number of POSB offices along the interior of the country and its propagandistic campaigns, it had limited success in the attempt to spread the use of its services and encourage "thrifty" behaviour beyond the main urban centres.

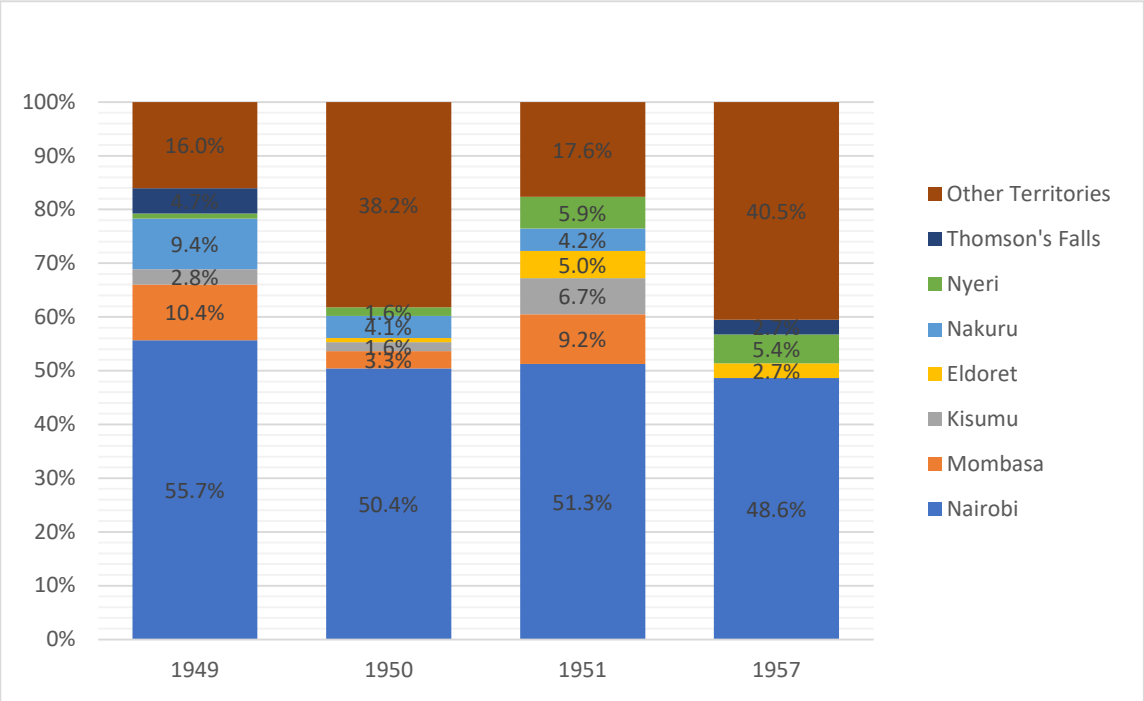

Table 3: POSB Accounts Distribution.
Sources. For the 1949-1951 data: KNA PC/GRSSA/3/28/1;
For the 1957 data: AD/40/13, Kenya Saving Bank Losses, 1957.

Moreover, the main impediment of the POSB or any other financial institution in attracting Africans, particularly in rural areas, was the economic weakness of this population. The low income earned by this sector of the population did not leave much space for saving, as noted in the *Report of the Committee on African Wage*. Workers who spent around 60 per cent of their wages on food did not save and certainly had no incentive to save their limited earnings for a small annual interest that could be consumed in the expenses incurred when travelling to the bank. Most of the African population tended to borrow on a monthly basis, increasing the amounts borrowed during emergencies instead of using any kind of savings. This situation was even worse in the interior of the colony where the wages were smaller in comparison with the urban centres.[30] For that reason, and despite the increase in the number of African savers with the POSB, the average value of savings decreased. On average, the

[30] Colony and Protectorate of Kenya, 'Report of the Committee on African Wage' (1954).

savings of African customers had, in 1956, an annual value of £16, three times less than the value of Indian savers and just a sixth of the European average saving value.[31]

At the same time, the authorities were consciousness of the local population's economic weakness, particularly in rural areas, prompting the POSB to be careful in its attempts to attract the greatest possible number of locals to become savers. The colonial authorities expressed a concern that access to financial services could have an adverse effect and be harmful for the local economies in the reserves. For that reason, despite attempts to expand the use of formal financial institutions, the colonial authorities advised POSB officials about the necessity not to 'dry up all the money circulating in the reserves',[32] a circumstance that could be negative to government finances in that it would be more difficult to collect taxes.

5.2 Africanisation of banking clients

As analysed, the financial institutions faced important challenges to include the African population as part of their customer base. These difficulties could not be exclusively delimited to a lack of understanding in the use of banking services on the part of locals. The lack of trust, the endemic economic weakness of the population, and existence of more competitive alternatives to save and invest within the community were among the most important reasons that made the introduction of the banks difficult. However, since the 1950s, as a result of the increasing participation of Africans in the economic life of the colony a consequence of the commercial expansion derived from the Swynnerton Plan (1953) allowed Africans to growth cash crops.[33] The banks doubled their efforts to include this sector among their clients, especially as savers.[34]

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[31] KNA AD/40/15, Kenya Saving Bank: The Trend of Deposits and Withdrawn, 1957.

[32] KNA PC/NZA/3/10/145, Native Attitude Toward Saving Banks Analysis by the Provincial Commissioner of Nyanza, 16th January 1941.

[33] David Anderson, 'Exit from Empire', in *At the End of Military Intervention: Historical, Theoretical, and Applied Approaches to Transition, Handover and Withdrawal*, ed. by Robert Johnson and Timothy Clack (Oxford, 2015), pp 107-36, 118.

[34] Van and King, *An Economic History*.

In the post-war period, as the economic weight of African customers grew and stimulated the colony's financial institutions, the British multinational banks were facing commercial and political difficulties in their traditional areas of operation. These challenges caused them to withdraw from Latin America and the Middle East in favour of Africa and their attention began to focus on countries such as Kenya, in which they already had a traditional strong relationship with important economic groups in the form of white settlers and Asians.[35] A further incentive was the now growing middle class of Africans with the necessary resources to become important clients. However, to increase their share of African savers, the banks needed to leave aside the past and transform their institutional policies in order to become favourable to the Africans they were trying to attract, and not just focused on white settlers or the colonial authorities.

Nevertheless, not all of the banks in the colony had the same incentives and possibilities, the condition of each institution played an important role in how it proceeded in its localisation process. The NBI, as the governmental bank, had fewer incentives to include Africans in its business and it made in general very few changes to the policies in place since its arrival at the end of the nineteenth century. When a change occurred, this was in relation to its internal procedures. The most important was the acquisition of Grindlays Bank Limited. Both banks amalgamated their operations in 1958 and adopted a new name - the National Overseas and Grindlays Bank Limited.[36] This merger, even as it amplified the representation of the bank in India and Africa (where it began to control branches in Northern and Southern Rhodesia), had no major implication on its practices in Kenya almost until independence.[37]

The lack of a serious policy to expand the NBI's services to the Africans was observed by competitors, such as the Barclays´ Local Director of Kenya Branches. In 1959, on a visit to

[35] Jones, *British Multinational Banking*, 365.
[36] National Overseas and Grindlays Bank Limited, 'Report of the Directors and blance sheet for the year ended 31st December 1957'.
[37] NBI, 'Report of the Directors and balance sheet for the year ended 31st December 1956'; National Overseas and Grindlays Bank Limited, 'Report of the Directors and blance sheet for the year ended 31st December 1957'.

Fort Hall, the Barclay's official concluded that although the NBI was the only other bank with branches in that territory and that it was the increasing amount of Africans who decided 'where the business goes', it did not represent an important competitor in the area; the reason being that it relied 'largely on their Government connections'.[38] This lack of interest for the potential resources that could be saved by Africans in the Fort Hall branch was echoed in Nyeri, where the BDCO's local director reported that the NBI was doing very little business and the Africans were 'beginning to regard Barclays as their Bank if they do not already so regard it'.[39]

The SBSA, the other member of the big three in Kenya, followed equally conservative policies during the first few years of the decade. It, like the NBI, also had few incentives to be more inclusive of the local population and, similar to the NBI, it was the government bank in the colony of Tanganyika and already had an important number of private business banked with it in Kenya. However, by the end of the 1950s, the increasing economic importance of the Africans could no longer be ignored and the bank began to abandon its conservative practices, favouring inclusivity and becoming more active in its attempts to attract African customers. The passivity of the NBI and slow reactions of the SBSA to increase their African client base contrasted with the active role played by BDCO in trying to persuade the greatest possible portion of the population to use their services. It was the only commercial bank that made a serious effort to attract the largest number of local savers and sought to be recognised not as another multinational or British institution but rather as a "local" bank in services to the African population.

BDCO's incentive in becoming more aggressive than its competitors relied on internal and external factors. As a multinational, it was committed to an expansion policy, particularly throughout Africa where its assets were growing steadily since the end of the war.[40] In the

[38] BGA 21/07/5/0029-0335, Local Director's Visit to Mount Kenya Branches, 8th to 12th September 1959.
[39] Ibid.
[40] Crossley and Blandford, *The DCO Story*.

colony, it did not have any of the most profitable businesses. Indeed, as discussed in the previous chapter, despite the efforts of its officials, the bank failed in its attempt to break the monopoly maintained by the NBI around the government business of the colony. This situation obliged BDCO to maintain its development in the colony and expand its client base beyond the European population that, while it remained the most powerful cohort in economic terms, represented just one per cent of the total colonial population.[41]

To expand their African client base, the commercial banks had to transform the relationship between locals and the banks at the same time as altering the traditional practices and perspectives that characterised the performance of the financial institutions in the colony. The banks, in common with the colonial authorities, had held racial prejudices and used inequitable practices to exclude Africans from their services. Indeed, local chiefs and governmental staff were the first to emphasise the banks' discriminatory practices against the African population, which were based on cultural assumptions and inadequate rules aimed at lending money in accordance with specific conditions.[42] Such racist attitudes remained constant throughout the decade. Unsurprisingly, this behaviour tended to be backed by the authorities responsible for involving Africans in the colony's economic activities and building bridges between this community and the commercial banks, a situation that complicated the bank's approach to the African cohort. A paradigmatic case occurred with the co-operative society officer in Kisii who described to Whitcombe, the local director of the BDCO, his effort to involve locals in the development of the co-operative as 'up-hill' caused by the difficulties in attracting Africans who were described by officers as 'indolent by nature'.[43] Whitcombe did not find the statement to be mistaken or scandalous as later directors would do in response to this kind of declaration.

[41] Calculated from "Civil Population Estimates" in: Colony and Protectorate of Kenya, 'Statistical Abstract'.
[42] Colony and Protectorate of Kenya, 'Report of Committee on Agricultural Credit for Africans'.
[43] BGA 12B/07/2/0011-1013, Memorandum on Local Director's Visit to Kisii, South Nyanza - Thursday, 28th October 1954.

Even five years after this declaration, the prejudices of government officials and the banks had not yet been expelled, and the refusal of credit based on racial rather than commercial considerations was still common practice. The African managers of the South Tetu Coffee Co-operative based in Nyeri verified these attitudes. The coffee co-operative was handling, in 1958, '58 tons of clean coffee' - an amount that would double in 1959. This growth, in the opinion of Whitcombe, would allow them to acquire a new pulping factory to maintain the expansion rate. Despite these positive perspectives and the clear profitability of the business, the SBSA refused to extend credit and the chairman of the co-operative explained to Whitcombe that it was because the branch manager in Nyeri 'did not think it safe to lend money to Africans!'.[44]

The case of the SBSA manager in Nyeri was not an isolated one, as the SBSA did not trust Africans as business leaders. This lack of confidence was clearly stressed at the managers conference of 1958 when officials remarked on the possible dangers involved for the institutions in lending money to African business. The reason given was that the African borrower, without European supervision, shows a lack of the 'full sense of monetary and commercial responsibility'. Besides, remarks the same report, even when some progress was made to increase the African client base, the behaviour of these customers tended to be unsatisfactory from the perspective of officials. 'The African', observed the report, 'as a current account customer in possession of a cheque book is still, with comparatively few exceptions, prone to the abuse of the privilege'.[45]

Even when the officials remarked upon the necessity of continuing the effort to attract a greater number of local savers, the cultural impediments to the full assimilation of Africans as bank users were for the SBSA not so easily overcome as those related to literacy or identification. Just two years before independence, and pressed for the Africanisation of its client base by the imminence of this political change, the bank officials had little hope in

[44] BGA 21/07/5/0029-0335, Local Director's Visit to Mount Kenya Branches, 8th to 12th September 1959.
[45] LMA CLC/B/207/ST03/02/34/010, General Manager's Conference, June 1958.

the locals as customers or about the potential benefits to the institution. 'Efforts to get the Africans as bank customers', declared the official of the SBSA, Mr. C.R. Hill, to the central board, 'even if successful beyond all present hope, will not for many years compensate our lower earning'. Investment in attracting Africans and popularising the institution among that cohort could be useless, as in the opinion of C.R. Hill, the 'African has little sense of gratitude, and no respect for other than tribal tradition'.[46]

Such distrust was not unidirectional as the African population had reserves about the SBSA due to its discriminative practices. Rising nationalist feeling in Kenya, along with an aversion to everything related to British domination, forced any business that wished to increase its popularity and generate business with Africans meant making a clear separation between it and the British Empire together with discriminatory practices. While rival commercial banks had fewer problems in breaking these, the SBSA could not so easily distinct itself from hideous colonial domination due to the fact that "South Africa" formed part of its name, immediately associating it with that region and its apartheid policies.

What could be seen as a small detail was not minor to the SBSA's authorities, which came under pressure to withdraw "South Africa" from the name of the bank. These demands increased substantially at the end of the 1950s when many branch managers throughout Kenya reported that the name had become an important impediment to attract African business, particularly those from co-operatives managed by Africans. C.R. Hill, an SBSA official, remarked on this situation during his report to the bank's board, relating how in interviews with local branch managers, many denounced 'how galling it was, despite explanations, to have potential African customers turn away shaking their heads at the words "South Africa"'. He further remarked that in Mwanza, a region of Tanzania, the bank had already lost the business of four co-operative societies for having "South Africa" in its name.[47]

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[46] Ibid., CLC/B/207/ST03/02/32/026/005, Report By Mr. C.R. Hill on a Visit to East Africa 1st to 22nd February 1962.

[47] LMA CLC/B/207/ST03/02/32/026/001, Report by Mr. C.R. Hill on His Visit to East Africa, 1st to 23rd June 1960.

The Sharpeville Massacre in South Africa, which resulted in the deaths of 69 people and left 180 injured, occurred in March 1960 and fuelled the pressure on the SBSA to modify its name.[48] However, this time the condemnation came not just from clients but also important politicians such as Tom Mboya who at that time functioned as the secretary of the Kenya Federation of Labour. He called for a boycott of South African interests in Kenya, 'naming this Bank ... in his speech', reported one SBSA official during his visit to East Africa.[49] In that sense, the SBSA, along with other commercial banks in the colony, had to deal not only with nationalistic aims, but the increasing pan-Africanism of the Kenyan population. This solidarity saw a demand from African customers that the financial institutions be on their side if the banks wanted the Africans to trust them with their money. The population was no longer disposed to tolerate the use of their resources to underpin racist regimes.

The board of the SBSA soon understood that if the bank wanted to survive after independence it had to surrender part of its identity and listen to the demands of potential clients. However, the decision to drop 'South Africa' from its name required further consideration. As the SBSA's board in London explained to its representatives in Kenya, although it shared their concerns around the increasing handicap of the name had on its business in East Africa, at the same time, it was under pressure from the South African Authorities to retain the name unchanged. Such a change would certainly be understood by the authorities of the Union, still its most important clients, as a commendation of its policies and would garner support from rival African politicians and governments. Edmund Hall-Patch, an SBSA official, remarked to the representatives of the banks in Nairobi about discarding "South Africa" from its name, 'we are told that if we drop it, we may incur in substantial loss of business'. For that reason, the most plausible immediate solution offered

[48] Saul Dubow, *Apartheid*, *1948-1994* (Oxford, 2014), 77.
[49] LMA CLC/B/207/ST03/02/32/026/001, Report by Mr. C.R. Hill on His Visit to East Africa, 1st to 23rd June 1960.

by SBSA officials was to hide this name from the East African branches without altering the legal status of the bank.[50]

The BDCO adopted a remarkably different view; its aggressive expansive policy along the territories in which it was represented, in combination with its difficulties in breaking the monopoly of the NBI, obliged it to be more inclusive than its rivals in the colony. Where the SBSA looked back on its previous experience, Barclays looked forward to new economic opportunities. For its managers, the future dominance of Africans was unstoppable and a relationship between them and the bank should be cultivated because, as noted by Whitcombe, it was the Africans and not the white settlers who would decide Kenya's economic future.[51]

Contrary to its competitors, BDCO understood early on that the only way to surpass the competition was to develop and improve its relationship with the local population. The first step suggested by Whitcombe to strengthen the bank's reputation within the community was to win the trust of local chiefs.[52] Although the chiefs did not have direct interference in how and where the savings of their communities were lodged, their potential influence was not trivial. As the banks could not compete in the field of financial advantage that meant offering better interest, and the institution believed that its prestige as a safe place to keep money could receive an important boost if senior personalities in the community used its services. Besides their role as mediators, the local chiefs were fundamental in facilitating communication between clients, some of whom were illiterate, and the banks.[53]

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[50] LMA CLC/B/207/ST03/03/02/003, Letter from E.L. Hall-Patch to Lawrie to Discuss the Problems of the SBSA in East Africa, 4th May 1961.

[51] BGA 21/07/5/0029-0335, Local Director's Visit to Mount Kenya Branches, 8th to 12th September 1959.

[52] BGA 21/07/5/0029-0335, Staff Memorandum. Branch in Nanza visited, 6th to 10th February 1957.

[53] However, the influence of the chiefs and their role as a figure to be followed instead of being repudiated by the communities is debatable, see: Evanson N. Wamagatta, 'British Administration and the Chiefs' Tyranny in Early Colonial Kenya: A Case Study of the First Generation of Chiefs from Kiambu District, 1895—1920', *Journal of Asian and African Studies*, 44 (2009), pp. 371-88.

As the diverse correspondence from the commercial banks and the POSB shows, these institutions continuously consulted the chiefs in order to solve important matters related with identification, fraud, and withdrawal of money by beneficiaries of the accounts. For example, when a saver named Robert Amihanda, holder of a savings account with the Grindlays Bank, passed away, the local chief in Buyore wrote to the NGBL in the name of his widow. In the letter, the chief explained that she did not have the bank passbook which meant that she could not use the resources in the account: 'Now the wife of the deceased', wrote the chief, 'is very worried and would very much like to know whether the Passbook is still withheld in your Office'.[54]

In a similar case, the SBSA asked the chief in Kisii to confirm the death of a saver in order to close the account and transfer the monies to the beneficiary.[55] These kinds of connections between the commercial banks and local authorities in the colony were not exceptional, but continuously used and exploited by the financial institutions to construct a bridge between them and future clients. Upon independence, this relation between did not diminish. On the contrary, the local board of the SBSA, as a result of the convulsive political times, appointed the chiefs as board consultants in the future strategies of the bank.[56]

BDCO, therefore, initiated a laxer policy of lending, loosening its conditions and terms to foster greater involvement with African customers in order to win their trust. The Development Corporations played an active role during this process. These corporations had been established in the post-war period as subsidiaries of the banks.[57] Their objective was to cover the financial necessities of underdeveloped territories and satisfy the financial necessities of the business not suitable for the commercial banks. In 1945, the chairman of

[54] KNA DC/KMG/2/28/57, Saving Bank Account No. 3000 Robert Amithanda s/o Otinga, Letter sent to the Manager of National and Grindlays Bank from the Chief in Buyore Location North Nyanza, 5th January 1961.
[55] KNA DC/KMG/2/28/57, Joash Odanga: Deceased, Correspondence Between the Local Manager of the Standard Bank Limited with the Kisa Location Chief, 6th May 1963.
[56] LMA CLC/B/207/ST03/03/02/003, Letter from Cyril to Lawrie to Discuss in response to a letter sent on 9th October 1965, 4th November 1965.
[57] Bostock, 'The British Overseas Banks'.

the SBSA described the BDCO project to establish a development corporation in East Africa. The apparent intention of the bank was 'to care for those medium and long-termed commercial and industrial projects the financing of which has not been sufficiently of a liquid nature warrant bank overdraft facilities'.[58] In that sense, even when the official of BDCO guaranteed to the NBI and SBSA counterparts that the creation of this subsidiary would benefit all banks in the colony, the rival banks saw in the subsidiary an attempt to attract more clients to BDCO.

