

1961

# Implications of British aid to West Africa for colonial economic policy.

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Boston University  
Graduate School  
Thesis

IMPLICATIONS OF BRITISH AID TO WEST AFRICA  
FOR COLONIAL ECONOMIC POLICY.

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(A.B. Clark University, 1958)

Submitted in partial fulfillment of the  
requirements for the degree of  
Master of Arts  
1961

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## INTRODUCTION

This thesis deals with some of the implications of colonial development policies involving the use of grants-in-aid. Although concern with economic development by colonial governments is nothing new, concerted efforts to promote development through public investment programs is largely a post-World War II phenomenon. The interest of certain governments in the economic development of their colonies can be seen in Africa, where public investment programs have been initiated in nearly every country since the end of the war. Finance for these programs has come from various sources, among them grants-in-aid.

The importance of grants as a source of development finance has varied in the Belgian, French and British African colonies. In the Belgian Congo, programs have been financed almost entirely out of local resources. In the French colonies, reliance upon metropolitan grants-in-aid has been so heavy as to cause, at times, a severe drain upon the French economy. In British dependencies, metropolitan grant funds have been used for development purposes since 1945, though to an appreciably smaller extent than in French territories.

Official British statements claiming that these grants have resulted in sacrifices for the United Kingdom coincide with what one would normally expect in the case of grants-in-aid. It is to be noted, however, that certain United Kingdom

colonies, particularly those in West Africa, held substantial financial assets during the whole period in which they received British grants. In light of this and certain other facts that will be presented later, the question arises whether the grants-in-aid to West African countries have, in fact, involved sacrifices for the United Kingdom.

The question centers around the position of the four West African countries (Gambia, Ghana, Nigeria, and Sierra Leone) as members of the sterling area and the role of United Kingdom grants in West African development programs. For the sake of clarity it has been deemed advisable to precede the analysis with an examination of certain characteristics of the sterling area in relation to West Africa and the latter's public investment programs. In Chapter I, therefore, the discussion is limited to the structure of the sterling area as it affects West Africa. In Chapter II, West African development programs are described with special reference to United Kingdom grants-in-aid as a source of development finance. In Chapter III, the main problem arising from the facts presented earlier is analysed.

The problem is significant in view of recent changes in Britain's economic policy toward its dependencies. Before

World War II, United Kingdom policy statements repeatedly emphasized that British colonies should finance development on a pay-as-you-go basis. Though some loans and grants were made, on the whole no substantial money was given in this form. There appeared to be a significant change in this aspect of British policy, however, when the first Colonial Development and Welfare Act was passed in 1940. The United Kingdom thus declared its intention to provide substantial grants in support of development programs in its colonies. It is hoped that an analysis of the question of whether or not the grants have resulted in sacrifices for the United Kingdom, as has been claimed, will show whether the change in British policy was substantive or merely formal. Whether, that is, public investment programs in West Africa have in fact been assisted by the United Kingdom or whether they have been financed entirely on the basis of local output.

## I. THE STERLING AREA IN RELATION TO WEST AFRICA

### Abandonment of the Gold Standard

The historical roots of the sterling area are deeply enmeshed in the soil of the international trade of the British Commonwealth. The size of British trade in world markets established London's importance as a financial market during the 19th century. Sterling was considered "in some respects an equal, or even superior, partner" to gold under the gold standard.<sup>1</sup> Tew points out that countries trading with Great Britain found it convenient to trade in sterling and maintain balances in London. Moreover, by virtue of the relative stability of British prices and the knowledge that sterling could be converted into gold at the Bank of England on demand, it was considered a safe currency; the financial bonds of the world to London were thus strengthened.

With the breakdown of the gold standard in the early 1930's, many of the trading nations of the world chose to define their currencies in terms of sterling or dollars owing to the convertibility and transferability of both currencies.

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<sup>1</sup>B. Tew, International Monetary Co-operation 1945-1952, London: Hutchinson's University Library, 1952. The material covering the pre-1931 period is based on Tew's description, pp. 120-23.

Those countries that chose sterling came to be known as the "sterling area" countries. By 1933 this included all of the British Commonwealth (except Canada and Newfoundland), most of the Scandinavian and Baltic countries and several others. From 1931 to 1939 the sterling area existed without formal definition. It is useful to examine the structure of the area during that period in order to see the significance of the changes that took place from 1939 onward.

In many respects the system from 1931 to 1939 remained as it had been under the gold standard. Countries still traded with Britain in sterling, and still maintained balances in London; these were sterling rather than gold. Members defined their currencies in terms of sterling at voluntarily fixed exchange rates. This was due in part to the dependence of members on British trade.

. . . these countries had a strong interest in protecting the prices of their exports and safeguarding their competitive position on the British market by allowing their currencies to depreciate in company with the pound.<sup>2</sup>

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<sup>2</sup>League of Nations, International Currency Experience, 1944, p. 48.

Sterling balances were freely convertible into gold and foreign currencies, as they had been under the gold standard.

The British, however, did not commit themselves to maintaining a fixed rate of exchange between sterling and gold as was the case under the gold standard. Instead, they attempted to keep the existing rate stable by "ironing out" short-term fluctuations. This was done through the operations of the Exchange Equalization Account.<sup>3</sup>

Perhaps the most significant feature of the pre-World War II sterling area was that it was "a club in which custom and habit took the place of rules."<sup>4</sup> There were no sanctions leveled against violators of the financial etiquette. Each country, in carrying out its international financial policies was guided by the level of its own reserves.<sup>5</sup>

In 1939 the sterling area underwent three major changes.<sup>6</sup> First, all non-Commonwealth members dropped out, with the

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<sup>3</sup>Tew, op. cit., p. 26. The account bought and sold sterling on the market when supply and demand pressures threatened to cause a change in the exchange rate of sterling. This point will be discussed in greater detail later. See

<sup>4</sup>A.R. Conan, The Sterling Area, London: Macmillan & Co., 1952, p. 148

<sup>5</sup>For information concerning the sterling area before 1939 see: League of Nations, op. cit., pp. 48-64; Tew, op. cit., pp. 120-124; P.W. Bell, The Sterling Area in the Postwar World, Oxford: Clarendon Press, 1956, pp. 3-18; E. Zupnick, "The Sterling Area's Central Pooling System, Re-examined," Quarterly Journal of Economics, Vol. LXIX, 1955, pp. 72-73; Sir D.H. Robertson, Britain and the World Economy, London: Allen & Unwin Ltd., 1954, pp. 32-38.

<sup>6</sup>Zupnick, op. cit., pp. 72-73.

exception of Egypt, the Sudan, Iraq, Iceland, and the Faroe Islands. Second, the area received formal definition with the establishment of an exchange control system. These regulations, drawn up by the members of the sterling area, were aimed at effecting maximum transferability of sterling within the sterling area and complete control over transactions with the rest of the world.<sup>7</sup> Third, the primary aim of the area became the gathering and conserving of financial and economic resources. This was attempted in three ways: (1) unauthorized capital movements were forbidden; (2) members agreed to accumulate sterling balances in London when possible, rather than to spend them;<sup>8</sup> and (3) a gold and foreign currency pool was established. While purchases of gold were suspended at the beginning of the war, members still had the right to purchase foreign currencies.<sup>9</sup> They "agreed to limit their purchases of foreign exchange to what they needed for the settlement of essential external payments."<sup>10</sup> Thus, in 1939 the sterling area was converted "from a loose association of

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<sup>7</sup>Bell, op. cit., pp. 44-45.

<sup>8</sup>The United Kingdom paid for its trade deficits with sterling area countries by adding to their sterling balances. S. Katz, "Leads and Lags in Sterling Payments," Review of Economics and Statistics, Vol. XXXV, 1953, p. 82.

<sup>9</sup>Great Britain, Committee on the Working of the Monetary System Report, Cmnd. 827, 1959, p. 238.

<sup>10</sup>Ibid.

nations into a grouping with a formal structure of administrative regulations as well as some unwritten conventions."<sup>11</sup>

The most significant feature of the sterling area in the postwar period was that it was an association based on mutual advantage, rather than being a monetary association based on loose agreement. This may be attributed to two things. First, by the end of the war the member nations had accumulated sizeable sterling balances. Balances increased from £ 300 million in 1939 to £ 2,500 million in 1945.<sup>12</sup> The British economy had been severely drained during the war and the financial means to meet its sterling obligations were not within its reach. Furthermore, it was possible for members to trade with each other without producing the actual currency with which to carry on that trade. Deficits were merely debited to one sterling account in London and credited to the other.

Second, the sterling area, like most of the non-sterling world, experienced a severe dollar shortage.<sup>13</sup> The wartime phenomenon of pooling foreign currencies and gold became even more attractive in light of this shortage. Each member had

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<sup>11</sup>Katz, op. cit., p. 81.

<sup>12</sup>Robertson, op. cit., p. 38. No source cited.

<sup>13</sup>For a description of the nature of the dollar problem see: K. Wright, "Dollar Pooling in the Sterling Area," American Economic Review, Vol. XLIV, 1952, pp. 564-566.

the prospect of obtaining scarce dollars in order to finance imports in excess of its exports to countries outside the sterling area merely by selling some of the sterling accumulated in its sterling account in London. A country such as Australia, for example, could buy dollars from London's pool with sterling it held in its London balances. This could occur even if Australia was in deficit with the whole world. It meant that foreign exchange did not have to be earned to pay for deficits as long as a country held sterling balances. At the same time, members had to turn in their foreign exchange and had no right to claim it merely because they earned it. For these reasons, while independent members were free to withdraw from the sterling area, continued participation in the area was a great financial advantage.

From these changes in the advantages and obligations of sterling area membership came the need for formal definition of the rules of the game. Who were the members and what were their obligations and privileges? The British Exchange Control Act of 1947 provided the answers.<sup>14</sup> Members were defined as those countries which came under the classification of "Scheduled Territories." However, the sterling area was understood to be more than a list of scheduled territories.

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<sup>14</sup>Great Britain, Cmnd. 827, op. cit.

It is essentially a group of countries, most but not all of them members of the Commonwealth, who follow generally comparable policies in their overseas transactions, in particular pegging the rate of their currency on sterling and holding the bulk of their reserves in sterling.<sup>15</sup>

The act allowed freedom of payment to countries within the sterling area. Payments to outside nations, on the other hand, required permission of the Treasury. Consequently, there was to be no exportation of legal tender.<sup>16</sup>

It was this type of close relationship and agreement between the other members and the United Kingdom that enabled the latter to protect itself against the possibility of rapid decumulation of the large sterling balances. Agreements to limit the rate at which sterling balances would be drawn upon were made with India, Pakistan, Ceylon, Iraq, Burma, Norway, Portugal, Sweden, Switzerland, Argentine, Brazil, Egypt, Israel, Italy, Jordan, Uruguay, and the Irish Republic.<sup>17</sup> Australia and New Zealand were the only Dominion countries that "enjoyed full convertibility throughout the postwar period."<sup>18</sup> Constraints on depleting balances in these agree-

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<sup>15</sup>British Information Services, "Sterling and the Sterling Area," British Affairs, Vol. III, No. 4, 1959, p. 203.

<sup>16</sup>H.A. Shanon, "The British Payments and Exchange Control System," Quarterly Journal of Economics, Vol. LXIII, 1949, p. 216.

<sup>17</sup>Shanon, op. cit., pp. 219-220; Zupnick, op. cit., p. 74; F.V. Meyer, Britain, The Sterling Area and Europe, Cambridge: Bowes and Bowes, 1952, p. 49.

<sup>18</sup>Zupnick, op. cit., p. 74.

ments limited the use of pre-war and war-time earnings. Current earnings were not restricted.<sup>19</sup> The restricted accounts became known as blocked accounts. The blocking of balances, coupled with the agreement among members to purchase as large a percentage of total imports as was possible from within the sterling area, constituted a major change in the area as it had been understood in the pre-war period.

To tell creditors that these sterling balances could only be used for the purchase of goods from the sterling area, or, in certain cases and subject to the changing directives of British authorities, to purchase goods in other specified countries...was to make a most drastic change in what had historically been understood as the very nature of a sterling deposit.<sup>20</sup>

By 1959 the stringency of the sterling area's restrictions was lessened considerably. The International Monetary Fund's annual report on exchange restrictions points out that transfer to non-resident accounts is now permissible in the sterling area. That is, sterling balances may be used to purchase goods from countries outside the area. Residents in sterling area countries may purchase goods from those nations that are willing to accept sterling as payment. Moreover, since sterling is now freely convertible at market rates, purchases that require foreign currencies are also allowed. There still

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<sup>19</sup>Bell, op. cit., p. 20.

<sup>20</sup>R.C. Harrod, "The Pound Sterling," Essays in International Finance, No. 13, Princeton: University Press, 1952, p. 12.

remains, however, a list of restrictions.<sup>21</sup> Imports require licenses, invisible imports must be cleared with the exchange authorities, foreign currency earned in exporting must be turned in, and capital payments outside the sterling area require approval, "which normally is granted for commercial investment that promises to employ sterling area skills or techniques or to assist sterling area exports or the production of raw materials."<sup>22</sup> These restrictions, while less stringent than they have been since the end of the war, describe something far less than free convertibility.

#### The Exchange Equalization Account

The central mechanism of the sterling area since the advent of World War II has been the central pool of gold and foreign currencies, the Exchange Equalization Account. It is the sources of foreign exchange for all members and the account in which foreign currencies earned by them are deposited.

The Exchange Equalization Account was set up by the Finance Act of 1932 to provide a fund which could be used, under the control of the Treasury for the purchase and sale of gold and foreign currencies in order to prevent excessive fluctuations from day to day in the exchange value of sterling.<sup>23</sup>

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<sup>21</sup>International Monetary Fund, Tenth Annual Report, Exchange Restrictions, Washington: I.M.F., 1959, p. 4, pp. 140-42, 317-325.

<sup>22</sup>Ibid., p. 321.

<sup>23</sup>Great Britain, Cmnd. 827, op. cit., p. 111.

The Account was given an initial stock of sterling by the Exchequer in order to begin operations.<sup>24</sup> This sterling was to be used for buying enough foreign currency to maintain a stable rate when demand pressures on sterling threatened to drive the rate up, and for selling gold and foreign currency in the market when the supply of sterling was large enough to drive the rate down.

