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Influence Of Credit Management Practices On Loan Performance Of Islamic Banks In Mogadishu, Somalia

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Abstract
This research focused on analyzing the influence of credit management practices on the loan performance of Islamic banks in Mogadishu, Somalia. The study specifically evaluated the effects of credit policy, credit appraisal, and collection policy on the loan performance of three prominent The theoretical framework that guided this research includes the moral hazard theory, the theory of self-efficacy, and the information sharing theory. A descriptive research design was adopted, with a census study involving 72 employees from the credit departments of the three chosen Islamic banks. Multiple regression analysis was applied, and the findings were presented through graphs and tables. The study findings revealed significant and positive associations between credit policy and loan performance ($\beta = 0.465$, $p < 0.05$), credit appraisal and loan performance ($\beta = 0.279$, $p < 0.05$), as well as collection policy and loan performance ($\beta = 0.258$, $p < 0.05$) of Islamic banks in Mogadishu, Somalia. The research concludes that a well-defined credit policy is foundational for shaping the performance of Islamic banks.

***Keywords**: Collection Policy, Credit Appraisal, Credit Policy, loan, Performance*

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I. Introduction

Background to the Study

Effective credit management not only plays crucial role in the performance of a bank's loan book but also has a substantial influence on the overall performance of the bank. Loan portfolios are a bank's most valuable asset and main source of income, as well as one of the most important factors in ensuring its stability and performance (Pradyut, 2019). Credit management is one of the blueprints for assuring the stability of any industry through credit monitoring and effectiveness. A client's character, capacity, collateral, capital and condition determine how much of the loan will be repaid based on personal, cultural, societal and economic considerations (Nsengiyumva & Harelimana, 2020). The effectiveness of the loan is affected by credit management practices. Moreover, credit regulations including collection policy, credit terms, credit standards and loan reviews can have an impact on how well loans perform (Pradyut, 2019).

The first modern Islamic banking experiment was conducted in Egypt. In 1963, the pioneering endeavor under the direction of Ahmad El Najjar took the shape of a savings bank with a profit-sharing model. By the time the trial ended in 1967, there were nine such banks operating in the nation. These banks didn't charge or pay interest. The banks invested in businesses, through a model of share of business profits (Abdullah et al.,2020). As a result, rather than acting as commercial banks, they served as institutions for savings and investments. Modern Islamic finance has evolved dramatically in both volume and breadth since its birth in the 1970s, garnering major attention on a global scale. The Islamic financial sector has evolved through time into a thriving and competitive type of international financial intermediation (Abdullah et al.,2020).

Despite attempts by financial institutions, non-performing loans have increased globally, in both emerging and industrialized nations. The impact of bank bad credit management on loan default is global. According to Do et al. (2020), the loan default problem in Vietnam's banks reached 19%, and in the UK, bank loan arrears increased from 1% to 6% (Mubeen & Bashir, 2017). This is the same case in Brazil (Liu et al., 2020), India (Shylendra, 2018), Pakistan (Islam, 2020), Bosnia and Herzegovina, and Pakistan's Islamic bank sector which had high loan default rates (Zuni et al.,2021). Wan (2018) evaluated the issues small and medium-sized businesses were facing and found that credit management was a major problem. The failure of certain of their trade creditors to make timely debt payments has a substantial negative influence on small enterprises' operating capital.

The management of banks' credit and their financial outcomes are positively correlated and significant. (Guna,2022). Also, the financial success of Nepal's commercial banks is positively and significantly correlated with the management quality ratio (Guna,2022). Nepalese commercial banks must engage in scientific credit

management practices that enhance credit analyses and help manage the loans with efficacy (Guna,2022). The increase in NPLS, according to Cincinelli and Piatti (2021), is the consequence of variety of factors, including the banks' lending monitoring procedures and their limited ability to settle defaulted loans, as well as the hard and protracted recession in Italy.