To face this new competition, the other two banks responded by creating their own agencies with similar characteristics to Barclays Development Corporation. However, while most banks had these development divisions, the corporation funded by BDCO was the most active in Kenya since its arrival in 1945. The NBI created its own corporation, known as the Finance and Development Corporation, three years after Barclays DCO.[59] As bank officials admitted, its creation was not the result of a desire to cover the development necessities of the population but a response to the BDCO initiative, and despite the fact that the development corporation of the NBI remained profitable and had a good start, the amount of business was small and concentrated on infrastructure and safe projects.[60]

The SBSA's development bank section was more active and had initial success. However, it was soon left behind by the dynamism of the BDCO subsidiary. Among the advantages enjoyed by Barclays Overseas Development Corporation over its competitors was that its local board managed its business strategy in East Africa. This provided the subsidiary with a better capacity of response and the flexibility to adapt policies to local conditions and necessity. NBI, however, managed its own agencies as a section of the bank, without autonomy in their decisions or budget. Despite having established a local board for its

[58] LMA CLC/B/207/ST03/03/06/001, Letter from the Chairman of The Week Standard Bank of South Africa to Mr. Clough Informing of the New Pojects of Barclays Bank. London, 30th November 1945.
[59] ANZGB S 591/3, Statement by the Chairman J.K. Michie, Esq. Relating to the Accounts to be Submitted to the Annual General Meeting to be held on 29th March 1949.
[60] Bostock, 'The British Overseas Banks', 163.

development agency, the SBSA remained at the mercy of decisions made by its London board as it did not establish this sort of institution until the last years of the colonial period.

The Africanisation of the banks, through the enlargement of their banking service reach in the colony and the relaxation of their policies, was followed by different campaigns designed to win the confidence of the local population. The objective was to familiarise and create a relationship between the banking services and development and security perspectives in order to change the bank's image from being solely for the use of white settlers to becoming a useful institution for the entire population. Otherwise, the banks tried to increase the number of African users, particularly in terms of savings accounts. In that sense, their approach radically changed during the second half of the 1950s.

The presence of a branch in a territory where there was no other financial facility meant that the bank's name, and ergo its reputation, was often considered to be of greater importance than the profit generated, thus brand publicity was vital. For that reason, contrary to what had occurred in the past, the banks resolved to retain their branches even when they generated losses. This occurred in Malindi where the BDCO, the only bank with a representation in the town, decided to maintain its branch. As Whitcombe argued, the publicity value compensated the monetary loss; the promotional value of keeping this branch running to attract new clients was so important that he remarked that 'this angle may encourage our principal competitors to open an office there in due course'.[61] In 1962, BDCO decided to keep its offices open in Kericho and Silibwet despite sustaining losses, simply to avoid any damage to the bank's name with potential clients.[62]

The clients that the bank was trying to attract also had a different profile: they were not European settlers and white farmers but the rising class of African landowners. The small and large Africans producers of coffee and tea were the main target as these clients were

[61] BGA 21/07/5/0029-0335, Local Director's Visit to Mombasa Branches and Malindi Branch 19-th to 24th June 1957.
[62] BGO 12B/07/3/0011-1075, Letter to the General Managers Branch Expansion - Kapebengwet, Proposed Agency to Kericho, 9th November, 1962.

fundamental for the economic survival of those branches that could not attract government business. In that sense, BDCO's local manager in Kericho remarked to the general managers of the bank that:

> The future of our Kericho Branch, therefore, depends on its acquiring a larger proportion of the business that will arise from the recent planting of African small holders on former Europeans farms which have now been broken up. Competition for this business is severe and the Standard Bank Ltd. are making three schedule safaris each week with their mobile unit.[63]

Following similar objectives, he also recommended opening an office in Kaptebengwet, 30km from Kericho, to provide 'a reasonable service to African tea growers'.[64] The director recognised that the current number of producers was small but trusted that future expansion of the cultivated acres would produce economic growth in the region, increasing in that way the demand for banking services from the population and thus the possibility of BDCO attracting more resources. The Kaptebengwet branch was also important to attract African savers from the surrounding areas of the district.

In support of the Africanisation policy, the financial institutions changed their approach to the customer base, softening the requirement to open accounts and throughout publicity campaigns focused on African clients and their needs.[65] The challenge of the campaign was to provide financial literacy, the local population was already used to savings and financial alternatives, however, bank officials related economic understanding by the local population with the use of formal institutions by the Africans use formal institutions. The strategy of the commercial banks was to persuade the local community of the advantages offered by these institutions over their traditional savings practices. The

[63] Ibid.
[64] Ibid.
[65] The identification requirements of the bank was a continuous problem regarding access to financial services since the colonial era, and remains an important impediment to the extension of financial services even today. See: Odongo Kodongo, 'Financial Regulations, Financial Literacy, and Financial Inclusion: Insights from Kenya', *Emerging Markets Finance and Trade*, 54 (2018), pp. 2851-73.

campaigns were focused on the eradication or diminishment of burying money and investment in livestock, linking bank usage with prestige and paving the way to social progress. To reach a wider audience and increase the campaign's impact, and contrary to the common practice, the information related to the bank was produced in Swahili.

In support of this campaign, the banks expanded the use of mobile units throughout the colony in an attempt to reach a wider population in distant areas. The SBSA and BDCO were the most active banks running this "bank on the wheels". The mobile agencies managed by the commercial banks were introduced to Africa during the post-war period. The objectives of the agencies differed along the territories; this can be appreciated by the design and function of the mobile units. As described in the staff magazine of the BDCO, *DCO Quarterly*, in South Africa the mobile units were used to represent the institution at agricultural and industrial shows throughout the country.[66] The unit did not to travel to remote areas in search of African clients and for that reason it was constructed with the conveniences of a formal bank office. It was depicted as a 'spacious public space entered from a door towards the rear of the vehicle' (see figure 4).[67]

Strictly speaking, the mobile units in South Africa were not deployed to cover necessities in remote and unbanked areas, nor serve the African population, but were used as a promotional tool for the bank's brand among the white settlers and farmers. In contrast, the mobile banks in Kenya and throughout East Africa did not retain any similarity with the permanent agencies. The units were Land Rover vans, adapted to transit difficult and dangerous roads. As they had to reach the more remote areas in the colony and complete a schedule that could take several days, the journeys undertaken by these units were commonly called "safaris" by bank officials.[68] Furthermore, contrary to the mobile banks used in South Africa, the personnel of the bank vans in Kenya always included an African clerk

[66] G.C. Storrar, 'Travelling Agency-Mobile Bank Unit', *DCO Quarterly*, April, 1956.
[67] Ibid.
[68] KNA MSS/95/1, Transcript of Chapter Eleven of a Projected History of Barclays Bank DCO, 523.

in charge of promoting the services to the community. This practice was launched first by the POSB and followed by the commercial banks in Africa over the following years.[69]

The vans also played a key role in the strategy of commercial banks to promote the use of their services in those remote areas without incurring the expenses of a permanent and, worse, unprofitable permanent office. For that reason, BDCO deployed "mobile cinema units" with its mobile units to promote the institution among future savers (see figure 4). Short commercial films were shown that were especially produced for the African audience and translated into local languages such as Swahili and Kikuyu. The films, "Barclays Bank Put Una Money for There" which was a 3.25 minute cartoon released in 1956 and "Make your Money Grow" a 30 minute short film produced near to Lake Victoria with local performers, were popular.[70] The outcomes of the film and the target of the campaign was explained in the *DCO Quarterly*:

> From its inception, the whole message of the film was directed, no to sophisticated audiences in towns, but to the African living at the back of beyond whose life centres round a few acres of maize and handful of cattle with the weekly market, many miles away, as the acme entertainment. It may be thought that be an unprofitable field to explore, but in Kikuyuland, at least the farmer gets two crops of maize a year; can be induced, occasionally, to sell a few cattle, and is being encouraged to go in for coffee and other profitable cash crops in addition. Although, the small farmer may be able to put only the odd ten bob into a savings account now, with the potential expansion of his economy he should, in years to come, have hundreds or even thousands of shillings to deposit.[71]

The commercial banks, and particularly BDCO, founded their commercial strategy in Kenya on the promise of the future economic progress of the African population resulting from the

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[69] J.W. Poole, 'Barclays Goes to the Bundu', *DCO Quarterly*, February, 1968

[70] Tyson, *100 Years of Banking*, IX-XX. KNA MSS/95/1, Transcript of Chapter Eleven of a Projected History of Barclays Bank DCO, 11-13.

[71] C.F. Walker, 'Flicks on a Flooded Veldt: An episode in the life of the D.C.O. Mobile Cinema Unit in East Africa', *DCO Quarterly*, February, 1958.

elimination of the restrictions on raising cash crops. And, when that economic expansion and introduction of Africans into the market occurred, the banks wanted to have a solid reputation in the rural areas and African reserves.

The efficiency of the mobile units in attracting savings, potential clients, and developing the trust of Africans in the financial institutions is difficult to measure. For the commercial banks, their mobile units represented an important advantage over their competitors in attracting new savers from less populated areas. The local director of BDCO recognised the important impact that the SBSA's mobile banks were having in the region of Kisii, where his own bank was losing savings accounts to the former due to the activities of its mobile units.[72] Even the colonial authorities, despite supporting the development of the financial institutions throughout the colony, resented the competition brought by the mobile agencies to the POSB. However, the aim of the banks in running their mobile agencies was not the search for profit, which was small due to the target clients and amount of savings, but the promotional value of the brand. For that reason, notwithstanding the admittedly small profits, management complications, and an impact that was below expectation, the

[72] BGA 12B/07/2/11-13, Bank Representation - Kisii. Mobile Bank Units. Letter to the General Managers from the Local Director in Nairobi, 5th July 1962.

facilities remained up and running following independence. Even the NGBL, which had been least inclined to adapt its services to Africans, retained its mobile banks post-independence.[73]

Figure 4: Upper left and right: Exterior and interior of the Barclays Bank mobile unit serving South Africans since 1954. Bottom left, Mobile Cinema Units. Bottom Right Mobile Bank Unit.
Sources: G.C. Storrar, 'Travelling Agency-Mobile Bank Unit', *DCO Quarterly*, April, 1956; C.F. Walker, 'Flicks on a Flooded Veldt: An Episode in the Life of the D.C.O. Mobile Cinema Unit in East Africa', *DCO Quarterly*, February, 1958 and BGA 38.1312

As expected, the strategies and commitment from each of the banks in the colony resulted in different levels of localisation and the Africanisation of clients. While the NBI was less active in this process through its strong links to the colonial government and business, BDCO was the commercial bank with the strongest policy toward this process. Bank officials constantly reported on the perception and usage of the bank's facilities by the local population as being positive. In a visit to the Mount Kenya branches, the local director recommend to the central board and increase in the amount of personnel in the office of Karatina, 120km from Nairobi, describing that he found it 'very crowded with Africans doing

[73] NGBL, 'Annual Report and Accounts for the Year Ended 31st December 1966' (1967).

saving business'; in contrast, the SBSA and NBI were making little progress around the inclusion of Africans.[74]

The positive perception of the BDCO official was backed by the rapid and dramatic transformation of the bank that had most of its accounts owned by Africans by 1960.[75] Parallel to the development of savings accounts, an increasing number cooperative societies managed by locals chose Barclays as their bank over its competitors. Even the managers of the SBSA recognised BDCO's lead in Kenya by winning the trust of the local population and in its localisation process. They saw that part of the success of BDCO in this field was the result of a more liberal approach to its African clients and branch opening, a strategy that the SBSA could not emulate easily due to its lack of European personnel.[76] However, the rising economic and political elite and working class in Kenya who had some savings capacity could not be ignored by the banking sector. For that reason, the main banks in the colony were, at the edge of independence, involved in some degree in the Africanisation process of their client base. With no doubt, Barclays was the most active of the financial institutions, changing its base of customers. Nevertheless, even the NGBL, conservative in its Africanisation policies, received in 1965 recommendations from its regional committee to open a second office in Nairobi to manage the growing number of savings accounts opened by Africans.[77]

5.3 The Introduction of Africans as Bank Staff

While the position of Africans as bank clients could be labelled as progressive by colonial standards even before the social and economic reforms of the mid-1950s, their role as staff was conservative and even regressive by the colonial canons up to the first years of independent life in Kenya. The commercial banks, along with the remainder of the financial

[74] BGA 21/07/5/0029-0335, Local Director's Visit to Mount Kenya Branches, 8th to 12th September 1959.
[75] Tignor, *Capitalism and Nationalism*, 317.
[76] LMA CLC/B/207/ST03/02/32/026/001, Report by Mr. C.R. Hill on His Visit to East Africa, 1st to 23rd June 1960.
[77] ANZGB S 468/1, Memoranda: At the Meeting of the Regional Committee "B" held on 26th October 1965.

institutions, tended to define their relationship with the African population under similar racist terms as other economic actors, white settlers, and the colonial government. That is, they preserved the stratification prevailing throughout the British Empire and the colony in which society tended to be divided between Europeans, Asians (a category that includes Indians and Arabs), and Africans and disregarding the heterogeneity within each group.[78]

The stratification of the colony through a racial lens placed at the top the of the political and economic system the white settlers who, despite representing one per cent of the total population in Kenya had complete control over the local parliament, received the most government funding, and filled the higher administrative positions within government and private enterprises.[79] The Indian and Arab communities found themselves in the low and middle positions of colonial bureaucracy. Their relationship with both the colonial authorities and financial institutions was difficult as long as the businesses they managed were viewed with distrust or branded inefficient by European standards.

However, their economic influence as intermediaries and a sturdy political organisation at times in alliance with Africans, the "Asians" - particularly the Indians - were capable of creating a powerful front in defence of their interests in the colony against the dominion of white settlers.[80]

The Africans, on the other hand, were the object of intense prejudice that placed them on the lowest scale of social stratification. These biases materialised in different aspects of their relationship with the colony. One of the most relevant for this research is the idea that, by their nature, Africans were particularly fit for technical rather than academic education. Technical training also had the virtue of preparing the local population to become

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[78] For an analysis of Arab and Muslim groups in Kenya since its colonisation up to independence, see: Hassan Ndzovu, *Muslims in Kenyan Politics: Political Involvement, Marginalization, and Minority Status* (Evanston, 2014). For the case of the Indian community, refer to: Sana Aiyar, *Indians in Kenya*.

[79] A paradigmatic case occurred in education where the Europeans, despite representing just 1.2 per cent of the total primary and secondary school population, received 33.4 per cent of the total colonial revenue used in this sector, see: Mwiria, 'Education for Subordination'.

[80] For an analysis of this struggle, see: Sana Aiyar, 'Empire, Race and The Indians in Colonial Kenya's Contested Public Political Sphere, 1919-1923', *Africa: Journal of the International African Institute*, 81 (2011), pp. 132-54; Sana Aiyar, *Indians in Kenya*.

productive and useful workers in the community and on European-owned farms. In contrast the academic education, in the opinion of white settlers and the colonial administration, tended to explode the deficiencies of Africans: namely, indiscipline and laziness.[81] This preconception was shared by the banks and their main clients, the European settlers, and it formed the first obstacle blocking the possibilities of Africans to reach medium and higher positions within the financial institutions. These positions required the confidence of the client with the banker in order to discuss the terms of business, loans, repayment, and other financial questions that, at the time, were authorised at the discretion of the branch manager; settlers were not disposed to discuss their business with a non-European and even less with a local.[82]

The racialisation of the jobs within the financial institutions before the 1950s was clear even in the POSB. The most "progressive" institution in colonial Kenya, it focused on attracting Africans into the financial system and sought to change their savings practices. While expanding its flotilla of mobile banks with the aim of reaching isolated communities, the function of each staff member within the units was clearly stated. Roles assigned were in accordance with the racial stratification prevalent in the colony:

> The van will be staffed by an Asian Clerk, an African propagandist from the information office and an African driver. It will be fitted in with a safe (locally made) bolted to the chassis and the clerk will occupy the van at night as sleeping accommodation.[83]

The post master general, head of the POSB in the colonies, as well as the board and other high rank administrators were European and, as seen in the description of the personnel and their remit within the POSB, the jobs offered to Africans were delimited to responsibilities

[81] Mwiria, 'Education for Subordination', 268; Urch, 'Education and Colonialism', 259-60.

[82] This will change rapidly, and worldwide, after the 1970s with the introduction of computerised banking and the withdrawal of responsibility from managers, see: Pål Vik, ''The Computer Says No': The Demise of The Traditional Bank Manager and The Depersonalisation of British Banking, 1960-2010', *Business History*, 59 (2017), pp. 231-49.

[83] KNA PC/NZA/3/10/145, Post Office Savings Bank Vans, letter from the Post Master General to the District Commissioners in Nairobi, 22nd September 1943.

that do not involve management of resources. Even the stipulation that only the Asian clerk was authorised to remain inside the van at night hinted at the distrust of the colonial authorities towards the African population.

The ethnic relations established since the colonisation of East Africa remained without change for the local population almost until the post-war era, when the struggle for greater equal opportunity began to transform relations between the ethnic groups. This transformation was faster during the last years of colonial rule, commencing around 1957 with the implementation of civil service and wage reforms, a process of Africanisation was set in motion in Kenya, affecting every level of government and the economy, and gaining pace dramatically from 1959 onwards. This process, encouraged by the British authorities had as its main purpose the preservation of the security of the territory as well as African loyalty in order to prevent future violent uprisings as had happened with the Mau Mau rebellion.[84]

However, while quotas were set for the training of African staff in civil service posts, the police force, and the military, as well as in many of the leading commercial businesses in Kenya, the process of Africanisation was particularly slow among private business and the commercial banks where there was no significant impact until after independence in December 1963. Even the Arab and Indian workers, as mentioned, were from an early stage targeted to become bank staff. They were promoted to mid-rank positions, occupied by Europeans until the 1950s when their position no longer required them to deal with many European clients.[85]

Nevertheless, the banks proved to be extremely averse to include Africans as staff members in the middle ranks despite the economic and social incentives devised by these institutions to accomplish the changes. The reforms responded to the increasing economic importance of bank business in Kenya, external and internal pressure from clients and African

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[84] Anderson, 'Exit from Empire', 120; Gifford and Roger Louis, *Decolonization and African Independence*, 408

[85] Jones, *British Multinational Banking*, 219.

politicians to put an end to all discriminatory policies, and the localisation process run by the banks in Kenya. The inclusion of a major number of local employees was also encouraged by an increasing desire to reduce costs, the problems associated with attracting and maintaining European staff, and the necessity to expand banking services throughout the colony. These difficulties would be aggravated once colonial rule came to an end.

The colour bar operated within the banks in several ways, even contrary to their interest. The European staff had to be attracted from Britain or the South Africa Federation into East Africa, while the latter were experienced staff, the British recruits were usually recent graduates who needed to be convinced as to the advantages of developing a career in Kenya.[86] For that reason they received not only a far better salary than the Asians or Africans and, since the policy of the banks was to recruit married rather than single workers to travel, they also received large housing allowances and their children's private education was paid. The costs associated with a European employee were therefore considerably greater than those of an Asian or African member of staff. As colonialism drew to a close in Kenya, these costs proved prohibitively expensive to the banks, and senior staff increasingly riled against the expectations of their junior European colleagues: 'The younger men – and their wives – seem to pine for "super welfare state"', declaimed one SBSA official in his report for 1960.[87]

As the banks increased their branches and expanded their services during the 1950s, they employed more staff, with attendant rising costs. In the case of BDCO, the number of employees increased from 948 in 1953 to 1,284 in 1956, a year later the bank had 1,351 clerks working in East Africa. The amount of expense in salaries, wages and allowances grew by 84 per cent overall between 1953 and 1961.[88] In addition, as finding suitable European

[86] LMA CLC/B/207/ST03/03/15/002, Note of Conversation at Glyn, Mills & Comany Limited with representatives of the SBSA and NGB, Document marked as Strictly Confidential, 15th January 1960.
[87] LMA CLC/B/207/ST03/02/32/026/001, Report by Mr. C.R. Hill in His Visit to East Africa, 1st to 23rd June 1960.
[88] BGA 12B/03/3/0029-0049, Results, Statistics and Review of the Period ending 30th September 1953. Half-Yearly Reviews of Kenya Branches and East Africa; BGA 12B/03/3/0029-0052, Results, Statistics

personnel for managerial positions became harder than before, the banks had to relax their hiring policies. The SBSA began to promote the entrance of more 'Kenya-born Europeans' and promote Asians to senior positions in order to cover the increasing lack of staff that was beginning to be an impediment to its expansion process.[89]

Despite the economic incentives and necessity to hire Asian and African staff in order to accomplish their business strategies, BDCO, SBSA, and the NBI all had to deal with the strong racist feelings of the majority of their European customers who saw the financial institutions as a service exclusive for their use; their reasoning being that the banks should thus remain controlled by European staff. For that reason, European clients objected to both being served by an African employee in the bank, and that Africans were being allowed access to the same banking facilities as them.[90]

For that reason, even when the SBSA began to incorporate Africans from 1956, and by 1958 had already employed 58 Africans in clerical positions,[91] it, along with the largest banks in the colony, also confined Asians to 'junior positions and Clerks'.[92] This was not due to a lack of preparation, as the bank officials constantly documented their excellent work but, as BDCO local director Whitcombe recognised, for example, a strong prejudice about Asian staff among the settlers remained. This made it impossible for the banks to open branches managed by them.