The United Kingdom had three objectives in creating the Account in the prewar period: (1) to prevent only those exchange rate fluctuations that were either seasonal in nature or due to speculative capital movements (since it was still interested in maintaining "flexibility in relation to long-run disequilibria,"<sup>25</sup>), such as major disturbances in balance of payments on current account;<sup>26</sup> (2) to demonstrate that the government and not the central bank was in direct control of the international monetary position;<sup>27</sup> and (3) to insulate the British

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<sup>24</sup>Tew, op. cit., p. 26.

<sup>25</sup>Harrod, op. cit., p. 7. Since the end of World War II Britain has agreed to peg the exchange rate of the pound through its membership in the International Monetary Fund. On this point, see: Great Britain, Cmnd. 827, op. cit., p. 112.

<sup>26</sup>To be effective, the operations of the Account must be secret. League of Nations, op. cit., p. 157; Great Britain, Cmnd. 827, op. cit., p. 125.

<sup>27</sup>A.C.L. Day, Outline of Monetary Economics, Oxford: Clarendon Press, 1957, p. 443. This is no longer necessary since the nationalization of the Bank of England in 1946.

economy against the adverse affects of inflows and outflows of gold resulting from foreign trade surpluses and deficits which were common under the gold standard. When gold and foreign exchange were purchased from the Account by the public, the Account would purchase bills from the Exchequer, which in turn would correspondingly decrease the Treasury's borrowing from the banks and the public. Conversely, sales of gold and foreign exchange to the Account resulted in a decrease in the Account's lending to the Exchequer, which would then increase its borrowing from the banks and the public. It was hoped that through these monetary manipulations, the multiple expansions and contractions of the credit system that would ordinarily occur if these funds were to flow through the banking system would be avoided.<sup>28</sup>

The threat of war in 1939 did not change the structure of the foreign exchange pool; it merely caused members to restrict their calls on these assets. As has been noted, restrictions were not formal. By virtue of the advantages they experienced, members agreed to play the rules. This "gentlemen's agreement" has been the foundation of the sterling area's success.<sup>29</sup>

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<sup>28</sup>M.W. Dacey, The British Banking Mechanism, London: Gainsborough Press, 1951, pp. 103-104.

<sup>29</sup>Bell, op. cit., p. 52.

Beginning in 1939, foreign exchange dealings were conducted through official exchange dealers; from the early 1830's they had been handled by the banks.<sup>30</sup>

This function of the Account was made official in 1946, when the Finance Act declared that one of the purposes of the Account was "the conservation or disposition in the national interest of the means of making payments abroad."<sup>31</sup> A year later, the Exchange Control Act of 1947 extended the control system by specifying that exchange could be obtained only through authorized dealers.<sup>32</sup> All gold and foreign currency received was to be turned in to the Exchange Equalization Account.<sup>33</sup>

The main purpose of the Act was to feed into the Account, which had officially taken over the operation of the gold and foreign currency pool, "all available gold and foreign exchange and to regulate the outflow from that central fund."<sup>34</sup> The Account then regulated the flow of these funds to the public through authorized dealers who were responsible to the Bank of England and the Treasury for their actions. In each of the member countries requests for gold and foreign exchange were channeled through similar exchange authorities, and if approved were carried out by a bank representative in London working

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<sup>30</sup>Ibid., p. 347.

<sup>31</sup>Great Britain, Cmnd. 827, op. cit., p. 11.

<sup>32</sup>Ibid., p. 112.

<sup>33</sup>Shanon, op. cit., p. 214.

<sup>34</sup>Ibid.

through exchange dealers. Each member had the right to draw from the Account whether it was a net contributor or not. Inasmuch as convertibility was technically maintained throughout this period, it was necessary for member nations to control their requests for foreign exchange if the pool was not to be dangerously depleted.

In order to limit foreign exchange requirements, several restrictions were set up against the outside world, such as restraints on dealings in foreign exchange and gold, and limitations on capital movements, both of which have already been mentioned, as well as direct controls of imports and exports.<sup>35</sup> The latter took the form of licenses, quotas and tariffs. These restrictions were instituted throughout the sterling area and not only in the United Kingdom.

These controls have not been exercised by the United Kingdom in isolation but have been reinforced by parallel controls in other parts of the sterling area, operated independently of but in frequent consultation with the United Kingdom authorities.<sup>36</sup>

Even though full convertibility has existed since December 1958, the central reserves of the sterling area are still managed and controlled through the Account. If there is any indication that these reserves are being seriously depleted, it would not be necessary to create machinery to correct the

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<sup>35</sup>Great Britain, Cmnd. 827, op. cit., p. 260.

<sup>36</sup>Ibid.

situation, since the Exchange Account is already equipped to do so.

#### West African Sterling Balances

Sterling balances held by West African members, like those of other members of the sterling area, in part represent assets which theoretically could be used for expenditures on economic development. Gambia, Sierra Leone, Ghana (the former Gold Coast) and Nigeria have, as a group, consistently been the largest holders of colonial sterling balances since 1945.<sup>37</sup>

As colonies, these countries have had neither the right to determine their own international monetary policies nor the option to withdraw from the area.<sup>38</sup> The colonies were "under more or less direct control from London as to their disbursements and receipts."<sup>39</sup> It was not therefore necessary for the United Kingdom to make blocking agreements with its colonies. At the same time, as members of the sterling area, the colonies pursued policies that were in harmony with the overall aims of the sterling area: they favored sterling area products and discriminated against non-area countries.

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<sup>37</sup>Economic Cooperation Administration, *The Sterling Area: An American Analysis*, London: E.C.A., 1951, p. 195; Great Britain, *Digest of Colonial Statistics*, No 13, London: 1954, and *Digest of Colonial Statistics*, No. 44, London: 1960.

<sup>38</sup>Ghana has been an independent member since 1957; Nigeria will gain its independence Oct. 1, 1960, and Sierra Leone will become independent in 1961.

<sup>39</sup>Shanon, *op. cit.*, p. 218.

Given these special considerations of political status, let us examine West African sterling balances in relation to the sterling area as a whole.

Sterling balances of area members, including those of West African colonies, represent "net liabilities of bankers in the United Kingdom to their overseas offices and other account holders, including funds held as cover for overseas currencies, and certain liabilities of His Majesty's Government expressed in sterling or sterling area currencies."<sup>40</sup> The sterling balances of sterling area members increased from £ 300 million in 1939 to £ 2,500 million in 1945.<sup>41</sup> This total increased to a postwar high of £ 3,053 million in 1953 and fell to a low of £ 2,297 million in 1947.<sup>42</sup> The latest figure is for 1958 and shows the total sterling area member balances to be £2,618 million.<sup>43</sup> Inasmuch as a large part of the total trade of the sterling area is carried on within the area it is not surprising that the accumulated balances, which seemed so large at the end of the war, have altered so little in the past fifteen years. While independent members

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<sup>40</sup>Shanon, "The Sterling Balances of the Sterling Area," Economic Journal, Vol. LX, 1950, p. 532.

<sup>41</sup>Robertson, op. cit., p. 38.

<sup>42</sup>Great Britain, United Kingdom Balance of Payments 1946-1953, Cmd. 7520, 1954; United Kingdom Balance of Payments 1955-1958, Cmnd. 540, 1959, p. 14.

<sup>43</sup>Ibid.

have decreased their sterling balances from £ 2,008 million in 1945 to £ 1,575 million in 1956, the colonies have increased theirs from £ 454 million in 1945 to £ 1,013 million in 1959.<sup>44</sup> The role of the West African dependencies can be seen in Table 1.

In the five year period from 1945-1950 West Africa's share of colonial sterling assets increased ten per cent; in the following five years it rose another 13.7 per cent. At the same time West Africa's share of total sterling area assets rose from four per cent in 1945 to 16.7 per cent in 1955. By 1957 West African balances were 39.5 per cent of colonial assets and 17.2 per cent of total sterling area holdings. This situation seems to indicate that the monetary policies of an independent member of the sterling area are different from those of colonial members who have their policies determined in London. This is evidenced by two facts: first, independent member balances were drawn down steadily in the postwar period; second, West African sterling balances account for such a high percentage of the total sterling assets of the area.

It seems strange that an underdeveloped area such as West Africa should be the holder of such large monetary assets.

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<sup>44</sup>Ibid.

TABLE 1  
WEST AFRICAN STERLING ASSETS

£ Millions

Year	Total Colonial	Total West Africa	W.A. as per- cent of total Colonial	W.A. Assets as percent of total Sterling Area
1945	454	91	20.0	4.0
1950	852	256	30.0	9.0
1951	1,090	333	30.0	11.0
1952	1,222	362	29.6	13.0
1953	1,245	400	32.0	13.0
1954	1,343	462	34.0	9.8
1955 <sup>a</sup>	1,161	507	43.7	16.7
1956 <sup>a</sup>	1,179	499	42.2	17.4
1957 <sup>a</sup>	1,172	463	39.5	17.2
1958 <sup>b</sup>	1,003	278	27.7	10.6

Sources: Great Britain, United Kingdom Balance of Payments 1946-1953, Cmd. 7520, 1954, p. 56; United Kingdom Balance of Payments 1955-1958, Cmd. 540, 1959, p. 14; Digest of Colonial Statistics, No. 13, 1954, p. 85, and No. 44, 1960, p. 62; Ghana, Economic Survey 1957, Accra: 1958, p. 38.

<sup>a</sup>After 1954 Ghana was dropped out of the Colonial statistics but is included here.

<sup>b</sup>Figures for Ghana not available for this year.

These assets may theoretically be used to finance trade deficits. It will be shown later that in no year since the end of World War II have West African countries been significant users of foreign exchange, particularly of dollars. Furthermore, the increases in their sterling balances indicate that they have not used them to finance deficits with the rest of the sterling area. Thus, the rather paradoxical phenomenon of sizeable capital accumulation by an underdeveloped area remaining, as far as this area is concerned, in paper form. Not all the sterling assets of West Africa may be considered to be available for development expenditures, however. This can be more clearly understood by examining the composition of West African sterling balances.

Inasmuch as data on the composition of sterling assets of Gambia and Sierra Leone are not available, only figures for Nigeria and Ghana will be cited. These two countries accounted for 95, 93, and 94 per cent of West African sterling assets in the years 1954, 1955, and 1956<sup>45</sup> so the omission of data for Gambia and Sierra Leone does not pose a serious problem for present purposes. Tables 2 and 3 show the composition of sterling assets and the average per cent that each item is of the total assets of the specific country. These items need some explanation.

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<sup>45</sup>Great Britain, Overseas Economic Surveys, Nigeria, London: Her Majesty's Stationery Office, 1957, p. 58; Great Britain, Digest of Colonial Statistics, No. 13, London: 1954, p. 55; Great Britain, Digest of Colonial Statistics, No. 44, London: 1960, p. 62.

TABLE 2  
COMPOSITION OF STERLING ASSETS, NIGERIA

					£ Millions
Held by	1954	1955	1956	1957	Average % of Total
Marketing Boards	61	74	67	32	24
Currency Board	66	54	58	70	26
Federal Gov't	63	52	54	51	23
Regional Gov't	8	23	27	31	10
Native Authorities	3	3	3	4	1
Regional Production and Development Boards	13	13	10	6	4
Other semi-official	15	20	14	7	6
Net balances of Banks Abroad	16	24	22	11	6
TOTAL	<u>245</u>	<u>263</u>	<u>255</u>	<u>212</u>	<u>100</u>

Sources: Nigeria, Economic Survey 1959, Lagos: 1959, pp. 98-99; Great Britain, Overseas Economic Survey, Nigeria, op. cit.

TABLE 3  
COMPOSITION OF STERLING ASSETS, GHANA

									£ Millions
Held by	1950	1951	1952	1953	1954	1955	1956	1957	% of Total
Central Government	19	30	35	39	76	84	79	70	32
Other Institutions & Currency Board	32	35	37	36	37	38	41	28	22
Banks	4	3	7	10	11	14	12	11	5
Other Public Authorities	2	1	1	1	1	3	3	3	1
Cocoa Marketing Board	52	63	61	66	66	63	52	50	37
Other Government Enterprises	<u>3</u>	<u>3</u>	<u>4</u>	<u>7</u>	<u>4</u>	<u>5</u>	<u>5</u>	<u>6</u>	<u>3</u>
TOTAL	112	135	145	159	195	207	192	168	100

Source: Ghana, Economic Survey 1957, Accra: 1958, pp. 38-39.

a. The West African Marketing Boards had their beginnings in 1947 with the establishment of cocoa marketing boards in the Gold Coast and Nigeria. More boards were established in 1949.<sup>46</sup>

Most of the area's exports of agricultural products are handled by statutory marketing boards and financed through London; ...Prices are fixed in advance for the whole season's crop in order to prevent speculation. The boards retain part of their receipts from the sale of (their goods) in good years to cushion the effect of a cyclical downturn.<sup>47</sup>

Marketing Board holdings of sterling in London are 24 per cent of total Nigerian sterling assets and 37 per cent of Ghana's. It has been the practice of the marketing boards in West Africa, as will be shown in greater detail in Chapter II, to make sizeable grants and loans to the governments in order to aid in development financing. A certain percentage of marketing board holdings must be liquid in order to be readily available for possible market fluctuations. Just what this percentage is considered to be, or should be, is not known. It is clear, however, that these funds are available, in part, for development financing either in the form of grants or loans, and may, at the discretion of the marketing boards, be used for that purpose. It has already been noted that the majority of development expenditures in West

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<sup>46</sup>Economic Cooperation Administration, op. cit.

<sup>47</sup>Ibid.

Africa are undertaken by public authorities. It can be seen, therefore, that as revenues accruing to marketing boards increase, the funds available for development expenditures increase also. This is accomplished without increasing taxation. That is, increased marketing board allocations for development will not lower consumption or investment. This is not the case for currency board holdings.

b. Currency Board holdings represent about 26 and 22 per cent of the total sterling assets of Nigeria and Ghana respectively. The West African Currency Board was established in 1912; its regulations of 1949 state that:

The Board shall issue at its main centres...to any person who makes demand in that behalf coin or currency notes equivalent to the value... of sums in sterling lodged with the Board in London.<sup>48</sup>

Currency is issued when sterling is brought to the Board. In order to secure sterling, individuals must bring West African currency to banks where it is exchanged for sterling. The banks may obtain this from their own sterling balances in London or they may present the currency to the Board for sterling. The rate of exchange between West African currency and sterling is fixed by the agreements of the sterling area.<sup>49</sup>

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<sup>48</sup>W.T. Newlyn and D.C. Rowan, Money and Banking in British Colonial Africa, Oxford: Clarendon Press, 1954, pp. 46-47.

