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Challenges of Modernity: Issue of Interest and Establishment of Modern Financial Institutions by Bosnian Muslims (1878-1918)

Edin Kadrić[1]

[1] University of Sarajevo / University of Bolton, Centre for Islamic Banking and Finance, Skenderija 70/II, 71000, Sarajevo, BiH
Corresponding author: edinkadric21@gmail.com
ORCID 0000-0002-5067-5538

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Abstract

After five centuries of living under the Ottoman Empire, Bosnian Muslims lived under a non-Islamic empire's governance in 1878. Life in a new environment brought numerous challenges and sparked debates, such as loyalty to a non-Islamic government, migration, and military service. One of the issues vehemently discussed was the issue of interest. The emergence of Islamic modernism, which sought to redefine the concept of interest (differentiating between interest and usury), did not find firm ground in the initial years of the 20th century in Bosnia and Herzegovina. However, a flexible interpretation of interest was offered according to the legal ruling (fatwa) specially issued for Bosnian Muslims by the central religious body of Muslims in the Ottoman Empire (*Mashihat)*. Namely, interest was still considered prohibited (*haram*), but in the specific socio-economic circumstances in which Bosnian Muslims lived, it was declared permissible. The legal argument of necessity (*darura)* was used as the primary justification. This was a revolutionary step since this *fatwa* opposed conventional Islamic wisdom on interest and thus legitimized the establishment of modern financial institutions.

Keywords: Bosnian Muslims, interest, modern financial institutions, legal ruling, modernism

1. Introduction

Studying economic history is a complex process since history itself can contain a distorted image, as the predominant economic trajectories of the past may significantly differ from those we know today. Therefore, research must be conducted with a questioning mind and cognitive curiosity. One of the most fateful moments in the history of Bosnia and Herzegovina (B&H) occurred when Austria-Hungary (A-H) occupied B&H in 1878, thus tying it to the European political and cultural circle for 40 years. This event was particularly shocking for Bosnian Muslims. Considered "leftovers" of the Ottoman Empire (OE) and faced with the fear of assimilation and losing their identity, they had to organize themselves accordingly. A significant gap in the literature covering this period can be noticed; political, cultural, and social dimensions were discussed, whereas the economic aspect is unjustifiably neglected. Even in these turbulent times, Bosnian Muslims established many banks, credit cooperatives, and other financial institutions. Poor socio-economic circumstances did not stop them from acting. Since the religion of Islam does not favor interest-based activities, it is compelling to see how Bosnian Muslims balanced their religious norms with real needs. This lesser-known history of Bosnian Muslims should reveal noteworthy facts about their economic organization during the A-H occupation. As Cicero defines history as "*testis temporum*" - *the evidence of times*, this research should help us better understand our present and future by following their historical legacy. The paper will proceed with an initial literature review and the theoretical framework. It is historical. Therefore, it continues with a brief methodology and a holistic historical contextualisation of all the facts.

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2. Literature review

The Ottoman Empire experienced an Era of Reorganization (Tanzimat) that aimed to modernize the Empire in all aspects of life during the 19th century. During that period, Dersaadet Bank and the Ottoman Bank were founded. Dersaadet Bank went bankrupt quickly, while the Ottoman Bank expanded its business activities to all major Ottoman Empire and Europe centres. Unfortunately, Bosnia Vilayet was an exception (Younis, 2013). Vujović (2015) points out that the general economic circumstances in B&H under the late Ottoman administration were impoverished. Thus, the formation of modern financial institutions was not a realistic outcome.

Crediting was not an unknown concept in Ottoman-administered B&H, although it lacked modern financial institutions. Church municipalities, monastery administrations, wealthy priests, and citizens assumed the role of financial creditors instead of banks. At that time, credit was personalized and was often based on altruistic motives. Wealthy individuals often lend money without interest to their family members, friends, and journeymen. However, they would stipulate only one condition: the debtor could not reveal the creditor's amount or identity. Church and monastery municipalities followed a similar pattern; they would charge interest to their members, but the interest rate was very favorable (Marković, 1938).

The Islamic endowment institution (waqf) assumed a significant role in crediting. According to Kreševljaković (1941), the first institution that charged interest on borrowed money was the *Gazi Husrev-bey waqf* in the 16th century. This institution had precise terms and conditions for third parties to borrow money. For example, it welcomed people of all religions, but trustworthiness was crucial for qualifying for a loan. Also, money was borrowed only to individuals who needed it to start or expand their business activities. However, these rules were not always followed, and the *waqf* institution became subject to numerous malversations, which led to its weakening (Younis, 2013).

