

Some Aspects of the financing of Commercial Enterprize in 19th Century Ceylon

THE early history of capital investment in 19th Century Ceylon is a field economic historians have left virtually unexplored. To those perennial questions relating to the origin, volume and profitability of the funds sunk in the Island's first commercial enterprizes, adequate answers have still to be given. The responsibility for this persistence of what is now reckoned by common consent to be one of the biggest gaps in the story of Ceylon's economic growth, is not difficult to establish. The relevant statistical data is of so limited a nature that it is no exaggeration to describe it as practically non-existent. A passing reference here, a speculative calculation there, an occasional expression of view by some writer contemporaneous with the period; this is all that the most painstaking research has uncovered. Yet, it is time these meagre records were brought together and interpreted as best they can be. Their very scarcity alone appears sufficient justification for the attempt.

One cannot write of early capital investment in Ceylon and not think immediately of coffee. For coffee culture was both the agent which introduced capital in its modern form into the Island's economy, and that mode of enterprize which dominated economic activity until the 19th Century had almost run its course. So all-important was it, that one can quite rightly describe it as the sole avenue of substantial capital investment from 1800 to 1880. An inquiry into the finances of the coffee industry is thus largely representative of the general problem of 'the financing of Commercial enterprize in 19th Century Ceylon.'

The Peasant Sector

Any investigation into the investment of capital in the coffee industry has necessarily to be conducted under two broad heads, i.e. (1) Investment in the peasant sector, and (2) Investment in plantation coffee. On the first of these, there is an almost complete lack of data. It is known only that peasant coffee was haphazardly cultivated until the 1850's, and that after that date a good many growers followed the examples of economy and good management set by plantation-owners, by turning to systematic and

scientific cultivation.¹ It follows therefore, that even if no capital at all was invested in the early stages, some quantity of it must have gone into the industry after 1850.

The amount expended by the individual peasant grower could not have been great since coffee cultivation to him was normally a by-employment carried out on a small-holding. The aggregate investment however, was probably of fair proportions, for there must have been quite a few thousands of peasants engaged in the cultivation of the shrub. The extent of the peasant coffee sector is best realized when one considers that there was produced on these small-holdings as much as $1/3$ — $1/4$ of the total quantity of coffee shipped annually between 1849 and 1869, and about $1/8$ the total quantity produced between 1869 and 1886,—giving in both periods an annual average income of about £300,000.² The volume of investment which produced this high yearly income, and the sources from which the capital was secured cannot however be discovered. One is in fact unable to make even an approximate calculation of the former. The figures relating to the area under peasant coffee do not distinguish between haphazard and systematic cultivation, and in any case, nothing is known about the cost of bringing an acre of peasant coffee into bearing.

On the question of profits one is confronted by a similar picture. True, we are aware of the total income annually earned by peasant coffee, but one simply cannot decide what proportion of this figure represented costs, or how it was divided up amongst the individual producers.

The Plantation Sector

More information, (though not very much more) is available on the subject of plantation coffee. There is some evidence on the type of person who invested in the industry and an occasional reference to the sources from which they obtained their capital. Enough is also known about output, acreage etc., to enable one to make a rough calculation of the total quantity of capital invested.

Type of Investor

When the rush for coffee land began after 1835, the early purchasers were principally Government officers and military men. A few merchants and commercial agents in Colombo also bought up estates, but were gene-

1. C. O. 54. 333. 8th January 1858 ; C. O. 54. 335. 5th July 1858.

2. C. O. 54. 328. 20th June 1856 ; Ferguson, "Ceylon in the Jubilee Year." p. 62.

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rally so doubtful as to the success of the venture that they proved extremely cautious in their investments. The Government and military men however were bolder, and many purchased tracts of land between 2,000 and 3,000 acres in extent.³

After the coffee experiment had been well tried and proven a success, other types of investors began to come out to Ceylon. Some were capitalists from India, Scotland and England, prepared to sink large amounts in the cultivation of coffee, but a great many were men of moderate means,—of the category normally described as small capitalists. These small capitalists began to appear in Ceylon in 1840 and apparently entered the coffee industry in considerable numbers until the price of land was raised from 5 sh. to 20 sh. the acre in 1844. After that date, a sum of about £3,000 was the minimum needed to set up as a coffee planter, and though this was not inordinately large, it probably closed the door to a large number of would-be investors.⁴ Of those who did enter the industry, a very big proportion must have possessed the bare minimum of capital necessary, for few large estates were opened after 1844. A survey conducted towards the end of the prosperous 1850's, showed that the 403 plantations then in existence were on an average only 200 acres in extent.⁵

Though the Company-owned estate was becoming common towards the end of our period, it is nevertheless true that the Coffee company did not at any time dominate the industry. Even in the mid 1870's when coffee culture in Ceylon had reached its highwater mark, individual planters looking after their own estates accounted for almost two-thirds of those in production. Out of a total of 1,215 plantations in cultivation, no less than 800 were owned by individual proprietors, who in 250 instances resided on and managed their own estates. Of the remainder, 400 lived in the Island, but left the management of their plantations to others.⁶

Where was the capital obtained ?