<sup>49</sup>Great Britain, Memorandum on the Sterling Assets of the British Colonies, Cmnd. 298, 1953, p. 1.

The Board accumulates sterling at least to the extent that it issues local currency.<sup>50</sup> As of July 1, 1959, Nigeria and Ghana established their own currency and began to withdraw from circulation the tender of the West African Currency Board.<sup>51</sup>

This means that Nigeria and Ghana will now have funds available for development financing which could not be used under the West African Currency Board system. To be sure, Nigeria must continue to hold 60 per cent of its currency issues and 35 per cent of its demand liabilities in the form of sterling assets for the first five years of the new system,<sup>52</sup> but the remaining 40 per cent may be borrowed by the government. This movement to a partial reserve system will have the effect of creating a base for the expansion of credit in the Ghanaian and Nigerian economies, which will further open the possibilities for government borrowing. The sterling assets of the West African Currency Board will decrease accordingly as its currency is turned-in by Ghana and Nigeria. Until this time, however, it should be noted that the regulations of the Currency Board did not allow the sterling

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<sup>50</sup>Ibid.

<sup>51</sup>International Monetary Fund, op. cit., p. 140; Nigeria, Economic Survey 1959, op. cit., p. 99.

<sup>52</sup>Nigeria, Economic Survey 1959, op. cit.

assets of the Board to be used for development purposes.<sup>53</sup> West African currency could be secured for development by West African governments through local taxation and either spent directly in West Africa or exchanged for sterling and then spent outside West Africa.

c. Federal Government holdings of sterling account for 23 per cent of the total in Nigeria and 32 per cent in Ghana. In 1959 it was estimated that 17.5 million of the Nigerian figure represented funds earmarked for various sinking and pension funds. This accounted for about 8 per cent of the 24 per cent held by the Federal government in that year. This left 16 per cent that could be used for development. Of course a single item and percentage for Nigeria for one year does not add much illumination. A large part of the assets held by the two countries is held by the governments, however, and a part of this may be spent on development.

d. The other items in the tables, with the exception of the assets held by the banks, are partly earmarked for development schemes and partly tied up in special funds and working balances. In 1959, in Nigeria, one third of the sterling holdings of the regional governments was tied up in specific funds and working balances.<sup>54</sup> In the same year 50 per cent of the total of the balances held by Native Authorities, Regional Production

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<sup>53</sup>Newlyn and Rowan, op. cit.

<sup>54</sup>Ibid.

and Development Boards and other semi-official government agencies, was held for specific funds. Consequently, about 3 1/2 per cent of the total was free for development purposes through these groups.

e. The sterling assets of the banks are "that portion of the assets of banks in the Colonies which is not employed locally,"<sup>55</sup> While these assets may be lent to the governments by the depositors or the banks themselves, they do not represent the possibilities for development financing that the balances of the official or semi-official agencies do. The latter may be used by the government at its discretion in some cases and accrues to it through grants in others. The former may only be used if they are borrowed.

On balance what can be said about the sterling assets of West Africa in respect to their possible use for development? Using the 1959 Nigerian situation as a guide it can be said that approximately 40.5 per cent of the total is not available for development. This is the sum of those funds which are held for specific purposes other than development. This leaves an unknown portion of the marketing board reserves, two thirds of the holdings of the Federal government, an optional portion of bank balances, and fifty per cent of the

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<sup>55</sup>Great Britain, Cmnd. 827, op. cit.

remaining assets, as possible sources for development financing. While no specific figures can be cited, again using the Nigerian case as typical, it appears that over 50 per cent of the sterling assets held by West Africa could be used for development. That is, they are not restricted by legal or other institutional arrangements.

#### West Africa and the Foreign Exchange Pool

The gold and Foreign exchange earned in international trade must be turned in to the Exchange Equalization Account by members of the sterling area. From the end of World War II to 1956, the colonies, Ceylon, and the Union of South Africa were the only net contributors to the exchange pool.<sup>56</sup> In this sense these colonies' status has differed from that of other members of the sterling area. Certain independent members have been allowed, from time to time, to hold gold reserves of their own.<sup>57</sup> "For the colonies, however, the pooling of dollars was involuntary and automatic, since no colony held independent reserves of gold or foreign currencies."<sup>58</sup> This has meant that the colonies have had to gear their requirements of foreign exchange to the state of the central

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<sup>56</sup>Bell, op. cit., p. 62.

<sup>57</sup>Wright, op. cit., pp. 566-67.

<sup>58</sup>Ibid., p. 561.

reserves which have been managed according to the needs of the whole sterling area.

It is essential to bear in mind that the reserves held in the Account constitute the reserves of the whole sterling area. The important relationship in the sterling mechanism is that between the central reserves, the net balances held in London by non-sterling countries, and the total debits incurred by sterling area countries in their dealings with outside countries.<sup>59</sup> "The function of the reserves is to bridge any gap between debits and credits which may arise in these transactions."<sup>60</sup> The reserves are increased or decreased only if the whole sterling area has a credit or debit with the rest of the world. If the area as a whole has earned more than it has paid to the non-sterling world, there will be net additions to the central reserves. If, on the other hand, payments are greater than earnings, there will be net drawings from the exchange pool.

In the event that non-sterling members holding balances in London are willing to accept sterling as a means of international payment and do not convert their balances into foreign exchange, the reserves will be unaffected by a

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<sup>59</sup>Great Britain, Cmnd. 827, op. cit., p. 240.

<sup>60</sup>Ibid.

sterling area debit with these countries. There will be a corresponding decrease in the central reserves if they do convert their balances beyond any net addition to reserves which the whole area may experience in any given period.

This means that the central reserves must be large enough to cover whatever movement in their own reserves the monetary authorities in the rest of the sterling area are prepared to permit or may be unable to withstand.<sup>61</sup>

By the very nature of the sterling area agreements, it is understood that all sterling liabilities may be converted into foreign exchange under a policy of free convertibility. Since the war, however, reserves have only been a fraction of the total sterling liabilities of the United Kingdom.<sup>62</sup> It is apparent that the monetary theory upon which reserves and balances of the sterling area are based is analogous to that which underlies the operation of commercial banks; it is highly unlikely that all depositors will request their balances at the same time. If this did occur in the banking world, banks would merely call in loans in order to meet payment. If the situation arose in the sterling area, convertibility would cease, and members would either restrict their calls or be faced with the possibility of the United Kingdom defaulting on part of its sterling commitments.

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<sup>61</sup>Ibid., pp. 239-240

<sup>62</sup>Ibid., p. 240.

The role of the West African members of the sterling area in supplying funds to the reserve pool can be seen by examining Tables 4, 5, and 6 which show the following: balance of payments on current account for Ghana and Nigeria; the value of the import and export surpluses experienced by each of these countries with the whole dollar area from 1947 to 1958; the value of the whole sterling area's deficit with the dollar area from 1947 to 1957; and the percentage of the sterling area's dollar area deficit that was offset by West African surpluses.

Table 4 shows the balance of payments on current account for Ghana from 1950-1958 and for Nigeria from 1952-1958. Information for other years is not available. Admittedly, the seven years for which information is available for both countries does not show the balance of payments picture for West Africa over the fifteen years since the end of the war. Comparing Table 4 with Table 1, however, it can be seen that in every year from 1952-1957 the presence of a deficit or credit in the balance of payments occurred simultaneously with an increase or decrease in West African sterling balances. 1955 is the only exception. In that year there was a balance of payments deficit and an increase in sterling assets. It is possible that this increase is a carry-over from the large surplus in the balance of payments from the previous year.

TABLE 4  
BALANCE OF PAYMENTS ON CURRENT ACCOUNT

£ Millions

Year	<u>Ghana</u>			<u>Nigeria</u>		
	Total Current Receipts	Total Current Payments	Balance	Total Current Receipts	Total Current Payments	Balance
1950	93.0	73.0	£20.0	n.a.	n.a.	n.a.
1951	112.1	92.8	£19.3	n.a.	n.a.	n.a.
1952	108.5	97.0	£11.5	144.9	132.3	£12.6
1953	115.7	110.5	£ 5.2	138.2	129.7	£ 8.5
1954	142.5	101.7	£40.8	164.4	136.2	£28.2
1955	121.8	119.9	£ 1.9	150.2	159.5	- 9.3
1956	112.5	125.8	-13.3	152.1	177.1	-25.0
1957	122.3	136.7	-14.4	149.3	180.7	-31.4
1958	138.0	127.3	£10.7	155.5	195.7	-40.2

Sources: Ghana, Economic Survey 1957, Accra: 1958, p. 30; Ghana, Economic Survey 1958, Accra: 1959, p. 17; Nigeria, Economic Survey of Nigeria, 1959, Lagos: 1959, p. 92.

It can be seen from Table 5 that neither Gambia nor Sierra Leone have had a significant effect on the total surplus or deficit of these West African countries as a whole. The Gold Coast (Ghana), on the other hand, contributes the lion's share of the overall surplus and accounts for nearly twice as much as Nigeria. The total surpluses are not impressive when the deficit of the entire sterling area is examined in Table 6. With the exception of 1950, the deficit stands well over £ 200 million throughout the period. The West African surplus does become significant when converted into the percentage of the whole sterling area's deficit which it offsets. In absolute terms only 1950, 1951, and 1953 show a rather substantial role played by West African earnings. When viewed in light of the fact that every one of these African countries is, without a doubt, an underdeveloped nation, the percentages take on an entirely different meaning. Between four and seven per cent of the deficit of the entire sterling area with the dollar area was negated by the earnings of really two underdeveloped African countries in five out of eight years, and a much higher percentage in three out of eleven.

Foreign exchange is a central consideration for a poor country. Development requires, among other things, the importation of capital. For many underdeveloped countries

TABLE 5  
 VALUE OF WEST AFRICAN SURPLUSES AND DEFICITS WITH  
 THE DOLLAR AREA  
 1947-1958

£ Millions

Year	Gold Coast	Nigeria	Gambia	Sierra Leone	Total
1947	8	3	-.5	-.7	10.0
1948	16	4	-.1	-.1	19.8
1949	12	5	-.2	-.1	16.7
1950	22	11	-.2	.3	33.1
1951	26	12	-.2	.3	38.1
1952	20	13	-.1	.4	33.3
1953	21	10	-.1	.6	31.5
1954	16	9	-.1	.5	25.4
1955	12	5	-.2	.1	16.9
1956	11	6	-.2	-.1	16.7
1957	8	n.a.	-.2	.01	7.8
1958 <sup>a</sup>	16	-1.	-.1	.6	16.4

Source: Great Britain, Statistical Abstract for the Commonwealth, London: 1951-1959.

<sup>a</sup>All 1958 figures cover trade only with the United States.

TABLE 6

VALUE OF STERLING AREA DEFICIT WITH DOLLAR AREA AND  
 PERCENTAGE OFFSET BY WEST AFRICAN SURPLUSES  
 1947-1957

£ Millions

Year	Sterling Area Deficit With Dollar Area	Percent Offset By West African Surpluses
1947	757	1
1948	466	4
1949	459	4
1950	53	38
1951	247	14
1952	586	5
1953	304	10
1954	324	7
1955	515	3
1956	334	5
1957	580	1

Source: Great Britain, Statistical Abstract for the Commonwealth, London: 1951-1959.

foreign exchange is difficult to come by, since they do not earn enough to supply their import needs. For West Africa, however, the situation is different; here is an area that earns a large amount of foreign exchange in the world markets, but which must gear its use of foreign exchange in general to an amount which is in harmony with the needs of the other members of the sterling area. To be sure, since free convertibility was made the policy of the sterling area in late 1958, each member theoretically has the right to make unlimited drawings on the foreign exchange pool. The size of the pool is limited, however, and each member can anticipate that greedy requests would not be viewed favorably. That is to say, a dangerously depleted pool would again result in exchange restrictions for the sterling area. Consequently, the availability of foreign exchange to West Africa to finance capital imports is not only limited but less than the average 8.3 per cent of all sterling area net dollar earnings contributed by it. It should be pointed out that were West Africa not a member of the sterling area, it would have amassed a considerable amount of foreign exchange since the end of the war, ceteris paribus. Under sterling area arrangements, while foreign exchange is available to West Africa, it is highly unlikely that they would be allowed to draw as much as they have contributed in the last fifteen years.

Another point is worth mentioning. For West Africa sterling is foreign exchange. In order to buy goods outside of West Africa sterling must be secured either to finance imports from the sterling area or in order to purchase foreign exchange. Sterling balances may be drawn upon, they may be used to convert West African currencies into sterling, or they may be used to secure sterling through loans or grants. In any case, to West Africa sterling represents something different from what it does to the United Kingdom or other independent members of the area. These countries, with central banking authorities who control the supply of money, can secure sterling in any amount by monetary creation, if they wish. In West Africa, where there have been no central banks until recently, the exchange of local currency for sterling meant a corresponding decrease in the supply of that currency. Consequently, the sterling received for foreign exchange earnings was, in a sense, itself foreign exchange.

The question may be asked whether there was merely a substitution of foreign exchange for sterling, which to West Africa represented another form of foreign exchange. Given the limitations on convertibility which existed until 1958, and the prospect of their return if needed, sterling could only be used freely within the sterling area. While the sterling area's market is vast it is, nevertheless, narrower

than a world market. It does not seem necessary to explore the discrimination that exists in the sterling area, or any multilateral closed trading unit, for that matter. What is important is that, because of the pooling arrangements, there has been a loss of foreign exchange that otherwise would have been available for development financing; in its place has been a currency which has been extensive in the markets it opened, but perhaps less commanding than that which was sacrificed.

In light of the previous description of the basic operations of the sterling area, particularly in relation to the West African role within the area, what can be said of the costs and benefits of membership to these countries in relation to development finances?

Inasmuch as the sterling area is the largest multilateral trading unit in the world, membership carries with it all the benefits of such a system. West African members have the advantage of not having to raise the currencies of sterling area members in order to trade with them.

Stable exchange rates have been another benefit. "If each member of the sterling area administered its own dollars, the value of each of the member currencies would fluctuate independently in terms of dollars. There would be no fixed

rate of exchange between sterling area countries."<sup>63</sup> Fixed exchange rates thus bring with them the benefit of having all sterling currencies equal to each other by virtue of their common exchange rate with foreign currencies through the British pound sterling.

Foreign exchange pooling allows West Africa to draw upon the reserves. If this group should cease to contribute more exchange than it uses, then this privilege would become important. For Gambia and Sierra Leone this advantage has been a long-standing one.