Sub-Saharan African nations have a significantly greater number of NPLs. Financial institutions lose more amounts of money due to bad credit management. Brako (2018) noted substantial and positive link between Ghana's performance of loans and structures of management of credit procedures. According to Nsengiyumva and Harelimana (2020), the majority of banks operate without effective credit management methods, putting customers in danger of financial trouble. According to Ndyagyenda (2020), banks' management should regularly evaluate their credit management procedures to see whether they remain effective in light of the operational environment's constant change.

Mburu et al. (2020) reported that Kenyan commercial banks recorded higher levels of loan non-performance than the global average. This is despite Kenya boasting of the most advanced and stable banking system in East and Central Africa. The average percentage of commercial banks' NPLs over a 5-year period i.e. 2015 up to 2018 was 11%, exceeding the recommended level of 1%. Kenyan commercial banks continue to have more non-performing loans than is ideal, which may be due to poor credit management practices. Lending and debt collection practices have a significant impact on the performance of loans in Kenyan commercial banks.

Wachira (2017) acknowledges that banks encounter a variety of hazards and credit risk is the most serious. The risk of loss to lender from non-performing loans is managed through credit. Both financial theory and practice provide a systematic method of regulating credit in financial institutions. Loan default is still a concern for lenders. Credit management has an impact on loan performance (Wachira ,2017). Managers must therefore evaluate customer's capability in paying back debts promptly because better credit appraisal results in higher performance from commercial banks.

Despite adopting credit management methods, microfinance banks in Kenya continue to experience an increase in non-performing loans (Mutai & Opuodho, 2021). Internal credit management procedures, credit giving procedures, credit monitoring procedures, and credit control procedures all have positive and significant influence on the efficiency with which Kenya's microfinance institutions make and distribute loans. Use of a credit management system by financial institutions will help them increase and improve their profitability. Microfinance institutions should charge reasonable interest rates to entice more creditors and so boost interest income.

Commercial banks in Somalia meet the needs for efficient risk management by allowing their customers to wisely and effectively manage their loan limits. More knowledge on the financial stability, credit score history, and shifting payment habits of customers is necessary for firms to lower their risk of bad debt, over reserving, and insolvencies. (Barre, 2023). This study examines how Islamic banks' credit management policies and procedures affect their lending outcomes. This research tries to answer the question: In Mogadishu, Somalia, how do Islamic banks' credit management procedures affect their loan performance?

Statement of the problem

These studies focused on conventional banks, hence creating conceptual and contextual gaps that this research sought to fill. Hence, research evaluates the effect of credit management practices on loan performance of Islamic banks in Islamic banks in Mogadishu Somalia.

Specific objectives

Specifically, study sought to:

i. To evaluate the influence of credit policy on loan performance of Islamic banks in Mogadishu Somalia.
ii. To examine the influence of credit appraisal on loan performance of Islamic banks in Mogadishu Somalia.
iii. To assess the influence of collection policy loan performance of Islamic banks in Mogadishu Somalia.

II. Literature Review

Empirical Literature

Credit Policy on Loan Performance of Islamic Banks

The 5Cs of credit are used by financial firms in their lending operations. They are: capacity, capacity, capital, condition, and collateral. Character is essentially a tool that allocates weighting values to certain applicant traits for credit, and the applicant's total weighted score is employed to investigate applicant’s credit worthiness (Ntiamoah et al.,2018). This is the first direct contact the client has with the prospective lender. Individual, cultural, social, and economic issues can all have an impact on a client (Hamid & Islam, 2019).

Financial organizations work to pinpoint the target's reference groups because they can affect a client's reputation. Older families with grown children, for instance, are less likely to fail than unsettled young couples since it is simpler to attach security to their property because they are settled (Kamchira, 2020). Financial institutions will consider the enterprise’s flow of money, loan's successful repayment, and the date of the

repayment. As the funds a borrower has available to settle his loan. Financial institutions use cash flow to assess a borrower's capacity to pay back the debt. Cash flow analysis can be a very complex process. It could involve more than just comparing earnings and outgoings. Financial organizations look at past cash flow figures and make logical future assumptions to determine cash flow (Pradyut, 2019).

