Cooperative Credit in British Burma

by

Sean Turnell

Burma Economic Watch/Economics Department
Macquarie University

Sydney, Australia

Abstract

Cooperative credit was the British Empire's all-purpose answer to problems of rural poverty and indebtedness, usury, and land alienation. Originating in the idealism of the 'Rochedale Pioneers' and in schemes from rural Germany, cooperative credit was imported into India with an evangelical zeal to solve all manner of perceived economic and social ills. With only slightly less moral fervour it was transplanted from India into Burma in the first decade of the Twentieth Century, and by 1920 several thousand cooperative credit societies had mushroomed across the country.

The purpose of this paper is to trace the development of cooperative credit in Burma from these promising beginnings, until the near collapse of the movement on the eve of the Great Depression. The paper explores the way in which cooperative credit was seen by the imperial authorities as a device to limit the role of Indian money-lenders in Burma, and as the basis for the establishment of formal rural credit markets. The paper concludes that poor implementation, on top of official myopia as to the cultural, historical and economic differences between India, Burma and Europe, brought about the demise of a movement that promised much.

It was natural of course that the Government of India should take over the administration of Burma when it was added to the British Crown and it was also natural that the Government of India should make the mistake of supposing that Burma was just another of Indian Provinces. And in this, I submit with the greatest respect lies the cause of the failure of the Burmese to make any real progress, particularly in the direction of acquiring a 'money sense'.

Captain J.M. Clark, Deputy Commissioner, Tharrawaddy District[*]

Introduction

Cooperative credit was the British Empire's panacea for the elimination of the 'scourge of the moneylender' in its territories. Its establishment a key recommendation of the Indian Famine Commission of 1901 to remedy peasant indebtedness, the cooperative movement spread rapidly and by 1930 there were over 100,000 cooperative credit societies with 4 million members across the provinces of British India (Kumar 1983:802).

The cooperative credit movement was driven by the 'enthusiasm and driving power of a select body of officers' – both British and Indian – within the Indian Civil Service (ICS).[1] Whilst its specific organizational forms were derived from German models, cooperative credit within the British Empire was an offshoot of 'social reform' more generally, and the collective and widely disparate efforts to achieve some form of accommodation between capital and labour in the nineteenth century. Organisationally highlighted by the establishment of the 'Rochdale Equitable Pioneers' and their famous weavers' cooperative, these efforts were nevertheless consistent with the self-help philosophy of 'muscular Christianity' - the pervading ethos in some circles of the British ruling elite. The importance of 'thrift' in this context was highlighted by the pre-eminent spokesperson for this ethos, the venerable British statesman, William Gladstone, in 1890:

> It is self-help which makes the man; and man-making is the aim which the Almighty has everywhere impressed upon Creation. It is thrift by which self-help for the masses, dependent upon labour, is primarily made effective. In them thrift is the symbol and the instrument of independence and liberty, indispensable conditions of permanent good.[2]

The practical manifestation of such ideas in Britain itself was the creation of 'savings banks', 'provident societies' and what would later become credit unions and building societies. Their application to the Empire generally, and to India in particular, however,

---

[*] Statement made in evidence to the Burma Provincial Banking Enquiry Committee, (Government of Burma 1930b: 733).

[1] Sir Edward Maclagan in the Foreword to Darling (1947:viii).

[2] Lord Gladstone cited in Wolff (1893:5). In 1890 Gladstone was leader of the (Liberal) opposition, but when Wolff's book was published he was once more serving as Prime Minister.

was not slow in coming. A 'country literally devoured by usury', British India's problems seemed insurmountable were it not, according to Wolff (1893:248) for the application 'self-help' financial institutions. In 1895, Sir Frederick Nicholson's *Report Regarding the Possibility of Introducing Land and Agricultural Banks into the Madras Presidency*, recommended the establishment of cooperative credit societies as the solution to the indebtedness of agriculturalists in India. The report captured the support of key members of the ICS and the Raj broadly, including the then Viceroy, Lord Curzon, and on the strength of it Nicholson was invited to sit on the 'Indian Famine Commission' which concluded in 1901. A key finding of the Commission was of the potential efficacy of cooperative finance and it recommended that such a system (based on a model devised by Friedrich Raiffeisen, a German provincial politician and social reformer) be established throughout British India. The recommendation was acted upon – and in 1904 the 'Cooperative Credit Societies Act' was passed by the Imperial Government (Bruce 1983: 355-356, Kumar 1983:800-802).

The application of cooperative credit to British India carried with it the moral fervour that had been evident in the movement in Europe. Hubert Calvert, an early disciple who later was to play the leading role in efforts to reform the cooperative movement in Burma, defined cooperation, for example, as

> …a form of organisation wherein persons voluntarily associate together as human beings, on the basis of equality for the promotion of the economic interest of themselves. Some look upon it as a sort of social reform, indeed in some cases, a religion. They consider it not only as economic, but also a *moral* movement. It seems impossible to study the progress of the movement in any country of the world without being impressed by the great moral gain accompanying the spread of these societies for self-help through mutual-help (Calvert 1959:19, emphasis added).

Such zeal proved extraordinarily resilient, moreover, and notwithstanding the many disasters which were to befall the movement in India and elsewhere. Sir Malcolm Darling (ICS, 1904-1940), whose *Punjab Peasant in Prosperity and Debt* (1932) arguably remains the seminal work on cooperative credit, wrote that

> in hundreds of villages the money-lender's ascendancy has been definitely broken, and in many the members of the local [cooperative] village bank owe him nothing at all. To such men co-operation has meant little less than a revolution; not the kind that ends in licence, bloodshed, and chaos, but the kind that develops energy, straight dealing and self-reliance… (Darling 1932:230)

Even in 1947, and after a lifetime of his idealism confronting cold reality, Darling remained

> …on the subject of rural finance in all its aspects…profoundly convinced that co-operation is the most constructive and life-giving economic activity of the province, and of such importance to its future welfare that no financial stringency or economic depression, however great, should be allowed to retard its development…For the beneficence of co-operation travels far beyond the boundaries of credit and *even penetrates the realms of the spirit* (emphasis added, Darling 1947:239-240).

Of course, one of these provinces of British India was Burma but, as a Burmese government enquiry noted many years later, '[i]t may fairly be surmised that Burma had no place in the thoughts of the Government of India when the new policy was formulated….nor is there any evidence that defects in Burma's credit structure were in mind' (Government of Burma 1938:85). Yet, despite this lack of consideration, the cooperative credit movement in Burma grew as rapidly as it did in the Indian empire as a whole and by 1929 there were over 4,000 cooperative credit societies across the country embracing almost 100,000 individual members (Government of Burma 1929:5). As events were soon to prove, however, this extraordinary growth masked a less successful reality. Poorly implemented, culturally out of place and historically before its time, Burma's cooperative credit movement would collapse even before the effects of the Great Depression laid waste to the country's economy.

The story of cooperative credit in Colonial Burma, as outlined in this paper, proceeds as follows. Firstly, in Part II a brief description of *Chettiar* operations in Burma is presented. Consigned to the role of 'villain' in the history of Colonial Burma by nationalist politicians and their intellectual spear carriers, the *Chettiars* were the primary money-lending 'community' in Burma. As such, their displacement was a primary objective in the establishment of cooperative credit. Part III of the paper examines the historical and intellectual foundations of cooperative credit. Its intellectual genealogy ultimately traceable to the 'Rochdale Pioneers' and their like, the actual form that cooperative credit took in the British Empire owed more to German models than to anything from the metropolitan centre of the Empire. Part IV outlines the organisational structure of the cooperative credit system of Colonial Burma. A structure designed in three tiers to meet expected difficulties in monitoring and in raising funds, it would prove to contain critical flaws that would bring the movement down. Part V tells the story of the rise and fall of cooperative credit in Burma, from its optimistic beginnings to its despairing implosion in the midst of the Great Depression. Part VI examines the findings of the 'Calvert Committee', the official enquiry commissioned by the Colonial Government to discover what had gone wrong, while Part VII takes up the findings of other official diagnoses. Part VIII concludes.

II. The 'Chettiars'

The role of the moneylender is a fraught one in the historical narratives of almost every country and every culture – indeed, seemingly of any social collective in which some have surplus resources and some are without. Sanctions against the moneylender pervade most religions and the laws of most modern nation states. A useful foil for all manner of other social ills, the moneylender is an easy scapegoat when economies go wrong. Often this is ill-deserved, even when it is understandable.