The access to the London capital market that West African countries have enjoyed is a primary advantage of sterling area membership. West African banking institutions have all been, until the recent establishment of the central banks in Ghana and Nigeria, branches of large London banks; government loans are floated in the market; private capital flows to West Africa through London. The creditors enjoy the knowledge that West African currency may be converted into sterling at any time at a fixed exchange rate. These considerations are important to countries who have no capital markets of their own but who are, nevertheless, greatly in need of capital.

West African members not only have an outlet for their accumulation of sterling balances, but their funds are

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<sup>63</sup>Meyer, op. cit., p. 32.

managed and invested for them by the Bank of England.<sup>64</sup> Thus, they have funds available for development plans or surpluses upon which they may draw in case of adverse shifts in the terms of trade. Deficits with members of the sterling area on current account may be financed by West African countries by shifting sterling from their London accounts to those of the surplus countries.

Such are the benefits of West African membership in the sterling area. What are the costs? There are two main considerations: (1) accumulated sterling balances; and (2) the pooling of foreign exchange reserves in London.

The cost of having accumulated sterling balances can be measured in terms of the absence of the funds in the West African economies. Were they to provide sinking funds and cushions for export price changes, etc., as they do now and were held in the countries from which they originate, the capital and credit in the local markets would be greatly increased. It might be argued that these balances could be transferred to West Africa at will. "If the use to which funds may be put is sharply restricted, however, the freedom to transfer funds means little."<sup>65</sup>

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<sup>64</sup>Great Britain, Cmnd. 827, op. cit., pp. 112-13.

<sup>65</sup>Bell, op. cit., pp. 28-29.

Furthermore, in view of the blocking agreements made with several independent members, it is doubtful whether the West African colonies would have been entirely free to draw down their balances rapidly. This could be argued even in the context of the recent establishment of sterling convertibility. The colonies, even as independent members, would have to abide by the accepted code of monetary ethics of the sterling area. "Flagrant violation of any of the . . . requirements . . . would have required other sterling area members to impose trade and payment restrictions against the violator."<sup>66</sup>

The colonies obtain some benefits from the balances - they yield interest; they help to finance the banking system; and they provide a reserve to be drawn on in bad years. Yet their investment of £ 1,000 million in Britain does not accord well with commonly held ideas on the desirable direction of capital flow between countries at different levels of economic development.<sup>67</sup>

The most striking cost of sterling area membership for the colonies, and particularly West African members, has been the effect of foreign exchange pooling. In discussing the burden of the reserve pool, Bell remarks; "Surely the real burden, if there is one, falls upon the member which

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<sup>66</sup>Wright, op. cit., p. 573.

<sup>67</sup>A. Hazelwood, "Colonial External Finance Since the War," Review of Economic Studies, Vol. XXI, 1953-54, p. 49.

exports more than it imports in order to contribute to the pool."<sup>68</sup> It is in this context that Bell, Wright and Polk all maintain that the colonies have had to give up dollars earned, while independent members have used these funds to finance balance of payment deficits.<sup>69</sup> It should be appreciated that the burden of contributing foreign exchange to the central reserve in London represents a real burden on West African countries which have been consistent contributors to the pool. This burden can best be understood in terms of dollar goods, the import of which has had to be foregone. Were it not for their membership in the sterling area, these countries would be free to spend their surplus foreign exchange earnings as they pleased. The imports that these surpluses represent are recoupable only if West Africa becomes a net user of foreign exchange. There is no indication that this will become the case, at least not in the near future. As it is, Zupnick claims that colonies had to scrap some of their projects because of reserve contributions.<sup>70</sup>

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<sup>68</sup>Bell, op. cit., p. 63.

<sup>69</sup>Ibid., p. 62; Wright, op. cit., p. 574; J. Polk, Sterling, Its Meaning in World Finance, New York: Harper & Brothers, 1956, p. 182.

<sup>70</sup>Zupnick, op. cit., p. 83.

One of the basic factors in the cohesion of the sterling area has always been the ability of the independent members to obtain capital from the United Kingdom and in a large part this has been effected through the dollar pooling operations. Broadly speaking, the United Kingdom has been able to maintain its capital exports to the independent sterling area countries only by passing on to them much of the dollar aid received during the early postwar years, and by importing capital from the colonial sterling area in more recent years.<sup>71</sup>

It will not be attempted here to weigh the costs and the benefits of sterling area membership. The aim of this chapter was to establish the fact that for independent members, membership in the sterling area is entirely voluntary, whereas for colonies, membership and conformity to the rules of the game has gone hand in hand with their involuntary political connection to the United Kingdom. For non-independent members, particularly those in West Africa, the sterling area has had a great effect on their economic development. Since Chapter II will deal with West African public development programs and the sources of funds that have been used to finance them, it has been deemed advisable, before taking up that subject, to examine the principal features of the sterling area's financial mechanism. For the latter plays a large part in determining the origin of West African development funds.

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<sup>71</sup>Wright, op. cit.

## II. BRITISH GRANTS-IN-AID AND WEST AFRICAN DEVELOPMENT PROGRAMS

Development programs in Gambia, Ghana, Nigeria and Sierra Leone have taken the form of five and ten year plans since the end of World War II. The objectives of these programs have varied. Sierra Leone has aimed at increasing agricultural output. Nigeria has attempted to develop many industries simultaneously. The programs all involve a series of projects. Many of these are prerequisites to certain phases of the development plan and do not involve the production of a good directly. Roads, harbors, sanitary facilities, housing and railroads are projects of this type. Other projects contribute more directly to increasing the output of specific, or a range of, products. Irrigation schemes are of this nature. Finally, there are those projects which are concerned specifically with the output of a product. Investment to increase palm-kernel production in Sierra Leone is an example of this kind of project.

It is beyond the scope of this paper to judge the success or failure of the plans, or whether the economic criteria, if there have been any, upon which the plans have been drawn up and carried out, have been sound or not. The fact is that these public investment programs have been the major channel

through which the four West African countries have attempted economic development.

Many of the projects within the development programs have necessitated the use of capital equipment not available in the country at their outset, others have laid the groundwork for projects which will require this type of capital. In underdeveloped countries the sources of capital needed for investment schemes are usually not readily available. Private investment has seldom been in the form of capital equipment-producing industries. Consequently, these capital needs must be imported. In order to import, these countries must possess or secure foreign exchange. Generally speaking this can be done by earning it in the world markets through exports, by borrowing it, or by obtaining grants-in-aid.

In the sterling area, however, there are certain special considerations for underdeveloped members. West African members may purchase goods from any part of the sterling area with sterling. If sterling is not currently earned in large enough amounts for current needs sterling balances may be drawn upon or West African currencies may be exchanged at a fixed rate for sterling. Sterling balances, however, have not been used to a very large extent for development programs; the problem is therefore one of raising other funds to finance development programs. When foreign exchange, other than sterling, is needed for imports it may be bought in London. The

level of imports to be financed by sterling is dependent upon the government's ability to raise funds either from local or sterling area sources.

There are really two major sources of public investment financing used by West African countries: (1) external, outside the sterling area; and (2) internal, within the sterling area. The former includes loans and assistance from all non-sterling area countries and organizations. The latter may be divided into local and non-local sources. Local funds usually are raised from public revenues, local government loans, and loans and grants from the marketing boards. Non-local sources have been in the form of loans floated on the London market, and United Kingdom loans and grants-in-aid.

The purpose of this chapter will be to examine the role of United Kingdom grants-in-aid in financing West African public investment and the change in United Kingdom policy toward economic development in the colonies that has occurred since 1940. In order to make clear the importance of these grants to development financing from all internal sources, the other components of this heading will be examined first.

#### West African Development Programs

West African development programs are financed by funds secured from three main sources: local resources, loan funds, and Colonial Development and Welfare grants-in-aid.

Before giving a detailed description of the components of these items, it seems advisable to discuss, however briefly, the role of each of them in the programs of the four countries. Tables 7 and 8 show the sources of funds for programs before and after 1955. Gambia has consistently relied upon Colonial Development and Welfare, (C.D. & W.) grants as the chief source of financing for its development programs. For the Gold Coast both loan funds and local resources have been large sources of finance; before 1955 local resources were more than twice the size of loan sources, while for the next nine years, the positions were nearly reversed. For Nigeria, the pre-1955 period was one in which C.D. & W. grants were the primary source of finance. After 1955, while these contributions remained sizeable, local resources took a decisive lead. Sierra Leone shows a consistent division among the three sources; while there is little absolute difference among the three, loan funds appear to be slightly larger than local and C.D. & W. grants.

It should be noted that, while all of these countries are in the same geographical region and all are underdeveloped, their development plans rely upon the three categories listed in differing degrees. This suggests that the magnitudes of the monetary sources open to each are different and changing, and at the same time that their problems of development are

TABLE 7  
 SOURCES OF FINANCE FOR DEVELOPMENT PLANS IN  
 OPERATION 1955

£ Thousands

Country	Total	C.D. & W.	Loan Funds	Local Resources
Gambia	2,130	1,500	200	430
Gold Coast	81,400	3,000	23,000	55,400
Nigeria	48,911	23,739	15,267	9,905
Sierra Leone	11,178	2,950	5,000	3,228

Source: Great Britain, Colonial Development and Welfare Acts, Cmd. 9375, 1955, p. 24.

TABLE 8  
SOURCES OF FINANCE FOR DEVELOPMENT PLANS AFTER 1955

£ Thousands

Country	Total	C.D. & W.	Loan Funds	Local Resources
Gambia 1955-1960	975	859	-	116
Gold Coast <sup>a</sup> 1955-1964	130,601	500	81,711	48,400
Nigeria <sup>a</sup> 1955-1962	248,900	19,400	72,700	156,800
Sierra Leone 1956-1959	10,500	2,481	4,958	3,061

Sources: British Information Services, The United Kingdom Colonial Development and Welfare Acts, I.D. 892 (Revised), March, 1955, p. 14; British Information Services, United Kingdom Aid to Africa, 1959, p. 3; Great Britain, The Colonial Territories 1956-1957, Cmnd. 195, 1957, p. 171; Great Britain, Colonial Development and Welfare Acts, Cmnd. 672, 1959, p. 11; Great Britain, Assistance from the United Kingdom for Overseas Development, Cmnd. 974, 1960, p. 17; Ghana, Second Development Plan, 1959-1964, Accra: 1959, p. 2; Nigeria, Economic Survey of Nigeria 1959, Lagos: 1959, p. 89.

<sup>a</sup>Both Ghana and Nigeria have development programs which call for more expenditure than either have in the way of known sources of finance. Only those funds which are known will be forthcoming are included in this table.

dissimilar despite outward similarities. These differences will become clearer through an examination of the components of the three headings.

Tables 9-12 show composites of grants, loans and revenues which are either directly slated for development programs or represent sources from which development funds have been drawn. It should not be thought that these tables represent the various development funds themselves. They are merely the sources from which development finances may be drawn and not necessarily the amounts drawn from each source. Each of the four countries has a special fund set aside for the purpose of administering these monies but, other than the major headings presented in Tables 7 and 8 a detailed description of the sources is not available. The exception is Nigeria. The development program for this entire nation is included in the £ 248 million 1955-62 plan. This is then broken down into a Federal Development Fund and separate funds for each of the three regions of Nigeria.

Beyond this dearth of detailed information, there are several things which should be noted about Tables 9-12. Since funds are allocated before public investment programs are initiated, several items appear only once in each planning period. Other items, such as contributions from revenue and most C.D. & W. grants, appear each year as they are allocated.

These are funds which can be counted on in advance and are therefore drawn into the programs only as needed. Inasmuch as official totals were available only for Gambia it was not thought pertinent to total the columns for the other three countries.

### Gambia

Although Gambia received C.D. & W. funds as early as 1945, its first development program was not begun until 1951.<sup>1</sup> Table 9 shows the sources of revenue for Gambia. As was previously noted, C. D. & W. grants-in-aid provided the large majority of Gambia's development funds before and after 1955. While the grants have not been large, they have, for the most part, been growing. It is interesting to note that for the period 1960-64 there has been an additional C.D. & W. allocation for Gambia amounting to £ 1,000,000.<sup>2</sup> The loan item that appears in Table 7 of £ 200,000 was made before 1951 and therefore is not shown as a source in Table 9.

The figures that appear under local sources for Gambia are total revenue figures for the various items and are therefore much larger than the subsequent amounts used for

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<sup>1</sup>Gambia, Report on Development and Welfare 1950-1952, Sessional Paper No. 1, Bathurst: Government Printer, 1953, p.1.

<sup>2</sup>British Information Services, United Kingdom Aid to Africa, 1959, p. 6.

TABLE 9  
SOURCES OF FINANCE FOR DEVELOPMENT PROGRAMS IN GAMBIA

£ Thousands

Source	1951	1952	1953	1954	1955	1956	1957	1958	1959
<u>C. D. &amp; W.</u>	167	58	137	92	84	132	111	149	225
<u>Local:</u>									
Taxes	179	599	229	134	146	196	220	n.a.	n.a.
Customs	n.a.	653	517	831	894	754	1,117	n.a.	n.a.
Currency Board									
Profits	13	5	15	18	13	13	13	n.a.	n.a.
Other Grants	25	68	78	74	67	83	103	n.a.	n.a.
<u>Other</u>	-	48	225	271	399	227	511	n.a.	n.a.
<u>Total Gross</u>	1,144	1,431	1,201	1,420	1,533	1,405	2,075	n.a.	n.a.

Sources: Great Britain, Colonial Reports: The Gambia 1956-1957, London: Her Majesty's Stationery Office, 1957; British Information Services, United Kingdom Aid to Africa, 1959, p. 3.

development programs. (They are only presented to show the major sources from which the "Local Resources" headings in Tables 7 and 8 were drawn.) Taxes and customs are the largest sources of local revenue. The tax item is the sum of several taxes, including an income tax. Customs revenue accrue to the government through duties levied on the export of groundnuts, for the most part. Regulation 16 of the West African Currency Board states that: "The Board may, with the approval of the Secretary of State, pay any sum which it thinks proper out of its income by way of contribution to the revenue of the British West African Governments."<sup>3</sup> This accounts for the revenue from currency board profits. A source of local revenue, which does not appear in Table 9, is the money held in the Farmer's Fund. This fund was set up to aid development schemes which are considered to be beneficial to the farming community. The fund is built up from the difference between the price paid by the Ministry of Food for groundnuts and the price paid locally by the farmer.<sup>4</sup> It may be noticed that Gambia, a small country, has not had extensive development programs. Those expenditures which were undertaken for this purpose have been financed, primarily out of grants-in-aid from the United Kingdom.