> A good proportion of the business is European farming and there is no doubt about it the settler will not want to discuss his affairs with an Asian. He will, I am afraid, resent it if we do not provide European Relief. It is unfortunate but for the time being I am sure that that must be our policy.[93]

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and Review of the Period Ending, 31st March 1957; BGA 12B/03/3/0029-0092, Results, Statistics and Review of the Period ending, 31st March 1962.

[89] LMA CLC/B/207/ST03/02/32/026/001, Report by Mr. C.R. Hill in His Visit to East Africa, 1st to 23rd June 1960.

[90] This means to include more Asians or Africans in their branches in middle and high rank positions.

[91] LMA CLC/B/207/ST03/02/34/010, General Manager's Conference, June 1958.

[92] Jones, *British Multinational Banking*, 375.

[93] BGA 21/07/5/0029-0335, Local Director's Visit to Eldoret and Kitale District, 15th to 19th April 1957.

He made this recommendation despite the fact that he recognised that Barclays already employed perfect capable Asian accountants who could manage the branch completely on their own, as they had already proven when they covered the managers on leave.

In the case of African advancement in the banking sector, the banks' officials recognised that, with the rise of nationalistic aims and the possibility and introduction of a quota of African employees at different levels, the institutions should start to increase the number of locals in the banks as prevention of forced quotas and rise of nationalistic feelings.[94] However, education was announced as the principal barrier. With a basic literacy rate of just 19 per cent among the total adult African population in 1960,[95] the banks surely struggled to find suitably qualified African staff, and this was invariably presented as the reason for the slow pace of Africanisation, but the reality was more complicated. Up to the last quarter of twentieth century, the policy of most British banks was not to take staff from universities at degree level, but from public and grammar schools.[96] These recruits would be trained inside the institutions or in their own training schools - "Bank Universities" as they were sometimes termed, having the possibility to reach middle and senior staff positions within the institutions.[97] Following this pattern, Kenya's banks might have solved their need for African staff by the quick and relatively inexpensive method of recruiting from among the 3,000 African secondary students graduating annually from the country's school system since 1950. Such recruits might have been trained by the banks and incorporated into middle and high management positions as they gained experience.[98] But they steadfastly resisted pressures to Africanise the staff in high positions.

By 1959, the local director of Barclays Bank in Nyeri was openly recommending the incorporation of proficient Asians or Africans, but by then the banks were already lagging

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[94] LMA CLC/B/207/ST03/02/34/010, General Manager's Conference, June 1958.
[95] Harvard Business School, 'Adult Literacy Rates' 2016) <https://www.hbs.edu/businesshistory/courses/resources/historical-data-visualization/Pages/details.aspx?data_id=31>.
[96] BGA 12B/03/3/0029-0092, Results, Statistics and Review of the Period ending, 31st March 1962.
[97] Jones, *British Multinational Banking*.
[98] Colony and Protectorate of Kenya, 'Statistical Abstract'.

behind a more general national process of Africanisation. The argument put forward by the Barclays manager was to preserve good relations with the businesses that were increasingly owned by local Africans - in other words, it was the gradual Africanisation of the customer base that brought about the realisation of the need for African staff. 'There is a certain level of personal contact with Asian and African customers', wrote the Barclays manager, 'that only an Asian or African can maintain'. Similar suggestions were made at this time by managers in Bungoma and Kisumu, where the bank's goal was to gain the trust of local African political leaders, including chiefs, because these people would be critical in the development of future business.[99]

While such arguments were in the air by the end of the 1950s, over the next few years bank officials continued to present the shift to African staffing as merely a measure to reduce branch expenses and cover those areas that could not be filled by European staff. The accountants of BDCO calculate that hiring Europeans to substitute personnel from different ethnic backgrounds increased branch costs by an additional £400 annually.[100] In addition, as some of the new branches created during the period of bank expansion were unprofitable and had an uncertain future, the introduction of staff was risky for finances because European staff could not be so easily repatriated. Thus, European supervision was usually maintained in every branch, with an increasing number Asian or African staff operating as subordinates of a European manager, being paid to do a highly responsible job but at a vastly lower cost.[101]

The slow process of African inclusion in the commercial banks did not improve immediately after independence. In its annual report of 1966, the NGBL outlined its recent active policy to recruit and train African staff: 'special steps have been taken to recruit suitable Africans as officers and to give them training'.[102] The slow localisation of the staff

[99] BGA 21/07/5/0029-0335, Letter From T.J. Edward, Barclays Bank D.C.O Nyeri, to Mr Whitcombe, 28th August 1959.
[100] BGA 12B/03/3/0029-0052, Results, Statistics and Review of the Period Ending 31st March 1957.
[101] Ibid.
[102] NGBL, 'Annual Report and Accounts for the Year Ended 31st December 1965' (1966).

was explained by bank officials and the advisory committee in East Africa as being due to low numbers of secondary education graduates in the territory and the better opportunities and more competitive wages on offer to these graduates in other sectors. For that reason, the banks should concentrate their efforts to publicise the 'advantages of banking as a career in Secondary Schools', otherwise the complete Africanisation of the sector would take 10 or 15 years.[103] To accelerate the process, the advisory committee recommended following the policy of the government and create a "bonded scholarship", which took the form of grants made to secondary pupils with the offer of working in the bank afterwards. After independence, the project of rapid Africanisation of NGBL staff at all levels seemed to be complete, stopped only by difficulties in finding qualified staff. However, in the 1965 annual report, the chairman of the institution remarked on the necessity to attract 'top quality young British bankers' and retain them to fill managerial positions aligning the different branches of the bank around the world.[104]

This lack of compromise in terms of the Africanisation of financial bodies was not exclusive to this sector, but extended to important public institutions such as the East African Currency Board. Despite the fact that this institution had its offices in Dar-es-Salaam, Kampala, and Nairobi, only a small number of Africans were employed as staff. As explained by John de Loynes, advisor for the Bank of England in 1966, of the total local population working for the institutions 'only a small fraction are men of medium or higher grade'.[105] Two years before, the East African Currency Board attempted to hire more local personnel. However, as the financial secretary of the institution recognised, finding suitable employees was a difficult task. Particularly as the institution required people with experience who had 'commercial banking or other commercial experience; but such people are so rare that

[103] ANZGB S 468/1, NGBL Minutes of a Meeting of the Regional Committee "B" held on 25th January 1966.
[104] NGBL, 'Annual Report and Accounts for the Year Ended 31st December 1965'.
[105] BOE OV76/4, Letter to Dr. Baranski from John de Loynes, Bank of England Advisor, to discuss the Staff problems of the Currency Board, 14th April 1966.

recruitment is bound to be difficult and slow'.[106] This lack of human resources was extended to the commercial banks and it was for that reason, explained Hinchey, that the currency board could not borrow personnel from them to cover its necessities.

The absence of qualified African personnel in managerial positions within the commercial banking system throughout Kenya and the rest of East Africa had important consequences for the development of other financial institutions in the colony. The lack of local personal with banking experience also affected the public financial institutions established as a part of the economic project of the independent government. Attempts to fill these managerial positions with local personnel, as projected during its formation, was an impossible task due to the absence of qualified personnel. The Co-operative Bank, an institution that was created to finance small cooperative business, required for the first years British 'top officials' to manage the bank and train the future directors of the institution, a process that required five or more years to be completed.[107]

Similar obstacles had to be overcome during the creation of the National Bank of Kenya, the first commercial bank managed entirely by the government, and the foundation of the CBK. For that reason, the minister for finance, James Gichuru, signalled that despite the support of the United Arab Republic in the creation of the National Bank of Kenya, the project should not be launched prior to the foundation of the central bank:

> My doubts have mainly arisen from the fact that I am now convinced more than ever before, that it will be extremely difficult for the Government to staff the Central Bank of Kenya from the local and available manpower for this kind work … I am given to understand the we shall require a minimum staff of 200 to get the Central Bank to being operating, and as I have sated before, I am very doubtful as to whether the necessary staff will be available locally. Indeed, I have decided to approach certain

[106] BOE OV76/4, Letter by H.J. Hinchey, Financial Secretary East African Currency Boardsent to Mr J.V. Mladek c/o IMF in Regard to His Visit, 15th December 1964.
[107] KNA TR/7/1, Proposed Co-operative Bank - Kenya, Letter sent to the Minister of Commerce and Industry, Nairobi, 27th August 1964.

possible donors for technical assistance for the Central Bank. Unless, therefore it is intended that the proposed commercial bank of Kenya should be mainly staffed with nationals of the U.R.A, a point that I doubt whether the Cabinet will agree.[108]

In the same letter, Gichuru expressed a desire to avoid any situation in which two public institutions had to fight against each other for trained personnel. The lack of trained employees was so great that even the establishment of the CBK required a period of transition in order to achieve the professionalisation of its staff.[109]

The transition time was supported by the Kenyan representatives who, despite backing the Africanisation of public and financial institutions in Kenya, were aware of the endemic lack of trained personnel and declared their rejection of any gratuitous Africanisation that would affect the standard of the institutions. The assistant minister of commerce and industry, Mr. Z. Anyien was categorical: 'People should not receive appointments merely because they were black'.[110] This circumstance meant that the creation of the National Bank of Kenya had to be delayed until 1968, two years before the establishment of the CBK. Even then, the first projects of the bank contemplated the establishment of an overseas senior staff and a local junior staff for the operation of the institution in the meantime.[111] The final version of the outline was not specific about this point, however, and recognised the difficulties in finding experienced personnel. For that reason, among the duties of the bank manager was to reach an agreement with the existing commercial banks in Kenya for the training of NBK personnel in their "bank schools" and "on the job" - training that could be taken in the overseas branches of those commercial banks involved in the programme. In other words, the indifference and passivity of the commercial

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[108] KNA AE/26/8, Letter sent from the Minister of Finance, J.S. Gichuru, to J.G. Kiano, Minister of Commerce and Industry, to Discuss the Creation of the National Bank of Kenya, Nairobi, 13th September 1965.

[109] Immediately after independence, the British authorities were lobbied along with the governments of Uganda, Kenya, and Tanganyika regarding the creation of a single Central Bank for the three regions, however this project was finally abandoned - this will be discussed in chapter 6.

[110] 'Central Bank Will Not Harm New Currency', *East African Standard* (1966).

[111] KNA AE/26/8, Kenya Commercial and Credit Bank, Revised November, Document Marked as Confidential, 19th November 1965.

banks in colonial Kenya around the inclusion of Africans in high and medium ranks had the consequence of delaying the Africanisation of government financial services during independence, in addition to the dependence of the sovereign government on the commercial banks for the training and even management of Kenyan financial services.

5.4 Conclusions

In 1966, the *East African Standard* reported the opinion of the representative of Elgon Central in the Kenyan Parliament, Mr. J. Khaoya, who remembered how 'banks in the past had been for Asians and Europeans' and stated his hope that steps could be taken to ensure that 'Africans would be able to take advantage of the new bank services'.[112] The words of this representative described the common perception of the African population about the financial institutions inherited from the colonial period and now operating under the Kenyan sovereign state. However, as this chapter has analysed, relations between the banking sector and the local population was not as smooth as usually assumed.

The improved economic conditions from the mid-1950s encouraged the development of the already established banks and the entry of new financial institutions into Kenya. The larger expansion was bred by the belief that British rule, or its controlling influence, would remain in place for two decades or more following the defeat of the Mau Mau rebellion. Old practices died hard, however, and the banking sector struggled in the 1950s to adapt to more open policies and move way from practices that closed the doors of these institutions to the local population. Nevertheless, some important changes in the colony took place pushing the banks toward the inclusion of Africans as both clients and staff.

The final point is that efforts to include Africans in the banking sector as customers were somewhat successful during the last years of colonial rule, but not in all of the commercial banks. BDCO, followed distantly by SBSA, was the most active banks involved in

[112] 'Central Bank Will Not Harm New Currency'.

the integration of locals as clients. Their strong adherence to this transformation forced the banks to adapt, or Africanise, their policies in order to make their services accessible for the small savers that made up the majority of new and potential clients. In that sense, BDCO, SBSA, and the NGB launched different strategies in Kenya that included: the expansion of branches beyond the main urban centres to attract clients, the introduction of publicity campaigns directed at the local population, and the operation of mobile units to reach more regions, as undertaken previously by the POSB, and explore the plausibility of establishing a permanent office. The hunger of the banks for the money of mall African savers was not, however, parallel to their trust of Africans as creditworthy.

On the other hand, the nurturing of African staff in the sector was a much slower process and the banks failed to discard generations of prejudice and racial exclusion. At the start of their transformation, the banks refused to adopt more aggressive policies of inclusion due to the fear of losing white clients in Kenya and other area where they had representation, as in the case of South Africa. Africanisation was only a consequence of the advent of independence and the social and political changes this brought, particularly due to the lobbying of the Kenyan government in favour of the Africanisation of the sector. Africans began to be hired into middle and high banking staff positions in significant numbers after independence was achieved. Nevertheless, the consequence of exclusion was important and affected not just the attempts of the government to achieve the rapid Africanisation of the private sector, but extended also to the dependence of the new government on European staff as a result of the lack of personnel trained in banking for middle and high positions among the local population.

It is striking that the banking sector in Kenya failed to anticipate the political changes that would rapidly come in the early 1960s, instead remaining faithful to the conservative political views of their white settler clients. The rush of change from 1960 took them by surprise and they were slow to respond to the new challenges posed. From 1963, the banks had to confront African majority rule and negotiate their future with an African nationalist

government that was pushing for the rapid transformation of racial inequality in the financial sector, while simultaneously creating its own financial institutions to cover the requirements of the new country. This was not a situation they had expected or prepared for. The nature of these negotiations and the adaptation process in the face of hastily implemented independence is the subject of the next chapter.

6 The Banks at the End of Colonial Kenya: Deconstruction and Adaptation

The time-lapse between the declaration of the state of emergency and the end of British rule in Kenya was less than a decade. Only in the first years of the 1960s was the idea of the independence being disused seriously among the British authorities and settlers. However, the form, time, consequences, or even real possibilities of such an independence process remained uncertain. The independence movement was growing, but the British government and white settlers expected to contain this process almost until an ordered transition, understand as one that gives economic certainties to the settlers and the British interest, could be guaranteed. The biggest fear for the economic actors linked with the British interest in the colony was the possibility of an independent process with strong nationalistic and socialist perspectives as had occurred in Ghana under Kwame Nkrumah.[1]

The commercial banks, mostly the big three, were among those institutions with the largest economic interest in Kenya and by the nature of their business were more vulnerable to commotion. For that reason, they tended to appreciate the maintenance of the status quo or the possibility of a smooth change. None of these scenarios occurred in Kenya between the end of the state of emergency and the first decade of independence. On the contrary, this was a time of uncertainty and change for the financial institution that were simultaneously surrounded by nationalistic movements throughout Africa. This chapter analyses the commercial banks between the last years of colonial rule and the first years of the 1970s. The objective is to understand how the banks were affected by the sudden political and economic changes occurring in Kenya and examine how their business was adapted to handle the new circumstances in terms of dealing with a new breed of politician and institutional and financial actors that had been non-existent until independence. How

[1] Ghana's diverse economic plans created the basis for a socialist development with large governmental interference in the economy. However, the majority of these policies were never taken into practice, see: Mozammel Huq and Michael Tribe, *The Economy of Ghana: 50 Years of Economic Development* (London, 2018), 12-15.

the commercial banks reformed their practices during the first days of independent life in Kenya shaped their development and even survival in the long-term.

6.1 The Last Years of Colonial Rule and Sudden Independence

As analysed earlier, the defeat of the Mau Mau uprising was perceived by both the British and colonial authorities as an end to or almost a delay of the aspirations for independence on the part of the African population.[2] Official and white settlers lulled themselves with the idea that Kenya could remain an oasis from the independence movement for almost the next 20 years, and even then British government influence and European dominion would remain in place through its economic and political power within key institutions. The countrywide African political parties such as KAU had been banned during the emergency years and remained under a ban in 1957 when the first African election took place.[3] Nevertheless, even the conservative colonial secretary, Oliver Lyttelton, warned the Europeans that they could not expect to exclude Africans from the legislature and hold all of the political power.[4]

Among conservative and anti-multiracial white settlers, united in the Federalist Independent Party, the idea of a twist to the past with complete European domination and the exclusion of Africans from political life, or the creation of two distinct governments, was considered as a possible scenario.[5] If such a radical and unrealistic expectation was not completely believed, these expectations of stability were certainly transmitted to the different economic and political actors in the colony, including the commercial banks.

The perspective of control expressed by minority white leaders in the colony and conservative groups in Britain soon proved to be a deluded understanding of the political reality and possibilities of the spoils of the British Empire. It became clear that the authorities, and taxpayers, where not disposed to support an economic burden used for repression that

[2] See chapter 4.
[3] Kyle, *The Politics of the Independence*, 70-71.
[4] Bennett and Smith, 'Kenya', 136.
[5] Dan Horowitz, 'Attitudes of British Conservatives towards Decolonization in Africa', *African Affairs*, 69 (1970), pp. 9-26.

was in favour of a minority of white conservatives.[6] A turning point occurred when the recently elected Kenyan representatives boycotted the Lyttelton Constitution under which they had been elected and demanded 15 more seats in congress.[7] The African politicians and their political parties saw in this legislation an attempt by the government, under the excuse of multicultural policy, to prevent in Kenya the achievements of the local population of recently independent countries such as Ghana. Further, they were not disposed to accept a marginal representation in a country where Africans accounted for more than 90 per cent of the total population.

The African representatives also demanded the softening of the heavy restrictions around voting and the extension of the White Highlands to all races. The exclusion of Africans from this territory, along with the *Kipande*, were some of the most visible representations of exclusionary and apartheid policies. The White Highlands were also at the centre of confrontation and economic power of the European settlers who had lobbied for an independent government, controlled by them, in this region with the rest of the Kenya remaining under the colonial authority rule. As noted by Gary Wasserman in his study of the land issue at the time of Kenyan independence, the White Highlands question was the main concern for Europeans and the biggest obstacle to an ordered transition as, if they were to have any future in Kenya, this was incarnated in the retention of this territory.[8]

African resistance to the remains of British control could not be contained and, led by Tom Mboya, the boycott over the Lyttelton Constitution and resulting political crisis was followed by the rejection of new attempts by the British government to appease the colony, this time throughout the Lenox-Boyd Constitution of 1958. The demands of the local population were extended to the end of the veto over Kenyatta in political life, the establishment of unrestricted and universal suffrage, and total control of the government, to

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[6] Gordon, 'Colonial Crises and Administrative Response', 100.
[7] The different constitution and political crisis related to them in Kenya has been analysed by: Charles Oyaya and Nana Poku, *The Making of the Constitution of Kenya: A Century of Struggle and the Future of Constitutionalism* (New York, 2018).
[8] Wasserman, *Politics of Decolonization*, 17.

be understood as ending the racial quotas in parliament.[9] These demands reached a level where any intermediation or negotiation by African politicians with the colonial government that did not contemplate the end of the "multicultural" approach was condemned as treason to the African cause.[10] The peril of a second Mau Mau uprising if the demands of the local population were not heard was real and the Colonial Office was aware of some people taking oaths to the land freedom army.[11] This situation was also craftily used by African politicians to persuade the government into adopting a more flexible policy.

However, the negotiation capacity of the British authorities to lead a slower and "ordered" transition of power in Kenya that favoured white settlers suffered an important backlash as a result of the Hola Detention Camp massacre, which occurred in March of 1959. The camp, more than 300km North East of Mombasa, was the scene of an organised revolt by detained Mau Mau fighters. The incarcerated were not disposed to tolerate the abusive conditions of the detention centre, particularly the attempt to force them to take part in hard labour that resembled slavery. As a result of the resistance, under the supervision of European wardens, African guards clubbed to death 11 detainees and left a dozen more badly injured.[12] The authorities in the camp tried first to disguise the deaths of the detainees, alleging water poisoning as the cause. However, the truth behind the Hola camp incident was easily discovered, triggering outrage from the local population which no longer tolerated such abuse from a colonial government.