Unusually, though not uniquely, the issues surrounding moneylenders in Colonial Burma were made more acute by the fact that by far the most important of them were non-residents. And the most significant of these, though other groups also played a part, were the *Chettiars* of southern India.[3] An 'endogamous sect of the Vaisya caste', indigenous to Chettinad (in what is now Tamil Nadu), the *Chettiars* were noted maritime traders 'but moneylending had been their principle occupation for a few centuries' (Government of Burma 1930a, p.190). They arrived in small numbers in Burma as early as 1826, accompanying Indian troops, but the first *Chettiar* office did not open until 1850 (in Moulmein). It was, however, the opening of the Suez Canal in 1870 that was to be the trigger for the greatly expanded involvement of the *Chettiars* in Burma's economy. The opening of the Canal dramatically cut the sailing times from Asia to Europe (from anything up to 6 months for the voyage around Africa by sail, to about 5 weeks via the Canal and steamship) and opened up the markets of industrialising Europe to the rice and other commodities of Southeast Asia. This famously transformed the delta of Lower Burma into the 'rice bowl' of the British Empire. Meanwhile the increasing price of land in the delta, coupled with the application of British land title law, brought Burma to the attention of moneylenders able to finance the bringing into cultivation of new land whilst being protected by dependable collateral. Of course, there were indigenous moneylenders in Burma but it was the *Chettiars* who were able to best exploit these new circumstances.[4] According to Cooper (1959:30), '[t]o a greater and greater extent credit for agriculture was obtained by the small farmer from the Chettyar and by the end of the 19th century the Chettyar was the most important factor in the agricultural credit structure of Lower Burma'.

This dominance continued into the new century – and by 1930 *Chettiar* moneylenders collectively had 750 million rupees (Rs.) of capital employed in Burma in the form of loans outstanding and other investments (Government of Burma 1930a:210-211). This was a figure equivalent to all British investments in Burma combined (Furnivall 1957: 190). In the same year annual Chettiar loans totalled between Rs.100 and 120 million, an estimated 70 per cent of all lending in Burma (Government of Burma 1930a:68). These loans were disbursed from 1,650 Chettiar offices spread across the country, the overwhelming majority (87 per cent) concentrated in Lower Burma (343 offices were in Rangoon alone). It was said, reasonably accurately, that 'throughout nearly every well-populated part of Lower Burma there is a *Chettiar* within a day's journey of every cultivator…' (Government of Burma 1930a:203).

Chettiar lending was mostly to cultivators (around 75 per cent) and, of this, by far the majority was written as 'crop loans' – 'given and repaid every year and corresponding immediately to the annual expenses of the cultivators' (Government of Burma 1930a: 211). It was invariably secured against collateral, mostly land. According to the *Chettiar* member of the Burma Provincial Banking Enquiry Report (BPBE), the Diwan Bahadur

---

[3] Properly the *Nattukottai Chettiars.* Numerous variants of their name – Chetti, Chetty, Chety, Shetty, Setti – abound in the historical accounts of their operations in Burma and elsewhere, but 'Chettiar' was both used by members of the caste themselves when rendering their collective name into English, and it was this spelling that also most often appeared in official and other contemporary reports of their activities. Brief details of the caste background of the *Chettiar* are given below, but a comprehensive account is best provided in Rudner (1994).

[4] For more on how the conditions created by the opening of the Suez Canal simultaneously led to the 'commercialisation' of the agriculture of Lower Burma, and the dominance of the *Chettiars* in its financing, see Harvey (1946), Furnivall (1956), Cooper (1959) Siegelman (1962) and Ray (1995).

A.M.M. Murugappa Chettiar, two-thirds of loans to agriculture in Lower Burma were secured by mortgage (Government of Burma 1930a:212). Such collateral allowed the *Chettiars* to charge lower interest rates on their loans than non-*Chettiar* moneylenders, and in both the contemporary and retrospective literature there is broad consensus on Harvey's (1946:55) claim that 'wherever the Chettyar went, the rates fell'. Table 1 below, compiled from evidence given to the Burma Provincial Banking Enquiry (BPBE) Report and used in a number of studies since, gives some indication of the range of *Chettiar* interest rates, grouped according to the quality of collateral pledged.[5]

Table 1
Selected Chettiar Interest Rates (1930)

Type of Collateral	% p.a.
Land and Immovable Property	9-15
Precious Metals and Jewellery	12-15
Promissory Notes backed by Collateral	12-15
Unsecured Promissory Notes	15-24

Source: Statistics derived from Government of Burma (1930a and 1930b).

Other, higher, estimates of *Chettiar* interest rates have been put forward, but these do not even approximate the rates charged by non-*Chettiar* moneylenders – which ranged into the multiple hundreds of per cent, and were often levied per month rather than per annum. The BPBE heard evidence of numerous examples of exploitative interest rates, including a case in Tharrawaddy District where it was alleged that miscellaneous Burmese and non-*Chettiar* moneylenders were charging interest rates of 'between 600 and 1,500 per cent' (Government of Burma 1930b:758). The most prevalent non-*Chettiar* lending – the 'informal' lending to tenants by their landlords, and by tenants to agricultural labourers, was usually made on the basis of interest rates that ranged between 3 and 4 per cent per month (40-60 per cent per annum). However, when such loans were given and repaid *in kind* (very common, and usually in paddy) the typical interest rate applicable was around 9 to 10 per cent per month (180 - 214 per cent per annum).[6]

Nevertheless, and however low *Chettiar* interest rates were compared with others, they were still high – and usually much higher than the productivity of the land they were granted against in all but the best harvest years. Thus it was inevitable that a large parcel of mortgage encumbered land should fall into the hands of creditors, including the *Chettiars*. This had begun as early as 1890, and a temporary recession that brought about a fall in the price of rice, but the situation grew progressively worse as more and more land was brought under cultivation and more and more people (Burmese and non-Burmese) arrived in the Delta to try their luck. In the late 1920s, however, the steep decline of commodity prices that was the prelude to the Great Depression brought about the large scale alienation of agricultural land to moneylenders. In the 1930s the transfer accelerated, as Table 2 below indicates:

---

[5] Two of the most influential studies to have used these estimates of Chettiar interest rates were Tun Wai (1953 and 1962) and Chakravarti (1971).

[6] Estimated from the range of testimonials given in Government of Burma 1930b. Such loans were called '*sabape'* in Burmese.

Table 2

Classification of Land Holdings in the 13 Principal Rice-Growing Districts of Burma

('000s of acres)*

Year	Total Land Under Cultivation	Land Occupied by non-Agriculturalists	Land Occupied by Chettiars	Proportion of non-Agriculturalist Land Occupied by Chettiars	Proportion of Total Land Occupied by Chettiars
1930	9,249	2,943	570	19	6
1931	9,305	3,212	806	25	9
1932	9,246	3,770	1,367	36	15
1933	9,266	4,139	1,782	43	19
1934	9,335	4,460	2,100	47	22
1935	9,408	4,687	2,293	49	24
1936	9,499	4,873	2,393	49	25
1937	9,650	4,929	2,446	50	25
1938	9,732	4,971	2,468	50	25

**The thirteen districts were then Pegu, Tharrawaddy, Hanthawaddy, Insein, Prome, Bassein, Henzada, Myaungmya, Maubin, Pyapon, Thaton, Amherst and Taungoo. Table derived from Government of Burma (1938:39).*

The land alienation in Burma illustrated above was the source of much nationalist anger in the 1930s, as is well known. This anger found a very obvious target in the Chettiars, as the following testimony of a witness before the BPBE made clear:

> Tersely and pointedly speaking, *Chettiar* banks are fiery dragons that parch every land that has the misfortune of coming under their wicked creeping. They are a hard-hearted lot that will ring out every drop of blood from the victims without compunction for the sake of their own interest…[T]he swindling, cheating, deception and oppression of the *Chettiars* in the country, particularly among the ignorant folks, are well known and these are, to a large extent, responsible for the present impoverishment in the land. (Testimony of a Karen witness to the Burma Provincial Banking Enquiry, 1929).[7]

More ominously, it also found an outlet in the anti-Indian riots of the 1930s. In 1939 the 'Riot Enquiry Committee' reported:

> We think that, among others, economic influences lie at the root of the passions which made possible the outbreak of rioting....[T]he materials upon which the immediate and more direct causes worked were…provided in part by a general and deep seated disturbance of mind for which dissatisfaction at the present position of land holding and land tenure in the country in the past is responsible…the riots and the political propaganda which preceded them were 'anti-foreigner' and to a large extent at least 'anti-

[7] The witness was Saw Pah Dwai, a Karen MLC from Tharrawaddy District (Government of Burma 1930b:758).

foreigner' meant 'anti-Indian landowner, land worker, and land financier' (Government of Burma 1939:11-13).

