

## KARL RITTER STEFANOWSKI AND HIS WORK ON THE DEVELOPMENT OF MODERN BANKING IN AUSTRO-HUNGARIAN BOSNIA AND HERZEGOVINA

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**Abstract:** After the fall of Bosnia and Herzegovina under Austria-Hungary in 1878, the new government soon began to form its administration. Bosnia and Herzegovina lacked both the staff and modern institutions required for the progress of modern agriculture and business. One of the fundamental preconditions for this progress, capital, was not institutionally and practically developed. The new administration in an attempt to make progress brought in specialists from Austria-Hungary to study conditions and propose improvements. One of the specialists was Karl Stefanowski. He spent most of his working life employed in state administration in Bosnia and Herzegovina. In 1886, he was commissioned by the common minister of finance Benjamin Kallay to make a study concerning the state of credit operations and the possibility of improving the conditions in this area. This paper deals primarily with this study and its effect on Bosnian credit operations.

**Keywords:** credit, agriculture, peasants, serfs, Bosnia and Herzegovina, mortgage

**Apstrakt:** Nakon pada Bosne i Hercegovine pod Austro-Ugarsku, nova vlast je ubrzo pristupila formiranju svoje administracije. Bosni i Hercegovini je falilo kadra neophodnog za napredak u sferi poljoprivrede i poduzetništva. Jedan od temeljnih preduslova za taj napredak, kapital, nije bio institucionalno i u praksi razvijen. Pokušavajući da ostvari napredak, austrougarska administracija dovela je stručnjake iz Monarhije poput Karla Stefanowskog. Veći dio svog radnog vijeka on je proveo u Bosni i Hercegovini. Tokom 1886. bio je zadužen od strane zajedničkog ministra finansija Benjamina Kallaya da izradi studiju koja će analizirati stanje kredita u zemlji i predložiti mjere za njegovo ozdravljenje. Ovaj rad se bavi tim elaboratom i njegovim efektom na razvoj bosanskohercegovačkog kreditnog poslovanja.

**Ključne riječi:** kredit, poljoprivreda, seljaci, kmetovi, Bosna i Hercegovina, hipoteka

Bosnia and Herzegovina, as is well known, welcomed the nineteenth century as part of the Ottoman Empire, which has been going through numerous challenges for its survival throughout this period. The revolts of Christian-populated areas, the collapse of Ottoman state institutions, and the aggressiveness of neighbors made the future of the Ottoman Empire uncertain. In this light, it was difficult or almost impossible to expect that Bosnia and Herzegovina, as part of the Empire, would successfully embrace the achievements of the rapidly changing and advancing modern world. Within that, banking should be viewed as one of the pillars of the modern development of European countries. The circulation of money in the Ottoman period was extremely slow and hampered primarily by poor road infrastructure, the absence of industry and outdated methods of work in all branches of the economy. All this led to the fact that the value of the economy of Bosnia and Herzegovina was quite low, which directly affected the amount of capital in circulation in the country. In addition, until the end of the Ottoman period in Bosnia and Herzegovina, taxes were paid in kind, which is a commodity way of doing business, which in European countries has long been surpassed by the commodity-money economy.

Due to the different structure of society and cultural differences, modern banking operations in Bosnia and Herzegovina occur later than in the rest of Europe and its neighbourhood. At this time, there were no modern banking institutions that dealt with credit in the entire territory of Bosnia and Herzegovina, which is primarily a consequence of the overall political and economic development of this area in that period. Of course, this does not mean that credit as a source of money did not exist, because historical sources from the Ottoman period testify that credit existed, but the forms of credit were different than in developed European countries. During this period, moneylenders also borrowed money, and gave loans to anyone who would offer them valid guarantees. As their name suggests, the interest on their money was astronomical, for one florin they charged ten kreuzers a week, which was about 520% per year. Russian consul Gilferding noted that Orthodox wholesalers in Sarajevo gave merchandise on loan with an interest of 3–5% interest rate per month.<sup>1</sup>

The greater need for money arose after the Safer Order, which enabled the possibility of buying out serfs. In order to enable the peasants to get a cheap loan, the state organized menafi-boxes (useful treasury, foundation) by order of the Vilayet government in 1866. Bosnian *valija* (administrator) Topal Osman Pasha took the idea of menafi-boxes from the Danube Vilayet (Bulgaria), where similar institutions already existed. The first menafi-box was founded in 1867, and until the Austro-Hungarian occupation, 38 menafi-boxes were founded in 46 districts with the task of helping the population of the region with loans, improving the economy, etc. According to the rules, the loan from the menafi-box could be obtained by anyone who requested them, and the interest rate was 1% on a monthly basis. However, in the order on the menafi-boxes, it was stated that merchants and craftsmen could get loans, but only when the peasants' needs were settled. The explanation for this policy was that the capital of the foundation was created by peasant labour, i.e. the sale of agricultural

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<sup>1</sup> Aleksandar Gilferding, *Putovanje po Hercegovini, Bosni i Staroj Srbiji*, Sarajevo: Veselin Masleša, 1972, 58.

products, so it is fair that this money is used primarily for agricultural development purposes. The minimum loan duration was three months and the maximum was one year. Before the Austro-Hungarian occupation, these institutions had assets of 2,658,000 groschen, or about half a million gold Kronen. The menafi-boxes proved to be a successful step towards overcoming poverty and improving agriculture, so the Austro-Hungarian government took them over and continued to use them after 1878,<sup>2</sup> and as we will see continued to rely on them in the future.

