

# Foreign debt and colonisation in Egypt and Tunisia, 1862-1882

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## 1. Introduction

This paper explores two interlinked questions: why Tunisia and Egypt were faced with international financial control after their default in 1868 and 1876, and why international financial control eventually led to the colonisation of these two polities by France and Britain in 1881 and 1882. Since not all late nineteenth century defaults resulted in international financial control and not all cases of international financial control eventually turned into formal colonies of European powers, these questions aim to contextualise Egyptian and Tunisian experience and contribute to our understanding of the governance of capital flows at the eve of the first financial globalisation. Secondly and more indirectly, answering these broad questions can shed light on European colonial expansion in the Middle East.<sup>1</sup>

Both Tunisia and Egypt were semi-autonomous provinces of the Ottoman Empire from their conquest in the sixteenth century to the World War I. In practice after they were occupied by France and Britain in 1881 and 1882 respectively, Egypt and Tunisia transferred their political sovereignty to these two major European powers. The annexation of these two Eastern Mediterranean polities to Western European empires had significant similarities: before direct military takeover, both Tunisia and Egypt experienced a rapid increase in foreign debt contracted with intermediation of banking houses in London and Paris, they defaulted on their foreign obligations within almost a decade, they had to consent to the establishment of international financial commissions managed by foreign bondholder and diplomatic representatives, and brief experience of international financial control in each case led to military intervention of the dominant European power -French in Tunisia and British in Egypt.

During the first wave of financial globalisation, rapid increase in capital flows in the form of sovereign debt was punctuated by defaults on foreign obligations in many debtor countries including Tunisia (1868), the Ottoman Empire (1875), Egypt (1876), Spain (1877), Argentina (1890), Portugal (1892), Greece (1893), Serbia (1895) and Brazil (1898).<sup>2</sup> Response to these defaults varied from case to case and evolved as the century progressed. Sanctions

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<sup>1</sup> There is a long line of literature on drivers of the nineteenth-century imperialism and colonialism. Some of the seminal contributions are Gallagher and Robinson (1953), Feis (1974), Platt (1968), Landes (1969), Cole (1999), Dumett (1999), Cain and Hopkins (2016). This paper is engaging with this literature only at a very basic level. For a discussion of debt and imperialism in the context of Latin America see Flores and Cole (2020) in this volume.

<sup>2</sup> Dates of default are in parentheses.

included seizing assets of debtor countries through military intervention, trade restrictions, preventing access to future credit and finally putting debtor nations under “international financial control” or “fiscal house arrest” by imposing foreign administrators, who were authorised to collect revenues of debtor states. The method of establishing foreign control over state finances following defaults first started with Tunisia. Later this form intervention became the dominant form of dealing with defaults in the Middle East and the Balkans from the 1870s to 1914 including, Egypt, Ottoman Empire, Serbia, Bulgaria and Greece.<sup>3</sup>

Traditional historiography on the late nineteenth-century international financial control organisations approaches them in the context of imperialism debate since one of the consequences of this kind of European intervention was the loss of fiscal and/or political sovereignty of debtor states. More recent views, however, emphasise their function of restoring creditworthiness of debtor governments, and their contribution to modernisation of state finances.<sup>4</sup> Given that in two cases, Tunisia and Egypt, the process of foreign borrowing, default and European intervention eventually gave way to the colonisation of these countries, it is not possible to completely disregard the traditional views on international financial control as instruments of imperialism. This paper, therefore, focuses on the Tunisian and Egyptian cases to review historical and historiographical intersections between international finance and law and imperial history. More specifically, it aims to reassess how foreign bondholders at the time viewed the key turning points in the political and financial history of these two sovereign borrowers in the region. The rest of the paper is organised chronologically. Section 2 gives a historical context and outlines the origins of foreign debt in Tunisia and Egypt. Section 3 provides the history of defaults and the process of establishing international financial commissions in these two polities. Section 4 focuses on the transition from international financial control to the colonisation. The conclusion maintains that, in Egypt and Tunisia, international financial control organisations were unable to successfully address the conflicting interests among bondholders. This failure contributed to the colonisation process which replaced international financial control organisations with direct foreign control by the dominant imperial power.

## 2. First international borrowing

From the date of their conquest in 1517 and 1574 to World War I in 1914, Egypt and Tunisia remained de jure part of the Ottoman Empire. Up until the nineteenth century, the Ottoman rule was never deeply rooted, and the pashas appointed by the Porte effectively governed these provinces. Despite this lack of integration with the Ottoman centre, the Ottoman

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<sup>3</sup> For a comparative study of international financial control in the Ottoman Empire, Egypt, Greece and Serbia see Tunçer (2015). For Bulgaria see Avramov (2003) and Tooze and Ivanov (2011). The Egyptian case outlined in this paper is primarily based on Tunçer (2015).

<sup>4</sup> Most of these traditional views extend back to contemporary nationalist interpretations of European control. These views were echoed in later studies such as Blaisdell (1966) for the Ottoman Empire and Zouari (1998) for Tunisia. The revisionist views expressed in Suter (1992), Esteves (2013), Mitchener and Weidenmier (2010) and Tunçer (2015) put more emphasis on their creditworthiness restoring function.

government was satisfied with this arrangement as long as local ruling elites formally recognised the sultan's sovereignty by accepting the governor and other Ottoman representatives appointed by the centre, sending the annual tribute and supplying soldiers to fight in military campaigns in Asia, Europe or the Mediterranean (Daly 1998, Fage and Oliver 1982).