Any asset that customers must offer as security for a loan is collateral (Sharifi, Haldar &Rao,2019). Assets that the business commits as a possible source of loan repayment are represented by collateral. Hard assets like real estate and office or manufacturing equipment are mostly considered as collateral. Alternatively, goods and accounts receivable might be pledged as security. Short-term loan lenders seek collateral with a length that nearly matches the loan's own (Siriba, 2020). Capital is determined by an analysis of the borrower's financial ratios, with a focus towards the tangible net worth of the borrowers' firm. Capital is the money that a borrower personally invests in the firm and represents the amount that the borrower is willing to risk should the company collapse. Condition describes how sensitive the borrower is to external aspects like interest rates, inflation rates, economic cycles, and pressure from the competition. Conditions emphasize how vulnerable the borrower is (Sharifi, Haldar &Rao,2019).

Capacity to efficiently make sound credit choices and establish good credit lines is essential for expanding into new markets and gaining new clients. Credit control begins at the time of sale and continues until full and complete payment has been received (Muhammad, Alwi & Muhammad, 2020). That is just a key element of the agreement as finishing the sale. A sale is not finalized in the eyes of the law until the money has been collected. The best mix of credit policy factors might be challenging to come across, making it challenging to design an ideal credit policy. A company will experiment with one or two variables at once and track the results. It's important to note that the company's lending strategy is heavily influenced by economic situations (Akram & Rahman, 2018). The company's credit policy may alter as the economy changes.

Cincinelli and Piatti (2021) investigated the physiological credit risk that results from ineffective screening and management processes. Three hundred and thirty-eight banks were included in the sample for the analysis.

The primary function of banks is to serve as a bridge between fund excess units and deficit units. The goals include profitability, asset growth, and customer base expansion (Abimbola, 2020). Banks offers loans and advances to people, enterprises, and governments to fulfil these goals. Loan default may be widespread as a result of poor asset quality and high non-performing risk assets, which could lead to significant loan losses and lower bank profitability. Abimbola (2020) evaluated how Nigerian money deposit banks fared in relation to non-performing loans

Despite having many secure and advanced banking system in the East and Central Africa area, commercial banks in Kenya recorded higher loan non-performance (Mburu, Mwangi & Muathe, 2020). The average percentage of commercial banks' NPLs over a 5-year period (2015 to 2018) was 11%, exceeding the recommended level of 1%. Kenyan commercial banks continue to have more non-performing loans than is ideal, which may be the result of poor credit management procedures. Mburu, Mwangi and Muathe (2020) investigated the influence of credit management practises on loan performance.

The rising percentage of non-performing loans is one of the biggest issues that banks face globally. Several strategies have been developed by the government and banks themselves to decrease non-performing loans while boosting credit market uptake (Macharia & Mungai, 2021).

Credit Appraisal on Loan Performance of Islamic Banks

Banking sector contributes significantly to economic growth and development (Baldina & Hendratmi, 2020), through credit extension. Commercial banks must extend loans to its customers in order to thrive and promote economic progress (Moti et al.,2018). Successful implementation of lending guidelines affects financial performance and profitability, and hence may boost this income (Kenya Bankers Association, 2018). As a result, commercial banks create lending guidelines to help them when giving loans to their clients. Commercial banks' bottom lines benefit from lenders' adoption of innovative lending tactics that boost efficiency and streamline asset investment processes (Mburu, Mwangi & Muathe, 2020). The industrial revolution accelerated the pace of commercial and production activity, necessitating hefty capital outlays for projects, which is when lending methods as we know them today first emerged. At this time, many business leaders turned to the banks for help since they were unable to meet the rapid increase in financial demands (Cincinelli & Piatti, 2021). Credit appraisal continues to be at the centre of the decision-making processes leading to the provision of credit to a borrower (Nsengiyumva & Harelimana ,2020). Acceptance or rejection of a credit proposal is the primary goal of any credit evaluation. The process involves analysing the loan application to determine the applicant's repayment capacity (Sola, 2021).

Muhangi (2017) explored impact of loan appraisal process management on Ugandan banks' credit performance. Researcher utilized quantitative and qualitative techniques by administering questionnaires to a sample of 44 loan officers and credit managers. Banks largelydepend on client appraisal for credit management.

