

Western Banking and the Ottoman Economy before 1890: a Story of Disappointed Expectations

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1. Background: the Nineteenth Century Ottoman Economy.

During the middle and later decades of the nineteenth century the Ottoman Empire, like most other countries of the so-called 'periphery', underwent a process of integration with the economies of industrializing Europe.¹ The speed of this process varied over time, accelerating during periods when the prices of Ottoman agricultural exports (a very varied group of commodities) were high and capital inflows from outside were substantial, and slowing down when contrary conditions prevailed - notably between the mid-1870s and later 1890s. A few years before the First World War the agriculture of what then remained of the Empire had quite a high degree of commercialization and external orientation, with perhaps as much as one quarter of net production exported. Forty or so years earlier, in the mid-1870s, the figure had been considerably lower but still a significant one, perhaps 15 per cent, representing around 6 to 8 per cent of a very roughly estimated Ottoman GDP. Forty years before *that*, however, the Empire's economy had had a very limited degree of external orientation indeed, but the third quarter of the nineteenth century had seen both imports and exports

¹ Much of the evidence upon which this article is based is derived from the London and Paris archives of the Imperial Ottoman Bank, access to which has been by permission of the *Compagnie financière ottomane S.A. and the Ottoman Bank*. These are either in the Archives Nationales, Paris (hereafter AN) or the Guildhall Library, London.

growing extremely fast, faster indeed, according to Pamuk, than global trade as a whole.²

A variety of factors, other than the growth in demand for primary products in the West and the falling price of manufactured imports, were involved in the rapid trade growth of the period. These included the Empire's adoption of free trade in the Anglo-Ottoman Trade Convention of 1838, otherwise known as the Treaty of Balta Liman. There was the continued, albeit halting and uncertain, progress of Ottoman political and legal modernization (the *Tanzimat*); and the general opening up of the country to outside influences as a result of the Crimean War. In addition in the 1860s the first railways were opened in the Izmir region, which was by far the most important district for commercialized agriculture remaining under Ottoman rule once the Rumanian principalities had been lost. The later 1850s and 1860s also saw the appearance of Western banks, first in the capital Istanbul and then in the provinces. The present article is concerned with assessing the extent of the contribution that these last may be said to have made to the general process of integration between the Ottoman and the emerging world economy, referred to in the previous paragraph.³

However improbable it seems in the light of the subsequent histories of the two areas, in the aftermath of the Crimean War there were those in the West, and especially in London, who believed that the Ottoman Empire would prove to be 'the new California'. In the context provided by the defeat of Russia, and the Ottoman promises of reform incorporated into the *batt-i hümayun* (or Imperial Decree) of 1856, there appeared to be unlimited opportunities for lucrative investments by Western capitalists in agriculture, mining, infrastructural development, the establishment of banks and the like. The year 1856

² H. Inalcik and D. Quataert, *Economic and Social History of the Ottoman Empire, 1300-1914*, (Cambridge 1994), pp. 828-30. S. Pamuk, *The Ottoman Empire and European Capitalism, 1820-1913*, (Cambridge 1987), pp. 23-7, 29-30, 83-4.

³ For general overviews of the Ottoman economy in the mid and later nineteenth century, see R. Owen, *The Middle East in the World Economy, 1800-1914*, (London 1981), chs. 2, 3, 4 and 6; and Inalcik and Quataert, *Economic and Social History*, Part IV (*passim*).

itself saw both a large jump in Ottoman exports and the arrival of a host of promoters in Istanbul in search of concessions from the Sultan's government. The British-financed Ottoman Bank was established at this time - one of a number of overseas banks to be set up in London in the middle years of the decade.⁴ So were the Izmir to Aydin and the Chernavoda to Kustendje Railway Companies, which were also British, and the Beirut to Damascus Road Company which was French. The 1857 financial crisis dampened the enthusiasm of investors, destroyed the prospects of enterprises still on the drawing-board, and hampered the development of those which had actually become established. However, optimism about the prospects of making money in the Ottoman Empire revived in 1862-64. These later years saw, for instance, the creation of the Anglo-French Imperial Ottoman Bank, the (British) Ottoman Financial Association, and the joint Western and Galata *Société générale de l'Empire Ottoman*, in the field of banking. It also saw the raising of additional capital for the Izmir-Aydin railway, and new Izmir-Kasaba and Varna-Rusçuk Railway Companies in the field of transport; and a Constantinople Gasworks Company in that of urban utilities. And as before in both these fields, and in others, a variety of concessions were granted, and companies projected or actually formed, which never came to anything. Additionally there was a considerable amount of direct investment in land purchase and agricultural production by individual Westerners, mostly in the Izmir region.⁵

Of the two sectors of the Ottoman economy (banking and transport) to which Western capital was principally drawn in the early and mid-1860s, it was banking which appeared to offer fewest barriers to entry and the surest profits. Ottoman trade with Europe was growing particularly fast at this juncture because of the rapid rise in cotton

⁴ G. Jones, *British Multinational Banking, 1830-1990*, (Oxford 1993), pp. 21-3.

⁵ C. Morawitz, *Les finances de la Turquie*, pp. 373-5, 389-90. A. Du Velay, *Essai sur l'histoire financière de la Turquie*, (Paris 1909), pp. 199-201. Toprak, *Türkiye' de "Milli İktisat", 1908-1918* (Ankara 1982), p. 355. L.T. Fawaz, *Merchants and Migrants in Nineteenth Century Beirut*, (Cambridge MA. 1983), p. 68. *Money Market Review*, 13 Feb. 1864. O. Kurmuş, 'The role of British capital in the economic development of western Anatolia, 1850-1913', (unpublished PhD. Thesis, University of London, 1974), ch. VI.

exports occasioned by the American Civil War.⁶ Istanbul was both the seat of government and a port but its peculiar geographical location which provided it with no hinterland of any real economic importance, and an absence of handicraft manufactures with non-local markets, meant that, although it attracted a considerable volume of imports, it despatched relatively few goods of any kind outwards.⁷ It was, therefore, rather in the provincial ports and in the centres of production of agricultural export commodities that opportunities seemed to be most promising for commercial, as opposed to governmental, banking. Izmir in particular was an interesting proposition: in the 1840s it had accounted for 57 per cent of all Ottoman exports and 24 per cent of all imports, a predominance which had probably further increased by the 1860s.⁸ It is true that both in Izmir and elsewhere all the necessary financial facilities for both foreign and domestic trade were available from indigenous local bankers or *sarrafs*, some of whom commanded substantial resources. However, the rates of interest they charged were exceedingly high by Western standards: the normal discount rate in the main commercial centres of the region was apparently 12 per cent, although it sometimes fell a little lower, whilst for certain types of business 20 or 30 per cent and upwards could be charged.⁹ The contrast with

⁶ R. Kasaba, *The Ottoman Empire and the World Economy in the Nineteenth Century* (Albany 1988); p. 91. Pamuk, *Ottoman Empire*, Table A1.1 on p. 149.

⁷ C. Issawi, *The Economic History of Turkey, 1800-1914*, (Chicago and London 1980), pp. 113-114. Istanbul undoubtedly owed its huge size primarily to the fact that it was the seat of government, rather than to its importance as a port.

⁸ E. Frangakis, 'The port of Smyrna in the nineteenth century' in A.E. Vacalopoulos, C.D. Svolopoulos and B. Kiraly (editors), *War and Society in East Central Europe, vol. XXIII. Southeast European Maritime Commerce and Naval Policies from the Mid-Eighteenth Century to 1914*, (Boulder and Highland Lakes 1988), pp. 262, 263-4. See also Issawi, *Turkey*, Table 3 on p. 82; and Kasaba, *The Ottoman Empire and World Economy*, Table 4 on p. 89.

⁹ Discount rates, and the rates on secured short-term advances, in the 1863-65 period were 10-12 per cent in Bucharest and Galatz, around 12 per cent in Izmir, and between 10.7 and 12 per cent in Beirut. AN, 207 AQ/167 116, Annual Reports for 1863-65. For much higher rates on other types of lending see Farley, *Banking*, pp. 7-8, 27, 28, 32, 33, 35, 41, 46, 50. Farley states that the discount rate in Salonica was 12 per cent or above (pp. 37-8).

London and Paris rates appeared to render it feasible for a European concern to under-cut local lenders and yet still to secure a return on capital substantially higher than would have been obtainable from similar business in Britain or France.

The supposed opportunities for profitable banking business that existed in the Ottoman Empire, above all outside the capital, were vigorously publicized by J. Lewis Farley in a series of works published in these years.¹⁰ As he saw it, not only Izmir, but also the ports of Salonica and Beirut, the silk manufacturing centre of Bursa, and the great interior entrepot of Aleppo were the most obvious targets, but he also mentioned Edirne, Diyarbekir, Tarsus, Jaffa, Damascus and Baghdad. Indeed, Farley argued, almost everywhere with a significant commercial life the services of a European bank would be so much in demand that its financial success was virtually assured.¹¹ Now it is true that Farley's aim in his publications was to drum up interest in the various concerns in which he was personally involved, and he was therefore by no means an impartial observer - although his willingness to put his own services (and probably his own money) at the disposal of these firms suggests that he sincerely believed what he wrote.¹² However his view was shared in essentials by the hard-headed and immensely experienced financiers who established the Imperial Ottoman Bank (hereafter BIO). And it was also shared by Edward Gilbertson, formerly the Istanbul manager of the British-owned Ottoman Bank, who had gained extensive experience of conditions in the provinces as its inspector of branches, and who in 1863 became number two to the French *directeur général* of the BIO, the Marquis de Plocuc, in the newer concern.¹³

¹⁰ The works in question were *The Resources of Turkey*, (London 1862), *Banking in Turkey*, (London 1863), and *Turkey*, (London 1866), esp. ch. V.

