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Abstract

The activity of Italian banks in Egypt in the first half of the 20th century represents an almost unexplored field of investigation in economic and banking historiography. This article is the first attempt to innovate the Italian banking literature in this area, providing evidence from a country strategically located in the Middle Eastern geopolitical framework. At the same time and more generally, it contributes to the multinational banking literature on the characteristics and criticalities of banks belonging to multinational groups, which are subject to a 'liability of foreignness' due to political, geographical and economic differences between the home country and the host economy.

The paper addresses the main drivers of success of Italian banks, which were able to occupy primary positions within the Egyptian banking sector despite their relatively modest capital size thanks to an aggressive policy focused on the cotton market. It then highlights the reasons for the subsequent problems these institutes faced, showing the difficulties of a latecomer and capital-poor country, such as Italy, in carrying out a catching-up process aimed at widening its influence over geographical areas considered strategic in terms of political and commercial penetration.

Keywords

Italian banks, Egypt, Multinational banking, Cotton

Introduction[*]

The activity of Italian banks in Egypt in the first half of the 20th century represents an almost unexplored field of investigation in economic and banking historiography, which has hitherto favoured an approach (which we can define as 'top-down') considering the expansion abroad of the major Italian banks as a single aggregate, but leaving out the specificities of individual national cases.[1] Instead, a 'bottom-up' analysis, although more time-consuming, allows the first type of approach to be integrated with another that highlights the strengths and weaknesses that Italian institutions showed in markets with their own characteristics and in which they operated on profoundly different bases.[2]

This article is therefore the first attempt to innovate the Italian banking literature in this area, providing evidence from a single country that was particularly important for its position in the Middle Eastern geopolitical framework and which allows in-depth analysis of the typical fragility of economic institutions belonging to latecomer countries. At the same time and more generally, it contributes to the multinational banking literature on the characteristics and criticalities of banks belonging to multinational groups, which are subject to a 'liability of foreignness' due to political, geographical, economic and cultural differences between the home country and the host economy.[3]

Italian diplomacy considered Egypt a core country in which to implement a policy of penetration into the Middle East in open competition with British and French interests and other second-level powers. Therefore, Egypt offers a clear example of the 'inter-core competition' that certain studies on imperialism have already put at the centre of their analyses.[4] In fact, despite British political influence, numerous institutions of different nationalities operated in the country, giving rise to a banking competition that has only been studied to a small extent and which this article intends to begin to investigate from the point of view of Italian banks.

Italian banks appear as 'twin' institutions, both in terms of their assets and type of activity. They were left behind compared to the better-established British and French banks but were able to occupy positions of particular importance in the Egyptian banking context despite their relatively modest capital size. This occurred above all in the field of financing cotton production, as I will demonstrate by reconstructing the historical series (1923-1939) of the quantities of cotton that reached the Alexandria Stock Exchange on behalf of the major banks operating in Egypt. It emerges that the very top position was occupied by Italian institutes.

We will therefore try to understand the reasons for the subsequent problems faced by these institutes – despite the support provided by their headquarters in Italy and the presence of a large colony of

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1 See, for instance, R. Di Quirico, Building on borrowed bricks: Italian banks and international finance during the inter-war period, European Press Academic Publishing, Firenze, 2008.

2 On this duplicity of approaches, see G. Jones, *British multinational banking, 1830-1990*, Clarendon Press, Oxford, 1993, p. 1.

3 For a reconstruction of the theoretical debate, see G. Jones, *Multinationals and global capitalism: from the nineteenth to the twenty-first century*, Oxford University Press, Oxford, 2005; Id. (ed.), *Multinational and international banking*, E. Elgar, Aldershot, 1992.

4 On the tendency to conflict among the imperialist powers, see A.G. Frank, *Capitalism and underdevelopment in Latin America: historical studies of Chile and Brazil*, Monthly Review Press, New York-London, 1967; I. Wallerstein, "The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis," Comparative Studies in Society and History, 16(4), 1974, pp. 387-415. On the concept of 'inter-core competition', see C. Chase-Dunn, "Core-Periphery Relations: The Effects of Core Competition," in B.H. Kaplan (ed.), *Social Change in the Capitalist World Economy*, Sage, Beverly Hills-London, 1978, pp. 159-176.

compatriots, second only to the Greek community – showing the difficulties a latecomer and capital-poor country, such as Italy, faced in carrying out a catching-up process aimed at widening its influence over geographical areas considered strategic in terms of political and commercial penetration. The collapse of the international cotton price caused by the Great Depression, the Egyptian government's measures aimed at alleviating mortgage debts on land ownership, growing international competition and mounting protectionism, and the climate of mistrust and fear of a conflict between Italy and Great Britain in the aftermath of the Ethiopian campaign (October 1935 - May 1936) were all contributing factors that irreversibly weakened the position of Italian banks in Egypt. However, they tried to respond differently to the changed scenario.

After addressing the origins of Italian banking in Egypt, the article divides events into two phases: the first concerns the rise of Italian institutions in the 1920s; the second analyses the reasons for their weakening and partial reorganisation during the 1930s, highlighting the different strategies adopted by two banks. The study is based on extensive research conducted in both banking and political-diplomatic Italian archives, and in particular on the funds of UniCredit and Intesa Sanpaolo, which are preserved in their historical archives and which represent largely unexplored material. These sources are then cross-referenced with documentation from the British Foreign Office.