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<sup>3</sup>W.T. Newlyn and D.C. Rowan, Money and Banking in British Colonial Africa, Oxford: Clarendon Press, 1954, p. 48.

<sup>4</sup>Gambia, op. cit., p. 4.

### Sierra Leone

Sierra Leone has undertaken its development programs by financing them primarily from loan funds. Table 7 shows these funds to be nearly twice the size of C. D. & W. grants, which in turn are smaller than the Local Resources item in both periods. The difference is not great, however, between any two of the three items. Table 10 shows Colonial Development and Welfare grants-in-aid to Sierra Leone to have been perennial but not large. The most interesting item in Table 10 is that labeled "Loans from U.K." Of the four West African countries, Sierra Leone is the only country other than Nigeria that has taken advantage of the London capital market and the United Kingdom as sources of loan capital.<sup>5</sup>

"The standard method of raising new loans is to invite public subscriptions for an issue of inscribed stock under the Colonial Stock Acts."<sup>6</sup> The Colonial Stock Act, first

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<sup>5</sup>Great Britain, The Colonial Office, The Colonial Territories: 1950-51, Cmd. 8243; 1951-52, Cmd. 8553; 1952-53, Cmd. 8856; 1953-54, Cmd. 9169; 1954-55, Cmd. 9489; 1955-56, Cmd. 9769; 1956-57, Cmnd. 451; 1957-58, Cmnd. 780; 1958-59, Cmnd. 1065.

<sup>6</sup>I. Greaves, "Colonial Monetary Conditions," Colonial Research Studies, Number 10, London: Her Majesty's Stationery Office, 1953, p. 76.

enacted in 1877, enables colonies to issue stock in the London market. The Trustee status conferred on these London issues by the Colonial Stock Act of 1900 in fact guarantees the repayment of the loan; this is because the colonial government issuing the stock must pass the two following pieces of legislation before the stock can be issued:

1. A 'General Loan and Inscribed Stock Ordinance' which defines general terms and conditions of loans to be raised in London under the Colonial Stock Acts;
2. A 'Trustee investment in (Colony) Government Securities Ordinance' which authorizes the appropriation of any sum declared by a United Kingdom Court to be due to a stockholder, and concurs in the allowance of any ordinance adversely affecting the rights of stockholders. (These provisions are required before a stock can be granted trustee status in the United Kingdom).<sup>7</sup>

The loan itself is issued on behalf of the colony by the Crown Agents who manage the subsequent sinking funds. These sinking funds which are "attached provisions" of every issue act as a guarantee of security for any purchaser of the stock. The soundness of the stock is further enhanced by the fact that no colonial government has ever defaulted on a loan or stopped interest payments.<sup>8</sup> Finally, the Crown Agents themselves are the largest purchaser of these issues.

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<sup>7</sup>Ibid.

<sup>8</sup>Ibid., p. 77.

"Therefore, neither the internal budget position of a colonial territory, nor its external payments position, affect the standing of its public credit, any more than internal political conditions have so far affected it."<sup>9</sup>

Consequently, Sierra Leone, a highly underdeveloped country, issued £ 2,030 million of stock on the London market in fiscal 1950/51 at 3 1/2% and £ 1,150 million in fiscal 1953/54 at 3 1/2%.<sup>10</sup> Since the Commonwealth Economic Conference in Montreal in 1958, colonial governments have been able to make Exchequer loans to the extent that they cannot raise needed funds on the London market.<sup>11</sup> The £ 1.6 million 1960 loan to Sierra Leone in Table 10 is an Exchequer loan.<sup>12</sup> Local sources for development programs in Sierra Leone have been raised, as in the case of all four countries, primarily from customs duties.

<sup>9</sup>Ibid.

<sup>10</sup>Great Britain, The Colonial Office, The Colonial Territories: 1950-51, Cmd. 8243; 1951-52, Cmd. 8553; 1952-53, Cmd. 8856; 1953-54, Cmd. 9169; 1954-55, Cmd. 9489; 1955-56, Cmd. 9769; 1956-57, Cmnd. 451; 1957-58, Cmnd. 780; 1958-59, Cmnd. 1065.

<sup>11</sup>Great Britain, Assistance from the United Kingdom for Overseas Development, Cmnd. 974, 1960, p. 9.

<sup>12</sup>Ibid.

TABLE 10

## SOURCES OF FINANCE FOR DEVELOPMENT PROGRAMS IN SIERRA LEONE

£ Thousands

Source	1952	1953	1954	1955	1956	1957	1958	1959	1960
C. D. & W.	198	282	581	589	479	467	655	247	177
Grants from Marketing Boards	-	-	15	146	-	-	n.a.	n.a.	n.a.
Loans from U.K.	-	1,150	-	-	-	-	n.a.	n.a.	1,600
Local Sources:									
Customs	2,233	2,375	3,562	4,262	5,356	5,887	n.a.	n.a.	n.a.
Taxes	1,562	2,002	2,476	1,518	2,441	5,887	n.a.	n.a.	n.a.
Loans	-	-	-	-	1,257	-	-	-	-

Sources: Great Britain, Colonial Reports: Sierra Leone 1954, London: Her Majesty's Stationery Office, 1956, p. 20; Great Britain, Colonial Reports, Sierra Leone 1957, London: Her Majesty's Stationery Office, 1959, p. 25; Great Britain, Colonial Development and Welfare Acts, Cmd. 672, 1959, p. 11; Great Britain, Assistance from the United Kingdom for Overseas Development, Cmd. 974, 1960, p. 17.

Ghana

The situation in Ghana is strikingly different from that of Gambia or Sierra Leone. Before 1955 the Gold Coast's development programs were financed primarily out of local resources. After 1955 there was a shift to borrowing and a decrease in the importance of local revenues as a source of finance. It should be noted that Table 8 shows the expected and not the actual sources for Ghana's development programs for 1955-1964. For instance, the sum of the various loan sources in Table 11 for the 1955-1958 period, comes nowhere near the £ 81 million shown in the loan column in Table 8. This is because Ghana has not yet secured loans covering that amount. It expects to borrow £ 25 million from the reserves of the Cocoa Marketing Board during the 1959-1964 period.<sup>13</sup> From 1951 to 1958, as shown in Table 11, the majority of loans were obtained from the marketing board.

As noted in Chapter I, the marketing boards were set up to accumulate reserves in prosperous years and draw upon them in slump years, so as to stabilize producers' prices and incomes. The accumulated reserves may be lent to the government as well as invested in United Kingdom Treasury Bills.

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<sup>13</sup>Ghana, Second Development Plan 1959-1964, Accra: Government Printer, 1959.

TABLE 11

## GHANA

£ Thousands

Source	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57	1957/58
<u>C.D. &amp; W.</u>							
Grants <sup>a</sup>	144	72	414	762	600	1,007	-
<u>Loans:</u>							
Cocoa Marketing Board	2,242	-	3,865	2,408	3,000	n.a.	n.a.
Local	-	-	500	2,498	-	-	-
Issue of Bills	-	-	-	-	-	3,000	-
C.D.C.	-	n.a.	385	502	552	325	275
Other	-	-	2,445	-	-	-	-
<u>Local Resources:</u>							
Taxes <sup>b</sup>	27,252	35,562	40,041	66,469	60,300	37,200	47,500
<u>Grants:</u>							
Marketing Board	-	2,434	2,097	2,410	3,200	2,800	3,000
Other <sup>c</sup>	3,269	4,718	5,700	16,600	-	6,900	9,600

Sources: British Information Services, United Kingdom Aid to Africa, 1959, p. 3; Great Britain, Development and Welfare Acts, Cmd. 672, 1959, p. 11; Ghana, Economic Survey, 1958, Accra: 1959, p. 74; The Gold Coast, Economic Survey, 1953, Accra: 1953, p. 62; The Gold Coast, Economic Survey, 1954, Accra: 1954, p. 6.

(continued).

<sup>a</sup>After independence in 1956 Ghana was no longer eligible for C.D. & W. grants. The 1956/57 figure is a carry-over from the pre-independence commitment.

<sup>b</sup>The largest portion of tax revenue is the duty collected on cocoa exports.

<sup>c</sup>This item includes other types of local revenue such as income from government property, revenue on government investments and import duties.

The amounts available for government borrowing are closely related to the market conditions for cocoa. That is, if prices fall and cocoa revenue decreases there will be a smaller amount of reserves available that can be lent to the government.

Another source of development capital shown in Table 11 is the Colonial Development Corporation (C.D.C.). The C.D.C. was set up under the Overseas Resources Development Act of 1948.<sup>14</sup> "The Corporation was brought into being for the purpose of improving the standard of living of the Colonial peoples by increasing their productivity and wealth."<sup>15</sup> The Corporation has the power to borrow £ 150 million long-term and £ 10 million short-term from the British Exchequer.<sup>16</sup> The £ 68 million it has borrowed so far have been invested in projects, either directly or through lending to colonial governments for specific projects. When the Corporation invests directly in projects it acts as a partner and shares the projects; when it lends to colonial governments it charges standard interest rates.<sup>17</sup> There are two significant features

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<sup>14</sup>Great Britain, Cmnd. 974, op. cit., p. 9.

<sup>15</sup>Great Britain, Colonial Development Corporation Report and Accounts 1948, London: Her Majesty's Stationery Office, 1949, p. 6.

<sup>16</sup>Great Britain, Cmnd. 974, op. cit., p. 9.

<sup>17</sup>Great Britain, Colonial Development Corporation Report and Accounts 1958, London: Her Majesty's Stationery Office, 1959, p. 10.

about the C.D.C. worth noting here. First, the C.D.C., which only invests in or lends for the purpose of financing specific projects, is run like a private corporation and is expected to show a profit.<sup>18</sup> Second, the Corporation's funds are only to be lent to colonial governments and not to independent members.<sup>19</sup> Thus, while the Corporation still has a hand in the projects it has begun when colonies become independent and acts in an advisory capacity to those independent governments who request it, new financial aid stops flowing when countries cease to be colonies.<sup>20</sup> In West Africa the C.D.C. operates through an agency company, the West African Development Corporation, Ltd.<sup>21</sup>

For Ghana, as for Gambia and Sierra Leone, the local resources item is made up mostly of export duties. Since Ghana's largest export is cocoa, this source of finance is closely tied to market conditions as are the loans and grants from the marketing board. It is entirely possible that the grants and

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<sup>18</sup>Ibid.

<sup>19</sup>Great Britain, Report of the Committee of Enquiry into the Financial Structure of the Colonial Development Corporation, Cmnd. 786, 1959, p. 2.

<sup>20</sup>Ibid.

<sup>21</sup>Great Britain, Colonial Development Corporation Report and Accounts 1958, op. cit., p. 64.

loans made by the marketing board to the government are independent of market conditions inasmuch as the board holds large surpluses. For instance, the Second Development Plan 1959 - 1964 states that the reserves of the Cocoa Marketing Board, £G 55 million, will supply £G 25 million over the five year period to the development fund;<sup>22</sup> the remainder is needed as a working balance. Ultimately, however, the conditions in the world cocoa market will determine the level of the marketing board's reserves. A sustained drop in cocoa prices will not only cut cocoa revenues but will generate flows from the reserves to the farmers over a long period. On the other hand, higher prices in the world market for cocoa will permit an increase in the reserves and therefore the amounts available for lending to the government. In 1951-1958, when the majority of funds for development plans were secured from loan and local resources and these in turn were supplied largely by marketing board grants and loans to the government or by revenues from cocoa duties, finance was therefore closely tied to market conditions.

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<sup>22</sup>Ghana, Second Development Plan 1959-1964, op. cit.

## Nigeria

The Nigerian situation in regard to development programs is somewhat more complex than that of the other three countries mentioned. Public development expenditures are undertaken by three major groups: (1) certain statutory corporations and boards; (2) the various regional governments; and (3) the Federal Government. This division can be explained as follows.

(1) It is believed that "certain public services can often be better provided by statutory bodies than by the Governments themselves..."<sup>23</sup> Examples of these bodies are railroad and electricity corporations. As a group these statutory bodies are expected to spend £ 120 million in 1955-1962.<sup>24</sup> They are responsible for raising £ 63.3 million of this total expenditure.<sup>25</sup>

(2) Nigeria is composed of four regions; the Northern Region, the Western Region, the Eastern Region and the Southern Cameroons. While the £ 248,900,000 figure of total development finances in Table 8 includes the Federal Government and the regions, it does not include the Southern Cameroons. The other

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<sup>23</sup>Nigeria, Economic Survey of Nigeria 1959, Lagos: Federal Government Printer, 1959, p. 88.

<sup>24</sup>Ibid.

<sup>25</sup>Ibid.

three regions are responsible for contributing to the development finances. They do this mainly from local revenues; they are also allowed to issue debt. Only the Federal Government, however, is allowed to issue external debt.<sup>26</sup> The regional governments began to receive Colonial Development and Welfare grants-in-aid in April of 1955.<sup>27</sup>

(3) Table 12 shows the sources of finance for the Federal share of the development programs. It should be noted that public development programs in Nigeria were first begun in 1946 and that several of the items presented in the table are unspent balances from that 1946 allocation. In 1945 for instance, £ 23 million was granted from C. D. & W. funds in order to begin the Nigerian ten year plan.<sup>28</sup> By fiscal 1951/52, £ 15,455 thousand was left from the original sum. In 1951 it was felt by the Nigerian Government that conditions had changed so much since the time of the original plan that it was necessary to revise it.<sup>29</sup> Consequently a revised plan

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<sup>26</sup>Great Britain, Overseas Economic Surveys, Nigeria, London: Her Majesty's Stationery Office, 1957, p. 47.

<sup>27</sup>Ibid., p. 49.

<sup>28</sup>Nigeria, A Ten Year Plan of Development and Welfare for Nigeria 1946, Sessional Paper No. 24 of 1945, Lagos: Government Printer, 1946, p. 1.

<sup>29</sup>Nigeria, A Revised Plan of Development and Welfare for Nigeria 1951-1956, Sessional Paper No. 6 of 1951; Lagos: Government Printer, 1951, p. 5.

was drawn up and the necessary allocations were made. In 1954 there was a major change instituted in the structure of the development program in Nigeria. Whereas previously there had been two separate units administering development funds, it was now believed that a single development fund would better serve the purpose. Thus the C.D. & W. grants-in-aid and the Development Loan Fund were consolidated.<sup>30</sup> In 1955 it was felt that the revised plan had been carried out and that a new plan was needed. Consequently, a new five year program was prepared in that year and later extended to cover seven years.<sup>31</sup>

Turning again to Tables 7 and 8, it will be noticed that C. D. & W. grants provided the majority of the finance for the first development program and decreased by a little over £ 4 million for the 1955-1962 period. The post-1955 program is nearly six times as large as the 1946 and 1951 consolidated programs. Owing to this smaller grant and the increased size of the program, there was a shift in the second plan, in so far as finances are concerned, to the use of local resources.