The consequence of the Hola camp massacre was crucial to independence. The Kenyan population was aware, since the final years of the 1950s, of the brutal conditions in detention camps. However, how the British government dealt with African resistance inside the camps, and the later attempts of authorities to hide the truth, seriously damaged the

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[9] Oyaya and Poku, *Constitution of Kenya*.
[10] Branch, 'Loyalists, Mau Mau'; Kyle, *The Politics of the Independence*, 83-84.
[11] W.O. Maloba, *Kenyatta and Britain: An Account of Political Transformation, 1929-1963* (Cham, 2018), 226.
[12] For an analysis of the incident and the Mau Mau fight and its repression, see: Anderson, *Histories of the Hanged*.

image of the British as an intermediary for a peaceful and orderly transition. The massacre encouraged the African politicians, and public opinion in Kenya, not to stop until full dominion over political life of the territory was reached.[13] The incident also caused a political crisis in London, diminishing the willingness of the public to support the maintenance of the colony, or even an excessively slow or escalated transition of power. The British government was no longer a credible negotiator between the settlers and Africans as there were no reasons or valid arguments to support the actions of the colonial authorities in the detention camp.[14]

The strategy of the government could not be described any more with the overly optimistic or even cynical words used by the chairman of the NBI in 1956, who had congratulated the colonial authorities on its rehabilitation programmes and the 'enlightened approach' that it had taken to the uprising.[15] The crisis evidenced the impossibility of maintaining the status quo, clearing the way for new negotiations at the Lancaster House conferences of 1960, 1962, and 1963. While the first of these reunions did not achieve the desired consensus, the second was the most relevant in terms of creating a constitution.[16] The third and final one ended European control over the Kenyan congress and heralded the beginning of the transition to a newly independent country led by Jomo Kenyatta, who was released to take part in the political life of the nation.

From the first Lancaster House conference, which did not consider the liberation of Kenya, to the third one in 1963 that finally negotiated the terms of independence, there was a lapse of two years. During this period, during which the British authorities faced their incapacity to ensure for white settlers a congress that would not be fully dominated by African politicians.[17] It was marked by vertiginous and fast changes accompanied by the chaotic British policy that did not constitute a single plan from any of the actors involved in

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[13] Gatheru, *Kenya*, 167.
[14] Anderson, *Histories of the Hanged*, 356-27.
[15] NBI, 'Report of the Directors and balance sheet for the year ended 31st December 1956'.
[16] Ogot and Ochieng', *Decolonization and Independence*, 69.
[17] Oyaya and Poku, *Constitution of Kenya*, 54.

the negotiations, but was rather a sequence of discussions with diverse sectors, political parties, and prominent figures.

The thread of this negotiation for the Foreign Office and British government in Kenya was, nevertheless, the way to remain an important influence in the new country, as well as avoiding the penetration of the communist influence in the region. However, in Kenya the Soviet influence was of such immediate concern as it was in other regions, such as the Horn of Africa, Ghana, or Guinea which received the most influence and economic aid from Moscow.[18] On the contrary, Soviet penetration in Kenya was comparatively small among the population and the political elite that was against policies related to land redistribution.[19] Even when some politicians such as Oginga Odinga and Arthur Ochwada tried to spread the communist influence through the trade unions they, as the Report on Communist Penetration in East Africa remarked, 'failed ignominiously' and were incapable of raising enough support among the groups of workers.[20]

With Jomo Kenyatta emerging as the political leader for the newly independent Kenya, came a message of stability and the maintenance of the existing economic and political conditions. This perception contrasted with the image of Kenyatta during the emergency years. His image had been revaluated by British politicians thanks to the influence of the last governor of Kenya, Malcolm Macdonald, who described him as good, trusted, and a centred leader. Further, he was a friend of the west and the European community and had no links with the Mau Mau fighters as he had once been accused. Macdonald also remarked that Jomo Kenyatta was the most suitable politician to be Prime Minister of Kenya and that his election would guarantee friendship with Britain as he did not support communism.[21] This

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[18] Alessandro Iandolo, 'The Rise and Fall of The 'Soviet Model of Development', in: West Africa, 1957–64', *Cold War History*, 12 (2012), pp. 683-704, 686; Carol Anderson, *Bourgeois Radicals: The NAACP and the Struggle for Colonial Liberation, 1941–1960* (Cambridge, 2014), 8-9.

[19] Daniel Branch and Nicholas Cheeseman, 'The Politics of Control in Kenya: Understanding the Bureaucratic-Executive State, 1952-78', *Review of African Political Economy*, 33 (2006), pp. 11-31, 25-26.

[20] LMA CLC/B/207/ST03/03/17/001, Report on Communist Penetration in East Africa by Aidan and Virginia Crawley, April 1962.

[21] Maloba, *Kenyatta and Britain*.

statement in 1963 radically differed from the perception of Kenyatta just one year before when the future first president was still denounced as the main instigator of the Mau Mau movement in the past and that a new uprising, a second Mau Mau movement, was supposedly centred around his figure. 'Not only was oath-taking and intimidation widespread', as described in the report on communist activity in East Africa, 'but he himself had seen a new Mau Mau "creed" which began "I believe in Jomo Kenyatta"'.[22] Kenyatta was elected Prime Minister of Kenya in 1963 and, one year later, President when the country became a republic.

The transition to independence was marked by the development of a new political system constituted as a centralist estate power around the figure of President Jomo Kenyatta and KANU.[23] The defence of the integrity of Kenyan territory, particularly from the menace of the secessionist Somali groups, and the creation of new governmental institutions were the immediate priorities.[24] To accomplish the first objective and suppress as much as possible the internal challenges to its power from rivals such as Oginga Odinga, the Kenyatta administration favoured a closer relationship with the British government. The British authorities, at the same time, saw in this country a singular case where its interest was still protected, making Kenya the most favoured of its ex-colonies and Kenyatta as the most preferred leader in the continent. For that reason, the newly independent Kenya was heavily marked by strong military ties and a dependence on the British army, which supported Kenyatta against possible coups led by internal enemies and the menace of a Somali invasion.[25] The Foreign Office saw in the Kenyatta regime an ally against the communist interference of China and the Soviet Union in East Africa. Moreover, the United Kingdom was

[22] The declaration was attributed to the Dr. Leakey, LMA CLC/B/207/ST03/03/17/001, Report on Communist Penetration in East Africa by Aidan and Virginia Crawley, April 1962.
[23] Branch and Cheeseman, 'The Politics of Control'.
[24] Daniel Branch, 'Violence, Decolonisation and the Cold War in Kenya's North-Eastern Province, 1963–1978', *Journal of Eastern African Studies*, 8 (2014), pp. 642-57.
[25] Poppy Cullen, *Kenya and Britain After Independence: Beyond Neo-Colonialism* (Cham), 146-47.

the most important provider of assistance to the colony in the form of grants, loans, and technical support.

In economic terms, the Kenyatta administration copied during its first decades the development strategies of other industrialised countries, with the emphasis on a massive injection of capital to favour the expansion of the financial markets.[26] The objective was to increase the size of the industry as a part of GDP as well as continuing the transformation of the monetisation of the self-consuming agriculture sector.[27] Helped by Tom Mboya, Kenyatta released an official statement in 1965: *African Socialism and its Application to Planning in Kenya*, which paradoxically stated the commitment of the government to the capitalist economic system.[28] The programme appealed for greater supervision of the already existing commercial banks that encouraged local entrepreneurs to establish locally-owned commercial financial institutions.[29] The same document remarked on the commitment of the government not to launch an unrestricted and 'indiscriminate nationalization', as Kenyan socialism did not require this commitment. Even the nationalisation of the enterprises owned by non-Africans was rejected as it 'would affect everyone, African and otherwise, owning productive resources in the Industry'.[30]

The statement which highlighted a deference of private property and the abandonment of any nationalisation or communist ambitions, jointly with the pro-western and pro-capitalist attitude of the new independent government,[31] came as a relief to the private sector which could testify as to the advancement of socialist regimes and nationalisation processes in Ghana and Guinea.[32] The maintenance in the long-term of this economic policy was safeguarded by the dependence of the Kenyan ruling elite on its private

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[26] B.J. Ndulu and others, *The Political Economy of Economic Growth in Africa, 1960-2000* (Cambridge, 2008), 339.
[27] This process had started in the second half of the 1950s: Arthur Hazlewood, *The Economy of Kenya: The Kenyatta Era* (Oxford; New York, 1979).
[28] Michael G. Schatzberg, *The Political Economy of Kenya* (New York, 1987).
[29] Republic of Kenya, 'African Socialism and its Aplication to Planning in Kenya' (1965).
[30] Ibid., 26-27.
[31] Daniel Branch, *Kenya: Between Hope And Despair, 1963-2011* (New Haven, 2011), 38.
[32] Iandolo, 'The Rise and Fall'.

wealth and production means, rather than the socialisation of those to the preservation and enlargement of their political power. Even the rest of the social groups that could represent a problem for the private sector, such as the unions, were contained by the clientelism that controlled the unions and their leaders who in turn adapted their demands to the needs of the ruling elite rather than those of African workers. The political contention of the working class by the leaders allowed them to use their position to advance economically and politically once they did not defy Kenyatta's regime.[33]

However, even without close control from the government, the existing Kenyan trade unions did not have a strong socialist attachment or tradition in making demands of the political realm. Previously, the unions used to follow local politics and demand short term material improvements and job opportunities. They had tended to be more active in their demands for rapid Africanisation, particularly in the private sector, to the detriment of Indians and Arabs; thus in that sense, the unions also had a strong racial bias. But even in this field, the Africanisation programme was not fully encouraged by Kenyatta's government. As analysed in the last chapter, in its early period of independence Kenya was not in the position to substitute qualified personnel with local workers due to their lack.[34] Further, Kenyatta did not want to put much pressure on the private sector around this issue in order not to raise animosity towards his regime from foreign investors.

Despite Tom Mboya's warning during the country's transition to sovereignty, in relation to the dangers of winning independence just to fall into neo-colonialism,[35] the new state ruled by Kenyatta achieved political independence without radically transforming either the economic or social base of the colonial period. The interests of foreign capital were protected from any attempt at nationalisation, while the new African elite became the "white highlanders" in Kenya. The dependence of Kenya on Britain also remained great in terms of

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[33] Richard Sandbrook, *Proletarians and African Capitalism: The Kenyan Case, 1960-1972* (London, 1975), 123-24.
[34] Ibid., 8.
[35] Tom Mboya, *Freedom and After* (London, 1963), 178.

military training and economic aid. Even the government and private sector's lofty positions were filled with European personnel, increasing the influence of the British government in the ex-colony, marking the administration's limits.[36] However, this should not be understood as an unmovable continuation of the colonial regime. The new government launched different development programmes, but meanwhile Kenyatta and other Kenyan elites skilfully used the British wish to retain some influence in the region, in order to consolidate their power. However, at a time when many of the new African countries were experiencing radical change, the conservative policies and "stability" of Kenya was viewed by foreign capital, and particularly the commercial banks, as favourable signals to continue with their business.

6.2 The Commercial Banks at the End of British Rule

Despite the final commitment of the Kenyatta regime to the western world that it would respect interests of the private sector, in particular foreign capital, through a slow and non-radical transition, the commercial banks, along with other economic and political actors in the colony, were blind as to the final form of the political transition. Would Kenya follow the path of Ghana or Tanzania or it would be closer to the development of Botswana and Nigeria? The private financial institutions had placed a bet on the stability of Kenya and its continuation as a colony during the second half of the 1950s and had begun an expansion process in the region. Nevertheless, that stability was lost and the multinational banks faced growing African political activism and the fight that concluded with the termination of the scraps of the African British Empire.

The boycott of the Lyttleton Constitution was a watershed marking the growing African politicisation. These events, along with the unrest in Central and South Africa, fuelled the worries of settlers around the possibility of a second uprising that could lead to the revival

[36] Ogot and Ochieng', *Decolonization and Independence*, 97-98.

of the Mau Mau.[37] These uncertainties were shared by bank staff in the region who demanded from their institutions the preparation of an emergency plan in the case that their personnel had to be evacuated from Kenya should the spread of violence reaches the territory. An official of the SBSA, C.R. Hill, reported after his visit to the East Africa branches that:

> Several of the women and one of the men, following press reports of Europeans being advised to quit the Belgian Congo, enquires what steps the bank had in mind to ensure the safety of its staff and the families of the staff should events in Kenya lead to civil disturbance and the proclamation, once again, of a state of emergency.[38]

For C.R. Hill, the concerns of the staff needed to be taken seriously and for that reason he assured his staff that in case of an emergency of this nature, the SBSA had the support of the British government to safeguard its employees and their families. However, no other measures were considered necessary in the meantime as in comparison to the surrounding territories, Kenya remained relatively calm in the perspective of the bank officials.

The increasing tension and political turmoil after the boycott of the Lyttleton Constitution began to sound alarm bells for the banks, which started to express their worries around the political situation of the colony and the incapacity or unwillingness of the British government to resume control. The growing tension and rivalry between the Africans and white settlers was considered important enough to be reported on by one SBSA official on his visit to East Africa. In a report to the central board the official described how conflicts in the colony had been rising substantially, as well as the animosity of European settlers to the secretary of state for the colonies, Ian Macleod, who was considered a traitor by the whole European community. However, the European community received with relief 'the Governor's announcement that Kenyatta would not be released'.[39] This position is explained

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[37] Reid, *A History of Modern Africa*.

[38] LMA CLC/B/207/ST03/02/32/026/001, Report by Mr. C.R. Hill on His Visit to East Africa, 1st to 23rd June 1960.

[39] Ibid.CLC/B/207/ST03/02/34/010, Report by J.N. Hogg on His Visit to East Africa and Southern Rhodesia, 5th-28th May 1960.

by the fact that in 1960 Kenyatta was still considered a radical and the principal instigator of the Mau Mau uprising.

For the same reason, the banks started to pay more attention to the political life of Africans, particularly the rivalry between the KANU and KADU parties. The authorities of the financial institutions did not hide their preference for KADU, which they considered to be less radical than KANU, at that time led by Tom Mboya who was viewed as a radical with strong relations to Kenyatta. In that sense, one of the biggest apprehensions for the official was the possibility, and apparent imminent defeat, of KADU. Edmund Hall-Patch from the SBSA was emphatic about this danger in his communications with the board of the bank and recommended that the institution be prepared because by the lack of a critical electorate in Kenya 'KANU is bound to win' by an extensive majority. This, he felt, would cancel the possibilities of moderate influence as had occurred with Nyerere in Tanganyika; 'frankly', Hall-Patch declared, keeping things under control in Kenya appeared impossible: 'I am rather apprehensive' admitted.[40]

The first Lancaster House conference, and the agreement reached between the government and the African politicians, had brought some relief to the bank officials regarding a moderate transition. However this feeling was short-lived, and their concerns were rapidly augmented by what they perceived as an increase in the socialist and nationalist rhetoric of Kenyan politicians seeking to attract votes in favour of KANU - a rhetoric that did not diminish after the agreements of Lancaster House. These fears, once again, were caused by Tom Mboya who was denounced by SBSA officials as the main instigator of a radical view that could increase political instability in the country.

> In the meantime, the electioneering of some of the African Elected Members, especially Mboya, is fast undermining confidence and destroying goodwill. It was anticipated that the temperature of the electioneering would rise, but the

[40] LMA CLC/B/207/ST03/03/02/001, Letter from Sir Edmund Hall-Patch to Lawrie, Chairman of SBSA, marked as confidential, London, 2nd September 1960.

> inflammatory speeches of some have gone rather beyond what one might have good reason to expect in the light of the measure of agreement reached at the Lancaster House.[41]

The negative opinion of the banks about Tom Mboya and his activism around the land consolidation scheme emanated from Lancaster House and was fuelled by what was described as his crusade against economic and political imperialism, a position that could be dangerous and hurt both the American and British business community in the colony.[42]

Tom Mboya had been actively denouncing, since the opening of the Highlands in 1959 to African farmers, the limitation of this law and how the unwillingness of white settlers to sell their land even to those Africans with the necessary economic resources to purchase, as well as the lack of support to implement this transition, would make the termination of the ban a dead letter.[43] The anxiety around Mboya's activism was shared by other banks. Whitcombe, of BDCO, also mourned the negative influence that he prompted in large part of the Luo population. His criticism was not absent of the common stereotype attributed to Africans by Europeans and he noted how the influence of such politicians tended to increase the shortcomings of the local population. In this vein, when Whitcombe described the progress of land consolidation in Nyanza, he remarked on how in the central part of the province 'the Luo (led by Mboya) are too lazy to bother about progress and prefer to talk politics'.[44] Such alleged laziness was unfavourable compared with the rest of Kisumu where the population was less focused on politics and more attention was given to coffee production, which had been rising in profitability during recent years.

The NBI review of July 1960 made public its perceptions about the difficult situation that Kenya was transiting and would continue to transit during the visible future. The first

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[41] LMA CLC/B/207/ST03/03/02/001, Letter from Lawrie to Hall-Patch to Discuss the last Announcement of the Secretary of the State, 19th August, 1960.
[42] LMA CLC/B/207/ST03/02/34/010, Report by J.N. Hogg on Visit to East Africa and Southern Rhodesia, 5th-28th May 1960.
[43] Wasserman, *Politics of Decolonization*, 139.
[44] BGA 21/07/5/0029-0335, Notes on Mr. Whitcombe's Visit to Branches in Kenya and Uganda and in the Eastern Congo and Uganda with Mr. Seebohm, February 16th/March 4th 1960.

impact of the convulsive political situation was the 'drop in the local share values and mild outflow of capital'; the outflow of this capital was valued at £3.5 million, an important amount which could even be worse bearing in mind the current uncertain times. Without mentioning Tom Mboya or any other political leader by name, the publication stated the danger of an ultranationalist position such as the one that, in the view of the NBI, was emerging in East Africa. The NBI's review also remarked that 'Africa as a whole still has to learn to live with the fact that international investment capital is highly sensitive', and this sensibility was especially high when nationalistic positions were applied to political and economic arenas alike.[45] In times of uncertainty like those that the territory was transiting, the careless speech of politicians and accredited leaders was, the article asserted, 'as almost important as deeds', and could move against the economic stability needed by the financial institutions in the region.[46]

The politicisation and undesirable radicalisation of the local population was not, however, the only concern for the banks. The institutions tended to also condemn the extremism of European settlers and their lack of flexibility to accept the changes occurring in the public life of the colony. The officials of the commercial banks were worried by the rise, among whites, of a radical supremacist party that could increase the rancour between races, jeopardising the future stability of Kenya. SBSA officials directly condemned the intentions of European conservative politicians such as Cavendish-Bentinck to launch a new party, the Coalition Party, which was created as an opposition to the more liberal New Kenya Party led by Michael Blundell.[47] As informed by Hall-Patch, even when the intention of this party was not necessarily to unite supremacist groups, the delicate situation in Kenya 'that is the interpretation which may well be placed upon it by African politicians in Kenya and elsewhere' would be adverse. On the other hand, this radical political group would certainly

[45] NGBL, 'The Changing Scence in Africa Inter-Independence of B. E. A. Territories', *The National and Grindlays Review*, July 1960.
[46] Ibid.
[47] Kyle, *The Politics of the Independence*, 124.

attract the sympathies of those 'Western supporters who are so lamentably ignorant of the real fact of life in Africa'.[48] For Hall-Patch, the only way to guarantee peace in the territory was through a sensitive programme that could convince the population of the value of the European settlers and their willingness to cooperate in Kenyan development, renouncing their special privileges.[49]

BDCO retained the same position with respect to the problems that could emerge as a result of the lack of sensibility of white settlers and the continuation of a straight policy against the will of the Kenyan local population, which was pushing hard for its political rights in the colony. After the second Lancaster House conference in 1962, the perception that any possible instability in the future government could increase as a result of the settlers' stubbornness rather than the Africans was denounced by the local director of BDCO. He remarked of the nervousness within the European community which was 'unable to adjust themselves to the inevitable change which are taking place', noting that this attitude was just increasing the economic instability of the colony.[50] At the same time, the bank officials averted the harm that the economic instability was already having on the Kenyan economy.

The internal communication of the commercial banks did not retain any race-based favouritism around the political future of Kenya. On the contrary, what they feared most was the communist influence and radicalisation of African politicians towards socialist policies that could lead to full government control of the economy and the consequent nationalisation of the commercial banks. The danger of racialisation in Kenyan political life and the consequent detonation of violence was also a source of concern for the financial institutions. While they could adapt their practices to a new government managed by locals, as long as it supported capitalist values, the financial institutions would see their interests compromised by a violent explosion between Africans and white extremists. For that reason,

[48] LMA CLC/B/207/ST03/03/02/001, Letter sent from Hall-Patch to Lawrie, SBSA, to Discuss the last events in Kenya. London, 5th September 1960.
[49] Ibid.
[50] BGA 12B/03/3/0029-0092, Results, Statistics and Review of the Period ending 31st March 1962.

the banks condemned any racialisation of politics in the colony, particularly when this came from the European settlers who were, from the perspective of the commercial banks, in a weak position to stop the changes that were occurring. In the opinion of the NBI chairman, the social transition that was occurring in Kenya was the main fear of 'the non-indigenous races'.[51] In his annual statement, he also lamented the 'equivocal' position of some radical parties and hoped that the new conference could unblock the negotiations and the resistance of the Europeans.[52]

Nevertheless, the radical position taken by the European settlers, who were not disposed to cede their land to the Africans without a fight, could only be softened by the intervention of the British government which launched a carrot and stick approach. The Foreign Office was committed to safeguarding the property rights of white settlers after independence, preventing any nationalisation of land without compensation to the former owners through the use of sanctions for the new government. The nature and possibilities of these sanctions were largely discussed by the Foreign Office, which even contemplated "physical intervention" if it was necessary.[53] The punitive precautions were accompanied by a land consolidation programme emerging from the Lancaster conference and the later Land Settlement Scheme agreed at the second conference. The objective of the settlement scheme was to facilitate the transfer of farms from white settlers to Africans and it underpinned, in the perspectives of the banks and British government, the opportunity for a smooth transition. In addition to these expected benefits, the commercial bank managers relied on the transfer of land to decrease the "land hunger" of the African population - a situation that would facilitate the job of the government that emerged from the independence process.

