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**WAS THE CASSA PER LA CIRCOLAZIONE
MONETARIA DELLA SOMALIA AN
ORTHODOX CURRENCY BOARD?**

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Was the Cassa per la Circolazione Monetaria della Somalia an Orthodox Currency Board?

By Noah Naparst

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About the Series

The *Studies in Applied Economics* series is under the general direction of Professor Steve H. Hanke, Founder and Co-Director of the Institute for Applied Economics, Global Health, and the Study of Business Enterprise (hanke@jhu.edu). This working paper is one in a series on currency boards. The currency board working papers will fill gaps in the history, statistics, and scholarship of the subject, and provide proponents of the system useful historical case studies. The authors are mainly students at The Johns Hopkins University in Baltimore.

About the Author

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Abstract

We provide the first spreadsheet data series for the Cassa per la Circolazione Monetaria della Somalia (loosely translated, Somalia Currency Office), which operated in what is now southern Somalia from 1950-1960, and examine the extent to which it operated as an orthodox currency board. The paper makes the annual balance sheets and income statements of the currency board digitally available and translated into English for the first time. These are included in the companion spreadsheet workbook, along with a summary of legislation related to the Cassa and history of the territory, which are contained in the appendices.

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Keywords: Somalia, Italian Somaliland, currency board, monetary policy

JEL codes: E59, N17

Introduction

The southern part of what is now Somalia became an Italian colony in the late 19th century. Following the partition of the area by France and Britain in the latter half of the 1880s, the Italian government took interest in the southern portion of the territory as part of its larger colonial project. The process of colonization was gradual and involved “[proceeding] step by step, area by area,” given that there existed no “ready formed authority” in the Horn of Africa.¹ The Italian ambassador in the British protectorate of Zanzibar, a trader named Vincenzo Filonardi, orchestrated the creation of an Italian protectorate in the Sultanate of Obbia and the Sultanate of Majeerten in February and April of 1889, respectively. The protectorate was then enlarged with the Italian government’s leasing of the ports of Barawa, Merca, Mogadishu, and Warsheikh. The area was administered by Filonardi’s company and came to be known in English as Italian Somaliland or Italian Somalia and in Italian simply as Somalia. To the north, in what is now the northern part of Somalia, was the colony of British Somaliland. Following lackluster economic results and a period of violence, the initial hands-off approach by the Italian government was replaced with direct administration of the colony.²

From the outset the colonial authorities (and later the Italian government) issued distinct currencies, bearing markings which distinguished them from Italian note issues. They began as informal promissory notes, and gradually increased in officiality and aesthetic similarity to other currencies of the time. In the earlier period, when there was no officially legislated currency, coins like the Indian rupee and the Maria Theresa thaler were used in Italian Somalia.³ Prior to the establishment of the Cassa per la Circolazione Monetaria della Somalia, the Banca d’Italia, Italy’s central bank, had exercised monetary authority over Italian Somalia, first opening a branch in Mogadishu in 1920.⁴ The first currency issued in the colony was a promissory rupie (rupee) note circulated by Filonardi’s company beginning in 1893.⁵ The rupie notes were equal to the Indian rupee, the predominant currency around the Indian Ocean. Under Decree No. 600 of May 1920, the Banca d’Italia began issuing *buoni di cassa*, cash certificates which were denominated in rupie.⁶ The Italian government passed Decree No. 1143 on June 18, 1925, authorizing the introduction of the Italian lira into Italian Somalia, replacing the rupie at an exchange rate of 8 lire per rupie.⁷ In 1936, following the Italian invasion of Ethiopia from its colony of Eritrea, the Italian government joined Italian Somaliland, Eritrea, and Ethiopia into Africa Orientale Italiana (Italian East Africa). In 1938 it began issuing Italian East African lire, which were “similar to the notes then circulating in Italy, but with different colors and red overprints in the margins indicating the notes were for use only in Italian East Africa.”⁸ During World War II, British forces

¹ Strangio (2012): 2.

² Strangio (2012): 2.

³ Linzmeyer (2017): 1.

⁴ Strangio (2012): 15.

⁵ Linzmeyer (2017): 1.

⁶ Linzmeyer (2017): 2.

⁷ Linzmeyer (2017): 1-2.

⁸ Linzmeyer (2017): 2.

conquered Italian Somalia, Ethiopia, and Eritrea. They replaced Italian-issued currency with the notes and coins of the East African Currency Board, which served the British colonies of Kenya, Uganda, Tanganyika, and Zanzibar (the last two of which now constitute Tanzania). The East African Currency Board issued the East African shilling, equal to the British shilling and worth 1/20 of a British pound.⁹ While the East African shilling was the dominant currency issued during the British occupation, other currencies including the Italian lira, Indian rupee, Egyptian pound, and Maria Theresa thaler continued to circulate.

After the war, the United Nations, in effect representing Britain and the other World War II Allies, agreed with Italy that Italy would resume control of Italian Somalia, but not as a colony without a presumed right of independence.¹⁰ With the establishment in 1950 of the United Nations trusteeship of Somalia under the Republic of Italy came the need for a monetary system for the territory, which was set to become independent in 1960. The Cassa per la Circolazione Monetaria della Somalia (CCMS—a loose English translation would be Somalia Currency Office) would fulfill this role, acting as an independent monetary authority, and possessing the ability to issue a Somali currency, the somalo.

There are already some surveys of the history and economic context of the CCMS, notably the overviews included in two books by the Italian historian Donatella Strangio, *Decolonizzazione e sviluppo economico: dalla Cassa per la circolazione monetaria della Somalia alla Banca nazionale somala: il ruolo della Banca d'Italia* (2010) and *Reasons For Underdevelopment: The Case of Decolonization in Somaliland* (2012). However, none present a fully digitized and translated balance sheet, currency issuance statistics, and robust balance sheet analysis regarding the extent to which it functioned like an orthodox currency board. We provide annual and monthly statistical data of the balance sheet of the Cassa per la Circolazione Monetaria della Somalia for the duration of its existence, from July 1950 to June 1960. An analysis of this balance sheet and of the legislative history of the Cassa suggests that it functioned somewhat, but not entirely, like an orthodox currency board.

Origins and History of the Cassa per la Circolazione Monetaria della Somalia

Donatella Strangio describes the underdeveloped state the British found Somalia in after the defeat of Italian forces in 1941: “there was not even one Somali university graduate and 94.4% of the population were illiterate; there was one doctor for every 60,000 inhabitants and one hospital bed for every 990; only 20,000 Somalis had a brick house.”¹¹ To many, this lack of development, combined with the ghastly photographs of Somali partisans interned in Italian concentration camps, evidenced the failure of Italy’s “civilizing mission” in Somalia. Consequently, there was a push to decolonize the territory and build up a Somali nation state in its place. The failure of the 1956 Anglo-French expedition to reclaim the Suez Canal for the British bolstered a movement to “return Africa to the Africans” and intensified calls to decolonize Africa

⁹ Schuler (1992): 63-64.

¹⁰ Italy (1966): 8.