This is the first approach to a historiographical issue that can also open new research in other geographical areas where the Italian banking expansion reached in the first half of the 20th century, such as eastern Europe and the Balkans. This should provide particularly important results, even if they cannot always be considered successful experiences. It will make it possible to grasp common trends attributable to the general characteristics of the various national banking systems, and also to specific dynamics of the individual territories.

1. The historical background

The first 'Italian' bank in Egypt emanated from the local community of expatriates long established in the country.[5] The Cassa di Sconto e di Risparmio was established in Alexandria in 1887, five years after the occupation of Egypt by British troops. It was a small institution that soon expanded its business thanks to a favourable economic situation made possible by the stabilisation of Egyptian finances and the increase in international cotton prices, the most important 'money crop' and Egypt's main export.[6]

The bank essentially dealt with the Italian colony, which was made up of small traders, entrepreneurs and workers.[7] Therefore, it occupied a niche position compared to other banks active in Egypt, above all British and French ones.[8] However, the 1907 crisis marked an economic reversal, ending a season of

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[5] On the Italian community in Egypt see R.H. Rainero, "La colonia italiana d'Egitto: presenza e vitalità," in Id. e L. Serra (eds.), *L'Italia e l'Egitto. Dalla rivolta di Arabi Pascià all'avvento del fascismo, 1882-1922*, Marzorati, Settimo Milanese, 1991, pp. 125-173. Its numerical consistency cannot be computed precisely (it was estimated at 23,000 in 1889), but it seems that it represented the second in number among the colonies of Europeans, second only to the Greek one.

[6] J. Thobie, "European Banks in the Middle East," in R. Cameron, V.I. Bovykin, *International Banking, 1870-1914*, Oxford University Press, New York and Oxford, 1991, p. 428; R.L. Tignor, *Modernization and British Colonial Rule in Egypt, 1882-1914*, Princeton University Press, Princeton N.J., 2015 (1st ed. 1966), p. 232; M.W. Daly, *The Cambridge History of Egypt*, vol. 2, *Modern Egypt, from 1517 to the end of the twentieth century,* Cambridge University Press, Cambridge, 1998, pp. 239-251.

[7] Historical Archives of the Bank of Italy, Rome (ASBI), Raccolte diverse, Relazioni e bilanci, pratt., n. 259, doc. 1-12.

[8] On French interests in Egypt, see S. Saul, *La France et l'Égypte de 1882 à 1914: intérêts économiques et implications politiques*, Comité pour l'histoire économique et financière de la France, Parigi, 1997.

strong foreign investment in Egypt.[9] The Cassa was forced to close, to be reconstituted two years later thanks to an intervention by the National Bank of Egypt.[10]

The years preceding the 1907 collapse were ones of great economic and financial euphoria, with a strong increase in numbers of private companies. It was in this climate of general optimism that the entry of the first Italian bank in Egypt took place, with the Banco di Roma opening a direct branch in Alexandria in 1905 and then expanding into Cairo (in 1908 taking over the closed Egyptian agencies of the Bank of Thessaloniki[11]), Port Said and the main centres in the interior.[12]

The first decade of the century marked the first international projection of Italian banks, which also involved Egypt in view of a penetration of the eastern Mediterranean. The Banco di Roma hesitated little in front of the prospect of rapid expansion in the Mediterranean, from Egypt to Malta, from Libya to Syria and Palestine.[13] Both political and economic interests were behind this decision.

The unscrupulous policy of the Banco di Roma in Egypt, which aimed to acquire customers among not only Italians but also the indigenous population and promoted various commercial and industrial initiatives, can only be understood through the intensified competition that was manifesting itself among the European powers. The opening in Egypt of a subsidiary of the Deutsche Orient Bank (1906) clearly demonstrated the growing interest of European financial institutions and the intensification of imperialist competition between Germany and Great Britain in the years preceding the outbreak of the First World War.[14] In addition, Italian ambitions for a more prestigious role in the Mediterranean area would soon result in the occupation of Libya (1911).

Against this backdrop, the British diplomatic authorities accused the Banco di Roma of conspiring against the interests of England in the Middle East, inter alia by fomenting the nascent Egyptian nationalist movement and its aspirations for independence, numerous times already before the Great War and they continued until the early post-war years, as is widely proven in the literature and by further archival evidence.[15]

This created a general diffidence towards the Banco di Roma, the activity of which, however, was compromised above all by an over-risky operational strategy, which eventually led to a restructuring of the banking organisation in Egypt. In fact, especially during the war, the Banco extended its activity to the commercial and industrial fields, outside the purely banking and financing work connected to cotton production. This was driven both by expectations of rapid growth at the end of the conflict and strong international competition. The Banco's branches in Egypt, therefore, had to operate as a mixed bank in all respects. It expected its industrial interests to allow it to grab further banking work and to bind customers to itself more firmly.

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9 Y. Rahimlou, "Aspects de l'expansion Belge en Égypte sous le regime d'occupation Britannique (1882-1914)," *Civilisations* 38, n. 1 (1988): 101, pp. 113-115.

