British Banks in Egypt: Exploitation or Coordination
The Case of the Ionian Bank, 1907-1956
Akram Beniamin
Henley Business School, University of Reading, United Kingdom

ABSTRACT
The political economy literature on the history of foreign banks in the developing countries of Africa, Asia and Latin America has held a stereotyped view on the policies and behaviour of these banks. Foreign banks have often been part of the context of the discussion on colonisation. For instance, British overseas banks have been charged in many countries with being collusive imperial agents that exploited the underdeveloped host countries through extracting large profits out of their operations in these countries.

Through the prism of the Ionian Bank, a British overseas bank, this paper aims to better understand the business of the foreign commercial banks in Egypt during the first half of the twentieth century in relation to financing the Egyptian cotton industry and evaluates the allegations of the exploitive behaviour. British banks in Egypt were different from the typically well-covered British overseas banks, the historical leaders in financing foreign trade. They neither enjoyed any special privileges, nor did they finance foreign trade. They transacted mostly with indigenous borrowers. This was in sharp contrast to other British banks that adopted various strategies to deal with the indigenous sector. In China, for example, they employed compradors; in Africa, they kept themselves away from native merchants and restricted their activities to expatriate firms.

The cotton business had an international character, and was a globalised commodity. It involved a complex global supply chain of different nationalities starting from the cotton fields in the Egyptian villages and ending in the textile mills in Europe. Employing the economic notion of coordination, the paper illustrates the instrumental role played by the foreign banks in this chain. The Egyptian banking sector was competitive and this ensured that no single bank enjoyed a first-mover advantage or monopolistic position. Furthermore, the banking business was conducted through a branching system that was characterised by personalised networks, and this in turn constrained bank growth.
Introduction

The political economy literature on the history of foreign banks in the developing countries of Africa, Asia and Latin America has, to a large extent, held a stereotyped view on the policies and behaviour of these banks (Bostock, 1991, p. 157). Research by radical development and dependency theorists has often charged the European banks of being collusive and imperial agents that exploited the underdeveloped host countries through extracting large profits out of their operations in these countries (e.g. Odle, 1981; Austin and Uche, 2007).

British overseas banks have occupied a special position at the heart of these debates on the African continent and the Middle East. The history of these banks in Africa has been covered as part of the imperial history paradigm (Verhoef, 2017, p. 13). They have been criticised for serving the colonial administration and restricting their activities to other expatriate firms at the expense of the indigenous economy (Hopkins, 1970; Jones, 1987; Uche, 1996; Austin and Uche, 2007). However, some conclusions were derived without considering the precise functions and the actual performance of these banks. Profitability of such banks, for example, has been a contentious area where objective criteria for evaluating performance have not been clear (Hopkins, 1976, p. 285).

Modern history literature on Egypt, one of the largest countries in both Africa and the Middle East, has treated foreign banks as actors in a larger context of the country’s quest for political and economic development. Marxist and dependency theories have been extensively tested within a predominant political economy framework. This body of research, understandably, has not overlapped with the issues and theoretical underpinnings commonly employed in business history research.

Up to the 1950s, the banking system of Egypt was composed of commercial banks that focused mainly on financing cotton cultivation and movement, and mortgage banks. Egyptian scholars and intellectuals often made over generalisations on the detrimental impact of these foreign banks on the Egyptian economy. For instance, Fouad Morsy, who wrote extensively on banking and money in Egypt, argued that these banks fledged out of imperial economic needs rather

---

1 For the first half of the twentieth century, see for example Eric Davis (1983) on the emergence of Banque Misr, the first indigenous bank in the country; Robert Tignor (1984) on the positive structural change of the Egyptian economy effectuated by the foreign entrepreneurs residing in Egypt; Robert Vitalis (1995) on the conflicts between foreign and indigenous business groups.
than emerging out of the needs of the Egyptian economy (1971). Therefore, they were a vehicle to advance imperialism and, in the British case, to advance the interests of Lancashire industrialists. According to Morsy, such banks exploited and pillaged the country’s wealth.

This paper is concerned with the activities of the foreign commercial banks that operated in Egypt during the first half of the twentieth century. Given the lack of aggregate data on these banks, this study is conducted through an extensive archival research on the experience of one of the British overseas banks in Egypt, the Ionian Bank, between 1907 and 1956. Through the prism of the Ionian Bank, as a case study, the paper aims to better understand the business of foreign commercial banks in Egypt in relation to the Egyptian cotton industry and evaluates the allegations of the exploitive behaviour and the consequent high profits these banks made. This entails two connected pillars. The first one explains the cotton supply chain and the precise role played by these banks within this chain. The enquiry is placed within a wider context of how the Egyptian cotton market worked and how coordination between the different actors in the cotton supply chain was maintained. The second pillar is devoted to the banking sector in Egypt. Through the lens of the Ionian Bank, it discusses how banking business was conducted.

The contention of this paper is that foreign banks were not simply colonial exploiters. This is for three main reasons. Firstly, these banks played an instrumental and inevitable role in the cotton supply chain. Secondly, the Egyptian banking sector was competitive and the keen competition ensured that no single bank enjoyed a first-mover advantage or monopolistic position. This competition posed risks that, in the case of the Ionian Bank, were beyond the Bank’s control and negatively affected the Bank’s performance, which was shaped by a trade-off between opportunity and risk appetite. Thirdly, the banking business was conducted through a branching system that was characterised by personalised networks, and this in turn constrained bank growth.

This paper is intended to contribute to three bodies of literature. Firstly, it contributes to the economic and financial history of Egypt and the Middle East on foreign banks. Detailed case studies on individual foreign banks in Egypt, using the corporate archives of these institutions,

---

2 The business of the British banks in Egypt was put in a broader context in Geoffrey Jones’ study (1993) on British multinational banks.
have been absent. Therefore, robust evidence on the history of these banks has been lacking. Although foreign banks were eminent in Egypt’s modern economic history, we know very little about the exact function these banks served, how they conducted their business, and their actual performance. In addition, research on the history of British overseas banks in the Middle East has been very limited. This includes Jones (1986; 1987) on the Imperial Bank of Persia and its successor the British Bank of the Middle East, and Wilson (1987) on the Eastern Bank in the Arab Gulf. The history of the Ionian Bank in Egypt differs from the point of departure of these studies, which was the monopoly positions these banks enjoyed in Iran and the Arab Gulf respectively.

Secondly, the study adds to the literature on the Egyptian cotton industry. Owen (1969) remains the only comprehensive monograph on the development of the cotton sector in Egypt between 1820 and 1914. Bank archives were not available to him at the time of his writing. Accordingly, he did not consult any corporate archives of the banks that were involved in financing the Egyptian cotton. Moreover, his main line of narrative was around the dependency theory and whether the British placed Egypt as a peripheral country specialised in cotton export. Therefore, the current study offers new perspectives on an old topic and on an important commodity market that has not been systematically studied using the concepts of supply chain and economic coordination.