Parallel to the decadence of the *waqf* institution, people were forced to seek loans from individuals who charged very high interest rates, ranging from 50% to 100% annually (Kreševljaković, 1941). Sometimes, usurers (*zelenaši, lihvari*) charge 10% weekly, 520% yearly. Besides monetary credit, commodity credit (*robni kredit)* was ubiquitous as the most primitive form. This form of credit occurred between retailers and wholesalers and was practised between peasants and retailers. In these cases, the creditor (wholesaler) would lend his goods. Still, he had to be financially compensated after a certain period, when the retailer sold his goods or after the harvest in the case of a peasant (Marković, 1938).

Although Islam and Christianity share the same negative attitude toward interest, many Muslims and Christians participated in this practice, along with Jews. Muslims and Christians who charged interest would use different tactics to cover up their participation in interest-based activities. One famous example is that they would often lend money without interest, but they would also sell an object of low value to a debtor for a high price, the amount of the charged interest (Marković, 1938). From these examples, we can see that money borrowing was practised on both individual and collective levels. Institutions mainly borrowed money from their members or the wider public who demonstrated good behaviour and needed money for their businesses.

Individuals, primarily wealthy merchants, also played an active role, many of them being Muslims. Therefore, interest in the Ottoman Empire was not an unknown subject, as many would assume. In contrast to classical Islamic jurists who stood against even low interest rates, which remains the mainstream opinion today, Ottomans clearly distinguished between interest (*ribh, faida*) and usury (*riba*). According to Ottoman legal scholars, Islam prohibited charging high interest rates, which often doubled or tripled if the debtor failed to repay his debt.

An interest rate of up to 15% per year (*ribh, faida*) was acceptable and was considered a reward to an individual who gave up his share of wealth (Cagatay, 1970). As noted, the decadence of waqf institutions in the 19th century and the proactive role of usurers placed peasants, the largest and most vulnerable category of the population, in a difficult position. To mitigate the effects of such a situation, the Ottoman Empire enacted a law on agricultural charitable foundations (*menafi-sanduci*) to save peasants from usurers. The law on *menafi-sanduci* in 1867 was one of the last effective measures introduced by the Ottoman Empire. The extent to which this law was beneficial is confirmed by the fact that even the Austro-Hungarian and later governments adopted and slightly modified its working patterns. This was the government's first systematic step to help the underprivileged. These loans were favorable; the monthly interest rate was only 1%, and the crediting period was 3-12 months (Kreševljaković, 1941).

Menafi-sanduci were agricultural credit that emerged after the Crimean War in 1856. They existed in 38 cities in *Bosnia Vilayet* and had multiple purposes (Marković, 1938). It is essential to mention that *menafi-sanduci* already existed in some parts of the Ottoman Empire (*Danube Vilayet*). The proclamation of the *law on menafi-sanduci* in *Bosnia Vilayet* resulted from proactive steps undertaken by Governor *Topal Osman-pasha*. The draft version of the law was prepared and published in the official gazette Bosna in 1866. It consisted of 29 paragraphs published in 4 separate issues of this gazette. These 29 paragraphs discussed four aspects: principal, management, eligibility for a loan, and bookkeeping. Finally, the law was enacted in the summer of 1867 after approval from the *Grand Vizier*. Soon after, the law on *menafi-sanduci* was passed across the entire territory of the Ottoman Empire, although with minor changes. These foundations were renamed "Homeland Funds" (*memleket-sanduci)*. Additionally, a new decree allowed the remaining money to be loaned to artisans and merchants (Kreševljaković, 1941). *Menafi-sanduci* were so effective that even Austro-Hungarian and later governments endorsed them. They were recognized as *"Kotarske pripomoćne zaklade"* in 1886, while in the Kingdom of Serbs, Croats, and Slovenes (later the Kingdom of Yugoslavia), they were recognized as *"Sreske pripomoćne zaklade"* (Marković, 1938).

Menafi-sanduci fulfilled their primary purpose; they saved peasants from the "claws" of usurers and thus prevented further degradation of society. An interest rate of 1% per month (with a maximum loaning period of 12 months) was a far better option than what usurers offered. *Menafi-sanduci* were a primitive form of credit since they only helped people avoid falling into the abyss and did not shape a significant crediting portfolio then. The initial years of the Austro-Hungarian (A-H) occupation were characterized by institutional disorientation and stagnation among Bosnian Muslims. Faced with the threat of cultural and religious assimilation in a new environment, some migrated to the remaining provinces of the Ottoman Empire (OE). A-H brought the European style of living and modern state institutions and initiated numerous reforms to redesign the previous Ottoman order. Reforms in the economic sector were the most visible. Bosnian Muslims lagged their countrymen regarding the development of banking activities. Besides the complex socio-economic circumstances of that period, the specific Islamic worldview, which does not look favorably on interest, also contributed to passivity in this matter. Muslims struggled to reconcile the condemnation of interest in Islamic sources with the challenges of modern life. The Islamic portrayal of interest represented an additional obstacle. The elites who were already involved in the political-cultural organization of Bosnian Muslims took vanguard steps. In 1906, they established the *First Muslim Credit Cooperative* in Tešanj. However, to legitimize this project, representatives of Bosnian Muslims, led by *Ademaga Mešić*, asked for a legal ruling (*fatwa*) from Islamic jurists in Istanbul beforehand (Galijašević, 1999).