III. Theoretical and Historical Foundations of Cooperation

Cooperative credit arrived in Burma at the behest of its Government to provide an alternative to moneylenders such as the *Chettiars,* and to offer a solution to the malaise it saw more generally in the country that arose from its 'somewhat violent transition from a self-sufficing domestic economy to a commercial money economy' (Government of Burma 1920:1). Principal amongst the problems of this 'violent transition' was the indebtedness of the cultivator, the causes and fact of which the Government openly admitted:

> There can be no doubt that debt per head has increased in the last forty years and the causes, generally speaking, of this increase are the rapid transition to a money economy; the absence of any machinery for saving; temporary loss of ballast and extravagance; improvidence; the heavy expense of breaking new land and pioneering without a proper system of financing the pioneer; an unduly expensive credit system; the fact that much of the country is under one crop only, which prevents frequent mobilization of capital; that kind of speculation which always accompanies any land or produce boom; and latterly *habit* (emphasis in original, Government of Burma 1920:5)

In the Government's view the underlying cause of all of the above was what it saw as the 'entire absence of organization of the weak, that is, of the cultivators, who form the mass of the population, and of the poorer inhabitants of the rural market towns' (Government of Burma 1920:1). Notwithstanding the seriousness of the issues, the Government was nevertheless at first reasonably sanguine at the situation. It had, after all, a remedy at hand – cooperative credit.

An idea that was directly informed from India and imposed by the imperial government upon Burma, as noted above, the origins of cooperative credit belonged to Europe. Ultimately an application of 'cooperation' as inspired by the 'Rochdale Equitable Pioneers' and as adhered to by social reformers generally, cooperative *credit* was essentially a German invention.[8] The pioneers (and bitter rivals) of Germany's cooperative credit system were Hermann Schulze-Delitzsch (1909-1883) and Friedrich Raiffeisen (1818-1888).[9] Both provincial politicians, their two movements shared a philosophy of member ownership and control, 'self-help' and (mostly) independence from the state. *Schulze-Delitzch's* movement, however, was essentially an *urban* phenomenon dominated by small craftsman and small business – groups with growing

[8] Since the events described here took place before the creation of the German state we know today, 'Germany' and 'German' refers to the regions included in the German empire as established in 1871.

[9] The dispute between the two movements, which was as much philosophical as it was personal, was to continue well beyond the deaths of the founders. Indeed, the alternative viewpoints staked out by each of the movements remains highly contested terrain to this day, not only amongst practitioners of cooperative credit, but also amongst the rapidly rising 'microfinance' movement. For a modern slant on the controversies, see Guinnane (1997). For a contemporary, and impassioned account, see Wolff (1893).

credit needs as a consequence of increasing mechanization. *Schulze-Delitzsch* societies were reminiscent of joint-stock companies and were formed with limited liability. Members 'shares' paid a dividend and were relatively high-priced – sufficient, together with reserves from retained earnings, for the societies to be able to ultimately fund their own loan book. They also tended to be managed by paid staff, loan turnover was relatively rapid and loans were usually short-term (three months or less was the norm). For all of these reasons the *Schulze-Delitzsch* tended not to be suited to agriculture. The first *Schulze-Delitzsch* cooperative credit society was formed in 1850 (Guinnane 1997, Gorton and Schmid 1999).

Ironically, given the predominantly *rural* credit needs in Burma, the earliest credit cooperatives in the country were of the *Schulze-Delitzsch* type. The first was established in Myinmu town in March 1905, and had 19 members. By 1908 16 other *Schulze-Delitzsch* cooperatives had been formed, but even by this time the sun was setting on this form of cooperative society in Burma and they were outnumbered by the 55 of the *Raiffeisen* variety (Khin 1997:52).

By far the most prevalent type of cooperative credit society in Burma were those based on the *Raiffeisen* model.[10] The *Raiffeisen* movement began in 1864 and was mostly concerned with agriculture and the financial needs of farmers and rural peasantry. Though it shared many of the cooperative principles of Schulze-Delitzsch, to a much greater extent than the latter, ethical and moral considerations (strongly influenced by notions of Christian charity) were a primary motive in its formation and propagation. The primary purpose of the movement was to provide credit to those who could not normally borrow except from moneylenders, and at the lowest possible interest rate. This included both the poor and those without collateral. Significantly, *Raiffeisen* societies were established with *unlimited liability* for their members This was to counter the problem of the lack of collateral by substituting for it the security of strong member incentives to monitor each other's repayment performance. In order to aid such monitoring each *Raiffeisen* society was restricted to a relatively small geographical area. To keep entry barriers to the poor as low as possible, shares in *Raiffeisen* societies were of a nominal value only and they did not pay a dividend. Retained earnings were maintained in a reserve which would only be disbursed if a society was wound up – and even then not to members, but to fund 'some useful public work' (Wolff 1893:75). Office bearers in *Raiffeisen* societies were not meant to draw any form of remuneration, but in Germany the movement employed a body of 'roaming auditors' who travelled 'from association to association, examining books, and inspecting accounts, and overhauling the whole business of every association, at least once every two years' (Wolff 1893:74).

The *Raiffeisen* movement excited the interest of social reformers in Britain, and officials throughout its Empire, to a degree that dwarfed its rivals. Henry Wolff, whose comments

[10] A small number of (predominantly urban) cooperative credit societies in Colonial Burma were based on the '*Luzzatti'* model – a Italian originated derivative of the *Schulze-Delitzsch* approach, but which shared many *Raiffeisen* principles too. This model was named after Luigi Luzzatti, Italy's Minister of the Treasury and Finance in the late nineteenth Century and the founder of the country's *Banche Populari* (Government of Burma 1920:10).

have appeared already, was particularly taken with its possibilities. Wolff's 1893 book, *People's Banks: A Record of Social and Economic Progress,* was enormously influential and a source of inspiration to those who ultimately established Burma's cooperative credit system.[11] In the book Wolff even feared, he wrote, 'of falling into a strain of rhapsody' in describing *Raiffeisen's* achievements and potential. Regardless, he ventured forth, describing a 'new world' in which '[t]he idle man becomes industrious, the spendthrift thrifty, the drunkard reforms his ways and becomes sober, the tavern-hunter forsakes the inn, the illiterate…learns to read and write' (Wolff 1893:11). That this all sounded 'like a tale from fairy land' he acknowledged' yet, under *Raiffeisen's* ministrations it was 'all sober fact' (Wolff 1893:11). Wolff's contemporary assessment was overblown, of course, but before the First World War there were very real grounds for optimism for the movement. By 1910, for example, an estimated 15,000 *Raiffeisen* had been established across Germany (with 1.4 million members), and *none* with unlimited liability had failed (Banerjee *et al,* 1994:503).

Raiffeisen excited the interest of nineteenth and early-twentieth century social reformers as is apparent from the above, but the movement's structure and organizational principles also exercised (and continues to exercise) the interest of economists and those concerned with industrial organization. *Raiffeisen's* efforts to replace collateral as the basis for lending with security, with the discipline of 'peer monitoring', was especially noteworthy – not least in that by providing a substitute for collateral it held out the promise of a new paradigm for lending to the poor. A label made prominent by the Nobel-prize winning economist Joseph Stiglitz (1990), peer monitoring was based on the idea that the members of a cooperative credit society not only possessed great knowledge of each other, but via unlimited liability (and the hope for future loans), had an incentive to maintain and extend that knowledge. Members of a cooperative credit society, moreover, who had long-term interactions with each other (economic *and* non-economic) were in a better position to sanction opportunistic behaviour than that which was possible by institutions organized purely on commercial lines. Seen from the advantage point of economics, unlimited liability could also be regarded as a powerful 'signalling device' – convincing others that a cooperative society *must* be soundly run since its members (transparently) had much to lose if it were not.

Such issues were (and are) not just of theoretical interest however. In recent decades, for example, great hope has been entertained for what has become known as 'microfinance' in delivering to the world's poor both economic security and a potential route out of poverty. Microfinance has a myriad of organizational forms, but amongst the most prominent schemes (those employed, for instance, by the famed 'BancoSol' of Bolivia and the Grameen organization from Bangladesh), great reliance has been placed on 'peer' or 'group' lending in providing for a viable mechanism for low cost credit without collateral.[12] Peer lending in these contexts is in essence the 'joint' or 'unlimited' liability of the members of a group for the loans of each other – supposedly resulting in higher

[11] See, for example, Government of Burma (1929:13).
[12] There is, of course, a vast literature on microfinance in general, and these two path breaking instutions in particular. Both have comprehensive websites detailing their methodologies, but for holistic and critical assessments, see Churchill (1998), Ledgerwood (1999), Robinson (2001), and Fisher and Sriram (2002).

repayment rates and, as a consequence, delivering lower interest rates for borrowers while ensuring institutional viability. In the latest parlance, peer lending provides the 'social capital' through which microfinance institutions can lower their 'transaction costs'. Of course, the hazardous flipside of such schemes, which (as shall be examined blow) was of great relevance to conditions in Colonial Burma, is that if this social capital is missing, the whole system is imperilled.