Thirdly, the paper extends the limited literature on the Ionian Bank. Although the Bank in Egypt was amongst the top financiers of the Egyptian cotton, no single study has traced its history in Egypt. Cottrell (2007) thoroughly covered the history of the Bank since its inception in the Ionian Islands in 1839 until 1864. Phylaktis (1988) traced the developments in the Cyprus banking sector, where the Ionian Bank was one of the main players, between the late nineteenth century and 1959. Apostolides and Gekas (2012) studied the relationship between the Ionian Bank and the British authorities until the 1920s. The focus of these studies was on the Bank’s operations in Greece and Cyprus where it maintained a monopolistic, or at least, very dominant position. The current paper differs in the overall context as the Bank did not enjoy any privileged position in the Egyptian market.

---

3 The only detailed archival study on the history of an individual financial institution in Egypt, written in English, is Byron Cannon (2001) who examined the mortgage lending of Crédit Foncier Égyptien, the largest mortgage lender in Egypt, between 1880 and 1914.
Lastly, this study contributes to the historiography of British banking overseas.⁴ A common concern of many studies on British overseas banks has been to explain why these banks in the twentieth century lost their monopolistic positions they had established in the nineteenth century (e.g. Jones, 1986; 1987; Phylaktis, 1988). The history of the Ionian Bank in Egypt was fundamentally different in many aspects from the majority of British overseas banks that were comprehensively studied by Jones (1993).

British overseas banks globally benefited from the first-mover advantage and thrived in the absence of competition in underdeveloped host countries.⁵ At least until the early years of the twentieth century, these banks were mostly established by means of monopoly concessions and exclusive privileges granted by host governments such as note issuing. In response later to the growing competition from the fledging indigenous financial institutions, these banks tried to co-operate or even collude rather than to compete. This included agreements on levels of interest rates charged and gentlemen agreements on not poaching other banks’ customers (Jones, 1993, p. 203; Austin and Uche, 2007). This was seen as the best strategy to contain the new entrants. The Ionian Bank in Egypt, in contrast, never enjoyed a monopolistic position in any instance. It engaged from the very beginning in severe competition against a large number of foreign banks from different nationalities, and there were room neither for cooperation nor collusion.

British overseas banks enjoyed supremacy in financing foreign trade through exporting raw materials and primary commodities from the underdeveloped countries, and importing manufacturers from Britain or elsewhere. In many places such as Latin America and Asia, later on, these banks diversified their activities beyond foreign trade finance and became more involved in domestic lending. However, the former remained, by and large, the core business (Jones, 1993, pp. 89-93). The Ionian Bank along with the other foreign commercial banks in Egypt were not foreign-trade finance banks. They deliberately specialised in domestic lending for cotton cultivation and movement.

---

⁴ British overseas banks as leaders in introducing multinational banking and their role in financing foreign trade have been well documented in the literature dating back at least to the general surveys on these banks by Albert Baster (1929; 1935).

⁵ Maybe the exception here is the case of China in the nineteenth century. Brown (1990) showed that Chinese business groups had conducted banking activities before the British banks penetrated the country.
When British overseas banks transacted with the indigenous sector in host countries, in China for example, they did that through hiring indigenous compradors. These intermediaries were responsible for transacting with the indigenous community that had very different language and business cultures. The compradors were also responsible for recruiting local staff, paying for them, and were financially liable for any shortages caused by them. In addition, the compradors frequently engaged in business on their own account, and had to provide security and a guarantor for British overseas banks before being nominated as compradors (Jones, 1993, pp. 91-92). Consequently, the comprador was an agent rather than an employee of the bank. In Africa, the British banks kept themselves away from the indigenous merchants and restricted their activities to expatriate firms (Jones, 1993, p. 93; Uche, 1996; Austin and Uche, 2007). Both strategies were different from what the foreign banks did in Egypt as they transacted mostly with native borrowers and employed local representatives in the Egyptian provinces who were employees of the banks.

This study does not cover the entire history of the Ionian Bank in Egypt. Business history research is not meant to say everything about the institution it discusses (Jones, 1986). Rather, specific themes and issues have to be carefully selected for the sake of the entire narrative and purpose. Foreign banks in Egypt supported the development of the Egyptian cotton industry, the main source of economic prosperity in the country at that time, through providing means of finance. This paper, however, does not engage with the debate of whether the developments made in producing, financing and marketing the Egyptian cotton was in the country’s favour; as we do not know what the other path to development would have been, if these banks had not existed in the country.

The primary source of data is the Ionian Bank’s own records held by the British Library of Political and Economic Science. The materials consulted include reports on annual general meetings, Egyptian branch periodical reports to the head office and correspondences between the management in London and the top management in Egypt. This was supplemented by other archival materials from the Bank of England Archive and the British National Archives. Secondary materials from a range of sources were consulted.

The remainder of this study is organised in four sections. The following section sets the context by providing a brief overview of the origins of banking in the modern Egyptian history. The third section explains how the cotton market was organised, how did it function, what role
played by the various actors involved in the cotton supply chain. The penultimate section gives an account on the Ionian Bank in Egypt and it discuss the agency system and its impact on the business of the Bank. This section flows to position the Ionian Bank’s performance within a discussion on the competitiveness of the Egyptian banking sector. The final section concludes.

**Banking in Modern Egyptian History**

Egypt had remained part of the Ottoman Empire until 1914 when it was declared a British Protectorate. The country lacked an organised financial sector, at least until the end of 1850s. The Islamic ban on usury made banking business not preferable in the country. Poor per capita income negatively affected volumes of personal savings, and thus no domestic funds were available to be channelled into a formal banking sector. Financing trade, and more generally the functions performed by banks, were handled by residing foreigners, notably Greeks, Jewish and Levantine acting as merchants and moneylenders.

The unique position of cotton in the modern Egyptian history was established during the American Civil War (1861-1865) with the cessation of American cotton supplies to Europe. For the next decades, cotton would remain the main source of export, leading the Egyptian economy to be characterised as a single cash crop export economy. Following the boom of the 1860s, finance was needed on all levels, from the small cultivators up to the government that needed to find sources to finance large infrastructure projects to further advance the cotton cultivation (Tignor, 1981). On the other hand, the opening of the Suez Canal in 1869 marked a new era for Egypt as a strategic location in the centre of international trade movement.

The country looked like a potentially lucrative field for foreign capital and its financiers. Across the Ottoman Empire, Egypt and in particular Alexandria, was the most important financial centre, hosting the largest number of foreign banks during the nineteenth century. Foreign banks entered Egypt in two waves. Banks in the first wave lent to the rulers to meet their innumerable financial needs (Crouchley, 1936). Borrowing continued on a massive scale to repay old debts and to finance new infrastructure projects, and the country was hit by a huge

---

6 A British protectorate was governed by indirect British rule. The status of the ruler would be acknowledged and the nationals of the protectorate would remain subject to this ruler rather than the British monarch.

7 Although the production of the Egyptian cotton was much smaller than that of the U.S. or India, as of 1914, Egypt produced 75% of total world production of the long staple cotton, the finest produce (Yousef, 2000).

