

By Sanubar GASIMOVA,  
PhD on History

# FROM THE HISTORY OF THE DEVELOPMENT OF BANKING IN AZERBAIJAN (19TH- EARLY 20TH CENTURIES)

The convenient location of Azerbaijan at the crossroads of Asia and Europe, the presence of such valuable items of trade as oil, silk, salt, tobacco, saffron, carpets, etc., were rooted in the industrial sector and were part of the all-Russian capitalist economy. The port of Baku connected the trade arteries of Russia with many countries. Azerbaijan's oil industry was growing at a fast pace and was regarded as one of the leading

and most developed sectors of the heavy industry of the Russian Empire (11, p. 26).

In around the 1870s, tsarist Russia tried to create favorable conditions for the influx of foreign capital, especially in oil production. The Baku oil industry region, bringing huge revenues to the state, provided it with a strong position in global production and exports, thereby eliminating its foreign dependence. Hundreds of



*Building of the Tiflis Commercial Bank in Baku*

*Building of the Baku Northern Bank*

local and foreign firms invested in the Baku oil industry, receiving high profits in a short time (7, p.16). As a result of such a policy, an oil tanker fleet designed specifically to transport Baku oil to Russia was established and began to develop in the Caspian Sea (14, p. 10).

Baku soon became one of the world's famous centers of oil production, attracting the attention of British, French and Dutch capital. In 1876, the Nobel brothers established an oil company in Baku for the extraction and refining of oil, and in 1879 they opened the Nobel Brothers Partnership joint-stock company, which soon became one of the largest oil companies in the world (1, p. 36). In 1883, Rothschild began financial and credit operations in Baku and started to sell oil, and in 1886 the Caspian-Black Sea Oil Company was established. Later, 42 percent of Baku oil exports were under the control of his bank (8, p. 38).

By the 1990s, several financial tycoons led by James Wishaw founded three firms in Azerbaijan (13, pp. 16-17).

By the end of the 19th century, out of 167 entrepreneurs operating in the oil industry, 49 people (24.8 percent) were Azerbaijanis. At that time, the activities of national "oil millionaires" (Haji Zeynallabdin Tagiyev, Isa Hajinski, Murtuza Mukhtarov, Shamsi Asadullayev, Seyid Mirbabayev and others) were very important for the development of the oil industry.

The successful operations of oil and transport firms, as well as the creation of launch of financial projects and rational proposals, led to the opening (in February 1874) of the Mutual Credit Society in Baku. The activity of this society was very successful – in a few years, the number of its members reached 746, with the annual turnover of funds totaling 85 million rubles.

In July 1874, the Baku branch of the Russian State Bank was established (2, p. 185). The proposal on the opening of this branch in Baku was written as early as December 1863. The main clients of the bank were large oil producers such as Nobel, Lianozov, Tagiyev, Nagiyev,



Asadullayev, Hajinski, Dadashev. The bank began to develop with great success. According to statistics, over the course of 10 years (from 1902 to 1912), a total of 227 loans were opened here in the amount of 8.5 million rubles. In 1916 alone, 398 loans were opened in the amount of 37.5 million rubles. In the department's balance sheet, loans secured by oil accounted for a large proportion of transactions. Starting from 1898, the branch of the state bank was in charge of the Baku, Goychay, Derbent, Guba, Lankaran, Petrovsky, Salyan, Temir-Khan-Shurinsky, Krasnovodsk, Merv, Askhabad (until 1909), Kukshinsky (1909) treasuries. In addition,

## *Building of the Baku Northern Bank*



the so-called rural credit partnerships were established in Azerbaijan at the expense of a loan from the State Bank of Russia. The direct control over the Baku branch of the State Bank was exercised by the Governor and Controller, who were appointed by the Ministry of Finance of Russia on the proposal of the manager of the state bank. The middle link of the department was made up of a secretary, a cashier and an accountant with numerous assistants, who were appointed by the director of the office of the State Bank.