The initial need for the work of monetary institutions was conditioned by the need of the state administration to entrust these institutions with the collection of some state revenues, such as salt and tobacco. However, the Habsburg administration had the principle to impede the development of national banking in Bosnia and Herzegovina. Their policy was to promote foreign, preferably Austro-Hungarian capital financial investment in Bosnia and Herzegovina. That principle was in place for more than half of the entire period of Austro-Hungarian occupation and administration. American historian Sugar noted that Minister Kallay was adamant to prevent forming of any bank with the prefix “Serb”, “Muslim”, or “Croat”.<sup>3</sup>

Nevertheless, it is not sufficient to say that the Austro-Hungarian financial policy in Bosnia and Herzegovina was harsh and hindered domestic development. During the period of the occupation and administration 1878–1918, many renowned specialists took part in probing the Bosnian economy with a particular interest in finance and banking. The National government and the Ministry of finance often tasked trustworthy to write elaborates, reports and guidelines on how to solve a certain problem. This practice was always a good way to solve problems. One interesting recall of this practice came after the dissolution of the Monarchy from the pen of one Slav who wrote: “All this post-war work with regard to livestock breeding

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<sup>2</sup> Hamdija Kreševljaković, “Menafi-sanduci (poljodjelske pripomoćne zadruge) u Bosni i Hercegovini (1866–1878)”, in: *Izabrana djela*, vol. 3, Sarajevo: Veselin Masleša, 1991, 383-395.

<sup>3</sup> Peter F. Sugar, *Industrialization of Bosnia-Herzegovina 1878–1918*, Seattle: University of Washington Press, 1963, 243.

is marked with dilettante experimenting. Austrian administration at least worked in tandem with university professors. Currently, this practice is unknown to us”<sup>4</sup>

Elaborates on financial policy are known to historiography. One such report was written in 1882 and submitted to minister Kallay. This report was published in 1969 by Ferdo Hauptman.<sup>5</sup> At the time of writing this report, Plenker was the head of the financial department in the National Government of Bosnia and Herzegovina. Another known report concerning financial matters was the report of Hermann Sauter, the president of the Austrian trade Union from 1910. This report was presented by Dževad Juzbašić in 1970.<sup>6</sup> Common ground for both works is the depth in which their authors go to explain the problem and then to propose the solution. It is safe to say that these papers could be labelled as case studies and examples on how to solve certain problems in the country.

In this paper, another such case study is presented to the historiographical community. The paper was written in 1886/7 by a member of the Austro-Hungarian administration, Karl Stefanowski, who was Polish by nationality.

Karol Tadeusz Stefanowski Ritter von Syrokomla was sent to Bosnia and Herzegovina during the war, i.e. in 1878. We learn a little about his story from the documents left behind, which can be found in the Archives of the Federation of Bosnia and Herzegovina in Sarajevo.<sup>7</sup> In the collection

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<sup>4</sup> Milan Janković – Josip Džuverović, “Stočarstvo i stočarska proizvodnja u Bosni i Hercegovini”, in: *Bosna i Hercegovina kao privredno područje*, Sarajevo: Bosanska pošta, 1938, 56.

<sup>5</sup> Ferdo Hauptman, “Memorandum šefa finansijskog odjeljenja bosanskohercegovačke Zemaljske vlade Plenker o finansijskoj problematici Bosne i Hercegovine u prvim godinama austrougarske okupacije”, in: *Glasnik Arhiva i Društva arhivskih radnika Bosne i Hercegovine*, Sarajevo: Arhiv BiH, vol. VIII–IX, 1969, 511-574.

<sup>6</sup> Dževad Juzbašić, “Izvjestaj Hermanna von Sautera o odnosima Bosne i Hercegovine i monarhije u svjetlu austro-ugarskih ekonomskih suprotnosti”, in: *Politika i privreda u Bosni i Hercegovini pod austrougarskom upravom*, Special editions, book CXIV, Department of Social Sciences, book 35, Sarajevo: ANUBiH, 2002, 87-120.

<sup>7</sup> Arhiv Bosne i Hercegovine (hereinafter: ABiH), fond Personalni dosje (hereinafter: PD), Karol Stefanowski

*Personalni Dosje*, two of his biographies have been preserved, which he wrote in August and November 1918, when Austria-Hungary – the state he served for over 30 years – collapsed. He was then already a 65-year-old man. The reason for the creation of biographies was a request to the authorities to include in the pension paid to him the period of work from 1910 to 1915 when he prepared a manual for officials for the Austro-Hungarian authorities, which was to help them prepare for service in Bosnia and Herzegovina.<sup>8</sup>

One biography was addressed to the National Government, and the other to the new post-war authorities. From these biographies, we learn that Stefanowski, born in 1853 in the Galician town of Narol,<sup>9</sup> shortly after his studies at Law faculty in Lviv and then in Vienna, went to practice in the capital of the monarchy, and then in August 1878, he was employed in Bosnian office and immediately went to the occupied territories with soldiers. Thus, he was one of the first civil servants, of the new administration, to be there. In May of the following year, he moved to the Balkans where he started working in the police in Sarajevo and Banja Luka. Therefore, he had to create the structures of new offices from scratch. However, he managed to do this very well, as evidenced by his subsequent promotions and decorations. In 1881, he was briefly transferred to the district of Žepče, and a year later he returned to Sarajevo.<sup>10</sup> Such reorganizations of young officials were on the agenda in Bosnia and Herzegovina. The lack of a permanent, sufficiently large staff meant that they were moved from place to place even several times a year. This lack of stability was often criticized by officials, which led to the reform in 1885, which somewhat stabilized the situation.

In 1882 Stefanowski returned to Sarajevo, where he managed to achieve considerable success, because by using a trick he managed to catch two of

<sup>8</sup> Ibid.

<sup>9</sup> Archiv der Universität Wien, Juridischen Fakultät Nationale, 1874 S–Z, ref. no. 100, 146.