It is very unlikely that the first coffee planters, i.e. the Government employeess, military officers etc., borrowed much of their capital. There were no banks in Ceylon in those early days, and it is highly improbable that financial institutions abroad, or private persons, both within and out-

3. *The Economist* (1846). p. 961.

4. *Ibid.*

5. Tennent. "Ceylon" Vol. II, pp. 238-243.

6. Ferguson, "Ceylon Directory." 1875.

side the Island, would have made loans to people who wished to embark on what was then regarded as a comparatively risky undertaking. The private savings accumulated by these men must therefore, in the great majority of cases, have been used to finance their planting experiments ; and since land was cheap, these savings even if small, could have gone quite a long way.

The small investors who poured into Ceylon with the coffee mania of the 40's, and who form what one might appropriately term " the second wave of investors," were in most cases dependent on borrowed capital which they obtained by utilizing the old West India plan of " advances on crops." By this system, planters were given loans by agency houses in London or Colombo on the understanding that the agencies would have a claim on the future crops of the estate until the debt and interest due had been paid off. Nothing however, is known about the rate of interest charged, the nature of the collateral demanded, or the penalties imposed for non-fulfilment of the contract.⁷ Some small capitalists must, of course, have started off quite independently, but many of them also came in time to depend on the agency. Being men of limited means they were often unable to weather a succession of bad seasons, and when times became difficult were obliged to apply to the agency houses in Colombo for an advance. As in the case of those who had started off on borrowed capital, these loans were given on the planters' forthcoming crop, but were different in that they were usually for a single season. The agencies appear to have been quite willing to lend, but before doing so, normally sent a representative to make an approximate valuation of the expected crop, and estimate from the look of the bushes and blossoms what sum of money would be safely covered when the coffee was realized in the market. This officer was known as the Visiting Agent, and it was on the strength of his report that an advance was made to the applicant. A stipulation was always made that the coffee should all be hypothecated to the firm that had made the advance, and whatever the crop ultimately amounted to, it had to be sent down to those agents, who sold it at what market they chose, charging a commission on selling, and repaying themselves the money advanced, with about 8% to 10% added.⁸

7. *The Economist*, (1846). p. 961 ; Baker. " Eight Years in Ceylon." pp. 85 & 86.

8. The terms granted to those who began planting on borrowed capital must have been much more severe. For here, creditors did not have the advantage of dealing with a borrower who already possessed a plantation, or of actually examining the crop before making the loan.

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These terms were not particularly advantageous to the planters, but they had no alternative when coffee could not pay its way. They had either to see their estates rapidly over-grown with jungle and ruined beyond repair, or to work with borrowed capital ;—not surprisingly they chose the latter. The agencies for their part were quite ready to make the advances, for not only did they get a good percentage on their money; they also at the same time secured to themselves the business of selling, with its attendant lucrative gains of commission.⁹

The agencies were by no means the only places from which early planters were able to borrow their financial requirements. Before much time had passed, a number of banks made their appearance in the Island. The first of these was the Bank of Ceylon,—set up in 1841, by William Thompson, a London merchant,¹⁰ and in the years that followed there were established in the colony, branches of certain foreign financial houses, i.e. the Oriental Bank, (1843), the Mercantile Bank of India, London and China (1854), the Bank of Madras (1867), and the National Bank of India (1881).¹¹

The Bank of Ceylon did not last long, but during its short life, it made heavy advances to the planting fraternity. “Block debts,” as these loans were called were forbidden by the rules of the Bank, but in the boom of the early 1840's the rule was disregarded by the managers, and almost the whole of the bank's paid-up capital came to be locked up in this fashion. The results were disastrous. The depression of 1845-49 found the bank so heavily involved that it was unable to meet its liabilities, and its failure was imminent, when the Oriental Bank, which had come almost unscathed through the crisis, stepped forward and took over its debts. The two banks were then formally amalgamated by a fresh charter, under the title of the Oriental Bank Corporation in 1851.¹²

The Oriental Bank Corporation and the Chartered Mercantile Bank, remained the chief financial houses in Ceylon until the Bank of Madras was set up in 1867. All three institutions made financial accommodation

9. “Fickle fortune in Ceylon.” by F.E.F.P. pp. 20 & 21.