¹¹ Strangio (2012): 5.

and Asia.¹² But how would this nation-building occur? One solution lay in the United Nations trusteeship system, which had its precedent in the League of Nations mandates for the former colonies of the defeated Central Powers. It aimed at balancing the desire for self-determination of former Axis colonies with the continuation of the colonial system which benefitted the Allied Powers, who still possessed overseas territories.¹³ A Western power would assume temporary administrative responsibility over the territory, with the aim of creating governing and social institutions that would persist after the fiduciary relationship ended. The end goal was the establishment of stable, successful governments ruled by the local population that could oversee economic growth in the former colonies; the trusteeship in Italian Somalia followed this pattern.

On November 21, 1949, the United Nations General Assembly voted to allow Italy to assume administrative control over its former colony of Italian Somalia.¹⁴ This was confirmed on January 27, 1950, through an agreement by the Council for the Administrative Trusteeship of the United Nations and the Italian Republic in Geneva. This form of UN trusteeship, ratified in the General Assembly on December 2, 1950 and by the Italian Parliament on November 4, 1951, charged Italy with political administration and economic development of the territory. Named the Amministrazione Fiduciaria Italiana della Somalia (AFIS), it was the only trusteeship granted to any of the former Axis powers. When the proposal was being debated, Italy had not yet joined the United Nations (and would not do so until 1955), which resulted in a more stringent mandate for the AFIS and a duration of ten years being specified.

With political independence would come the need for a Somali monetary system, and thus the administrators of the AFIS set out to establish one. There were three main proposals debated by the Italian authorities with regards to the establishment of this system: the reinstatement of the Italian monetary system in Somalia; the introduction of a mixed Italo-Somalian system with a currency that was distinct but linked to the Italian lira; and the creation of an independent system. The Cassa per la Circolazione Monetaria della Somalia represented the third option, as it was hoped that its independence would allow for a move towards self-governance in Somalia. The CCMS was founded on April 18, 1950 as a joint-stock company, with its headquarters in Rome.¹⁵ Its initial capital was 87.5 million lire, subdivided into 1,000 shares.¹⁶ It was 99.5 percent underwritten by a government department, the Ministero dell’Africa Italiana, with the small remainder financed by foreigners.¹⁷ The CCMS took this form due to the impossibility of establishing a public institution in such a short time frame. It would be transformed into a public body on June 30, 1954.¹⁸ The CCMS began operating prior to the start of the AFIS, having been granted legislative approval on May 16, 1950, with its charter signed and published in Mogadishu on May 18.¹⁹

¹² Strangio (2012): 6.

¹³ Strangio (2012): 6-7.

¹⁴ CCMS, 1° Esercizio: 5.

¹⁵ Strangio (2010): 51.

¹⁶ Strangio (2010): 51.

¹⁷ Strangio (2010): 51.

¹⁸ Strangio (2012): 18.

¹⁹ Strangio (2010): 51.

The first task at hand was to create a currency for Somalia, which was done under AFIS ordinance 14 on July 16, 1950, and was given the name “somalo.”²⁰ The CCMS had sole control over the issuance and maintenance of the somalo,²¹ which was to be backed by a mix of gold, silver, and foreign currency reserves.^{22,23} It was subdivided into 100 centesimi, and banknotes in denominations of 1, 5, 10, 20, and 100 somali were issued.²⁴ All other currencies, including British Commonwealth currencies that had circulated in the territory due to the British occupation, ceased to be legal tender on July 23, 1950.²⁵ The exchange rate for East African shillings into the somalo was fixed at 1 somalo for 1 East African shilling, and the exchange rate for the Italian lira was based on somalo gold parity and the U.S. dollar-lira cross rate, with 1.143 somali equal to 100 Italian lire.²⁶ The somalo-lira exchange rate would remain fixed for the duration of the CCMS’s existence.²⁷ This system was quite like the British currency board model, a fact repeatedly acknowledged in the first annual report of the CCMS.²⁸ This is due to the fixed parity with the lira and the requirement that all currency in circulation be backed by foreign reserves. The CCMS was not required to fully back the coins in circulation; specifically, 1-somalo coins only needed to be backed by reserves equal to the value of the silver they contained less their face value (nominal value), and smaller-denomination coins did not need to be backed at all.²⁹ The report notes that the CCMS functioned differently than the British currency boards in that the currency it issued was backed by a basket of foreign assets, including gold and silver, instead of one reserve currency, like the British pound.^{30,31} This did not preclude it from being an orthodox currency board, since a backing by a basket of foreign currencies is also feasible,³² and its status with regards to currency board orthodoxy will be discussed later. Note, however, a currency being backed by a basket of foreign reserves and having an exchange rate calculated from a basket of foreign currencies are two different concepts, with the somalo exhibiting only the former characteristic. While it was backed by a mixture of currencies, the somalo was fixed to the lira.

All the members of the CCMS’s Board of Directors were Italian. This would prove to be a concern in the waning years of the trusteeship period, given the Somali government’s goal of filling administrative, technical, and managerial roles with native Somalis. While the Somali government was successful in lobbying for the relocation of the CCMS’s headquarters to Mogadishu, which occurred in 1959, it was but one step towards full independence. Communications between the Banca d’Italia’s governor and the Ministry of Economic Affairs of

²⁰ CCMS, 1° Esercizio: 9.

²¹ Strangio (2010): 52.

²² Strangio (2012): 16.

²³ CCMS, 1° Esercizio: 11.

²⁴ Strangio (2012): 17.

²⁵ Strangio (2012): 17-18.

²⁶ Strangio (2012): 18.

²⁷ CCMS, Bilancio 1960: 91.

²⁸ CCMS, 1° Esercizio: 6-7, 10-11.

²⁹ Strangio (2012): 19.

³⁰ CCMS, 1° Esercizio: 10.

³¹ Schuler (1991): 96.

³² Schuler (1991) : 3.

Somalia show the Somali government's push to create an independent financial and banking institution for the new state. It was in this context that the Banca Nazionale della Somalia (BNS; in English, Somali National Bank) was created to replace the CCMS when Somalia became independent. Still, many of the technical roles in the CCMS and later BNS continued to be filled by Italians. The Somali government thus made efforts to "Somalize" the newly-created Banca Nazionale della Somalia (into which the CCMS had been dissolved), and equip young Somali with the knowledge they would need to run the organs of state.³³ Using scholarships to Italian universities, apprenticeships at the Banca d'Italia and other Italian banks, and maintaining certain Italian experts in their roles after independence to facilitate the training of new management succeeded in reducing the foreign staff of the BNS to nine by 1966.³⁴