[51] NGBL, 'Report of the Directors and blance sheet for the year ended 31st December 1961' (1962).
[52] Ibid.
[53] BOE OV74/2, Kenya: Land Titles, Correspondence with the Foreign Office to discuss the safeguarding of the property rights in Kenya, September 1960.

Despite the recognition of the commercial bank around the importance of the scheme for the future stability of the country, they were not willing to risk their resources by expanding their loan base in times of uncertainty. The British and Kenyan governments, on the other hand, could not force the commercial banks to finance the land settlement or the new African farmers. However, it was expected that these institutions would be involved at some point and that they would support the policy with part of their resources and experience, as was expressed by the Overseas Office in 1961. The British government needed the NBI, in particular, to be the most eager to participate due to its position as government bank for the colony. Nevertheless, the only compromise that the negotiations had from the NBI was the promise to help the Land Resettlement Board with an overdraft of £280,000.[54]

The negative attitudes of the commercial banks around the resettlement scheme were not only result of the uncertainty regarding the colony's future. Edmund Hall-Patch, SBSA's official, explained that during 1960 the amount of resources requested from Africa to the bank increased on the London market and even though part of the rise in the demand of monetary resources was seasonal, the recent increases were mostly the result of 'the overall tendency towards outflow of capital and shortage of funds for trade and industry'.[55] Meanwhile, he continued, deposits were falling or, in the best scenario, remaining static. However, the officials did not recommend an increase in the resources available to the bank in East Africa, nor did they require an expansion of the advances. Even when the lack of liquidity could affect the competitiveness of the banks vis a vis its rivals in the territory, the social and political conditions in the region required the safety and maintenance of liquidity. 'Our competitive position with the other banks can only rank thereafter', remarked the official, ensuring that the rest of the commercial banks were in a similar position.[56]

[54] BOE OV74/2, Kenya: Land Settlement Schemes. Letter sent to Mr. Lyones from the Overseas Office to Inform about the Last Meetings London, 2nd August 1961.
[55] LMA CLC/B/207/ST03/03/02/001, Letter sent from Hall-Patch to Lawrie, SBSA, to discuss the financial position of the SBSA in Africa. London, 26th January 1961.
[56] Ibid.

The cautious policy of the banks at a time of uncertainty was opposed to the necessities of the Kenyan government. The land settlement scheme required the assistance of the multinational banks to provide part of the large amount of resources required by the programme. The limited resources of the Land and Agricultural Bank were insufficient to deal with the demands for resources needed to accomplish the settlement programme. This incapacity was amplified by the reluctance of settlers to accept payment in the local currency or accept promissory notes from the Kenyan government.[57] The government of Kenya needed in the first instance the support of the banks in order to negotiate the East African Shilling promissory notes offered to settlers with a smaller discount than the 12 per cent calculated by them.

> E.A. Shilling promissory notes of the Kenya Government had proved to be unnegotiable - the banks had no interest in holding unmarketable 7-year paper over the next 10 years and carrying exchange risk on it and Barclays D. C. O., who alone seemed prepared to discuss the problem with Head Office, had talked in terms of 20 per cent discount (cf. the 12 per cent quoted by the Kenya Government).[58]

For N.N. Galsworthy in the Colonial Office, the better way to sort these difficulties was through the negotiation of a better payment on the promissory notes that did not exceed 10 per cent. Other solutions would require a new valuation of the land over the Kenyan government fixed estimate or an increase in the down-payment and reducing the payment period from seven to three years.

While the European landowners were allegedly anxious about selling their land, there was an eager response from a large number of Africans, 'many with 20 years of experience of European farming methods'.[59] By the second half of 1961, the negotiation around the terms of land purchase from settlers and the plan to establish 20,000 Africans in

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[57] BOE OV74/2, Kenya Land Settlement Scheme: Letter to the Overseas Office to discuss the Terms of Compensation for the European Farmers (marked as secret and urgent), 9th October 1961.
[58] BOE OV74/2, Kenya Land Settlement Scheme: Letter to the Overseas Office to discuss the Payment Terms of the European Farmers (marked as secret), 1st November 1961.
[59] Ibid.

the White Highlands was, from the perspective of the Michael Blundell, Minister of Agriculture, and Mackenzie, the Minister for Finance, at a dead point until better terms could be reached. The continuation of these negotiations with the settlers required the support of the commercial banks and other merchant bankers. The overseas officers even planned to request the support of financiers from The City; they particularly sought to approach the Rothschild bankers, a member of which Edmund Leopold de Rothschild, had economic connections with Kenya. The necessity to obtain the financial resources for the scheme was so desperate that the Overseas Office lobbied other institutions in addition to the International Bank for Reconstruction and Development and the Colonial Development Corporation. The most important of these possible participants was the German government, however, it was not disposed to cooperate with the scheme beyond covering some projects not related to local expenditure.[60]

The possible instability of the Kenyan government or its economic inefficiency, once independence took place, in combination with the dangers derived from the radicalisation of the nationalist programme increased the uncertainties of the European settlers around a default in payment or devaluation of the E.A. Shilling. For that reason, they demanded increased commitment from the British government to guarantee the terms of the agreement and offer security to the financial actors involved in the operation, particularly the banks that were not prepared to take any risk without the direct support or guarantees from the British government. However, in a letter directed to Maurice Parson, executive director of the Bank of England, the Foreign Office set out the position of the British authorities: that it would not be more involved with the scheme, particularly with the demand that guaranteed payment to farmers in the case of a default by the Kenyan government. Such a position could precisely encourage a default from the Kenyan authorities

[60] BOE OV74/2, Kenya: Land Settlement Schemes. Letter sent to Mr. Lyones from the Overseas Office to Inform about the Last Meetings London, 2nd August 1961. Nevertheless, by 1964 the total participation of the Federal German government in the Land Schemes of 1960 and 1961 was summarised as 4 per cent of the total programme. BOE OV74/2, Kenya: Land Policy (Confidential), Document Issued by the Commonwealth Relation Office. 12th November 1964.

that would increase the difficulties of London to deny the same support in the case that the independent government decided to launch a nationalisation process in other economic sectors.[61]

The reluctance of the banks to take a greater participatory role in the scheme during the first negotiation period did not discourage the British authorities to again lobby again for their support for resettlement, which was still recognised by the commercial banks - along with the expansion of the oil industry and sugar production - as the major development plan and fundamental for future economic progress of Kenya.[62] In April of 1963 John de Loynes, representing the Bank of England, at the request of H.M. treasury held a new meeting with representatives of the SBSA, NBI, and BDCO to discuss the possible support of these institutions in the land settlement project for Kenya, 'with particular reference to the practice of the commercial banks' in these types of business.[63] During the discussion, Mr. Loynes remarked on the desire of the British authorities to make clear the exploratory charter of the meeting and that it should not be taken as a way to exert pressure on them, nevertheless they wished to know the forthcoming approach of the institutions in regard to small and medium agricultural producers.

> As regards the purchase of farms, there were several possibilities for the commercial banks. if a farmer who owed them money on mortgage switched his far, would they be prepared to transfer the mortgage? If he wanted to borrow more or if there were a request from new borrower, what would the banks do? As I expected, the banks promised to look very sympathetically at switching but very hard at any new business. They properly claimed that long-term lending mortgage was outside their

[61] BOE OV74/2, Kenya: Land Settlement. Letter sent to Mr. Parson, Executive Director of the Bank of England, summarising the present state of the Scheme (marked as secret). London, 8th November 1961.
[62] OTMB, 'Report and Balance Sheet 1962 and Chairman's Review' (1962).
[63] BOE OV74/2, East Africa: Finance of Land Purchase. Record of the Bank of England authorities meeting with representatives of the commercial Banks (marked as confidential), 1st May 1963.

> scope ... They also painted a rather over- gloomy picture of their present position and the immediate uncertainties.[64]

Consequently, any short-term loan that the banks could provide for the future development of farms was restricted to the securities available and even then, the possibility of greater involvement was not promised. Besides, the representatives of the banks rightly suspected that the ultimate intention of the government with this negotiation was the financing of the LABK by these institutions; a role that that they were neither prepared for nor disposed to play.

Besides, the resettlement programme was not the only project where the British government required close cooperation from the local commercial banks. The six year development plan (1964 – 1970), with an estimated budget of £34 million just for the first three years, required close cooperation from the financial institutions. The first three years of the programme, remarked the Foreign Office, 'will be particularly heavy and will make heavy calls on domestic source of finance', while refinancing which was calculated at around £10 million between 1964 and 1967 would only possible be with the fullest support from local banks, insurance companies, the East African Currency Board, and other local sources of finance.[65] However, the Foreign Office admitted that the interests and possibilities of the financial institutions regarding their involvement in the refinancing of the development programme were heavily diminished by the amount of investment that the institutions already had in Kenya. This was combined with the drain of resource that the territory had been suffering, particularly the pension funds administrated by the banks which had previously supported long-term local projects.[66]

Throughout the analysis of the behaviour of the commercial banks and their position during the negotiations with the British government, it can be concluded that the

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[64] Ibid.
[65] TNA FCO 141/7084, Pre-Independence Financial Talks: Kenya Development Finance 1964-70 (marked as secret), 5th September 1963.
[66] Ibid.

resettlement programme was seen by the institutions as positive for the development and stability of Kenya and thus their own permanence in the new nation. Besides, as the NBI's report of 1963 admitted, there was a very large acreage of land suitable for tea in Kenya that could benefit from resettlement. This production, the report confirmed, along with other commercial agricultural products were likely to be one of the major developments for the future.[67] However, this knowledge did not prevent the commercial banks from avoiding any compromise that would involve the transfer of monetary resources to the scheme or the institutions financing it. This position was the result of a traditional policy that the commercial banks had with respect to land and mortgage investment. However, this historical aversion was amplified by the tumultuous times that Kenya endured during the 1960s, a convulsion that increased the risk of default, devaluation, or even social uprising. Not even the NBI, bank of the government, was inclined to go beyond without the full liability of the British government over its investments, a responsibility that London was not disposed to take.

As the independence process was advancing and the characteristics of the new government were finally defined, the optimism of the commercial financial institutions in their future improved. This positive perspective was also augmented by the manifest commitment of Britain to remain an importance influence on the colony and the plans to establish a federation between Tanganyika, Kenya, and Uganda with a single market, central bank, and common currency. These three characteristics were important, from the perspective of the banks, to guarantee economic stability in East Africa and prevent the region from being dragged into the threat of communism.

[67] NGBL, 'Report of the Directors and blance sheet for the year ended 31st December 1962' (1963).

6.3 The Search for Stability and the British Financial Project for an Independent East Africa

The establishment of institutions to rule the economic life of the empire was a priority on the British agenda for its colonies in Africa. At the same time, the development of a currency for the acquired territories was essential to economic life, improvements to the economic possibilities of the new settlers, and the total economic subjection of Kenya.[68] Finally, the creation of these institutions played an essential role in the cultural domination of Africans in the territory. For that reason, contrary to what has been said about the indifference or even reluctance of the Overseas Office to this union,[69] the establishment of common institutions, despite independence, was related to an idea of economic continuation and was thus actively supported by the Overseas Office.

At the time of independence, British East Africa belonged to what has been named the "Sterling Group" of the British colonial currency system. This territory shared a single currency, the East African Shilling, pledged to the value of Sterling.[70] This currency had substituted other notes that had previously been in circulation in East Africa: first the Indian Rupee, which was substituted by the East African Rupee in 1919, followed by a third - the short-lived East African Florin. The latest changes to the legal tender were actively encouraged by the settlers and fought against by the banks, an example of the different interests between the settlers and the commercial banks.[71] The changes to the currencies were also accompanied by financial difficulties, particularly between the creation and rapid abandonment of the East African Florin and the final introduction of the East African Shilling. The institution in charge of the production and denomination fixing of this legal tender in the colony was the East African Currency Board, which was created in 1919 following the

[68] Mwangi, 'Of Coins and Conquest'. For a recent analysis of the contestations of the African population to the colononial monetary policies, see: Pallaver, Karin, 'A Currency Muddle: Resistance, Materialities and the Local Use of Money During the East African Rupee Crisis (1919–1923)', *Journal of Eastern African Studies*, 13 (2019), 546-64.
[69] However, the main resistance came from different groups, like unions and interest groups inside the territories: Joseph S. Nye Jr., *Pan-Africanism and East African Integration* (Cambridge MA, 1965).
[70] Clauson, 'British Colonial Currency'.
[71] Maxon, *An Economic History*, 250-51.

example of the West African Currency Board established in 1912. Neither the West African Currency Board nor that of East Africa had their headquarters on the continent, but instead in London. The principal function of these institutions was to act as money exchange and did not interfere in the monetary offer of the colonies, which was determined by the position in the balance of payment in each territory.[72]

The limited field of action of the board was maintained until 1960 when the institution acquired greater independence in its investment and transferred its headquarters to Nairobi. Closer to independence, the currency board for East Africa began to acquire some of the functions of a central bank, managing the accounts of commercial banks and establishing a multilateral clearing system.[73] However, the board never substituted the functions of a central bank as suggested by some authors.[74] The currency board could not manage money from the colonial government as is usually undertaken by a central bank Therefore, in the case of these transactions, the colonial governments and independent governments, during the first years of sovereign life, still depended on the commercial banks for these operations - the NBI in the specific case of Kenya - until they managed to establish their own central banks.

The hopes over the continuation of an East Africa Shilling as legal tender, and the maintenance of the East African Currency Board, was a signal for the commercial banks that related the stability of Kenya with this institution and the continuation of the close relationship and interdependence of Kenya, Uganda, and Tanganyika. Following the same objectives post-independence in Kenya, the British and the financial institutions in Kenya pursued a higher integration of the colonies through the creation of an East Africa Federation after independence was granted. The result was the Common Service Organisation. The NBI was clear about its hopes and in its report of 1963, the chairman declared:

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[72] Joachim W. Kratz, 'The East African Currency Board (Le Conseil Monétaire Est Africain) (La Junta Monetaria del Africa Oriental)', *Staff Papers* (*International Monetary Fund*), 13 (1966), pp. 229-55.
[73] Ibid.
[74] Andrew Martin Kamarck, *The Economics of African Development* (New York; London, 1967), 84-85.

> The future of the East African Common Services Organisation now rightly falls to be decided by fully independent governments but we should not be inpatient if they take a little time before deciding about this and about Federation. Anyone responsible for banking in East Africa can have little doubt about the economic advantages to the territories of full and fee cooperation between them …[75]

The chairman of the Ottoman Bank expressed the same hopes around the integration of East Africa through a common custom union and the maintenance of a single currency.[76] The local director of BDCO was even more emphatic around the economic perspectives of the new countries under the union and stated that '[T]he future of the territories must lie in Federation'; the reason being that, as perceived by the Local Director, Kenya, Tanganyika and Uganda were already 'inter-dependent and integral part of a unit with already the economic ties and links of common market'.[77]

However, the integration of the three countries was more complicated than the British institutions and commercial banks were ready to admit. Economic integration between the three territories was, in practice, a dependency of Uganda and Tanganyika on Kenyan exports. The situation had as a result disproportionate gains from this country, increasing criticism from Uganda and Tanganyika in particular around the maintenance of a system that was against their economic interest as seen by the new leaders.[78] This criticism, however, did not alter the perspectives of the banks around the East African Union project as the local newspapers and national political actors still gave their public support for the establishment of the federation and the creation of a central bank that would substitute the East African Currency Board. Julius Nyerere, the president of Tanganyika since December 1962, declared his alignment to this project and remarked that the only obstacle to its continuation was the full independence of Kenya. It was also contemplated that once Kenyan

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[75] NGBL, 'Report of the Directors and blance sheet for the year ended 31st December 1963' (1964).
[76] OTMB, 'Report and Balance Sheet 1962 and Chairman's Review'.
[77] BGA 12B/03/3/0029-0092, Results, Statistics and Review of the Period ending, 31st March 1962.
[78] Low and Smith, *History of East Africa*, 335-36. Maxon, *An Economic History*, 244-45.

independence was achieved, the behaviour and statements of the Ugandan and Tanganyikan leaders suggested 'that pressure for an East African Federation and for central bank may build up very rapidly'.[79]

The business magazine, *The Statist*, on the other hand, in an article entitled 'Currency Politics in Africa' published in 1963, compared favourably the development of East Africa with the recent events in the Central African Federation around the prospects for the establishment of a federation and single currency in the region. The article commented, 'it is interesting to note that at the same time as these countries are arranging to part company in the currency sense, there three immediate neighbours to the East', referring to Tanganyika, Kenya and Uganda, 'are thinking in terms of currency merge'.[80] The article also remarked upon the willingness of these countries to establish a common central bank. *The Economist*, however, was at that time less positive around the final establishment of the Federation and reported the hesitation of the East African Currency Board to fully support the establishment of a central bank in East Africa as a result of the recent experiences in Rhodesia and Nyasaland. 'Unfortunately', the article entitled 'Board or Bank?' remarked, 'a workable federation in East Africa seems at least as remote as seven months ago' when the projected of the federation was tabled.[81]

The perspectives of *The Economist* around the future of the union differed drastically from its own opinion presented just a few months before, when the positive views over the institutional arrangement for the future of East Africa, and even more ambitious economic and political projects were signalled as possible. 'With or without the fine points spelled out, east Africa's political leaders appear bent on the federation'. Kenyatta, Nyerere, and Obote had announced in June their intention to establish a political federation before the end of 1963 and announced their hope to establish other institutions, such as a common defence

[79] BOE OV76/3, East Africa, Letter sent to MR. Parsons via Mr. Watson (marked as confidential), 12th December 1962.
[80] 'Currency Politics in Africa', *The Statist*, 29th November 1963.
[81] 'Board or Bank?', *The Economist*, 30th November 1963.

organisation, a central bank, and a single diplomatic body for the three countries.[82] However, as the same article noted, the specific function and development plans for those projects were never defined and some parts were qualified as 'over-hopeful'.[83]

By the end of 1964, part of the confidence around the future establishment of the federation between the three governments had decayed. The agricultural-socialist path outlined by Nyerere for the future of Tanganyika in a 1962 pamphlet was the first signal of the deep difference in terms of economic policy in East Africa. Therefore, the challenges around the creation of unified economic institutions, despite the desires of the British Authorities and commercial financial institutions, seemed insuperable.[84] Nevertheless, NBI officials still encouraged this economic union and in 1965 the chairman, Lord Aldington, declared that the big problems faced by the three governments, even when they were not the same, could be better solved by closer integration in currency, trade, and other financial aspects; 'it would be wrong for a banker not to emphasise once again the great advantages in this', he chairman concluded.[85]

By the second half of the 1960s, despite the hopes over the establishment of a Union shared by the diverse financial institutions along East Africa, neither the Bank of England nor the colonial authorities were really convinced about the genuine possibilities of the economic union or even cooperation between the East African countries. It has been argued Uganda under Milton Obote was the most reluctant of the countries regarding the establishment of an East African Federation, alleging the preponderance of pan-Africanism over local country unions to justify its position.[86] However, as early as 1961, in a series of secret communications between the secretary of the state for the colonies and local officials in Tanganyika, the

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[82] 'Details to Follow', *The Economist*, Saturday, 20th July 1963

[83] Ibid.

[84] Despite the announcement of this socialist development in the 1962 pamphlet, the systematic application of the policies did not begin until 1967: Priya Lal, *African Socialism in Postcolonial Tanzania: Between the Village and the World* (Cambridge, 2015), 30-31.

[85] NGBL, 'Annual Report and Accounts for the Year Ended 31st December 1965'

[86] Nye, *Pan-Africanism*, 197-98. In that sense, Tanganyika managed a double position, supporting the establishment of the Union and lobbying for its national agenda, however, more research is necessary on this.

improbability of economic union or further cooperation was already recognised by the colonial authorities.

> They are sticking firm to decision in principle to have their own currency. Therese seems to be more than national pride in this, and it is being argued that one's own Central Bank with its currency issue is necessary for planed economic development; also that Currency Board system diverted Tanganyika's persistent (sic) favourable balance of trade to support Kenya's persistent (sic) adverse balance.[87]

Despite the efforts of Sir. Ernest Vasey, Minister of Finance in East Africa, to dissuade the Tanganyika government from its plans to terminate the union, he had to admit that the project was 'far from clear'.[88] The actual plans of Tanganyika to end the union remained secret until this was publicly accepted by the Nyerere administration.