According to the fatwa issued by *Professor Ibrahim Hakki Manastirli*, even low interest rates are prohibited. Since Bosnian Muslims live under a non-Muslim government, they can practice their interests according to the principle of necessity (*darura*) (Hasani, 2012). Therefore, while interest remains prohibited (*haram*), in the specific Bosnian context, it is treated as a "necessary evil" (*darura*). This fatwa was copied and later distributed to Muslim money offices (*novčani zavodi*) to generate support from the Muslim public (Đozo, 1943). According to this fatwa, Bosnian Muslims were the first Muslim community in the Balkans to establish modern financial institutions (Džemaludinović, 1982). The foundation of the *First Muslim Credit Cooperative* in 1906 was a groundbreaking event that triggered the establishment of similar financial institutions throughout the country.

2.1. Conceptual framework

A bank as an intermediary institution that collects deposits and channels money into credit activities was unknown in the Ottoman Empire (OE) until the mid-19th century and the formation of the Ottoman Bank (Pamuk, 2004).

Galijašević (1999) argues that waqf institutions could be considered forerunners of banks in the OE since they performed similar functions, although with a limited scope in line with the dominant spirit of the time (*Zeitgeist*). The people who endowed money to *waqf* were strictly careful and precise in defining the purpose of their wealth once it was given to the community. In many cases, the endowment charter (waqfnama) prescribed that a low interest rate should be charged upon request for a loan.

According to Kreševljaković (1941), the very first institution in the territory of present-day Bosnia and Herzegovina (B&H) that clearly stated that money could be borrowed at a specific interest (*ribh*) was the Gazi Husrev-bay waqf in 1534:

"The rest of the sum of 300,000 *drachms* should be loaned under interest (*ribh*) if a valuable pledge and a safe guarantor are provided so that the interest amounts to 1 drachm out of each ten *drachms* annually. This should be done according to Islamic law (*sharia*) so that this process does not turn into usury or that the very principle is turned into a loss. Let the money be borrowed from merchants, craftsmen, and farmers of all religions (without discrimination) who are well-known as wealthy and financially stable people, who show signs of trust, who are righteous and confident, who exercise good behavior in front of people, who do not lie, and who do not delay in debt repayment".

Interestingly, the *waqfnama* emphasized that money could be borrowed from followers of any religion if the remaining conditions were met. In most cases, waqf institutions' money was used for socially responsible projects according to the will expressed in the *waqfnama*. Since the government did not provide public services to the extent known today, private incentives by people played a key role. Therefore, the institution of *waqf* was active in providing public goods such as roads, water wells, and educational facilities. Mujić (1977) mentions some cases where profit was used to promote science, art, and literature. In one instance, *Derviš-paša Bajezidagić* endowed 30,000 *dirhams* to his *waqf* for one specific purpose: this amount was to be given to businessmen under interest, and the profit earned was to be distributed to scholars for the translation and interpretation of the *Masnavi*.

Younis (2013) states that *waqf* was crucial in ensuring credit for economic activities in the OE. Usually, an interest rate of 15% annually was charged, and numerous examples in the literature prove this practice.

Kreševljaković (1941) mentions hundreds of debtors in one report covering crediting *waqf* activities in *Tešanj* over two years (1634 - 1636). Among the credit users were also Christian priests, whose interest rate was 15%.

Apart from *waqf*, wealthy individuals, primarily wholesalers, played an important role in crediting activities. Some famous wholesaler families, such as *Merhemić, Potogija,* and *Kumašin,* did not charge any interest. They would often lend money without any pledge or certification in court. Occasionally, individuals would leave real estate behind to be sold after their death. Money obtained from the sale of real estate was lent, and the interest earned was distributed to the destitute in the community (Younis, 2013). Usury was considered *malum in se*, but it was widely practiced. Individuals who borrowed money at usurious rates were despised in society by their fellow countrymen. One of the famous families in Sarajevo involved in money lending at very high interest rates was the *Očaktan* family. An interesting poem emerged at that time regarding *Očaktan's* high-interest rates:

"Good for you grey cuckoo bird, when you can sing in the forest on a tree branch, and you are not indebted to the *Očaktan* family!" (Kreševljaković, 1941).