The work of the department was carried out in its office and departments of control, accounting, treasury, as well as collegial bodies – the accounting and loan committee and the department of interbank settlements. In particular, the accounting and loan committee for commercial and industrial loans started operating in the department on 30 October 1879. In accordance with

the Charter of the State Bank, it included eminent merchants and industrialists. This committee was responsible for setting the amount of credit opened in the bank to individuals, firms and institutions, determined the reliability of bills of exchange, mortgages and collaterals for loans submitted for accounting and the productivity of the costs for which loans were requested. According to the rules of the State Bank, for the convenience of mutual non-cash settlements between institutions and persons involved in banking operations, a settlement department was established.

Following the Baku branch of the Russian State Bank, by a decision of the Baku City Duma in August 1881, the Public City Bank was established in the city, and in 1886, a branch of the Tiflis Commercial Bank with a turnover of 136 million 367 thousand rubles in 1890 started to operate in Baku (12, p. 31).

At the beginning of the 20th century, a branch of the Northern Bank launched its operations in Baku. The volume of its accounting operations ranged from 5 to 9 million rubles a year. Its special checking account loans increased to 905 million by 1903. In 1910, the largest Russian-Asian bank in the country was established after the merger of the Northern and Russian-Chinese banks in Russia.

On the eve of World War I, the leading positions in the development of operations in Baku were occupied by the Branch of the Volga-Kama Bank, which was chaired by Nobel. In 10 years of operation (1905-1915), the turnover of the Baku branch increased more than 26 times – from 456 million to 12 billion rubles. One of the most reputable commercial banks in Russia was the St. Petersburg Azov-Don Commercial Bank (1898-1920), whose transfers in the first years of its operation amounted to 364 million rubles.

Russian banking capital researcher I. F. Gindin noted that, “the oil industry was a branch in which financial-capitalist relations were most developed in Russia” (5, p. 154).

On 15 April 1914, the first Azerbaijani bank, the Baku Merchant Bank, was established in the city of Baku (H. Z. Tagiyev carried out his plan to support Azerbaijani en-

*Share of the Kura-Caspian Joint-Stock Shipping Company. Early 20th century*



trepreneurs on the basis of his own office). The first general meeting took place in H. Z. Tagiyev's house (now the National Museum of History at 4 H. Z. Tagiyev St.), where the bank was located then. The founders were H. Z. Tagiyev and M. Nagiyev, who were quite wealthy and respected in commercial circles. The bank's shareholders were merchants, oil industrialists and steamship owners (8, p. 97). The management of banking operations was entrusted to L. B. Yakubovich, who before this appointment was the director of the Baku branch of the Russian-Asian Bank, manager of the Odessa branch of the St. Petersburg International Bank and the Baku branch of the Northern Bank. The fixed capital was set at 5 million rubles. The bank was allowed to issue shares at a par value of 250 rubles. In a short time, the merchant bank justified the hopes of its founders. The operations for the first incomplete year fetched the Baku Merchant Bank an impressive income. Net profits amounted to 109 thousand rubles, which made it possible to issue a dividend of 7.5 rubles per share. In 1915, the dividend was 25 rubles per share (3, p.1).

Also operating in Baku were the Baku branch of the Russian Commercial and Industrial Bank (1898-1920), the Baku

branch of the Northern Bank (1901-1910), the Baku Agency of the Accounting and Shipping Bank of Persia (1900-1920), the Baku branch of the Russian Bank for Foreign Trade (1902-1919), the Second Baku Mutual Credit Society (1902-1920), the Yelisavetpol Mutual Credit Society (1901), the Baku branch of the St. Petersburg International Commercial Bank (1903-1920), the Baku branch of the Russian-Asian Bank (1910-1920), the Baku branch of the United Bank (1913-1920), the Astara Agency of Accounting and Shipping Bank of Persia (1913-1919), the Yelisavetpol inspectorate of small credits (1910-1917), the Nakhchivan Mutual Credit Society



*Cheque of the Baku merchant bank. Early 20th century*

## Share of the "Association of the Nobel Brothers". 1911



(1910-1917), the Nukha branch of the Tiflis Commercial Bank (1910-1915), the Baku Stock Exchange Committee (1912-1916), the Yelisavetpol branch of the State Bank (1916-1918).