It proved that employing client appraisal as a means of reducing credit risk is a sound tactic. Research also discovered a significant correlation between client evaluation and bank credit performance. To improve their credit performance, financial institutions were advised to strengthen their client appraisal processes. Hence, there was conceptual gap to be closed because the proposed study focuses on loan performance while the previous study's dependent variable was credit performance.

Commercial banks are crucial to a country's economic development because they transfer funds from savers to lenders. Ndero, Wepukhulu, and Bogonko (2019) evaluated the connection between commercial banks' loan performance and their credit appraisal policies. The moral hazard hypothesis served as the study's foundation. The study's sample included all credit officers. For this investigation, a sample size of 128 people was selected. According to research findings, 78.1% of banks utilized the 5Cs credit assessment method, the credit-scoring model, and credit reference bureaus to conduct credit appraisals. Research also discovered a positive association between commercial banks' loan performance and credit ratings. Commercial banks should consider utilising the financial accounts of mobile phone companies to evaluate the cash flow of each borrower before approving a specific loan. The proposed study would be conducted in Mogadishu, Somalia, while the previous study concentrated on commercial banks in a county in Kenya. Contextual and conceptual deficiencies are therefore displayed.

Abdirashid and Jagongo (2019) investigated the link between group lending and loan performance. The study had four main objectives: to determine whether or not credit policies regarding groups of loans affect loan outcomes; to analyze how group members' credit evaluation techniques affect their loans' profitability; to analyze how different group credit risk management methods affect loan performance.

Abdirashid and Jagongo (2019) found a substantial association between the performance of loans at the microfinance and group internal rules, the credit evaluation process, credit policy, and credit risk control methods. In order to guarantee that members of sponsored organisations paid back loans on time, the research revealed that these organisations had put in place safeguards. Credit appraisal processes were used to inform lending to groups regarding the amount of credit for which the group qualified, its capacity to repay, and the type of security that would be required. Charges of this group loans determined whether or not the members effectively repaid loans, and the time frame given to the group to repay the loans determined the loan's terms. Microfinance institutions are urged to establish a credit risk management team whose responsibility would be to ensure good governance within the organization and maintain stable interest rates charged by these institutions, as suggested by the research. Before agreeing to join a group loan, organizations should check to see whether its administration and managers are committed to sound governance practices. There is a contextual gap between Abdirashid and Jagongo (2019) focus on microfinance institutions and the proposed study's focus on Islamic banks.

Katula and Kiriinya (2018) examined SACCO loan repayment and financial performance. The precise goals were loan evaluation, loan interest rates, loan repayment methods, and impact of client characteristics on SACCO performance.

Collection Policy on Loan Performance of Islamic Banks

Performance in regards to loan payback is crucial notion for all lending firms. It is a gauge of whether or not loans are completely repaid according to the loan arrangement. More loan repayment efficiency improves the bank's likelihood of gathering interest payments and lowers loan losses (Njeru, Mohhamed & Wachira, 2017). Lack of proper loan repayments, have an adverse effect on a firm’s capital, earnings, and the potential to achieve its goals, and they can even cause a financial institution to fail. For instance, poor management of loan repayment performance leads to losses and expensive management expenses for delinquencies (Muhangi, 2017). The increased costs are due to tighter oversight, more often portfolio reviews, and legal costs associated with pursuing substantially delinquent loans. Such expenses have a negative impact on the revenue earned and the lending institution's overall operations, making it financially unviable and thus unsustainable. Good credit standards and the removal of excess risk are achievable provided collection methods are carefully created, overseen from the top, and clearly known at all levels of the firm. A collection procedure is one of many that an organisation should implement to guarantee that credit management is carried out efficiently, as not all consumers pay their invoices to businesses on time (Omar, Muturi & Samantar, 2018).

Danstun and Harun (2019) investigated how Tanzanian microfinance institutions' portfolio at risk was affected by their credit collection policy. In Dar es Salaam, Morogoro, and Dodoma microfinance institutions were surveyed cross-sectionally. Sample of 219 participants from each of the three regions was collected via random sampling. To ascertain the impact of credit collection policies on portfolio at risk of this organizations, multiple linear regression analysis was utilized.