In Tunisia, a rule of succession by seniority of birth had emerged by the mid-eighteenth century, whereas in Egypt this sort of hereditary rule was only secured in the early nineteenth century following the French occupation which gave rise to one of the most influential figures in the nineteenth century in the Middle Eastern history, Muhammed Ali, who started ruling Egypt from 1805 onwards. His period was characterised by a wide range of social, economic and financial reforms, which led to economic expansion, modernisation of the state apparatus and the army. By 1838, Muhammed Ali began to lobby with European consuls for an independent Egypt free from the Ottoman rule. This led to a military confrontation with the Ottoman centre, resulting in the defeat of the latter. Consequently, a conference was assembled in London in July 1840 leading to the "Convention for the Pacification of the Levant". This arrangement gave Muhammed Ali an ultimatum to withdraw from Syria, Adana, Crete and Arabia. When he refused to comply, a British force landed at Beirut in September 1840, defeated Muhammad Ali's army and forced him to withdraw to Egypt. However, despite his defeat, Muhammad Ali managed to secure the title of "governor of Egypt for life" and his male descendants, known as "Khedives", were granted hereditary rights to the office (Fahmy 1998, Aharoni 2007).<sup>5</sup>

Tunisia in the early nineteenth century was also ruled by ambitious governors who aimed at modernising the economy and army. Despite princely quarrels and assassinations, on the accession of Muhammad al-Sadiq in 1859, Tunisian dynasty possessed both the strength built up over 150 years' hereditary transmission of power and the tradition of independence which gave the "Beys" the authority of sovereign princes and even more extensive prerogatives than the Egyptian Khedives. They had the autonomy of legislation, their army and navy, the freedom to mint their coins and maintain diplomatic relations, declare war and sign treaties. Although they had neither legations nor consulates abroad, they could, in Tunis, discuss political matters with the consuls of the major European powers. Finally, similar to the British interests in Egypt, the privileged situation of France in Tunisia was reinforced after the French conquest of Algeria in 1830, which transformed the Tunisian Regency almost into a de facto protectorate, yet the Porte still asserted its suzerainty both over the Bey and the Khedive. (Daly 1998, Fage and Oliver 1982).

Ambitious modernisation projects in Egypt and Tunisia in the first half of the nineteenth century led to increasing pressure over their budgets. 1840 Treaty and following decrees did not grant any privileges to the governor of Egypt to issue a state loan, but it neither excluded

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<sup>5</sup> This episode referred in the imperial history literature as the 'crisis of 1839-41' which marks Lord Palmerston's policy of keeping the territorial integrity of the Ottoman Empire and siding with the Ottoman sultan against the Egyptian Khedive (Rodkey 1929 and 1930, Bailey 1942).

him from this right. Because the first Ottoman foreign loan was issued in 1854, this was not an issue to consider yet for the Porte. Yet, the 1841 decree issued by the Sultan underlined that all the taxes and revenues in Egypt would be levied and collected in the Ottoman Sultan's name thus implying that the Egyptian Khedive would not be able to issue a foreign loan as an independent sovereign without first getting the permission of the Porte (Tunçer 2015). In 1858, to finance the construction of Suez Canal, the Egyptian Khedive Said Pasha found a way to get over this borrowing restriction by resorting to the issue of treasury bonds. The next two years saw a large increase in their volume and soon the Khedive had to turn to other forms of borrowing.

In 1860, to fulfil his obligations to the Suez Canal, the Khedive borrowed 28 million francs from a French banking house on his *personal* account. Eventually, in 1862, for the first time in Egypt's history, the Khedive negotiated a state loan to the amount of £3.3 million with the permission of the Ottoman Sultan. This was followed by several others, and during the period 1862–1867, the Egyptian government issued five other bonds in London and Paris amounting to £18 million with the support of several British and French banking houses including Frühling & Goschen and Anglo-Egyptian Bank. These loans were secured on the revenues of the provinces of the Delta, Dekahlieh, Charkieh and Behera and general revenues of the Egyptian state. Moreover, some bonds, for instance, 7 per cent loan of 1866, were secured on the Dairas or large *personal* estates of the Egyptian Khedive and his family and not on the revenues of the *state*. In 1868, the Khedive managed to contract another loan for £11.9 million with an effective interest rate of 8.86 per cent with the syndicate of the Imperial Ottoman Bank, Société Générale and Oppenheim. Although this loan came with the condition of not issuing another loan for five years “either on the Bourses of Europe, or in Alexandria, or elsewhere” (Fenn 1885, 422), in 1872 the Egyptian government managed to issue another loan, this time with the help of Franco-Egyptian Bank and the support of the Porte.

Finally, in 1873, the Egyptian government contracted the largest external loan in its history, amounting to £32 million, with the Imperial Ottoman Bank, Bischoffsheim, Société Générale and other banking houses in Alexandria, Istanbul and Amsterdam. This loan was secured by the revenues of the railways of Lower Egypt, the proceeds of the personal and indirect taxes, the proceeds of the salt tax and other several taxes. Taken together with previous ones, overall guarantees corresponded to almost all general revenues of the Egyptian government. Acquiring this loan was seen as a success by the government, however, with the financial crisis of 1873, surplus capital started to deplete in the international financial markets (Suter 1992). Moreover, the partial default of the Ottoman government on its outstanding debt in October 1875 had an immediate effect on Egyptian credit, and it was impossible to borrow further for the government (Tunçer 2015). In need of money, the Khedive sold to the British government 45 per cent of the shares of the Suez Canal, for around £4 million with the intermediation of Rothschild in November 1875 (Crouchley 1938, 122; Wynne 1951, 582). In the meantime, in September 1875, as a result of an agreement between the Khedive and the Great Powers, a system of “mixed courts” was introduced. Based on the

Ottoman capitulations, mixed courts gave way to legal pluralism and extraterritoriality to European nationals. Under this scheme, foreigners were empowered to bring cases in mixed courts against the government, the administration and the estates of the Khedive and the members of his family, if an established private right was violated by an administrative act. Thus, the Khedive's loans were brought within the jurisdiction of the mixed courts (Hoyle 1986, Cannon 1972). A similar scheme also existed in Tunisia as early as the 1860s as briefly outlined below. It is important to note that the mixed courts not only undermined the sovereignty of the Khedive and the Bey, but in certain cases it also challenged the interests of Britain and France respectively in Egypt and Tunisia, as they enabled the other European powers to bring their financial claims against the government on an equal footing.