The functions of banks included such operations as the exchange paper money, money transfers, acceptance of deposits, accounting of urgent certificates, issuance of loans secured by state funds, while from 1 July 1898, this list also included receiving payments on bills of exchange. Also, banks and bankers were engaged in the distribution of shares on the occasion of the formation of some enterprises. They took up the establishment of a railway, for example, and issued shares on the stock exchanges or sold them at the stock exchange rate to those interested. It was profitable for the bankers to interest influential people to raise the share price and distribute them (6, p.322).

Banks were highly important institutions in which the entire business and commercial life of the city took place at the turn of the 19th and early 20th century. Banks have also played an important part in the development of the city of Baku. According to a project by engineer Skurevich, branches of the State Bank, the Tiflis Commercial Bank and the St. Petersburg Northern Bank were built in the city one after another. The placement

of these and other banks in the city played an important role in shaping the image of Baku as a business center.

The Fund of Materials of Auxiliary Historical Disciplines of the Azerbaijan National Museum of the History has several copies of securities of the 19-20th centuries. For example, there is a share of the Kura-Caspian Joint-Stock Steamboat Company owned by H. Z. Tagiyev, a share of the Nobel Brothers Oil Production Association, a sample check of the St. Petersburg International Commercial Bank, a sample check of the Baku Merchant Bank issued to Sadikh Abdullayev, a Loan of the city of Baku of 1895, a temporary certificate of the Oil and Commercial Joint-Stock Company "Caspian Partnership", a temporary certificate of the Binagadi Oil Industry and Trade Society, etc.