8 European banking in the Ottoman Empire and the Middle East during the late nineteenth century was briefly studied by Jacques Thobie (1991).
foreign debt burden in the 1870s.\textsuperscript{9} The foreign creditors, driven by the deteriorating solvency of the country, founded the Caisse de la Dette Publique in 1876 to act as an exchequer office for the government (National Bank of Egypt, 1948, p. 13). With the financial stability promoted by the Caisse and the growing cotton export, the second wave of foreign banks entered the country. The predominant activities of these banks centred on the cotton business, either through financing cotton cultivation and movement or financing mortgages on agricultural lands. Up to the First World War, mortgage and commercial banking constituted almost 49\% of total capitalisation of joint stock companies.\textsuperscript{10}

In the early years of the twentieth century, the value of exported cotton increased significantly driven by strong international demand. Furthermore, the British Administration, following the occupation of Egypt in 1882, was keen to increase the cotton cultivated area; therefore, infrastructure projects and transportation links were developed to serve the cotton market. It was estimated that cotton exports and foreign imports increased by 350\% between 1880 and 1910.\textsuperscript{11} Consequently, an economic boom took place between 1904 and 1907. Large French, German and Greek banks entered the country along with numerous smaller French banks (Baster, 1935, p. 71). Between 1900 and 1907, 149 joint stock companies were founded, and a considerable number of them were banks and mortgage companies (Tignor, 1981). Many of the stocks and bonds of these firms were traded in London and, to a lesser extent, Paris.\textsuperscript{12}

Until 1956, the Egyptian banking system, with the exception of only Egyptian bank, Banque Misr, remained fully dominated by foreign banks. The largest European countries either investing in Egypt or having a sizeable base of residents: Britain, France, Belgium, Greece and Italy had their own banks to look after their nationals’ affairs in Egypt. Following the Suez Crisis and the Israeli-British-French invasion of Egypt in 1956, all foreign banks in the country were destined to full sequestration of their assets, where a new era in the Egyptian banking sector started. Table (1) below lists the main banks established in Egypt between the second half of the nineteenth century and 1956.

\textsuperscript{9} See David Landes (1958) on foreign banking in Egypt during this period. He focuses on the crucial years 1860-1866 when public borrowing reached unprecedented levels.
\textsuperscript{10} Egyptian Ministry of Finance, Statistics Department. (1928). [Statistitique des Sociétés Anonymes par actions].
\textsuperscript{11} Egyptian Ministry of Finance, Statistics Department. (1910). [Annuaire Statistique de l'Egypte]. p.234
Table (1): Major Banks Operating in Egypt before 1956

<table>
<thead>
<tr>
<th>Foundation Year in Egypt</th>
<th>Bank</th>
<th>Ownership</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1856</td>
<td>The Bank of Egypt</td>
<td>British</td>
<td>Commercial</td>
</tr>
<tr>
<td>1864</td>
<td>Imperial Ottoman Bank</td>
<td>Anglo-French</td>
<td>Agricultural</td>
</tr>
<tr>
<td>1864</td>
<td>Anglo-Egyptian Bank (later Barclays DCO)</td>
<td>British</td>
<td>Foreign trade</td>
</tr>
<tr>
<td>1905</td>
<td>Comptoir National d'Escompte de Paris</td>
<td>French</td>
<td>Commercial</td>
</tr>
<tr>
<td>1874</td>
<td>Crédit Lyonnais</td>
<td>French</td>
<td>Commercial</td>
</tr>
<tr>
<td>1922</td>
<td>Banco di Roma (later Banco Italo-Egiziano)</td>
<td>Italian</td>
<td>Commercial</td>
</tr>
<tr>
<td>1880</td>
<td>Crédit Foncier Egyptien</td>
<td>French</td>
<td>Land mortgage</td>
</tr>
<tr>
<td>1887</td>
<td>Cassa di Sconto e di Risparimo (later Banco Italo-Egiziano)</td>
<td>Italian</td>
<td>Commercial</td>
</tr>
<tr>
<td>1896</td>
<td>Banque d’Athenes</td>
<td>Greek</td>
<td>Commercial</td>
</tr>
<tr>
<td>1898</td>
<td>National Bank of Egypt</td>
<td>British</td>
<td>Commercial &amp; quasi central bank</td>
</tr>
<tr>
<td>1902</td>
<td>The Agricultural Bank of Egypt</td>
<td>British</td>
<td>Agricultural</td>
</tr>
<tr>
<td>1904</td>
<td>Banque d’Orient</td>
<td>Greek</td>
<td>Commercial</td>
</tr>
<tr>
<td>1906</td>
<td>Deutsche Orientbank (later Dresdner Bank)</td>
<td>German</td>
<td>Commercial</td>
</tr>
<tr>
<td>1907</td>
<td>The Ionian Bank</td>
<td>British</td>
<td>Commercial</td>
</tr>
<tr>
<td>1912</td>
<td>Banque Belge pour l'Etranger (later Banque Belge et Internationale en Egypte)</td>
<td>Belgian</td>
<td>Commercial</td>
</tr>
<tr>
<td>1920</td>
<td>Banque Misr</td>
<td>Egyptian</td>
<td>Universal</td>
</tr>
<tr>
<td>1924</td>
<td>Banca Commerciale Italiana per l'Egitto</td>
<td>Italian</td>
<td>Commercial</td>
</tr>
<tr>
<td>1931</td>
<td>Credit Agricole d'Egyptie</td>
<td>Egyptian &amp; Foreign</td>
<td>Agricultural</td>
</tr>
</tbody>
</table>

Source: compiled from National Bank of Egypt (1948)

The choice of the Ionian Bank as a case study of foreign commercial banks in Egypt is for a number of reasons. Archives of some French and Italian banks might exist. However, the materials, obviously, are not written in English. The three major British banks operating in Egypt were the National Bank of Egypt (NBE), Barclays DCO, and the Ionian Bank. The National Bank of Egypt does not retain any archival materials. Meanwhile, the materials on the Egyptian business of Barclays DCO maintained by Barclays Bank archives are not as rich as the materials found in the Ionian Bank archive. In addition, the general history of Barclays DCO has been extensively covered by Crossley and Blandford (1975) and Ackrill and Hannah (2001). Whereas, historical scholarship on the Ionian Bank has been of short supply, as

---

13 NBE is currently the largest commercial bank in Egypt and is fully owned by the Egyptian government.
mentioned earlier. Therefore, writing on the Ionian Bank will offer new dimensions to the historiography of British overseas banks.

The Egyptian cotton Supply Chain
Cotton was sown and harvested by both small cultivators and large landowners in the Egyptian provinces / villages. Small cultivators largely sold their produce to middlemen and merchants. The latter were Greeks and natives who were living in the cotton-growing provinces. The majority of purchases were done against a payment in advance to the small producers against a pledge by the latter to provide a certain quantity of the cotton in the future (Owen, 1969, p. 208). After harvest, cotton had to be ginned in specialised factories. The main job of these factories was to separate the seed from the cotton and press it into bales before transporting it to Alexandria. Cotton had to be classified in the factory since ginning had to be carried out separately for each class of cotton.14

Commercial banks in Egypt refrained from lending to small cultivators given the inherited risks.15 Instead, they lent exclusively to the large and medium-sized landowners, along with middlemen and merchants in the provinces.16 Banks used two main methods of financing cotton. The first one was lending against actual cotton as a security. For instance, middlemen who had bought various lots from small cultivators, would often hand the cotton over in a ginning factory against a certificate of deposit, go to a bank, and borrow a loan.17 The second method was making advances on cotton still in the field against a promise to provide the bank with a certain amount of cotton during the season, and a pledge to sell the harvest through the bank as an agent.

