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ADDIS ABABA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
MBA PROGRAM

THE POTENTIALS AND CHALLENGES TO INTRODUCE CREDIT CARD PAYMENT SYSTEM IN ETHIOPIA

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By

FYERY ADHENA

A Project Paper Submitted to School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirement of the Degree of Masters in Business Administration (MBA).

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Abstract

Payment systems form the backbone of every financial infrastructure and economy in a country. Nowadays the rapid innovation and technological advancements are requiring transition in payment systems all over the world. Though credit cards are heavily used in developed and some developing countries, Ethiopian banks have not introduced credit card payment system till now. The research is a survey on 'what if' credit cards are introduced in Ethiopia. Data was collected through two types of questionnaires (from bank employees and consumers) and analyzed with Spss soft ware.

Results of this research have shown that the potential opportunities to introduce credit card in Ethiopia are the level of awareness of existing employees of Ethiopian banks and their skill, the economic (financial) capacity Ethiopian banks and merchants, the capacity of banks to keep electronic accounts of merchants and consumers. Potential challenges to introduce credit card in Ethiopia are low level of awareness of merchants and consumers, weak infrastructural issues (lack of immediate authorization, financial literacy initiations, well established credit bureau, and required infrastructure of merchants), lack of skill of both the merchants and the consumer, weak economic capacity of the consumers, unclear legal system and non existence of consulting firms that can help consumers in managing their credit card expenses. It also found credit cards to have potential benefits and dangers for the three stakeholders (banks, consumers and merchants).

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CHAPTER ONE

Introduction

1.1. Back ground of the study

There are two types of payment methods used by house holds, merchants and financial institutions (banks). The two methods are exchanging and provisioning. Exchanging is to change coin, money and banknote in terms of the price, most common and traditional. Provisioning is to transfer money from one account to another electronically. In this method a third party must be involved.

Nowadays the rapid innovation and technological advancements are requiring transition in payment systems all over the world. These Payment systems form the backbone of every financial infrastructure in a country. As banks in different countries are aspiring to become global institutions, they have to incorporate payment systems that are efficient, reliable and of global standards (Blog, 2007).

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Consequently the provisioning payment method which include Credit card, debit card, money transfers, and recurring cash or ACH (Automated Clearing House) disbursements are all electronic payment methods which are suitable at this time. Electronic payments technologies are magnetic stripe card, smartcard, contactless card and mobile handset. Mobile handset based payments are called mobile payments (Wikipedia, 2008a).

Credit cards offer consumers an easy way to track expenses, which is necessary for both monitoring personal expenditures and the tracking of work-related expenses for taxation and reimbursement purposes. Credit cards are accepted worldwide, and are available with a large variety of credit limits, repayment arrangement, and other perks (such as rewards schemes in which points earned by purchasing goods with the card can be redeemed for further goods and services or credit card cash back) (Wikipedia, 2008b).

Though credit cards are heavily used in developed and some developing countries, Ethiopian banks have not introduced credit card payment system till now.

1.2. Significance of the study

The research is intended to give the following significance

- It may initiate financial institutions (banks) to make assessment on other alternative payment systems (electronic payment).
- The finding of this research may initiate other researchers to make further study.
- It recommends how to introduce the alternative payment systems (credit cards) in Ethiopia.
- It informs Ethiopian households, merchants and banks about the advantages of electronic payment systems(credit cards)
- The research has not been done before in the area.

1.3. Statement of the problem

Most developing countries are mainly using traditional cash based payment systems, which lacks flexibility and efficiency. Ethiopia shares similar problems. Therefore the research addresses the following questions

1. What are the determinant (prerequisites) factors to introduce credit card payment systems in Ethiopia?
2. What could be the potentials for the introduction of credit card payment systems in Ethiopia?
3. What could be the possible challenges that might be faced with introduction of credit card payment systems in the country?
4. Would its introduction really benefit Ethiopian household, merchants and financial institutions (banks)?
5. What will be the potential danger (disadvantages) for the various stakeholders (households, merchants, banks and economy) of introducing credit card payment system under the prevailing situation in Ethiopia.