The efficiency of credit management systems on the loan performance of financial organizations was evaluated by Moti et al. (2018). Aim of the research was to determine how loan performance was affected by credit conditions, client assessment, credit risk regulation methods, and credit collection policies. Participants

were Meru town MFIs' credit officers. Repayment rates of loans were shown to be more affected by collection procedures.

Nsengiyumva and Harelimana (2020) examined how the financial performance of Rwanda's Umurenge SACCO were impacted by poor loan management. The research used a descriptive survey utilizing qualitative and quantitative techniques, with sample of 78 customers who had obtained more than double the loan amount. This was accomplished by using simple random sampling with a purpose.

Halake, Rintari and Mutea (2021) investigated how Islamic auto financing arrangements affected financial performance. The research used a descriptive research strategy. Participants worked as loan officers and customer service representatives for the eleven commercial banks in Isiolo County.

Theoretical framework

Moral Hazard Theory

This theory and how it relates to lending practises and information exchange among commercial banks serve as the foundation for this study. The Market for Lemons, a 1970 work by Akerlof that established the idea of quality ambiguity in financial studies, is where the theory of moral hazard first appeared (Wangari, 2017). Akerlof defines moral hazard as a risk factor that only becomes important after two parties have agreed upon and executed a financial contract. Ex post, one party to a contract may evaluate the result but not the means by which the other party arrived at that result. Furthermore, a contracting party is not permitted to determine whether the result is related to the actions taken by his contractual counterpart or if it is simply the product of other influences that are beyond their control. The moral hazard argument contends that if there are no repercussions for this current credit application, a borrower will be motivated to default on the loan (Cincinelli & Piatti, 2017). When making loans, Islamic banks must deal with moral hazard problems. This happens when lender fails to recognize borrower actions that automatically affect probability that a loan will be repaid. Under this arrangement, borrowers pay back their loans since they are aware that defaulters will be blacklisted from receiving external financing in the future by credit reference agencies. Sharing credit information helps reduce moral hazard among borrowers and increases borrowers' motivation to repay their debts (Wangari,2017).

Theory of Self-Efficacy

The self-efficacy theory put out by Bandura (1995) serves as the intellectual underpinning for this investigation. Beliefs in one's capacity to plan and carry out the strategies needed to handle potential events. People's motives, efforts, and drive to overcome problems in life are influenced by their sense of self-efficacy. Those who have high self-efficacy are more likely to engage in endeavours they feel they can achieve in. It supports the idea that people have the power to ameliorate and better their circumstances. The theory also recognises elements such as collective or group activities that have an impact on an individual's success or failure. To make sure that credit management is performed properly, a firm ought to employ a different measure. Since no customer ever pays their bill on time, the firms must have a collection procedure in place. Some clients take their time paying and others do not pay at all. Hence, collection effort should focus on speeding payments from reluctant borrowers and minimising bad debt losses (Bandura ,1995).

Information Sharing Theory

This theory was proposed by Brown, Jappelliand Pagano(2007). Disclosing information can cause either moral hazard or adverse selection in a market with asymmetric information. When moral hazard exists, sharing information may increase borrowers' incentives to perform since they no longer fear being held back by the lender-monopolist since the knowledge is now available to rival institutions. Debtors avoid defaulting since it would be bad for their reputation (Zaheer & Trkman, 2017). The disciplinary impact hazard or adverse selection occurs when borrowers' default information is made public, resulting in higher interest rates and less availability of financing from their present bank and other banks in the market. Because information is made public to rival banks in moral hazard scenarios, borrowers may have greater incentives to perform well because they are no longer concerned about being held back by the lender-monopolist. Borrowers may face higher interest rates and less access to credit from their present bank and other institutions in the market if default information is shared (Zaheer & Trkman, 2017).