Financing cotton cultivation took place between September and February of each year. The harvest was sold between February and May, during which, the majority of bank profits were earned. The profits consisted of the interest rates on loans and advances, and the commissions

14 The Greeks were the pioneer in opening the first mechanised factories for cotton-ginning in Egypt in the 1860s and maintained large investments in this business (Karanasou, 1999).
15 Small cultivators were seen as risky undertakings by banks for the lack of satisfactory collateral and the high administrative costs associated with lending to a large number of small borrowers.
16 A medium-sized landowner possessed 5 to 50 feddans; a large landowner had above 50 feddans (Owen, 1969, p. 222). The feddan is equivalent to about an acre.
earned on effecting the sale of the produce in Alexandria for clients’ accounts. In the majority of cases, banks was entrusted with the sale of clients’ cotton.

Banks, large landowners and large merchants transported their ginned cotton from the provinces to the cotton marketplace in Alexandria. This marketplace hosted a trading floor along with warehouses owned by banks and large landowners where the ginned cotton was stored. Sellers, mainly banks, and buyers, mainly export firms, had offices at this cotton market. Every morning during the cotton season, export firms would place the qualities and quantities they needed. Each exporter had a preference to a certain quality of cotton which corresponded to the type sold by this exporter abroad. Salesmen who were clever enough to recognise these preferences usually had an advantage over competitors. Sellers prepared their samples and sent them to the potential buyers. Speed and experience were essential. The first sample submitted would get attention, and each buyer would inspect a never falling flow of samples received from banks’ representatives, large landowners and merchants. Exporters were represented by the owners and partners of these exporting firms inspecting samples and making bids. Samples were sometimes examined by experts employed by the large export firms. The price was fixed based on the sample. After the market daily closure, the buyer, or the expert employed by him, would visit the warehouse to examine further samples. The buyer had to take possession of the cotton within two days (Schanz, 1913, p. 103).

The regulations of the cotton market was the responsibility of the Alexandria General Produce Association. This private organisation was founded in 1883 by the largest export firms and brokers in Alexandria. The Association was run by a committee of 16 members elected every year from the leading cotton buyers and sellers i.e. exporters, bankers and large merchants. The association fixed a system for grading the cotton of various kinds, supervised market prices and acted as a court of arbitration (Owen, 1969, p. 225). The Association maintained close relations with the International Federation of Master Cotton Spinners’ and Manufactures’ Associations whose members visited Egypt regularly. Regular contacts facilitated the

18 Ibid, P. 166.
20 Out of the 24 founding members, 15 were Greek, including the president and vice president (Kitroeff, 1989).
21 This federation was founded in 1904 in response to cotton shortage in Lancashire and expanded later to include cotton manufacturers of 16 different countries. Its main objective was to facilitate cooperation between cotton growers and cotton industrialists. [International Federation of Master Cotton Spinners’ and Manufacturers’ Association. (1913). [Official Report of the visit to Egypt in 1912]].
exchange of information between the different actors in the international cotton market and ensured acquainting the Egyptian growers with the requirements of the British spinners.

The table below lists the major cotton exporters in Alexandria and their export destinations during the cotton season 1911-1912. As the table shows, export firms in Alexandria were of different nationalities. The market was dominated, however, by the first four export firms listed in the Table. During this year, for example, these firms exported almost half of the Egyptian cotton. Exporters delivered cotton to many countries beyond their native nations as they were often specialised in certain cotton grades that might be of little demand in their native countries.

For example, R. and O. Lindemann, the largest German exporter in Alexandria, in 1912 exported more cotton to Britain and Russia than to Germany. In the same vein, British exporters in Alexandria traded with many countries. Their major destination remained, however, Britain as it was the largest importer of the Egyptian cotton.

<table>
<thead>
<tr>
<th>Name of Exporter</th>
<th>Nationality</th>
<th>Main Cotton Destinations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choremi, Benachi &amp; Co.</td>
<td>Greek</td>
<td>Britain, Russia, Germany, France, Japan</td>
</tr>
<tr>
<td>Carver Brothers &amp; Co. Ltd.</td>
<td>British</td>
<td>Mostly Britain</td>
</tr>
<tr>
<td>R. &amp; O. Lindemann</td>
<td>German</td>
<td>Britain, Russia, Germany, Austria</td>
</tr>
<tr>
<td>Peel &amp; Co. Ltd</td>
<td>British</td>
<td>Mostly Britain, followed by France</td>
</tr>
<tr>
<td>J. Planta &amp; Co.</td>
<td>Swiss</td>
<td>Britain, Italy</td>
</tr>
<tr>
<td>G. Frauger &amp; Co.</td>
<td>French</td>
<td>Britain, France, Germany</td>
</tr>
<tr>
<td>F. Andres &amp; Co.</td>
<td>German</td>
<td>Britain, Germany, France</td>
</tr>
<tr>
<td>Mohr &amp; Fenderl</td>
<td>Austrian</td>
<td>Britain, Russia, France</td>
</tr>
<tr>
<td>Pilavachi &amp; Co. Ltd</td>
<td>British</td>
<td>Mostly Britain</td>
</tr>
<tr>
<td>Reinhart &amp; Co. Ltd</td>
<td>Swiss</td>
<td>Mostly Britain, followed by France</td>
</tr>
</tbody>
</table>


Exporters in Alexandria had their own houses or agents in the cotton districts in Europe, or at least had connections with European merchant houses (Todd, 1934, p. 186). For instance, Carver Brothers & Co. Ltd., the largest British exporter in Alexandria, had its head office in London. Pilavachi & Co. Ltd was an English limited liability company whose registered

---


23 Up to the onset of the First World War, almost half of the Egyptian cotton was exported to Britain, the proportion went down gradually afterwards.

24 The Times. (29 March 1909).
office was in Liverpool. The Greek exporters in Alexandria were also well connected to Britain. For example, Choremi, Benachi & Co., the largest Greek exporter in Alexandria and one of the largest in the world, was registered in Britain and maintained an office in Liverpool. Cotton mills in Europe opted to secure their needs from one particular exporter, on whom they could rely that this exporter would send them same type of cotton each year (Livanos, 1939, pp. 60-61). In general, exporters bought the cotton in Alexandria based on orders placed by spinners aboard. To take the case of Carver Brothers, this firm received specific orders from spinners in Lancashire and then it bought the cotton in Alexandria to fill these orders (Owen, 1969, p. 210).

Exporters in Alexandria were financed by banks in Europe along with a limited number of foreign banks in Egypt. British banks in Liverpool and Manchester played the most important role in financing the export of the Egyptian cotton to Britain. These banks extended advances to merchant houses in Liverpool on cotton already in their hands i.e. collateral security, or against hedging the exposure in Alexandria. In this case, the advances were made on a certain quantity of cotton subject that the borrower was to show either that this cotton was hedged by forward sales to spinners or the sale of futures contracts either in Alexandria or Liverpool. The German firms had the same method of finance. R. and O. Lindemann, for example, enjoyed credit facilities from many banks in Germany.