<sup>10</sup> According to the diary of British Consul Edward Bothamley Freeman, Stefanowski was a frequent visitor to the British embassy in Sarajevo during the first period of the occupation. British Library, Collection of Manuscripts, FREEMAN JOURNALS: Journals of Edward Bothamley Freeman (1 Jan 1875 – 19 Jan 1880), sign. MS 59750, 8. 6. 1879, p. 65.

the most dangerous criminals in the city; Tardović and Zekanović.<sup>11</sup> For this success, he was awarded the Cross of Franz Joseph (Franz Joseph-Kreuz).<sup>12</sup> During his career, he was not only involved in the police. In Gradiška, where he worked, he was responsible for infrastructure; road construction and administration, while in Derventa he paid special attention to the development of agriculture, in particular, he spread the cultivation of sugar beets. In the latter biography, written to the new provisional authorities that took over the government in Bosnia and Herzegovina after the collapse of Austria-Hungary, he did not mention his achievements as a police officer but wrote: *Throughout the whole period of my ministry – I was, as is well known – zealous, conscientious, fair and impartial regardless of nationality and religion [...]*.<sup>13</sup>

In 1893 he joined the National Government, where he worked for 15 years until his retirement in 1908. Karl Ritter von Stefanowski was a widely respected person in Sarajevo. He belonged to the local elite, a new social group, which with the arrival of the masses from outside Bosnia and Herzegovina dominated the local culture, art, and science. Stefanowski loved both music and science, for some time he was the president of the Men's Music Society (*Muško pjevačko društvo u Sarajevu*).<sup>14</sup> He had an impressive library, in which, in addition to books, he also stored valuable documents. From his personal form, we learn that he had two children – daughter Karolina born in 1878, and son Rudolf in 1881.

Stressful work was one of the causes of his heart disease, which he began to complain about as early as 1905. Since then, he went on leave several times to stay healthy and finally left the service in 1908 with the rank of Court Counselor. It was then that he moved to the seaside Opatija, then called Abbasia. It was the most important resort on this side of the Adriatic,

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<sup>11</sup> More about Zekanović's crime: *Wiener Allgemeine Zeitung*, no. 718 (26. 2. 1882), p. 3; *Wiener Zeitung*, no. 143 (23. 6. 1882), p. 2.

<sup>12</sup> ABiH, PD, Karol Stefanowski.

<sup>13</sup> Ibid.

<sup>14</sup> "Desetogodišnjica Muškog pjevačkog društva u Sarajevu", *Nada*, no. 12, 1897, 238-239.

where the Austro-Hungarian middle class, including Poles from Galicia,<sup>15</sup> rested. Nevertheless, Stefanowski did not completely abandon the capital. His library remained in Bosnia and Herzegovina, and probably also an apartment to which he returned in the summer – while the winters he spent by the Adriatic Sea.<sup>16</sup>

The last trace of Stefanowski that has been established is the aforementioned application from November 1918, so it is not known whether his request was granted. However, this is doubtful, especially since the new authorities were reluctant towards people who worked for the previous “regime.” Cases when officials were removed from their previous positions, and even repression by the new authorities, were common.<sup>17</sup>

### Context of Stefanowski’s paper

The first eight years of the Austro-Hungarian occupation was a period of consolidation of its power in the occupied provinces. During this time, new authorities founded modern administration and brought into practice new laws which regulated the occupation. With regards to finance, it should be noted that both economic development and the influx of state capital from the Monarchy were somewhat constrained by Governing law from February 22<sup>nd</sup>, 1880 which stipulated that Bosnia and Herzegovina will cover all governing costs with domestic sources of revenue. In practice, this meant that it was very difficult for Bosnia and Herzegovina to obtain credits and subsidies from the state treasury from both sides of the Habsburg monarchy. This law remained in force during the entire period of Austro-Hungarian rule and it constrained the development of the Bosnian

<sup>15</sup> Kazimierz Karolczak, “Moda na Abację. Polacy na Istrii w drugiej połowie XIX wieku”, in: Bożena Popiołek (ed.) *Człowiek w teatrze świata. Studia o historii i kulturze dedykowane Profesorowi Stanisławowi Grzybowskiemu z okazji osiemdziesiątych urodzin*, Kraków: Wydawnictwo Naukowe Uniwersytetu Pedagogicznego, 2010, 286-296; Christian Rapp – Nadia Rapp-Wimberger, *Österreichische Riviera: Wien entdeckt das Meer*, Wien: Verlag, 2014.

<sup>16</sup> ABiH, PD, Karol Stefanowski.

<sup>17</sup> Enes S. Omerović, *Političko nasilje u Bosni i Hercegovini (1918–1921)*, Sarajevo: Institut za historiju, 2015, 69-70.



economy, especially with regards to constructing railroads and solving numerous socio-economic problems that required large sums of money to be solved properly, first of which is the agrarian question.<sup>18</sup>

When Benjamin Kallay became common minister of finance in 1882, he quickly realized the problem which occupied provinces had. His first move was to form a professional administration, such as in the rest of the Monarchy. Prior to him, all employers in the provincial administration were promoted to their posts provisionally, without regulations regarding their retirement, legal status etc. Kallay believed that successful and competent administration will solve many of Bosnia's predicaments without much investment. This is best illustrated by the fact that in the year of Kallay's death, in Provincial administration, 70 employers had a PhD degree level of education.<sup>19</sup>

With regards to economic policy, it had its main driving force in fact that minister Kallay, and other prominent members of the administration believed that the only way that Austro-Hungarian rule in Bosnia and Herzegovina can be solidified is by improving the standard of living of the majority of the population. In his speech in front of Hungarian delegations in 1882 he reiterated that: "people whose well-being is in a state of growth is not likely to be seduced by propaganda or (to) rebel".<sup>20</sup> In one letter written in 1895 Isidor Benko, Head of the administrative department of the National government mentioned that investment of two million florins in the occupied provinces would do more to distance it from Montenegro than any administrative measures.<sup>21</sup> With this in mind, it is quite simple to see how on one hand the need for development that was dictated both by political and economic reasons was hampered by the handicap that was

<sup>18</sup> Dževad Juzbašić, "O nastanku paralelnog austrijskog i ugarskog zakona o upravljanju Bosnom i Hercegovinom", in: *Politika i privreda u Bosni i Hercegovini pod austrougarskom upravom*, Special editions, book CXIV, Department of Social Sciences, book 35, Sarajevo: ANUBiH, 2002, 37-40.