In the meantime, the Overseas Office and officials in East Africa kept secret their attempts to maintain the project of the union alive. The strategy of the British officials was to alienate the separatist faction from the political life of Tanganyika. At the same time, the Overseas Office tried to influence politicians from Kenya and Uganda to increase their pressure over Nyerere's separatist plans. Ernest Vasey even called for the support of a German currency expert to persuade the future independent government about the benefits of common financial institutions. The reasons for the use of a German national were a nod to the political connections the country had with Tanganyika, and the 'fact that the Tanganyikans are impressed by the current strength of the deutschemark'.[89] It should be note that the disposition from the British authorities to allow the involvement of a foreigner in what was considered a strictly domestic issue shows the great importance of the East African Federation project from their perspective.

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[87] BOE OV76/3, Inward Telegram to the Secretary of State for the Colonies (marked as secret), 30th March 1961.
[88] Ibid.
[89] BOE OV76/3, Tanganyika, Letter from the Overseas Office to inform the intention of Sir. Ernest Vasey, Finance Minister to find a German currency expert (marked as confidential) 5th October 1961.

The contrasting and persistent positive perception of bank officials over the future of union and shared common financial institutions even after independence also shows how the colonial authorities managed the relationship with the commercial banks. Uncertainty around the future plans for East Africa on the part of the British government and its limited capacity to influence the government was systematically hidden by the Overseas Office. It can be guessed that the reason behind this policy was to avoid the spread of panic among the commercial banks. Such a situation could disrupt the economic position of the colonies and the confidence of the commercial banks and other financial institutions in a smooth transition to independence, which would be related in the minds of the foreign economic interest to the Africanisation of political life, not the radical alteration of the economic principles ruling the colony. A fall in bank confidence around the capacity of the British government to extend its influence beyond independence could have adverse consequences, not just for the credit market once independence was achieved, but also in the tentative support of the commercial banks expected by the British regarding resettlement and other development programmes.

The Kampala Agreements of 1964 ended the possibilities of a further economic or political union. Here, the union was finally discarded by the East African governments and so the commercial banks had to accept the new political conditions of the region. The economic intergovernmental cooperation had been reduced to a market agreement, particularly to correct the industrial and commercial imbalance between the countries.[90] The agreements maintained the East African Airways corporation and East African Common Service Organisation (EACSO) - the latter provided cooperation in some administrative services, joint transportation, and research. Nevertheless, its power was limited, the rate of taxes used to finance it was established by the individual governments and rather than making the union stronger it was a source of contention for the available resources and weight of each

[90] 'Kenya, Tanganyika, and Uganda: Kampala Agreement on Redressing Trade Imbalance', *International Legal Materials*, 3 (1964), pp. 1106-15.

representation within the institution. By 1967, the EACSO had been substituted by a new East African Community.[91]

The perception of some of the commercial banks in relation to the possible achievements of the EACSO was overly optimistic. In that sense, while the Ottoman Bank limited its opinion to hope for the continuation of the EACSO in 1962,[92] the of NBI, on the other hand, forecasted on a bright future for the EACSO that 'continues to function impressively', as in the opinion of the chairman.[93] The continuation and development of these organisations would soften the final abandonment of the Federation and would be a first step for further integration. There was still a strong link in East Africa in economic and communication terms and 'great opportunities would be lost if the monetary unity of this area was to be destroyed', the 1965 report concluded.[94]

However, the same year that the NBI's report was published, the minister of state of Tanzania, A.Z.N. Swai, in private meetings with the East African finance minister and the visiting mission of the IMF remarked on the difficulties for the continuation of the common currency since an agreement would be required in development planning, fiscal policy, and the level of investment between Kenya, Uganda, and Tanzania. The perspectives for establishing such an agreement were not clear and so the government preferred to establish a national central bank, leaving financial cooperation in East Africa to the 'orthodox central banking systems, rather than in the creation of an international central bank' that had to deal with difficulties and uncertainties. Swai also criticised the lack of real planning around the establishment of common institutions. He observed the great importance bestowed by his government on monetary cooperation in East Africa, but the problems in the creation of a

[91] Mshomba, *Economic Integration in Africa*, 49-50
[92] OTMB, 'Report and Balance Sheet 1962 and Chairman's Review'.
[93] NGBL, 'Annual Report and Accounts for the Year Ended 31st December 1964' (1965).
[94] Ibid.

central banking structure 'must be realistically appraised' and further plans should rely on practical considerations.[95]

By March 1966, less than three years after the SBSA chairman reported to the board the commitment of J.S. Gichuru, Finance Minister for Kenya, to the intention that the country remain in the currency union.[96] Tom Mboya, minister for economic planning and development, started the process to quickly establish a central bank just for Kenya. At the same time, Gichuru declared to the House of Representatives the end of the plans around the establishment of a single currency for East Africa, but guaranteed full cooperation between the three countries to ensure the success of the new currency.[97] Dr. Leon Baranski, who had previously worked for the project of a common central bank for East Africa, was appointed the first governor of the CBK in May 1966. By then, the NBI's chairman statement was limited to including a suggestion that the economic future of the former 'East African territories would be the brighter if agreement was reached on the maintenance and development of the East African Common Market'.[98] However, the chairman accepted that it was unwise to have high expectations due to the recent developments in Tanzania that had wrecked the final hopes of any possible union, even on a small scale.[99]

In less than a decade, between the first Lancaster conference in 1960 and the foundation of the CBK seven years later, the commercial banks had to abandon their hopes of extended colonial domination in Kenya and the possibilities of dealing with a supranational institution that provided East Africa with a common market, unified financial institutions, and common economic goals. The financial institutions had to be prepared to deal with

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[95] BOE OV76/4, Statement by the Hon. A.Z.N. Swai, Minister of State, President's Office, at the Meeting of East African Finance Minster held in the Tanzania Treasury on the 21st February 1965 to Discuss Central Banking Arrangements in East Africa with the Visiting Mission of the International Monetary Fund (marked as top secret).

[96] LMA CLC/B/207/ST03/02/32/026/014, Visit by the Chairman, Accompanied by L.A. Martin to East and Central Africa: 9th September to 2nd October 1963.

[97] Quoted in: 'Central Bank Will Not Harm New Currency'.

[98] NGBL, 'Annual Report and Accounts for the Year Ended 31st December 1966'.

[99] The Report is not clear about to which recent events it refers, however, it is probably the Arusha Declaration which marked the systematisation of the Tanzanian socialism and villagisation programme, see: Lal, *African Socialism*, 68-71.

independent governments and individual economic policies that could boost but also endanger their business in the region. However, the banks still considered the possibilities of a radical change to economic policy as remote; 'in the meantime the September results do not appear to introduce any new factors affecting the normal course of our business in Tanzania' declared Sir. Cyril Hawker, chairman of the SBSA, in 1965.[100] The first backlashes occurred under the Nyerere government which, as a part of the economic estate-led socialism of Tanzania, declared in February 1967 the nationalisation of commercial banks together with insurance companies, major industries, and natural resources. The assets and liabilities of the banks, seven foreign and two local institutions, would be absorbed into the National Bank of Commerce, a government owned institution.[101]

The nationalisation of the banking institutions took the commercial banks in the region by surprise. Indeed, not all members of the government of Tanzania or the British authorities were aware of this decision and the promptitude of its execution. Just three months after the Arusha declaration, the Tanzanian minister of finance, Mr. Jamal, assured the banks that no attempt would be made by the government to nationalise the financial institutions and he encouraged the banking institutions to increase their investments in the country.

> The Chairman recalled that when he was in Tanzania with the Chief General Manger in November last year, he was asked by the government to invest and expand the Bank's interests in Tanzania and he considered Presidents Nyerere's actions in nationalising the banks only three month later a breach of faith.[102]

The unexpected events in Tanzania forced the chairman of the SBSA to make a public statement about the nationalisation of the banks by the new countries. In this declaration,

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[100] LMA CLC/B/207/ST03/03/02/002, Letter from Sir. Cyril Hawker, Standard Bank Ltd. with observations after the Presidential and General elections in Tanzania, 9th October 1965.

[101] The details of the dissatisfaction of Nyerere's government with the banks has been described in: James H. Mittelman, 'Underdevelopment and Nationalisation: Banking in Tanzania', *The Journal of Modern African Studies*, 16 (1978), pp. 597-617, 601-02.

[102] ANZGB S 468/1, Minutes of the meeting of the Regional Committee "B" held on 21st February 1967.

published in the Annual Report of 1966, the official criticised harshly the recent nationalisations in Burma (which had occurred in 1963) and Tanzania, qualifying those events as being the consequence of a lack of understanding on the part of the new nations about the role played by banks. The chairman also condemned the popularisation of the idea that banks should belong to the people of the country, a claim that 'has been heard all over the world. It is often accompanied by the thought that the State by seizing the banks can acquire wealth otherwise not available to them'.[103] For officials of the NBI, this idea was mistaken as unless the authorities were disposed to expropriate the funds of depositors, nothing was added.

The NBI also noted the divergence in attitudes among officials in Tanzania, particularly between Nyerere and Mr. Jamal, his finance minister who was described by the bank's officials as 'an Asian in an African government' more concerned with maintaining his position than in establishing a viable economic strategy.[104] This lack of a strategy, along with the alleged disadvantages of the nationalisation of the banking system, particularly for the underdeveloped countries, made it clear to the bank that the measure had been in response to political and emotional causes rather than economic ones.[105] As a consequence of the bitter experience, the NBI remarked on the necessity of the board to adopt a different approach in the region, more focused on the particular leadership of each country than the institutions as the danger of similar actions occurring throughout East Africa was evident. 'This action', as mentioned at the meeting of the Regional Committee of 1967, 'was a warning of what could take place elsewhere, particularly in adjacent territories and we should therefore study carefully the personalities of rulers of those countries in which we operate'.[106]

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[103] NGBL, 'Annual Report and Accounts for the Year Ended 31st December 1966'.
[104] ANZGB S 468/1, Minutes of the meeting of the Regional Committee "B" held on 21st February 1967.
[105] NGBL, 'Annual Report and Accounts for the Year Ended 31st December 1966'.
[106] ANZGB S 468/1, Minutes of the meeting of the Regional Committee "B" held on 21st February 1967.

The sudden nationalisation also convinced the NBI's officials of the necessity to have a better understanding of the region at local level. For that reason, the chairman suggested that the board reconsider its historical opposition to the appointment of a local advisor in each area where the NBI operated, as other banks did. He also highlighted the necessity of creating an international advisory committee with experts from France, Germany, and USA to guide the bank on international matters in the future. The adverse opinion of the NBI towards Nyerere and the future of the country under his regime was shared by the SBSA, which went even further by describing the president of Tanzania as an unpredictable dictator.

> The President as a complete Dictator, has sudden brainstorms which can do untold harm to his country and the inhabitants. It also means, I fear, that so long as Nyerere is president of Tanzania anything can occur when the mod so takes him and that any assurances which may be given are completely valueless. When talking to Biagini this morning he made the remark that Nyerere was worse than Mussolini and that at least the latter had an Executive committee which could curb him at times.[107]

For that reason, despite the retention of a few interests in Tanzania, the SBSA decided to terminate any kind of relationship with the country for the duration of Nyerere's presidency. The NBI adopted the same position, however, even though it was not disposed to cooperating with the government in any way related to nationalisation, it wanted to avoid direct confrontation with Nyerere.

The wish to remain on good terms with the Tanzanian government did not respond to the desire of the bank to return to the country even in the long term. Its board understood that an aggressive attitude could endanger the negotiations towards what it considered fair compensation. In the case of a breakdown in the negotiations with the Tanzanian government, it could not count on the British government to help with negotiations or apply any type of pressure. The Cold War scenario forced the Foreign Office to prioritise its positive

[107] LMA CLC/B/207/ST03/03/02/002, Letter to Sir. Cyril Hawker, Chairman of Standard Bank Ltd., with observations about President Nyerere after the nationalisation of banks in Tanzania, 2nd March 1967.

relationships with the East African governments, disregarding their ideology rather than supporting the multinational financial institutions: 'H. M. G. might wish to improve relations with the Government of Tanzania to prevent any expansion of Chinese influence'. For that reason, it appeared that strong support from H.M.G could not be expected, warned the NBI's Board.[108] The only possibility for the commercial banks was to establish a common front in their negotiations with the Tanzanian government, however the dissimilar interests of the big three forced the NBI, with more business in the ex-colony than others, to negotiate separately from BDCO and SBSA.[109]

The events that occurred in Tanzania forced the commercial banks to reconsider their position in East Africa and the real capacity of the British government, or even its disposition, to interfere in their favour. The years after the Arusha declaration were a time of uncertainty for the banks due to the dangers around the possible "contamination" of the Nyerere socialist economic policies to other territories, particularly Kenya where the big three had most of their business and representation. The main hazard for the commercial banks in Kenya came from Odinga Oginga who, despite being described as 'much less interested in communism than in political power', financed his political activities with resources received from China and the Soviet Union.[110] To the relief of the multinational banks, after a failed coup in 1965 attributed to Odinga, he was relegated from the government, thus diminishing the possibilities of the radical wing gaining power in Kenya. Since Britain had given its support to Kenyatta to prevent the coup, relations between both countries were strengthened. The challenge to Kenyatta's supremacy in government by Odinga and his party, the Kenya People's Union, encouraged the president to wipe out his opposition. The opportunity arose during the local elections of 1968 when KANU used all its

[108] ANZGB S 468/1, Minutes of the meeting of the Regional Committee "B" held on 21st February 1967.
[109] ANZGB S 468/1, Minutes of the meeting of the Regional Committee "B" held on 26th September 1967.
[110] BOE OV76/4, Letter to Mr. Rootham and Mr. Parson to discuss the latest events in East Africa, 7th October 1964.

means to defeat Odinga's party and its candidate, paving the way for a one-party system in Kenya.[111]

Contrary to what occurred during the independence of Kenya, when the commercial banks did not show a clear position around the political process that led to independence, the hostility from Kenyatta's regime to the opposition and socialist influence within government, notwithstanding its unconcealed anti-democratic methods, enjoyed the support of the commercial banks. Facing the general election of 1969, the big three banks and other important foreign companies with interests in Kenya were lobbied by members of the government to support KANU with a donation of £150,000. As the representatives of the government explained, the money would be used to equip KANU for the campaign in the electoral districts and fight the threat which, in the opinion of the government, Odinga still represented to the interests of the foreign business. The government officials observed that in Kampala Odinga still had access to an important amount of funds from Russia and China. Mr. McKenzie, minister of agriculture, and a prominent landowner emphasised the dangers of the nationalisation of land and business without compensation if Odinga seized power. This declaration was backed by the Malcolm Macdonald who asked for the support of business to Kenyatta's government as he was convinced that the 'most important factor for stability in East Africa was the continuation of the present regime in Kenya'.[112]

The representatives of the commercial banks agreed to support the regime and the discussion of the meeting was centred on the best way to do this without attracting much attention. In a separate meeting, bank officials discussed the importance of being sympathetic with the government.[113] They tried to agree on the donation amount from each institution in order not to under- or over-subscribe KANU's target. The decision of the

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[111] For an analysis of the coup and evidence around Odinga's implications, see: Branch, *Kenya*, 47-52.
[112] BGA 30/04/1/0080-3583, Memorandum Kenya: Meeting between representatives of the Kenyan government with companies having an interest in the country, 25th September 1968.
[113] The Odinga's party was finally banned from the General Election two months before the general election took place in December 1969, see: Jennifer A. Widner, *The Rise of a Party-State in Kenya from "Harambee" to "Nyayo!"* (Berkeley, 1992), 60.

commercial banks to cooperate in sending economic resources to the ruling party was clearly caused by the recent experience in Tanganyika. The Nyerere decision regarding the commercial banks had suddenly made palpable the danger of nationalisation. In a letter to the BDCO chairman, the local head officer in Kenya, John Innes, expressed his concerns:

> The bombshell of nationalisation in Tanzania has stunned us all and heaven knows how this will react of all foreign investments in this part of the world. We do not even know yet how the Kenya and Uganda Government are going to react and solution to the impact of Tanzania's introduction of Exchange Control on the other two territories.[114]

In further communications with the central board, Innes remarked that after the events in Tanzania, the Ugandan and Kenyan regimes required a more categorical statement around nationalisation, as well as a clearer policy line 'unless they wish to frighten private investment'.[115] The local official, however, trusted that the relocation of capital from Tanzania to Kenya, which he described as a boom, would definitively pull Kenya back from any policy that implied nationalisation.

To the relief of this institution, the Kenyan government gave signals that radically differed from its Tanzanian counterpart. Kenyatta maintained a good relationship with the British government and was seen as a guarantor of the British Interest in the ex-colony.[116] Even the most radical members in his government such as Tom Mboya, was recognised as a hard nationalist but his preference for a mixed economy was clear as remarked under the economic plan entitled *African Socialism and its Application for Planning in Kenya*.[117] Nevertheless, the confidence of the central board was not always fully shared by the local bank officials. In the case of BDCO, the fears over nationalisation arose once more when the

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[114] BGA 30/04/1/0080-3583, Letter from John Innes, Local Head Office Barclays DCO, to Chairman F. Seebom to discuss the recent nationalisation in Tanzania. Nairobi, 7th February 1967.
[115] BGA 30/04/1/0080-3583, Letter from John Innes, Local Head Office Barclays DCO, to Chairman F. Seebom to discuss the recent nationalisation in Tanzania. Nairobi, 13th February 1967.
[116] Cullen, *Kenya and Britain*, 133.
[117] Republic of Kenya, *African Socialism and its Aplication to Planning in Kenya*.

government expressed its intention to establish a national commercial bank. The fact that BDCO had the most extensive network of branches in Kenya was a factor that played against it as a result of the regime's temptation to use Barclays branches for the operation of the NBK. However, the chairman dismissed the anxieties of local officials based on the position of Kenyatta and most of his ministers in relation to this issue. For the chairman and the central board of the bank the important problem was not the dangers of being nationalised as had occurred in Tanzania, but the increasing cost of running branches in Kenya and Uganda which were eroding its profitability.[118]

The apparent compromise of the Kenyan government in relation to the nationalisation of the banking system should not be understood as the country's desire to remain under the same colonial conditions in terms of its financial institutions. On the contrary, the Kenyatta administration, with the support of its Minister of Economic Planning, Tom Mboya, had agreed since the first days of independence with the need to create new financial institutions in accordance with the country's requirements and its development plan. This strategy implied the creation of development and commercial banks owned by the government. The existing financial institutions would also succumb to closer supervision of their operations by the CBK. Finally, an objective in the development plan was to encourage the creation of locally owned banks to reduce the dependency of the country on the foreign monetary market and policies.[119] The commercial banks, once the danger of nationalisation and total exclusion from East Africa appeared to have been surpassed, had to adapt their institutions to a new political and economic scenario. The particularities of that adaptation are analysed in the next section of the chapter.

[118] BGA 30/05/2/0080-4877, Report of Mr. A.F. Tuke, Barclays DCO Chairman, of his visit to Kenya between 17th and 21st September, 1968. 8th October 1968. .
[119] Republic of Kenya, *African Socialism and its Aplication to Planning in Kenya*.

6.4 New Financial Actors: The Development of the Multinational Banks at the End of the 1970s

When the colony of Kenya was transformed into a sovereign nation in 1964, around 69 years had passed since the arrival of the NBI. This bank, along with BDCO and the SBSA, remained one of the most important in terms of its customer numbers, assets, and representation throughout the colony. However, times had changed and the big three banking institutions no longer enjoyed the protection of the British authorities neither had a monopoly over all financial matters in the nation. The 1960s saw an increase in the number of financial, banking, and non-banking institutions in East Africa. By the end of the decade alongside the big three there were seven more commercial banks in Kenya, diverse building societies, insurance companies, and development corporations.[120] In addition, the government was looking ahead to exert more control over the financial system and encourage the development of local financial institutions managed by private entrepreneurs and state managed.

Tom Mboya, energetically promoted the creation of a credit and commercial bank as well as a cooperative bank. The project had been on the agenda since 1963, however, in his opinion the necessities to create a development plan for the country had forced the government to speed up its establishment.[121]

> These steps have become very urgent in view of the situation we find ourselves in. I feel that the present commercial banks are not doing enough to assist us in accelerating the development of the country. The Commercial Bank will be the instrument by which we can influence in a meaningful way the policies of the other commercial banks. I feel this is a matter which should be given equal priority.[122]

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[120] *Who Controls Industry in Kenya? Report of a Working Party* (Nairobi, 1968), 161-85.

[121] KNA AE/26/8, Letter from Tom Mboya, Minister of Economic Planning and Development, to J.S. Gichuru, Minister of Finance, to discuss the creation of a cooperative and commercial bank. 10th February 1966.

[122] KNA AE/26/8, Letter from Tom Mboya, Minster of Economic Planning and Development, to J.S. Gichuru, Minister of Finance, to discuss the necessity to accelerate the creation of a government commercial bank, 15th March 1966.