10 M. Petricioli, *Oltre il mito: l'Egitto degli italiani, 1917-1947,* Mondadori, Milano, 2007, p. 202.

11 Historical archives of UniCredit, Milan (ASU), Banco di Roma, Verbale CdA, 17.11.1908.

12 Banco di Roma (ed.), *Egitto. Vademecum economico*, Staderini, Roma, 1942, pp. 205-211.

13 L. De Rosa, *Storia del Banco di Roma*, vol. 2, Banco di Roma, Roma, 1983.

14 E.G. Davis, *Challenging Colonialism: Bank Misr and Egyptian Industrialization, 1920-1941*, Princeton University Press, Princeton, 1983, pp. 70-71. On the political connections of this bank and on British suspects, The National Archives, London (TNA), FO 141/633/778.

15 TNA, PRO 30/57/46 e FO 800/48; Historical Diplomatic Archives, Rome (ASMAE), Direzione Generale Affari commerciali 1919-1923 (classe n. 4). See also G.H. Cassar, *Kitchener as Proconsul of Egypt, 1911-1914*, Palgrave Macmillan, London, 2016, pp. 196-197; L. De Rosa, *Storia del Banco di Roma*, vol. 2, cit., pp. 68-69, 247-253; for an overview of the tensions faced at the Versailles conference, see L. Monzali, *Il colonialismo nella politica estera italiana 1878-1949*, Dante Alighieri, Roma, 2017.

The failure of an ambitious project launched at the end of 1917 aiming to transform the institute into a holding company controlling a group of industrial and commercial companies under Egyptian law highlighted the heavy losses accumulated and the need for an overall reorganisation of the institution in Egypt through the creation of a subsidiary controlled by the Banco.[16] Economic reasons were at the base of this decision, i.e. a need to reduce the fixed assets accumulated over the years, transferring to the new institute only the most liquid assets and gradually giving up the others. Nonetheless, there were also purely political incentives, given the rise in those years of the nationalist movement (in 1922 Great Britain formally recognised Egyptian independence, albeit with substantial limitations) and fears of a possible abolition of capitulations, i.e. legal and economic privileges granted to foreigners dating back to the period in which Egypt was under Ottoman domination.[17] Among the foreign commercial banks, the Banco di Roma was the first to move in this direction, but not all of them followed the same path: French banks such as Crédit Lyonnais and Comptoir Nationale d'Escompte, for example, maintained direct branches even later.[18] In February 1921, the Banco del Levante, Fondazione del Banco di Roma was founded, and its name was changed – at the request of the Italian Foreign Minister – to Banco di Roma per l'Egitto e il Levante (April 1922) in order to make the institute's Italian character more recognisable.[19]

Two fundamental principles were to guide the action of the new body and mark a discontinuity compared to the previous years. First, the prudence of loans was underlined, a criterion that in the past had not been respected given the number of bad credits the Banco di Roma had accumulated in Egypt. In particular, it was reiterated that for the future the institute's actions would be confined to purely banking operations, thus limiting the industrial investments that had been deemed necessary in the past to promote the development of the Banco in the whole Middle East starting from Egypt, and to counter growing international competition.[20]

Second, this policy should have allowed the new institute to collect sterling reserves to be partially placed at the disposal of the Banco di Roma – in a rising percentage as deposits increased – to hedge against the foreign exchange risk of the capital invested in Egypt.[21] In fact, from the end of 1920 Banco di Roma underwent several losses in foreign exchange transactions, which made clear the risks of strong market volatility such as in the early post-war years.[22] The funds raised in Egypt, therefore, had to be only partially reinvested in the country, while the remainder were to increase the exchange reserves of the Banco di Roma.

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16 ASU, Banco di Roma, Verbale CdA, 29.4.1918, 8.5.1918, 17.6.1918, 15.7.1920, 26.11.1920; Ibid, Busta 116, fasc. 3515; G. Jones, *British multinational banking, 1830-1990*, cit., pp. 210-211; L. De Rosa, *Storia del Banco di Roma*, vol. 2, cit., pp. 231, 251-252.

17 The decision to eliminate the capitulations would have been taken only on the occasion of the 1937 Montreux conference, which decreed its abolition after a transitional period of twelve years.

18 R. Tignor, *State, Private Enterprise and Economic Change in Egypt, 1918-1952*, Princeton University Press, Princeton N.J., 2017 (1st ed. 1984), pp. 154-155; S. Saul, "Les agences du Crédit lyonnais en Egypte: l'insertion d'une banque de dépôts dans une économie d'Outre-Mer, 1875–1956," in B. Desjardins *et al.* (eds.), *Le Crédit Lyonnais: études historiques (1863–1986)*, Droz, Geneva, 2003, pp. 521-548. In contrast, land credit institutes had been established as Egyptian banks in previous decades, although they were controlled by foreign capital, especially French (e.g. Crédit Foncier Égyptien).

19 ASU, Banco di Roma, Ufficio partecipazioni, Banco di Roma per l'Egitto e il Levante, fasc. 2; L. De Rosa, *Storia del Banco di Roma*, vol. 2, cit., pp. 271-275.

20 TNA, FO 141/480/13.

21 ASU, Banco di Roma, Ufficio partecipazioni, Banco di Roma per l'Egitto e il Levante, fasc. 3; Ibid, Banco di Roma, Verbale CdA, 4.3.1922. In 1916 the Egyptian pound became part of the sterling system, with a fixed exchange rate of 0.975 to the British pound. The Egyptian currency remained pegged to the pound sterling in the period between the two wars, allowing foreign banks operating in Egypt to have easy access to the London money market. Banco di Roma (ed.), *Egitto. Vademecum economico*, cit., pp. 130-131; ASU, Banco di Roma, Ufficio partecipazioni, Banco Italo-Egiziano, Prima sezione, fasc. 11.