In Tunisia, the timeline of borrowing was quite similar to Egypt, although the scale of operations was significantly small given the size of Tunisian Regency's economy.<sup>6</sup> Growing European (especially French and British) interest in Tunisia affected the course of political reform: an outbreak of Muslim-Jewish tension in Tunis led the European powers to demand that the Tunisian bey adopt some of the reforms recently promulgated in the Ottoman Empire.<sup>7</sup> Influential consuls of Britain and France, Richard Wood and Léon Roches exerted significant pressure on the Bey and as a result, in September 1857, the Tunisian Bey announced a reform programme guaranteeing the rights of all its subjects regardless of their religion, promising protection of persons and property, regularisation of taxation, military service, and justice, and concessions to non-Muslims in the settlement of disputes. Other reforms included the authorisation to establish a British-Tunisian bank and similar concessions were granted to the French consul to attract French capital. Shortly after, at the beginning of the 1860s, a constitution was introduced together with a series of reforms aimed at modernising the government and the army. As a result, the foreigners also were granted equal footing in the right to possess immovable properties and as well as litigation right to their respective consuls, namely by the mixed courts. (Brown 2002; Harber 1970, 29-32).<sup>8</sup>

During these years, the cost of reforms was covered by the Regency's treasury funds. The domestic floating debt of the Regency in 1861 was only around half-million pounds, and this sum doubled in 1862. In 1863, the Bey signed its first foreign loan contract with Parisian banking house d'Erlanger to repay its floating domestic debt and fund the reforms.<sup>9</sup> The loan

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<sup>6</sup> In 1881 Tunis occupied an area of 45,779 square miles with a population of 1.5 million, Egypt was almost ten times larger with an area of 400,000 square miles and c.10 million population. *Statesmen Yearbook: Statistical and Historical Annual of the States*, London, 1913.

<sup>7</sup> *Tanzimat* reforms in the Ottoman Empire were marked by two reformation decrees of 1839 and 1856, which helped to accelerate the centralisation and bureaucratisation of the Ottoman Empire. They offered guarantees to all subjects of security of property and a regular system of assessing taxes, regardless of ethnicity or religion, with strict observance of annual budgets (Karpas 1972, Quataert 1994).

<sup>8</sup> *Convention between the governments of Great Britain and of Tunis, Relative to the holding of real property by British Subjects in Tunis*. London, 1864. Other powers received similar rights following Britain: Austria in 1866, Italy in 1868 and France in 1871. (Harber 1970, 44)

<sup>9</sup> Although Rothschild was also involved in the negotiations of this loan promoted by the British consul of Tunisia, Richard Wood, their offer of a loan of 25 million francs at 8 per cent was rejected by Tunisian Bey under French influence. (Harber 1970, 54)

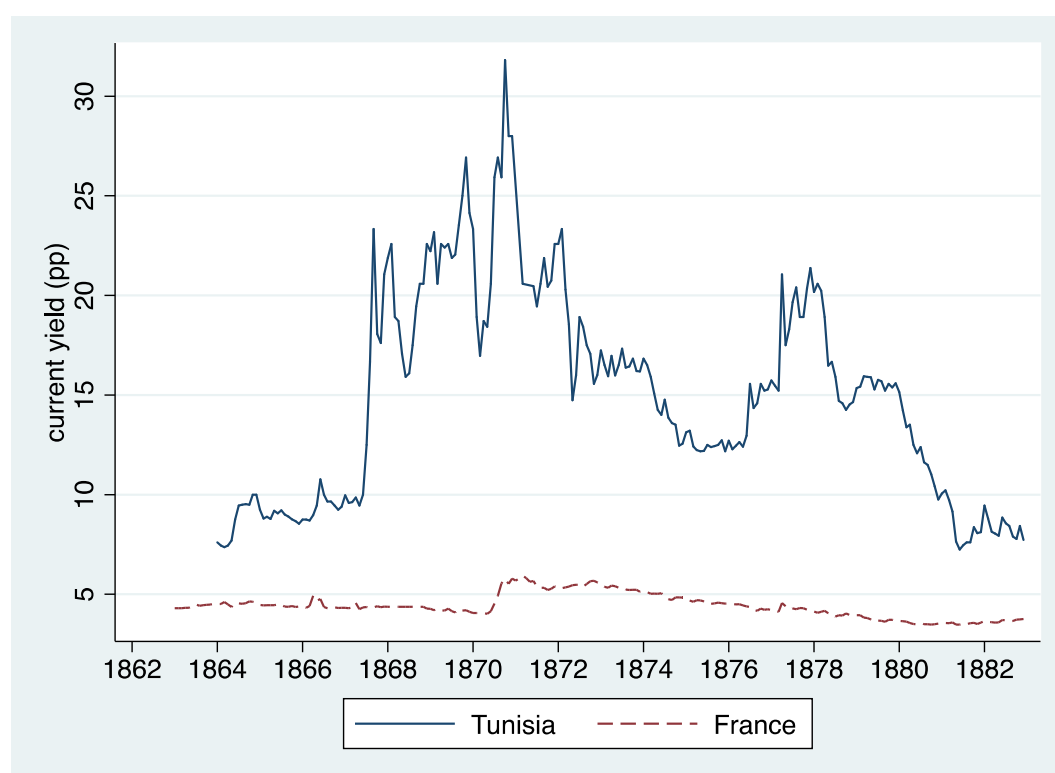
had a face value of 35 million francs (£1.4 million) with 7 per cent interest rate, 96 issue price and 15 years maturity, and secured by the revenue of the *majba* tax (poll tax). Although this seemed to be a reasonable deal compared to local costs of borrowing, which was around 12 per cent at the time, the Bey ultimately received only around 30 million francs. The terms of the bond issue involved a controversy around the banking house d'Erlanger which held 14.5 per cent of the total loan as the subscription fee and other bank charges. As a result of these allegedly onerous terms, the Bey agreed to repay to d'Erlanger in total 65 million francs for receiving less than half of this sum (Zouari 1998, 181-6). From the beginning, the servicing of this loan would become a problem. The short-term solution put forward by the Tunisian bey was to double the rate of the poll tax and extend its scope beyond the countryside making it a countrywide obligation. This led to a nationalist rebellion in 1864, which initially united the long-separated rural tribes and rapidly spread to the urban areas. Britain, France and Italy sent naval detachments to Tunisian ports to protect their subjects and to bring pressure on the Bey. The French consul was particularly active in mediating between the rebels and the government and in persuading the Bey to abolish the 1860 constitution and to abandon reforms. The rebellion was eventually violently suppressed by the government with the use of military force and the Ottoman support, and it led to a shift in government policies towards a more authoritarian rule (Piquet 1914, McKay 1945).