At the end of the 19th century, Bosnia and Herzegovina (B&H) was predominantly an agrarian country where approximately 90% of the population, including those in urban areas, were employed. Mechanized agriculture was not developed, resulting in very low productivity. The primary agricultural tool remained the wooden plough (Juzbašić, 2002).

In 1880, the territory of B&H was incorporated into the common customs union of Austria-Hungary (A-H) (Imamović, 2007). Soon after, A-H initiated numerous infrastructural projects to exploit the country's natural resources. Forestry and mining development received particular attention, leading to the establishment of various companies such as steelworks, ironworks, and chemical plants (Buhin, 2012). Like late Ottoman B&H, usurious rates were prevalent under A-H rule. Consequently, the Provincial government enacted a law on June 30, 1907, setting the maximum interest rate at 10%. Any rate exceeding 10% was deemed a severe crime punishable by imprisonment, and the practice of compound interest was strictly regulated (Galijašević, 1999).

Initially, Austria-Hungary (A-H) banks did not pursue an expansion strategy into Bosnia and Herzegovina (B&H). The occupation was considered temporary, and investments were considered too risky, compounded by a financial crisis in the banking sector following the *Vienna Stock Exchange crash* on May 8, 1873 (Nametak, 2016).

In 1883, the *Union Bank from Vienna* established the *Privileged Department of the Union Bank in Bosnia and Herzegovina*, marking the first financial institution of its kind. Loans were primarily granted to landowners for consumption purposes, while peasants sought loans to purchase serf land or land from those who had emigrated to the Ottoman Empire. Due to the high demand for loans exceeding supply, the Provincial Government *(Zemaljska vlada)* established the Bosnia and Herzegovina Mortgage Office in 1889 (Marković, 1938). *The Privileged Land Bank of Bosnia and Herzegovina* was founded in 1885 with a total founding capital of 4,000,000 *forints*. This institution had significant political implications, as it was established partly in response to the founding of the *Serbian Bank in Zagreb* the same year (Marković, 1938).

A-H was apprehensive about potential national mobilization among its governed populations. It perceived strong financial institutions as potential sources of income for future separatist activities. Therefore, A-H prohibited the establishment of any bank whose name included adjectives like "Muslim," "Serb," or "Croat" until 1903. This restriction was lifted after introducing liberalisation measures in 1903 (Nametak, 2018). Marković (1938) argues that banking in B&H during the A-H occupation had economic and political motivations, leading to significant fluctuations in the banking sector within a relatively short period of 40 years. According to Vujović (2015), banking in occupied B&H was notable in Europe due to its distinct national affiliations. Banking activities followed similar organizational paths as other local establishments during that period. The years from 1903 to 1914 marked an economic renaissance, during which 50 money offices were established, representing Serbian, Muslim, Croat, and mixed institutions (Kosier & Ristić, 1924).

2.2. Issue of riba (interest) in the international context of 19th and 20th century

Discussion on *riba* represents one of the most controversial topics in Islamic thought. Muslim scholars unanimously agree that *riba* is forbidden, but there is no universally accepted definition of what constitutes *riba*. According to the modernist interpretation, the only *riba* prohibited in Islam is *riba-al-jahiliyyah* (pre-Islamic usury). This type of *riba* was characterized by excessive interest rates that multiplied if a debtor defaulted on repayments (Farooq, 2009).

Asad (1980) summarizes the discussion on *riba*, noting the lack of consensus among Islamic scholars regarding its definition. He emphasizes that interpretations must adapt to changing social, technological, and economic environments. While the Quran unequivocally condemns *riba*, each generation of Muslims faces the challenge of reinterpreting its economic implications.

The late 19th and early 20th centuries witnessed the rise of Islamic modernism, which aimed to reinterpret Islamic teachings considering contemporary circumstances. One of the most prominent figures of this movement was *Muhammad Abduh* (1849-1905) from Egypt. Abduh advocated for a flexible and liberal approach to Islamic traditions, challenging dogmatism and superstition. His disciple *Rashid Rida* continued his progressive views on economics and other aspects of Islam (d. 1935). Rida's *fatwa* 1909 advising Bosnian Muslims not to migrate after Bosnia and Herzegovina's annexation by Austria-Hungary in 1908 significantly prevented mass migration from the region (Karčić, 2011).

Džemaludinović (1982) extensively analyzes Abduh's stance on *riba*, expressing disappointment that Abduh's interpretations were not widely accepted among Muslims. Abduh distinguished *riba-an-nasiya* (credit riba) and *riba-al-fadl* (surplus riba). While *riba-an-nasiya*, akin to *riba-al-jahiliyyah*, involved usurious practices condemned in the Quran, *riba-al-fadl* pertained to transactions involving unequal exchanges of goods, which some companions of the Prophet initially allowed but later considered prohibited in *Hadith* literature.