22 The Banco was losing in all the markets, especially the Egyptian branches, which were consequently to buy British pounds. L. De Rosa, *Storia del Banco di Roma*, vol. 2, cit., pp. 301-304.

Since the very beginning, the new institute took advantage of a favourable situation in the cotton market. However, new problems soon occurred as a consequence of a Banco di Roma crisis in Italy.[23] There were even rumours of a possible merger between it and the Banca Nazionale di Credito (Bnc), an institution which had taken over the bankrupt Banca Italiana di Sconto. The operation was not accomplished, but in February 1924 under pressure from the Italian government a collaboration agreement between the two banks was signed instead. This consisted in a rationalisation of their branches in Italy and abroad to avoid duplication, and a commitment for each to involve the other in new business.

It was against this backdrop that Banco di Roma took the opportunity to dilute its stake in the Egyptian affiliation. The most immediate solution was to divide the burden with the other two major Italian banks, Comit and Credit, by reserving a stake for the Bnc. However, the negotiations with Comit proved to be very complex due to the latter attempting to impose its control on the nascent institution. An agreement was finally reached in 1924 among Banco di Roma, Bnc and Credit reserving the latter a 40% stake and 30% each for the other two institutions. The new bank was named Banco Italo-Egiziano (Italegi).[24]

Comit, for its part, finally decided to establish a subsidiary of its own under the name Banca Commerciale Italiana per l'Egitto (Comitegit). The bank, which began operating in the same year as Italegi, was born with the political support of King Fuad, who in fact controlled 5% of the share capital. He also gave the name of Yehia Ibrahim, a former president of the Egyptian Council of ministers, to be appointed as a board member of Comitegit.[25] The king's support thus demonstrated an Italian attempt to counterbalance the distrust with which British diplomacy continued to look at Italian initiatives as a legacy of the Banco di Roma, and it supposedly made easier the rooting of the two Italian banks within the Egyptian business community during the 1920s.

2. Rapid success in the cotton market during the 1920s

Despite the presence of numerous banks of different nationalities and the wary attitude of the British diplomatic authorities, in the 1920s the two Italian banks managed to conquer a prominent place in the Egyptian banking market and to collect a quantity of deposits that, although not comparable to that of the main institutes, allowed an appropriate base of operations (Table 1). What were the reasons for this relative development? Both Italian banks in Egypt mainly focused on financing cotton production, an activity which most ordinary credit banks were engaged in. This choice was probably dictated by the reduced margins of activity still free in other sectors of the Egyptian economy, such as public works – which were the prerogative of English, French and Belgian capital – and the industrial sector, the development of which was, however, still very limited. On the other hand, the demand for supplies for the Italian cotton industry and the centrality of this raw material in the Egyptian economy foreshadowed some positive developments in the years to come. In addition, this sector also allowed entering into relations with the most influential elements in society, namely rich landed property.

[23] Much has been written about the difficulties of the Banco di Roma and its bail-out. In addition to the work of Luigi De Rosa, I just mention A. Confalonieri, *Banche miste e grande industria in Italia, 1914-1933*, vol. I, *Introduzione. L'esperienza della Banca commerciale italiana e del Credito italiano*, Banca commerciale italiana, Milano, 1994, pp. 266-282.

[24] L. De Rosa, *Storia del Banco di Roma*, vol. 2, cit., pp. 422-428.

[25] ASMAE, Direzione Generale Affari commerciali 1924-1926 (classe n.28); M. Petricioli, *Oltre il mito*, cit., pp. 139-140.

Table 1. Deposits as of December 31 in Leg

Year	Italegi*	Comitegit
1922	1,872,534	-
1923	2,110,171	-
1924	2,268,109	-
1925	1,913,909	850,043
1926	1,635,194	1,102,198
1927	1,739,564	1,491,861
1928	1,853,391	1,704,402
1929	1,909,419	2,039,772
1930	1,886,205	1,988,369
1931	1,739,198	1,820,389
1932	2,088,765	2,012,067
1933	**2,502,616	1,851,117
1934	2,388,885	2,095,037
1935	1,013,794	1,006,826
1936	1,435,506	1,546,273
1937	1,652,144	1,907,637
1938	1,412,420	1,937,037
1939	***549,000	1,046,037

* 1922 and 1923: Banco di Roma per l'Egitto e il Levante.
** In 1933 Italegi absorbed the Cassa di sconto e di risparmio.
*** Value derived from 'Notes on monthly situations' (the 1939 financial statements could not be approved due to the outbreak of the war).
Source: ASU, Banco di Roma, Ufficio partecipazioni, Banco di Roma per l'Egitto e il Levante, fasc. 1; Ivi, Credito italiano, Direzione centrale Affari finanziari. Partecipazioni bancarie. Banco Italo Egiziano, fasc. 108; Ivi, Banco di Roma, Ufficio partecipazioni, Banco Italo-Egiziano, fasc. 14, b. 8; ASI, SE, s, cart. 40, fasc. 2; Ivi, US, b, cart. 6.