<sup>19</sup> Tomislav Kraljačić, *Kalajev režim u Bosni i Hercegovini 1882-1903*, Sarajevo: Veselin Masleša, 1987, 443.

<sup>20</sup> Ibid.

<sup>21</sup> Ibid., 484.

placed on the Provincial administration by the Governing law from 1880. The only possible solution for this problem was the introduction a strong source of credit. In that regard, an attempt was made by forming the Branch of Union Bank from Vienna in Sarajevo in 1883.<sup>22</sup> However, due to the unresolved status of Bosnia and Herzegovina, legal uncertainties, and the high risk of conducting business in Bosnia and Herzegovina, Union bank focused its business primarily on dealings with State and neglected credit operations with the general population. From 1884 to 1887, the Union bank authorized only 88,640 florins in the form of mortgage loans.<sup>23</sup> Therefore, minister Kallay found himself in a position to look for other banks willing to invest in Bosnia and Herzegovina, but that could not be done without identifying the problems that lay in the credit system in the occupied provinces, because without making amends to the existing system he faced the risk of another failure similar to that of Union bank. In that regard, the paper of Karl Stefanowski is clearly a way of finding a solution to the Bosnian credit problem that occurred in the first years of Kallay's regime.

### **Stefanowski's paper on credit business**

The paperr that is analysed in this article was hand-written in German language on 54 pages which testifies to its author's ambition to explain the problem in detail and propose an adequate solution. It has three distinct parts: the current state of credit, problems with the credit system, and proposals for the solution of problems. The document is preserved in Bosnian State Archives, Fund of Common ministry of finance (Arhiv Bosne i Hercegovine, Fond Zajedničkog ministarstva finansija) no. 3183/87 BH.

At the onset of the paper, the author admits that the paper itself was written on demand from Reich minister of finance Benjamin Kallay. He writes

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<sup>22</sup> On forming and work of Branch of Union Bank in Bosnia and Herzegovina consult: Muhamed Nametak, *Bankarstvo Bosne i Hercegovine u periodu austrougarske uprave, Privilegovana zemaljska banka za Bosnu i Hercegovinu na prekretnici*, Sarajevo: Univerzitet u Sarajevu – Institut za historiju, 2020, 31-36.

<sup>23</sup> T. Kraljačić, *Kalajev režim*, 504.

that the writing took some time because he had to collect the data necessary for the paper. He starts the paper by explaining how credit is important for the development of industry and agriculture and continues to write that credit exists in occupied provinces but on “an unhealthy basis” which in the long term cannot bring any benefit to the country. He also notes that the most significant form of credit at the time was the form of usury. It was a common case in spring for most peasants to buy seeds on credit from merchants, and to agree to return the seeds in autumn in double or even triple amount. The even greater problem was that these kinds of arrangements were not conducted under the auspices of courts, but often on a promissory basis with witnesses. Any arrangements between the two parties were conducted in a way that only the obligations of a peasant were mentioned, and the original sum of the loan was not on paper to avoid the horrendous price of the loan. Stefanowski continues arguing that the contributing factor to this situation is the poor level of education of Bosnian peasants, their recklessness, naivety, ignorance of laws and especially their state of need. All these factors were skilfully abused by usurers. It seemed to the author of this paper that Bosnian peasants were born to be in debt for the entirety of their lives. Considering the fact that Stefanowski was a government official he often travelled to oversee tax collections in rural parts of Bosanska Gradiška county. There he witnessed that many peasants are in the hands of usurers, that had the opportunity to inflict serious material damage on their debtors, but they in most cases exercised leniency for two reasons. The first one was to extend the loans and collect the interest, and the second was to ensnare the rural population into the political schemes of the usurers. He argues that in Bosnia and Herzegovina there are many thousands of usurers who use merchant business as a cover, but at the same time their entire stock of goods does not exceed the amount of 10–50 florins. He rhetorically asks how it is possible that in one country that is relatively poor, thousands of work-shy families live a good life and sporadically even acquire wealth.

The local usurers, however, were only a part of the usury scheme and were dominated by usurers of higher categories that were mostly large

merchants. There was also one other category of users, foreign adventurers. These merchants arrived in Bosnia and Herzegovina together with the Habsburg army. They had little or no capital with them and were quite unsuccessful in their country of origin. Stefanowski writes the example of August Jancik, who was expelled from Gornji Podgradci in Bosanska Gradiška district, by district offices with the permission of the National government. Jancik came to Bosnia in 1880 or 1881 and applied for a dispensing license, and after he got it, he was granted credit on the spirit by the Gradiška merchants. Jancik started with such working capital, and by 1885 he already had two houses of his own, two inns and a merchant's shop, a considerable cash fortune, and about 4,000 florins given as loans to the rural population and to the sawmillers. Stefanowski was appalled that spirit loans were the way most of the local merchants acquired their fortune. He gives credit to merchants who were very skilled at exploiting the naivety of peasants in a way that they were always profitable but at the same time presented themselves, both in courts and in the eyes of peasants as lenient. Another example is presented in the case of merchant Isak Danon, that allegedly destroyed many free peasants in the village of Sjenina, district of Gračanica. A peasant named Adem Okić was indebted to Danon for the amount of 720 florins. As he was unable to pay the debt, court execution was carried out in 1885, but Danon showed mercy and reached a new settlement where Okić was to supply him with plums worth 1220 florins over the following two years. As Okić was unable to meet the production quotas he was forced to become a serf-kmet of Danon. According to Stefanowski, in 1885 at least 100 peasant families were ruined in this way in the district of Bosanska Gradiška alone. He came to this number by tracing the decrease in tax revenue of 10,000 florins. This revenue was written off because of the "total impoverishment" of those families. Therefore, not only peasant lives were ruined, but the state also lost a source of revenue.