10. C. O. 54. 187. 13th February 1841; Shenoy “Banking and Currency in Ceylon.” p. 103.

11. The efforts made by several foreign banks to establish themselves in the Island, between 1864 and 1877, were all attended by failure. e.g. In 1865, a branch of the Asiatic Bank commenced operations but was closed down in October of the following year; the branch opened by the Bank of Hindustan in July 1864, was wound up in November 1866; the Royal Bank of India commenced business in Colombo in March 1865, but left the Island in December 1866; the Comptair d'Escompte de Paris, came in 1877, but left two years later—See Shenoy, op. cit. pp. 108—110.

12. Shenoy, op. cit. p. 105; C. O. 54. 274. 30th May 1850; Ferguson “Ceylon, Summary of Useful Information.” p. 71.

available to plantation owners and possessed an almost complete control of banking business in the Island until the end of the coffee era. Their early rivals were the Chettiar bankers (or money lenders) who came into Ceylon at different times during the coffee period, but the activities of the Chettiers were complementary rather than competitive. The National Bank of India, founded in 1881, could not have handled much of the coffee planters' business, since the industry was then being rapidly superseded by cinchona, tea and cocoa, as Ceylon's main staple.

The unavailability of plantation accounts and the unwillingness of the banks to open their files to historians has led to a complete lack of information relating to the terms on which bank-advances were made to planters, but it is not unreasonable to suppose that these terms were at least as good as those given by the agencies. Little business would otherwise have gone to the banks, and it is well known that at least two of these institutions, i.e. the Bank of Ceylon, and later the Oriental Bank Corporation, gave considerable financial accommodation to the coffee industry.¹³

The companies which appeared in the later stages of the coffee era were of two distinct types, viz. private companies and limited liability companies. They had come by 1870 to control about a third of the coffee plantations in Ceylon,¹⁴ but for all that, the information relating to them is of a very limited nature. One cannot say how many of each type there were; how or where they raised their capital, and whether some companies, like many an individual proprietor, were obliged to seek advances from banks and agencies in times of difficulty. The larger capital at the companies' command however, must have given them the ability to resist adversity with greater strength, and it is unlikely that a mere succession of bad seasons (as distinguished from a depression) could have forced them to turn for help to a financial institution.

Total Amount Invested

On this aspect of the question the available information is even sparser. Many of the agencies and banks which made advances to plantation owners are now defunct, and their records cannot be traced. Those institutions which are still in existence, i.e. the Mercantile and National banks, are not disposed to give access to their files to investigators, and hardly any reliable

13. Shenoy. *op. cit.* pp. 104—108; C. O. 54. 437. 28th October 1868; Ferguson. "Ceylon in the Jubilee Year." p. 26; Bremer "Memoirs of a Ceylon Planter's travels." p. 139.

14. Speculum. "Ceylon, her present condition." pp. 22 & 23; Ferguson. "Ceylon Directory." 1875.

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conclusions can be arrived at through the few statements left behind by individual coffee planters. The only evidence available to the historian are some scattered references made by two writers contemporaneous with the early coffee years, and the calculations of a journalist, who lived in Ceylon for the greater part of the 19th Century.

The writers, Mr. D. Wilson, a planter and businessman who resided in the Island in the 1840's, and Sir J. E. Tennent, the Colonial Secretary from 1847-49, both refer to the rate of investment during the period known as the "Coffee mania." The former states that while "it would be difficult to arrive at a precise statement of the money sunk in estates during the period, we may safely estimate it at two millions sterling."¹⁵ Tennent put the total investment at a somewhat higher figure,—“Five millions sterling are said to have been sunk within less than as many years; but this estimate is probably exaggerated. One is inclined to think that the amount actually invested lay somewhere between these two assessments, for in 1847 a paper laid before the House of Commons made a passing reference to investment in Ceylon putting it at “nearly one million per annum during each of the last five years.”¹⁶

The Journalist, Mr. J. Ferguson, confined his attention to the years 1849-86. Faced with the same shortage of statistics as the present-day historian is, Ferguson calculated the amount of capital invested in the plantation sector, through dividing the total acreage brought under plantation coffee between 1849-86, by the sum needed to bring into bearing and maintain an acre of coffee land over the same period. The former he put at 320,000 acres in the aggregate,—after making due allowance for lands abandoned; and the latter, including the purchase price at £25 per acre. The total invested between 1849 and the end of the coffee period, he thus estimated at £8 million sterling.¹⁷

Ferguson's calculation is, of course, something of a generalization and must therefore suffer from the drawbacks to which generalizations are normally subject. Yet, it is the best we have, since the shortage of information prevents the utilization of any other method of assessment. All-

15. Wilson.—“Tracts on Ceylon.”—see tract on “Facts connected with the present conditions and wants of Ceylon.” Tennent. “Ceylon” Volume II. p. 231; C. O. 54. 228. 4th November 1846.