By the conclusion of the trusteeship period, the CCMS had merged with the local "Banking Department" of the Banca d'Italia to form the Banca Nazionale della Somalia.³⁵ During this time the buildings, equipment, reserves, and legal rights, obligations, and claims of the CCMS were legally transferred to the BNS, as indicated in the new central bank's charter. On July 4, 1960, the offices of the new Somali state opened, and all the duties of the rebranded Somalian National Bank were transferred to the new government.³⁶ Independent Somalia comprised both the former Italian Somalia and the former British Somaliland, with British Somaliland having used the East African shilling as its currency. The somalo was renamed the Somali shilling, with the same extant subdivision into centesimi and exchange rate with other currencies.³⁷ The Italian staff of the Banca d'Italia, who had occupied all but one of the CCMS's administrative posts during the AFIS period,³⁸ were gradually replaced by Somalis trained in banking through a "process of Somalization."³⁹

The Workings of the CCMS

The Cassa per la Circolazione Monetaria della Somalia was founded on April 18, 1950, in a document signed by the Director General of the Ministry for Italian Africa, Tomaso Columbano, Italian Treasury official Alfredo Di Cristina, and foreign finance advisor Amedeo Gambino. From May 18, 1950, when the CCMS became operative, to January of 1959, when the Somali government's request to move the CCMS's headquarters to Mogadishu was accepted by the Italian President, the bank was headquartered at 107 via Torino, in Rome. The CCMS's founding process took place while under debate in the United Nations General Assembly and later the Italian parliament, both of which ratified it later that year. It was initially founded as a joint-stock company, with its 87.5 million lire share capital subdivided into 100 registered shares 99.5 percent underwritten by the Ministry for Italian Africa and 0.5 percent underwritten by foreign financial firms. The legal relationship between the CCMS and the AFIS was delineated by Article

³³ Strangio (2012): 26.

³⁴ Ibidem, "Statuo sociale della CCMS, Titolo IV art. 24." Cited in Strangio (2012): 27.

³⁵ Strangio (2012): 22-23.

³⁶ Strangio (2012): 24, 26.

³⁷ Strangio (2012): 25.

³⁸ Strangio (2012): 23.

³⁹ Strangio (2012): 26-27.

6 of AFIS Ordinance No. 14, passed on May 16, 1950. The article established the CCMS's right to produce and issue coins and notes for circulation in Somalia, and fixed the somalo parity, the composition of the coinage, and the standards for the composition of the foreign reserves backing the somalo.⁴⁰ Article 6 of Ordinance No. 14 also stipulated that in the absence of a specific law, the CCMS would follow practices followed in Italy.

The CCMS was managed by a Board of Directors whose size fluctuated between seven and nine members. Members of the Board were elected to three-year terms, with re-election permitted, in a General Meeting of shareholders. While the President was appointed by the government, members of the Board of Directors could come from any of the following bodies: the Treasury, the Ministry for Italian Africa and Foreign Trade, the Banca d'Italia, the Foreign Exchange Office, or the AFIS. The Board was overwhelmingly made up of administrators with advanced degrees: in its first year, seven of the eight members held doctorates, with the other being an accountant. The Board was empowered under article 24 of Titolo IV with "the faculty to sign any convention with the Trusteeship of Somalia, the Italian State, and any Authority, Body, or person", and "the power to create, issue, circulate, and withdraw money for Somalia ... and over the composition of the reserves and uses of the party of the reserves made up of currencies."⁴¹ The CCMS was charged with issuing banknotes against the receipt of gold, silver, and foreign currency, and was allowed to hold "a quantity of currency no greater than one third of the money in circulation as a reserve."⁴² The CCMS's governing statute gave it the exclusive right to produce and issue legal-tender currency with debt-paying power in Somalia under the trusteeship.⁴³

Although it had its own headquarters and upper management, the CCMS was dependent on Banca d'Italia staff for its day-to-day functions. The relationship between the CCMS and the Banca d'Italia was stipulated in an agreement signed by both parties on August 17, 1950. The CCMS was to delegate to the Banca d'Italia "its accounting and administrative management in Italy and Somalia as well as its relations with public administrations, third parties, authorities, and foreign countries."⁴⁴ The Banca d'Italia was therefore to carry out the decisions of the CCMS, and conduct most of its daily operations, including the production and delivery of banknotes and coins; the storage of monetary reserves; exchange of coins and notes with gold, silver, and foreign currency in reserve; retirement and destruction of worn-out notes and coins; managing the CCMS's accounts; and providing the data used in the CCMS's financial statements. Two "banks" were created within the CCMS, called the Special Bank and the Central Bank. Each had a headquarters in Rome and a branch in Mogadishu and worked for both the CCMS and the Banca d'Italia, while maintaining separate books. The Special and Central Banks became two discrete parts of the Banca d'Italia, and while the management and book-keeping remained separate, they worked for both the CCMS and the Banca d'Italia. The somalo notes (along with the annual reports of the CCMS) were printed by the Istituto Poligrafico dello Stato, the Italian state

⁴⁰ Strangio (2012): 20.

⁴¹ Strangio (2012): 20.

⁴² Italy, "Statuo sociale della CCMS, Titolo 1 art. 3." Cited in Strangio (2012): 20.

⁴³ ASBI, Banca d'Italia, Studi, pratt., n. 976, fasc. 1, "Statuo sociale della CCMS, Titolo 1 art. 2." Cited in Strangio (2012): 20

⁴⁴ Italy, "Convenzione con la Banca d'Italia." Cited in Strangio (2012): 20.

printing office, and coins were manufactured by the Italian mint. These were delivered to the Special Bank, as was its legal responsibility, and were transferred to the Central Bank by decree of the CCMS's administrators, as per the laws on the circulation of the somalo.⁴⁵

To allow for exchange between the lira and the somalo, the CCMS set up three permanent offices in Mogadishu and five mobile offices in other parts of the country. By May 22, 1950, all the offices were operational, and a two-month period for the exchange operations, concluding on July 22, was decided. Due to the Somali population's curiosity about the somalo, there was an overwhelming demand for somali from the first day of operations. The CCMS's founders had envisioned such a scenario; in cases where an immediate need or unexpectedly high demand for money arose, a local bank acted as a custodian dispensing payments in accordance with currency board rules while more notes and coins were shipped from Rome.⁴⁶ The CCMS apparently did not charge a fee for conversion into and out of the somalo.

The CCMS underwent two major structural changes during the trusteeship period. In June 1954, under article 4 of Italian Law No. 677, the CCMS was refounded as a public institution, under the supervision of the Italian Ministry of the Treasury and the Foreign Ministry.⁴⁷ The following year, on March 5, 1955, the Italian President issued a decree mandating that the share capital of 87.5 million lire be transformed into an endowment fund to be given to the CCMS, a change reflected in the balance sheet for that year. The bank was reorganized again by an Italian presidential decree on December 2, 1958. The CCMS's mandate was enlarged, as the AFIS authorities prepared its transition into a central bank (although the term central bank is absent in the decree).⁴⁸ Its new powers included rediscounting for credit firms, issuance of checks and bank drafts, cash services, investment in public securities and publicly guaranteed currency operations, deposits, and cash services.⁴⁹ It also performed other functions for the AFIS and Somali government, such as Treasury services.⁵⁰ The CCMS continued functioning this way until its transfer to the Somali government on July 1, 1960.