The state had recognized the issue with drinking spiritus and its adverse effects for those who consumed it. The regulation no 3366/1 was issued by the National government on 24<sup>th</sup> March 1885, regarding the suppression of

drunkenness and the restriction of the retail and wholesale of spiritus.<sup>24</sup> It also directed that the usury business is reduced by the unenforceability of the claims for spiritual beverages. Point 7 of the envisaged regulation explicitly stated: “The ... Restrictions and other orders apply only to the retail and wholesale of spiritus and not also to those of distilled liquids produced from fruit.” The consequence of this was that usurers simply changed the drink of preference from cheap spiritus to slightly more expensive Slivovitz (Bosnian schnapps made of plums). The Regulation stated in point 2 that claims against customers of spiritus in hospitality and pubs are not enforceable if the borrower has not yet paid an earlier debt of the same kind to the same creditor.

The number of schnapps stands and slivovitz cabinets compared to the population was enormous, and it shows how lucrative the tavern-loan business in Bosnia was. According to Stefanowski in Bosanska Gradiška, which had around 4,500 inhabitants, more than 200 inns existed. When Stefanowski took the administration of the district in the first semester of 1885, he increased the tax paid by the innkeepers by 100% hoping that this would curb tavern-loan business. However, all the innkeepers paid the increased tax without appeal and continued the business.

After a lengthy introduction on the state of credit, the author explains his perception of the importance of credit and a belief that the state itself should interfere in current conditions and offer some kind of solution for the shortage of money. He saw inspiration from the Ottoman government that founded institutions called “menafi-sanduk” and “hambar.” These institutions were agricultural lending institutions whose capital was formed by the compulsory contribution of the district’s agrarian producers. Hambar, on the other hand, was a district storage magazine that gave loans in form of seeds. Both institutions functioned on the principle of savings. After famine struck Bosnia and Herzegovina in the winter of 1879/80 the

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<sup>24</sup> In 1885, the government published a law regarding drunkenness and also a law regarding the quality of alcoholic beverages. For details concerning these laws consult: *Zbornik zakona i naredaba za Bosnu i Hercegovinu*, Sarajevo, 1885, law no. 3366, p. 37, law no. 14219, p. 127.

National government with a series of regulations reintroduced these institutions but according to Stefanowski in the wrong direction, because they worked on a humanitarian basis instead of economic principle, that would enable these institutions to grow and increase the scope of their influence on the economy.

One of the principal problems of Bosnia and Herzegovina, that impeded the growth of credit was the unresolved question of proprietary rights. In other words, there did not exist a court register containing the information of who owned what land. Proprietary rights were registered only on papers called “tapija” that were issued to the owner by the previous Ottoman administration. These documents were mostly accepted by the authorities but there were cases when parts of them or their entirety were disputed by a third party. In such cases lending party was at risk if its money was secured by faulty “tapija.” Therefore, mortgage credit practically did not exist in Bosnia and Herzegovina.<sup>25</sup>

An important issue in considering the possible improvements of the current situation was the inactivity of the Union bank, which established its branch office in Bosnia in 1883. Minister Kallay put big hopes in this bank, but his hopes proved to be of short breath because Union bank focused primarily on big deals that involved the National government and its tobacco monopoly which constituted most of its business operations. Stefanowski argues that authorities made every effort to alleviate

<sup>25</sup> Apart from the proprietary rights regulations that Stefanowski mentioned in this paper, one should not ignore another important consideration, the legal status of Austro-Hungarian presence in Bosnia and Herzegovina. According to article XXV of Berlin Congress, the Habsburg monarchy got rights only to occupy and administer Bosnia and Herzegovina, but it did not get these lands as permanent parts of the Monarchy, i.e. the occupation was perceived by contemporaries as temporary. Therefore, banks were reluctant to invest their money in Bosnia and Herzegovina. When the Joint Ministry of finance negotiated in 1880, the loan for the construction of the Zenica–Sarajevo railway with the banks Bodencreditanstalt and Österreichisches Escomptgesellschaft, the banks mentioned, and even questioned, the right of the Ministry to withdraw the loan, but were ready to give it if they were tax-exempt and if the contract would not mention Bosnia and Herzegovina or the purpose of the loan at all; Dževad Juzbašić, “Problemi austrougarske saobraćajne politike u Bosni i Hercegovini poslije okupacije i izgradnja željezničke linije Bosanski Brod – Sarajevo”, in: *Godišnjak Društva istoričara Bosne i Hercegovine*, Sarajevo, year 19, 1973, 122.

the concerns bank may have had in lending more money to rural areas by going case-by-case protocol and probing the diligence of debtors. The government also enforced bank claims in events such as low liquidity of debtors, but to no avail as Stefanowski reports that the bank withdrew from the lending business. Ministry had no other option but to entrust the mortgage credit operation to a completely new institution called Pensionsfond, which was an institution that serviced pensions to government officials.