Figure (1) below rationalises the system of cotton movement and finance. The diagram simplifies the process by focusing on exports to Britain only and the position of the British banks within the cotton supply chain. The diagram has two features: collocation and coordination. Firstly, as the figure illustrates, the different actors which were involved in the cotton supply chain were collocated in three regions. Cultivators, middlemen, banks’ agencies and the ginning factories were collocated in rural Egypt. Exporters, banks’ sales office in the cotton marketplace and bank head offices in Egypt were collocated in a metropolitan hub in Alexandria. Alexandria merchant houses abroad, banks in Liverpool, spinners and the British

---

26 The London Gazette. (6 September 1892); The Financial Times. (30 November 1908).
27 Carver Brothers used to borrow extensively from a local bank in Liverpool against cotton as security (Owen, 1969, p. 222).
30 Ibid.
Banks’ headquarters were collocated in Britain. Secondly, the diagram underlies the notion of coordination by including three types of flows within the chain. The first and second are the flows of cotton and finance respectively. The third one is the flow of information about demand and supply.

The first two types of flows are straightforward. The flow of the physical cotton started from the Egyptian provinces and ended in the spinning mills in Lancashire. This was in reverse direction to the flow of finance. The role of banks, both in Egypt and in Britain, was indispensable within the chain. For instance, had the banks in Britain stopped financing exporters, selling the Egyptian cotton would have been more difficult. Likewise, if the foreign banks operating in Egypt had cut their domestic lending to cotton cultivation and movement, cotton producing in Egypt would have suffered. The flow of information could be viewed as a cybernetic system of the economy where the commodity here is the information itself (Hayek, 1937; Richardson, 1960). The central argument advanced by these works is that information can explain how economic activities and coordination are maintained through intermediators, where retaining a high level of coordination impacts on how efficient an economy is (Casson, 1997).

**Figure (1): Cotton Supply Chain**

![Diagram of Cotton Supply Chain](image-url)
Information flew from the demand side i.e. the cotton spinners in Britain to the supply side i.e. the cotton growers in Egypt. To take the case of the Ionian Bank, its headquarters in London was in constant contacts with Liverpool merchant houses and had its sources of private information. Meanwhile, the requirements of Lancashire spinners were communicated to these merchant houses. The Bank’s London headquarters received a weekly private report from Reynolds & Gibson, a prominent cotton merchant in Liverpool, on spinners and their needs. In addition, the Bank’s managers in London visited Manchester and Liverpool regularly to meet with bankers there - the financiers of Liverpool merchant houses - in order to exchange information on the prospects of the Egyptian cotton both in Egypt and Britain. In essence, British banks in Egypt benefited from the position of their head offices in Britain, the largest importer of the Egyptian cotton.

In Alexandria, British banks acquired information from the Alexandria General Produce Association whose membership included bankers. As discussed earlier, this association maintained close contacts with the different actors in the international cotton market. Therefore, these banks were well-informed about the grading and price differentials of the various types of cotton. As these banks maintained presence in the three hubs of the Egyptian cotton business, they were at the centre of the coordination process given their ability to synthesise information from different sources.

The Ionian Bank in Egypt: Risks and Performance

The Ionian Bank was one of the earlier British overseas banks. It was founded in 1839 to finance international trade in the United States of the Ionian Island. The Bank operated exclusively in the Eastern Mediterranean region: the Ionian Islands (later Greece), Egypt and Cyprus. These countries were under informal British colonial rule throughout the period, although they all had, at least in theory, sovereign governments. This was perceived as a guarantee for a stable political environment and for anticipated privileges.

32 The Ionian Bank Manager, London. (1 January 1923). [Letter to P.N. Caridia]. IB, 24/1/9, BLPES.
33 Barclays DCO’s General Manager in Egypt, A.W. Jessop, was the Doyen of the Alexandria cotton bankers and served for some time as the Vice-President of the Alexandria General Produce Association (Crossley and Blandford, 1975).
34 Philip Cottrell (2007) extensively covered the history of the Bank in the Ionian Islands between 1839 and 1864 when the Ionian Islands were united with Greece.
The financial sector in the Ionian Islands was underdeveloped, and a British overseas bank was a profitable venture. Some years later, conditions changed in Greece. The Bank lost its monopoly of note issuing as the National Bank of Greece had been granted a second note issuing privilege in 1900. Competition from the latter was intensifying; and on the other hand, a national bankruptcy in 1893 was enough to reveal signs of weakness in the Greek economy. The Bank’s management looked for business opportunities elsewhere. The Ionian Bank’s chairman Falconer Larkworthy visited Egypt in 1905, as per the board’s request, to discover the prospects for the Bank to open a branch there with the aim of financing cotton and foreign trade. The final report prepared by Larkworthy was very promising and urged for the opening of a branch in Egypt as soon as possible based on his worries about competitors racing towards the country.35

When the Ionian Bank commenced its business in Egypt in 1907, it capitalised on its familiarity with the Greek commercial networks, taking advantage of the position this network maintained in Egypt. The size of the Greek community in Egypt grew progressively in the second half of the nineteenth century making them the largest foreign community in Egypt at the onset of the twentieth century (Karanasou, 1999). It was estimated in 1910 that one quarter of the population in Alexandria, the city with the majority of Egyptian trade, were Greeks.36 The Greeks almost completely dominated the cotton sector for many decades and they were prominent in each stage of producing and exporting cotton. Greek staff were eminent in the Egyptian branch of the Ionian Bank. The policy of the Bank was that an Englishman was to be at the top of management in Egypt. The second in command used to be a Greek of good standing.37 In addition, the cotton department, which was the most important unit for the Bank in Egypt, was headed by a Greek. As well as the Bank’s management in Alexandria, the majority of agents in the provinces were Greeks.

With staff of 49 and within five months from starting operations, the Bank’s financial resources were fully employed in financing cotton cultivation and movement.38 Within two years, seven branches / agencies were opened. Six out of them were in the delta region, and one in Upper

37 Caridia, P.N. (15 October 1922). [Report from the General Manager for London on Alexandria]. IB, 6/100, BLPES.
38 Ionian Bank - Report of Proceedings at the Ordinary and the Extraordinary General Meetings (7 April 1908), IB, 3/24, BLPES.
Egypt. The Bank’s business in Egypt grew rapidly within a short period, and within a few years, the Bank enjoyed a position among the top financiers of Egyptian cotton (Orbell and Turton, 2017, p. 295). The Bank’s management was very optimistic about the prospects of the country. The financial and mechanical arrangements for marketing and exporting the cotton crop in Egypt was believed to be better than arrangements in other cotton-producing countries such as the U.S., the country that produced more than one half of the world’s cotton supply.\(^{39}\)