Banking activity was carried out through two distinct kinds of operations, depending on whether the advances were directly provided to farmers or to traders. In the first case, during the first few months of the year the bank gave the grower a credit to cover cultivation costs against a promissory note. The farmer undertook to deliver the cotton collected for sale on commission. For this kind of operation, the bank used its network of branches and cotton agencies scattered throughout the country.

The most important business category, however, was that involving traders. Some months before the harvest, they were granted a seasonal credit. At the time of the harvest a credit guaranteed by cotton was granted with a margin of 20%-30%, which was reduced to 10% if the goods were covered by forward sales contracts. With the seasonal credit, merchants secured the goods by anticipating funds to farmers through bills of exchange with or without mortgage registration. After receiving the cotton, they sent it to Minet el Bassal, the Alexandria cotton exchange, where it was deposited in banks' warehouses and sold on the market[26].

Tables 2 and 3, which show the cotton arrivals at Minet el Bassal on behalf of the ten major banks active in the sector, demonstrate the leading role played by Italian institutions. If we consider the cotton financed by the Cassa di Sconto e di Risparmio and by Italegi as an aggregate value, in consideration of the fact that the latter owned the majority stake in the former, it appears that throughout the 1920s this

[26] Central State Archive, Rome (ACS), IRI Rossa, b. R3518.

group traded the greatest quantity of cotton, even more than the National Bank of Egypt, an institution under British influence that could boast far greater capital and deposits. In 1928, for example, including deposits and current accounts, it collected 16 million British pounds (corresponding to an almost equivalent value in Egyptian pounds - Leg), while overall Italegi and the Cassa had deposits of slightly more than four million Legs.[27] Comitegit was at the top of the ranking, which is particularly significant in relation to its recent date of foundation, unlike Italegi which had instead inherited offices and customers from the Banco di Roma and which could count on the support of a bank that had been active in the market for several decades, i.e. the Cassa.

This strategy allowed Italian banks to prosper in this decade thanks to a tendentially favourable trend in cotton prices. However, it turned out to be their main source of immobilisation once the Great Depression broke out in the early 1930s and the cotton market went into crisis, demonstrating the close dependence of these banks on the performance of this commodity on international markets.

Table 2. Overview of cotton arrivals at the Alexandria cotton exchange (thousands of bales)

Cotton season	National Bank of Egypt	Comitegit	Banque Misr	Italegi	Cassa di sconto e di risparmio	Ionian Bank	Barclays	Comptoir National d'Escompte	Banque d'Orient	Commercial Bank of Egypt
1923-24	60	-	22	37	33	69	57	-	53	-
1924-25	79	14	39	58	38	58	55	-	40	-
1925-26	61	50	67	77	48	41	45	-	47	-
1926-27	73	50	118	73	46	55	43	-	52	-
1927-28	87	34	77	54	34	38	26	-	38	-
1928-29	106	58	95	83	41	51	39	17	55	19
1929-30	82	70	88	77	54	58	49	19	53	19
1930-31	122	84	104	69	39	45	44	20	45	13
1931-32	89	68	80	55	42	54	37	15	52	6
1932-33	70	58	51	50	37	44	39	10	6	6
					Banque Ottomane				Banque Nationale de Grèce	
1933-34	103	50	121	98	10	32	115	22	29	15
1934-35	62	29	119	92	6	34	105	10	33	8
1935-36	101	2	124	2	6	79	128	21	52	19
1936-37	95	2	92	59	4	78	145	24	35	7
1937-38	126	2	94	84	10	134	171	24	-	1
1938-39	136	3	70	22	6	89	164	29	-	-

Source: ASBI, Carte Baffi, Servizio studi, pratt., n. 18, fasc. 5.

27 ASBI, Banca d'Italia, Direttorio - Azzolini, pratt., n. 82, fasc. 1.

Table 3. Position of Italian banks in cotton financing (thousands of bales, position among the top ten banks, percentage of total cotton arrivals)

Cotton season	(A)	#	%	(B)+(C)	#	%	(A)+(B)+(C)	%
1923-24	-	-	-	70	1	21,1%	70	21,1%
1924-25	14	8	3,7%	96	1	25,2%	110	28,9%
1925-26	50	4	11,5%	125	1	28,7%	175	40,1%
1926-27	50	6	9,8%	119	1	23,3%	169	33,1%
1927-28	34	6	8,8%	88	1	22,7%	122	31,4%
1928-29	58	4	10,3%	124	1	22,0%	182	32,3%
1929-30	70	4	12,3%	131	1	23,0%	201	35,3%
1930-31	84	3	14,4%	108	2	18,5%	192	32,8%
1931-32	68	3	13,7%	97	1	19,5%	165	33,1%
1932-33	58	2	15,6%	87	1	23,5%	145	39,1%
1933-34*	50	5	8,4%	98	4	16,5%	158	26,6%
1934-35	29	7	5,8%	92	3	18,5%	127	25,5%
1935-36	2	9	0,4%	2	9	0,4%	10	1,9%
1936-37	2	10	0,4%	59	5	10,9%	65	12,0%
1937-38	2	8	0,3%	84	5	13,0%	96	14,9%
1938-39	3	8	0,6%	22	6	4,2%	31	6,0%

(A) Comitegit; (B) Italegi; (C) Cassa di sconto e di risparmio.
* In 1933 the Cassa di sconto e di risparmio was put into liquidation. Its liabilities and most of its activities were conferred to Italegi, including the cotton business.
Source: Author's own elaboration of Table 2.