In his further analysis, Stefanowski argues that Bosnia needs development of credit on modern principles, but adapted to its specific circumstances, that is, to its predominant agrarian population and underdeveloped industry. He claimed that all previous regulations that had a goal for improvement in this sector benefited primarily large enterprises, which was not necessarily bad, but failed to do what the government hoped for – general improvement of the economic situation, improved standard of living of the majority of the population. Another issue with credit at the time was the complicated procedure for obtaining credit. In a few examples, Stefanowski explains that both peasants and merchants had to wait for several months to get the credit, and even if they got it, it cost them much more than what was nominally the price of credit because they had to pay expensive insurance for their property, court, and lawyer fees. It all contributed to the fact that people were much more inclined to take loans from usurers than from Union bank or Pensionsfond. He claimed that: “In agriculture and even more so in trade and commerce, economic progress is very often tied to the moment, favourable constellations cannot always be determined months in advance, and if you catch them, then you have to use them economically immediately... and any default in lending is usually more pernicious – than a prompt loan at usurious interest. For this reason, despite the relative willingness of the Pensionsfond, usury in the occupied provinces is thriving more than ever, and seldom does a borrower decide to embark on the long and costly path of obtaining credit from the Pensionsfond.”

## Proposal for strengthening the local sources of credit

In the final part of his essay, Stefanowski elaborates on the possibilities for improvement of the current situation. He concludes that apart from speeding the process of obtaining the credit, the Government must do more to increase the amount of money available to small debtors, such as peasants. In that, he also touches on one painful spot in Bosnian society and that is the social problem of serf absolution. As is well known, resolving the agrarian issue was one of the burning issues of the state administration in Bosnia and Herzegovina. Although Austria-Hungary has not officially committed itself to resolving the agrarian issue, it has, in a way, morally committed itself to doing so. At a session of the Berlin Congress dedicated to Bosnia and Herzegovina, Austro-Hungarian Foreign Minister Andrassy said: “Turkey should resolve the agrarian issue, the main source of occasional quakes that have put unrest in these lands and are full of obstacles created by a population torn by religious hatred and social hatred, this issue can only be resolved by a strong and impartial force in these lands...”<sup>26</sup> Thus, the occupation of Bosnia and Herzegovina found its justification, to some extent, in resolving the agrarian issue. The percentage of serfs in the total population of Bosnia and Herzegovina at the beginning of the Austro-Hungarian occupation was 38.25%.<sup>27</sup> The agrarian question meant finding exclusively ways to liquidate feudal relations in agriculture, which at the beginning of the occupation included 52.5% of rural households.<sup>28</sup>

Stefanowski argued that for resolving these problems capital of at least 3 million florins is needed. It is interesting that he saw the possibility of obtaining this money from inside the country and that is from two main sources. The first source of capital was in the state-administered funds, which were both public and private. These included the above mentioned

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<sup>26</sup> Luka Đaković, “Privilegovana agrarna i komercijalna banka za Bosnu i Hercegovinu”, in: *Glasnik Arhiva i Društva arhivskih radnika Bosne i Hercegovine*, Sarajevo: Arhiv BiH, vol. 6, 1966, 143.

<sup>27</sup> *Bericht über die Verwaltung von Bosnien und Herzegovina*, Vienna: Common ministry of finance, 1913, 48-49.

<sup>28</sup> Milivoje Erić, *Agrarna reforma u Jugoslaviji 1918–1941*, Sarajevo: Veselin Masleša, 1958, 63.



Menafi-boxes, Mearif funds, orphan funds, district funds, and savings deposits. In Menafi-boxes alone, Stefanowski thought that between 300 and 500 thousand florins of capital existed that was poorly administered without a clear purpose. A similar case was with the Mearif funds, which were Muslim endowments (waqfs) taken under the state control allegedly to avoid poor management practices. Stefanowski did not know the exact amount of money that Mearif funds had, but data from 1905 shows that the property of waqfs, which were the source of Mearif funds, amounted to 6 million Kronen (3 million florins).<sup>29</sup> The waqfs have been managed by the National Waqf Commission since 1883, and from 1894 by the newly established National Waqf Foundation. The waqfs were under the control of the government, which kept their revenues in Mearif funds under similar conditions as the land revenues were kept. According to the decision of the Foundation, every year one fifth of the surplus income was invested, among other things, in banks.<sup>30</sup> This information is of fundamental importance for this paper because it shows that government, not long after this elaborate, was made to put into practice what was proposed by it.

For orphan money funds he proposed a similar solution. Orphan money was under the control of courts until beneficiaries became of age. It was theoretically possible to lend this money at interest to someone and make a profit during this period. A similar situation happened with the state deposits. By these Stefanowski considered judicial deposits, court, and penalties funds. He did not specify the amount of money that was available in these funds, but it is safe to estimate that these funds were the lowest of all numbered. Lastly, Stefanowski proposed the promotion of savings in government-warranted institutions, as ordinary people would not entrust their savings to privately owned banks.

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<sup>29</sup> Ferdinand Schmid, *Bosnien und die Herzegovina unter der Verwaltung Österreich-Ungarns*, Leipzig: Verlag von Veit&Comp, 1914, 685.

<sup>30</sup> Abduselam Balagija, *Uloga vakufa u verskom i svetovnom prosvjećivanju naših muslimana*, Beograd, 1933, 25-29.