There were several parallels between Egypt and Tunisia in their first encounters with the international financial markets. First, given their de jure links to the Ottoman Empire and imperial interest of Britain and France in the region, the great power rivalry became a defining context for their ability to borrow. Second, both Egypt and Tunisia had an ambitious and costly Western-style reform programme in the first half of the nineteenth century which increased their demand for foreign funding and to European influence. Third, both the Bey and the Khedive hypothecated revenues from several tax sources as well as their private sources of wealth in order to secure borrowing. Together with the Ottoman capitulations, which recognised legal pluralism and extraterritoriality for European powers, the guarantees offered in bond contracts would later turn into a justification for the creation of international financial commissions as outlined in the next section.

### 3. Default and international financial commissions

The default of Tunisian Bey arrived sooner than the Egyptian Khedive. After the suppression of the 1864 revolt, the financial difficulties of the Tunisian Regency were not over as substantial funds were needed to make the repayments of 1863 loan, and the events of 1864 had undermined the economy of the Regency. In 1865, the Bey signed another Parisian loan with d'Erlanger with a face value of 25.9 million francs with similar conditions to the previous one. In 1867, the outstanding debt of the Regency had reached to 6.7 million pounds and it required service of around one million pounds which exceeded the total tax revenues of the government. In August 1867, the Regency missed the deadline for coupon payments on its consolidated debt, and this led to the collapse of Tunisian bond prices in Paris stock exchange (see Figure 1).

**Figure 1. Current yield: Tunisia 1862-1882**



Source and notes: *Cours authentique*, Bourse de Paris, Compagnie des agents de change (1862-1882). Current yield is calculated by using the end of month prices of 7 per cent loan of 1863, 7 per cent loan of 1865, and 5 per cent General debt of 1872. French rentes is based on *Global Financial Database* as reported in Tunçer (2015).

The first response to the default came from the French government which put pressure on the Bey to grant guarantees to the French creditors and to accept a financial commission for the payment of the debt. The proposal of founding an international financial commission was supported by also Britain and Italy as it was seen as a way to “secure greater regularity both in the collection and disposal of revenues, and thereby increase the chances of a final

payment”.<sup>10</sup> The main difficulty, however, was French demands to fully control the commission, and a solution excluding Italian and British representation was not acceptable by neither of them. Hence, the intervention of the French government followed soon after by Britain and Italy and resulted in a compromise between the three powers, which imposed a tripartite control over the Tunisian finances. On the recommendation of these three powers, Tunisian Bey consented in April 1868 to the establishment of a nine-member international financial commission (*Commission Financière Internationale*) and entrusted it with the task of reviewing and settling its liabilities (Ganiage 1959; Comte and Sabatini 2018, 17). The director of the commission was the prime minister of the Regency, Hayreddin Pasha, who was assisted by the French Treasury inspector, Victor Villet. The commission consisted of two sub-committees: the executive committee and the control committee. The former composed of two Tunisian officials and one French inspector, and was responsible for the debts and revenues of the Regency. The control committee consisted of two French, two English and two Italian members, and it was given the task of verifying the operations of the executive committee and giving them executive approval. (Zouari 1998, Berger 1896).

The arrangement also unified the outstanding debt and reduced its value and annual interest charges. The outstanding debt of the Tunisian government in December 1869 was estimated as 121,640,500 francs, and the commission proposed to reduce this to 56,028,490 francs with a gradual decline in interest payments. However, the proposed debt and interest reduction faced with opposition from local bankers and Tunisian bondholders who demanded guarantees for the repayment of the debt. Following negotiations, in March 1870, the Bey agreed on the new proposal of the commission, which put forward a new unified and reduced debt with 5% interest. In exchange, the Bey agreed to transfer revenues from customs, land tax of several provinces, stamp duty, tobacco monopoly and olive trees to the international financial commission for the repayment of the debt. The total sum of these 26 revenue items were close 6,500,000 francs per year, and they were placed under the control of a council of five appointed members, a Tunisian delegate, appointed by the executive committee, and four creditors' representatives, a French, an English, an Italian, and a European of any nationality, appointed by the entire commission. This commission would be responsible of collecting and centralising the proceeds of the conceded revenues, under the exclusive control of the executive committee, to which they would have to give a detailed account of their management each quarter.

The arrangement officially sanctioned by the Bey of Tunisia in March 1870 did not lead to immediate recovery of Tunisian bond prices in Paris as the commission could not start its operations until March 1872 due to several conflicts between the parties (see Figure 1). The initial reason behind this lack of recovery was the concern of European bondholders to get back the outstanding coupon payments as well as the actual principal on the bonds. This situation was also complicated due to contradicting estimates about the actual size of the Tunisian debt by British, French and Italian diplomatic representatives (Zouari 1998, 261;

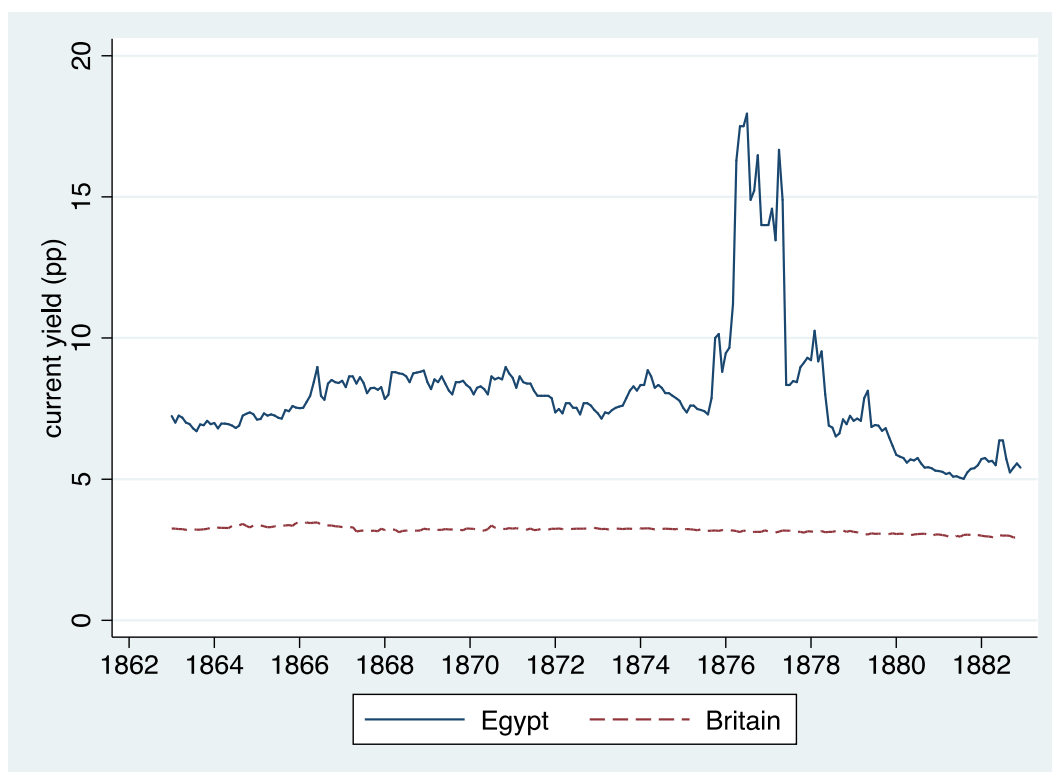
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<sup>10</sup> “State of Tunis”. *The Times* (London, England), Friday, Mar 26, 1869; pg. 5; Issue 26395.