Despite the supposed involvement of, and compromise from, the commercial bank officers in the country's development, Mboya alleged that they had not been stripped of their conservative policies, shutting them out of the development projects required by the new nation. The lack of resources was particularly harsh in key sectors of the development programme, such as construction and industry.

However, the viability of a development and cooperative bank in the current situation was challenged by the minister of finance, J.S. Gichuru. He was not convinced of the real benefits of a national bank due to the endemic lack of resources already causing suffering; a situation that would not necessarily improve with the creation of a government-owned commercial bank. It was his contention that the construction sector should be encouraged not by a new institution, but by using the diverse development corporations of the commercial banks and the government Housing Finance Company. This company was funded by Kenyan government and Commonwealth Development Corporation resources and had been running since 1965. Moreover, the resources to stimulate industry and commerce were already cancelled through the Industrial and Commerce Development Corporation. Gichuru remarked that even when the amount of resources available for those institutions was small, the real problem for the Housing Finance Company was 'to dish out loans as quick as it had planned'.[123]

Gichuru's most important argument against the claim that it was necessary for Kenya to establish its own financial institutions was the alleged positive behaviour of the established commercial banks. In the opinion of the ministry of finance, the government needed to interfere in countries such as Nigeria and Ghana because the commercial banks were not investing enough there. However, this situation had occurred in Kenya 20 years previously: 'The position here has been that the commercial banks have during the last 10 years been employing far more than 70 per cent of their deposits in local advances'.[124] The

[123] KNA AE/26/8, Letter from J.S. Gichuru, Minister of Finance, to Tom Mboya, Minster of Economic Planning and Development, to discuss the creation of a government bank, Nairobi, 30th March 1966.
[124] Ibid.

main problem was not the flow of capital, but real possibilities to raise internal resources. For that reason, concluded Gichuru, it was unlikely that the establishment of a state commercial bank would enable the country to acquire more resources into development. If the objective of the government was to influence other commercial banks, this could be done using the power of the central bank. The creation of a national commercial Bank 'in the current circumstances of the country were primarily political and not economic', he concluded.[125]

Despite Gichuru's arguments against the creation of the NBK, Tom Mboya lobbied other ministers to favour the initiative of the national commercial bank, in turn pressuring Gichuru to back the project. This pressure on other ministers was successful and some members of the government described the attitude of Gichuru as indifferent if not against the development plans of Africa. However, unintentionally backing the denunciation of the minister of finance regarding the real reason behind the creation of a national bank; one of the prominent motives behind its creation was the image that the government should have about its compromise towards the Africanisation process in commerce and industry. At the same time, the establishment of a commercial bank, it was explained, would allow the farming sector to access more credit because, in the opinion of some members of the government, 'the bank deposits made by the majority of African consumers are made available to other foreign interest' and not for local industries or entrepreneurs.[126]

The pro-nationalistic perspective expected by the Kenyan government from the commercial banks was transmitted to them during the Jogoo House meeting held on 16th February 1967. The meeting was attended by representatives of the main commercial banks and the ministers of finance and commerce. The permanent secretary of the ministry of commerce and industry, K.S.N. Matiba, expressed the government's desire to see from the banks a more responsive attitude to the credit demands of African traders. The objective for

[125] Ibid.

[126] KNA AE/26/8, Commercial Bank: Letter from T.M. Asamba to discuss the position of the Establishment of the National Bank of Kenya, 16th May 1967.

a closer approach to what he called 'honest and reliable African traders' would be to help in their economic development and introduce them to commercial banking services, hitherto unknown to many.[127] Matiba promised to work in conjunction with the Industrial and Commercial Development Corporation to provide the banks with some guidance regarding reliable traders. The chairman's idea was to pass reliable clients to the commercial banks that already used the services of the government financial institutions.

As in colonial times, the main concern expressed by the banks was the lack of securities for loans, as land and property titles were not always legalised. Despite Matiba's positive impression of the meeting, none of the commercial banks made a clear compromise for the future. The institutions only agreed to study the proposition and keep the secretary informed.[128] One year later, when the 1968 Banking Act was introduced, the NBI attempted to create a front with the other commercial banks against the intention of the Kenyan government to force the institutions to assign some capital to specific government projects, reaffirming their desire to remain independent from the development project of the country.[129]

The reluctance of the commercial banks towards a clear compromise regarding the Kenyan development plans backed the Mboya's position about the urgent necessity for a commercial bank owned by the government in order to achieve its development plans. The project of the minister of economic planning prevailed and the establishment of the institution continued. Due to the lack of infrastructure, personnel, and urgency to open the bank in the second half of 1968 at the latest, the first proposition was to acquire the Ottoman Bank to use its premises. However, the board of the Ottoman Bank wanted to retain 40 per cent of the equity, a proposal that went against the government's plans to establish a commercial bank that was 100 per cent owned by the administration. In the opinion of the

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[127] KNA AE/26/8, Commercial Loans Scheme: Proposals for Co-Operation Between the Kenyan Government and the Principal Commercial Banks, Minutes of a meeting held in Jogoo House on 16th February 1967.
[128] Ibid.
[129] ANZGB S 468/1, Minutes of the meeting of the Regional Committee "B" held on 10th June 1969.

permanent secretary of the treasury, and future first director of the institution, to solve these difficulties required a delay in the project for at least two years since not even an adequate building in which to operate it was available.[130] Despite this inconvenience, July 1968 was retained as the deadline for the NBK to begin its operations, providing all the services of a commercial bank, maintaining savings accounts, and carrying credit, and discount operations.[131] In other words, the NBK, contrary to other development institutions such as the Co-operative bank that had opened in 1967, would compete directly with the established commercial banks in terms of savings collection and investment.

The first of the commercial banks affected by the development of the new institutions in the country was the NBI. It had been the government bank during the colonial period, however, with the creation of the CBK in 1966 its maintenance of the government accounts was drastically reduced. The loss of the government accounts in favour of the CBK, admitted its chairman, would affect its available funds. The bank also had to operate solely as commercial bank in Kenya, trying to expand its base of local savers. Despite what looked like an adverse scenario, the reported increase in the amount of deposits during 1966 allowed the bank to remain positive and continue its expansion plans.[132] However, the scenarios for the coming years were not so promising for the NBI which foresaw a drastic reduction in its profits, beyond what had been expected. 'The drop in the profits was discussed and the Chairman stated that he was not satisfied that this was wholly due to the loss of Government deposits'. Further investigations were recommended, as well as the necessity to restructure the staff of the bank in the Kenyan branches.[133]

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[130] KNA AE/26/8, Commercial Bank: Letter from J.N. Michuki, Permanent Secretary to the Treasury, to discuss the establishment of the National Bank of Kenya (marked as confidential), 27th November 1967.

[131] KNA AE/26/8, Programme for Establishment of the National Bank of Kenya Limited (marked as secret), 29th January 1968.

[132] NGBL, 'Annual Report and Accounts for the Year Ended 31st December 1966'.

[133] ANZGB S 468/1, Minutes of the meeting of the Regional Committee "B" held on 26th September 1967.

The NBI's new position forced it to rely entirely on local monies, and for that reason it had been one of the most passive institutions during the colonial period in its approach to potential African savers and experienced problems beginning its adaption process in order to survive the new competitive scenario. Two years after the creation of CBK, the NBI board still reported disappointing profits and the necessity to change its procedures in order to remain relevant in the country. The change was particularly urgent due to the imminent loss of the last of the governmental accounts in favour of the NBK. 'As the Bank will be obligated to rely, to a very great extent, on Savings Bank Accounts and Quasi Government deposits', the committee remarked on the necessity to encourage the branch managers to be more active collecting such deposits from local business and individuals.[134] However, the board trusted that the lack of qualified personnel and management capacity of the parastatal commercial bank would allow the NBI to retain, for a time, the larger and most profitable accounts: the harbours and railways.[135]

As the institution was facing these adverse conditions it extended a costly branch modernisation process with the intention to automate the service in the interior of the country.[136] The NBI's automation process in Kenya had started in the Nairobi offices in 1967, however, by the end of the decade the board considered that it was important to take this technology to the smaller branches.[137] Despite the uncertainties and tough competition from the other financial institutions, the bank's authorities considered that it was imperative for the future of the institution not to take a passive attitude as it had done in the past; a position that, the board admitted, had been very harmful to its development in the region. On the contrary, the difficult scenario should encourage the bank to continue with its expansion in the territory as this policy was, in the opinion of the board, the only possible way to deal with

[134] ANZGB S 468/1, Minutes of the meeting of the Regional Committee "B" held on 10th April 1969.
[135] ANZGB S 468/1, Minutes of meeting of the Regional Committee "B" held on 17th September 1968.
[136] ANZGB S 468/1, Minutes of the meeting of the Regional Committee "B" held on 10th April 1969.
[137] The automation of the NBI using a computer system had begun in 1962 at the headquarters of the Bank in London. NGBL, 'Report of the Directors and blance sheet for the year ended 31st December 1963'.

the increasing competition in the Kenyan financial sector. Inaction meant that it could be easily surpassed by its new competitors. The maintenance of a good position in the Kenyan financial market was essential for the NBI as this country represented, by the end of the 1960s, the third most important of the 13 nations in which the bank was represented in terms of amount of savings. Only India and Pakistan were more important for the NBI by amount of savings, but Kenya was by far the most important African country.[138]

While the NBI radically changed its practise in Kenya in relation to the role that it had played during the colonial era, the other commercial banks had to adapt their policies to the new conditions too. In that sense, even though BDCO was the most prepared to face the new political conditions, with almost a total lack of government business and an important base of local clients, it had to deal with the new economic actors. As mentioned, the first fear of the bank's officials was possible nationalisation led by the necessity of the government to use the bank network for its own commercial bank. However, once this danger was put to bed, BDCO still had to face the competition of an increasing number of agencies from the three main banks, private financial institutions, and now the parastatals that, it was expected, would attract some of the accounts of local businesses, unions, and co-operatives. The bright side of the recent situation for BDCO was that the big three were all now equal.

One of the most important challenges for BDCO was the pressures from government and its own staff for faster Africanisation. This of course included an important increase in African staff in middle- and high-ranking positions, reducing at the same time the European and Asian officers. By 1968, Barclays had an equal number of Asians and Africans, 450 for each ethnic group in the bank. However, most of the Asians working for the bank were not Kenyan citizens and the government was increasing its pressure on the bank to reduce the number of non-Kenyans working in the country. Taking that into account, the bank's officials expected to lose most of its Asian staff over the following two or three years.[139] Four years

[138] NGBL, 'Report and Accounts for the Year Ended 31st December 1969' (London, 1970).
[139] BGA 30/05/2/0080-4877, Report of Mr. A.F. Tuke, Barclays DCO Chairman, of his visit to Kenya between 17th and 21st September 1968. 8th October 1968. .

later, BDCO dramatically reduced the number of non-citizens working for the bank to 63 and was expecting to lower this number to 25 over the next couple of years.[140]

The nationalistic aims in Kenya did not affect the bank solely in terms of its personnel. The new policy of the administration over the creation of government financial institutions also implied the loss of business that would be managed by the recently created banks. There was no legislation that forced government institutions, officials, cooperatives, or unions to keep their accounts with the banks managed by the government. However, as the objective with the creation of parastatal financial institutions was to collect the larger amount of capital and use it in government development projects, the commercial banks expected some pressure from the administration on businesses, workers, and institutions to use the services of its new commercial bank even when the institution, as noted by the NBI, did not have the capacity to deal with a high volume of accounts. For that reason, the regional committee of the NBI recommended that local managers prepare for the imminent loss of government and quasi-government accounts, 'as it was likely that such funds would be lost in the near future to the National Bank of Kenya'.[141]

The fears of the commercial banks were not groundless, just a few months after the opening of the NBK the manager of the BDCO branch in Nairobi reported that, as had been anticipated, the valuable 'Teachers Service Commission account' was transferred from it to the NBK.[142] Next, the manager of the branch in Thika reported a substantial fall in its balance as the result of the loss of the Gatundu Coffee Growers Cooperative Society Ltd. accounts, 'for whom the agency was originally opened'. The account of this cooperative had been transferred to the Cooperative Bank in Nairobi, forcing the agency to reduce its representation and even consider closure due to the drying up of business and competition

[140] BGA 08/07/1/0156-0129, Report on Mr. Tuke's Visit to Africa (Kenya, Zambia, Rhodesia, and South Africa) - August/September 1971.
[141] ANZGB S 468/1, Minutes of the meeting of the Regional Committee "B" held on 17th December 1968.
[142] BGA 20/01/1/0029-0744, Half-Yearly Reviews of Kenya branches. March 1969.

from the SBSA which managed the rest of the important business in the region.[143] For that reason, the local director of the bank, after the loss of its most important business, recommended to the central board the closure of the agency.[144]

The manager in Nairobi reported that the Kenyan authorities were also putting pressure to attract other accounts into the NBK, particularly those from the University College and East African Airways Corporation. While the first of the accounts did not represent an important loss 'as they have substantial funds in short call deposits', the possible transfer of the East African Airways Corporation in favour of the NBK would be an important loss for the institution, compromising the profitability of some agencies. This was recognised by the manager of the market branch in Nairobi.[145] However, BDCO trusted, as had the NBI before, in the incapacity of the recently funded financial institution to deal with such a large account, a situation that would force the Kenyan government to retain the account under the services of Barclays almost until the mid-term. The alleged pressure from the Kenyan authorities in favour of government financial institutions created an important precedent. It was now clear to the commercial banks that the future intentions of the government was to move accounts related to the administration into the parastatal, even without the existence of legislation to force them to use the services of the government financial institutions - a similar situation to what had happened during the colonial period with the NBI and British authorities.

BDCO was the commercial bank with the most branches at the end of the 1970s, and it was for this reason that increasing competition from private and public institutions forced it to start a major restructuring process and scrutinise the profitability of its branches, some of which had just recently opened. The inspection in Kenya during 1969 from the London central office of BDCO recommended the closure of 10 of its 67 permanent agencies and the

[143] Ibid.
[144] BGA 12B/07/3/0011-1075, Agency Representation, Memorandum. Survey of 69 Agencies and 3 mobile agencies in Kenya, 20th May 1969.
[145] BGA 20/01/1/0029-0744(2), Half-Yearly Reviews of Kenya branches. September 1969.

end of two of the three mobile services. The motives were in some cases the excessive number of BDCO branches that, as had occurred in the Kagumo agency, the small number of business and closeness between them meant that they were in direct competition with other offices of the same bank in the region. The other branches which the report recommended closure were facing competition from the other commercial banks. However, the main reason for these closures was the impossibility of retaining the business of the government as in the case of the Kandara agency that had, similar to the branch in Thika, lost the account of a co-operative which had transferred to the Cooperative Bank of Kenya.[146]

The end of the 1960s and the beginning of the new decade signalled, for the big three, the end of an era. For the multinational commercial banks, government and quasi-government accounts were unreachable now that the national financial institutions had been created. The chairman of BDCO, after a visit to the African branches, remarked how the commercial banks were forced to expect general economic expansion from the private sector of Kenya to increase their business. The chairman remained positive about recent economic developments in the regions, however, commented on the necessity of the SBSA, NBI, and BDCO to reduce the competition between them.

> It is inevitable in these days of nationalism that the older overseas banks should gradually suffer a reduction in their share of the total banking business, particularly in the developing countries where a number of locally owned banks have been formed. From what we could see we did not feel we need to be disturbed at the rate of attrition when the total cake is increasing satisfactorily. What is perhaps disturbing is the fact that during the last year or two in Kenya, Zambia and Rhodesia our growth of deposits compares unfavourably with that of the Standard Bank, who are, of course, affected in the same way as us.[147]

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[146] BGA 12B/07/3/0011-1075, Memorandum to Division General Manager (EWA) for Submission to General Manager (Mr. Ambrose) Agency Representation Kenya, 14th July 1969.

[147] BGA 08/07/1/0156-0129, Report on Mr. Tuke's Visit to Africa (Kenya, Zambia, Rhodesia, and South Africa) - August/September 1971.

The NBI was the first bank to reduce the competition against it by acquiring the Ottoman Bank, merging operations and branches. This was part of a global operation, however, in East Africa the new offices and accounts were particularly important to its profitability in the long term, as the chairman observed.[148]

The increasing importance of the independent government in the economic life of the country forced the commercial banks to redirect their strategy and work more closely with the national authorities. The big three attempted to support the government in the creation of more financial institutions with joint participation from the private and public sector. Contrary to its later posture against government intervention in the country's financial market, the chairman of the NBI recognised by 1970 'as reasonable the requirements of the Government that the branch banking system of the country should have at least one bank in which the people or the Government of the country had a substantial stake'.[149] Therefore, in Kenya, the NBI had taken the initiative of offering to the government 60 per cent of the interest of the subsidiary doing the commercial bank business in the country, the Kenya Commercial Bank. The international merchant bank business remained fully managed by the Grindlays Bank, an analogous arrangement that was made in Uganda.[150]

In response to the NBI initiative, BDCO in conjunction with the SBSA and encouraged by the government attempted to create a new commercial bank. The BDCO plan was to merge with the commercial banking activities of the SBSA, its most important rival. This merger, in conjunction with the government as an investor with 50 per cent of the total interest, would create the largest commercial bank in the country, The Union Bank of Kenya Limited, giving a great advantage for both banks over their competitors in the long term and simultaneously strengthening relations with key figures in the administration.[151] The

[148] 'Statement by the Chairman, Lord Aldington, P.C., K.C.M.G.,C.B.E., D.S.O. for 1970' (London: NGBL, 1970).
[149] Ibid.
[150] NGBL, 'Report and Accounts for the Year Ended 31st December 1970' (London, 1971).
[151] BGA 30/04/1/0080-3583, Letter from Sir Frederic Seebom, Chairman Barclays DCO, to discuss the proposal to merge their business with the SBSA (marked as private), Nakuru, 8th April 1970.

agreement with the government was signed in June 1972 and the new bank was expected to begin operating in four months. The board of the bank would be formed in accordance with the nationalistic aim of the government and both commercial banks would appoint members in equal numbers, all of them Kenyan citizens.[152]

However, despite the first agreement with the government to create the Union Bank of Kenya, a few months after the negotiations, to the astonishment of both the BDCO and SBSA, the authorities decided to withdraw their support. The decision was unsatisfying for the banks, particularly due to the money already expended for the project. Furthermore, the lack of a clear explanation and awareness from the government that, in the words of BDCO's general manager, A.E. Ambrose, proposed the amalgamation in the first place.

> On top of all this, there are of course the frustration etc. arising out of the efforts to comply with the Government's indicated desire that we amalgamate with the Standard Bank, something which, after some £150,000 and much time, thought and effort have been expended on the project, the Government has now decided it does not want. The £150,000 mentioned excludes expenditures on alterations etc. to the Standard Bank's Head Office to enable it to accommodate the unified control – from which the Standard Bank alone will now benefit.[153]

The flaws in the negotiation to create the Union Bank was a hint to BDCO officials about the lack of a consistent policy in Kenya relating to the development of the financial system, and a reminder of the prevailing internal struggles in what appeared to be an administration unified around Kenyatta.

The banks were unsure of the reason behind the government's withdrawal as Mwai Kibaki, the minister of finance who would become the country's third president between 2012 and 2013, was an important supporter of the project and declared to BDCO officials his

[152] BGA 30/04/1/0080-3583, Extract from Central Board Minutes 24th June 1971.
[153] BGA 08/07/1/0156-0129, Report of Mr. A.E. Ambrose, General Manager Barclays DCO, of his visit to Uganda, Zambia, Mauritus, and Kenya 16th May - 9th June 1972.

personal upset at the decision.[154] One the most important figures behind the withdrawal of the government's support was Mr. Michuki, permanent secretary of the treasury and by 1972 chairman of the Kenya Commercial Bank, a subsidiary of the NBI for the commercial banking business in Kenya. The creation of the Union Bank was clearly against the interests of the Kenya Commercial Bank which did not want to compete against such a formidable rival in the reduced financial market of Kenya.[155]

The chairman of the Kenya Commercial Bank, Mr. Michuki, was not alone in efforts to stop the creation of the Union Bank, as resistance also came from the parliament which was at the time an important place of debate and provided a counterbalance to the central government policies and was the arena for the expression of diverse ethnic interests.[156] For that reason, opposition from the non-kikuyu members of the parliament to the Union Bank was not unexpected.[157] The government already controlled the NBK, the Cooperative Bank and had 60 per cent of Kenya Commercial Bank interests among other non-banking financial institutions. The possibility to control 50 per cent of what would be the largest bank in Kenya allowed the government to alter the relationship of the bank with its clients and increase the government's capacity to be biased in terms of political rather than economic considerations and use the financial institution to punish disloyalties. Moreover, the most important lesson obtained by BDCO from the sudden withdrawal of the negotiations with the government around this project was the necessity to be more cautious in future ventures involving the Kenyan administration so as not to damage the image of stability and strength forged by BDCO since its arrival in Kenya. It was clear that in the future, proper legislation should exist before further involvement with government could be seriously considered by BDCO again, and in that case it should be the administration that requires the initiative.