The Ionian Bank’s management believed that a lucrative business had to come from a reasonable number of small clients rather than a few large ones.\(^ {40}\) Therefore, the Bank limited itself to offering cotton loans mainly to medium-sized middlemen between the Bank and the smaller cultivators. In some instances, the bank dealt with medium-sized cultivators rather than middlemen.\(^ {41}\) In all cases, the class of clients remained the medium-sized segment. The Bank lent in two ways: either extending advances against cotton deposited in ginning factories as a security, or advances on cotton still in the field. However, the latter method was entirely discontinued by the bank in 1930.\(^ {42}\) The Bank was reluctant to transact with large landowners and exporters, probably for their large financial requirements. The Bank lent to a limited number of exportes. However, these accounts were less profitable than the business of financing cotton in the provinces, and by 1922 all exporters’ accounts were closed down.\(^ {43}\)

*Cotton Lending & Agencies*

Local agents had to be employed in the provinces. Each agency consisted of the agent, a sub-agent, a cotton classifier, accountants, clerks, and collectors. The Bank’s agencies had to be situated in promising provinces in terms of cotton quality and productivity, and where competition was least keen. The Bank avoided long-term leases, so that agencies in districts in which circumstances had become less favourable could be easily closed and re-opened in more advantageous locations.\(^ {44}\) Business in unprofitable agencies was transferred to correspondents.\(^ {45}\)

---

\(^{39}\) Ionian Bank - Report of Proceedings of the Annual General Meetings (14 March 1911), IB, 2/6, BLPES.

\(^{40}\) Atkinson, H. (14 January 1923). [Letter to P.N. Caridia]. IB, 24/1/5, BLPES.

\(^{41}\) Caridia, P.N. (20 March 1930). [Letter to Colin Marshall]. IB, 6/84, BLPES; the only disadvantage of lending to cultivators rather than to merchants was that it took longer in the event of legal proceeding.

\(^{42}\) The Ionian Bank. (29 November 1932). [Memorandum summarising Mr. Dickson’s conversation with the committee and management in Alexandria]. IB, 6/97, BLPES.


\(^{45}\) Atkinson, H. (13 October1922). [Letter to P.N. Caridia]. IB, 28/2/1, BLPES.
The agent system in Egypt was somehow different from the classical definition of “agent” in the British banking system. In the UK, an agent was not typically an employee of the bank and maintained a degree of freedom to enter into loan agreements with borrowers on the bank’s behalf (Barnes and Newton, 2018). In the Egyptian case, the agency was a branch that was controlled either by a larger branch or directly by the head office. Therefore, the agent was, in simple terms, a branch manager.

The agents were predominantly Greeks who could speak Arabic. They had to be chosen for their competency and reliability. Loans were managed by such agents, and certain skills in advancing loans to the middlemen were needed. The agents had to enjoy local knowledge in order to fix the value of cotton tendered for an advance, and to determine the credit-worthiness of both the borrower and the guarantor. When the Bank extended credits in anticipation of the crop, the Bank’s agents had to ensure that the cotton contracted for with the Bank was sown by the client. They had to estimate the prospective yield and whether it would cover the promised quantity. They were responsible also for hiring competent and reliable classifiers to establish the grade of the cotton and supervise the crop during its ginning in factories. The classifier was the second highest paid in the agency after the agent.

Therefore, the efficiency of agencies was largely determined by the quality of the agents themselves. Larkworthy remarked to the shareholders in the 1912 annual meeting that “In regard to management, and to the question of up-country agents each bank has to find its own way out of the difficulty. Success or failure turns on its methods and on its choice of men of local experience, and on their prudence and faithfulness in adhering to instructions; and on the effectiveness of the bank’s system of inspection. As in other parts of the East, personality is everything in Egypt and the personal equation, or the liability of human agents, who are not altogether machines, to aberration, or to get out of gear, has always to be borne in mind”.

Theoretically, analysing the principal-agent problem can be extended to include the hierarchical relations at a lower level, rather than only the interests of stockholders versus managers (Lamoreaux and Raff, 1995, p. 4). Agency problems may limit firm expansion.

---

47 Caridia, P.N. (7 April 1923). [Letter to John Stavrildi]. IB, 6/100, BLPES.
(Arrow, 1985). As a firm expands in scale or scope, costs associated with agency will increase. One solution would be to limit the discretion enjoyed by agent (Casson, 1990, p. 22). In this instance, performance could be monitored and compared to given simple rules. Therefore, whether rules have been followed by delegates, could be easily established. In reality, however, and given the very nature of credit lending, judgement was an integral part of the process. It was impossible to set rules for every possible situation.

Judgment from the side of the Ionian Bank agents was inevitable. This in turn, complicated performance appraisal as it should be decided whether an agent’s judgment was sound. Therefore, rules were of little practical value, at least until the results were manifest at the end of the cotton season. And even at the end of the season, it was sometimes difficult to discover if instructions had been adhered to, for an advance might be made to the full estimated value of the cotton, and the quality turn out to be inferior, and yet owing to a rising market the sale might cover the advance.  

There were often tensions between the management in Alexandria and the agents in the provinces. A report on special inspection of the Egyptian branches in 1924 attributed the low turnover in that year to the limited autonomy enjoyed by the agents and to the excessive centralisation in Alexandria. Another inspection report in 1934 noticed that the business was run from Alexandria as each facility had to be approved by the management in Alexandria, usually over the telephone.

The foreign banks in Egypt did not expand aggressively and no bank tried to expand by mergers and Acquisitions for the sake of growth. This was in spite of the fact that there were no effective regulations in the Egyptian banking sector that prevented growth. The personal nature of the agencies system was likely the main reason behind this. The agency system was not a scalable model i.e. banks could not cope effectively with handling their agencies once a certain number of agencies was reached. In the Ionian Bank case, it strived to make more profits from the existing agencies rather than expanding through opening new agencies. Had the number of branches / agencies increased, the Bank would have had to embrace a highly formalised system.

50 The Ionian Bank - Report of Proceedings of the Annual General Meetings (19 March 1912), IB, 2/6, BLPES.
51 The Ionian Bank, London. (10 August 1924). [Special report on the inspection of the Alexandria office & Egyptian Agencies as at the 13th March 1934]. IB, 31/8/7, BLPES.
52 The Ionian Bank. (13 March 1934). [Inspection of the Alexandria Office & Egyptian Agencies]. IB 31/8/7. BLPES.
for managing branches. This includes standardised control systems and performance indicators so that authorities could be delegated with confidence. Table (3) below compares the number of branches of the Ionian Bank and Barclays DCO across years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Ionian Bank No of Branches / Agencies</th>
<th>Barclays DCO No of Branches / Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1909</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>1937</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>1941</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>1944</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>1952</td>
<td>7</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Stock Exchange Year-Book of Egypt; Annuaire des Sociétés Egyptiennes par Actions: various years.

*The data excludes the branches in Cairo and Alexandria as the focus here is on the branches in the cotton-growing provinces.

Given that banks in Egypt did not manage to impersonalise their relationships with their agencies, they were not akin to Chandler’s modern corporation (1962; 1977; 1990). For that reason, as the style of management remained informal, there was an internal constraint on growth. This is a typically classic example of the limited capacity of the firm to grow as posited by the resource-based view of the firm following the seminal work of Penrose (1959). This is in sharp contrast with, for example, the expansion of banks in Great Britain in the late nineteenth century and the merger movement where larger banks acquired numerous smaller banks (Capie and Rodrik-Bali, 1982; Newton and Cottrell, 1998). These domestic banks managed successfully to move from a personal relationships system towards codifying knowledge. Consequently, they were able to expand.