The decision to establish a central bank rather than continue with the more limited powers of the CCMS was rather typical of newly independent countries at the time. Steve Hanke cites three reasons for the abandonment of currency boards in favor of central banks in former colonies after World War II.⁵¹ First, "a choir of influential economists was singing the praises of central banking's flexibility and fine-tuning capacities." At the time, economists and policymakers had greater confidence than they do today in the ability of activist monetary policy to promote economic development by channeling credit to the sectors most needing it. Second, the International Monetary Fund and World Bank, seeking new clients and projects for their employees, encouraged the establishment of these new central banks. But, according to Kurt

⁴⁵ Stangio (2012): 20.

⁴⁶ Stangio (2012): 21.

⁴⁷ Italy (1966): 25.

⁴⁸ Stangio (2012): 22.

⁴⁹ Stangio (2012): 22.

⁵⁰ Stangio (2012): 22.

⁵¹ Hanke (2002): 98.

Schuler, it was mainly “the desire for a central bank as an expression of national sovereignty” which most strongly led to the demise of currency boards.⁵² Looking to the first annual report of the Somali National Bank, it is evident its creators believed it would “achieve still greater success in the service of Somalia’s economy and finances,”⁵³ by acting “as impeller and guide of the country’s economic development.”⁵⁴ The language in the report eschews nationalist rhetoric, but it does describe the CCMS as “an Italian public corporation,”⁵⁵ implying its undesirability compared to the introduction of a new, independent monetary and credit system. For these reasons, Somalia echoed other newly-independent countries of the time and established its own central bank.

To What Extent Was the CCMS a Currency Board?

Our summary of the history of the Cassa per la Circolazione Monetaria della Somalia now complete, we will discuss the extent to which it operated as an orthodox currency board. Orthodox currency boards possess the three following characteristics: a fixed exchange rate with an anchor currency (or basket of currencies, though this has not been done before), unlimited convertibility into and out of the anchor currency, and at least 100 percent net foreign reserves against the monetary base.⁵⁶ To determine whether the CCMS functioned as an orthodox currency board during its ten-year existence, we must first examine the laws governing the institution and its annual balance sheets to inform the analysis.

The CCMS’s governing structures did mandate a fixed exchange rate whereby 1 somalo was nominally equal to 0.124414 grams gold. (Gold was a unit of account only, not a medium of redemption; the CCMS did not pay out gold to holders of somali who wished to exchange them.) Since the Italian lira was also tied to gold, the exchange rate between Italian lire and the somalo remained constant at 1.143 somali per 100 Italian lire. Orthodox currency boards are not permitted to hold domestic assets, though in practice many currency boards have deviated from orthodoxy in this respect. Some currency boards have had bylaws prohibiting the purchase of domestic assets, as was for instance the case with the Board of Commissioners of Currency in Zanzibar.⁵⁷ While Article 3 of the CCMS’s bylaws required it to hold foreign reserves equal to 100 percent of the monetary base,⁵⁸ it did not meet this threshold for the first four years of its existence. Additionally, there seems to have been no prohibition on the CCMS’s ownership of domestic assets, and indeed it owned a substantial amount of domestic assets for the first four years of its existence. All told, the CCMS’s bylaws provided for some of the qualities of orthodox currency boards but lacked some crucial requirements.

The Data and Our Tests

⁵² Schuler (1991): 132.

⁵³ Somali National Bank, First Annual Report: xix.

⁵⁴ Somali National Bank, First Annual Report: 171.

⁵⁵ Somali National Bank, First Annual Report: 171.

⁵⁶ Hanke (2002): 88-90.

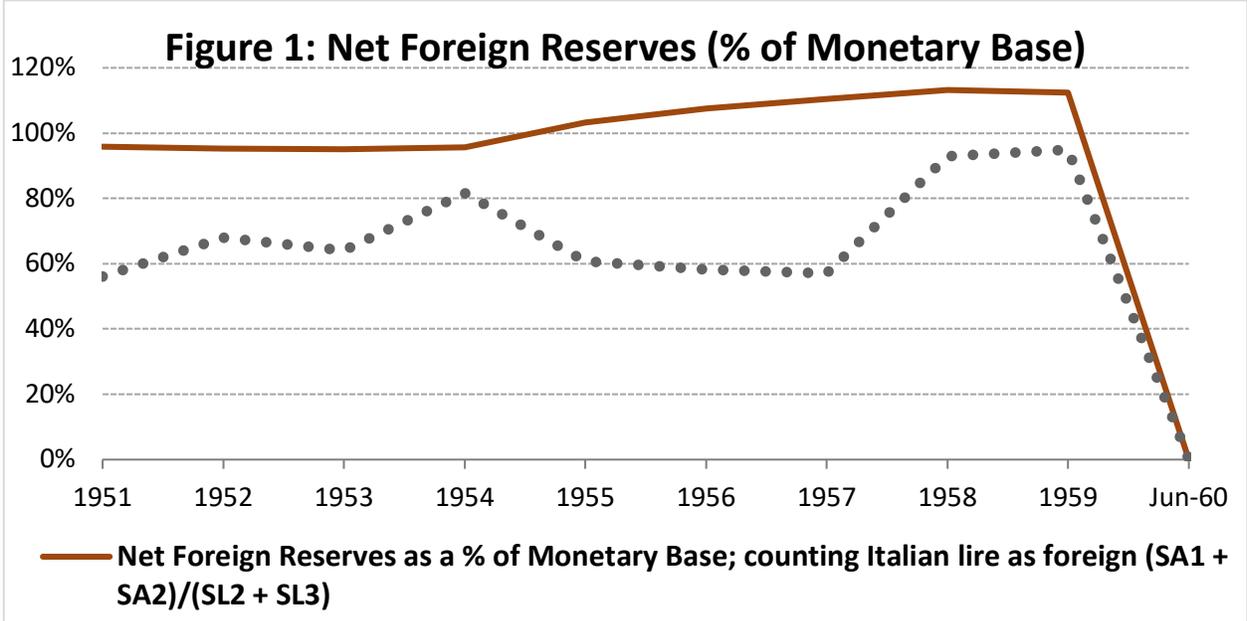
⁵⁷ Licursi (2016): 6.

⁵⁸ Strangio (2010): 59.

We have digitized annual and monthly balance sheet data on the Cassa per la Circolazione Monetaria della Somalia for the whole period of its existence, 1950-1960. The balance sheets are published in the annual reports of the CCMS and have been digitized in an accompanying spreadsheet workbook. We have performed tests on the items in the balance sheets, to aid in the determination of the CCMS's status as an orthodox currency board.