Lenders would extend more credit to businesses and individuals if they could more accurately forecast whether or not their prospective clients would be able to pay it back. Therefore, the deeper the credit markets would be, the more banks would be aware of the credit histories of potential borrowers. For the credit markets to become more complex, public or private credit registries that gather and provide financial institutions with extensive information on the repayment history of potential consumers are essential (Al-Husseini, 2021)). Financial institutions rely on lenders' voluntary information sharing, which frequently entails a tradeoff. Lenders profit from information sharing since it enables them to distinguish between qualified and unqualified loan applicants. Additionally, information exchange might reduce borrowers' moral hazard by encouraging them to

put more effort into projects and repay loans (Zaheer& Trkman, 2017). On the other side, information sharing could expose lenders to more competition because it would mean disclosing sensitive client data. Therefore, in highly competitive lending markets, banks might be apprehensive of disclosing information. They might be especially wary of disclosing information to close rivals (Al-Husseini, 2021)). The concept is relevant to this research as it explains the critical role that customer's information sharing plays in the extension and subsequent repayment of loans.

III. Research Methodology

Research Design

It entails methodical approach a researcher uses when performing scientific investigations (Abutabenjeh & Jaradat, 2018). The questionnaire was closed-ended; therefore, linker scales may be used to obtain quantitative data. Increasing the quality and utility of research necessitates familiarity with complementary research approaches in today's complex, rapidly evolving research environment.

Target Population

The study was carried out in Mogadishu, Somalia in the 3largest commercial banks. Thus, study's population were the employees in the credit department in three Islamic commercial banks of Amal Bank, Salam Bank and Dahabshil Bank. The total number of employees in the credit departments of the three banks was 72.

Sample Size and Sampling Procedure

Although it would be difficult to poll a very big population individually, Kendra (2018) pointed out that sample is a selection of data from a larger population meant to be indicative of that population as a whole. The determining factor of the unit of analysis is the size of the research population. If population is small (N < 100), unit of analysis ought to include every member of the study population. This study did a census survey, wherein the entire target population were the respondents. This is because the target population in this study was small, easily accessible and manageable. The census study was chosen because, by removing both sample bias and error, it improves the generalization of results to the study population.

Sample Population

The study was a census for all the 72 employees working in the credit departments of Amal Bank, Salam Bank and Dahabshil Bank.

Data Collection Procedure

Once the instruments had been successfully validated, the researcher started collecting data. The administration of the questionnaire was in person. The researcher made a pre-visit to the three commercial banks to seek authority and audience with the managers. During the meeting, the objectives of the study were explained and dates for actual questionnaire distribution was agreed. On the agreed dates, the researcher visited each of the commercial banks. Research's goals were conveyed to respondents. Those who joined the research were given questionnaires to fill out and given their undivided attention. Researcher helped participants who had difficulties completing questionnaire. Questionnaires were thereafter collected and their accuracy ascertained.

IV. Results And Discussion

Summary of the findings

This section is presented in line with the objectives of the study, that is, to evaluate the influence of credit policy on loan performance of Islamic banks in Mogadishu Somalia, to examine the influence of credit appraisal on loan performance of Islamic banks in Mogadishu Somalia and to assess the influence of collection policy on loan performance of Islamic banks in Mogadishu Somalia.

Influence of credit policy on loan performance

The study's first objective was to evaluate the influence of credit policy on loan performance of Islamic banks in Mogadishu Somalia. Findings revealed that the association between credit policy and loan performance of Islamic banks is positive and significant. The bank had an elaborate credit policy. Bank's credit policy was effectively implemented, the credit policy was accessible to all staff, outlined discounts allowable to customers and was reviewed periodically.

Influence of credit appraisal on loan performance

The study's second objective was to examine the influence of credit appraisal on loan performance of Islamic banks in Mogadishu Somalia. Findings revealed that the bank obtained borrowers' credit history from other financial institutions, borrowers' financial net worth was assessed by the bank, integrity of the borrowed

was assessed before loaning, the ability of a borrower to repay form owned sources was appraised and collateral was part of the appraisal process before loaning borrowers.

Influence of collection policy on loan performance

The study's third objective was to evaluate the influence of collection policy on loan performance of Islamic banks in Mogadishu Somalia. Findings revealed that the association between collection policy and loan performance of Islamic banks is positive and significant. The bank maintained strict deadlines in collection of debt, the borrowers were slapped with penalties on loan defaults, customer's properties were auctioned on loan default, the bank employed legal means to recover debt form loanees and customers' loan file was continuously reviewed and updated.