3. The effects of the Great Depression

The direct consequences of the crisis on the solidity of Italian banks were soon evident. Indeed, precisely cotton-exporting countries such as Egypt were among the most affected by the crisis, both because this product was the most valuable agricultural commodity in international trade and because demand for it was particularly elastic. Egyptian exports collapsed by 60%-65% in value between 1928-29 and 1932-33, while in August 1931 the price of cotton in Liverpool was a third of that of August 1929.[28] In that same year, the Alexandria cotton exchange suffered a collapse at the news of an increase in the American harvest.

Consequently, in the early 1930s the Egyptian government was forced to intervene. On the one hand, it bought domestic cotton at a price higher than the world price in a vain attempt to support its quotations; on the other, it introduced measures to alleviate the debt position of farmers, which became difficult to sustain after the fall in prices. The creation in 1930 of Crédit Agricole, on a public initiative but with the participation of the main banks, and law no. 7 of 1933, which reduced the interest rate and extended the duration of mortgage loans, testified to the seriousness of the crisis.[29]

This policy aimed to stop the expropriation of land by the banks, which were now immobilised by the number of mortgage loans granted in the previous decade. This was true not only for the large credit

[28] R. Tignor, State, Private Enterprise and Economic Change in Egypt, 1918-1952, cit., p. 113.

[29] Ibid, pp. 114-123; M. Petricioli, *Oltre il mito*, cit., p. 160.

institutes, such as Crédit Foncier Égyptien (controlled by French capital), but also for the commercial banks most exposed on the cotton market, such as Comitegit and Italegi. It was precisely the inversion of the economic situation in this sector, together with the legislative provisions that slowed the recovery of mortgage loans, that undermined the solidity of the two institutions, which from that moment entered a phase of reorganisation and progressive narrowing of their business. On the eve of the war, the two banks had closed the whole structure of cotton agencies to just focus on the cities of Alexandria, Cairo and Porto Said. The way in which this identical result was achieved, however, differed substantially and brought to light a diversity of views and strategies.

From this perspective, Comitegit was in a particularly heavy position, having been forced to cover itself with many mortgages.[30] In 1933, four-fifths of its non-current receivables were of a mortgage nature and the possibility of disinvesting credits depended not only on the cotton harvest but also on a possible recovery in land and property prices.[31] On 1 July 1934, with a paid-up capital of 500,000 Legs, there were bad loans of 1.1 million Legs. Of these, only 353,000 Legs were attributable to the Alexandria and Cairo offices, while the remaining 68% was caused by the internal agencies directly involved in financing the cotton campaign (Table 4).

Table 4. – Comitegit bad credits as of 1 July 1934, broken down by branch

Branch	Number	Amount (Leg)
Alexandria	30	276,852
Cairo	21	76,388
Damanhour	189	380,964
Mansourah	63	79,365
Mehalla Kebir	20	23,217
Tantah	24	28,946
Zagazig	41	21,505
Minieh	84	183,033
Sohag	72	26,728
Total	*544*	*1,096,998*

Source: ASI, Bci, Segreteria Estero (SE), cart. 46.

The most immediate cause of the growing difficulty in cotton financing was linked to a declining trend in market prices, but there were also two causes of a structural nature. The first was attributable to the poor quality of the clientele, which Comitegit, a newly established bank, had acquired because the best names had already been captured by the major institutions. The spread of the crisis in the early 1930s highlighted the risks of a clientele that had not been very solid since before the economic depression.[32] The second reason was instead linked to changes that occurred in the organisation of the national cotton market, which had the effect of narrowing the margins for manoeuvre of the commercial banks: the creation of Crédit Agricole, the growth of Banque Misr (a purely Egyptian bank established in 1920[33])

[30] ASBI, Banca d'Italia, Direttorio - Azzolini, pratt., n. 82, fasc. 1.

[31] ACS, IRI Rossa, b. R3518.

[32] Historical Archives Intesa Sanpaolo, Milan (ASI), Bci, AD 2, cart. 8, fasc. 9; ASU, Banco di Roma, Ufficio partecipazioni, Banco Italo-Egiziano, Prima sezione, fasc. 3, CDA del Banco Italo Egiziano, 27.12.1928.

[33] R. Tignor, “Bank Misr and Foreign Capitalism,” *International Journal of Middle East Studies* 8, n. 2 (1977), pp. 161-181; M. Deeb, “Bank Misr and the Emergence of the Local Bourgeoisie in Egypt,” *Middle Eastern Studies* 12, n. 3 (1976), pp. 69-86.

and the traders' tendency to finance farmers, thus circumventing the intermediation of the credit institutions, were all factors that led to an environment increasingly less profitable for banking.