Ganiage 1959). The second reason was prospects of the Tunisian finances under the international financial commission. As a financial body, the Commission gave the European Powers the supreme control over the finances, the economy, and the internal administration of the Regency. Administratively, it was a mixed control mechanism and it combined the interests of foreign bondholders and diplomatic representatives. Although representation from different countries was seen as an advantage to encourage further capital inflows to the country, it was also likely to cause conflicts of interests. Moreover, as agents of the Tunisian Government, the members of the commission were bound to come into conflict with the creditors who composed the controlling section. In other words, the international financial control ended up having a multilateral character due to the great power rivalry, but it did not a framework to settle the conflicts of interests between different groups (Raymond 1953, Fage and Oliver 1982, Megliani, 2015).

**Figure 2. Current yield: Egypt 1862-1882**



Sources and notes: Tunçer (2015) and *Investors Monthly Manual*, London (1862-1882). Egyptian bond yields calculated by using end of month prices of based on 7% Loan of 1862 and 5% preferred Loan of 1877. British consols are from *Global Financial Database* as reported in Tunçer (2015).

The Egyptian path from default to the establishment of the international financial commission was quite similar, however, the process started relatively later. London banking houses were keener to supply Egypt with funds due to its rich resources as well as the

promising Suez Canal operation. Since the crisis of 1839-41, Britain and Egypt were much more closely connected in diplomatic, commercial and financial terms compared to France and Tunisia (Landes 1969). Nonetheless, in December 1875, when the Ottoman Empire defaulted on its foreign debt, the Egyptian credit abroad was directly affected, and it was no longer possible to obtain new loans from the international financial markets. First, in April 1876, the payment of Egypt's treasury bonds was suspended. This failure led to the establishment of an institution named the *Caisse de la Dette Publique* (Caisse) in May 1876, under the direction of foreign commissioners nominated by their respective governments; these commissioners were authorised to receive the revenues intended to service the debt directly from the local authorities. Taxes from several Egyptian provinces, Cairo and Alexandria, salt and tobacco taxes along with customs revenues were assigned to the Caisse for the purpose of servicing various public loans. The Egyptian government committed itself not to modify these revenues or to contract any new loans without the consent of the commission. In return, the arrangement foresaw the unification of the entire debt of the country, which at the time amounted to £91 million. French, Italian and Austrian creditors agreed to the establishment of the Caisse in order to have control on the collection and disbursement of the public revenues and therefore nominated their respective commissioners. However, the British government was at this stage unwilling to commit itself to any course of action, which might involve interference with the internal affairs of Egypt (Wynne 1951, 587–588).

Similar to the Tunisian case, the establishment of international financial control in Egypt did not lead to immediate recovery of its bond yields in London (see Figure 2). Upon the dissatisfaction among various groups of creditors, in July 1876, the British Corporation of Foreign Bondholders applied to G.J. Goschen -head of a major banking house, which acted as intermediary for most of the Egyptian loans- to represent the bondholders' interests in Egypt. Goschen proceeded to Egypt together with M. Joubert, the representative of a French syndicate and the director of the Banque de Paris et des Pays-Bas. Within a few weeks, Goschen and Joubert had developed a plan of settlement, known as "Dual Control" which was accepted by the Khedive in November 1876. The decree established a special administration of the railways and the port of Alexandria under the direct control of a special commission of five members: two English, one French and two Egyptians. Moreover, two controllers-general would be appointed: a controller-general of receipts and a controller-general of audit and public debt -one of whom would be British and the other French, nominated by their respective governments and chosen by the Egyptian government. The *Caisse de la Dette Publique* was to be permanent until the entire debt was redeemed. All revenues assigned to the service of the debt were to be paid by the collection officials directly into the Caisse agents, and not through the treasury. The government without the consent of the Caisse could not change the taxes nor raise a loan. The decisions of the Caisse were taken by the majority of four commissioners; but any single member could sue the government, of his initiative, before the mixed courts. Finally, the capital of the unified debt was reduced to £59 million. The rate of interest was fixed at 6 per cent, to which a sinking fund of 1 per cent was

added. Concerning international law, perhaps the most controversial issue in all these arrangements was to differentiate the personal debt of the Khedive from the public debt of the Egyptian state. Having relied on the mixed courts, the decrees of 1876 implied a unification of the two areas of debt and this resulted in the hypothecation of the revenues of the Egyptian state and the personal wealth of the Khedive for the purpose of compensating the creditors for their losses (Tunçer 2015).

In both cases, the emergence of international financial commissions was a solution to the range of private financial claims against the Egyptian and Tunisian governments. Although France had strong political influence in Tunisia, and Britain enjoyed a politically more advantageous situation in Egypt; the existence of foreign bondholders from different European powers acted as a check over the concentration of the power in the hands of a single European country. As the next section elaborates, this fact made the international financial commissions short-lived as their structure did not sufficiently address the conflicts of interests among different creditor groups hence undermining the confidence of bondholders to these organisations. Finally, as far as the debt consolidation was concerned, although the capital of the debt was unified and reduced in both cases, this did not mean an immediate end of the fiscal difficulties in Egypt and Tunisia. Now, the new (Anglo-French) administrations had to confront this challenge.