IV. Cooperative Credit in Burma: A Structure in Three Tiers

Primary Credit Societies

Colonial Burma's cooperative credit system was organized in three tiers. The first tier consisted of the 'primary credit societies'- the associations of individuals and households who were borrowers, savers or both. Those societies organized under *Raiffeisen* principles (as noted, much the majority) were formally known as Rural Cooperative Credit Societies and were organized usually on a 'one per village' basis. Each Society had to have a minimum membership of 10 households. Typically they remained small, however, and in 1920 the average cooperative consisted of only 21 *individuals* (Government of Burma 1920:11). Consistent with *Raiffeisen* principles, members had unlimited liability for the debts of the cooperative. However, as the Government's *Handbook on Co-operation* pointed out, liability was 'limited in practice' by each Society's own internal lending limits and those imposed by the Registrar of Co-operative Societies (more of which below, Government of Burma 1920:11). Credit societies raised their funds through the sale of their shares to members (a nominal amount of Rs.10), deposits placed in them by members, any accumulated profits, and borrowing from 'Central Banks' (tier three below). Dividends were not paid on shares.

Rural Credit Societies could only lend to their (shareholder) members, and only for 'productive purposes' such as cultivation expenses, the purchase, improvement or redemption of land, the purchase of livestock or for the extinguishment of debts to moneylenders. Contrary to the 'pure' *Raffeisen* model, collateral (especially land) was taken on loans if available. Lending 'for religious purposes or for buying luxuries or for speculation' was explicitly prohibited (Government of Burma 1920:52). This prohibition (by no means uncommon in various cooperative credit models), was to be one of the factors that brought about the failure of cooperative credit in Burma. It failed to recognize the essential 'fungibility' of money and, as such, was a measure that could never have succeeded in its seeming objective of instilling a 'money sense' in any case. In Burma as elsewhere, the doctrinaire refusal to lend for 'non-productive' purposes was also one of the principal reasons why cooperative credit failed to make the inroads expected into a market hitherto dominated by *Chettiars* and other moneylenders.[13]

[13] Such a refusal likewise stymied the ability of cooperative credit societies to compete against local moneylenders in the many countries in which such strict adherence to original *Raiffeisen* principles held sway. It certainly held back the ability of the cooperative credit sector in India, a point recognized by the country's lending authorities only as late as 1976 (Kumar 1983:803).

Rural Credit Societies paid an interest rate of 10 per cent per annum on deposits, and lent out to members at rates ranging from 12 to 15 per cent. The highest rate was reserved for lending to pay off moneylender debts. Loans were classified in three categories according to term. 'A' class loans, for cultivation expenses, were repayable in full at harvest. 'B' class loans, for the purchase of livestock, were payable in two or three annual instalments at harvest. 'C' class loans, for the purchase, improvement or redemption of land, *and* the elimination of moneylender debts, were repayable in four annual harvest instalments. A one year extension on loans in all categories could be given for 'good cause' (Government of Burma 1920:52). Interest was levied twice annually, but *did not* compound. The Government's *Handbook on Co-operation* was confident that loan defaults would not be a serious problem in Burma's Credit Societies since 'the bye-laws require that only honest men (sic) be admitted' (Government of Burma 1920:52).[14]

Great emphasis was placed by the Government on the role Cooperatives could play in mobilizing savings, and not just in apportioning credit. This was a somewhat unusual objective at the time, though today it is very much at the forefront of thinking on the role played by financial institutions in economic development.[15] In its propagating literature the Government was at pains to point out the advantages of saving money via a cooperative society rather than 'hiding it in the ground', or using it to buy gold and jewellery. The latter methods of 'saving' were, of course, time honoured and widely practiced in Burma. They had distinct disadvantages, however, including being 'baits for dacoits and robbers'. Burying wealth in the ground also uniquely exposed a family to loss 'if the owner dies suddenly without having disclosed the hiding place' (Government of Burma 1920:65). Gold was a primary form in which saving via physical objects was manifested, and its disadvantages were made the subject of a special leaflet widely distributed by the Government.[16] Also targeted by the Government in this respect were pawn shops, which otherwise made saving in a 'physical form' attractive. Pawnshops, however, created the circumstances whereby the owner effectively paid 'interest on his own money' and, in any case, were only able to realize 'three-quarters of the value of the articles pawned' (Government of Burma 1920:65). The Government extolled the broader national benefits of formal savings too, noting that it allowed those with idle funds to earn interest while those without funds, but with good business ideas, could use it for 'productive purposes'. All in all, 'by making such deposits the power of production is increased and Burma as a whole benefits' (Government of Burma 1920:66).

A universal risk that faces financial institutions comes from their role as 'inter-temporal intermediaries' in this saving/lending function. Put simply, financial institutions are often caught in a situation in which their liabilities (especially their deposits) are immediately available to being withdrawn but their assets (especially loans) are 'locked in' (time-wise) to the projects they are financing. Such intermediation risk was recognized by the

[14] Those familiar with the dominant lending methodologies of modern microfinance schemes might wonder at the lack of any reference to lending to women across the spectrum of Government documents relating to finance in Burma.
[15] For more on this, and in particular on the importance of savings for the poor in microfinance and other schemes, see Robinson (2001, *passim*).
[16] This leaflet was included, along with many others, in Government of Burma (1920) and (1950).

Government of Burma even as it encouraged the collection of savings by cooperatives, and it insisted that *in the case of the primary societies*, deposits could only be made for fixed terms, usually from six months to two years (Government of Burma 1920:66). Of course, this measure reduced the attraction of Credit Societies as savings vehicles, but it was regarded as necessary for prudential purposes.

Ultimate authority in the internal governance of the Credit Societies was vested in the 'General Meeting' of the members (one member, one vote), which was held four times a year (Khin 1997:49). This in turn elected an Executive Committee which decided upon all the major issues – the maximum borrowing and lending of the society, the maximum borrowing of individual members, supervision of repayments, interest rates and the other activities of the Society. The accounts were kept by the Society's Secretary, who was selected by the Executive Committee from amongst their number. The Secretary was also meant to play the key role in promoting the 'spirit of cooperation'.[17] Consistent with *Raiffeisen,* neither the Secretary nor the members of the Executive Committee were supposed to receive any remuneration, or any favourable treatment from the Society.

Burma's primary Credit Societies were regulated by the (Burma) Provincial Registrar of Co-operative Societies under the Indian Co-operative Societies Act 1904, and as amended in 1912 and 1927. Curiously, the Registrar was not based in Rangoon, but in the 'hill station' town of Maymyo (the Government's 'summer capital').[18] The Registrar was responsible for auditing, or arranging for the audit, of each Society annually and had the power to place a Society in liquidation if it was found to be insolvent or operating in contravention of the Act. The primary objective of the Registrar's function was to protect depositors, or in its own words, 'to show why money deposited with Co-operative Societies is safe' (Government of Burma 1920:67). No '*responsibility* or *liability* for the debts of Societies' was accepted by the Registrar, however, and there was nothing in the way of modern deposit insurance or guarantees. Nevertheless, in 1920 at least, the Government was confident that its regulatory regime was working well. It boasted:

[17] The Secretary was meant to have a deep understanding (all cooperative members were meant to have *some* understanding) of the 'Ten Essential Principles' of cooperation in Burma – as adapted by the Government from *Raiffeisen.* The ten principles were:

1) Objects of Credit Society, *ie.,* extinction of debts, increase of property and savings.
2) Advantage of Co-operative borrowing by enabling small men by combination to get as good terms as big men.
3) Liability of Society and of Society to Union.
4) Safeguards against loss by default of members provided by bye-laws which require that only good men be admitted, that loans be strictly limited to actual requirements for productive purposes, that adequate security must be given for loans and that such loans be properly applied.
5) A, B, C system of repayment.
6) Rules as to admission, withdrawal and expulsion of members.
7) Powers of the General Meeting of Society.
8) Existence and use of Reserve Fund.
9) The advantages of belonging to a Union.
10) Central Bank constitution and funds (Government of Burma 1920:82).

[18] Now the township of 'Pyin U Lwin'.