¹¹ Farley, *Banking*, *passim*.

¹² Farley was accountant general of the abortive Bank of Turkey in 1860-61; a director of the Ottoman Financial Association in 1864-65; and managing director of the Ottoman Company in 1865-66. All three concerns failed! Farley, *Resources*, preface. *Money Market Review*, 13 Feb. 1864, p. 158; and 29 April 1865, p. 518.

¹³ For Gilbertson's plans for the BIO's branch network, see below.

2. Background: the Imperial Ottoman Bank (BIO).

During most of the period to which this article relates the BIO, whilst being legally an Ottoman company, was in reality a joint British-French concern although by the 1880s most of its shares had come to be held in France¹⁴ and ultimate control of its operations was being exercised from Paris. It was founded (in 1863, as already noted) by a fusion of the purely British Ottoman Bank, 'the "old" Ottoman Bank or 'the Ottoman Bank of 1856' as it was often referred to, and a powerful French consortium headed by the Pereire brothers of the *Crédit mobilier* but also including a number of the most prominent members of the Paris *haute banque*. Whereas the old Ottoman Bank had been an ordinary commercial bank with no particularly close relationship with the Ottoman government, the BIO was specifically established as a 'national' or state bank. It was to act as the government's banker, furnish the Porte with short-term credit, provide a link between the Porte and the money markets of the West, and undertake the financing of public works, as well as providing ordinary banking facilities for merchants, traders and other private individuals. It therefore enjoyed a number of special privileges, including a monopoly of the issue of bank notes,¹⁵ and it was for this reason that Fuat Pasha, who was responsible for its creation on the Ottoman side, had specifically wanted it to be a joint Anglo-French affair. By this means he hoped to avoid giving either Britain or France too powerful a position in respect of his government's financial affairs.

In order to discharge the extensive functions envisaged for it, on the one hand by its founders and on the other by the Ottoman ministers, the BIO was a very large concern from the first and between the mid-1860s and the later 1880s it was perhaps the most powerful

¹⁴ The shares of the BIO were bearer shares and no register was kept of their transfer. The identity of the latter was thus very soon as much a mystery to those managing the Bank at the time as it must remain to historians, although there are reasons to believe that substantial holdings were built up by the leading Greek houses of both London and Paris.

¹⁵ C. Clay, 'The bank notes of the Imperial Ottoman Bank, 1863-1876', *New Perspectives on Turkey* No. 9 (Fall, 1993).

of the European financial institutions operating in the non-Western world. Within the world of Ottoman government finance it did not (at least before the state bankruptcy of 1875) succeed in maintaining as complete a monopoly as it had hoped, but its sheer size and its role as state bank gave it a local importance to which none of its rivals could even begin to aspire.¹⁶ In the beginning it had a paid-up capital of LS 1.35 million, compared to the old Ottoman Bank's LS 550,000. This was increased to LS 2.025 million in 1866, and in 1874 when it assumed even more extensive responsibilities *vis-à-vis* the Ottoman government, to LS 5 million. According to the published balance sheets the total assets of the old Ottoman Bank had been just over LS 1 million in 1860, but those of the BIO were LS 4.4 million at the end of 1863, LS 9.6 million ten years later and LS 15 million by 1885. Of the purely British 'multi-national' banks studied by Prof. Jones only three or four had equal or greater total assets at a similar date.¹⁷ The BIO also proved not only to be both extremely profitable to its shareholders but also very soundly managed, as its survival through the years of Ottoman bankruptcy (1875-81) indicates. Day to day control of its operations was in the hands of a collective *direction générale* in Istanbul, in which the leading figure (the *directeur général*) was a Frenchman from 1863 until 1867 and then British until after the end of the century. Ultimately, however, power within the Bank rested with two committees (or, strictly speaking, one committee divided into two geographically separate halves) one in London and the other in Paris, which functioned, in effect, as a board of directors. The London Committee was a rather motley collection of individuals, most of whom were not connected with any first-rate financial houses.¹⁸ The Paris

¹⁶ For a brief reference to these rivals, see below pp. 21-4. It may be added that no bank in Egypt, the country which furnishes the most obvious comparisons with the Ottoman Empire, held a comparably dominating position in this period if only because no 'national' bank with exclusive privileges was created until 1898. A.S.J. Baster, *The International Banks*, (London 1935), pp. 61-75. D.S. Landes, *Bankers and Pashas*, (London 1958), pp. 61-8.

¹⁷ Guildhall RO, MS 23, 974, published annual balance sheets. Jones, *Multinational Banking*, pp. 393-5.

¹⁸ The most prominent exceptions were the successive members of the Mills family who served on the London Committee from 1868 onwards.

one, on the other hand, at least after the link with the Pereires and the *Crédit mobilier* had been severed in 1867-68, was dominated by representatives of the most respected *haute banque* firms: Hottinguer, André, Mallet, Demachy, Pillet-Will, and others. This imbalance in the substance and standing of the two committees certainly contributed to the gradual shift in the balance of power within the Bank to Paris, but the two continued to work together with remarkably little friction. They provided the *direction générale* with guidance on matters of policy, and it was to them that the *direction générale* was responsible for the good conduct of business in the East.¹⁹

3. The BIO in the Provinces: the Years of Apparent Success.

In 1862-63 the main concern of the founders of the BIO, both French and British, had undoubtedly been to obtain the concession to form the 'national' bank, and for the first 70 or so years of its existence government business was overwhelmingly the most important part of its business and contributed the bulk of its profits. That, however, is quite a different story from the one to which this article is devoted. In any event, from the very first, the founders also envisaged an extensive network of provincial branches.²⁰

These establishments were to have a dual function: they would provide the government with a useful means (cheaper than that hitherto provided by the *sarrafs*) of collecting its revenues and transmitting them to Istanbul or elsewhere, and at the same time make profits by using the funds thus entrusted to them to finance ordinary commercial banking. Thus, within a year of commencing business in Istanbul, the BIO had already opened new establishments at Salonica and at Larnaca in Cyprus to add to those at Izmir, Beirut, Galatz and Bucharest inherited from the Ottoman Bank. In addition a decision

¹⁹ The two preceding paragraphs are based on research undertaken by the present author as part of a project to write a history of Ottoman finance before 1881. See also A. Autheman, *La Banque impériale ottomane*, (Paris 1996), chs. II-IV and pp. 271-3.

²⁰ AN, 207 AQ/193 DGA O, "Bases de la concession à demander ..." (Jan. 1863); 207 AQ/BO 14, *Acte de concession, règlement et status*, convention of 4 Feb. 1863, Arts. 6 and 13.

had been taken in principle to open at Bursa in the Marmara region, and to establish sub-agencies dependent upon Izmir in the West Anatolian hinterland at Aydin, Manisa and Afyon Karahisar. In the autumn of 1865, moreover, Gilbertson presented to the London and Paris Committees, as noted above in effect the BIO's Board of Directors, a more systematic plan of expansion. The Anatolian sub-agencies were to be up-graded to full branch status, and he recommended new branches at Trabizon on the Black Sea coast; at Aleppo in Northern Syria and at its outpost of Iskenderun; and at Edirne, Varna, Monastir, Serres, Drama and Larisa in Rumelia. Several of these were envisaged as starting on only a small scale, but even so, Gilbertson's proposals, which he hoped to see implemented as rapidly as possible, represented an ambitious attempt to occupy as much ground as possible before the competition expected from other European concerns actually materialized.²¹ The London-based National Bank of Turkey, which had briefly opened in Izmir in 1861 had never properly commenced business. However, the Ottoman Financial Association had established a branch there in 1864 and was certainly determined to extend its field of operations, initially to Beirut and in due course to other towns as well, although in the event it fell victim to the financial crisis of 1866.²²

Along with this programme of expanding the scope of its branch network, the BIO made energetic attempts to develop the business of those branches which were already in existence. The fullest evidence is available for Izmir where the activities being undertaken were summarized in the *direction-générale's* report on the BIO's first nine months of operations as consisting of the sale and purchase of bills of exchange; the discounting of bills; advances on the security of goods, either stored in the warehouse or in the process of being

²¹ Guildhall RO, MS. 23,969, Minute Book of London Sub-Committee, *sub* 28 Oct. 1863, 14 Jan. and 16 Feb. 1864. AN, 207 AQ/167 116, Annual Report for 1864; and minutes of committee meeting of 12 July 1864, filed with Annual Report for 1863. 207 AQ/193 DGA O, "Notes on the Branches and Agencies in Turkey", dated 1 Nov. 1865.