#### 4. From international financial control to colonisation

Several international factors in the 1870s contributed to the timing of military occupations in Egypt and Tunisia by Britain and France. The defeat of France in the war Franco-Prussian War of 1870 led to a severe blow to French influence throughout North Africa. At the same time, British interests in the Mediterranean were shifting eastward as the Suez Canal had opened in 1869. These changes in regional geopolitics in the 1870s led the Tunisian bey to follow a middle-way policy and brought him closer to the Ottoman sultan. The British press at the time viewed this move as a positive development. Commenting on the formal visit of Tunisian Bey's representative Hayreddin Pasha to London, *The Times* reported that "de facto independence of Tunis has hitherto possessed has neither been of advantage to its inhabitants nor served the purposes of its rulers. The former has been unprotected against the tyranny and vexations of the Government who, on the other hand, have reasons to be anything but satisfied with their relations with foreign powers. All parties seem, therefore, anxious to renew the old ties between the Regency and the Ottoman Empire".<sup>11</sup> Major opposing power to the closer relationship between Tunisian Bey and the Ottoman Sultan was France due to its African possessions, as this renewed alliance could potentially change the status quo in the region. Following the official visit of Hayreddin Pasha, in 1871 the Ottoman government issued a decree recognising the autonomy and hereditary rule of Tunisian Bey in domestic political and economic matters as well as its relations with foreign powers as long as it observed the Sultan's rights over the province.<sup>12</sup> In other words, the decree did not make a significant change of the status quo of Tunisia, yet slowed down the colonisation process by reinstating the Ottoman government's rights in the province.

In the meantime, the finances of Tunisian regency were improving and from the issue of consolidated debt in 1872 until 1876 the bond yields gradually recovered (Figure 1). During these years, there were large capital inflows to the Regency mainly from Britain investing in several railways and infrastructure companies. British consul also managed to secure a concession to create a private bank with the right to issue paper money. This bank was founded in London in August 1873, under the name of the London Bank of Tunis and secured the support of key banking houses in the city such as the Baring bank and the Glyn Mills. Eventually, however, none of these initiatives was successful and by 1876 most of them were bankrupt or in the hands of French capital groups. In 1873, Hayreddin Pasha, who was supportive of a European style reform programme and worked in harmony with French consul, became the prime minister. His extensive reform programme led to a rise in government revenue for the first time since 1870 and the demands of creditors met on time (Ganiage 1959, 240-90).

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<sup>11</sup> "Turkey And Tunis" *The Times* (London, England), Tuesday, Oct 31, 1871; pg. 5; Issue 27208.

<sup>12</sup> "Turkey And Tunis" *The Times* (London, England), Wednesday, Nov 08, 1871; pg. 7; Issue 27215.

From 1875 onwards, however, the system started showing its first signs of weakness. First, the Ottoman government defaulted on its outstanding debt which shook major financial centres in Europe in October 1875. Despite the default of the Ottoman government, The Tunisian correspondent of the Times was still optimistic: “our finances are in good condition, and unlike, the gentlemen at Constantinople, we pay our coupons regularly. Our international finance commission has proved an excellent institution, and it is a great pity the foreign governments have not persuaded the Turks to follow our example. It would have saved the creditors and saved the Porte from the disgraceful necessity of repudiation, with all the political disadvantages accruing from it”.<sup>13</sup> The commentary continued with a suggestion to induce the Egyptian Khedive to adopt a similar system of administration. The press viewed the effectiveness of the system on two grounds. Thanks to the international financial control the Tunisian government was unable to raise new loans, and all tax revenues were channelled for the payment of interest.<sup>14</sup> These comments indeed accurately prophesied how the events would unfold in the Ottoman Empire and Egypt in the next few years. First Egypt in 1876, then the Ottoman Empire in 1881 had to agree with their foreign creditors to establish international financial control organisations similar to the one that was in operation in Tunisia for several years, but only in the Ottoman Empire, the operation would turn out to be a success without formal colonisation (Tunçer 2015).

A turning point in the diplomatic history of the region was the defeat of the Ottoman Empire in Russia-Turkish War of 1877-78 which resulted in the convening of Congress of Berlin, determined the fate of Tunisia (Langer 1925 and 1926). The Congress recognised Britain’s acquisition of Cyprus in 1878 driven by its need to safeguard the approaches to the Suez Canal. This shift led Britain to dissociate itself more or less entirely from Tunisian affairs and contributed to international recognition of French dominance in the Tunisian regency and determined the outcome of the ongoing great power rivalry in the region. From this point onwards, the French military takeover of Tunisia was simply a matter of time. Only in the spring of 1881, France decided to send a military expedition to Tunisia as a response to raids over the Algerian border by the desert tribes. Despite the opposition by Italy, this process eventually gave way to the establishment of the French protectorate over Tunisia in May 1881 when the Tunisian and French Governments signed the Treaty of Bardo (McKay 1945, Perkins 2005).

Initially, the British government expressed its concerns with the move of France given that this invasion contradicted with its position to maintain the integrity of the Ottoman Empire to counter Russian ambitions in the region (Lewis 2013, 19). Yet, gradually the British view towards the French intervention became more neutral given its interests in Egypt. In April 1881, right after the French expedition, the Economist noted that: “so long as Egypt is let alone, it is of no consequence to this country who rules on the southern shore of the