Test One: Foreign Assets, Domestic Assets, and Monetary Base

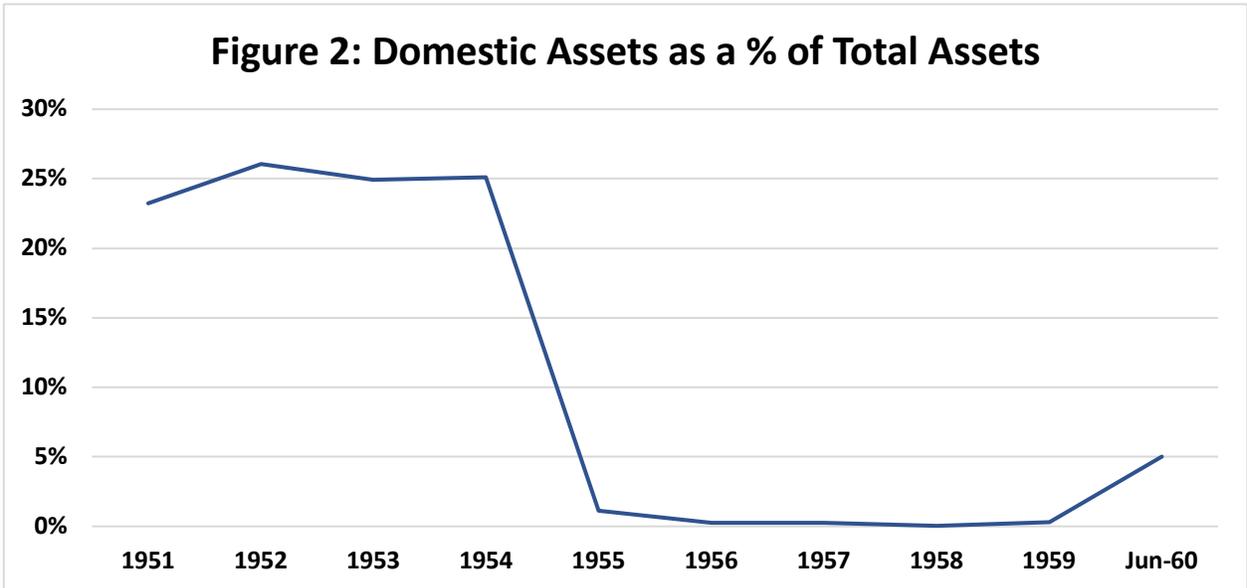
First, we measured foreign assets as a percentage of the total monetary base, which includes coins and notes and is given both monthly (in the Statistical Tables section) and yearly (in the balance sheet) in the annual reports of the Cassa per la Circolazione Monetaria della Somalia. The value of foreign assets can be measured two ways: counting Italian lire as either foreign or domestic assets. There is some ambiguity as to the status of the lira, given that the Banca d'Italia had a branch operating in Somalia on the one hand, and that the CCMS was intended to be independent from Italian institutions on the other. Overall the more convincing answer is that Italian lire should be counted as foreign reserves. There are two reasons for this judgement. First, as previously mentioned, the CCMS's creators intended on creating an independent central monetary authority for the soon-to-be independent Somalia, which, along with the legislation establishing the CCMS and the somalo, specified the somalo as the sole legitimate domestic currency. Second, if one counts lire as domestic assets, there is much more volatility in the value of the CCMS's foreign reserves than is apparent if lire are treated as foreign. The logical explanation is that if Italian lire are treated as foreign assets, the volatility can be interpreted as changes in the composition of foreign reserves, whose level was more stable in this analysis. Still, we have performed two analyses: one counting Italian lire as foreign reserves and another counting the currency as a domestic asset.



Counting Italian lire as a domestic asset, the figure for net foreign reserves as a percentage of the monetary base stays persistently below 100 percent, which breaks one of the crucial definitions of an orthodox currency board. However, the alternative analysis, counting Italian lire as a foreign asset, produces more orthodox results. From 1951 to 1954, net foreign assets as a percentage of the monetary base hover around 95 percent, modestly below the 100 percent figure expected of an orthodox currency board. Then, from 1955 to 1959, the figure rises above 100 percent, to an average of 109.4 percent for the period. While the simplest orthodox currency board would be expected to have a figure of 100 percent, in practice many currency boards have kept additional assets of up to 10 percent on hand to guard against a depreciation in their assets. In 1960 there is no reserve ratio, as the CCMS merged with the Mogadishu branch of the Banca d'Italia to form the Somali National Bank, and the value of the monetary base as maintained by the now-defunct CCMS fell to zero. Overall the CCMS fully meets the first statistical test for orthodox currency boards from 1955 to 1959, during the latter period of its existence, and nearly meets it during earlier years. This is consistent with the results of the second test, which suggests a move toward orthodoxy during the period, after its reorganization as a public institution.

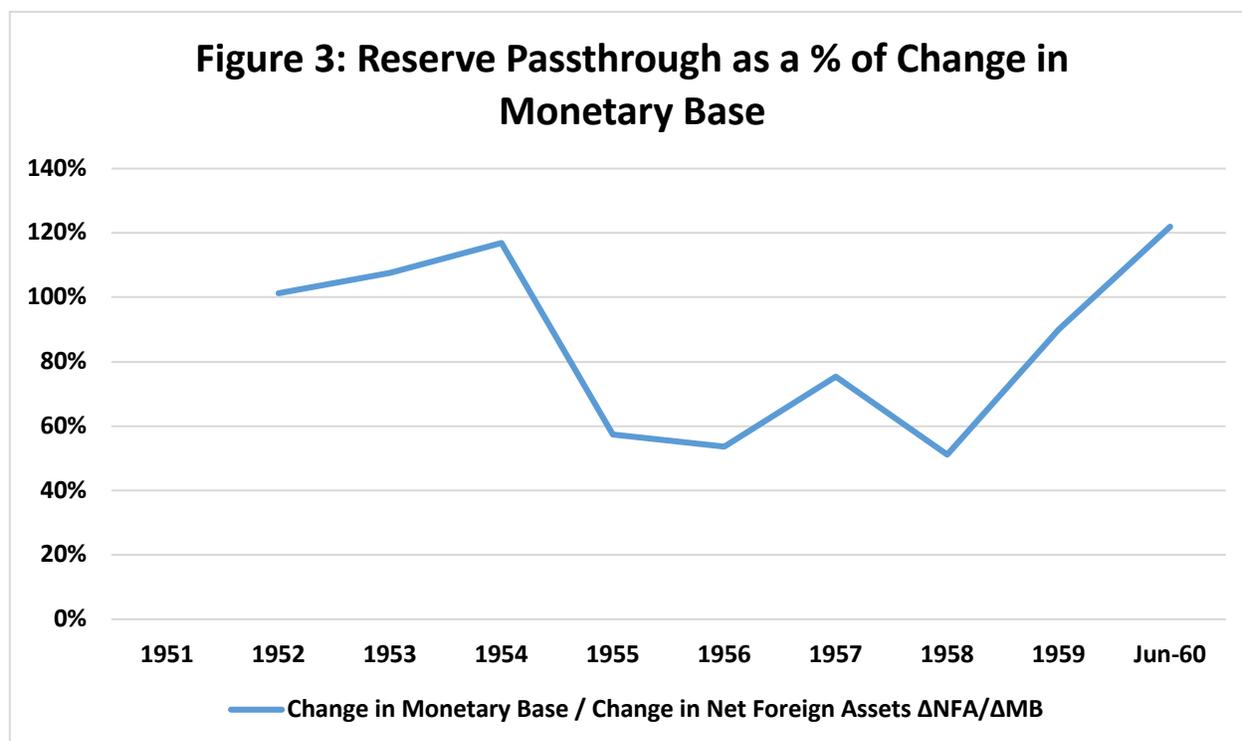
Test Two: Domestic Assets as a Percentage of Total Assets

The second test we performed measures domestic assets as a percentage of total assets. For an orthodox currency board, this should be zero percent, although currency boards often keep a small amount of cash on hand to pay the salaries of their employees, rent, and other local expenses. A quarter of the Cassa per la Circolazione Monetaria della Somalia's assets were domestic assets for the period 1951-1954, before dropping to close to zero percent in the period 1955-1959. As in the previous section the changes in the numerical aspects of the CCMS's balance sheets bely a qualitative shift between 1954 and 1955, the year the CCMS was refounded as a public institution. It is unclear exactly what might have motivated the drop in domestic assets, and the sources we consulted do not shed light on the issue.