There is a historical belief that Abduh sanctioned the collection of interest earned through deposits at postal savings accounts. Still, this claim lacks direct evidence and relies on later accounts from Rashid Rida (Islahi, 2012).

During Abduh's time, many Muslims deposited their money in government-established post offices. Some religiously devout individuals declined to accept the interest earned on these deposits and sought guidance from Abduh on its permissibility under Sharia. Abduh initially disapproved but later suggested it could be permissible if aligned with the *mudaraba* principle, a form of profit-sharing. This suggestion did not satisfy the Egyptian governor, who sought religious validation for his project. Ultimately, Abduh's willingness to consider exceptions regarding interest collection differed from traditional interpretations (Khalil & Thomas, 2006).

2.3. Issue of riba (interest) in Bosnia and Herzegovina within Austro-Hungaria

Establishing financial institutions in Bosnia and Herzegovina in the early 20th century would be impossible without Ademaga Mešić (1868-1945). He marked the period of the national awakening of Bosnian Muslims in the political, economic and cultural fields. Filandra (1998) considers him the greatest philanthropist in the first half of the 20th century. He grew up in a traditional Muslim family with a solid work ethic. He invested money that he inherited from his father in trade. In 1906, his five companies had around 30 employees. Business obligations often required trips abroad, so Mešić visited major European, Asian and African cities. His experience in these visits has substantially shaped his views on democracy, parliamentarians, and human rights. (Kolanović, 2008).

Despite his businessman profile, he played a significant role in political and social life. Many Muslims were illiterate and conservative, so he invested a significant amount of energy and money in enlightening them. His relationship with Muslim clerics was complicated; on the one hand, he respected them; on the other, he was their fierce critic. Ademaga did not consider Islam a static religion isolated from the outside world but rather a driving force that encourages positive action and contributes to human progress. As a wholesaler who visited many countries, he understood the importance of crediting activities to develop economic life. Therefore, he expressed the intention to establish a credit cooperative in B&H. Muslim clerics from Mostar stood against this initiative. Moreover, they asked Hadži Halid ef. Sefić, the director of an Islamic high school (madrasa) in Tešanj at the time, confronted him and issued a fatwa that prohibited establishing such institutions. When Ademaga explained the rationale behind such an institution and its benefits for Muslims, Hadži Halid ef. Sefić approved it. In his comment, Hadži Halid ef. Sefić stated that interest is prohibited, but in the case of *darura* (necessity), it is preferred to pay interest to fellow Muslims rather than foreigners.

He also added that Muslims should follow modern times if they want to progress (Kolanović, 2008). After Ademaga received support from the local cleric, he wanted to authorize it with the fatwa from Istanbul. Namely, opposition embodied in a group of clerics from Mostar still existed, and Ademaga knew that a fatwa authorising the establishment of financial institutions from Istanbul would generate broader support among the Muslim public. Moreover, the *sultan* enjoyed sovereign rights over B&H, and Muslims were still emotionally attached to OE.

An inquiry was sent to Istanbul in 1906. The financial situation of Muslims was described in detail. The main argument was that none of the existing banks protected the interests of Muslims; therefore, establishing Muslim banks was necessary. (Hasani, 2012). It was argued that the very economic existence of Muslims was threatened in the long run. These banks often requested land (the most valuable resource) as a mortgage to obtain a loan. The banks have taken the land of those Muslims who failed to fulfil their credit obligations and sold it to non-Muslims. So, even in auctions, Muslims were discriminated against, and the land was lost permanently. The existence of a Muslim bank would have prevented this outcome, and Muslim artisans and merchants would have taken the loans from Muslim bank-it was further argued. *Ismail Haqqi Manastirli*, a prominent member of *Mashihat* in Istanbul, provided a positive answer with a detailed explanation of this inquiry (Džemaludinović, 1982).

He gave the following answer: “All schools of thought within Islamic jurisprudence (*madhabs*) agreed upon that interest (*riba)* is prohibited according to *sharia*. At the time of validity of *sharia*, a *fatwa* on interest is issued. Among Muslims living in non-Muslim countries (*dar-al-harb*), a ruling has been made on its permissibility, while it is not allowed in Islamic countries. There is no sharia ruling according to which interest-based activities can take place among Muslims in non-Islamic countries. Still, there is a principle that *"necessity makes forbidden things permissible"*, thus making some things permissible by applying general rules. In this way, the principle of "necessity renders the Sharia prohibition permissible".