²² PRO, FO 78/1888 ff. 205-6, Smyrna Consular Report for 1864; also BT 31/899/1009 C. *Money Market Review* 13 Feb. 1864, p. 158

exported; the purchase abroad of import goods on behalf of local merchants; and the receipt of the local customs revenue on behalf of the government.²³ Revenue receipts at Izmir (which from 1864 also included those taken in by the sub-agencies dependent upon it) were considerably larger than those of any of the Bank's other branches. Expressed in Turkish pounds (LT 1 = approximately 0.9 Pounds Sterling) they rose from more than LT 490,000 in 1864 to over LT 1 million in 1870, and although the figure declined thereafter it did not fall back much below LT 500,000 until after 1875.²⁴ Most, if not all, of this had to be remitted to Western Europe by means of bills of exchange, a business upon which (in 1863) the branch made profits of about one or one and a half per cent, as well as contributing to those of the London office with which it dealt for this purpose. But, at least in the mid-1860s, Izmir also *sold* bills of exchange on London on a considerable scale which the sound reputation of the BIO enabled it to do on more advantageous terms than was possible for other local houses. As a result the branch obtained the resources to engage in lucrative local operations much more extensively than would have been rendered possible by its rather limited capital (LT 88,000); its modest note issue which reached nearly LT 40,000 at the end of 1866 but never touched LT 50,000; and its even more limited client deposits (those held for fixed terms amounting to only LT 14,519 at the end of 1863 and LT 24,930 a year later).²⁵ At the end of 1864 the branch had as much as LT 250,024 due to it on the security of bills, most of which it had discounted, a figure which was more than double the combined resources just mentioned, and yet does not seem to include advances for which merchandise provided collateral. In any event the *direction générale* was not very happy about such extensive discounts, considering that it was an inappropriate use of the credits that London was making available. Rather, they believed, Izmir ought to pay greater attention to advances on merchandise, both because of the tangible

²³ AN, 207 AQ/167 116, Annual Report for 1863.

²⁴ AN 207 AQ/167 116-117, Annual Reports for 1863-75.

²⁵ AN, 207 AQ/167 116, Annual Reports for 1863 and 1864. See also Clay, 'Bank notes', p. 108 and Table I (p. 107).

security upon which such transactions were based, and because merchandise business brought profits not only to Izmir itself but also to London, and probably, although to a lesser extent, to Paris as well.²⁶

The Izmir *directeur* duly took account of the pressure thus brought to bear on him to modify the nature of his activities.²⁷ The merchandise business just referred to was not new in that it was already in existence in the days when the Izmir branch had been part of the old Ottoman Bank's organization,²⁸ but the emphasis placed on its expansion in the years 1863-65 clearly was. The most important aspect of it consisted of making advances to local merchants against the security of the goods they wished to export, probably up to a maximum of two thirds of their value. The procedure was that the exporter consigned the goods to the Bank, handing over the bills of lading which provided presumptive evidence of ownership of the cargoes to which they related.²⁹ Then in due course, and in return for a commission, the Bank arranged for their sale in their port of arrival, thereby being enabled both to reimburse itself for the advance and to realize its commission.

The Izmir branch could not, of course, *itself* arrange for goods to be sold when they arrived at their overseas destination, and this function had to be undertaken by an agent on its behalf. In the case of merchandise despatched to British and American ports and seemingly also to Hong Kong, BIO London or *its* agents acted for Izmir.³⁰ There is no clear evidence of the branch making advances on goods shipped elsewhere, but it probably did so, at least in the case of exports to Marseilles (and possibly also in that of those to Trieste

²⁶ AN, 207 AQ/167 116, Annual Report for 1863.

²⁷ AN, 207/167 116, Annual Reports for 1865 and subsequent years.

²⁸ Guildhall RO, MS. 23,977, Minutes of the Consulting, Audit and Finance Committee of the (old) Ottoman Bank, Feb.-April 1863.

²⁹ Guildhall RO, MS. 23,983, printed booklets giving 'Instructions for the management of the affairs of the Bank'. These relate to Istanbul and Galatz but they probably describe practice at the Izmir branch as well.

³⁰ Guildhall RO, MS. 23,967/1, Minutes of the Committee of the London Agency: these contain summaries of the weekly report of the London manager who had general responsibility for the sales.

and other Mediterranean ports), relying on the services of a local firm to undertake the final sale. In 1863-64 the commodity upon which the Izmir branch was making the largest advances was apparently valonia (acorn cups used as a source of tannin), with raw cotton and sponges also of some importance, and wool, mohair, opium and dried fruits involved to a greater or lesser extent. The Smyrniote clients paid 12 per cent on the money advanced to them, plus a commission of one and a half per cent on the amounts raised by the sale of their goods (of which one half per cent went to brokers), and a further commission of two and a half per cent to the London branch. According to the *direction générale's* report on the Bank's first nine months of operations, the value of the merchandise consigned to the Izmir branch was equivalent to about LT 110-133,000 in a full year, and it was one of the main attractions of opening sub-agencies in the interior that it would facilitate the further expansion of this side of the business through the direct contact with agricultural producers that would result.³¹ The branch's lack of sufficient warehousing was a potential constraint on this process, but the necessary facilities were already being sought by the end of 1863 and were, indeed, duly acquired early in the following year.³²

However, in addition to making advances to Izmir merchants against export goods, by 1864, if not before, the branch was also undertaking itself to purchase and ship such goods (especially raw cotton) on a commission basis for European firms. This business apparently did not survive the sharp fall in cotton prices which accompanied the end of the American Civil War, but it was on a significant scale whilst it lasted and the two per cent commission (net of brokerage) accruing to the branch earned it around LT 1500 in 1864, which implies purchases of over LT 75,000 worth of cotton. Finally the branch also undertook the purchase of import goods on behalf of its clients in Izmir, again charging them a two per cent commission.

³¹ AN, 207 AQ/167 116, Report on first semester of 1864 and Annual Report for 1864. Guildhall RO, 23,967/1, entries from 1 July 1863 to 1 June 1864.

³² Guildhall RO, 23,969, *sub* 5 Jan. 1864.

And if most of this was lost to BIO London, or whichever other agent actually made the purchases and arranged the shipments, the transaction seems to have been treated as an advance to the client and was thus productive of interest, presumably at or around 12 per cent. The import commodities in question seem most often to have been coffee and other "colonials", although once a steam engine was ordered! In the last year of the old Ottoman Bank purchases of imports for clients had been around LT 34,580, but by the end of 1863 were running at the rate of LT 55-67,000 a year, and seemingly increased further thereafter. Altogether Izmir's advances against merchandise amounted to some LT 145,800 in 1863, LT 252,000 in 1864, and LT 195,000 in 1865.³³

At Salonica it took a couple of years or more from the commencement of operations in the middle of 1864 for the new manager, M. Noblet, to develop a line of business suitable to local circumstances. Initially it had been expected that sub-agencies would be opened elsewhere in Rumelia, as they had been in the hinterland of Izmir, to take in tax revenue and to remit the proceeds to the main branch in the form of merchandise. Since this did not happen the revenues passing through the hands of the branch were not as large as had been hoped, but they were still sufficient to provide it with considerable resources. Receipts on behalf of the Treasury rose from LT 284,043 in the first full year of operations (1865) to LT 532,915 in 1868 and LT 570,942 in 1871, and did not fall below LT 320,000 in any year until after 1875.³⁴

At first most of these funds, which had to be transmitted either to Europe or Istanbul, were invested in the purchase of locally available bills of exchange. In addition the branch also undertook discounting and advances with either merchandise, or more often stocks and shares, as collateral. Both these forms of lending were on a much smaller scale absolutely than was being undertaken by BIO Izmir, but in relation to the size of its capital (LT 16,500 as compared to Izmir's

³³ Sources cited in n. 25 above.

³⁴ AN, 207 AQ/167 116-117, Annual Reports for 1864-75.

LT 88,000) Salonica's discounts and advances were actually somewhat greater.³⁵ Moreover the market at Salonica proved to be particularly volatile and the firms operating there particularly unstable, whilst their commercial practices were more than usually suspect from the point of view of London or Paris. As the *direction générale* expressed it, "Nous trouvons un système d'affaires peu régulier établi à Salonique, et qui ne s'accorde pas avec nos règlements". Hardly had the branch opened its doors than wild speculation in cotton gave way to "un malaise financier", whilst 1865 saw another crisis (the result of the collapse in cotton prices, cholera and a disastrous silk harvest) during the course of which one of the largest local exporters failed, involving the Bank to an extent which more than wiped out its profits for the whole of that year. There was, in truth, hardly any really first-rate commercial paper to be had at Salonica, and those at the *siège central* thus fairly quickly concluded that their manager's activities were too risky. He was, therefore, instructed to concentrate on the commodity business, on making advances on consignments of export goods and especially on purchasing such goods on behalf of European firms, rather than dealing so extensively in bills.³⁶ The branch's total discounts were accordingly reduced from LT 101,119 in 1865 to only LT 36,997 two years later, a process which caused such bad blood in some quarters that on one occasion in April 1866 Noblet was ambushed and threatened by a discontented ex-client (a Briton!) accompanied by three armed followers.³⁷

Meanwhile, however, the branch's own business as a commodity trader was going well with the value of orders received (mainly for grain) reaching LT 150,000 in 1867: those passed on to the branch by BIO London on behalf of dealers, mostly in London and Edinburgh, totalled 37,000 quarters in the autumn of that year alone. The other new direction in which Salonica began to seek profits was in so-called "daoudié" affairs, that is, in providing the Treasury with a bank

³⁵ AN, 207 AQ/167 116, Annual Reports for 1864-66.

³⁶ AN, 207 AQ/167 116, Annual Reports for 1865-67.