Test Three: Reserve Pass-Through, and Changes in the Monetary Base and Foreign Assets

The third test involves reserve pass-through, which is the change in the monetary base divided by the change in net foreign assets. For an orthodox currency board, we expect a value of 100 percent, but most currency boards usually exhibit values between 80 percent and 120 percent, which may be considered “close.”⁵⁹ A reserve pass-through rate of 100 percent means that if the monetary base rises or falls by a certain amount, then the foreign reserves change by the same amount.⁶⁰ Given that this test involves a rate of change, the figure begins in 1952 (the second full year of operation—the first balance sheet covered a “long financial year” comprising part of 1950 and all of 1951) and concludes in 1960. The data for the period of 1952-1954 suggest orthodoxy, whereas the data for 1955-1960 suggest a departure from orthodoxy. This stands in contrast to the results of the first two tests, which suggested heterodoxy during the period of 1951-1954 and orthodoxy during the period of 1955-1960. In 1960, the figure rises once more to 122 percent, which suggests orthodoxy but reflects the CCMS’s discontinuation of the somalo and the large-scale selling-off of the CCMS’s assets. In that year, the value of foreign assets owned by the CCMS decreased from 72.5 million lire to 19.7 million lire. Because the 1960 figure is complicated by the cessation of the CCMS’s functions, it can be considered an outlier.



⁵⁹ Hanke (2008): 80.

⁶⁰ Hanke (2008).

Further Tests

We also measured annual changes in the monetary base and net foreign assets, as shown in Figure 4. If the changes in monetary base and net foreign assets are insignificant compared to the size of the monetary base, then a large reserve pass-through as a percentage of the monetary base can be ignored. This is the case for the CCMS. While there is a gap between the changes in the monetary base and net foreign assets, it is quite small and movements in both statistics mirror each other closely. This analysis is also true in Figure 5, which shows the change in the monetary base and net foreign assets as a percentage of the previous period's monetary base. Again, we see a slight discrepancy between the two figures, but the changes are similar and almost one-to-one. For the period of 1955-1959, in which the CCMS fails the reserve pass-through test, the largest discrepancy occurred in 1957. In this year, the percent change in monetary base rose to 12.9 percent and the change in net foreign assets increased to 17.2 percent. With the largest gap equaling just 4.3 percent, it does not make sense to discount the CCMS's potential as a currency board on the 1957 figure alone.

Additionally, we analyzed the composition of the CCMS's legal reserves, what are shown in Figure 6. The composition of the foreign reserves did change over time, with the pound sterling making up the majority from 1950-1954, the lira representing the plurality in 1955 and majority from 1956-1957, and the dollar forming the majority from 1958-1960. Little explanation is given in the annual reports for the changes in the composition of the foreign reserves, other than a vague desire on the part of the CCMS to safeguard against an "imbalance" in the balance of payments.⁶¹ The first annual report of the Somali National Bank does offer some explanations, however.⁶² Initially, the reserves were dominated by sterling area currencies, including East African Currency Board shillings, which were withdrawn in 1950 and returned to British authorities in 1955. This withdrawal, combined with the fact that the Italian government made contributions to the CCMS's reserves in Italian lire, led to the proportion of lire rising to a peak in 1956. According to the report, "In 1957 the CCMS received from the Exchange Management Account a request to convert sterling into dollars,"⁶³ which was followed in 1958 by a similar request to convert lire into dollars. The result was that the proportion of dollar assets rose in the final years of the CCMS's existence. A possible explanation for the conversion requests could have been local demand for each of the currencies. With the gradual British withdrawal from the region, and the increased American presence and interest in Somalia, Somalis may have demanded more U.S. dollars and fewer pounds sterling as the AFIS period progressed. Given the Italian role in administrating the AFIS, the lira would have been a salient currency throughout the period, and thus to accommodate demand, the CCMS may have decided to hold substantial amounts of lire throughout its existence. Still, while Italy was the primary destination for Somali exports, the Italian government "remained firm in its intention to keep the somalo independent."⁶⁴ A final item of interest is the abrupt rise in gold and silver reserves in 1960. This rise is partially explained