There is no doubt that interest in the case of necessity also becomes permissible, analogous to the pronouncing words that disqualify from religion (in the event of life danger) or eating carrion (in the case of hunger). However, it is not easy to determine what a necessity is? Let this fatwa be applied among Muslims in non-Islamic countries, but the question is: is it a necessity for them to live there? If someone chooses to live in a non-Islamic state, he can also live in another way. It is up to each individual to determine these guidelines by himself. If the individual is not forced to do otherwise, he should act by sharia.” According to Hasani (2012), a few conclusions can be derived from this *fatwa*: (1) interest was permitted according to the necessity principle fatwa considered B&H as a non-Muslim country (*dar-al-harb*); (2) although it was issued two years before annexation of B&H by A-H; (3) the modernist approach was not applied (differentiation between interest and usury).

Islamic legal scholars often invoke the darura principle to justify breaking the Islamic principles. The author of Fatwa uses analogical reasoning (*qiyas*) to justify the interest. Namely, the Holy Qur'an permits Muslims to consume unclean food or deny God's existence if their survival is threatened. So, by employing the same analogy, non-practice of interest would be detrimental, and it would seriously jeopardize the existence of the Muslim community in B&H. However, *fatwa* from Istanbul did not close the debate on *riba*. This question stayed open and was a subject of fierce discussions among Muslim scholars in B&H throughout the 20th century.

Fejić (1914) argues that Muslims should participate in interest-based activities. He published a breakthrough article stating the reasons for such an attitude. Although he was an Islamic scholar, he understood economics and politics well in this article. However, he also supports the argument of *darura* and equates interest and *riba*. For him, the financial system occupies a central position in everyday life, like the role of the heart and bloodstream in the human body. He is also aware of globalization tendencies in the early 20th century, and he argues that the whole world is interdependent; if there is a crisis in one part of the world, it will be experienced in the other parts. Therefore, Muslims should not live isolated from the outside world.

Further, he knows interest's inevitability since a significant amount of money is necessary for investment, and only a bank can provide this amount. He summarizes that Muslims face a *Shakespearean dilemma* in this case: whether to ensure money for capital investments through banks or give up investment completely. Besides, he refutes the argument that Muslims should participate only in minor business activities to avoid the sin of interest. For him, it is questionable whether also, in that case, the sin of interest could be avoided. Economic consequences would be detrimental for the Muslims if such an isolation strategy is followed; it would lead to slow "economic suicide", and non-Muslims would dominate over Muslims in economic matters. Moreover, losing economic independence would be perilous for the religion itself. The issue of interest becomes then secondary if the very religion of Islam is lost. Muslims would be then non-desirable in society, and everybody would consider them as "scabby sheep". They would also become a target of proselytism, especially from the Catholic side. He also observes the importance of financial institutions for the states.

According to him, OE fell into the abyss because it had no money offices. Consequently, it was forced to ask for a loan abroad, often under "high-interest rates and shameful conditions." In his concluding remarks, he once again underlines that interest is a major sin in Islam. However, since interest is omnipresent and is a leading "weapon" used by Europe, Muslims should adopt the same strategy to protect their physical and economic existence. Karabeg (1914) discarded this opinion since he considered it an attempt to change the injunctions of Islam. The debate between Fejić and Karabeg was just the beginning of the clash between traditionalists and modernists. This clash gained momentum, especially during the interwar period. In 1939, a famous debate emerged between Fehim Spaho, who occupied the highest religious position (*Grand Mufti*) and Mehmed Handžić, the informal leader of a conservative circle of Muslim scholars. The cause of debate was an interpretation of interest provided by Handžić.

An inquiry was sent to the magazine *El-Hidaje*. According to Islamic sources, one merchant from Jajce asked for a detailed explanation of interest. Handžić cites numerous Qur'anic verses and Hadiths prohibiting interest-based activities in his answer. He also mentions Islamic scholars' consensus (ijma) on this matter. Consequently, those who deny the prohibition of interest are not Muslims anymore. However, those aware of the prohibition but still engage in interest-based activities commit a grave sin. He suggests they sincerely repent and give back interest to previous debtors or the community through charity (*sadaqah*) if their debtors have died. (Handžić, 1938)

Spaho (1939) briefly analyzes the issue of interest as a response to Handžić. Initially, Spaho argues that Islam is flexible and not conflicting with contemporary science and human progress. Moreover, the interpretation of Islam, according to the Zeitgeist, strengthens Islam rather than weakens it, as many conservatives argue. According to Spaho, discussing the issue of interest in the 20th century is redundant since banks play a vital role in economic life. So, in contrast to his conservative counterparts and modernists such as Fejić, he considers that time has abrogated interest, thus making it permissible. He also reminds Handžić of the money-lending practices by waqf institutions throughout history by citing numerous examples.