The above-mentioned sources of capital were sufficient in Stefanowski's opinion to grant every district (kotar) 65 000 florins for loans. The primary users of capital were supposed to be peasants, and second in line artisans and industrial entrepreneurs. Agriculture, in particular, was a priority, because Stefanowski argued that it was the obligation of authorities to help remedy the hard conditions in which peasants and serfs lived. Furthermore, he claimed that these loan businesses in these cases should be made without regard to profit. Concerning the process of getting credit, all procedures were to be made as simple as possible, and small amounts of money should be given with very little paperwork. He argued that an interest of 9% would still be profitable for taking parties, since usury interest was much higher at the time. He finished his paper with the Latin proverb *Bis dat, qui cito dat*, that could roughly be translated as "He who gives promptly, gives twice as much." In this proverb is the entire philosophy of his credit business, and also a clue at what he saw as the most harmful part of contemporary credit business in Bosnia and Herzegovina.

### **Assessment of Stefanowski's paper**

Stefanowski's work was warmly welcomed by minister Kallay. Kallay, himself was deeply interested in the successful development of the state he administered, and most industry that was built in Bosnia and Herzegovina in two decades of his administration (1882–1903) was his direct achievement.<sup>31</sup> This conclusion is based primarily on the events that followed. Immediately after this paper was written the National government tried to implement some of Stefanowski's proposals. The obvious fruition of his ideas was the creation of the Bosnian Hypothecary Institution which was founded in 1888 and started working in 1889.<sup>32</sup> When it was founded, the statute enabled it to issue bonds, which meant that it could thus borrow on

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<sup>31</sup> Ferdo Hauptman, "Bosanske financije i Kallayeva industrijska politika", in: *Glasnik Arhiva i Društva arhivskih radnika Bosne i Hercegovine*, Sarajevo: Arhiv BiH, vol. 12–13, 1973, 59–83.

<sup>32</sup> *Statuten der bosnisch-herzegovinschen Hypothekar-Creditanstalt*, Sarajevo: Selbstverlage der Anstalt, 1889.

the capital market in the Monarchy, and thus provide money for lending in the country. The government has also decided to deposit all money in the form of coupons, guarantees and securities to the institution, in order for it to receive coverage for the issuance of bonds. This money was deposited mainly by economic entities, and to a lesser extent by private individuals. This was absolutely in line with Stefanowski's ideas. However, this institution instead of 3 million florins collected only 922,072 florins in this way.<sup>33</sup> In the legal sphere, some changes also occurred. Most notable is that new law concerning agricultural credit was passed. Loans were divided into two categories regarding their purpose and if a mortgage was placed on the property. Loans were given for a duration of up to 10 years. When the Bosnian Hypothecary Institution was formed this time was extended to 20 years.<sup>34</sup> At the same time when Stefanowski was writing his study, menafi-boxes that he mentioned several times in his study were incorporated into newly established institutions called District support collectives that gave loans on similar conditions.<sup>35</sup> This happened in 1886, which makes it somewhat unclear if this change happened on the basis of his proposals to include menafi-boxes in solutions for agricultural credit, but the fact that he mentioned menafi-boxes often in his paper, and he did not mention the newly-formed institutions, makes it quite possible that his proposal either existed before or that forming of new institutions was only formal and has not yet come to be realized in everyday life.

State administration also tried to mobilize domestic sources of capital, which was not necessarily Stefanowski's idea, but it also was a remedy for the poor state of credit. In that regard, in 1888, with the support of the government group of domestic large merchants and landowners founded the Bosnian Herzegovinian People's Shareholder Bank. Its founding capital was 100 000 florins.<sup>36</sup> Over the course of the following eight years, this

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<sup>33</sup> ABiH, Common ministry of finance (hereinafter: ZMF), Opći akti 8737/1888.

<sup>34</sup> *Izvještaj o upravi*, Zagreb: Carsko i kraljevsko zajedničko ministarstvo financija, 1906, 346-347.

<sup>35</sup> H. Kreševljaković, "Menafi-sanduci", 383-395.

<sup>36</sup> *Izvještaj o upravi* (1906), 346-347.

institution worked successfully. It opened a branch in Mostar, making it the first bank office in Herzegovina in history.<sup>37</sup> It also doubled its capital to 200,000 florins in 1894 which proves that domestic capitalists had a perspective of creating successful money-lending institutions.

However, not all intentions of the government brought successful results. For example, in the case of agricultural credit, there are numerous sources that indicate that the government failed with its measures to alleviate problems in agriculture with credit. Bosnian author Božidar Nikašinić wrote in 1900 about futility of agricultural credits. He claimed that the average peasant needs approximately 40 florins each summer for sowing, but at the same time district officials approved loans of only 8–10 florins at 4% interest. Loans were due in the autumn of the same year. Money from these loans could be used only for the purchase of seeds, but there were times when that was not the case. Nikašinić gave the example of one serf from Sarajevo district who got a loan of 8 florins. From that loan, according to Nikašinić, this man bought flour worth 4 florins, and the remaining amount of money he spent in a tavern on schnapps. For this transgression the man was severely punished. Nikašinić claimed that around 500,000 florins of such agricultural credit was given. He claimed that these loans were proof of a terrible state of living among the peasant population, and that these credits didn't make any positive impact on their livelihoods.<sup>38</sup> Realizing the limitation of these credits, the government abandoned loan operations in money and from 1898 it initiated the so-called "real credit" which meant that loans were given exclusively in kind, most often in grains, seeds and tools for agricultural cultivation. This credit proved to be a lot more successful. For example in 1908, 6.7 million crowns (3.35 million florins) were given.<sup>39</sup>

<sup>37</sup> ABiH, ZMF, Opći akti, 2108/1892.

<sup>38</sup> Božidar Nikašinić, *Bosna i Hercegovina pod Austro-Ugarskom upravom i austro-ugarska balkanska politika*, Beograd: Štamparija Zadruga štamparskih radenika, 1901, 77, 79-80.