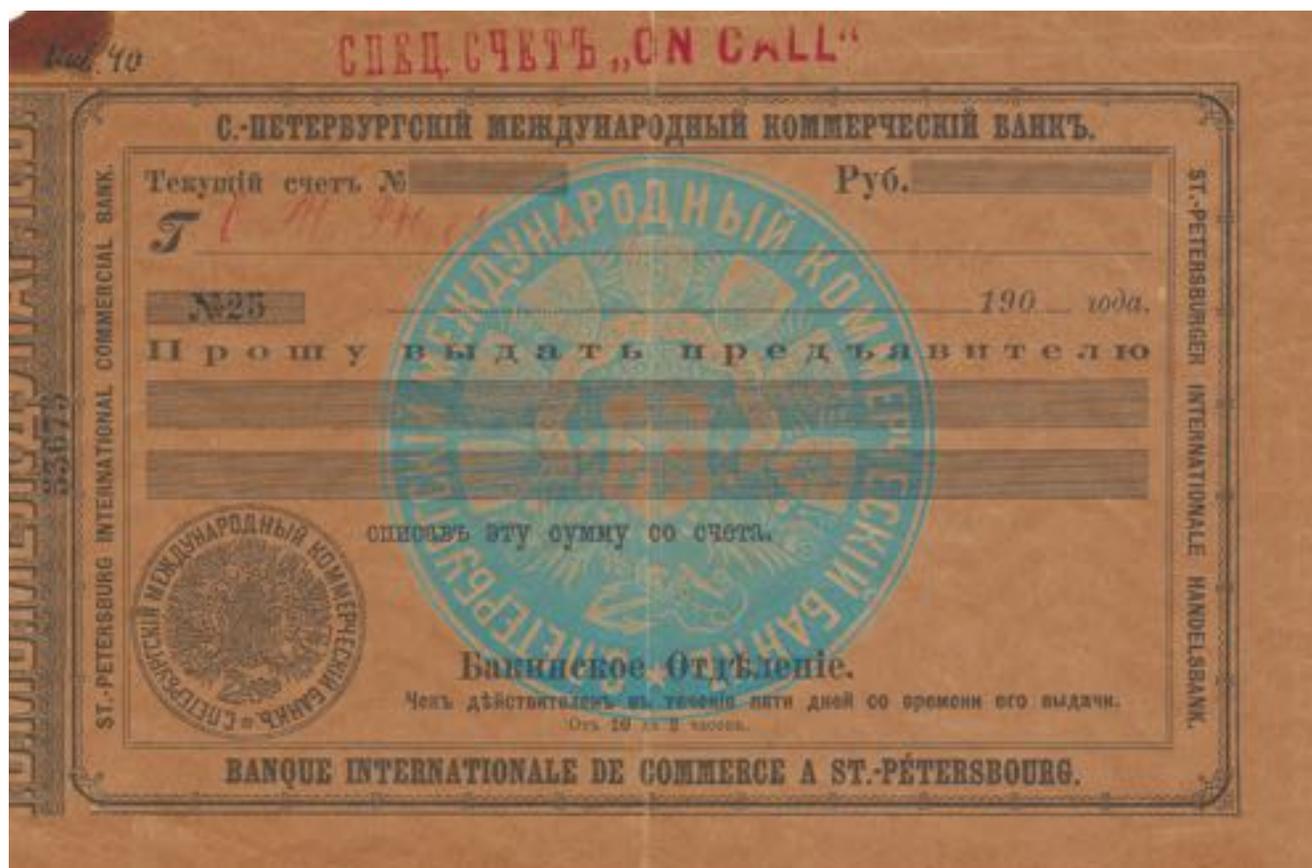
In 1903, H. Z. Tagiyev established the Caspian-Kura Joint-Stock Shipping Company with a fixed capital of 2,000,000 rubles. In 1907, the Caspian-Kura Joint-Stock Shipping Company had three tankers, two cargo tankers, eight cargo-passenger ships, two towing vessels, or a total of 15 ships with a carrying capacity of 516 million poods, which constituted 5.7 percent of all ships in the Caspian. Possession of such a powerful dry-cargo, passenger, tanker and liquid-cargo fleet enabled the company to compete with large firms. The Caspian-Kura Joint-Stock Shipping Company had steamships "Abo", "Baku", "Bakinets", "Horizon", "Imam", "Iskenderi", "Kolona", "Kostroma", "Kizil", "Agach", "Lenkoranets", "Liza Sokolova", "Mukhsaga", "Salyanets", "Tuman", "Khorasan", "Konkum", "Nizhny-Novgorod", "Akhtuba", "Zaburhige", as well as four launches and 20 barges. Many of the ships were oil tankers (10, c.310).

In 1908, the Nobel Brothers firm operated 42 oil fields in the Baku region. In 1909, the partnership owned 20 percent of the entire production of kerosene in Baku and 50 percent of its sales and 35 percent of the sales of fuel oil. In 1914, the share capital of the Nobel Brothers increased 3.6 times (about 30 thousand people worked in the "oil empire" of the Nobels).

Until 1918, the Nobel Brothers Oil Production Partnership was the largest oil company in the Russian Empire. In fact, it was the first oil company in Azerbaijan that carried out all technological production cycles ranging from the exploration of oil fields, their drilling and development to processing and sale of marketable petroleum products.

The St. Petersburg International Commercial Bank was established in the city of St. Petersburg on 5 June 1875. In 1899, this bank acquired 5,457 out of 10,000

*Cheque of the Baku branch of the St. Petersburg International Commercial Bank. Early 20th century. National Museum of the History of Azerbaijan*



shares of the Bibi-Heybat Oil Organization, which accounted for 55 percent of the total block of these shares.

In 1903, a branch of this one of the largest commercial banks in Russia was opened in Baku. Its transfers in the first years of its operation amounted to 364 million rubles, and two years later to 2 billion 619 million rubles. ❖

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