³⁷ AN, 272 AP/14, Noblet to de Ploëuc, Salonica, 23 April 1867.

guarantee that the farmers of the tithes and other taxes, and their sub-agents, would perform their contracts. This was lucrative, yielding around LT 2000 in commission in 1868, and, because of the high levels of security demanded (presumably in the form of a lien on the tithe grain itself), was considered by the *direction générale* to involve little risk. It also had the additional advantage of putting the Bank into direct contact with producers in the interior and so facilitating (in the way that sub-agencies might have done) the purchases of grain required to fulfil the orders by its foreign clients. Additional funds to finance these activities were mobilized by drawing on credits made available by London, and 1867 thus yielded Salonica a solid profit of LT 7547 and in 1868 almost as much with LT 7255. The *direction générale* was thus full of confidence in Salonica's future. "La position de notre succursale comme maison de commerce commissionnaire s' affirme de plus en plus", they informed the Committees happily in 1868, adding that the circle of firms from which it was taking orders for produce now extended not only to England but also to Spain and Switzerland.³⁸ It was also taken as evidence of a growing local confidence in the Bank at Salonica itself that client deposits for fixed terms at interest had grown from the low level of only LT 3089 at the end of 1867 and some LT 6000 a year later to LT 17,200 at the end of 1869.³⁹

As a result of the vigorous prosecution of their businesses for several years in the mid-1860s all the BIO's branches in the Ottoman provinces returned good financial results, at least for a time. The profits they recorded, after deduction for costs and expenses, and provision for bad debts, were not, it is true, substantial compared to those of the *siège central* at Istanbul. The latter, which were derived mainly from government business, rose irregularly from LT 175,369 in the first nine months of operations in 1863 to LT 272,287 in 1869, averaging LT 199,543 over those years as a whole. By comparison at Izmir net

³⁸ AN, 207 AQ/167 116, Annual Reports for 1867 and 1868. Guildhall RO, MS. 23,977, *passim*.

³⁹ AN, 207 AQ/167 116, Annual Reports for 1867-69.

profits increased from LT 7802 in 1863 to an average of LT 15,208 a year over the following three, whilst at Beirut they increased from a mere LT 483 in 1863 to LT 8912 in 1864 and LT 7811 in 1865. However, as may be seen from Table II in the Statistical Appendix, these modest sums were actually very large in relation to the capitals with which the local managers were trading. On the amounts allocated to Izmir and its sub-agencies by the *direction générale* (LT 88,000 increased to LT 104,500 in 1865) the profits of 1864-66 represented returns of 17.2 per cent, 15.0 per cent and 14.2 per cent respectively, whilst Beirut in 1864 and 1865 was making 40.5 per cent and 35.5 per cent on the LT 22,000 allowed to it. At Bucharest (capital LT 44,000) rates of return were closer to those achieved by Izmir, with 15.4 per cent in 1864 and 20.7 per cent in 1865, but at Salonica (capital LT 16,500) the rate of profit in 1867 and 1868 was even higher than it had been a few years before in Beirut, 45.7 per cent and 43.8 per cent.⁴⁰

Of course, not every branch could be expected to produce results as good as those just cited every year, but if Beirut's performance in 1866 and 1867, and Larnaca's in 1867, were disappointing, against this could be set Salonica's apparent success in overcoming its early problems from 1867 onwards. Taking these first few years of the BIO's operations in the Ottoman provinces as a whole, therefore, they appeared to show that neither the hopes of the bank's founders, nor even Farley's optimistic predictions, had been unduly extravagant. Good, even spectacular, profits were, it seemed, to be made by a European bank from the financing of the import-export trade and other forms of local commercial activity, from direct participation in the commodity trade, and from remitting tax revenues from the provinces to Istanbul. Equally, therefore, and despite the fact that the international financial crisis of 1866 had led the BIO to suspend the implementation of Gilbertson's plan of the previous autumn for the expansion of the branch network, it would have appeared to be a safe prediction that the number of places in the Empire where European banking services were available, and the number of such

⁴⁰ AN, 207 AQ/167 116, Annual Reports for 1863-69.

banks providing them, would progressively increase. Greek, Armenian and other local sarrafs would no doubt continue to have a share of the business, but European banks would surely come to play a major, if not the major, role in the process whereby the Ottoman economy was becoming increasingly commercialized and increasingly integrated with the emergent international economy.

4. The BIO in the Provinces: the Years of Failure and Loss.

And yet it was not to be so, at least not until much later - indeed not really until the early years of the twentieth century.⁴¹ At one of the BIO's branches after another in the later 1860s things went seriously wrong, profits dwindled to insignificant levels or turned into outright losses (at Galatz as early as 1865), and at Salonica in 1869 and 1870 into enormous losses which swallowed up the branch's capital several times over. At the former the provision made for bad debts in 1865, LT 34,702, left the branch declaring a loss of no less than LT 31,286 on the year, compared to profits of LT 1935 and LT 2785 in 1863 and 1864 respectively. At the latter bad debts left the branch, whose operating capital was only LT 16,500, with a loss of LT 37,900 in 1870 and a further LT 44,337 in 1871! Elsewhere the results were not so bad, but the overall effect was that the return on the capital allocated to Izmir, Beirut, Salonica and Larnaca taken together fell steeply, from 16.9 per cent in 1865 to 1.98 per cent in 1869, and then to a negative figure in the three years that followed.⁴² It was therefore fair enough for Emile Deveaux, the Istanbul *directeur*, to attribute the inability of the BIO to match the level of profits made by its local rivals in 1871 partly to the fact that none of them were burdened with a branch network.⁴³

It is true that BIO did not actually close any of its provincial operations in response to this disastrous story.⁴⁴ However whilst this

⁴¹ C. Clay, 'The origins of modern banking in the Levant', *International Journal of Middle Eastern Studies*, 26 (1994), *passim*.

⁴² See Tables I and II in the Statistical Appendix.

⁴³ AN, 207 AQ/53 C2, Deveaux to Salvador, C'ple, 19 Jan. 1872.

⁴⁴ The sub-agency opened at Isparta in 1866 was, however, moved to Antalya in 1869.

was partly because the branches continued to make some contribution to the profits of the *siège central* even when making none themselves, it was almost certainly as much or more for political reasons. The BIO was, as we have noted, the government bank and the closure of establishments which were providing the Porte with useful services in the matter of collecting and transmitting revenue receipts would have been awkward, and might have provoked Ottoman ministers into taking some kind of retaliatory action.⁴⁵ But the expansion plans were abandoned in their entirety. None of the new branches urged upon the Committees in November 1865 were actually opened, and proposals emanating from outside the Bank for an extension of its operations to Jerusalem (Aug. 1871) and Trabizon (Oct. 1872) were firmly turned down.⁴⁶ And so, Galatz and Bucharest having been hived off to a separate Bank of Rumania in 1866,⁴⁷ for nearly ten years the BIO's branch network within the Empire remained confined just to Izmir and its sub-agencies (Aydin, Manisa, Afyon Karahisar and Antalya), Beirut, Salonica and Larnaca. This was a pitiful fragment of what had only recently been envisaged, and it left numerous commercially active regions without any direct access to the Bank's services whatsoever. Since, as we shall see, no other Western bank moved in either, it also meant that in most of the region the monopoly of the indigenous sarrafs remained unchallenged. It was, moreover, to be more than two decades before the BIO was again willing to contemplate opening anywhere within the Empire outside Istanbul on commercial, as opposed to political, grounds.⁴⁸

Besides at those few branches which did exist, businesses which in the mid-1860s had been strongly expanded with the full

⁴⁵ AN, 207 AQ/53 C2, Gilbertson to Salvador, C'ple, 8 June 1870; Deveaux to Salvador, C'ple, 14 Aug. 1871.

⁴⁶ Guildhall RO, 23,967/2, *sub* 2 Aug. 1871 and 25 Sept. 1872.

⁴⁷ Autheman, *Banque impériale ottomane*, p. 44.

⁴⁸ Except in Egypt, which was in effect a different country (and certainly a distinct economy), although nominally part of the Empire. The new *Ottoman* branches opened in 1875 received a subsidy of LT 5000 each (which was amply sufficient to cover their operating costs) from the government which wanted them to improve revenue collection and transmission: see below p. 21.

encouragement of the Istanbul *direction générale* and the Committees were wound down on their explicit instructions. The managers at Beirut and Larnaca were allowed some latitude to make what they could of the extremely limited resources available to them, but from 1871 those at Izmir and Salonica were strictly confined to liquidating outstanding accounts, recovering monies owed, and to the exchange and currency transactions necessitated by the receipt of government revenue and its onwards transmission to Istanbul. At Izmir, where the capital allowed to the branch was reduced from a total of LT 104,500 (LT 88,000 for Izmir itself and LT 5500 for each of the sub-agencies) in the mid-1860s to only LT 50,000 from 1872 onwards, this imposition of strict limits on the type of business it was allowed to transact also meant a withdrawal of the local note issue which had circulated successfully since 1864.⁴⁹ And when, early in 1874, the managers there complained, in response to a further tightening of the restrictions imposed upon them, that they would hardly be able to avoid losing money, the London Committee replied unhesitatingly that “even if this must be the inevitable result ... the circulation of the branch must be restrained as proposed”. Similarly when in September 1875 it appeared that the same branch was drawing too heavily on London the Committee was quick to remind the *direction générale* that the instructions of the January of the previous year were still in force, and that the errant managers must be called to order.⁵⁰

By the beginning of the 1870s those who controlled the policy of the BIO had concluded that the branches were only likely to cause trouble and loss, and were to all intents and purposes worthless. The only real reason for keeping them open was to provide a service for the Ottoman Treasury and to keep the Bank's name alive in the provinces, and the important thing was that they should lose as little money as possible in the process. They were not even to *try* to make

⁴⁹ AN, 207 AQ/167 116-117, Annual Reports for 1865-75. See also Statistical Appendix, Table II.