**Competition in the Banking Sector**

As mentioned earlier, the early years for the Ionian Bank in Egypt proved satisfactory. Agencies in the provinces, the selling office in the Alexandria cotton market, and the head office in Alexandria that managed both, had to be kept tuned to high level of efficiency and intelligent collaboration in order to ensure quick returns and good financial performance. The cotton business required a careful handling because of price fluctuations. The quicker the turnover, the more commissions and brokerage fees the Bank would earn. The lower the price of cotton, the larger must be the turnover to maintain same level of profits. The volume of

---

53 Caridia, P.N. (15 October 1922). [Report from the General Manager for London on Alexandria]. IB, 6/100, BLPES.
business was dependent on the size of the crop in a given season and on the proportion of the entire crop the Bank handled. The latter point was associated with the level of competition between banks.

A sharp drop in the cotton prices was witnessed in many instances. During World War I, the demand for the Egyptian cotton, and consequently its prices, dropped significantly. Furthermore, the British authorities cut Egyptian cotton exports to the enemies, and up to the First World War, almost 25% of the Egyptian cotton had been exported to those countries (Tignor, 1976). With the depression of 1929, cotton prices fell by 50%. Compared to its value in the late 1920s, cotton lost almost two-thirds of its nominal value between 1931 and 1933 (Hansen, 1991, p. 94). A slump in cotton prices meant that cultivators, middlemen and banks all suffered as large stocks would pile up both in the provinces and in Alexandria. Moreover, clients would suffer heavy losses, and this in turn would affect their solvency. The figure below shows the Bank’s profits on the left axis and the average price of the Egyptian cotton on the right axis across the years.

**Figure (2): The Ionian Bank’s Profits* & Average Cotton Prices**

Sources: bank’s profits: IB, 2/6 & IB, 2/7 & IB, 3/24; cotton prices: NBE (1948).
* Profits are before interest paid on head office loan. Up to 1917: Mid-January financial year-end (1917 ends in mid-January 1918); 1918-1921: December year-end; 1922-1935: August year-end; 1936 – Onwards: December year-end.
**Cotton price is for one cantar which is almost 100 lb (pounds).
Foreign commercial banks in Egypt focused on the same business of financing cotton cultivation and movement. When cotton prices had begun to drop, competition became more aggressive. The competition to obtain a large proportion of the cotton business led to generous rate cutting, especially by the Italian Banks and Banque Misr, the first Egyptian bank that was established in 1920. These banks secured large turnover by offering abnormal and blank credits with little or no margins, governed by loose terms, and at low interest rates. In the provinces, banks adopted low standards as banks’ employees went out into the villages touting for business and forcing money on the potential borrowers with loose credit conditions. Some of the smaller foreign banks, which were often represented by agents with no real banking experience, were bent on pushing business at any cost. During this period, the Ionian Bank policy remained conservative and the bank adopted a policy of watchful waiting in face of the excessive competition. The management in London held that view that “safety first”, even at the price of a temporary reduction of turnover. Table 4 below lists the main competitors to the Ionian Bank in the cotton lending.

### Table (4): Major Banks Competing against the Ionian Bank

<table>
<thead>
<tr>
<th>Nationality</th>
<th>Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>British</td>
<td>the Anglo-Egyptian Bank (later Barclays DCO); National Bank of Egypt</td>
</tr>
<tr>
<td>French</td>
<td>Comptoir National d’Escompte de Paris; Crédit Lyonnais</td>
</tr>
<tr>
<td>Italian</td>
<td>Banco Italno-Egiziano; Banca Commerciale Italiana; Cassa di Sconto e di Risparimo</td>
</tr>
<tr>
<td>Greek</td>
<td>Banque d’Athenes; Banque d’Orient</td>
</tr>
<tr>
<td>Egyptian</td>
<td>Banque Misr</td>
</tr>
<tr>
<td>German</td>
<td>Deutsche Orientbank</td>
</tr>
<tr>
<td>Belgian</td>
<td>Banque Belge pour l’Etranger</td>
</tr>
</tbody>
</table>


56 Commercial banks engaged, in a limited way, in ordinary banking business such as making advances on securities and other merchandise.
61 The Ionian Bank - Report of Proceedings of the Annual General Meetings (26 January 1926), IB, 2/7, BLPES.
Competition reduced bank returns; and some banks could not withstand the competition. Lloyds Bank, for example, commenced its business in Egypt in 1923, and since the Egyptian business was not lucrative to the Bank, it quickly withdrew from the country in 1926. During six months in 1926, Lloyds Bank ended with £3,000 profits on business with staff of over 100 employees and using £1.25 million of London money. The risks taken were out of all proportion to the profits earned where bad accounts and high expenses were believed to be the reason behind the Bank’s failure.

The numerous foreign banks operating in the country did not cooperate, at least because they were controlled from many different European capitals. Absent cooperation meant that no exchange of credit information or solidarity in times of financial anxiety were present. Moreover, these banks acted in a secretive way. For instance, Baster (1935, p. 72) found it impossible to obtain accurate figures of the total deposits held in the Egyptian banking sector. Some of these banks never publicised their annual reports. Only six banks in Egypt published their annual reports separating the results of financial activities in the country (Tignor, 1981, p. 115). The National Bank of Egypt, a British bank with some central banking functions, remained a quasi-central bank with part of its activities carried out as a central bank and the other part as an ordinary commercial bank. No law governed its central banking function (Issawi, 1963, p. 266). Therefore, the Bank neither acted as a lender of last resort nor did it control credit supply in the economy.

The impact of the inherited risks in the Egyptian banking sector was manifested in the profitability of the Ionian Bank throughout its years in Egypt. For instance, between 1907 and 1929 the average percentage earned on funds supplied from the head office, before deducting interest on these funds and before reserves, was 8%. Interest charged by the head office on their loans to Egypt was in the range of 5% to 6%. Results were, therefore, arguably low when taking into consideration the risks which always surrounded the business in Egypt.

The Ionian Bank in Egypt had to rely almost entirely on funds provided by the head office in London, either from own capital or borrowed funds. The scattered data on the deposits

---

64 Ibid
65 Between 1914 and 1947 when Egypt left the Sterling area, the Egyptian branches of the British banks borrowed Egyptian currency from the National Bank of Egypt against collateral in the form of British government securities deposited in London. The local currency proceeds would be used by the Egyptian branches of these banks to make
maintained by banks in Egypt shows the modesty of deposits in the Egyptian financial sector.\textsuperscript{66} Large domestic deposits came from the government departments and were mainly maintained by the National Bank of Egypt. Crédit Lyonnais, on the other hand, was the banker for the Caisse de la Dette, and held its deposits. There were no deposits of any significance made by the public with banks in Egypt. Some indigenous Muslim people avoided banks, following the Islamic principles of forbidding usury (Crouchley, 1936). Issawi (1947, p. 121) argued that the Egyptians did not entrust their savings to banks until World War II. Private savings and surpluses made by the indigenous population found their way into land purchase, or were turned into gold and jewellery for hoarding purposes (Tignor, 1981).