> As the proof in the pudding is in the eating it may be added that in the 14 years since the Co-operative movement was first introduced into Burma, 225 Societies have been wound up for bad working. They were wound up because they were the worst among all those registered. *In no case has any depositor lost anything* (Government of Burma 1920:68, emphasis in original).

Unions

The second tier of Burma's cooperative credit system was occupied by the 'Unions' – associations of geographically-proximate primary Credit Societies (ranging in number from five to about twelve) grouped together to achieve objectives that were thought beyond individual Societies on their own. In the words of the Government: '[j]ust as a Co-operative Society is an Association of a number of individual persons, so is a Union an association of a number of Co-operative Societies' (Government of Burma 1920:57).

Unions existed in other countries where *Raiffeisen* and other credit cooperatives operated, but elsewhere their function was little more than to act as an information exchange for disseminating 'best practices'.[19] In Burma (and India), however, their role was critical. Motivated by the fact that the *human capital* of individual Societies was probably insufficient for the ambitions the Government of Burma had for the cooperative credit movement, the burdens placed on the Unions were wide ranging, probably contradictory and very heavy:

> A Union is…an association formed for *the purpose of mutually guaranteeing* the borrowings of affiliated Societies from non-members, of teaching co-operative principles, of providing regular inspection of the accounts and working of affiliated Societies, of assessing the credit to be allowed to each affiliated Society and recommending loans for them, of forecasting repayments and requirements for the guidance of the Central Bank [tier three, below], of assisting the Registrar in deciding whether or not to register new Societies in its neighbourhood and, lastly, of generally furthering the spread of sound co-operation (Government of Burma 1920:12, emphasis added)

The liability of Societies for the debts of others in their Union was not unlimited, but restricted to their own level of borrowings from non-members or half of their working capital, whichever of these was the larger. The Unions had paid staff – a Supervisor and at least one clerk, whose salaries were met by a 'Union fund tax' levied on its member Societies. Consistent with cooperative principles, ultimate authority for the management of the Unions rested in their 'General Meetings', held in January, April and September each year. The General Meeting in turn elected a Chairman and Union Committee. Together with the paid staff, this leadership team came to conduct the regulatory, prudential and auditing functions that increasingly were delegated from the Registrar (Government of Burma 1920:53). As shall be seen below, this was to have far-reaching repercussions.

The federation of primary Credit Societies in Burma into 'unions' began in 1909, but soon thereafter membership essentially became compulsory for Credit Societies. Since it

[19] See, for example, the very minor role assigned to 'Unions' in Wolff (1893:79).

was the collective 'guarantee' that was the focus of much attention regarding the Unions, they were popularly known as 'guarantee unions'. The number of Unions reached its peak, at 558, in 1925 (Khin 1997:55).

Central Banks

The third tier of Burma's cooperative credit system consisted of what became known as the District 'Central Banks'. Established to raise funds for the entire movement by 'attracting deposits from well-to-do members of the public' (and largely Europeans), their creation in 1909 was essentially an admission that individual Societies had been less than successful in attracting deposits sufficient to fund their lending. A distinct advantage the Central Banks had over individual Credit Societies was that they offered better deposits products – including current ('checking') and 'at call' deposits as well as those for fixed terms. The Central Banks played no role in the supervision or regulation of individual Credit Societies (this was left to the Registrar and the Unions), rather, they were created simply to help finance them. The first Central Bank was formed at Pakôkku in 1909, and what was to be by far the most significant, the Mandalay District Co-operative Bank, was formed a year later (Government of Burma 1920:10). At their peak (in 1926), there were 23 Central Banks across the length and breadth of Burma.

The Central Banks provided funds to individual Credit Societies via the Unions. As noted above, the Unions were required to assess the borrowing capacity of individual Credit Societies, and when this exceeded a Society's actual ability to raise funds via shares and deposits, to approach the relevant Central Bank for the remainder. In this manner, and given the problems faced by the Credit Societies in raising deposits, Central Banks provided the largest portion of funds to the cooperative movement throughout its history. The Union's credit assessments were carried out annually, from which was derived a matching 'overdraft' facility of each Society with its Central Bank. Of course, it was in this context that the 'guarantee' of the Unions was critical – since each Society in a Union guaranteed the debts of each other with their Central Bank. As such, the risk to the latter from individual Society defaults should have been minimal. According to a Government leaflet describing the role of the Central Banks, they were 'justified in relying upon the assessments made by Unions because Unions guarantee the liabilities of their Societies' (Government of Burma 1920:69). The obvious flaw in this arrangement would be exposed if Unions as a whole, or in substantial number, were in trouble. Each 'borrowing' Society was required to take up shares in their Central Bank, proportionate to the size of their loans. The Central Banks came to be owned therefore by the Societies that borrowed from them, though shares in the Central Banks were sold to individual investors as well. The Central Banks paid an interest rate on deposits of around 6 per cent per annum, and charged borrowing Credit Societies between 10 and 15 per cent.

Amongst the Central Banks, the Mandalay District Co-operative Bank stood out in such a way that it really must be considered separately from all the others. Its importance can even be traced in its changing name – first to the 'Upper Burma Central Bank' and finally, in 1920, to the Burma Provincial Bank. Formed in 1910 from a firm of solicitors in Mandalay that had become a prominent agency for placing funds in individual Credit

Societies, the Provincial Central Bank became over time the 'central bank' for the other Central Banks, and provided them with funds which they in turn lent on to their member Societies and Unions (Government of Burma 1929:4). It also stood as a ready source of liquidity to the other Central Banks, providing them with funds, for example, when there occurred (usually due to seasonal factors, sometimes because of solvency concerns) temporary mismatches between their deposit and loan books. In addition to providing funds to the other Central Banks, however, the Provincial Bank continued to lend to individual Credit Societies via the Unions. At its peak in 1925, the Provincial Central Bank had a total working capital of Rs.11.2 million and had loan outstandings of Rs. 8.8 million to 2,200 individual Credit Societies in 22 districts (Government of Burma 1950:5, Tun Wai 1953:73).

V. The Growth and Collapse of Cooperative Credit in Burma

Burma's cooperative credit system enjoyed spectacular growth in the first two decades of its existence. After a slow start following the passing of the Co-operative Societies Act in 1904, growth in the movement's 'numbers' for twenty years thereafter were almost exponential. In 1910 there were 252 Credit Societies throughout Burma, with just over 6,000 individual members and a share capital of Rs.79,000. Five years later there were 1,252 Societies, over 30,000 members and share capital of Rs.700,000. By now the structure of the movement was changing too, with the second and third 'tiers' of the edifice in place in the form of 4 Central Banks (including what would become the Burma Provincial Central Bank) and 189 Unions (Government of Burma 1950:15). Burma was at the periphery of the First World War and the conflict did little to slow the growth of cooperative credit which, in the decade to 1925, reached its apogee. In 1925 there were 4,057 Credit Societies, over 92,000 members, 21 Central Banks, 575 Unions, share capital of Rs.3.56 million and almost Rs.18 million in advances available or lent to members (Government of Burma 1950:16). In 1925 all seemed rosy in this clearly successful transplant of a German idea, with English characteristics, slightly modified to suit conditions in British India - and now proliferating across Burma.

Even at its peak in 1925, however, Burma's cooperative credit system – though seemingly of great promise – accounted for little of the credit needs of Burma's cultivators. During 1925 total aggregate new loans of the 4,000 or so Credit Societies came to Rs.6.6 million (Tun Wai 1953:71). This was a not an insignificant sum, but it was only 3 per cent of the Rs.200 million that the BPBE estimated cultivators required each year. The remainder, as always, was primarily sourced from private moneylenders (mostly *Chettiars*).[20]

The seemingly triumphant year of 1925 would prove a turning point in the trajectory of cooperative credit in Burma, but even before this epochal year various warning signs had begun to appear suggesting all was not as it should be. In the Registrar's Annual Report

[20] The BPBE estimated that, for 1929, Rs.120 million of the Rs.200 million was supplied by the *Chettiars*. For a discussion of these numbers, and an analysis of the credit needs of Burma's cultivators at this time, see Binns (1946:28-29).

for 1924-25, the idea that the growth in cooperative credit had been ‘too rapid’ over the past decade found official voice. Perhaps, the Report pondered, ‘societies were being registered too easily,…loans…were being made too easily [and] repayments have become slack’. The movement, moreover, was ‘clogged with bad societies’ (Government of Burma 1950:18). Meanwhile, rumours had begun to surface about the solvency of the Provincial Bank. For now these were rebutted by the Government. The Burma Provincial Central Bank, the Government announced, had maintained its reputation for ‘sound finance’ (Government of Burma 1938:93).