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[154] BGA 08/07/1/0156-0129, Report on Mr. Tuke's Visit to Africa (Kenya, Zambia, Rhodesia, and South Africa) - August/September 1971.
[155] Ibid.
[156] Charles Hornsby, 'The Social Structure of the National Assembly in Kenya, 1963-83', *Journal of Modern African Studies*, 27 (1989), pp. 275-96, 277.
[157] BGA 08/07/1/0156-0129, Report on Mr. Tuke's Visit to Africa (Kenya, Zambia, Rhodesia, and South Africa) - August/September 1971.

The government had no further interest in promoting this initiative and the merger between BDCO and the SBSA to create the largest commercial bank in Kenya never occurred. The interest of the administration relied exclusively on achieving the full localisation of the commercial banks, expanding their number of local shareholders, staff, and operations. At the same time, neither the rampant perception of corruption and mismanagement in the country's administration nor the quarrels over what was perceived as imminent regime change by the expected death of Kenyatta benefited the institutions in terms of Kenya's future.[158]

The assassination of Tom Mboya in July 1969 contributed significantly to the political unrest in the country. In that sense, the general perception on the part of the financial institutions there at the end of the decade was remarkably portrayed in a letter sent from a bank auditor in Kenya to his brother. Sir. George Bolton, chairman of the Bank of London and South America, shared his brother's opinion with BDCO's central Board: 'In Kenya every Minister is filling his pocket', he remarked, 'The Ministers and Assistant Minister have just passed legislation for 20 per cent gratuities free tax. This may have something to do with Mboya's death'. In the opinion of the auditor the entire Kenyan government was in chaos.

> Kenya is very unstable indeed. The Government has more or less ceased to function. The Kikuyu, throughout unrestrained greed in high office, have lost all support in the country. Christian Kikuyo think Mau Mau has started again which will be a prelude to take over those who did not benefit from the grab after independence ... the Bank are under attack on work permit grounds and are giving way in a most spineless fashion.[159]

As analysed, this warning around the lack of concise management and the differences inside the Kenya administration at the end of the decade was soon experienced by BDCO and the

[158] Even when the Kenyatta regime was still seen as positive by the British authorities, by the end of 1960s the visible levels of corruption damaged the image of Kenya and its leaders, see Cullen, *Kenya and Britain*, 80.

[159] BGA 30/04/1/0080-3583, Copy of the manuscript letter received by Sir George Bolton from his brother, Mr. C.N. Bolton, in Nairobi, 3rd August 1969.

SBSA. The pinnacle of the increasing corruption and lack of supervision in the financial system would lead to the infamous Goldenberg scandal during the 1990s.

6.5 Conclusions

During the years between the end of the state of emergency and the beginning of the 1970s, the most important commercial banks in Kenya, known as the big three, had to pass through a complicated process of adaptation. The commercial banks, which had been operating in the colony since the first years of colonial rule, were enduring a more complex scenario than ever before. The banks had never experienced such upheaval to daily business, not even during the war or the peak of the Mau Mau uprising, as they did when the independent government took over Kenya.

As examined during this chapter, the banks passed through different stages in a relatively short period of time. After the military defeat of the Mau Mau upraising, the financial institutions expected a time of stability. Kenya, in that sense, was seen by the big three as a refuge from the political convulsions of the continent. This did not imply a turning back to pre-war practices as some radical white settlers had expected, there would be no return to exclusively servicing the settlers. Rather, the Africanisation of bank staff, the acquisition of greater numbers of local clients, and adaptation to increased competition from the other financial institutions would continue, however, these could be achieved in a safe political scenario.

Nevertheless, like most of the economic and political actors in the colony, the commercial banks underestimated the nationalistic aims of the Kenyan population and its political elite. Soon the impossibility of the British government and white settlers to maintain their political dominion was evident and the commercial banks faced a disruption to their hopes of political stability. The imminence of independence did not allow the banks to take any precautions or design a strategy. Instead they could only be more cautious by restricting credit and expansion plans. In the Cold War scenario, the biggest apprehension for the

financial institutions was not independence, but the path that would be taken by the independent government. Would it retain its western pro-capitalist values or, on the contrary, would newly independent become part of the communist sphere of influence? The biggest hopes of the institutions relied on the moderation of politicians and the influence of the British government over Kenya once independence was achieved.

To the relief of the commercial banks, despite his socialist rhetoric, Kenyatta embraced capitalist policy and maintained a close relationship with the British government, which at the same time offered military and political support. Another change during the post-colonial years was that for the first time, the officials of the financial institutions were openly disposed to support the continuation of the regime to avoid the communist influence. However, the development projects of the government and later abandonment of the plan to construct an East African federation forced the big three, and the rest of the commercial banks, to deal with new actors, the most important of which was the CBK and new commercial banks created by the government.

The distinct experiences of the NBI, SBSA, and BDCO during the colonial period determined their reaction to the policies of the new government. The NBI, which had accomplished the functions of a central bank for the colony, was more greatly affected by the changes in the financial structure of the territory. For that reason it sought an early association with the new regime to carry on its banking services. On the other hand, BDCO took a similar approach and tried to merge its operations with the SBSA and, in conjunction with the government, create the largest commercial bank in Kenya. However, the struggles within the Kenyan government in combination with opposition from the other commercial banks caused the project to fail. The BDCO was henceforth reluctant to embark on further projects with the Kenyan administration.

The big three certainly had many interests in Kenya and could not just pack up and leave as soon as any problem arose. In fact, the banks proved their resistance to the adverse conditions throughout East Africa where they remained despite extremely adverse

situations. It is true that the speed of decolonisation did not allow them to plan and exit without incurring substantial losses, nevertheless, the main reason behind their persistence was the impossibility of breaking into a new market. Because of that, when Tanzania launched its project of the nationalisation of the financial system and Uganda was in the midst of political upheaval, Kenya remained, despite rampant corruption and government mismanagement, as a safe land to be preserve

7 Conclusion

The main objective of the research was to understand the role of commercial banks in the economic development of the colony, and how these financial institutions were at the same time transformed by the social and political events that occurred in the colony and surrounding areas. In historiographical terms, the research attempts to make a relevant contribution to the currently literature of business history showing the necessity to expand further the research around the commercial banks along colonial Africa by the relevance of this institutions in the development of the colony. Also, exhibited the potential to combine multiple sources generated by distinct levels of the administration in the financial institutions and the colonial government to reconstruct the history of the banks with a wider and more comprehensive perspective. Furthermore, the research has deconstructed the internal function of the banks revealing the internal conflicts arising at the interior of each institutions. In doing this, the relevance of the first agent problem in the business history theory has been remarked for the case of the multinational banking institutions doing business in colonial Kenya, showing the importance to increase the number of investigations facing this problematic along different geographical areas with colonial experiences.

On the other hand, the importance of external factors as the social convulsion, competition and political changes, affecting the performance of the commercial banks has been demonstrated in the research. For that reason, the thesis has stated the importance of a comprehensive analysis of the organisations in charge of the production and delivery of goods and services, in this case financial services, to understand larger and complex socioeconomic process. The current relevance of the historical research focused on business relies in the capacity of these studies unveiling complex historical process, in which business are targets and actors in the historical process.

In that sense, as demonstrated throughout the research, the larger commercial banks, and even the smaller institutions, were not passive regarding the different changes that swept the colony but instead active historical actors that were transformed in accordance with what was going on around them. However, it was not just these financial institutions that changed, as the transformation was reciprocal. The actions of the banks had long-term consequences for colonial development, which played out in Kenya post-independence. The commercial banks shaped the first generations of African users of formal financial institutions, contesting the traditional means of saving and investment among that population. Besides, the historical behaviour of the commercial banks in the colony and their relationship with the independent government, particularly towards its development plans, encouraged the new nation to create its own financial services.

The research has also exhibited how the role played by the banks varied in accordance with the growing economic importance of the colony. The financial institutions deepened their activities and involvement in local affairs at the end of the colonial period, a result of the rising importance of the African population in the economic and political life of the colony, which coincided with the retreat of the settlers. This involvement in political affairs reached its peak when Kenya acquired independence. The big three needed to plan an approach to new government and even support the Kenyatta regime to guarantee their survival.

The dynamic behaviour of the commercial banks can be partially related to the characteristics and origin of the colonial financial system. As explained in the second chapter, the financial institutions that arrived in colonial Kenya were multinational banks, which had to remain profitable to keep running their services. Even the NBI, an institution that was closer to government could not limit its business to just providing services to the colonial authorities and extended its business to other economic sectors. Furthermore, none of the commercial banks in the colony held the monopoly of the banking services or were assigned

to issue bank notes. The protection enjoyed by these institutions was against competition from non-British commercial banks, not through clear prohibition but the financial advantages offered for the institutions that were headquartered in London. However, the interest of non-British banks in the colony occurred only at the end of the colonial period. Even then, the entrance of major players such as the HKSB was a rumour but this was enough to set off alarms for the big three, which tried to create a single front to face this potential external competition.

The role of the banks was not limited to halting the entrance of foreign competitors, but also to expand their services throughout the colony. This expansion, as should be expected, was more active in times of projected security and economic growth, diminishing at moments of political and social distress. As the research demonstrates, expansion and certainty characterised the post-war years which marked a new approach of the British government towards the colony, resulting in the termination of indirect rule. The influx of money and perception of development in the colony encouraged the banks to take a more active role. The Mau Mau uprising, while it did not endanger British dominion, put an end to this period of grace, causing the institutions to reconsider their future in the colony. The sense of apprehension was fuelled by the spread of nationalistic movements throughout the British Empire.

The early concerns around the uprising were rapidly transformed to optimism once again regarding the future of the colony when the military backbone of the Mau Mau was broken and pacification took place. As the various communications from the banks prove, the increasing amount of resources being pumped into the colony alongside the interpretation of the multinational banks which saw in this defeat the delay of independence for at least two decades, encouraged a new wave of branch, client, and business expansion. As the circumstances of the colony changed, this new phase was, however, dissimilar from that of the post-war period in its target and strategies.

As discussed in the fourth chapter, during the second half of the 1950s, the commercial banks, led by the BDCO, tried to put an end to the privileged position of the NBI over the colonial government accounts. This was motivated by the increasing importance of those accounts as a result of the rising amounts of resources being managed in the colony. Besides, being the bank of the government implied other advantages. One of the most important being the practice, not compelled by law, of co-operative societies and other business favoured with the schemes to open their accounts with the NBI due to its status as the bank of the colony. The main battlefield to end the monopoly occurred in the NBI's right to keep government accounts upon its arrival in a new territory, even when the account was already handled by the other banks. This attack on the NBI's privilege backfired on BDCO with dubious success.

The other distinctive characteristic of the development of the commercial banks after the Mau Mau revolt was its amplified interest in the African population, particularly as clients. Before the 1950s the only institution that had attempted to attract Africans into formal banking was the POSB. The economic importance of Africans increased the incentives for private financial institutions to embrace them as clients, forcing the banks to transform their practices. That meant directing their efforts to more regions at the interior of the country, leaving their usual concentration in the urban centres and accepting the nationalistic or almost anti-imperialistic sentiment of the African population. The commercial banks were forced to mark their distance, almost superficially, from anything that suggested the subjugation of the local population, empire, or racist policies. A paradigmatic example was the necessity of the SBSA to withdraw or almost hide the word "South Africa" from its name. It was recognised by officials that the brand name was becoming an impediment in attracting more locals to the bank, in turn making the competition against rival financial institutions, particularly the BDCO, more difficult. This case shows the increasing nationalistic feeling among the population and is also a paradigmatic example of the awareness of bank officials as to the need to appeal to future clients.

The banks also began a localisation process because despite their fears of a radical political transformation and while they did not show particular support to the nationalist aims, the customer base had changed. This meant that the big three had to change too, marking their distance from those radical settlers who wanted to retain all of the political and economic power. The fight of the radical settlers to turn back the wheel of time was doomed and the bank officials understood this early on. For that reason, they tried to position themselves closer to the ascending African politicians, bourgeoisie, white collar workers, and proletarian classes. The main worry for the banks was to the reach independence with the resentment of the local population, a situation that could be derived from policies against their interests, including expropriation. The financial institutions sought recognition from the population as Kenyan banks instead of multinational or British institutions. However, while the aim was to attract more resources, the commercial banks remained traditional in their lending policies. Most of the African population remained outside the orbit of their credit criteria even when some policies were applied to soften the requirements. These inclusion practices were led by the development agencies of the banks, BDCO being the most dynamic.

However, while the Africanisation process in term of clients was actively encouraged by the commercial banks, they were less responsive when it came to the involvement of the local population as staff. It was their tendency to maintain in their operations the stratification prevalent in the colony with the Europeans in executive positions, Asians and Arabs in the mid-range roles, and Africans in the less qualified jobs. As examined in the fifth chapter, this stratification prevailed through racial prejudice, excused under allegations that the African population lacked an understanding of modern economic thinking and pointed to the absence of training necessary to fill the better posts. Nevertheless, as has been discussed, the British banks did not hire university but grammar school graduates. These workers were then trained in the field or in banking schools managed by the institutions. Therefore, the Africans could easily follow the same path to reach managerial positions.

The rising costs of importing European personnel to run the offices amplified the economic incentives of the financial institutions to hire African personnel. However, the racist attitudes were not so easily destroyed with the reluctance this time coming not just from the bank customers, who did not want to deal with African or even Asian personnel, but also from the banks which shared this reluctance and remained passive to the more active inclusion of Africans. The real Africanisation of the banking personnel did not occur until independence, at a time when the institutions had more difficulty finding European staff at an acceptable cost. This coincided with the Kenyatta administration increasing its pressure for the total Africanisation of private and public institutions. In that sense, it can be argued that the Africanisation of the customer base of the banks occurred from a mixture of the change in historical conditions and the receptiveness of the financial institutions; the hiring of locals in high banking positions required pressure from the Kenya sovereign government.

Even when the development projects of the big three and other financial institutions in the colony targeted the African population, the business strategies of the banks were based on the assumption that the British domination of Kenya would last a further two decades, and the influence of the metropolis would continue even longer. For that reason, when the imminence of independence became clear, the financial institutions entered a new crisis and had to adapt to the new political and social conditions in the colony. The main concern for the banks was their impossibility to see clearly the path that would be taken by the new administration. This was particularly problematic during the cold war. Would Kenya take the socialist path as Ghana had, or it will remain under the capitalist western influence? There was no special strong soviet influence in Kenya, but the political balance could change easily.

The fears over possible economic turmoil that could endanger the business of the banks or, even worse, the potential installation of a socialist government encouraged bank officials to back any attempt to increase their influence on the British government over Kenya post-independence to preserve the stability of the economic system. The possible creation

of the East African Federation, with a single central bank for East Africa and common free market, reassured the financial sector anxieties over the future of the colony as long as they associated the formation of this regional institution with the maintenance of pro-market policies and financial stability in Kenya, Uganda, and Tanzania. These hopes were, however, short-lived as the distinct paths taken for each country increased the impossibility of reaching an agreement and finally the project was dropped.

This forced banks to deal not with one central authority in financial matters but three, each of with their own development project and perception of what role the commercial banks should play in the development of the new nation. To the relief of the commercial banks, the Kenyatta administration showed its pro-western and free market policies early. Kenyatta also relied on British support to consolidate his power against internal and external dissidence, giving assurances to the banks that he would follow a more moderate policy. This was not the case for Nyerere whose government was closer to a socialist project and commanded the nationalisation of the commercial banks in Tanzania in 1967, an action that took the bank officials by surprise. The bitterness of this experience forced the banks to take a different approach to the region. They could no longer trust in the word of government members as the strong man of the country. The financial institutions needed be vigilant in paying closer attention to the regional political circumstances of each country.

Expropriation stimulated the banks to establish closer relations with political affairs in Kenya even to the point of giving financial support in the run up to elections to Kenyatta's party against its rivals, particularly Oginga Odinga, identified with the radical left. At the same time, the big three had to rely more on their regional officials to establish relations with the government and keep a closer eye on the local situation, giving them the opportunity to act in advance. On the other hand, nationalisation in Tanzania made it clear to the financial institutions that they could not count on the support of the British government to safeguard their interests. The Cold War threat forced the Foreign Office to prioritise good relations with

the East African governments rather than protect private business - a position that, in the opinion of the British authorities, could bring the animadversion of African politicians increasing the communist influence in the region. The lack of commitment from the British government in relation to the commercial banks' problems in the region, along with the failed project to create supranational institutions, forced the banks to rely exclusively on their relationship with the national government to look after their interests. It can be concluded that the convulsive times through which the region was transiting forced the institutions to deepen the localisation process they had begun since the end of the colonial era.

The last central factor analysed in the research that altered the relationship of the commercial banks with the new administration and Kenyan population was the creation of two government financial institutions: the Co-operative Bank of Kenya and the NBK. Despite the increasing involvement of the NBI, SBSA, and BDCO with the local population by the end of the 1950s, some Kenyan politicians were convinced that the passivity of the banks in their character as foreign institutions, and their reluctance to support the projects of the country, made them unsuitable institutions in terms of Kenya's future economic plans. This position generated some debate between the minister of economic planning, Tom Mboya, who supported the project and Gichuru, the finance minister, who expressed his opposition. Despite that, the creation of the commercial banks managed by the government prospered. The image of the commercial banks, classified as passive institutions with no interest in serving the African population, as tools of imperialism were not easily forgotten. This characterisation was continuously summoned in support of nationalistic projects.

These institutions represented a direct challenge to the big three as their main objective was to attract resources from local savers and business. For the big three, this was the first time they had to face actual competition from a similar institution. The first years of the 1970s saw the banks taking a favourable approach to the Kenyatta administration, rather than the more expected position against the creation of these new institutions. For the commercial banks the only response to the increasing importance of the government in the

financial system was through an alliance with that administration. After its acquisition of the Ottoman Bank, the NBI, established the Kenya Commercial Bank in conjunction with the government. Meanwhile BDCO, together with the SBSA, tried a similar strategy. With government support, the two banks entered into negotiations to create what would become the largest commercial bank in Kenya. However, the project collapsed due to the sudden withdrawal of the government from the venture. This was particularly costly to the BDCO and damaged its confidence in the government insofar that its officials recommended that the bank should not start any other project with the Kenyatta administration in the medium term.

As with any historical research, this investigation has left many unsolved questions and exploratory veins. There is much to be understood about the first years of the NBI, its relationship with Indian migrant workers, and negotiations with the Imperial British East Africa Company and the first colonial authorities. These first arrangements were fundamental in defining the role of the NBI in the long term. It is also important to explore in more detail the role of each bank with the East African Currency Board and the introduction of new currencies. Moreover, while this research focussed its analysis mostly on the National Bank of India, the Standard Bank of South Africa, and Barclays Dominion Colonial and Overseas, the role of other financial actors such as the Ottoman Bank, Habib Bank Overseas Limited, among other non-banking financial institutions, should not be neglected. The importance of the smaller banks relied on the fact that, since they were not in the position to compete against the big three or attract government accounts, their strategy was to target specific sectors of the population and became the first financial institutions to be used by other minorities in the region.

Finally, the Post Office Savings Bank, partially studied in this research, should be re-evaluated by the current historiography specialising in East Africa and its banking history. The study of this institution tends to be neglected due to its minor importance in monetary terms, however, it is distinctive in that it was the first formal saving institution used by not only most

Africans, but even by members of the Asian community and some Europeans. In that sense, the POSB worked as a bridge between traditional savings and investment practices and the commercial banks. Further, the importance of this institution is not measured just in economic terms but in its pedagogical mission and capacity to adapt, traits that were not shared with any other bank in the colony. The POSB was likely not just the first banking service that reached some communities far away from the urban centres, but their only continuous contact with a colonial institution. The material available for the study of the Postal Bank in Kenya and throughout East Africa is extensive, and its study is fundamental to a better understanding of the financial development of the region.

Despite the gaps outlined, the research has achieved its main objective to re-evaluate the role of the commercial banks, showing their intricate history throughout the colony of Kenya and the bidirectional impact between these institutions and the historical development of the population.

The sovereignty of Kenya did not mark a change in the role of the banks because even when transformation occurred, there was no abrupt separation between the financial system pre- or post-independence. The major transformation of the inherited private financial system took place during the 1970s when the banking and non-banking financial institutions owned by the Kenyan government and the private sector began to increase in importance. However, the rampant corruption denounced by the banks, and administrative negligence of the officials of the new institutions, transformed what should have been an amplified process of inclusion into a corruption scandal and deep financial crisis that eroded the confidence in the Kenyan financial system; a confidence that was not partially recovered almost until the first years of twenty-first century.[1]

[1] For an analysis of the biggest corruption scandal that involved the financial system, the Goldenberg scandal during the 1990s, see: Cherotich, 'Political Corruption and Democratization in Kenya'

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