A comparison between the financial position of the Ionian Bank’s branches in Greece and Egypt reveals this problem. For instance, as of end of 1921, deposits in the Egyptian branch recorded 12\% of total liabilities, whereas deposits in Greece represented 28\% of total liabilities.\textsuperscript{67} In absolute figures, deposits in Greece recorded some of £800,765, compared to £28,976 for Egypt. Moreover, many of the deposits in Greece were for long maturity, two to three years or more.\textsuperscript{68} In contrast, the composition of liabilities in Egypt, apart from the head office loans, was skewed towards current accounts. These accounts were not reliable upon to the Bank in Egypt as they would swell during the slack season when money was not required, and would be withdrawn when it was most required by the Bank.\textsuperscript{69} Many people had cotton interests of some sort or another, so that they would want their money back during the cotton season.\textsuperscript{70}

Figure (3) below depicts the sources of funds for the operations in Egypt in 1930. Funds supplied from London were at a cost of 5\% p.a. Cost of domestic deposits were recorded at 4.7\%. p.a. An overdraft obtained from the National Bank of Egypt carried a cost of 7.17\% p.a.

\begin{footnotesize}
\begin{itemize}
\item [66] Deposits at Cassa di Sconto di Risparmio, the main Italian bank in the country, stood at £E 45,726 in 1930 compared to capital of £E 367,662 (Job. H.S. (17 June 1930). [Credit in Egypt]. Monthly Journal of the British Chamber of Commerce of Egypt, pp. 103-105).
\item [67] Author’s calculations based on: Caridia, P.N. (23 August 1922). [Letter to John Stavridi]. IB, 6/100, BLPES.
\item [68] Ibid.
\item [69] Ibid.
\item [70] Atkinson, H. (16 March 1922). [Letter to P.N. Caridia]. IB, 24/1/19, BLPES.
\end{itemize}
\end{footnotesize}
The profitability of British overseas banks were measured by Jones (1993) as published or real profits as a ratio of market value of paid-up capital or as a ratio of shareholder funds (paid-up capital plus published reserves plus retained profits). However, the current study measures profitability by relating profits to funds lent by the head office to the Egyptian branches. Apart from an overdraft line from the National Bank of Egypt along with a modest level of local deposits, the Bank had to rely largely on its head office for funding. The rationale behind the ratio, therefore, is that the head office could have invested these funds comfortably in London if the Egyptian business had not existed. The table below gives an account on the profitability of the Ionian Bank in Egypt between 1907 and 1929. Net profits are before reserves, as it could be the case that published reserves overestimated bad debts and losses.

**Table (5): % Earned on Capital supplied from the Head Office (before interest & Reserves)**

<table>
<thead>
<tr>
<th>Year</th>
<th>% Earned on HO capital</th>
<th>Year</th>
<th>% Earned on HO capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907</td>
<td>1.18%</td>
<td>1919</td>
<td>17.25%</td>
</tr>
<tr>
<td>1908</td>
<td>4.41%</td>
<td>1920</td>
<td>10.18%</td>
</tr>
<tr>
<td>1909</td>
<td>9.83%</td>
<td>1921</td>
<td>12.82%</td>
</tr>
<tr>
<td>1910</td>
<td>10.34%</td>
<td>1922</td>
<td>3.77%</td>
</tr>
<tr>
<td>1911</td>
<td>6.85%</td>
<td>1923</td>
<td>5.07%</td>
</tr>
<tr>
<td>1912</td>
<td>4.46%</td>
<td>1924</td>
<td>9.80%</td>
</tr>
<tr>
<td>1913</td>
<td>3.54%</td>
<td>1925</td>
<td>10.20%</td>
</tr>
<tr>
<td>1914</td>
<td>3.51%</td>
<td>1926</td>
<td>-2.17%</td>
</tr>
<tr>
<td>1915</td>
<td>7.14%</td>
<td>1927</td>
<td>7.09%</td>
</tr>
<tr>
<td>1916</td>
<td>11.63%</td>
<td>1928</td>
<td>8.55%</td>
</tr>
<tr>
<td>1917</td>
<td>13.16%</td>
<td>1929</td>
<td>10.90%</td>
</tr>
<tr>
<td>1918</td>
<td>13.29%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Conclusions
Through the prism of the Ionian Bank, this paper has analysed the business of foreign commercial banks in Egypt. Unlike the general literature portraying foreign banks in the country, and in developing countries in general, as mere manifestations of imperialism and exploitation of host countries, this paper shows that the history of these banks in Egypt was different than this rhetoric. They were certainly profit seekers. Given the very nature of the Egyptian banking system, however, it is evident that these banks faced many risks and challenges where performance was shaped by trade-off between opportunity and risk appetite.

These banks deliberately specialised in domestic lending for cotton cultivation and movement. The cotton business in Egypt required a special kind of coordination between the different actors. By carefully analysing the role played by each participant in the market, this paper has showed the indispensable and instrumental role of foreign banks in the cotton supply chain. In essence, flow of cotton, finance and information was mainly coordinated by these banks.

The Ionian Bank, along with the other foreign commercial banks in Egypt, used the same method of doing business. They employed local agents in the Egyptian provinces. The agency system meant that the managerial style remained informal. This in turn, posed an internal constraint on the potential growth of the successful banks.

To compare the case of the Ionian Bank in Egypt with the majority of British overseas banks, differences become eminent. The majority of British overseas banks, especially in the British Empire, were the first-mover and enjoyed exclusive privileges. They successfully adopted prevention strategies to discourage new competitors from entering the market through e.g. concessions (Casson and Lopes, 2013, p. 390). This was not available for the foreign banks in Egypt. These banks, including the Ionian Bank, were neither privileged with first-mover advantage nor did they enjoy any monopolistic advantage. Thus, bank performance was purely based on own strategies and efforts.

The Egyptian banking system was a highly competitive sphere, and unrestrained competition meant that no bank, or even a group of banks, were able to make monopolistic profits through cooperation or collusion. Therefore, the prediction of the neoclassical economic theory on the high monopolistic profits is not applicable to the Egyptian banking sector. This refutes, or at least is contradictory to, the notion of exploitation that certainly flourishes in the absence of
competition. Thus, the general claims that British overseas banks made substantial profits out of their operations in the Empire, are not generalizable to every bank under this category. Some banks of average size, such as the Ionian Bank, is a case in point. Its performance in Egypt was average, and in many years, the opportunity cost for the head office of transferring funds to Egypt was high.

This paper has departed from the political economy literature, and instead, has addressed the history of foreign banks in Egypt from a different perspective. It, therefore, does not offer a complete picture on foreign banks in Egypt. We hope that future research can synthesise the existing political economy literature with business studies such as the current one to formulate a more nuanced judgment on the history of foreign banks in Egypt and their position in the economy and society.
References

Archives
The National Archives, London

Yearbooks
Annuaire Statistique de l'Egypte
Statistique des Sociétés Anonymes par actions, Egypte
Stock Exchange Year-Book of Egypt

Printed Primary Sources
International Federation of Master Cotton Spinners’ and Manufacturers’ Association. (1913)
Monthly Journal of the British Chamber of Commerce of Egypt
The Financial Times, London
The London Gazette, London
The Times, London

Secondary Sources


27