The retrenchment of Burma’s cooperative credit system, which in truth was its near complete collapse, took place in the decade to 1935. Of course, this interval included the years we think of as comprising the Great Depression, but the collapse of cooperative credit in Burma had begun before this. Breaking the decade into two five year periods illustrates the point. In 1930 the 4057 Societies of the movement’s peak had declined to 2,191, the 92,000 members to 50,000, the share capital to Rs.2.7 million and the loans advanced and available to 70 per cent of the 1925 total. The Great Depression, the wholesale collapse of paddy prices as well as the various insurrections and communal conflicts of a country in political turmoil provided the *coup de grace*.[21] By 1935 a greatly diminished cooperative credit system in Burma comprised 1,371 Societies with just over 29,000 members, share capital of Rs.1.5 million and loans previously advanced and on the books (nothing was available for new loans) of Rs.8 million. Only 10 of the Central Banks survived into 1935 and the ‘Unions’ had been almost completely destroyed as a category. A mere 57 of the 575 that had existed in 1925 survived through the following decade (Khin 1997:51). Table 3 below provides a snapshot of the rise and fall:

Table 3

The Rise and Fall of Cooperative Credit 1905-35

Year	No. of Cooperative Societies	No. of Individual Members	Share Capital Rs.’000
1905	9	568	18
1910	252	6,116	79
1915	1,252	30, 130	700
1920	3,319	72,816	1,873
1925	4,157	92,005	3,561
1930	2,191	50,074	2,774
1935	1,371	29,712	1,471

Source: Khin (1997:51)

The collapse of Burma’s cooperative credit system was also illustrated in the sad story of its ‘apex’ bank. As noted above, rumours regarding the Provincial Bank had been in currency for quite a while, but they had been brushed aside by a Government anxious to maintain confidence in a movement in which it invested much (financial as well as

[21] The 1931 communal riots were particularly harmful to agriculture in Burma – resulting in the flight of countless Indian agricultural labourers and causing much land to lie fallow. Of course, the value of land as collateral and (more importantly at this time), security against loans, declined commensurately.

idealistic) capital. In November 1927, however, matters came to a head when the Bank approached the Government of Burma to effectively guarantee its loan book and interest accruals against default. In fact, the problems facing the Bank were longstanding, and were recognized (by it at least) since 1921. From this year until the crunch in 1927, the Bank had consistently (but privately) warned the Registrar that the other Central Banks, as well as a high proportion of the individual Credit Societies and Unions that it had lent to, were withholding repayments. According to a later Government Report on the events, in 1921 a mere Rs.21,000 was repaid to the Bank out of a total of Rs.268,000 due that year (Government of Burma 1938:93). Similar delinquency rates were reported in following years but, as the same Report noted, the ‘gravity of the situation was clearly not grasped by the Registrar’ (Government of Burma 1938:93).

The Government of Burma refused the Provincial Bank’s request in 1927, but following panicked withdrawals of deposits it was forced to finally intervene in 1928. Arranging for a cash loan for the Provincial Bank of Rs.1.4 million from the Imperial Bank of India, the Government was forced (as a condition of the Imperial Bank’s agreement) to commission a committee of enquiry into both the operations of the Provincial Bank, and the cooperative credit system as a whole. The ‘Calvert Committee’ as it came to be known, reported its findings in 1929. Determining that the Provincial Bank was insolvent, the Committee recommended that it ‘be wound up forthwith’ (Government of Burma 1929:85). The Committee was not sympathetic to depositors who might thereby lose money since they ‘could not equitably expect 7 to 8 per cent on deposits guaranteed by Government’ (Government of Burma 1929:83). As it turned out, the Provincial Bank was not liquidated until 1932, and only after the Government stepped in to reimburse depositors to the tune of Rs.5.8 million (Government of Burma 1950:5). Seizing the security pledged to the Bank, and pursuing the debts owed to it by errant Credit Societies, was to consume much of the following decade.

VI. Calvert

The Committee chosen to investigate and report on ‘Co-operation in Burma’ was headed by Hubert Calvert, then Registrar of Co-operative Societies in the Punjab, and a member of the 1928 Royal Commission on Agriculture in India (just concluded, and which featured an investigation into cooperative credit in India as a whole). As was established earlier in this paper, Calvert was a leading advocate of the cooperative movement in British India, and instrumental in its introduction. Calvert was joined on the Committee by E.P. Stocker of the Imperial Bank of India (Madras, and a member of a number of enquiries into cooperative credit in India) and H.O Reynolds of the ICS. The three other members of the Calvert Committee were Burmese - U E Pe, the Chairman of the Burma Urban Co-operative Federation, U Hla Bu, Chairman of the Yamèthin District Co-operative Association and U Ba Tib, Assistant Commissioner of the Co-operatives Department (Government of Burma 1929:3). Of course, at the time the Calvert Committee was deliberating, Burma had its own Governor and a limited elected assembly, but it was still a province of British India and was dominated commercially by European and Indian interests. Nevertheless, a small but high calibre cohort of Burmese civil servants were beginning to make their presence felt.

The Calvert Committee's Report, which was tabled in March 1929, made for grim reading for the champions of cooperative credit in Burma. The Committee found that external circumstances, bad harvests in 1919/20 and the growing agricultural recession (Calvert reported before the Great Depression fully hit), had played a role in the extent of the difficulties facing Burma's cooperative credit system, but they were not the *cause* of the crisis (Government of Burma 1929:8). The cause of the virtual collapse of Burma's cooperative credit system, rather, was internal, structural, and for that, rather more fundamental to the movement.

The primary culprit of the crisis in Burma's cooperative credit system stemmed, according to Calvert, from the second tier of the system – the Unions. As has been noted, these played a larger role in Burma's cooperative credit system than was usual in comparable schemes. Their prominence *had been* presented as positive and innovative – a home-grown solution to the problems individual Credit Societies faced in raising deposits, and an extension of the principles of cooperation from individuals to the Societies themselves. The Calvert Report saw this as a self-regarding and self-deluding argument. According to the Report, the enhanced role of the Unions in Burma had less to do with the extension of principle, than it had in Government penny-pinching and myopia. Since the entire system had expanded 'beyond the capacity of the Registrar to control', Calvert found that more and more responsibilities (especially those of a prudential and educational nature) had been devolved to the Unions (Government of Burma 1929:8). This had been done, however, 'before adequate provision had been made for [these] non-official agencies to take over the work' (Government of Burma 1929:18).

The principal *specific* failure of the Unions concerned the role they were meant to play in ensuring against default – of both individual borrowers, and of Credit Societies themselves. The logic of the former role was that it was expected that the Unions 'would show less weakness and soft heartedness and more business in the dealings of village with village' (that is, Society with Society), than that likely within a Society when dealing 'man with man' (Government of Burma 1929:43). Practice, however, did not follow the logic and from the Unions as well as individual Societies, 'excessive leniency' was the order of the day. Worse, 'fictitious figures', 'paper adjustments' and the granting of new loans so that defaulters could pretend to repay old ones, were measures commonly resorted too. Worryingly for what it implied with regard to the respect with which participants regarded 'cooperative principles', Calvert concluded that such practices 'could not have persisted and reached the dimensions it did unless connived by everyone concerned' (Government of Burma 1938:88). This did not necessarily imply corruption as such (though Calvert found some evidence of this, as noted below), but what the Committee called 'an inherent weakness…characteristic of the Burmans', to wit, 'a certain delicacy in dealing with the faults and misdemeanours of their neighbours…[they] prefer to put up with administration or malpractices in the hope that…the Government may one day come and put things right' (Government of Burma 1929:1) The Unions had the power to expel individual members as well as to liquidate 'bad Societies' – both measures, however, were 'rarely resorted to' (Government of Burma 1938: 88).

The failure of the Unions to act against delinquent borrowers, and to turn what amounted to a 'blind eye' to their efforts to obfuscate their true financial position, highlighted the failure of the Unions in auditing their Credit Society constituents. Auditing too had been a function originally assigned to the Registrar, but devolved to the Unions when the workload on the former proved too much. The conduct of proper audits was to prove too much for the Unions too, not least financially, leading to the unhealthy practice of individual Credit Societies paying their own auditors under private arrangements rather than via the Unions. Calvert found a consistent failure of auditors to discharge their basic responsibilities which, in the case of a Credit Society, included simply that 'loans were made fairly, for proper periods and objects and on adequate security' (Government of Burma 1929:20). As a consequence the malpractices noted above – 'fictitious figures', 'paper adjustments', new lending to disguise bad and doubtful debts – were 'so common that it [was] almost impossible to determine what real work the Societies have been doing' (Government of Burma 1929:23). Asset valuations likewise were 'negligent', a situation that greatly exacerbated the problems of liquidation when that was to prove necessary for many Societies. In its only passing comment made on fraud within the cooperative system, Calvert noted that auditors had largely ignored the 'too large a share' of lending in many societies made to 'co-operative chairmen and committee members' (Government of Burma 1929:29).