⁵⁰ Guildhall RO, MS 23,967/3, *sub* 7 and 14 Jan., 4 and 11 Feb., and 4 March 1874; and 8 Sept. 1875. AN, 207 AQ/193 DGA O, “Tableau montant la répartition du capital...”.

significant profits!⁵¹ The reduced scale of the business they were allowed to transact is suggested by a fall in the value of bills bought by Izmir from an average of LT 1.78 million to LT 1.31 million between 1865-68 and 1872-75, and from LT 361,578 to LT 74,604 in the value of those discounted. Over the same period at Salonica the falls were even more dramatic from LT 714,869 to LT 163,674 and from LT 59,558 to a mere LT 2312 respectively. Reduced business activity is also indicated by the modesty of the profits generated at Beirut and Larnaca, and the difficulty experienced by both Izmir and Salonica in even covering their costs. As may be seen from Table II in the Statistical Appendix, at Beirut declared profits exceeded LT 4000 a year, and at Larnaca LT 2000 a year, only twice during the late 1860s and early 1870s. At Izmir losses were recorded for two out of the first six years of the 1870s (1870-75), and at Salonica for every year except one. By contrast, as we have already seen, the profits of the *siège central* at Istanbul averaged LT 199,543 a year over the period 1863-69, and they were nearly twice as much (LT 398,312 a year) during 1870-75. In fact over the years 1870-75 inclusive the losses declared by the branches (LT 106,564) exceeded their declared profits (LT 33,505) by a factor of more than three, and although some of the sums declared as losses may, in fact, have been recovered in later years, most were certainly lost for ever.⁵² It is unsurprising, therefore, that when a new convention was being negotiated with the government in 1874, the purpose of which was to bestow upon the BIO the functions of *trésorier-payeur général*,⁵³ and which would make necessary a whole series of new

⁵¹ AN, 207 AQ/53 C2, Deveaux to Salvador, Cplé, 14 Aug. and 22 Sept. 1871, 14 May 1872. 207 AQ/167 116, Annual Report for 1871. Guildhall RO, MS. 23,967/3, *sub* 14 June and 25 Oct. 1871. *Bullionist*, 22 June 1872 and 28 June 1873.

⁵² AN, 207 AQ/167 116-117, Annual Reports for 1865-75. See also Statistical Appendix, Table II.

⁵³ The BIO's new concession, which as originally conceived transferred effective control of the Ottoman state's finances from the government to the Bank in a desperate effort to avert state bankruptcy, will be dealt with by the author elsewhere. In fact it never came fully into effect, but in theory the Bank was to have had a monopoly of the collection and transmission of all government revenues. For a brief discussion see Autheman, *Banque impériale ottomane*, pp. 64-7. See also convention and concession, both of 17 Feb. 1875 in AN, 207 AQ/BO 14.

branches to handle revenue receipts, the Bank insisted on a subsidy of LT 5000 per branch, to apply not only to new but also to existing branches.⁵⁴ This was sufficient to cover their entire operating costs and so would make it unnecessary for them to engage in any potentially loss-making commercial banking. And it was on this basis, and this basis only, that the BIO did, indeed, open on a small scale in Bursa, in Edirne and Rusçuk in Rumelia, and in Damascus in Syria, in the later months of 1875.⁵⁵

5. The Rivals of the BIO.

The BIO's turning away from its earlier determination to compete for commercial banking business in the Ottoman provinces should not, however, be seen simply as a loss of nerve by a single financial institution. For, contrary to what its *direction générale* had expected in 1863-65, although numerous rivals appeared to challenge its dominance of financial affairs at Istanbul, none of them ever opened as much as a single sub-agency in the provinces, although at least one⁵⁶ was on the point of extending its operations to Alexandria when the 1873 crash struck. And rivals aplenty in the Ottoman capital there certainly were by the early 1870s, mostly representing some kind of partnership between Western and indigenous (generally Greek) capital. Thus besides lesser and more ephemeral institutions there was the *Société générale de l' Empire ottoman* (1864), the *Crédit général ottoman* (1869) the *Banque de Constantinople*, the *Société ottomane de change et de valeurs*, the *Banque austro-ottomane*, and the *Crédit austro-turque* (all 1872), to which list may be added the French *Crédit lyonnais* which opened an Istanbul branch in 1874. All these were concerns of some substance, even the two Austrian banks

⁵⁴ AN, 207 AQ/BO 14, *Acte de concession, règlement et statuts*, convention of 18 Feb. 1875, Arts. 6 and 14.

⁵⁵ AN, 207 AQ/167 177, Annual Report for 1875. The Branch at Rusçuk was subsequently transferred to Varna, and then closed in 1882. A branch re-opened at Rusçuk in 1892. Both places were in the Principality of Bulgaria from 1878 onwards.

⁵⁶ This was the *Société générale de l' Empire ottomane*. *Money Market Review*, 8 March 1873.

which did not last long because of their involvement in the Vienna crash of 1873. All certainly, therefore, had the resources to have extended their operations beyond Istanbul had they wished to.⁵⁷ And, according to the BIO's Edward Gilbertson writing in 1870, those in existence by that date, were constantly talking of doing so.⁵⁸ In the event, however, none of these other banks actually did, preferring to concentrate almost exclusively on the financial affairs of the Ottoman Treasury. The ill-fated Izmir operation of the Ottoman Financial Association in 1864-66 thus remained the only other attempt by a Western or Western style joint-stock bank to conduct business in the Ottoman provinces until the *Banque de Salonique* opened its doors in the city from which it took its name in 1888.⁵⁹

Yet, ostensibly at least, the favourable conditions for the development of European banking in the Ottoman Empire about which Farley had been so enthusiastic in the early 1860s, continued to prevail right down to 1875. It was certainly a period of economic expansion, and probably of growth of output per head, in the commercialized sectors of the economy. According to Pamuk, Ottoman imports and exports taken together increased by 86 per cent (from an average of LT 22.74 million per annum to LT 42.28 per annum) between the first five years after the Crimean War (1857-61) and the last five before the government's bankruptcy and the coming of war in the Balkans (1871-75). And the government's receipts from the tithe, which may be taken as providing a rough index of agricultural production, rose at an average rate of some 5 per cent a year between the early 1860s and the early 1870s.⁶⁰ Certainly conditions changed in 1876 and later, with the government's suspension of interest payments

⁵⁷ Du Velay, *Histoire financière*, pp. 197-205. The paid up (as opposed to the nominal) capital of these concerns varied from only LT 330,000 in the case of the *Société ottomane* to LT 1 million in the case of the *Crédit générale*.

⁵⁸ AN, 207 AQ/53 C2, Gilbertson to Salvador, C'ple, 8 June 1870.

⁵⁹ J.R. Lampe and M.R. Jackson, *Balkan Economic History 1550-1950*, (Bloomington 1982), p. 308. *Annuaire orientale* 1889-90, sub Salonica.

⁶⁰ Pamuk, *Ottoman Empire*, Table A1.1 on p. 149. AN, 207 AQ/232 D2, *Budget des recettes et des dépenses ... 1290 (1874-75): Rapport de la commission*. The figures in this budget were more reliable than those of earlier years. See also Shaw, 'Ottoman expenditures'.

on its long-term debt, a rapidly depreciating paper currency, the dislocation of the economy by a general mobilization, the outbreak of war, a massive influx of refugees, the occupation of much of Rumelia by the Russians, and the eventual loss of some of the best provinces of the Empire.⁶¹ Recovery from these economic disasters was, moreover, very slow, in part because for almost the whole of the 1880s Ottoman foreign trade remained depressed in value terms - a depression which reflected the low prices for the primary products which made up virtually all the country's exports prevailing at that time.⁶² It is not surprising, therefore, that in the second half of the 1870s and throughout most of the 1880s, neither the BIO nor any other European bank operating in Istanbul sought to extend their operations outside the capital. For the earlier period, however, it is a real question why the expectation that such concerns would flourish on the basis of under-cutting the local *sarrafs* and taking over much of their business, had proved to be illusory.

Certainly it was the case before 1875 that the lucrative opportunities offered by providing financial facilities for the government in the era of continuous and increasingly large-scale short and long-term borrowing by the Porte which culminated in the Ottoman bankruptcy, greatly reduced the *incentive* for the European banks to look beyond Istanbul. Largely on the basis of its dealings with the government the BIO was able to pay its shareholders a dividend in double figures (with a maximum of 14 per cent in 1872) in every year of its existence from 1863 to 1874 inclusive, except for 1866 when it paid only 9 per cent. Its less conservatively managed rivals, moreover, were able to do better still. The *Société générale de l'Empire ottoman* boasted that in its first thirty months of operations in 1864-66 it had been able to return to its shareholders the equivalent of nearly half their subscriptions in dividends. As for the *Crédit général ottoman* over the four years 1871-74 it paid dividends of 16.5 per cent, 25.8 per cent, 17 per cent and 20.5

⁶¹ I know of no proper treatment in print of the Ottoman economy in the war years and their aftermath, adequate or otherwise.