V. Conclusion

An elaborate credit policy is a foundational element that plays a crucial role in shaping the performance of banks, and this importance is particularly pronounced in the context of Islamic banking. A well-designed credit policy serves as a guiding framework that dictates how a bank evaluates, approves, and manages its credit operations. This policy typically outlines the risk tolerance, credit assessment criteria, and other key parameters that contribute to effective decision-making regarding lending activities. An elaborate credit policy establishes a structured approach to credit management, enabling banks to navigate the intricate landscape of financial risk while aligning with Islamic principles.

The effective implementation of a bank's credit policy is paramount for achieving optimal performance. The mere existence of a comprehensive credit policy is not sufficient; it must be put into practice consistently and across all levels of the organization. When a bank successfully implements its credit policy, it ensures that every aspect of the lending process adheres to the established guidelines. This, in turn, fosters a sense of discipline and accountability within the institution, contributing to the overall effectiveness of credit management. Effective implementation translates the theoretical framework of the credit policy into tangible practices, fostering a credit culture that is aligned with the institution's strategic objectives.

Accessibility to the credit policy by all staff members is a critical factor that enhances the performance of Islamic banks. When the credit policy is readily available to all employees, it promotes a shared understanding of the institution's credit philosophy and guidelines. This accessibility ensures that every staff member involved in credit-related activities, from front-line officers to management, is well-informed and can make decisions that align with the established policies. This widespread understanding minimizes the risk of misinterpretation or deviation from the credit policy, fostering a cohesive approach across the organization and contributing to improved overall performance.

Regularly reviewing the credit policy is a proactive measure that ensures its relevance and effectiveness over time. In a dynamic financial landscape, market conditions, regulatory frameworks, and economic factors can evolve, necessitating periodic reviews of the credit policy. Such reviews allow banks to adapt to changing circumstances, incorporate lessons learned from past experiences, and stay ahead of potential risks. By keeping the credit policy current and aligned with the broader financial environment, Islamic banks can enhance their ability to navigate uncertainties, contributing to sustained performance and resilience in the face of challenges.

The practice of banks obtaining borrowers' credit history from other financial institutions is a pivotal strategy that significantly contributes to tracking creditworthiness before extending loans. This approach provides banks with valuable insights into the borrower's financial behavior, payment history, and existing credit obligations. By leveraging information from external sources, banks can make more informed decisions regarding the creditworthiness of potential borrowers. This practice enhances risk management, reduces the likelihood of default, and contributes to the overall performance of Islamic banks by ensuring that loans are extended to individuals or businesses with a proven track record of responsible financial behavior.

VI. Future Research Direction

The current study's limitation to Mogadishu restricts the generalizability of findings, and therefore, researchers should explore a broader geographical scope to ensure a more comprehensive understanding of Islamic banks' credit practices in different contexts. To advance the understanding of credit management practices within Islamic banking, future research endeavors should expand beyond the confines of Mogadishu and incorporate a more diverse range of Islamic banks. This geographical diversity could encompass various regions or even multiple countries with distinct economic and cultural characteristics.

The methodological approach employed in this study focused solely on quantitative techniques for data collection and analysis. Future studies should adopt a mixed-methods approach. By integrating qualitative techniques, such as interviews, focus groups, or case studies, with quantitative methods, researchers can gain a better understanding on the influence of credit management practices on loan performance.

The scope of this study was limited to examination of independent variables, that is, credit policy, credit appraisal and collection policy. To broaden the understanding of credit management practices and their influence on loan performance, future research should consider incorporating other variables. For example, other studies could investigate the effect of credit worthiness on loan performance or evaluate the influence of credit conditions on loan performance.

Considering the interconnected nature of credit management, future studies could also explore the relationships between different variables and their combined influence on loan performance. This would provide a more comprehensive and integrated view of credit management practices, allowing for a better analysis of the influence of credit management practices on loan performance.

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