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<sup>30</sup>Nigeria, The Economic Programme of the Government of the Federation of Nigeria 1955-1960, Sessional Paper No. 2 of 1956, Lagos: Federal Government Printer, 1956.

<sup>31</sup>Ibid., and Economic Survey of Nigeria 1959, Lagos: Federal Government Printer, 1959, p. 89.

TABLE 12

## SOURCES OF FINANCE FOR DEVELOPMENT PROGRAMS IN NIGERIA

£ Millions

Source	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57	1957/58	1958/59	1959/60
C.D.& W.	15.5 <sup>a</sup>	-	-	-	02.6	01.8	03.3	03.2	03.9
Loans:									
External	11.3	-	-	-	-	-	-	-	-
I.B.R.D.	-	-	-	-	10.0 <sup>b</sup>	-	-	-	-
U.K.	06.8	-	-	-	-	-	00.2	-	15.0 <sup>c</sup>
C.D.C.	00.05	-	00.8	00.7	00.9	01.4	00.5	00.2	00.05
Local:									
Revenue	08.0 <sup>d</sup>	-	-	-	137.0 <sup>e</sup>	-	-	-	-
Internal Borrowing	14.0 <sup>f</sup>	-	-	-	47.7 <sup>g</sup>	-	-	-	-
Grants:									
Marketing Boards	-	-	-	-	12.8 <sup>h</sup>	-	-	-	-
External	-	-	-	-	01.7 <sup>i</sup>	-	-	-	-
Loan Development Fund Contributions <sup>j</sup>	03.7	03.2	04.5	-	-	-	-	-	-

.....Continued

TABLE 12 - Continued

Sources: British Information Services, United Kingdom Aid to Africa, 1959, p. 3; Great Britain, Colonial Development and Welfare Acts, Cmnd. 672, 1959, p. 11; Great Britain, Colonial Development Corporation, Reports and Accounts, London: Her Majesty's Stationery Office, 1948-1959; Great Britain, Assistance from the United Kingdom for Overseas Development, Cmnd. 974, 1960, pp. 8-9, 17; Nigeria, A Revised Plan of Development and Welfare for Nigeria, 1951-1956, Sessional Paper No. 6 of 1951, Lagos: 1951, p. 10; Nigeria, Estimates of the Government of Nigeria, 1953-1954, Lagos: 1954, p. 12 and Appendix A-5; Nigeria, Estimates of the Government of the Federation of Nigeria, 1959-1960, Lagos: 1959, p. 227; Nigeria, Economic Survey of Nigeria 1959, Lagos: 1959, p. 89.

<sup>a</sup>C.D.& W. grants from 1946-1954 under £ 23 million 1946 grant.

<sup>b</sup>I.B.R.D. loans for 1955-1962.

<sup>c</sup>Includes £ 12 million Commonwealth Assistance Loan to be made after independence in 1960 and a £ 3 million Exchequer Loan to be made before independence.

<sup>d</sup>Revenue contribution for the revised 1951-1956 plan.

<sup>e</sup>Revenue contribution for the 1955-1962 plan.

<sup>f</sup>Borrowing from the Regional Marketing Boards for the 1951-1956 plan.

<sup>g</sup>Includes loan from marketing board for 1955-1962 plan.

<sup>h</sup>Marketing Board grant for 1955-1962 plan.

<sup>i</sup>For 1955-1962 plan.

<sup>j</sup>Before Federation in 1954 the Loan Development Fund was a separate entity. After 1954 the Federal Development Fund was set up to encompass all Federal development expenditures.

As in the other three countries, Nigerian local resources for development programs are mostly secured from customs duties. Nigeria's largest export duty is on cocoa while the majority of import duties accrue from unmanufactured tobacco, gasoline, beer and wine.<sup>32</sup> Grants and loans from the marketing boards are also included in the local resources item.

Nigeria has received loans from various sources, including the United Kingdom and the International Bank for Reconstruction and Development. It has been the largest recipient of Colonial Development Corporation loans in West Africa. Local loans have provided the majority of loan income, however, and these have come almost entirely from the marketing boards.

It should therefore be clear at this point that different methods of financing public development programs are used in each of the four West African countries. The two smaller members, Gambia and Sierra Leone, finance the major part of their programs from different sources. The former uses almost exclusively C. D. & W. grants-in-aid for a rather limited program; the latter draws upon loan and local funds

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<sup>32</sup>Nigeria, Estimates of the Government of the Federation of Nigeria 1959-1960, Lagos: Federal Government Printer, 1959, p. 12.

in excess of the C. D. & W. funds and has had programs five and ten times the size of Gambia's as far as expenditure is concerned. Ghana, on the other hand, has received a relatively small amount of the C. D. & W. grants to West Africa and has relied on loans and local funds. These loans have, for the most part, come from internal sources such as the Cocoa Marketing Board. The same can be said for Nigeria, but here there has also been a large amount of external borrowing that is not found in other programs. Nigeria is the only one of the four West African countries that has received a loan from the I.B.R.D. and numerous loans from the C.D.C.

Before passing to the details of C. D. & W. grants-in-aid, it may be worth restating that the aforementioned sources of funds for West African development programs do not cover the entire range of resources used by them. The description has been limited to sources within the sterling area. There have been some non-sterling area grants and loans but these have been a small part of the total. Nigeria, for instance, has received grants from the International Cooperation Administration.<sup>33</sup> In addition, there have been

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<sup>33</sup>Nigeria, Estimates of the Government of the Federation of Nigeria 1959-1960, Lagos: Federal Government Printer, 1959, p. 227.

numerous small grants from the United Kingdom other than those allocated under the C. D. & W. Act. Ghana, for example, has received grants for the Kumasi College of Technology for the last three years. The other three countries have all received miscellaneous grants.<sup>34</sup> Of the various sources of funds available for West African development programs, the primary concern here is with the grants-in-aid from the United Kingdom.

#### Colonial Development and Welfare Grants-In-Aid

There have been two major periods of United Kingdom aid to its colonies, 1929-1939 and 1940 to the present. The former was an era in which British policy toward economic development in its colonies was predicated on the belief that development should be on a pay-as-you-go basis. The latter period saw a reversal of that policy.

The purpose of the Colonial Development Act of 1929 was to aid and develop agriculture and industry, "thereby promoting commerce with or industry in the United Kingdom . . ."<sup>35</sup> Consequently the Act set up the Colonial Development Fund to

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<sup>34</sup>British Information Services, op. cit., pp. 4-6.

<sup>35</sup>Great Britain, Colonial Development, Cmd. 3357, London: 1929, p. 1.

allocate funds provided by the Parliament for colonial development.<sup>36</sup> The annual expenditure was not to exceed £ 1,000,000. Funds were distributed in the form of grants and loans. Table 13 shows the total assistance given by the Colonial Development Fund from 1929-1940 and the division between grants and loans. It can be seen that grants were in excess of loans both in total and for the four West African countries. In this period, when annual allocations were limited to £ 1 million a year, the total appropriation over the eleven year period was relatively close to the limit. It will be shown later that allocations under the Colonial Development and Welfare Acts have been far less than the statutory limits set by the acts.

In assessing the advantages and disadvantages of the 1929 Act's purposes, the Colonial Development Advisory Committee made the following observations in its 1941 report: (1) the committee ". . . have been obliged . . . to reject schemes where there has appeared no reasonable ground for anticipating that the Colonies concerned would be in a position to meet from their own resources the subsequent neces-

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<sup>36</sup>Ibid.

TABLE 13  
 TOTAL ASSISTANCE UNDER THE COLONIAL  
 DEVELOPMENT ACT OF 1929  
 1929-1940

	£'s		
	Total	Loans	Grants
Total Allocations	8,875,083	3,203,427	5,671,656
West African Share:			
Gambia	25,265	-	25,265
Gold Coast	161,348	73,000	88,348
Nigeria	330,353	-	330,353
Sierra Leone	632,633	504,920	137,713

Source: Great Britain, Colonial Development Advisory Committee 11th and Final Report, Cmd. 6298, London: 1941, pp. 11, 12, and 15.

sary cost of maintenance . . ."37 and consequently, "This restriction has limited the value of the Act in those territories whose finances were weakest and where need for assistance was, therefore, the most felt;"38 (2) "The most hampering of the restrictions has been that which in general has limited the Committee to consideration of schemes which were of a capital nature and which were related to a policy of material development;"39 and (3) development has been fostered and "Side by side with that development has gone a considerable contribution to employment in this country."40 An attempt was made in the Colonial Development and Welfare Act of 1940 to remedy the short-comings of the 1929 Act.

The 1940 Act provided a somewhat different direction, at least as far as policy is concerned, than the 1929 Act. The purpose became to "make provision for promoting the development of the resources of Colonies, protectorates, protected states and mandated territories and the welfare of their peoples, and for relieving colonial and other Governments from liability in respect of certain loans."41 Thus, the Act extended the

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<sup>37</sup>Great Britain, Colonial Development Advisory Committee 11th and Final Report, Cmd. 6298, London: 1941, p. 7.

<sup>38</sup>Ibid., p. 9.

<sup>39</sup>Ibid.

<sup>40</sup>Ibid., p. 8.

<sup>41</sup>Great Britain, Colonial Development and Welfare Act, 1940, Chapter 40, p. 1.

purpose of the loans and grants to the promotion of welfare as well as economic development and therefore enabled colonies to make expenditures on projects other than those which were of a capital nature. Furthermore, the 1940 Act carried with it a basic change in British colonial policy.

The existence of the Fund (Colonial Development Fund) has not involved any departure from the old principle that a Colony should have only those services which it can afford to maintain out of its own resources. This principle now calls for revision, and the Government propose that in appropriate cases money from the new sources which they have in mind to provide should be made available for the maintenance of important works or services over a substantial period of years.<sup>42</sup>

The most drastic change which came with the 1940 Act was that allocation of funds was to be related to projects that were part of comprehensive development programs. With this end in mind the British Government invited "Colonial Governments to prepare development programmes for a period of years ahead."<sup>43</sup> Moreover, the funds that were to be used for loans and grants-in-aid were to be allocated yearly on the basis of annual requirements and were not to be deposited into a development fund as the 1929 Act provided. The Colonial Development Fund was dissolved and all monies deposited into

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<sup>42</sup>Great Britain, Statement of Policy on Colonial Development and Welfare, Cmd. 6175, London: 1940, p. 5.

<sup>43</sup>Ibid., p. 8.

the Exchequer.<sup>44</sup> The limit on assistance was increased to a maximum of £ 5 million a year for ten years.<sup>45</sup>

The Colonial Development and Welfare Acts since 1940 have been substantially the same in their outlook. The allocations have been increased by each act until the 1959-1968 Act added £ 95 million, thereby increasing the total allocation for 1946-1964 to £ 315 million.<sup>46</sup> The spending of these C. D. & W. allocations has been slow and there have been surpluses in the form of unspent balances as each new act has been passed.<sup>47</sup>

It is interesting to note that in 1945 there were to be no specific economic criteria used in allocating C. D. & W. funds. "All factors which were known to be relevant were taken into account, including the size and population of the territory, its known economic resources and possibilities, the present state of development, the development schemes known to exist or to be under contemplation, and the financial resources

<sup>44</sup>Great Britain, Colonial Development and Welfare Act, 1940, op. cit.

<sup>45</sup>Great Britain, Cmd. 6175, op. cit., p. 6.

<sup>46</sup>Great Britain, Cmd. 974, op. cit., p. 9.

<sup>47</sup>Ibid.; Great Britain, Colonial Development and Welfare Acts, Cmd. 9375, London: 1955, p. 7.

likely to be available locally."<sup>48</sup> This was reiterated in 1955.<sup>49</sup>

There have been two significant changes in the postwar C. D. & W. Acts which appear to depart substantially from the tone set in the 1940 Act and suggest a return to the prewar philosophy. The first is the emphasis on capital projects which are revenue-producing. While there is recognition of the need for projects which are not revenue-producing, such as sanitary and educational facilities, the importance of capital projects which yield a return is nevertheless emphasized. Thus the Secretary of State for the Colonies said to the United Kingdom Parliament in April of 1955:

...my predecessor underlined the need for a proper emphasis on economic development in the following words: "I do not underestimate the importance of basic social improvement in Colonial territories. But Colonial Governments will defeat their own object if they saddle themselves with a crippling burden of recurrent charges on capital which does not earn a return. The only certain way of providing for these recurrent charges is to see that a proper place is given in development plans to those basic services which make a more direct contribution to the expansion of the territory's resources." Generally speaking, this has been

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<sup>48</sup>Great Britain, Colonial Development and Welfare Despatch Dated November 12, 1945, Cmd. 6713, London: 1945, p. 3.

<sup>49</sup>Great Britain, Colonial Development and Welfare Despatch Dated April 26, 1955, Cmd. 9462, London: 1955, p. 4.

the approach of Colonial Governments to the planning of development, but it is of such fundamental importance for the future economic and social well-being of the colonial territories that I feel that the principle cannot be too often restated.<sup>50</sup>

Thus it appears that an economic criterion has actually been used for choosing projects which were to be part of development programs and for which C. D. & W. funds were to be allocated. Projects with the prospect of yielding the greatest return were the ones to be favored. The importance of this point can be appreciated in light of the fact that since West African development programs include projects which yield no revenue, those projects which do net a return must do so in excess of the costs of maintenance and replacement if they are to aid in offsetting the costs of upkeep and replacement for non-revenue-producing projects. For, while grants-in-aid and loans in excess of current revenues aid a country in its development, it is not to be assumed that they automatically make no provision for the future costs of maintaining the capital which is a part of the development projects.

The second apparent change from the tone of the 1940 policy regarding colonial development is that the United

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<sup>50</sup>Ibid., p. 5.

Kingdom has encouraged and requested that colonial governments, whenever possible, use local and external (non-sterling) funds to finance their development programs.