⁶² Pamuk, *Ottoman Empire*, pp. 33-4, 50-1.

per cent; and the *Banque de Constantinople* was able almost to match this performance with 24.3 per cent, 13.3 per cent and 18 per cent over 1872-74.⁶³ As long as they were able to generate the profits capable of sustaining dividends like these by concentrating on government business in the capital, the banks in question had little reason to venture into the provinces. And this was especially so as they are likely to have felt that they would be at a competitive disadvantage as compared to the BIO because of the latter's monopoly of the handling of tax revenues, although, in fact, the BIO found this monopoly less advantageous than it had expected. Indeed, as we have seen, its possession eventually trapped it into keeping open provincial establishments (notably the West Anatolian sub-branches) that it might have preferred to close.⁶⁴

6. A Difficult Commercial Environment.

Clearly, however, there was more to the failure of European banking to make any significant headway in the Ottoman provinces than the high rate of profit to be obtained in Istanbul. We must also ask ourselves not only why, after a promising start, the performance of the BIO's branches deteriorated so seriously, but also why the *direction générale* of the Bank concluded on the basis of this experience that branch banking was not worth persevering with at all for the foreseeable future.⁶⁵ The answer to these questions seems to lie in two factors. The first was that, for all its rapid expansion, the region's trading economy in the third quarter of the nineteenth century was highly unstable, which rendered it extremely difficult to develop a sound banking business. And the second was the apparently insuperable problem of finding branch managers able to cope successfully with conditions which were entirely different from those normally encountered in Western Europe.

⁶³ A. Biliotti, *La Banque impériale ottomane*, (Paris 1909), p. 337. *Bankers' Magazine* XXVII (1867), pp. 679-80. AN, 65 AQ/A 473, published Annual Reports of *Crédit général ottoman*; and 65 AQ/A 418, published Annual Reports of *Banque de Constantinople*.

⁶⁴ See above pp. 17-18.

⁶⁵ See above p. 19.

To take these in turn, the underlying reason for the instability was that whilst the Ottoman Empire was an exporter of a number of agricultural products in demand abroad (most notably grain, cotton and silk), it was only a marginal supplier upon which the West drew heavily when other producers were unable to meet its needs in full, but at least part of whose output was at other times surplus to the needs of the international market. Demand for a number of Ottoman products, and consequently their price, thus tended to oscillate wildly. The most obvious example of this is the rise and fall of a Western market for Ottoman cotton in the American Civil War period and its aftermath, but it is far from being the only one.⁶⁶ It was a reflection of this situation that no single Ottoman product remained at the top of the Empire's list of exports for a long period (as, for instance, cotton remained at the top of the list in the case of Egypt throughout the whole period 1862-1914 and beyond). Thus a succession of commodities, madder, cotton, valonia, grain, grape products, and (later) tobacco, all had their day, and then gave way to something else.⁶⁷ It was also the case that all the products in question were agricultural. Their supply was thus necessarily dependent on harvest yields, and in a region subject both to drought and locusts, as well as occasional exceptionally severe winters, these too tended to be highly variable. Thus a heavy drop in both the silk and cocoon harvest, and the cotton harvest, seriously damaged the business of the BIO's Salonica branch in 1865, whilst a sudden sharp fall in the price of grain was singled out as a cause of further difficulties for Salonica in 1869. Poor grain harvests were the ultimate cause of the heavy losses incurred at Galatz in 1865, and caused problems at Izmir in 1866 and at Beirut in 1870.

Besides the region was also politically unstable. The external conflicts of 1853-56 and 1876-78 apart, internal disorders very seriously disrupted economic life in Syria in 1860-61, virtually bringing the

⁶⁶ Owen, *Middle East*, pp. 111-13, 155-7, 167-8.

⁶⁷ Inalcik and Quataert, *Economic and Social History*, pp. 832, 848-52. Kasaba, *Ottoman Empire and World Economy*, pp. 88-92. Pamuk, *Ottoman Empire*, p. 85.

export of silk to a halt and wrecking the fledgling business of the old Ottoman Bank's new Beirut branch. Parts of Rumelia were also adversely affected in 1857-58, 1861 and (before it turned into foreign war) in 1875-76. Finally the Levant suffered from more than its fair share of natural disasters, including earthquakes, rampant epidemics and famine. The most serious of the second in this period was the cholera outbreak of 1865 which brought normal business to a virtual halt in several of the main cities in the Eastern Mediterranean, especially Beirut but also to a lesser extent Izmir. The last was widespread in parts of central and western Anatolia in 1874-75, and led the BIO's sub-agencies in the interior almost entirely to suspend operations. All these local causes of commercial instability were, of course, superimposed on top of crises which had their origin *outside* the region, notably the financial crises of 1857, 1866 and 1873.⁶⁸

It was also a complicating factor that in all the main Ottoman ports much of both importing and exporting (at Beirut almost the whole of it)⁶⁹ was in the hands of local rather than European firms. Some of these concerns, mainly Greek at Izmir, Jewish at Salonica, and Syrian Christian at Beirut, had considerable resources. However, many were small, weak, under-capitalized, with a tendency to trade beyond their means, and so prone to fail in business down-turns. Besides, even the most substantial were accustomed to a different tradition of commercial practice which in a crisis led them to give a higher priority to maintaining their liquidity than to the prompt honouring of their debts - although this did not necessarily mean that they would not honour them in the end. Particular problems were encountered as a result of such attitudes at Salonica in 1870, where one or two of those who owed large sums to the BIO seem to have crossed the line from delaying payments to preserve their solvency to an outright attempt to avoid having to pay altogether, involving the Bank in litigation before a local tribunal whose impartiality it considered highly suspect.

⁶⁸ AN, 207 AQ/167 116-117, Annual Reports 1863-75, *passim*.

⁶⁹ *Report on the Trade and Commerce of Beyrout for the Year 1873* (British Parliamentary Papers, 1874 LXVII p. 849).

Indeed the difficulties encountered by the Salonica branch in recovering money due to it were such that they provoked an exasperated Emile Deveaux of the *siège central* to expostulate that they should not continue to do business at all in a market “populated exclusively by swindlers”!⁷⁰

7. Problems of Management.

The second main reason for the failure of the BIO's Ottoman branches was the inadequate performance of those responsible for their management. The conditions just referred to placed very great demands on branch managers, especially in terms of risk assessment, knowledge of local trading conditions, and the circumstances and trustworthiness of the local traders to whom credit might be extended. It is clear, however, that many of those placed in charge of the BIO's branches in the 1860s, 1870s and later, were unable to cope with the challenge. Again and again in these years it was the mistakes of the managers (sometimes committed in defiance of instructions), usually in the form of an incautious extension of credit either to the wrong people or on inappropriate securities (or both) when things seemed to be going well, rather than factors that might genuinely be regarded as outside their control, which led to losses. As a result there was a succession of dismissals, most and perhaps all of which, seem to have been well merited: at Galatz in 1865, Beirut in 1866, Salonica in 1871 and 1876, Izmir in 1875 and 1880, and at Edirne in 1882.⁷¹

A good example of managerial incompetence is provided by the story of M. Noblet, the French manager at Salonica. Noblet's judgement had already been called into question on an earlier occasion, but then during the middle months of 1870 when some kind of local financial crisis was both predictable and predicted, he not only failed to exercise due prudence but without proper authorization purchased over LT

⁷⁰ AN, 207 AQ/53 C2, Deveaux to Salvador, C'ple, 31 Aug. 1870. 207 AQ/167 116, Annual Report for 1871.

⁷¹ AN, 207 AQ/167 116-168 120, Annual Reports.

22,000 worth of bills on France from a local house immediately before its collapse. He was dismissed (Nov. 1870), but returned to London to plead his case with the Committee there, and succeeded in persuading its members to reinstate him, which they were probably willing to do because they thought that he would be more successful than any replacement in recovering the large sums of money still owed to the branch. However, it did not prove to be a wise decision. Noblet returned to his post furnished with instructions to concentrate on recovering outstanding debts and to undertake no new business, instructions which were subsequently modified to permit a limited resumption of commodity trading with London. But, rather than keep within these limits, he began also to deal on a substantial scale with Spain, Italy, France and eventually "everywhere", presumably in the hope of recovering the previous year's losses. Instead he proceeded to lose yet more money, both on the merchandise contracts and on the exchange transactions associated with them. He was dismissed again, this time for good, and before the end of January 1872 a new manager was in charge - who was in turn destined to leave under a cloud in 1876 for unspecified "folies" which had gravely compromised the interests of the Bank.⁷²

The BIO's branch managers in this period were apparently without exception Westerners, save at the sub-agencies dependent upon Izmir. In 1864 they were all British, Messrs. Powell at Galatz, Mr. Jackson at Bucharest, Mr. La Fontaine at Izmir, Mr. Buchanan at Beirut and Mr. Lang at Larnaca, except for the Frenchman M. Noblet at Salonica. A dozen years later in 1876 Izmir was in the joint charge of Messrs. Charles Fisher and F.H. de Cramer, with a Victor Caporal as their chief accountant. The manager at Salonica was Charles Buchanan, with Alfred Loir as chief accountant; at Beirut it was Mr. Christian; at Larnaca,

⁷² AN, 207 AQ/167 116, Annual Reports for 1866 and 1870. 207 AQ/53 C2, Deveaux to Salvador, C'ple, 6 Oct. 1871 (enclosing Deveaux to Wingfield, and Auboyneau to Gilbertson, of same date), 18 Oct., 1 and 8 Nov. 1870. Auboyneau to Salvador, C'ple, 8 Nov. 1871. 207 AQ/193 DGA 1 bis, Report by Octave Homberg dated 15 Oct. 1876, ff. 21-2. Guildhall RO, MS. 23,967/2, *sub* 5 Oct. and 23 Nov. 1870; 11 and 18 Jan., 13 Oct., 1, 8 and 22 Nov. 1871; 17 and 31 Jan. 1872.