A prime objective of auditing Burma's cooperative credit system was simplicity – the creation of easy to understand assurances of trust amongst a population hitherto unexposed to banking and its accoutrements. This was a direction of the earlier Maclagan Committee report on cooperative credit in Burma, but it was a direction ignored in practice (Government of India 1915, Government of Burma 1938: 88). Calvert noted that in place of simplicity, audit paperwork was concerned with the collection of 'elaborate statistics'. Helpful to the historian, the practice did little to establish faith in the movement at the time. There was, according to Calvert, 'so much unnecessary elaboration that it was difficult to discover what any member had borrowed, what he had repaid and what he still owed' (Government of Burma 1938:88).

The problems of the internal operations of individual Societies aside, Calvert found that the Union system fared no better when it came to ensuring the movement against broader default – that is, of whole Credit Societies and even of Unions themselves. Their principal weapon in checking such 'systemic' problems was, as noted above, the 'guarantee' scheme – Societies in the Union guaranteed the liabilities of each other. Alas, however, this aspect of the Unions' role was astonishingly ill-conceived. What seems never to have occurred to the designers of the arrangements was the *legal identity* of Credit Societies when dealing with each other. Unlimited liability was a central principle of *Raiffeisen,* but this only applied to the relationship of a Society to *its* members, and not to *their* relationship to *other* Societies. A guarantee made between two Societies was a guarantee made between two legal entities – and implied nothing for the members of either. In short,

> [a] call from the Union to shoulder a share of the debt owing by a defaulting society…could not be passed on to individual members which had undertaken the

> guarantee, and so it was only the Society which could be proceeded against (Government of Burma 1929:45).

Thus the famed ‘guarantee’ scheme of the Union system, central though it was to the security underpinning the entire cooperative credit system (the Central Banks lent on the basis of no other) was a mirage.

The education, indeed the propagation, of ‘cooperative principles’ was a yet another function of the Unions delegated from the Registrar. It was an important task for a system that depended for its proper functioning on what today would be called ‘social capital’ – that indispensable ingredient allowing for coordination and cooperation amongst disparate groups and individuals. Its importance for the success of financial intermediaries of the type exemplified by Burma’s cooperative Credit Societies is today well established, illustrative of which is this extract from Ledgerwood (1999: 76), a modern manual on small-scale rural lending:

> Perhaps more than any other economic transaction, financial intermediation depends on social capital, because it depends on trust between the borrower and the lender. Where neither traditional systems nor modern institutions provide a basis for trust, financial intermediation systems are difficult to establish.

But the educative task was more important in Burma – since, as a later Government report provocatively noted, cooperative credit ‘was not a natural growth’, but was ‘imposed from above and was inspired by the desire of Government’ (Government of Burma 1938:87). Alas, education was not forthcoming. Calvert noted that they ‘found everywhere a sad lack of knowledge of all that is meant by co-operative banking’ (Government of Burma 1929:13). Most disturbing, however, was the Committee’s findings with respect to the Unions themselves. Writing of the Union staff employed to supervise member Societies and to spread the cooperative message, it declared them to be ‘untrained, uneducated in co-operative banking or co-operative principles and unfit to be let loose amongst any body of co-operators’ (Government of Burma 1938:90).

Calvert’s final take on the Unions was unequivocal: ‘We have no hesitation in recommending that the Union guarantee should be abolished as soon as this is practicable’ (Government of Burma 1929: 46)

The problems surrounding the Unions had a contagion effect upon the institutions ‘above’ them – the District Central Banks. It will be recalled that these had no independent credit assessment processes when lending to primary Credit Societies, but were expected to rely upon the Union system and its ‘guarantees’. Given that these guarantees proved to be worthless, once the cooperative credit system began to fail in Burma the position of the Central Banks likewise became precarious. At the time of the Calvert Committee’s deliberations four were either in liquidation, insolvent or stagnant (Government of Burma 1929:66). While most of the Central Banks problems came via the troubles of the institutions below them, some were closer to home. Calvert found that internal controls within the Central Banks were lax and irregularities abounded. One such irregularity was the common practice of borrowing Societies appearing as depositors in the Central Banks' accounts - via the simple by highly deceptive expedient of deducting a portion from the loans advanced to them and booking it as a 'deposit'. Calvert also cautioned against the practice (noted above) of Central Banks offering 'current' and 'at call' accounts. The Central Banks were not 'intended to do the same business as commercial banks'. Their governing legislation, the Co-operative Societies Act, was meant rather, 'for simpler institutions carrying on a much simpler business' (Government of Burma 1929:60). With respect to the Burma Provincial Central Bank, the point has been made already that a number of the other Central Banks were in default to it from the early 1920s. In addition, however, Calvert found many of the same problems that had afflicted the other Central Banks - the failure of the Union guarantees, the lack of machinery for assessing the credit-worthiness of Societies independent of the Unions, as well as problems in internal controls. Amongst the most egregious examples of the latter included the Provincial Bank's practice of crediting interest income to profit – whether it had actually been paid or not.

VII. Other 'Official' Verdicts

The Calvert Committee Report was the most detailed and comprehensive investigation into the failure of cooperative credit in Colonial Burma. The episode, its implications and the lessons that could be derived from the experience remained alive, however, and it was to recur as a theme in the numerous enquiries commissioned by the Government of Burma into credit and agriculture in the decade preceding the Second World War. These enquiries tended to draw heavily on the Calvert Committee in discussing cooperative credit, and seldom disagreed on questions of detail. In terms of the 'bigger picture', however, on support for the principle of 'cooperation' itself, and on the appropriate role of government, there were differing views, harbingers of the ideological divides ahead.

The most comprehensive report into Burma's monetary and financial system ever commissioned, the Burma Provincial Banking Enquiry Report (BPBE), was tabled in 1930, mere months after Calvert. The BPBE was in agreement with Calvert on most the details, and cited much from it, but its findings highlighted that, at least at this stage, 'cooperation' as an organising principle for the allocation of credit in Burma continued to enjoy strong support in official circles. The BPBE warned that whilst it would be 'a mistake to make a fetish of co-operation', it remained 'in Burma…the proper basis on which to build'. In some respects a defence of the liberal (often labelled 'laissez-faire' in the context of Burma) traditions of economic policy under British rule in Burma, the BPBE remained suspicious of Government involvement in the cooperative sector. According to the BPBE, '[i]n Burma the character of the people is such that a system of official control cannot succeed' (Government of Burma 1930a:176). The appropriate role of the Government in the internal organisation of a Credit Society was to create 'rules setting reasonable bounds to the sphere in which *the Society exercises its independence and self-government* (Government of Burma 1930a:176, emphasis added).

In 1937 Burma was granted what was called 'responsible parliamentary government'. The British Governor retained pre-eminent power, exclusive authority on certain issues (including foreign relations and defence), and the right to veto all laws – but much in the way of domestic policy passed to the Governments formed out of the new Burmese legislature. From 1937 and until the Second World War three governments were formed – under Ba Maw, March 1937 to February 1939, U Pu, February 1939 to September 1940, and U Saw, September 1940 to (effectively) December 1941. All three Governments would attempt to enact various measures designed to achieve agricultural and credit reform. However it was the first administration, under Ba Maw, that was the most energetic. On coming to power in 1937 it appointed a 'Land and Agriculture Committee' (LAC) with a wide remit for investigation and advice. The LAC was a mix of Burmese and British officials, with the former in a strong majority. It was chaired by U Pu, then Minister of Agriculture and Forests and consisted of U Htoon Aung Gyaw, the Minister of Education, James Baxter, Financial Adviser to the Government, U Tin Tut of the ICS, U Tin Gyi, the Registrar for Cooperative Societies, B.O Binns, Commissioner of Settlements and Land Records, J.P. Buchanan, Administrator of Government Estates, U Ba Tin, Deputy Registrar for Cooperative Societies and U Maung Gale, the retired Deputy Commissioner (Government of Burma, 1938).

The LAC was charged with two main tasks – to examine and report on i) 'all questions pertaining to the ownership of land and in particular to advise on the measures to…facilitating and regulating the acquisition and retention of land by the agriculturalist; ii) 'the problems arising from the indebtedness of the agriculturalist and…on measures necessary to secure the establishment of an organised system of agricultural finance' (Government of Burma 1938: *i-ii*). The Committee ultimately produced four reports: Part I, Land Tenancy; Part II. Land Alienation; Part III; Agricultural Finance; Part IV, Regulation of Money Lending. Part IV was not completed until the eve of the Japanese invasion.