Handžić did not receive Spaho's review of interest well, so he wrote a whole treatise. He states that he cannot allow Muslims to perceive interest as permissible. Also, he staunchly rejects the notion that time and human progress have abrogated interest. Regarding money lending by *waqf*, Handžić argues that this practice only existed in the Ottoman Empire and that Spaho misinterpreted it. Finally, he concludes that if a concession is made in the case of interest, then *Pandora's box* would be opened. Consequently, the religion of Islam would gradually disappear. (Handžić, 1939).

3. Methodology

This research uses a combination of historical analysis, case study method, primary source examination, and interpretative analysis to understand the complex interplay between religion, culture, and economic development. The case study method explores a specific subject from a particular research area. In this study, the focus will be on one specific group of people—Bosnian Muslims at the exact period—the turn of the 19th and 20th centuries, emphasizing a specific subject—the issue of interest and establishment of modern financial institutions.

A historical method, as a systematic totality of principles and rules, is designed to effectively assist in collecting the original material from the past and critically evaluate and present it as a synthesis (usually in writing) of the results achieved (Garraghan, 1946). The author argues that a historical method consists of three operations:

- search for the material and sources of information for research (heuristics);
- evaluation of material and sources from the view of evidence-based value (criticism);
- formally stating the results of heuristics and criticism. This operation involves compiling historical data and presenting them (usually in writing) as objective truth and value (historical reasoning).

The historical method has several specific characteristics: evidence used in this method is mostly indirect; this evidence must be interpreted; the researcher needs to reconstruct the past, which can be difficult as the current knowledge of the researcher affects the form of a notion of the past; researchers are expected to discover the actual mechanism (usually causal) that will help to give meaning to the mass of evidence (Karčić, 2013). Through archival and primary source research encompassing key historical documents, financial records, and religious texts, content and thematic analysis are employed to interpret and synthesize data. At the same time, comparative studies are utilized to understand broader implications by comparing relevant historical contexts and contemporary practices in Islamic finance. The steps involved in this cross-section methodology are:

- Historical Contextualization
- Archival Research: Examination of archival documents from the Austro-Hungarian period, including government reports, economic data, and correspondence.
- Secondary Sources: Review historical accounts, scholarly articles, and books providing context and background information.

- Primary Sources
- Official Records: Analysis of financial records, bank charters, and government policies related to establishing financial institutions.
- Community Documents: Examination of documents from Bosnian Muslim communities, including religious decrees (*fatwas*).
- Content Analysis
- Religious Texts: Interpretation of Islamic texts and scholarly writings that discuss the prohibition of interest and the conditions under which financial transactions can occur.
- Socio-economic analysis: The analysis of economic data to understand the impact of new financial institutions on the local economy and Muslim community.

Research on the past is focused on past events and phenomena and is retrospective in its core nature. Information will be gathered chronologically to examine the origins, causes, and effects of historical events according to different sources. Descriptive statistics are used to represent secondary data.

4. Discussion

To provide a genuine report of the period in which this process happened, a short overview of circumstances in the late Ottoman B&H was presented. Interest was pervasive and widely practised by Christians, Jews, and Muslims, whether on an institutional or individual basis. This widespread use of interest underscored its entrenched role in facilitating financial transactions and capital accumulation among diverse communities.

Menafi-sanduci (agricultural charitable foundations), introduced as a substitute for deteriorated *waqf* institutions, battled high usurious rates imposed by individuals. However, these institutions established in the late Ottoman period, which later governments also preserved, could not answer the challenges of the time.

Under Ottoman governance, waqf institutions, despite their charitable intent, struggled to adapt to changing economic conditions and combat usurious practices effectively. The Austro-Hungarian administration introduced liberalization measures aimed at modernizing the region's economic infrastructure, including the establishment of banks and credit cooperatives. With the A-H occupation, a new epoch for Bosnian Muslims has started. A cultural and political revival followed the initial disorientation of Muslims at the beginning of the 20th century. The rivalry between Muslim political factors and the general backwardness of Muslims had a tremendous effect on the economic revival. The personality of *Ademaga Mešić*, leader of so-called progressive Muslims, takes the greatest credit for establishing modern financial institutions. As an experienced merchant, he understood the importance of credit as a catalyst for economic development.

Firm in his beliefs, he did not hesitate to ask for permission from the highest religious body in OE for his initiative. He clashed with the religious conservatives but ultimately won the case. A-H also played a constructive role in developing these institutions after liberalization measures in 1903. The emergence of Islamic modernism coincided with the establishment of modern financial institutions in B&H. These institutions facilitated capital formation, investment in infrastructure, and entrepreneurship among diverse religious and ethnic communities. They provided avenues for savings, loans, and investment opportunities previously unavailable under traditional Islamic financial frameworks.