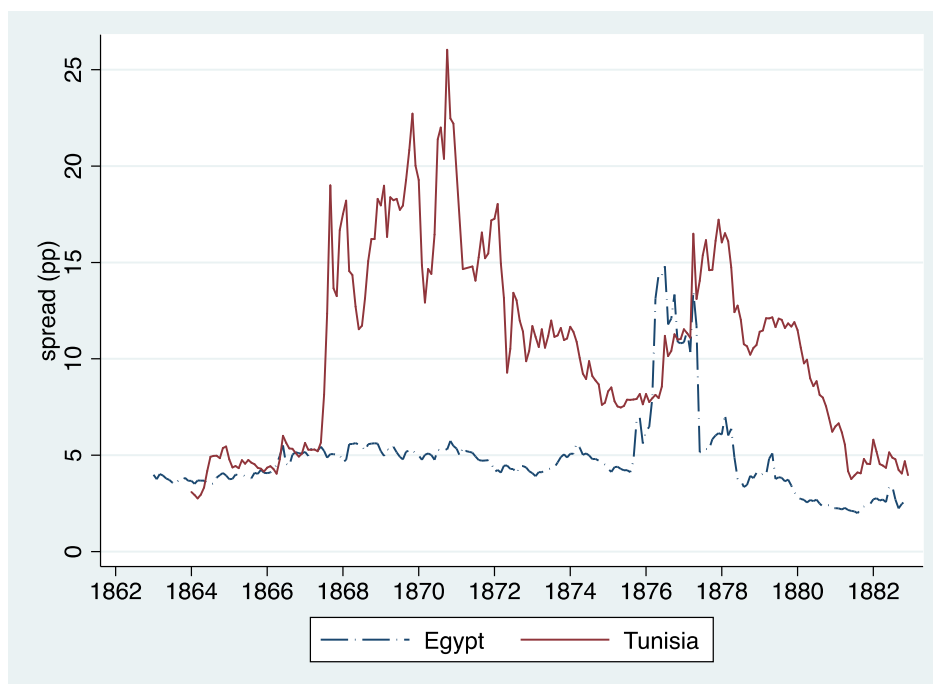
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<sup>13</sup> “Finances of Tunis”. *The Times* (London, England), Tuesday, Jan 25, 1876; pg. 11; Issue 28534.

<sup>14</sup> “Finances of Tunis”. *The Times* (London, England), Wednesday, Feb 16, 1876; pg. 7; Issue 28553.

Mediterranean, or rather, it is advantageous that a half-civilised ruler should be replaced by a civilised one. Her trade will not be diminished, or her influence lowered, while her direct power over France, which consists in her power of separating France from her colonies, will be materially increased".<sup>15</sup> Overall, the British press did not see supporting Italy or protecting the Ottoman Empire as valid arguments to interfere with French interests in Tunisia. Moreover, as seen from the Figure 3, holders of Egyptian and Tunisian bonds in London and Paris also viewed this major diplomatic turning point as a sign for the settlement of the debt problem as both Egyptian and Tunisian bond spreads significantly went down.

**Figure 3. Bond spreads: Egypt and Tunisia, 1862-82**



Sources and notes: See Figure 1 and 2. Bond spreads are difference between current yields of Egyptian bonds and British consols for Egypt, and Tunisian bonds and French rentes for Tunisia.

It took several years for France to negotiate a settlement with European powers to bring their subjects under French legal institutions and eliminate legal pluralism. All European powers in the Ottoman Empire enjoyed from extraterritoriality thanks to the capitulations granted by the Ottoman government which recognised mixed tribunals. In Egypt, since 1876 mixed tribunals under the oversight of fourteen European powers, concluded civil and commercial disputes. Although initially this system was not supported by France, by the time

<sup>15</sup> "France And England In Tunis". *The Economist* (London, England), Saturday, April 9, 1881; pg. 441; Issue 1963.

it came up for renewal in 1881, the French government viewed it as a way of checking British influence over Egypt and perpetuating capitulations. Similarly, following the Treaty of Bardo, the French government proposed a judicial reform to establish French tribunals as a replacement for mixed tribunals in Tunisia, similar to British did in Cyprus and Austrians did in Bosnia. Eventually, this was also agreed by Britain and later by other European powers.<sup>16</sup> Effective from 1884, the British government closed its consular court in Tunis and Italy signed a similar protocol suspending the capitulations (Lewis 2013, 28-39; Fahmy 2013).

As a result of this agreement between the Bey and the French government, France also agreed to guarantee the Tunisian debt and thus rendering the international financial commission irrelevant. Moreover, the Bey of Tunis agreed not to contract any future loans unless approved by the French government. The handover of the functions of the international financial commission to the newly created Ministry of Finance under French control took place in 1884. As the initial deal for guaranteeing the debt, France insisted on placing key agencies, beginning with the Ministry of Finance, under the leadership of French specialists accountable to the resident general. Besides modernising the tax collection, reducing tariffs and poll-tax, and supervising government expenditure, the new ministry of finance also reformed the monetary system and undertook three successive debt conversions in 1884, 1889 and 1892 which led to additional inflow of funds to the treasury, replacement of the old non-guaranteed with guaranteed ones, and further reductions in the outstanding debt and interest payments (Berger 1896, Viner 1928).

As for Egypt, while the debt conversions and new dual-control were being implemented, an exceptionally bad harvest and the Russo-Turkish War 1877–1878 aggravated the financial situation. In March 1878, a new commission of inquiry was assembled to reassess the whole financial situation of Egypt. The commission reported that among the important causes of Egypt's difficulties were an arbitrary tax system, the lack of a proper budget system, the unequal distribution of lands and water for irrigation, and forced labour used in the Khedive's estates. Implicitly, the fiscal reform was linked to a reform of the state. The Khedive accepted the report of the committee and therefore agreed to establish a constitutional government, which included a British-headed Ministry of Finance and a French-headed Ministry of Public Works. This was an extension of the controller system established in 1876, and soon after its establishment, the new government attempted to raise a new loan. In 1878, Egypt was enabled to borrow the sum of £8.5 million with the intermediation of Rothschild, and the loan was secured again with the Khedive's personal property. However, according to the terms of the agreement, the Khedive's estates were no longer under his administration. They were to be transferred to the state, and accordingly, an international commission of three members, consisting of an English, a French and an Egyptian national, would be responsible for administering this property and revenue (Feis 1974, 386; Wynne 1951, 596).

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<sup>16</sup> *Correspondence respecting the Establishment of French Tribunals and the abrogation of foreign consular jurisdiction in Tunis: 1882-83*. House of Commons Parliamentary Papers. London, 1884.