Governments will naturally continue to look first to their own financial resources, including the greatest possible use of their sterling assets held in London, and will need carefully to examine the possibilities of raising additional revenues for development. I consider it right also that they should, over the next five years, make the maximum possible use of all external sources of loan finance available to them.<sup>51</sup>

This policy was reaffirmed in 1959.<sup>52</sup>

Has there, then, been even a formal change in British policy toward colonial economic development? While there have been limitations set on the allocation of C. D. & W. funds, these have resulted from the application of an economic criterion quite different from that which was used in connection with the 1929 Act. Expenditures under the pre 1940 allocations were designed to aid agriculture and industry "thereby promoting commerce with or industry in the United Kingdom;" After 1940 the purpose became to promote the development and welfare for colonial peoples. Furthermore, the emphasis on capital and revenue-producing projects since 1940 must be viewed in light of the long-term development plans.

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<sup>51</sup>Ibid.

<sup>52</sup>Great Britain, Committee on the Working of the Monetary System Report, Cmnd. 827, London: 1959, p. 266.

Provision for depreciation and replacement expenditures on the projects which the grants helped to finance had to be made. Unless grants were to be spent for maintaining old projects at the sacrifice of new ones, these funds would have to be raised from some other source. Revenue and capital-producing projects not only maintain themselves but provide capital and finance for new, as well as non-revenue-producing, projects.

The most substantial difference between the two periods, however, is one of objectives. Before 1940 the sums were extremely small. The amounts going to each colony were hardly enough to indicate that there was any conscious policy concerning economic development. And this is just the point. The change in United Kingdom policy has been one of purpose. In the last fifteen years, (the grants did not really begin until 1945) not only have the absolute allocations increased steadily, but British colonial economic policy has been directed at aiding and accelerating economic development in the colonies. No longer do the British insist that development be on a pay-as-you-go basis; they encourage borrowing and the acceptance of grants and assistance from outside the Commonwealth. The United Kingdom has been generous in its own grants-in-aid to its colonies.

It has been shown that West African members of the sterling area are holders of large sterling balances which increased in every year but two from 1945 to 1957. Moreover, they were net contributors of dollars to the foreign exchange pool every year during that period. It was also noted that the sterling assets of colonial members were managed by the Bank of England and invested in United Kingdom Treasury Bills. Thus, it was shown that there have been sizeable flows of capital from West Africa to the United Kingdom.

At the same time capital flows from the United Kingdom to West Africa, in the form of C. D. & W. grants, were also shown to have occurred annually during the same period. These grants normally are financed out of the British budget, which in turn is partly financed out of revenues raised through the sale of Treasury Bills to West African sterling balance holders.

In light of the simultaneous existence of these two flows and the fact that the former has exceeded the latter in size, it may be asked whether the C. D. & W. Acts have, in fact, constituted a substantive change in United Kingdom policy or whether West Africa has continued to finance its development out of what is, in reality, its own financial resources. Chapter III will explore the implications of the formal change in United Kingdom policy toward economic development in its colonies.

### III. GRANTS-IN-AID AND STERLING BALANCES

The previous two chapters dealt with two financial flows: the flow of sterling and foreign exchange from West Africa to London (Chapter I) and the flow of grants-in-aid from London to West Africa (Chapter II). During the seven years from fiscal 1950/51 to 1956/57 (the last year for which relevant information is available), West African sterling balances increased £ 207 million, or an average of £ 29.5 million per year. In that same period C.D. & W. grants to West Africa increased £ 22 million, or £ 3.2 million per year.

The result is a situation which differs substantially from that which one would normally expect to arise as a consequence of capital allocation in the form of grants-in-aid. There are three major reasons for this: (1) West Africa has had surpluses in its balance of payments on current account for most of the period in which it has received C.D. & W. grants; (2) West Africa has held large sterling assets since 1945; and (3) there is the possibility that the burden of supplying C.D. & W. grants-in-aid has not fallen upon the British.

1. Grants are usually thought of as a form of capital receipts which allow a country to import more than it exports without drawing on its own resources. But from the end of the war to 1955 West Africa exported more than it imported. While United Kingdom grants permitted West African imports to rise, they neither brought about nor contributed to a deficit in the balance of payments on current account in this period. Although the imports that resulted from the expenditure of grants brought the surplus in the balance of payments to a lower level than would have existed if these products had not been imported, these same imports could have been purchased in any given surplus period, so long as the surplus was larger than the grants, without drawing upon additional domestic resources.

Thus, Hazelwood wrote:

Development and welfare policy implies that the colonies should receive gifts and loans and £ 211 million has, in fact, been made available for this purpose,...But, in reality, this sum has not been effectively transferred. Instead of the external current account deficit necessary if they were to absorb this amount, the colonies have been heavily in surplus...thus the colonies have been exporting capital, not importing it.<sup>1</sup>

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<sup>1</sup>A. Hazelwood, "Colonial External Finance Since the War," Review of Economic Studies, Vol. XXI, 1953-1954, p. 48.

It should be noted that Hazelwood wrote on the basis of data no more recent than 1951. Moreover, his conclusions were based on balance of trade calculations, since balance of payments data were not then, and are not now, available for those years. In any event, his conclusions seem to hold true for the entire postwar period until 1955. For, the balance of payments data that did become available after 1951 show that West Africa enjoyed a surplus in the current account up to, and including, 1954.<sup>2</sup> It can also be pointed out that C.D. & W. grants to West Africa were so small<sup>3</sup> that, while they reduced surpluses in the balance of payments on current account, they did not do so appreciably.

While grants did decrease West African surpluses on current account, if only to a minor extent, increases in sterling balances resulting from such surpluses were in no way affected. If West Africa, for example, had an export surplus of £ 50 before grant expenditures, a grant of £ 10 resulting in the same amount of imports would have decreased the surplus to £ 40, as long as the receipt of grants is not recorded in the current account. Assuming that all surpluses were deposited in sterling accounts, £ 50 would have been deposited before the grant expenditure and £ 40 after. Had the grant been deposited in West Africa's sterling account as a reimbursement for an expenditure of £ 10 on imports, the total increase

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<sup>2</sup>Table 4.

<sup>3</sup>Table 14.

in that account would have been £ 50; that is, the current account surplus of £ 40 plus the grant of £ 10. Had the grant been made directly to West Africa before expenditure, the increase in West Africa's sterling account would still have amounted to £ 50, since the original surplus of £ 50 that existed before expenditure from the grant would then have been deposited in London.

Since 1955 West Africa has experienced deficits on current account. According to Hazelwood, this would mean that C. D. & W. grants were effectively transferred to West Africa. Grants-in-aid were not entirely responsible for these balance of payments deficits, since the deficits were considerably larger than the grants. Undoubtedly, however, the grants were still a contributory factor.

2. It is hard to associate the possession of large and unutilized capital assets with the receiving of grants-in-aid. It is generally understood that grants are made in order to provide goods and services to countries that could not acquire them by other means. Since the end of World War II West Africa has been in possession of large sterling balances which have continued to grow until recently. If the data in Table I, and Table 7 are compared, it can be seen that West Africa has had the means to purchase all the imports financed out of C. D. & W. grants-in-aid. Two things are worth noting

here. First, owing to the financial arrangements of the sterling area, as described in Chapter I, West Africa has had the privilege of purchasing imports with sterling from any country in the area. To the extent, therefore, that development imports originated in the sterling area they could have been financed out of sterling assets not tied up in working balances or special funds. This was the case during the entire period since the end of the war and the fact that West Africa experienced surpluses or deficits on current account was of no consequence for any single year. Second, C.D. & W. grants did not imply any special privileges for West Africa with respect to excessibility of foreign exchange. For, as members of the sterling area, West African countries were entitled, at least in principle, to draw from the foreign exchange pool. That is to say, there is no reason to assume that any drawing from the pool that might have resulted from C.D. & W. grants would have been denied to West African governments even in the absence of the grants.

3. British official statements claim that C.D. & W. funds constitute a "burden" upon Britain, that is, that the grants result in a net reduction in the availability of goods and services to the United Kingdom. This, of course, is the result that would ordinarily be expected to follow, in the giving country, from a policy of capital allocation in the

form of grants-in-aid. Thus, in 1945, the British Secretary of State for the Colonies declared:

The contribution to be made from the Imperial Exchequer is a real burden on the United Kingdom taxpayer, to be borne at a time when the resources of the United Kingdom, external as well as internal have been heavily strained; . . . In spite of the manifold difficulties confronting the United Kingdom on all sides, the additional effort necessary to provide the funds set aside under the Colonial Development and Welfare Act will be gladly made because of the desire to see Colonial development and welfare advanced. . .<sup>4</sup>

Again, in 1960, the Chancellor of the Exchequer asserted that, "In so far as this assistance comes from the Exchequer, it is a cost to the British people which is borne because of the need it meets and the benefit it brings."<sup>5</sup> These are categorical statements. It remains to be seen to what extent economic analysis supports them.

#### A Theoretical Model

Let us assume the following: (1) there are only four countries, the United Kingdom, West Africa, the rest of the sterling area, (R.S.A.), and all non-sterling area countries, (N.S.A.); (2) West Africa holds sterling balances only to the

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<sup>4</sup>Great Britain, Colonial Development and Welfare Despatch Dated November 12, 1945, Cmd. 6713, London: 1945, p. 3.

<sup>5</sup>Great Britain, Assistance from the United Kingdom for Overseas Development, Cmd. 974, London: 1960.

extent that they are needed as working balances.

The United Kingdom Parliament votes to allocate a certain sum of money under the C. D. & W. Act for West African development programs. This sum is part of the budget and therefore must be met out of receipts and, if necessary, by borrowing. Grants may be allocated for the purpose of increasing West African imports or increasing the purchasing power within West Africa. Both possibilities present several considerations which have to be examined before it can be determined whether the United Kingdom carries the burden of grants-in-aid to West Africa or not.

Assuming that the grants are given in order to increase West African imports, the grants are credited in sterling to the appropriate West African sterling accounts in London. It was pointed out in Chapter I that sterling may be used not only to purchase goods from the United Kingdom, but also from any member in the sterling area. Sterling is merely transferred from the account of the importing nation to that of the exporting nation. It was also shown that sterling area members may use sterling credits to purchase foreign exchange from the Exchange Equalization Account. Thus, West Africa may use a grant to purchase imports from the United Kingdom, R.S.A. or N.S.A.

If the entire grant is spent on imports from the United Kingdom, the sterling will be transferred from West African accounts to United Kingdom accounts and the amount of goods and services available to the United Kingdom will be decreased. If the grant is spent on imports from R.S.A., sterling will be transferred from West African accounts to R.S.A. accounts in London. Here several possibilities may arise. R.S.A. may leave the new balances in its accounts in London; if so, no burden will fall upon the United Kingdom.<sup>6</sup> If R.S.A. spends the entire sum on imports from the United Kingdom, the sterling will be transferred from R.S.A. accounts into United Kingdom accounts. The decrease in the availability of goods and services to the United Kingdom stemming from its exports to R.S.A.

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<sup>6</sup>If the assumption that R.S.A. is a single country were modified to allow two or more countries to be represented by this classification, the conclusion reached would not be essentially different. For it would be possible for two or more R.S.A. countries to trade among themselves indefinitely with the sterling received from West African grant-in-aid expenditures. If Australia, for instance, received the entire expenditure from West Africa and then imported goods from New Zealand, the grant would first be transferred from the West African to the Australian account and then to the New Zealand account. The aggregate sterling balances in London would remain unchanged, the grant would remain in the foreign trade accounts of the sterling area, and the United Kingdom would not carry the burden of its grants-in-aid to West Africa for an indeterminable period of time.

will mean that the entire burden of the grant has fallen upon the United Kingdom. A third possibility is for R.S.A. to spend its new sterling assets on imports from N.S.A. Imports from N.S.A. will require foreign exchange unless sterling is accepted as a means of payment. If foreign exchange is required, R.S.A. can buy it from the Exchange Equalization Account. Assuming that there is no shortage of foreign exchange in the sterling area, and that R.S.A. imports from N.S.A. do not create one, that part of the increased earnings in N.S.A. that is spent on imports from the United Kingdom will represent the extent of the burden. If there is a shortage of foreign exchange in the sterling area, R.S.A. imports from N.S.A. will place an immediate burden upon the United Kingdom by curtailing the latter's ability to purchase goods from N.S.A. The effect upon the United Kingdom will be the same, should N.S.A. fail to expand its imports from anywhere as a result of its increased exports. Should N.S.A. increase its imports from R.S.A. and should R.S.A. fail to increase its imports from the United Kingdom, no burden would fall upon the latter inasmuch as R.S.A. must turn in all its foreign exchange earnings to London. N.S.A., however, may accept sterling as payment for exports to R.S.A. (or to the United Kingdom). This might be the case, for example, if

N.S.A. had a continuous surplus with the sterling area and wished to enjoy some of the benefits of multilateral trade within that area. N.S.A. could then trade with the United Kingdom, R.S.A., or even West Africa, without having to convert its currency into local currency. Its position, as far as payments are concerned, would then be the same as that of any member of the sterling area. Should West Africa import from N.S.A., the burden upon the United Kingdom will be determined by the same considerations that would govern the expenditure of funds by R.S.A. on imports from N.S.A.

Grants that are allocated in order to increase purchasing power within West Africa, (assuming that West Africa does not have the ability to create domestic money, an assumption consistent with colonial status) will be deposited with the West African Currency Board. The Board will issue West African currency at a ratio of one to one that will be injected into the West African economy through the expenditures of the West African Government. If West Africa has a high marginal propensity to import, the extent of the burden falling upon the United Kingdom will be determined by the considerations outlined above. If the marginal propensity to import in West Africa is low, the increased supply of West African currency will tend to remain in circulation and the sterling obtained through the grant will remain in the West African Currency Board's sterling account in London.

To sum up, it can be said that, if West Africa does not possess sterling balances beyond working balances, there are three possibilities concerning the burden upon the United Kingdom resulting from a grant-in-aid: there may be no burden at all; the burden may fall upon Great Britain to an extent equal to that of the grant; or it may fall upon that country to an extent smaller than the full value of the grant.

Now let us change the second of the two initial assumptions. It will be assumed that West Africa holds sterling balances in excess of current requirements and that these balances, with the exception of the portion held for working balances, sinking funds and pension funds, are available for development financing. Sterling balances are accumulated from balance of payments surpluses, which may be due to surpluses with sterling area countries, non-sterling area countries, or both.

The new assumption gives rise to one major change in the conclusions previously reached. If it is presumed that West Africa would not have made the same expenditures in the absence of grants, the burden of the grants is still determined by the considerations presented under the previous assumptions. On the other hand if it is presumed that West Africa would have

spent the same amount, the allocation of grants creates no burden for the United Kingdom, even though an outflow of goods and services occurs. For the goods and services that leave the United Kingdom as a result of grant-in-aid expenditures would have left in any event.