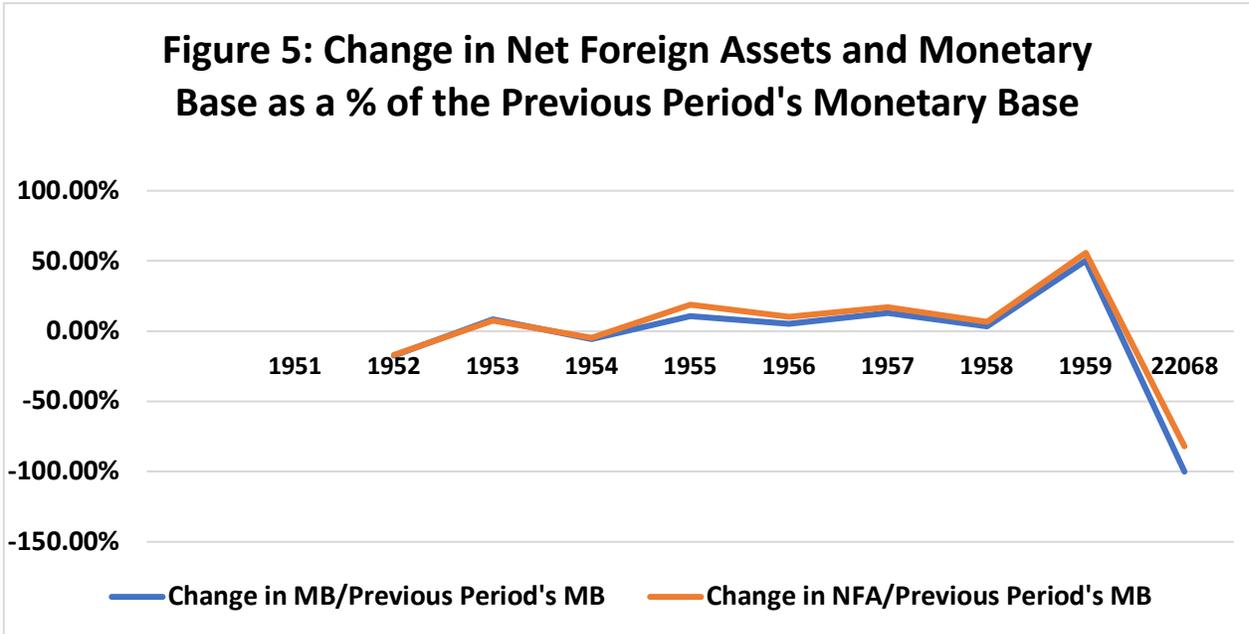
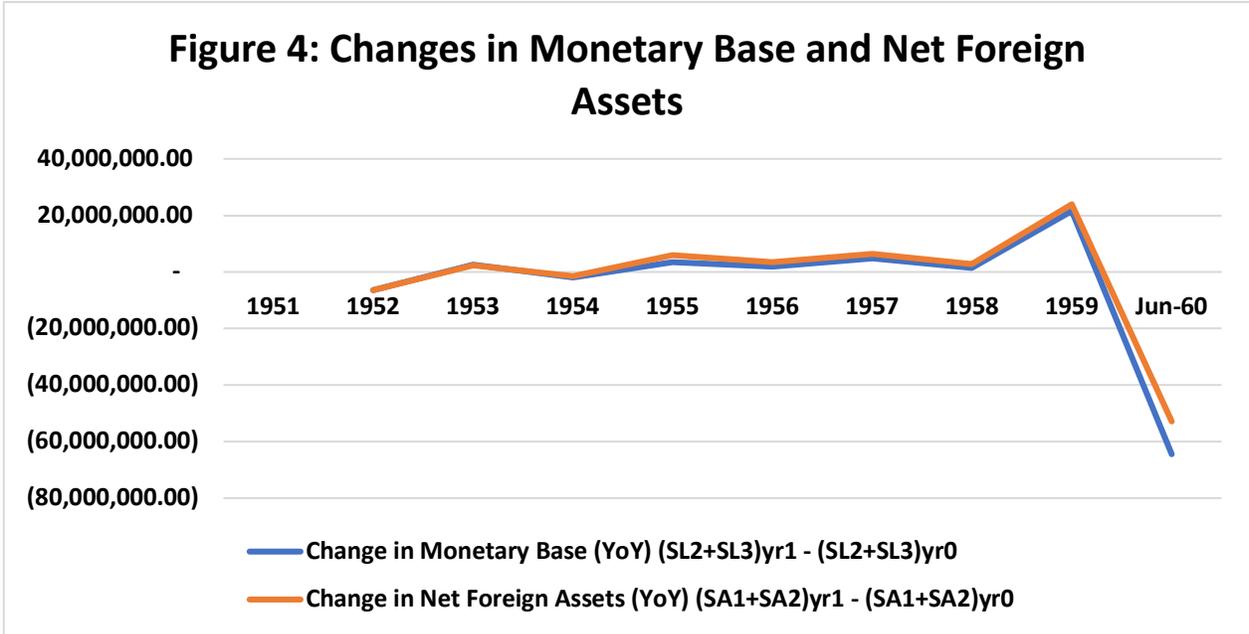
⁶¹ Cassa per la Circolazione Monetaria della Somalia: Bilancio 1960. 18.

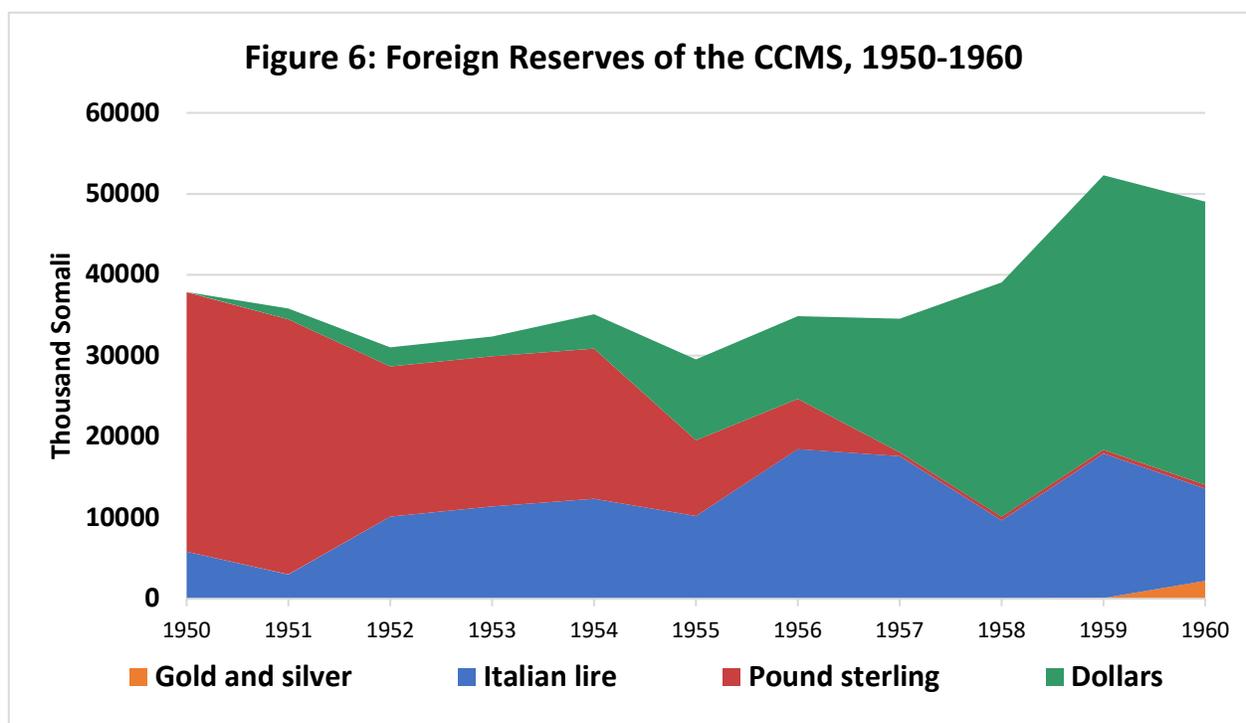
⁶² Somali National Bank, First Annual Report: 159-160.

⁶³ Somali National Bank, First Annual Report: 160.

⁶⁴ Somali National Bank, First Annual Report: 160.

by the CCMS's acquisition of 140,000 somali worth of gold in the second half of 1959. Another reason for the abrupt rise is that when the CCMS took over the Banca d'Italia's assets in Somalia, the value of the silver in 1-somalo coins not in circulation was added to the reserve.