William Riddell; at Edirne, Mr. Black with Mr. (? Herr) Schnell as sub-manager; at Bursa, Duke Baker with Antoine Faraon (who *may* have been a Levantine) as sub-manager; and at Rusçuk, Wilhelm Heintze assisted by Edward Court. There must therefore be a strong suspicion that the sorry story of incompetence and failure that a study of the fortunes of the BIO's provincial branches reveals between the mid 1860s and early 1880s was a reflection of the fact that most of those appointed were simply not adequately experienced in the very difficult business world in which they were trying to operate.⁷³ The steady success of the Scotsman R.H. Lang in his tiny outpost at Larnaca over the whole period 1864-72, and of the German Johan von Haas at Beirut in the years after 1866, shows that Europeans were not bound to fail as branch managers,⁷⁴ but both were unusually able men, destined to rise very high in the Bank's service, the former to be its *directeur général* from 1897 to 1902, and the latter to be *directeur adjoint* for many years in the 1870s and 1880s. However, it is probably significant that of the original set of the larger branch managers, whether inherited by the BIO from its predecessor the old Ottoman Bank or newly appointed in 1863-64, the *only* one who did not prove a disappointment, or worse, was the elderly Frederick La Fontaine at Izmir who had spent all or most of his life in the Levant.⁷⁵ On the other hand managers who were entirely at home in the business world of the Eastern Mediterranean might be *too* closely involved in it for them to be relied upon always to put the interests of the Bank before those of their relatives and personal friends, which is no doubt exactly why the *direction générale* and Committees preferred Westerners to Levantines. But locally-born Europeans could be just as bad. Thus in the period of financial crisis following the government's declaration of bankruptcy in October 1875, and when they were under instructions to reduce their lending, Messrs. Fisher and de Cramer (who were half

⁷³ For the branch managers in 1864, see the Annual Reports. For those of the later date, AN, 207 AQ/193 DGA 1, "Etat du personnel ... 30 Juin 1876".

⁷⁴ AN, 207 AQ/167 116, Annual Reports 1864-72.

⁷⁵ Guildhall RO, MS. 23, 971/1, Annual Report to the shareholders of the (old) Ottoman Bank, 26 Aug. 1857.

brothers) and who had succeeded La Fontaine at Izmir, made inappropriately large advances at a "derisory" rate of interest to a firm in which another of de Cramer's brothers was one of the partners - most of which the latter then lost in speculative operations. This resulted, inevitably, in the dismissal of both the two directors, and another member of staff implicated in the affair.⁷⁶

8. Epilogue, 1878-1889.

In the years immediately after the end of the Russo-Turkish War the BIO opened a number of new branches, at Nicosia and Limassol in 1878 and 1879 respectively, at Philippopoli (Plovdiv) in 1878, and at Cairo in 1881. But none of them were established primarily to undertake ordinary commercial banking. Rather they were to provide financial services for the governments of the territories in question - Cyprus (by then under British rule), partly autonomous Eastern Rumelia, and Egypt, of which the two former had been detached from the Empire as a result of the events of 1877-78. Within the territories still ruled by the Sultan the only new establishment to be created before the very end of the 1880s was a new sub-agency dependent on Izmir at Nazilli in Western Anatolia (1884), which was, in effect, a replacement for the one at Afyon Karahisar which had been closed a few years before, and like the latter concerned mainly with the transmission of revenue on behalf of the government. Throughout almost the whole of the decade, moreover, the business of the Ottoman branches was kept within very narrow limits. In 1882, for instance, the modesty of profits they had been able to make were explained to the Committees as being the consequence of strict adherence to instructions to be extremely reserved in their operations, to keep their resources as liquid as possible and to regard their most important mission as being to develop a financial relationship with the Ottoman provincial authorities. And throughout the middle years

⁷⁶ AN, 207 AQ/193 DGA 1 bis, Report by Octave Homberg dated 15 Oct. 1876, ff. 12-13. Rue Meyerbeer Archive, *Procès verbaux du comité de Paris sub 6 July 1877*.

of the decade the *direction générale* repeatedly used an almost identical form of words to describe their activities. Thus, in 1884, it was again reported that the branches had been instructed “de considérer comme leur mission principale l’ encaissement et la transmission des fonds du gouvernement ottoman”. Only in 1887 were the Committees informed that the larger branches were being allowed a little more latitude than previously to choose their own business.⁷⁷

It would be an exaggeration to say that in these years the BIO branches provided no financial facilities for the import-export trade, but those they did provide were (at least until almost the end of the decade) essentially by-products of providing facilities for the government. The increased contribution to the profits of the Bank as a whole they succeeded in making in the 1880s was thus the result of a growth in the scale of their business with the government, rather than an expansion of conventional banking operations. In any event the contribution was still a very small one. During the years 1884-88 the trading profit of all the branches and sub-agencies within the Empire proper, taken together, averaged only LT 21,214 a year, to which should be added the LT 25,000 a year deriving from the government’s subvention of LT 5000 per branch for each of the five main branches, making LT 46,214 a year in all. By contrast the BIO’s three Egyptian branches made an average of LT 83,188 a year in profits, and the *siège central* at Istanbul no less than LT 436,352 a year!⁷⁸

It was not until the arrival of an ambitious new *directeur général*, Sir Edgar Vincent, at the *siège central* in Istanbul in 1889, that the BIO’s branches in the Ottoman provinces were once again positively encouraged to expand their commercial business and generally to compete with the *sarrafs*, which most of them had been to all intents and purposes prohibited from doing for almost twenty years. And only with Vincent was the policy of building up a large branch network outside the capital, which had been abandoned in the later 1860s,

⁷⁷ AN, 207 AQ/168 120 - 169 121, Annual Reports for 1878-1887.

⁷⁸ AN, 207 AQ/169 121, Annual Reports for 1884-88. The figure for the *siège central* which emerges from the Reports is LT 461, 352 because in the Bank’s accounts the government’s subvention on account of the branches was credited to the central establishment.

finally revived. Within a few years he had opened new branches or sub-agencies at Muğla, Denizli, Uşak and Balıkesir in Western Anatolia, at Konya and Ankara in Central Anatolia, at Adana in the South, and at Samsun and Trabzon on the Black Sea coast; at Aleppo in Syria; and at Baghdad and Basra in Iraq - as well as at Sofia and Rusçuk outside Ottoman territory in Bulgaria. Not all these new branches prospered and some of them (Muğla, Denizli and Basra) only remained open for a year or two. However, despite some heavy losses in the mid-1890s, most survived and in the early twentieth century were joined by many more - their greater success in this later period owing a good deal to the employment of Ottoman Christians and Westerners who had spent their careers in the Levant as managers.⁷⁹ The BIO branches also eventually came to be joined by those of a number of other modern joint-stock banks, although as late as 1902 only four other such concerns were operating in the Empire outside Istanbul. The *Crédit lyonnais* had by that date opened also at Izmir, Jerusalem and Jaffa; the *Banque de Salonique* was competing for business at Salonica itself and at Monastir; the *Banque de Métélin* was at Mytilene (Lesbos), Bandırma, Izmir and Salonica; and the *Deutsche-Palaestina Bank* was at Jaffa.⁸⁰

It was, therefore, only from 1889 onwards, rather than with the first appearance of Western banks in the Levant in the 1850s and 1860s, that such concerns became a significant factor in the economy of the Ottoman provinces and the development of their export economy. Until then, except briefly in a few places in the 1860s, they had played only a minor role in the process whereby the region became incorporated into the emerging world economy. Despite the hopes and expectations of J.L. Farley and others it had, after all, been the indigenous sarrafs, not the joint-stock banks, which had played the decisive role as far as the provision of financial facilities was concerned.

⁷⁹ Clay, 'Origins', esp. pp. 594-8.

⁸⁰ *Ibid.*, p. 593. *Annuaire orientale*, 1902.