Under the original assumptions it was shown that whenever grant expenditures result, directly or indirectly, in United Kingdom exports, the burden clearly falls upon the United Kingdom. The assumption that West Africa holds excess sterling balances raises a doubt as to whether the burden falls upon the United Kingdom even if grants cause the latter's exports to rise.

#### Some Empirical Considerations

An attempt has been made to inject such assumptions into the model as seem to cover the most pertinent range of theoretical possibilities. It is now necessary to examine each of the assumptions in the light of the known evidence and construct a situation which conforms more closely to these facts.

It was assumed that there were only four countries in the world. While this is not a realistic assumption, it is

obviously not a severe handicap. It was also assumed that C. D. & W. grants-in-aid were part of the annual budgetary expenditures of the United Kingdom, but the validity of this assumption is not essential to the problem discussed here, since the crucial consideration is the effect of West African expenditures of grants on the availability of goods and services to the United Kingdom. It is interesting to note, however, that C. D. & W. grants do, in fact, appear in the United Kingdom budget<sup>8</sup> and that deficit financing may be carried on through the sale of Treasury Bills to colonial sterling balance holders.

It is not known whether grants to West Africa were intended solely to boost imports or whether they were, in part at least, also intended to permit an expansion of internal purchasing power. As far as the question of a burden upon the United Kingdom resulting from grants is concerned, however, the distinction is not likely to be of any great significance, inasmuch as the marginal propensity to import in West Africa is generally believed to be high.<sup>9</sup>

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<sup>8</sup>Great Britain, Statement of Revenue and Expenditure as Laid Before the House by the Chancellor of the Exchequer When Opening the Budget, London: Her Majesty's Stationery Office, 1956, p. 12, p. 14.

<sup>9</sup>P.T. Bauer, West African Trade, Cambridge: University Press, 1954, pp. 333-34; P. W. Bell, The Sterling Area in the Postwar World, Oxford: Clarendon Press, 1956.

In Chapter I it was shown that West Africa has held sizeable and, with few exceptions, annually increasing sterling balances since 1945.<sup>10</sup> Further, an examination of the form in which Nigerian and Ghanaian sterling assets are held showed that a large part of the total might be considered available for development financing.

Another highly important consideration might be the direction of expenditures of grants-in-aid to West Africa. It is impossible, of course, to determine the origin of each pound of expenditure on development in West Africa. Even if the projects which are the recipients of C. D. & W. funds are known, the expenditures made with these funds cannot be determined unless the whole project is financed by the grant. Therefore, no evidence can be presented concerning the use of monies that have been earned in exporting to West Africa by R.S.A. and N.S.A. There is also the difficulty of determining which imports should be classified as specifically intended for development. The available information shows, however, that over 50 per cent of West African imports of capital goods originate in the United Kingdom.<sup>11</sup>

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<sup>10</sup>Table 1.

<sup>11</sup>Gambia, Trade Report, Sessional Paper No. 3, 1956, Bathurst: Government Printer, 1956; Gambia, Trade Report, Sessional Paper No. 8, 1958, Bathurst: Government Printer, 1958; Ghana, Handbook of Commerce and Industry, Accra: Government Printer, 1958; Nigeria, Trade Report, Lagos: Government Printer, 1954, 1957; Sierra Leone, Trade Report, Freetown: Government Printer, 1953, 1955, 1956, 1957, 1958.

While it is not known what part, if any, of C. D. & W. grants to West Africa is spent on imports from non-sterling area countries, foreign exchange (other than sterling) might pose certain problems which deserve some comment. It has been noted that West Africa as a member of the sterling area has been obligated to turn in its foreign exchange earnings to the Exchange Equalization Account in London; sterling credits are received in return which may be held in London accounts, exchanged for West African currency, or spent on imports. It was also pointed out that West Africa has consistently been a net contributor of dollars to the foreign exchange pool. Has West Africa sacrificed goods and services because of sterling area arrangements?

If sterling is fully convertible, West Africa does not sacrifice its claims on non-sterling area goods by giving up its foreign exchange earnings to the Exchange Account. It can draw upon the pool at any time, along with the other members of the area, in accordance with its own needs and not with the requirements of the whole sterling area. Since 1958, as was noted earlier, a high degree of, though not full, convertibility has been present in the sterling area.

From the end of World War II until 1958, however, convertibility was extremely limited, though not entirely absent, in the sterling area, and the West African foreign exchange

earnings that were turned over to the Exchange Equalization Account represented a potential sacrifice by West Africa of claims on goods and services from non-sterling area countries. Since dollars were fully convertible during this period, it made no difference to West Africa whether imports originated outside the sterling area or not. For, even if West Africa had not been in possession of sterling it could have used all its dollar earnings, had it not been subjected to sterling area restrictions, to purchase imports from any other country in the world, including sterling zone countries. Here it should be noted that it is not known whether West Africa was in fact denied requests for foreign exchange during this period. Nor can it be said with any degree of certainty that West Africa would have used more foreign exchange than it did, had a higher degree of convertibility been present from 1945 to 1958. In any event, it seems probable that during that period foreign exchange would not have been available for West African development financing in the amount contributed by West Africa to the exchange pool. This contention is supported by the striking fact that West Africa's total contribution of dollars to the exchange pool from 1945 to 1955 was £ 224.8 million, while the entire value of its development programs was only £ 143.6 million for that same period.<sup>12</sup>

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<sup>12</sup>Table 7 and Table 14.

Since these dollars were contributed through the sale of West African products, it is clear that West Africa sacrificed claims to foreign exchange earned by it and not merely claims contributed by other members of the sterling area.

Table 14 shows the total dollar contributions to the Exchange Equalization Account by West Africa from 1947 to 1958 and the annual Colonial Development and Welfare grants to that area for the same period. It will be noted that dollar contributions far exceed grants-in-aid in any single year. That is to say, while West Africa has received sterling resources in the form of grants-in-aid, it has at the same time given up foreign exchange resources it might otherwise have used. It is conceivable that, under these circumstances, the sacrifice of goods and services by West Africa during this period may have been greater than that of the United Kingdom.

Finally, there is the question of what expenditures West Africa would or would not have made in the absence of grants-in-aid. Of course, there is no evidence available to show what course of action West Africa would have taken had the grants not been allocated for development programs. Nevertheless, it is clear that during the period considered here, West Africa did possess the sterling assets needed to make the expenditures that were financed through grants. The financing

TABLE 14  
 DOLLAR CONTRIBUTIONS BY WEST AFRICA AND COLONIAL  
 DEVELOPMENT AND WELFARE GRANTS-IN-AID  
 TO WEST AFRICA, 1947-1958

£ Millions		
Year	Dollar Contributions	C.D. & W. Grants
1947	10.0	19.0 <sup>a</sup>
1948	19.8	
1949	16.8	
1950	33.2	
1951	38.2	
1952	33.3	
1953	31.5	
1954	25.3	3.9
1955	16.9	3.3
1956	16.9	3.4
1957	8.0	4.1
1958	15.5	

Sources: Great Britain, Statistical Abstract for the Commonwealth, London: 1951-1959; Great Britain, Colonial Development and Welfare Acts, Cmnd. 612, 1959, p. II.

<sup>a</sup>This figure is the total of C.D. & W. grants to West Africa for the 1946-54 period.

of this part of the development programs was not, therefore, a limiting factor. Moreover, the decision to draw down on sterling balances in the absence of grants could have been made independently of considerations regarding current account earnings in any given year. For West Africa had large sterling balances available for development financing which it could have used even if it did not experience a surplus in the balance of payments. In other words, development plans could have been undertaken on the basis of existing assets; it would not have been necessary to rely on a projection of expected future surpluses.

#### Summary and Conclusion

To sum up, then, this chapter has dealt with three questions: (1) whether West Africa required grants-in-aid; (2) whether the grants that were allocated to it were effectively transferred; and most importantly, (3) whether the United Kingdom shouldered the burden of C. D. & W. grants.

1. Ordinarily, grants-in-aid are given to those nations who do not have the resources to purchase certain imports. The implementation of development programs in underdeveloped countries is almost invariably based on certain import requirements. West African countries, however, though underdeveloped and engaged in the execution of development programs,

have had the necessary resources to meet import requirements without the benefit of grants-in-aid. For, since the end of World War II, the level of their sterling reserves, accumulated as a result of fairly consistent surpluses in the balance of payments, has tended to be high. In short, West Africa has been a creditor area in which the availability of resources has not been a limiting factor for development programs.

2. It follows that the question of effective transfer of the grants, as presented by Hazelwood, is not particularly relevant to a discussion of West African development financing, although the fact that they were ineffectively transferred throughout most of the period considered here, that is, since World War II, adds weight to the argument that they were not absolutely essential for the execution of development programs.

3. Categorical statements by British officials to the effect that the burden of C. D. & W. grants-in-aid has fallen upon the United Kingdom do not appear to be correct. The burden may have fallen upon the United Kingdom, but this is a mere possibility. For, as has been shown, the possession of excess sterling balances by West Africa suggests that grants-in-aid may have been used to purchase goods that would otherwise have been purchased with sterling balances. It is there-

fore possible that British grants-in-aid neither benefited West Africa nor placed a burden upon the United Kingdom. It has also been shown that, even if West Africa had not possessed excess sterling balances, British grants would not necessarily have created a burden for the United Kingdom, though they would have benefited West Africa. That such a situation is conceivable is due to West Africa's membership in the sterling area, as described in the first chapter.

In view of these considerations, the proposition that a substantive change in British policy toward economic development of its dependencies, or former dependencies, particularly in West Africa, can be doubted.

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## ABSTRACT

In recent years Gambia, Ghana, the Gold Coast, and Sierra Leone have been engaged in public investment programs to promote economic development. These West African countries are all part of the sterling area. The development programs have been financed from various sources, including United Kingdom grants-in-aid. Certain official British statements claim categorically that the burden of these grants falls upon the United Kingdom. While it is true that the grants are given by the British it is not clear that the United Kingdom shoulders the burden.

West Africa has experienced surpluses in its balance of payments on current account in nearly every year since 1945. Owing to the institutional arrangements of the sterling area these surpluses are held in London accounts, in sterling (the form in which grants are given), and, therefore, West Africa has been a capital exporter. West African sterling balances have been many times the size of the grants which West Africa has received from the United Kingdom. Moreover, sterling area agreements concerning trade among the members indicate that it is possible, at least in theory, for grants to West Africa to result in no decrease in the availability of goods and services to the United Kingdom.

The problem is important, in view of recent changes in United Kingdom economic policy toward its dependencies. Before World War II, the United Kingdom in its policy statements declared that colonial development should be on a pay-as-you-go basis and though some loans and grants were made, on the whole, no substantial money was given in this form. However, there appeared to be a significant change in this aspect of British policy with the passing of the Colonial Development and Welfare Act of 1940. That is, the allocation from United Kingdom resources of liberal grants-in-aid made it possible for development expenditures to be in excess of what the individual colonies were able to afford out of their own resources. Moreover, policy declarations accompanying the 1940 and subsequent acts stated specifically that the change had been made. An analysis of the question of whether or not the grants represent a burden upon the United Kingdom may shed some light on the extent of the change in British policy; that is, whether the change was also substantive or merely formal.

This thesis is confronted by two major limitations. First, the lack of statistical information. For instance, figures for balance of payments on current account are not available before 1950 in the cases of Ghana and Nigeria and have not been computed at all for Gambia and Sierra Leone; full balance of payments data are only available for Ghana after 1952. Second, there is a lack of uniform statistics

in some cases. Ghana's statistics for the years just preceding its independence do not always agree with the information published by the British Colonial Office.

The question of whether or not United Kingdom grants-in-aid to West Africa have been a burden upon the United Kingdom centers around the position of West Africa as a capital exporter and the nature of the grants themselves, their origin and use. The analysis, therefore, must be preceded by a discussion of certain aspects of West Africa in relation to the sterling area and as the recipient of Colonial Development and Welfare grants-in-aid.

Gambia, Sierra Leone, Ghana and Nigeria have, as a group, consistently been the largest holders of colonial sterling balances since 1945. As colonies, these countries have had neither the right to determine their own international monetary policies nor the option to withdraw from the area. Using the 1959 Nigerian situation as a guide it can be said that approximately 40.5 per cent of the total sterling balances is not available for development financing. Furthermore, owing to special arrangements within the sterling area, all gold and foreign exchange earned in international trade must be turned in to the Exchange Equalization Account by member nations. From the end of World War II to 1956, the colonies, Ceylon, and the Union of South Africa were the only net contributors to the exchange pool. For

the colonies the pooling of foreign exchange was entirely involuntary and the majority of the West African countries' exchange earnings were in the form of scarce dollars. Foreign exchange is a central consideration for a poor country. Development requires, among other things, the importation of capital. For many underdeveloped countries foreign exchange is difficult to come by, since they do not earn enough to supply their import needs. For West Africa, however, the situation is different; here is an area that earns a large amount of foreign exchange in the world markets, but which must gear its use of foreign exchange in general to an amount which is in harmony with the needs of the other members of the sterling area.

At the same time capital flows from the United Kingdom to West Africa, in the form of Colonial Development and Welfare grants, have occurred annually. In light of the simultaneous existence of these two flows (foreign exchange from West Africa to London and grants-in-aid from London to West Africa) and the fact that the former has exceeded the latter in size, it may be asked whether the C.D. & W. Acts have, in fact constituted a substantive change in United Kingdom policy or whether West Africa has continued to finance its development out of what is, in reality, its own financial resources.

Categorical statements by British officials to the effect that the burden of C.D. & W. grants-in-aid has fallen upon the United Kingdom do not appear to be correct. The burden may have fallen upon the United Kingdom, but this is a mere possibility. For, as is shown in the text, the possession of excess sterling balances by West Africa suggests that grants-in-aid may have been used to purchase goods that would otherwise have been purchased with sterling balances. It is therefore possible that British grants-in-aid neither benefited West Africa nor placed a burden upon the United Kingdom. It is also shown that, even if West Africa has not possessed excess sterling balances, British grants would not necessarily have created a burden for the United Kingdom, though they would have benefited West Africa. That such a situation is conceivable is due to West Africa's membership in the sterling area, as described in the first chapter.

In view of these considerations, the proposition that a substantive change in British policy toward economic development of its dependencies, or former dependencies, particularly in West Africa, can be doubted.