Islamic modernists differentiated between the Qur'anic term *riba* and interest. This interpretation would lose popularity after the ascent of interest-free banking in the second half of the 20th century. Nowadays, any interest transaction is prohibited, according to most Islamic scholars. However, in late A-H Bosnia and Herzegovina, modus vivendi between these opposite stances was reached; interest was still harshly condemned, but it was denoted as a necessary evil and accepted in specific socio-economic circumstances in which Bosnian Muslims have lived. This evolution reflects ongoing reinterpretations of Islamic law and ethics in response to global economic trends and challenges, emphasizing equity, fairness, and social responsibility principles in financial practices.

5. Conclusion

The argument of *darura* (necessity) proclaimed in a famous fatwa from Istanbul was also employed by Muslim scholars in B&H. Even today, this argument is used to justify the consumption of interest-based loans for Muslims living in the West if they do not have access to interest-free loans. It is peculiar that, although the *fatwa* considered interest a necessary evil, this aspect was not emphasized. In many ads published in the press, this was never the case. In most cases, a difficult situation for Muslims was described. Furthermore, their inexperience in modern economic matters was especially emphasized.

Despite its theological controversies, the introduction of interest-based banking served as a pragmatic response to the socio-economic challenges of the time. The fatwa from Istanbul, permitting interest under conditions of necessity, provided a legal framework that justified the establishment of conventional banks. These banks played a pivotal role in protecting the financial interests of Muslims amidst a rapidly changing economic landscape.

This era witnessed the consolidation of Muslim economic identity and a strategic move towards economic modernization in line with global trends. Ultimately, rather positive aspects of banks and consequently interest, as achievements of the modern world, were discussed. Arguments used for the adoption of interest-based banking were to move forward, to progress, not to lag the civilized world, to be children of the time, to save land and capital, to fight against foreign capital, and to step into a secure future. Based on this analysis, it is possible to say that establishing modern financial institutions was a rather reactive and defensive step. Although the *fatwa* mentioned above did not close the debate on interest, it was used as legal proof for establishing conventional banks.

Proponents of conventional banking designated usurious rates as the main source of problems for Muslims. In return, they offered them moderate interest rates and security since loans have been institutionalized through banks. Moreover, interest on deposits was mostly paid at 5%, making the opportunity for passive income very attractive for Muslims. Aside from anti-usury propaganda, the main tool used by proponents of conventional banking was consolidation under the term "Muslim".

On many occasions, it was proclaimed that Muslims founded these banks for Muslims. Support for these institutions was considered the ultimate act of patriotism, and many Muslims responded positively to this call. From this point of view, this was a very challenging period, and we can conclude that these banks played a crucial role in protecting the interests of Muslims. The old feudal order was gradually crumbling, and Muslims would have been the biggest losers if they did not unite around joint economic institutions. However, the legacy of Muslim banks in Austro-Hungarian Bosnia and Herzegovina presents both insights and challenges for contemporary scholars and practitioners. While these institutions are a testament to the resilience and adaptability of Bosnian Muslims in navigating economic challenges, their historical context cannot be divorced from the broader socio-political factors of the time. Today, the socio-economic environment differs significantly, with established alternatives such as Islamic interest-free banks offering a different approach to financial management. Nonetheless, the lessons from this historical episode remain pertinent. Bosnian Muslims can draw inspiration from their ancestors' cooperative efforts to strengthen community financial resilience. Moreover, further research into the operational dynamics of these banks, their impact on social cohesion, and their interaction with governmental policies would enrich our understanding of their historical significance.

The establishment of Muslim banks during the Austro-Hungarian period in Bosnia and Herzegovina stands as a testament to Muslims' adaptive capacity to reconcile religious principles with practical economic imperatives. It underscores the complex interplay between tradition and modernity and serves as a call to explore innovative approaches to contemporary economic challenges within the framework of Islamic finance principles.

This research, however, is subject to several limitations. The lack of prior research studies on the topic was the main limitation. A moderate overview of the debate on interest during the A-H rule was provided because of the lack of available data on this issue. There were also contrasting sources, especially regarding the name, year of establishment, and founding capital of financial institutions. Access to reliable data posed a significant challenge as well. Because of these obstacles, there is a high probability that we did not identify every financial institution in that period. The concept of Muslim banks in A-H is a virgin area, and therefore, numerous topics could be suggested for historians, economists, and theologians. First and foremost, the performance of these banks and the establishment of new banks during the interwar period should be discussed. The total impact of these banks on the social landscape and their corporate social responsibility requires special attention. The role of the government in ensuring support for these institutions could also be analyzed as a separate topic. Further research on Muslim savings banks and cooperatives could be conducted as well.

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