1.4. Objective of the study

The general Objective of the study is to make a survey on 'what if?' Ethiopian banks introduce electronic payment systems specifically credit card payment system.

The specific objectives are;

1. To identify the determinant (prerequisites) factors for the introduction of credit card payment systems in the country
2. To see how electronic payment system introduction in the country could be possible
3. To investigate the possible potentials of the country for the introduction of the credit card payment systems

4. To see the possible challenges that the country may face while introducing credit card payment systems

1.5. Methodology

1.5.1. Data collection

Two types of questionnaires were prepared to collect data. Questionnaire one contains 53 statements and was filled by all the commercial and national bank employees' of the relevant departments; foreign exchange, credit division, business development and IT (information Technology). Questionnaire two contains 18 statements. Different consumer groups filled questionnaire two.

1.5.2. Target population

Target population of the research is employees of the relevant departments of foreign exchange, credit division, business development and IT (information Technology) of the eight commercial banks (Abessenia bank, Awash bank, Construction and Business bank, Nib bank, Wegagen bank, Hibret bank and Dashen bank) and the national bank and the different consumer groups.

1.5.3. Sampling technique

Selective sampling was used to select the relevant departments but random sampling was used to select the respondents with in the departments. Data was collect from the different consumer groups using random sampling.

1.5.4. Data analysis

The data collected through the two types of questionnaires is analyzed using SPSS software in terms of mean and frequency tables.

1.6. Scope and limitation

The scope of the research will be limited to the private and government owned Ethiopian commercial banks, national bank and consumers in Addis Ababa.

Since the research was done for the first time in Ethiopia there was no secondary data which could supplement the primary data.

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CHAPTER TWO

Review of related literature

2.1. Historical development of credit cards

The first credit card (shoppers' plate) was issued in the USA in 1914 by the US telegram company, Western Union. Later in 1950, a New York businessman, Frank McNamara, put forward the idea of a credit card (Diners Club) which could be used to pay for meals in all major restaurants and travel-related activities (hotels, airlines and entertainment). The success of the Diners Club attracted competitors to the travel and entertainment market, but none of them were successful, except American Express (Worthington, 2001).

In 1958, Bank of America issued its Bank Americard and American Express, its American Express Card. During the 1960s and 1970s Visa and MasterCard have also expanded their operations on a global scale (Kaynak *et al.,* 1995).

2.2. What are credit cards?

Accredit card is a form of money (instant spending power) that provides both the capacity to buy goods and services (i.e., carry out transactions) and the capacity to borrow funds (i.e., gain access to credit (http://www.takechargeamerica.org/financial-education/Consumer-Resources/Pages/Credit-Cards.aspx). It is merely a piece of plastic containing identifying information about a credit account that the card holder has established with a bank or other institution. This credit account is a pre-approved line of unsecured credit offered to the cardholder. This means that the cardholder has not pledged to forfeit to the bank any collateral assets in the event that cardholder fails to pay what he/she owes. Banks have no specific assets that they can seize in response to non-payment of credit-card balances, so they are called unsecured loans (Evans and Richard, 2000).

Credit cards are both high growth and profitable in much of the developed countries. Banks that take this approach offer unbanked consumers general-purpose credit cards, as well as affinity or cobranded products, through call centers, direct mail, and the Internet. (They also use these methods to serve middle- and upper-income groups.).More retailers are also trying to increase their share of total consumer spending by migrating their private-label credit card base to general-purpose cards. (As an issuer, the retailer or credit card company takes a share of the fees that consumers generate when they use their cards in any venue.) (Sawaya and Alexandre, 2007).

2.3. Cash versus credit card payment system

One hundred and fifty years ago, cash was used for almost everything: for retail purchases, bill payments, employee disbursements, large value business transactions, and interbank settlement. The rise of the check after the 1870s largely replaced the use of \$500–10 000 currency notes for large value business transactions and interbank settlement. From 1870 to 1950s, checks increasingly replaced cash for consumer purchases and, especially, bill payments, employee disbursements and smaller value business purchases. Although cash is still common in retail sales today, cards are increasingly replacing cash at the point of sale and substituting for some checks as well. Cash is universally accepted as final payment, is a mobile store of value, and is easy to obtain from banking offices, ATMs (Automated Teller

Machine), and "cash back" opportunities at the point of sale. Cash is also cheap to accept at the point-of-sale (David, 2003).