16. B. P. P. of 1847—48. Volume XLII. p. 49.

17. Apart from numerous articles in his newspaper “The Observer,” Ferguson also showed his familiarity with the workings of the coffee industry in his monthly “Tropical Agriculturist,” and the frequently published “Ferguson's Directory and Plantation Guide.”

important in the calculation are the writer's estimates that the average cost of maintaining an acre over the period 1849-86, was £ 25, and that altogether 320,000 acres were brought into and kept in bearing on the plantations. It is on the veracity of these figures that the validity of his conclusion depends. One is inclined to accept Ferguson's calculation as being at least a close approximation to the truth, for as his numerous publications show,¹⁸ he was easily Ceylon's most competent authority in the 19th century on the economics of the coffee-planting industry.

If to this sum of £ 8 million were added the estimates given for the years 1840-46, it would appear that a total of about £ 12 million was invested in plantation coffee between 1840-46 and 1849-86. This does not, of course, cover the entire coffee era, (which stretched from 1836-1886) but investment during the periods omitted could not have been large. Between 1836-40 plantation coffee was in its infancy, and the total acreage of land sold, less than that disposed of during the single year 1840.¹⁹ It is noteworthy too, that neither Wilson nor Tennent mentions any substantial investment in the years prior to 1840.

The other period not accounted for, i.e. 1847-49, was one of severe depression, and we have it on Governor Torrington's authority that only a very restricted amount of capital found its way into the coffee industry.²⁰ The total invested in the plantation sector over the entire coffee era could not therefore have been very much over £ 12 million sterling. This figure, based as it is on general statements and broad estimates, is obviously nothing more than a rough and approximate assessment, but it appears to be the best available, and will have to serve until fresh evidence is discovered.

Profits

The lack of planters' accounts, bank statements etc., also prevents one from making an evaluation of the profits earned by the plantation sector, but here again it is possible to fall back on Ferguson, who because of his personal knowledge of the industry, was able to make use of the few statistics available to produce an estimate of the probable amount of profit earned by the plantations.

18. Ferguson. "Ceylon in 1903." pp. 83-85.

19. Land sale returns for these years were as follows :—

1836	—	3,920	acres.	1840	—	42,582	acres.
1837	—	3,662	„				
1838	—	10,401	„				
1839	—	9,570	„				
Total		27,553	„				

20. C. O. 54. 235. 10th May 1847.

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Ferguson estimated that after 1849, about 22,500,000 cwts. of coffee were raised on the plantations alone, and that previous to that date, at least 1,000,000 cwts. had been produced,—making a grand total of 23,500,000 cwts. Including interest and all items of local costs, he calculated that this coffee had been produced at £ 2.5 sh. per cwt. and that it had on an average, realized at least £ 3 per cwt. ;—thus giving a profit of 15 sh. per cwt. Between 1837-86 therefore, about £ 17,625,000 must have been earned as profits by the plantation sector of the industry.²¹

It is impossible to say how this total profit was divided up amongst individual growers, (even Ferguson did not attempt it) but one thing is evident. If the total capital invested in the plantations was something like £ 12—£ 13 millions, the total profit earned over the entire coffee period, was no more than £ 4½—£ 5½ millions,—a sum which cannot by any standards, be described as being inordinately large. On the basis of these calculations, it is therefore not difficult to agree with Ferguson's assertion that "of all those who invested in the coffee industry, only about 1/10 secured a fair return for their capital."²²

There is no evidence of what ultimately happened to the net earnings of the plantation sector of the Ceylon coffee industry, but one cannot reasonably expect these profits to have remained in the Island. Few, if any, of the estate owners regarded Ceylon as their permanent home, and this attitude apparently resulted in practically all their net earnings being taken out of the Colony. Ferguson makes this quite clear in a work published shortly after the death of King Coffee. In a post-mortem on the corpse, he lamented, that "the accumulated profits made during the time of prosperity, which elsewhere, e.g. England, form a reserve fund of local wealth, to enable the sufferer from present adversity to benefit by past earnings, were so far as the planters were concerned, wanting in Ceylon. There was no reserve fund of past profits to fall back upon, no class of wealthy Europeans enriched by former times of prosperity. . . . circulating the liquidated products of former industry, when the period of adversity and depression arrived. . . . Ceylon in fact, in the best days, used to be a sort of incubator, to which capitalists sent their eggs to be hatched, and whence a good many of them received from time to time an abundant brood, leaving sometimes but the shells for our local portion."²³

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21. Ferguson.—op. cit. pp. 83—85.

22. Ibid., p. 82.

23. Ferguson. "Ceylon in 1903." pp. 82 & 83.