<sup>39</sup> Nikola Jarak, *Poljoprivredna politika Austro-Ugarske u Bosni i Hercegovini i zemljoradničko zadugarstvo*, Material, book I, Department of Economic and Technical Sciences, book 1, Sarajevo: Naučno društvo NR BiH, 1956, 65-69.

## Conclusion

Karl Stefanowski was one of the few Austro-Hungarian officials that stayed for almost all of his professional career in Bosnia and Herzegovina. He came following the footsteps of imperial hussars and remained in active service until 1908. His work on credit and loan business in Bosnia and Herzegovina is the first such undertaking during the Austro-Hungarian rule, and two conclusions can be drawn. Firstly, his research of the topic and knowledge of legislature concerning all aspects of loans and everyday life connected to it made him an expert who earned respect in eyes of people such as minister Kallay. The second conclusion is that Stefanowski was keenly interested to improve the situation of impoverished citizens of Bosnia with modern achievements in banking by enabling them to reach out to cheap sources of capital that could improve their livelihoods. Stefanowski's proposals were tailored specifically according to Bosnia's possibilities and needs, which proves that the author had sound knowledge of the country's requirements but also of its limitations. His awareness of limitations is particularly visible when he considers the sources of capital in the country. Therefore, his proposals were close to the ground and realistic. Many of Stefanowski's proposals came to fruition in one way or another. Perhaps the longest-reaching change he considered is the use of public funds to increase the liquidity of banking institutions that offered mortgage loans. His ideas were realized very quickly and remained in power not only for a short period of time but during the entire Austro-Hungarian period. A few years after writing this study, Wiener Bankverein with help of the government founded the Privileged State bank of Bosnia and Herzegovina which was a sort of state-private enterprise that worked on many of Stefanowski's ideas.

Needless to say, Stefanowski's paper had certain limitations primarily because he ignored the state of awareness and preparedness of the country's population, especially its rural population, for the modern banking. That is visible in the later development of the situation when big banks such as

Wiener Bankverein established their operations in order to facilitate the voluntary redemption of serfs. Many serfs (kmets) failed to meet their obligations and were evicted from their properties. Therefore, one could say that they overestimated their potential for taking big loans. Stefanowski also failed to correctly predict the amount of money available for investment in the country. In his paper, he claimed that up to 3 million crowns can be collected from various sources, but not even a third of that sum was collected. Therefore, it is sufficient to say that Stefanowski, in a certain way, overestimated the preparedness of Bosnia and Herzegovina for the modern banking system but his work was of fundamental importance for the further development of banking.

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## KARL RITTER STEFANOWSKI I NJEGOV RAD NA RAZVOJU MODERNOG BANKARSTVA U AUSTROUGARSKOJ BOSNI I HERCEGOVINI

### Sažetak

Rad Karla Stefanowskog o stanju kredita u Bosni i Hercegovini je po sadašnjem poznavanju historiografije jedinstven primjer razmatranja problema kreditnog poslovanja u Bosni i Hercegovini za vrijeme austrougarske uprave Bosnom i Hercegovinom. Elaborat predstavlja plod dužeg istraživanja problema, koji su mučili razvoj kredita, ali i način života tadašnjih stanovnika Bosne i Hercegovine. Rad Stefanowskog je ogledalo metoda Kalleyevog režima u rješavanju problema koji su mučili zemaljsku upravu. Prepuštanje problema obrazovanim i sposobnim pojedincima u administraciji bio je osnovni kvalitet te uprave, čiji je domet ostao uskraćen prije svega zbog ograničenosti sredstava kojima je raspolagala. Najveći značaj ovog elaborata je što autor promatra utjecaj svakodnevnog života ljudi na stanje kredita. Prije svega se tu misli na pojam tzv. špiritnog kredita i zelenaške zamke u koju je slabo obrazovani bosanski seljak upadao svojom lakomislenošću i naivštinom. Mnogobrojni primjeri koje Stefanowski navodi u suštini mijenjaju percepciju razvoja agrarnog pitanja u Bosni i Hercegovini, jer daje primjere kako su ljudi svojim pogrešnim potezima sami sebe dovodili u situaciju da postaju objektima tuđe eksploatacije. Mnoge prijedloge autora ovog rada Zemaljska uprava je razmotrila i u kasnijem razvoju uključila u rješenja koja je ponudila svojim bosanskohercegovačkim podanicima. Tu se prije svega misli na osnivanje Bosanskohercegovačkog hipotekarnog zavoda, koji je počeo sa radom 1889, a koji je predstavljao nadogradnju u odnosu na sistem u kojem su dominirali Činovnička mirovinska zaklada i Union banka. Stefanowski je također predlagao šire zahvatanje domaćih finansijskih izvora, poput vakufskih fondova, menafi-sanduka i drugih javnih fondova s ciljem da se obezbijedi više novca za kreditiranje. To je

također bila nadogradnja u odnosu na dotadašnji sistem, gdje su novčane ustanove raspolagale isključivo državnim monopolima, kao sredstvom za obezbjeđivanje poslovanja.

Naravno, rad Stefanowskog imao je i određene nedostatke, koji se ogledaju u onim stvarima koje autor nije mogao predvidjeti, poput realnih finansijskih mogućnosti bosanskohercegovačkog društva, ali i njegove spremnosti da prigri tekovine modernog bankarstva. Kasniji razvoj finansijskih tokova u Bosni i Hercegovini demonstrirao je da je pored dotoka jakih izvora kapitala nužno raditi i na podizanju svijesti građana o vlastitim obavezama i mogućnostima, jer čak i kad su osnovane moćne novčane institucije poput Privilegovane zemaljske banke, praksa je pokazala da mnogi korisnici kredita preuveličaju svoje finansijske mogućnosti prilikom uzimanja kredita, što je kasnije nužno vodilo do problema.