2.4. What Do Credit Cards Cost?

Credit card charges usually come in several categories:

1. Annual Fee. This is a payment that is charged to the consumer once per year. Many cards have no annual fee. Sometimes the annual fee is waived for the first year but charged in future years.
2. Interest Rate. This rate usually only lasts a few months, then the rate increases dramatically. Rates are sometimes indexed, which means that they move with a market rate
3. Fees and Charges. This rate is the charge for going over the credit limit, for late payments, charge for a cash advance, and charges described in the fine print.
4. Other Benefits. Some cards offer benefits such as frequent flyer miles or special insurance or warranties on purchases. Each card holder should check each card offer for these kinds of special provisions (Evans and Richard, 2000).

Conceptually there are four distinct groups of card users: (1) low-risk convenience users who have only a transactions motive and do not carry a balance; (2) low-risk users who carry a balance; (3) high-risk users who carry a balance; and (4) high-risk users who do not carry a balance. Because credit card issuers have access to the credit history of consumers and credit scoring techniques are in widespread use, it is reasonable to assume that banks provide different interest rates to these different consumers based on their perception of the consumer's risk (Kim, *et al.*, 2005).

2.5. How Do Credit-Card Transactions Work?

When a card holder presents a credit card (say, a Visa card), the clerk usually swipes the card through a machine that reads information from the magnetic stripe on the back of the card, then types the amount of the purchase on the machine's keypad. The machine contacts (by telephone line) the Visa computers, which route the call to the bank that issued the card, which then verifies that the account exists, that the card being used has not been reported as stolen, and that the transaction would not put the customer over his or her credit limit. Assuming that everything is in order, the transaction concludes with a card holder signing the credit slip (Evans and Richard, 2000).

2.6. Who Is Involved in credit card payment system?

Besides card holder and the merchant, there are several intermediaries involved in a typical credit-card transaction. The Visa and MasterCard organizations are cooperative ventures owned by the banks that issue their cards. In addition to the organizations themselves, there are two banks involved in most credit-card transactions—the acquiring bank that handles the merchants credit-card account and the issuing bank that issued the card to you. In order for the transaction to flow smoothly, these three companies must be able to cooperate in passing information very quickly (Humphrey, 2004).

The cardholder's issuing bank has up-to-date information on the customer's account status. However, it would be inconvenient if each merchant had to figure out which bank issued the card and call a specific phone number for each bank—there are thousands of banks that issue credit cards. Thus, Visa's computers and the card issuers' computers work together so that the merchant can communicate only with the Visa network, which then routes the request to the appropriate bank to transmit account information.

The Visa network also coordinates the transfer of funds from the issuing bank, which pays for the merchandise and extends credit to the customer, to the acquiring bank, which holds an account in the merchant's name. Although the settlement process has sped up with the advent of electronic processing, the actual transfer of money between the banks and the actual debiting of the purchaser's account usually does not happen until a day or two after the actual transaction date. In the meantime, the issuing bank usually places a pending charge on the customer's account, counting the transaction against the customer's remaining available credit limit even though the transaction has not yet cleared (Evans and Richard, 2000).

2.7. Required conditions to start credit card payment system

Electronic (credit card) payments usage depends on economic growth, infrastructure, consumer education, transparency, and regulation of a country (David *et al.,* 2003).

According to David *et al.,* (2003) the infrastructure needed to support a vibrant electronic (credit card) payments system has four components:

A telecommunication system which facilitates the electronic(credit card) payments , an acceptance net-work (infrastructure is widespread and robust), credit bureaus(agencies) (associations) that provide accurate and timely credit information to issuing banks and consumers , and consumer education (Financial literacy initiatives which help to promote safe and responsible banking habits as new payment instruments are introduced). In addition, electronic payments require sound and efficient regulation, from both the relevant government bodies and the private payments network.