Archival evidence confirms similar difficulties for Italegi, but it was at this point that the strategic choices of the two institutes began to diverge deeply. Faced with a gradual loss of its capital (sources estimate a loss of four-fifths of the paid-up capital[34]), Comitegit started a recovery plan which through a progressive reduction of the cotton work until the complete closure of all the agencies in the interior in 1936 (Tables 1 and 2) allowed most of the bad credits to be reabsorbed, from 1.1 million Legs in June 1934 to 274,000 in December 1937.[35] Italegi, for its part persevered in cotton financing until 1939, and only the outbreak of the Second World War convinced its director, Enrico Biagi, to limit the activity to the offices of Alexandria, Cairo and Port Said, but always in the hope of being able to reconstitute the organisation in the interior once a normal situation returned.[36] Therefore, reductions in overheads were necessary because of bad credits that remained at high levels. In fact, between 1934 and 1936 these were around 650,000 Legs, higher than the paid-up capital of 500,000 Legs, and again in 1939 non-performing loans amounted to 450,000 Legs.[37]

Study of the correspondence between Biagi and the board of directors in Italy makes it clear that the choice to persist in cotton financing was linked not so much to a perception of a prompt recovery of the market but rather to an absence of real banking alternatives in other sectors – which offered little work in a context of general crisis and where banking competition was stronger – and even more to a reluctance to close a network of agencies which were distributed between Upper and Lower Egypt, putting the bank in contact with a clientele composed of merchants and landowners.[38] However, Biagi did not consider that the growing political and financial isolation to which Italy was subjected after the invasion of Ethiopia would cause much trouble to the Italian banking apparatus abroad, especially in a central country such as Egypt, which would have been immediately involved in the eventuality of a battlefront widening and of an Anglo-Italian war.

The difficulty in finding resources to continue the financing of cotton production was one of the main reasons that made Italegi's position in this field ever more marginal, to the benefit of British banks (Barclays (DCO) and Ionian Bank) or banks under British control (National Bank of Egypt), which ended up almost monopolising this activity (Tables 1 and 2). The definitive loss of influence in the cotton financing sector ultimately deprived the Italian banks of the only field of activity in which they had previously managed to impose a strong presence at the expense of the competition.

4. Some hypotheses for an interpretative model

The intrinsic fragility of the Italian banking experience in Egypt can be summarised in two types of reasons. The first are external to the country and are attributable to the instability of the Italian financial system, the crisis of which in the 1930s deprived the Egyptian subsidiaries of the necessary support from the controlling institutions, which were precisely those large mixed banks that had gone into crisis at

34 ACS, IRI Nera, b. FIN-216.

35 ASI, Bci, SE, s, cart. 40, fasc. 2; ACS, IRI Nera, b. STO-488. Comitegit was not the only bank to abandon internal agencies, having been preceded by Lloyds Banks, Deutsce Orient Bank and Banque Belge et Internationale en Egypt. ASI, Bci, AD 2, cart. 8, fasc. 9.

36 ASU, Banco di Roma, Ufficio partecipazioni, Banco Italo-Egiziano, Prima sezione, fasc. 10, Comitato esecutivo del Banco Italo Egiziano, 12.12.1939.

37 Ibid, Comitato esecutivo del Banco Italo Egiziano, 2.6.1936; ASU, Banco di Roma, Ufficio partecipazioni, Banco Italo-Egiziano, fasc. 14, b. 8.

38 ASI, Bci, Carte Mattioli, cart. 237, fasc. 8. On the limited possibilities of increasing business in Alexandria and Cairo due to competition from large foreign banks and postal savings banks, see comments made by the Comitegit management. Ibid, Bci, AD 2, cart. 8, fasc. 9; ASU, Banco di Roma, Ufficio partecipazioni, Banco Italo-Egiziano, Prima sezione, fasc. 3, CDA del Banco Italo Egiziano, 8.6.1935.

the outbreak of the Great Depression and were therefore unable to supply them with liquidity, beyond what was strictly necessary for the financing of the cotton campaign or to overcome temporary withdrawals of deposits.[39] This constitutes historical evidence of the contribution by internal capital markets in multinational banking to the transmission of financial shocks from parent banks to foreign subsidiaries.[40]

Added to this is a general characteristic of the Italian financial system, namely the limited weight of its investments abroad.[41] The Egyptian case offers a clear demonstration of this, since Italian capital only amounted to 2.36% of foreign investments in 1933, a percentage lower not only than those of France (47.64%) and Great Britain (29.21%) but also that of Belgium (8.17%).[42] The existence of a conspicuous Italian colony, mostly of medium-low social extraction, was not sufficient to generate strong demand for banking work reserved to Comitegit and Italegi, which in fact also addressed a clientele of other nationalities in an attempt to extend their relations.

For Italian banks, the scarce availability of capital represented a handicap compared to the major institutions, above all the British and French ones, but it was not the only one. In fact, the experience gained by the major banks in foreign markets was an important intangible asset which Italian institutions had not had time to accumulate to the same extent, as they had begun to acquire a truly international projection only from the early 1900s. The strategic errors of Banco di Roma in Egypt in the early post-war period were probably also the consequence of the delay compared to their main international competitors with which the major Italian institutions started to build networks of direct subsidiaries on a global scale.

The second reasons are internal to Egypt and only a country-specific analysis can bring them to light, identifying strong banking competition (Table 5) that led to a partial segmentation of the market, according to which the Italian banks specialised in the financing of cotton production. Indeed, the demand for banking services was concentrated in mortgage credit, largely controlled by French capital through Crédit Foncier Égyptien, while British interests were less strong. The major commercial and industrial businesses were handled by British and French institutions, and to a lesser extent by Belgian and Italian ones. Greek and German banks occupied a more marginal place. Therefore, the big business remained predominantly English and French, from the Suez Canal to the more or less formal industrial monopolies (water, salt, gas, etc.). The only important Italian-controlled initiative was that of the phosphate mines of Kosseir on the Red Sea. For the rest, there were several commercial and industrial companies (some of which were also significant such as Pinto or Sornaga), a mass of small savers and some great assets, but overall the movement of capital generated by these initiatives was well below that granted by the major foreign businesses.[43]

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39 This was also caused by a progressive deterioration of the Italian balance of payments and a growing difficulty in finding valuable currency throughout the 1930s. See F. Guarneri, *Battaglie economiche tra le due guerre*, ed. by L. Zani, Il Mulino, Bologna, 1988; M.L. Cavalcanti, *La politica monetaria italiana fra le due guerre (1918-1943)*, Franco Angeli, Milano, 2011.