STATISTICAL APPENDIX

TABLE I Ottoman provincial branches of the BIO: gross and declared profits

TABLE II Ottoman provincial branches of the BIO: rate of return on operating capital

TABLE I - Ottoman provincial branches of the BIO 1863-1876:							
gross and declared profits							
<i>Values in Turkish Pounds (LT)</i>							
	1863^a	1864	1865	1866	1867	1868	1869
Galatz							
Gross profits	(16,245)	24,990	10,529				
Costs and expenses	(5792)	7669	7113				
Provision for bad and doubtful debts	(8518)	14,536	34,702	Transferred to the Bank of Rumania			
Declared profits	(1935)	2785	<u>31,286</u>				
Bucharest							
Gross Profits	(8455)	16,946	4552				
Costs and expenses	(3383)	4144	4425				
Provision for bad and doubtful debts	(503)	6018	9252	Transferred to Bank of Rumania			
Declared profits	(4569)	6784	9125				
Izmir							
Gross Profits	(13,432)	25,960	31,152	30,720	28,557	22,754	19,391
Costs and expenses	(5496)	7176	11,088	12,641	11,061	10,629	12,760
Provision for bad and doubtful debts	(134)	3632	4393	3279	10,000	15,754	5864
Declared profits	(7802)	15,153	15,671	14,800	7496	<u>3629</u>	767
	1870	1871	1872	1873	1874	1875^a	1876^a
Galatz							
Gross profits							
Costs and expenses							
Provision for bad and doubtful debts				Transferred to Bank of Rumania			
Declared profits							
Bucharest							
Gross Profits							
Costs and expenses							
Provision for bad and doubtful debts				Transferred to Bank of Rumania			
Declared profits							
Izmir							
Gross Profits	15,896	12,435	9694	15,120	10,704	8397	1668
Costs and expenses	13,059	14,489	10,912	9268	8585	7844	9989
Provision for bad and doubtful debts	2345	7630	2334	2680	334	9	19,973
Declared profits	492	<u>9684</u>	<u>3552</u>	3172	1785	544	<u>28,294</u>

	1863	1864	1865	1866	1867	1868	1869
Beirut							
Gross profits	(1448)	12,615	11,207	12,585	8558	5599	6146
Costs and expenses	(965)	3236	3396	3278	2576	2704	3387
Provision for bad and doubtful debts	-	467	-	7738	5379	1850	1500
Declared profits	(483)	8912	7811	1569	603	1045	1259
Salonica							
Gross Profits	-	(3240) ²	7944	6452	11,592	12,546	8761
Costs and expenses	-	(2227)	3719	3664	4016	3815	5707
Provision for bad and doubtful debts	-	-	4225	1798	30	1476	3054
Declared profits	-	(1013)	None	990	7547	7255	None
Larnaca							
Gross Profits	-	(581) ³	2198	3056	2504	2853	2429
Costs and expenses	-	(280)	602	994	1051	1089	1039
Provision for bad and doubtful debts	-	-	-	300	2204	-	300
Declared profits	-	(301)	1596	1762	<u>751</u>	1764	1090
	1870	1871	1872	1873	1874	1875⁴	1876⁵
Beirut							
Gross profits	7525	7507	8723	9028	10,711	10,962	5932
Costs and expenses	3956	3931	6137	4897	4535	4892	5367
Provision for bad and doubtful debts	2047	900	706	-	1403	6070	-
Declared profits	1522	2676	1880	4131	4773	None	565
Salonica							
Gross Profits	4709	783	3396	2982	4354	1375	1875
Costs and expenses	4849	5942	7927	7753	3290	2259	3222
Provision for bad and doubtful debts	28,342	39,178	95	-	110	-	-
Declared profits	<u>37,900</u>	<u>44,337</u>	<u>4626</u>	<u>4771</u>	954	<u>1694</u>	<u>1347</u>
Larnaca							
Gross Profits	2743	2645	3116	2966	3360	3763	2758
Costs and expenses	1029	986	1004	1056	1089	1155	1134
Provision for bad and doubtful debts	38	150	60	-	450	-	-
Declared profits	1676	1509	2052	1910	1821	2608	1624
<p>Figures underlined represent a loss. Figures in brackets are for less than a full year. Sources: AN, 207 AQ/167 116-117, Annual Reports for 1863-76 Notes: ¹ Figures for 1863 relate to the period 10 April to 31 December only. ² Salonica opened during the course of May 1864: these figures therefore relate to the second half of the year only. ³ Larnaca also opened during May 1864. ⁴ The government subsidy of LT 5000 per branch payable under the new concession ratified in Feb. 1875 (see above p. 21) is not included in the branch profits for 1875 and 1876. ⁵ The new branches at Edirne, Rusçuk and Bursa opened very late in 1875 in accordance with the new convention of the previous February, are not included in this Table. All three recorded losses both in 1875 (LT 3071 in total) and 1876 (LT 4564).</p>							

TABLE II - Ottoman provincial branches of the BIO:							
rate of return on operating capital							
<i>Values in Turkish Pounds (LT)</i>							
	1863^a	1864	1865	1866	1867	1868	1869
Galatz							
Declared profits	(1935)	2785	<u>31,286</u>				
Operating capital	82,500	82,500	82,500	Transferred to the Bank of Rumania			
Rate of profit %	(2.35)	3.38	<u>37.92</u>				
Bucharest							
Declared profits	(4569)	6784	9125				
Operating capital	44,000	44,000	44,000	Transferred to the Bank of Rumania			
Rate of profit %	(10.38)	15.42	20.74				
Izmir							
Declared profits	(7802)	15,153	15,671	14,800	7496	<u>3629</u>	767
Operating capital	88,000	88,000	104,500	104,500	104,500	104,500	104,500
Rate of profit %	(8.87)	17.22	14.97	14.16	7.17	<u>3.47</u>	0.73
Beirut							
Declared profits	(483)	8912	7811	1569	603	1045	1259
Operating capital	12,000	22,000	22,000	22,000	22,000	22,000	22,000
Rate of profit %	(4.03)	40.51	35.5	7.13	2.74	4.75	5.72
	1870	1871	1872	1873	1874	1875	1876
Galatz							
Declared profits							
Operating capital	Transferred to the Bank of Rumania						
Rate of profit %							
Bucharest							
Declared profits							
Operating capital	Transferred to the Bank of Rumania						
Rate of profit %							
Izmir							
Declared profits	492	<u>9684</u>	<u>3552</u>	3172	1785	544	<u>28,294</u>
Operating capital	104,500	88,000	55,000	55,000	55,000	55,000	55,000
Rate of profit %	0.47	<u>11.00</u>	<u>6.46</u>	5.76	3.25	0.99	<u>51.44</u>
Beirut							
Declared profits	1522	2676	1880	4131	4773	Nil	565
Operating capital	22,000	22,000	22,000	22,000	22,000	22,000	22,000
Rate of profit %	6.92	12.16	8.55	18.78	21.7	Nil	2.57

	1863	1864	1865	1866	1867	1868	1869
Salonica							
Declared profits	-	(1013) ²	Nil	990	7547	7255	Nil
Operating capital	-	15,000	16,500	16,500	16,500	16,500	16,500
Rate of profit %	-	(6.75)	Nil	6.0	45.74	43.79	Nil
Larnaca							
Declared profits	-	(301) ³	1596	1762	751	1764	1090
Operating capital	-	5450	5450	10,000	14,000	14,000	14,000
Rate of profit %	-	(5.22)	29.28	17.62	5.36	12.6	7.79
Totals							
Declared profits	14,789	34,948 ⁴	2917 ⁵	19,121	14,895	6435	3116
Operating capital	226,500	256,950	274,950	153,000	157,000	157,000	157,000
Rate of profit %	(6.53)	13.6	1.06	12.5	9.49	4.1	1.98
	1870	1871	1872	1873	1874	1875⁶	1876⁷
Salonica							
Declared profits	<u>37,900</u>	<u>44,337</u>	<u>4626</u>	<u>4771</u>	954	<u>1694</u>	<u>1347</u>
Operating capital	16,500	16,500	16,500	16,500	16,500	16,500	16,500
Rate of profit %	<u>229.7</u>	<u>268.71</u>	<u>28.04</u>	<u>28.92</u>	5.78	<u>10.27</u>	<u>8.16</u>
Larnaca							
Declared profits	1676	1509	2052	1910	1821	2608	1624
Operating capital	14,000	14,000	14,000	14,000	14,000	14,000	14,000
Rate of profit %	11.97	10.78	14.66	13.64	13.01	18.63	11.6
Totals							
Declared profits	<u>34,210</u>	<u>49,836</u>	<u>4246</u>	4442	9333	1458	<u>27,452</u>
Operating capital	157,000	140,500	107,500	107,500	107,500	107,500	107,500
Rate of profit %	<u>21.79</u>	<u>35.47</u>	<u>3.95</u>	4.13	8.68	1.36	<u>25.54</u>
<p>Figures underlined represent losses. Figures in brackets are for less than a full year.</p> <p>Sources: Table I. See also AN, 207 AQ/187 116-117, Annual Reports for 1863-76; 207 AQ/193 DGA O, "Notes on the Branches and Agencies in Turkey"; and Guildhall RO, 23,967/4, sub 3 Aug. 1881.</p> <p>Notes: ¹ Figures for 1863 relate to the period 10 April to 31 December only. ² 1864 figures for Salonica relate to the second half of the year only. ³ 1864 figures for Larnaca relate to the second half of the year only. ⁴ Totals for 1864 are a composite of Galatz, Bucharest, Izmir and Beirut for a full year, and Salonica and Larnaca for the second half only. Profits for the first four only were LT 33,634; their operating capital LT 236,500; and rate of profit 14.72 per cent. ⁵ For Izmir, Beirut, Salonica and Larnaca only 1865 profits were LT 25,078; operating capital LT 148,450; rate of profit 16.89 per cent. ⁶ See also n. 4 to Table I. ⁷ See also n. 5 to Table I.</p>							