Cooperative credit was the primary subject of Part III of the Report. As with the BPBE, the LAC rarely took issue with the specific measures recommended by Calvert. Of all the official reports that dealt with the problems of cooperative credit, however, the LAC was by far the most critical of the broader picture, and of a movement it regarded as a 'premature creation' (Government of Burma 1938:96). In what can only be described as robust language, it declared that

> it is hardly too much to say that the co-operative ideal was put before [Burma]…with the fervour of a new revelation which they were bribed to accept. Co-operation must at one time have seemed to the villager like money for nothing (Government of Burma 1938: 100).

Yet, the LAC declared itself in favour of the extension of cooperative credit in Burma – going so far to say that 'no other means of getting controlled credit to the small cultivator…has yet been devised' (Government of Burma 1938:109). Consistent with the caution above, however, it urged a certain modesty of aims, adopting a tone of prosaic practicality that was a self-conscious rejection of the aspirations of the past:

> We hope that co-operation will not again be preached as a faith, a religion of celestial origin but as a humdrum matter of business for the satisfaction of purely celestial needs (Government of Burma 1938:100).

VIII. Conclusion

In the first two decades of the twentieth century, cooperative credit was zealously promoted as the solution to two of the most serious and intractable problems in the political economy of colonial Burma – namely, the growing indebtedness of the cultivator and, as a direct consequence of this, the increasing alienation of their land to non-agriculturalist (and primarily non-resident) moneylenders. Adopted from models that originated in Europe, but as modified and apparently successfully employed in other provinces of British India, Burma's cooperative Credit Societies appeared to their advocates as ideal institutions not only to provide credit, but to instil in their members the virtues of a modern, capitalist, society. This was not to be. The principles behind Burma's cooperative credit system were sound, but their implementation was not. A system constructed around a spirit of 'cooperation' and 'self-help' derived from its members was, in practice, a system that was imposed from above and a system in which responsibility and accountability were notable only by their absence. A top-heavy and overly-layered structure of institutions was likewise a feature of Burma's cooperative system, and tellingly indicative of a movement without sincere grassroots support. Established with the best of intentions, the experiment of cooperative credit in Burma was a failure. Sadly, it would not be the last time that mis-direction from the top would impair the creation of viable financial institutions in Burma.

References

Official

Government of Burma 1920, *A Handbook of Co-operation for Burma,* Rangoon, Superintendent of Government Printing.

Government of Burma 1929, *Report of the Committee on Co-operation in Burma, 1928-29* (the Calvert Report), Rangoon, Superintendent of Government Printing.

Government of Burma 1930a, *Report of the Burma Provincial Banking Enquiry Committee, 1929-30: Volume I,* Rangoon, Superintendent of Government Printing.

Government of Burma 1930b, *Report of the Burma Provincial Banking Enquiry Committee, 1929-30: Volume II; Surveys, Appendices and Questionnaire,* Rangoon, Superintendent of Government Printing.

Government of Burma 1938, *Report of the Land and Agriculture Committee, Part III: Agricultural Finance; Colonisation; Land Purchase,* Rangoon, Superintendent of Government Printing.

Government of Burma 1939, *Report of the Riot Enquiry Committee,* Rangoon, Superintendent of Government Printing.

Government of the Union of Burma 1950, *The Law and Principles of Co-operation in Burma,* Rangoon, Superintendent of Government Printing.

Government of India 1915, *Report of the Committee on Co-operation in Burma* (the Maclagan Report), Simla, Government of India.

Knappen Tippetts Abbett McCarthy, Engineers 1953, *K.T.A. Comprehensive Report, Economic and Engineering Development of Burma,* Rangoon, Knappen Tippetts Abbett McCarthy, Engineers, in association with Pierce Management, Inc., and Robert R. Nathan Associates.

Journals and Monographs

Bannerjee, A., Besley, T. and T. Guinnane 1994, 'Thy neighbor's keeper: The design of a credit cooperative, with theory and a test', *The Quarterly Journal of Economics,* vol.109, no.2, pp.491-515.

Bauer, P. 1991, *The Development Frontier,* Cambridge, Mass., Harvard University Press.

Binns, B.O. 1946, *Agricultural Economy in Burma,* Rangoon, Government of Burma Printing and Stationary.

Bonus, H. 1986, ‘The cooperative association as a business enterprise: A study in the economics of transactions’, *Journal of Theoretical and Institutional Economics,* vol.142, pp.180-207.

Calvert, H. 1959, *The Law and Principles of Cooperation,* Calcutta, Thacker Spink and Co.

Chakravarti, N.R. 1971, *The Indian Minority in Burma,* London, Oxford University Press.

Churchill, C. (ed) 1998, *Moving Microfinance Forward: Ownership, Competition and Control of Microfinance Institutions,* Washington D.C., MicroFinance Network.

Cooper, C.L. 1959, *Moneylenders and the Economic Development of Lower Burma - An Exploratory Historical Study of the Role of the Indian Chettyars,* unpublished doctoral dissertation, The American University, Washington, D.C.

Darling, M. 1932, *The Punjab Peasant in Prosperity and Debt,* 3rd Edn, Bombay, Oxford University Press.

Darling, M. 1947, *The Punjab Peasant in Prosperity and Debt,* 4th Edn, Bombay, Oxford University Press.

Fisher, T. and M.S. Sriram, 2002, *Beyond Micro-Credit,* New Dehli and London, Vistaar Publications in Association with Oxfam and New Economics Foundation.

Furnivall, J.S. 1956, *Colonial Policy and Practice,* New York, New York University Press.

Gorton, G. and F. Schmid 1999 ‘Corporate governance, ownership dispersion and efficiency: Empirical evidence from Austrian cooperative banking’, *Journal of Corporate Finance,* vol.5, pp.119-140.

Guinnane, T.W. 1997, ‘Regional organizations in the German cooperative banking system in the late 19th century’, *Research in Economics,* vol.51, pp.251-274.

Harvey, G.E. 1946 *British Rule in Burma: 1824-1942,* London, Faber and Faber.

Khin, San Yee 1997, *Cooperatives in Myanmar: Performance and Perspective,* Kiel, Wissenschaftsverlag Vauk Kiel.

Kumar, D. (ed) 1983, *The Cambridge Economic History of India: Volume II; c. 1750 – c. 1970,* Cambridge, Cambridge University Press.

Ledgerwood, J. 1999, *Micro-finance Handbook: An Institutional and Financial Perspective,* Washington D.C., The World Bank.

Mya Maung 1965, 'Agricultural co-operation in Burma: A study on the value-orientation and effects of socio-economic action', *Social and Economic Studies,* vol.14, pp.321-338.

Ray, R.K. 1995, 'Asian capital in the age of European domination: The rise of the bazaar, 1800-1914', *Modern Asian Studies,* vol.29, no.3, pp.449-554.

Robert, B.L. 1983, 'Agricultural credit cooperatives, rural development, and agrarian politics in Madras, 1893-1937', in Von Pishke, J.D, D.W Adams and G. Donald (eds) 1983, *Rural Financial Markets in Developing Countries: Their Use and Abuse,* Baltimore, Johns Hopkins Press for the Economic Development Institute of the World Bank, pp.354-362.

Robinson, M.S. 2001, *The Microfinance Revolution: Sustainable Finance for the Poor,* Washington D.C., The World Bank.

Rudner, D.W. 1994, *Caste and Capitalism in Colonial India,* Berkeley, University of California Press.

Siegleman, P. 1962, *Colonial Development and the Chettyar: A Study in the Ecology of Modern Burma, 1850-1941,* unpublished doctoral dissertation, University of Minnesota.

Stiglitz, J.E. 1990, '*Peer* monitoring in credit markets', *World Bank Economic Review,* vol.IV, pp.315-366.

Tun Wai 1953, *Burma's Currency and Credit,* Orient Longmans, Bombay.

Von Pishke, J.D, D.W Adams and G. Donald (eds) 1983, *Rural Financial Markets in Developing Countries: Their Use and Abuse,* Baltimore, Johns Hopkins Press for the Economic Development Institute of the World Bank.

Wickizer, V.D. and M.K. Bennett 1941, *The Rice Economy of Monsoon Asia,* Stanford, Stanford University Press.

Wolff, H.W. 1893, *People's Banks: A Record of Social and Economic Success,* London, Longmans Green.

Wrench, G.T. 1939, *The Restoration of the Peasantries,* London, C.W. Daniel Company.