Conclusion

The Cassa per la Circolazione Monetaria della Somalia did possess many of the qualities of an orthodox currency board, particularly during the latter part of its existence, but fails to meet all the necessary criteria. Although in principle the CCMS's bylaws could have caused it to operate as an orthodox currency board, the absence of restrictions on purchases of foreign assets, and the data from its annual balance sheets suggest that it was not an orthodox currency board. Two of the three statistical tests suggest orthodoxy for the latter half of the CCMS's existence, but the final test suggests that the reverse is true. Furthermore, the existence of the Somali branch of the Banca d'Italia complicates the claim that the CCMS was a currency board, since the Banca took on many responsibilities typically held by central banks and the two types of institutions are considered mutually exclusive. Overall, while the CCMS did have many of the attributes of a currency board and might be placed in the general canon of these institutions, it was not an orthodox currency board, a fact acknowledged even by its framers.

Postscript

The companion spreadsheet workbook to this paper contains the underlying data, calculations, and original versions of the graphs. The spreadsheets in the workbook also contain data not used in the paper, notably, full income statements and balance sheets for each year the Cassa per la Circolazione Monetaria della Somalia was active.

Appendix A: Legislative History of the CCMS
(Strangio 2012: 17-26)

- April 18, 1950: the Cassa per la Circolazione Monetaria della Somalia (CCMS) is founded as a joint-stock company, in a document signed by the Director General of the Ministry for Italian Africa, a Treasury official, and a foreign finance advisor.
- May 16, 1950: Under the Amministrazione Fiduciaria Italiana della Somalia (AFIS) Ordinance no. 14 in the Italian *Bollettino Ufficiale*, the somalo is introduced and made the official currency of Somalia.
- May 16-17, 1950: The exchange for the East African shilling, Italian lire, and U.S. dollar is fixed by articles 6 and 10 of AFIS Ordinance no. 14. Article 6 also grants the right to produce and issue coins and notes for circulation in the AFIS to the CCMS.
- May 18, 1950: Article IV of AFIS Ordinance no. 14 establishes the technical characteristics of the somalo notes and coins. After being signed by the AFIS authorities and published in the *Bollettino Ufficiale* on this date, the CCMS becomes operational.
- May 22, 1950: The initial official exchange between the somalo and shillings and lire begins.
- July 22, 1950: The initial official exchange between the somalo and other currencies ends.
- August 17, 1950: The Banca d'Italia and the CCMS sign a Convention in Rome which delineates their relationship and the responsibilities of each party.
- June 30, 1954: Under Article 4 of Law no. 677, ratified by the Italian Republic and the United Kingdom, the CCMS is transformed from a joint stock company into a public body.
- December 2, 1958: Under Presidential Decree no. 1131, published in the Italian *Gazzetta Ufficiale*, the CCMS's statute is altered to give it powers akin to those of a central bank.
- July 8, 1959: At the Somali government's request, and by Italian Presidential Decree, the CCMS's main headquarters are moved to Mogadishu from Rome.
- July 1, 1960: With Somalia's independence, and the end of the AFIS, responsibility for the Somali currency is transferred to the Somali National Bank.
- July 4, 1960: The offices of the new state open for the first time, as July 2 and July 3 were weekend days.
- December 2, 1960: Full autonomy and sovereignty over the Somali National Bank is transferred to the Somali government.
- November 23, 1960: A full Monetary Agreement between Italy and Somalia, entailing the transfer of currency and activities from the CCMS to the Somali National Bank, is signed.
- March 19, 1963: The transfer of ownership of the CCMS's buildings and equipment in Mogadishu to the Somali National Bank, for a total value of 200 million lire, takes place between the chairmen of the two institutions.

Appendix B: Timeline of Events in Italian Somalia (Strangio 2012: 2-8)

- Late 1880s: The partition of what is now Somalia by France, Italy, and Britain occurs.
- 1889: Vincenzo Filonardi, owner of the Filonardi Company and ambassador in British Zanzibar, orchestrates the creation of an Italian protectorate in the Sultanates of Obbia and Majeerten.
- 1893: The Italian government obtains a lease on the ports of Barawa, Merca, Mogadishu, and Warsheikh, and grants the administration of the ports to the Filonardi Company for 3 years.
- 1896: After modest economic results and following the end of a period of official uninterest, the Italian government briefly administrates the ports directly, before granting them to explorer and geographer Antonio Cecchi.
- November 26, 1896: An attack near Mogadishu kills Cecchi, some government officials, and a group of men. Another company takes over the administration of the ports.
- 1905: Italy takes on direct administration of the colony. Its rule is characterized by “fascism, when tribes were disarmed, chiefs were reduced to collaborators, and expropriations became more systematic.”⁶⁵ Once the local leadership is subdued, the workforce follows. Farmers in the south are the hardest hit, being forced to “work like slaves.”⁶⁶
- 1908: The border between Italian Somalia and Ethiopia is settled on paper, but the disputes following will be used as justification for Italy’s invasion of Ethiopia in 1935 following the Wal-Wal incident.
- 1900-1921: Sayiid Mohamed Abdille Hassan, known as Mad Mullah, wages a war of liberation against the occupying British, Italian, and Ethiopian forces. Efforts to develop and pacify Italian Somalia, along with an intensification of rebellions, ensue.
- July 25, 1924: An agreement between Italy and Britain establishes the boundaries between Italian Somalia and British Somaliland.
- October 3, 1935: The Italian invasion of Ethiopia begins. With the fall of the Ethiopian capital came the linking of Italy’s colony in Eritrea with Italian Somalia.
- 1940: Italy enters World War II on the side of the Axis and conquers British Somaliland.
- 1941: British forces counterattack, forcing Italy out of Somaliland. The first organized political movements aimed at Somali independence appear.
- 1943: The Somali Youth League is formed with Britain’s support. The League pushes for the unification of the Somali populations first and autonomy and independence later. It has the support of progressive segments of the population but is challenged by clan-oriented parties. Italian officials, colonists, and other pro-Italian elements group together under the Conference of Somalia.
- 1945: World War II ends in Europe; Italy is one of the defeated Axis powers.

⁶⁵ Calchi Novati (1994): 57. Cited in Strangio (2012): 3.

⁶⁶ Strangio (2012): 3.

- 1947: The Somali National League is formed under the Somali Youth League's influence and boycotts the elections held in that year. Italy signs a peace treaty with the Allied powers.
- January 1948: An international investigatory commission visits Italian Somalia, seeking to investigate the economic conditions and needs of the people. It is disrupted by riots that kill 58 Italians.
- December 21, 1949: United Nations General Assembly grants trusteeship of Somalia to Italy for a ten-year period, to begin in 1950, at the end of which Somalia is to become independent.
- April 18, 1950: Cassa per la Circolazione Monetaria della Somalia created.
- July 16, 1950: Somalo created via Amministrazione Fiduciaria Italiana della Somalia (AFIS) ordinance.
- 1954: The AFIS holds its first administrative elections.
- 1956: The AFIS holds its first political elections.
- July 1, 1960: The trusteeship period officially ends, and the Somali Republic is born. The Somali National Bank officially replaces the Cassa per la Circolazione Monetaria della Somalia as the monetary authority.
- July 4, 1960: The Italian government transfers all control over the trusteeship territory to the Somali government.

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