The political consequence of all these new regulations was to exclude the Khedive from the administration of Egyptian finances and a transition from the personal government of the Khedive to the government by an executive council whose leading members were foreigners. This situation led to violent protests, which the Khedive and rich landowners supported, to undermine the new administration. The outcome was a *coup d'état*. The initial attempt to govern Egypt without the Khedive had failed and a new government was formed consisting entirely of Egyptians. The new government ruled out the possibility of pursuing the fundamental reforms suggested by the commission of inquiry and therefore the debt settlement process was suspended (Wynne 1951, 600; Feis 1974, 386-387; Cromer 1908, 46–110). As noted above, the Mixed Courts of Egypt were a special arrangement for foreign creditors, through which they could sue the Khedive for unpaid debt. Although many foreign creditors succeeded in obtaining judgements in their favour, the Egyptian government, as a rule, refused to implement these decisions on the basis of the claim that the government lacked enough money to pay off the claims. As far as the creditors were concerned, the existence of Mixed Courts was seen as an obstacle to reaching a general arrangement, which would benefit all the creditors, because it encouraged individual action for the sake of collective one. Therefore, the Great Powers suggested a new system, which would be binding on all groups of creditors and would exempt the Mixed Courts from accepting suits by those who did not agree with the general arrangement. The new government formed by the Khedive in 1878 refused any kind of arrangement involving foreign intervention, and the negotiations came to a dead end. To overcome the crisis, the six Great Powers pressed the Porte to replace the Khedive, who was forced to abdicate in favour of his son, Prince Tewfik (Tunçer 2015).

The new Khedive expressed his willingness to re-establish the system of two controllers-general introduced in 1876. By a decree issued on 10 November 1879, it was once again agreed that the entire administration of the country would be supervised by England and France through the controllers-general. Under this decree, E. Baring and M. de Blignières were appointed as British and French controllers-general, respectively. The controllers-general, who represented not only the foreign bondholders but also their respective governments, reinstated some of the suspended reforms, yet within a few months, the controllers-general reported that Egypt was not in a position to fulfil its engagements and suggested the appointment of a Commission of Liquidation. This led to the Law of Liquidation which consolidated the floating debt and reduced the interest rate on the unified debt. The revenues of the state were divided into “assigned” and “unassigned” revenues. The former would be used for meeting the charges of the debt and would be under the control of the Caisse; the latter was left to the government for administrative expenses. The members of the commission were recognised as legal representatives of the foreign bondholders and had the right to sue the government before the Mixed Courts (Cromer 1908, 173).

However, because of the political implications of the Law of Liquidation, there were signs of nationalist opposition to European control. This movement consisted of a coalition of



different interest groups. Landowners were concerned about the increases of taxes and the amount of land which was being seized for non-payment of debt following the Mortgage Law of 1876. The bureaucrats were concerned with the extensive employment of Europeans in the civil service. Military officers were laid off because of attempts of the financial control to reduce military expenditure. Finally, religious notables, or ulama, were concerned by the Christian rule and consequent changes in the law. These groups turned into an effective force only in 1881 when they allied with the nationalist army officers led by Colonel Arabi (Owen 2011). French and British governments were in agreement to keep Khedive Tewfik in power against the nationalist movement to protect the interests of the bondholders. However, once the violent attacks on Europeans in Alexandria started taking place, this led to the fear that the bondholders' agreement could be suspended once again. As a result, in 1882 English forces launched a military campaign -in which France, the Ottoman Empire and other powers did not participate. Following the military intervention, the Great Powers assembled a conference in Istanbul in June 1882 and a few months later, in September 1882, British forces defeated the Egyptian army.<sup>17</sup> Within a few months after the British took charge, the Anglo-French Dual Control was abolished. The British Consul-General was given overall authority and English advisers were placed in the Egyptian ministries. From 1883-1907, Lord Cromer held the position of consul-general, and under the Egyptian Constitution of 1883, he was the real governing power of Egypt. However, the power of the British consuls to modify Egyptian financial affairs was restricted by previous agreement with the bondholders and by the powers of the Caisse. The French government and bondholders refused to permit any reduction in the authority of the Caisse. Moreover, the separate administration of railways, the Daira and the domains, on all of which France was represented, was maintained (Feis 1972, 391; Wynne 1951, 616-617).

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<sup>17</sup> Cromer (1908, 175–375) documents in detail the events, which led to the British intervention, and the negotiations, which took place between the powers. Moreover, see Cain (2006), Hopkins (1986), Cameron (1898, 259–269), and Milner (1892).

## 5. Conclusion

This paper revisits two decades of the financial history of Egypt and Tunisia from 1862 to 1882 to explore the links between sovereign debt and colonisation experience of these two polities. The comparison reveals that there were several parallels between Egypt and Tunisia in their involvement of borrowing from international financial markets, default, and international financial control. The great power rivalry, especially between Britain and France, became a defining context for their ability to borrow in London and Paris. Combined with ambitious and costly Western-style reform programmes initiated by Egyptian and Tunisian rulers in the first half of the nineteenth century, this process gave way to an increase in their demand for foreign funding and made them vulnerable to European influence. To convince their creditworthiness to British and French bondholders and secure foreign funds, both the Tunisian Bey and the Egyptian Khedive hypothecated revenues from several tax sources as well as their private sources of wealth. Together with the Ottoman capitulations which recognised legal pluralism and extraterritoriality for European powers, the guarantees offered in bond contracts later turned into a justification for the creation of international financial commissions.

The chapter maintains that the emergence of international financial commissions was a multilateral solution to a range of private financial claims against the Egyptian and Tunisian governments. Although France had strong political influence in Tunisia, and Britain enjoyed a politically more advantageous situation in Egypt; the existence of foreign bondholders from different European powers acted as a check over the concentration of the power in the hands of a single European country. This was one of the reasons why these international financial commissions did not give confidence to the bondholders as evidenced by their bond spreads. In other words, administratively they did not turn out to be sustainable as their structure did not sufficiently address the conflicts of interests among different creditor groups. Only following the establishment of the formal French protectorate of Tunisia in 1881 and the *veiled* British protectorate of Egypt in 1882, the legal pluralism and multilateral nature of the financial control organisations came to an end, and the creditworthiness of Egypt and Tunisia started recovering in international financial markets.

These two cases are at odds with other cases of international financial control in the region such as the Ottoman Empire where the multilateral representation of foreign bondholders was, in fact, a contributing factor to its success. This chapter shows that the success of multilateral international financial control organisations in the first age of financial globalisation to address the conflicting private interests of different groups of bondholders and restore creditworthiness was not unconditional. Although other cases of international financial control before 1914 offered a solution to competing imperial and bondholder interests, in the case of Egypt and Tunisia, international financial control organisations became obstacles to the ongoing colonisation process by Britain and France, rather than instruments.

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