40 B.N. Jeon, M.P. Olivero & J. Wu, 2013, "Multinational banking and the international transmission of financial shocks: Evidence from foreign bank subsidiaries," Journal of Banking and Finance, vol. 37, no. 3, pp. 952-972.

41 Italy's marginal position can be indirectly seen, for instance, in M. Wilkins, *The history of foreign investment in the United States to 1914*, Harvard University Press, Cambridge, Mass., 1989, p. 145.

42 D. Gérard-Plasmans, *La Présence française en Égypte entre 1914 et 1936. De l'impérialisme à l'influence et de l'influence à la coopération*, Éditions Darnetalaises, Darnétal, 2005, p. 479.

43 ACS, IRI Nera, b. STO-488.

Table 5. Banks operating in Egypt (1940)

Bank	Nationality
National Bank of Egypt	Egyptian with English participation
Crédit Foncier Egyptien	French
Land Bank of Egypt	French
Crédit Hypothécaire	Egyptian
Caisse Hypothécaire d'Egypte	Belgian
Crédit Agricole d'Egypte	Egyptian
Banque Misr	Egyptian
Barclays (DCO)	English
Ionian Bank	English
Ottoman Bank	English
Crédit Lyonnais	French
Comptoir National d'Escompte de Paris	French
Commercial Bank of Egypt	Egyptian
Banca commerciale italiana per l'Egitto	Italian
Banco Italo-Egiziano	Italian
Banque d'Athènes	Greek
Commercial Bank of the Near East	Greek
Banque Belge et Internationale en Egypte	Belgian
Dresdner Bank	German
Yokohama Specie Bank	Japanese
Turkiye Is Bankasi	Turkish

Source: ASBI, Carte Baffi, Servizio studi, pratt. 18, fasc. 5.

Hence, the credit market was to some extent segmented according to nationality, as is further confirmed by the establishment of a local capital institution, Banque Misr, which took a leading position in the promotion of Egyptian industry. In this context, it is clear that Italian institutions had very limited working opportunities, with reduced margins of diversification outside the financing of cotton, which instead attracted less interest among the banks of other nationalities. If this allowed the Italian subsidiaries to prosper in the 1920s, it was also the main reason for their weakness in the following decade when the cotton market went into crisis: the collapse of international cotton prices deteriorated the position of their main customers, indirectly causing the formation of heavy bank losses.

Market segmentation was then functional to the survival of a system that proved fragile, however, because of mounting geopolitical tensions. It is true that the Italian diplomatic authorities complained about the lack of support provided by the Italian subsidiaries to national industry and trade, according to a vision of banking as a substitute for the limits probably present, but still to be studied, in the foreign strategies of manufacturing and commercial Italian companies. However, it is unlikely that the national banks in Egypt could have behaved otherwise, first and foremost due to insufficient capital being available for wide-ranging operations.[44] Moreover, there was the hostile attitude of Great Britain, which had always shown distrust in any Italian expansion project in the eastern Mediterranean, thus leaving Italian entrepreneurial initiatives with little chance of success. Finally, even the growing Egyptian

[44] ASU, Banco di Roma, Ufficio partecipazioni, Banco Italo-Egiziano, fasc. 26.

nationalism – aspirations for greater economic independence held back huge investments of European capital – played an important part in hindering the activity of foreign banks, especially those, like the Italian subsidiaries, which were less equipped to find alternative strategies or forms of collaboration with local capital.

Finally, it is necessary to mention the role played by states, as the political dimension sometimes had a decisive influence. Even before the establishment of Italegi and Comitegit, for example, the unclear relations between the Khedive and Banco di Roma brought about a hostile climate around the Italian bank, effectively jeopardising its possibility of success. The support of Egyptian nationalists was not sufficient in itself to achieve greater penetration in the Egyptian market if it provoked the distrust of the British authorities. This contradiction made it particularly complex for the Banco to operate in the country and was bequeathed to the two Italian subsidiaries in the years between the wars. On the other hand, the measures launched by the Egyptian government in the early 1930s to support land ownership are an example of how public policies could make the position of foreign banks more fragile by reducing their ability to resort to mortgage guarantees to have their cotton credits reimbursed.

It should also be stressed that Italian governments, both liberal and fascist, always had a purely 'political' view of the banks in Egypt, which were considered an expression of national prestige and instruments of political propaganda in the Middle East. However, this vision did not entail an organic strategy aimed at coordinating Italegi and Comitegit's efforts at economic penetration. From the early post-war period, when political authorities pushed for common action by Italian banks in the eastern Mediterranean, the conflicting interests of the different institutions prevented reaching a shared solution, condemning the expansion of banking in that geographical area to fragmentation. In any case, the outbreak of the Second World War abruptly interrupted this experience, which would only be resumed at the end of hostilities in ways that historiography must still reconstruct.

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