2.8. Challenges and opportunities of credit card payment system

Most of the developed countries of the world using credit card payment system have satisfied the economic growth, infrastructure, consumer education, transparency, and regulation to use credit card. But nowadays credit card issuing institutions are facing challenges in their financial literacy programmes, marketing programmes and cross-national and cross-cultural differences among countries.

Currently, a 'one-product-fits-all' approach is utilized to target financial literacy programmes; basically, the programmes are only delineated for use by school children of different ages, employee groups and community groups. These broad groups can encompass many different types of consumers, living very different lifestyles and experiencing a diverse range of environments (Townley-Jones *et al.,* 2008).

There may be cross-national and cross-cultural differences among countries of the world these have created different credit card acceptance and usage in the different countries (Braunsberger *et al.,* 2005).

The main challenge in marketing credit cards is also a dependency on remote channels such as telephones, mail, and the Internet, which generally have lower rates of conversion to sales than physical branches or stores do (rates of 2 to 10 percent compared with 10 to 20 percent, respectively). Thus, one success factor for credit card players is the ability to manage remote channels to maximize conversion rates. Selling tailored cards to specific segments, an important way to lift those rates, calls for a high level of marketing skill (Sawaya and Alexandre, 2007).

The developments taking place in information and communication technology are affecting the financial institutions worldwide. This evolution had transformed the way banks deliver their services, using technologies such as automated teller machines, phones, the Internet, credit cards, and electronic cash (Dospinescu and Rusu, 2006).

Efficiency of these payment systems help in financial inclusion and their implementation has increased systems' in efficiency through lowering transaction costs, improving operational efficiency of trade and commerce. It is these benefits that the banks should view as incentives and incorporate technologies to move to electronically driven payment systems (Blog, 2007).

Technological change can create the need for regulatory change. And regulatory change can stimulate new applications of technology that foster greater efficiency and growth.

At times, there is a complex interplay between changing technology and regulation. In the payments arena, regulators and rule makers need to be aware of how technology is changing the industry and, when appropriate to remove artificial barriers to innovation (Kroszner, 2007).

Establishing effective ground rules for this network economy may require the reduction of procedural, juridical and physical constraints that may inhibit it. The new technology and Internet provides an unprecedented opportunity to improve the total performance of the supply chain by maximizing net added value and improving both speed and certainty of the overall business and regulatory process worldwide (Economic and Social Council, 1999).

But banks and other credit issuers show no indication that they would readily endorse new regulatory controls of this type. The entrenched view that credit cards are an indispensable feature of modern economies and that their use facilitates economic growth will likely continue to impede political action. Indeed, the general tenor of current public discourse does not focus on prudent lending practices, but rather suggests that consumers have an individual obligation to exercise greater prudence (Cohen, 2007).

2.9. Why explosive growth of credit cards in the world

According to (http://www.takechargeamerica.org/financial-education/Consumer-Resources/Pages/Credit-Cards.aspx) the principal reasons are:

1. The delayed payment feature of credit cards that preserves the user's cash for other spending needs. The buy now and pay later concept of credit cards. The temporary interest-free loan that a customer has access to even if he or she pays in full a few days or weeks later.
2. Cards are safer than cash (usually up to some limit lost or stolen card if you notify to card issuers on time you are no longer responsible for unauthorized charges).
3. Cards are accepted almost everywhere today for restaurants, hotels, mail order, on-line shopping, gasoline stations, grocery stores, dental and medical care, church bazaars, as well as telephone and television advertised products (http://ezinearticles.com/?Advantages-and-Disadvantages-of-Credit-cards&id=1006287).

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4. Cards help out in emergencies (i.e., help to prevent a liquidity crisis).
5. Cards help guarantee reservations when you are especially vulnerable, such as when you are traveling away from home.
6. Cards immediately identify consumers as a qualified buyer and give you status with merchants and friends.
7. Cards may protect the consumer who receives faulty merchandise (i.e., the customer can delay payment under the terms of many plans until a problem with a previously charged purchase has been worked out satisfactorily).

2.10. Benefits (advantages) of credit card payment system for the different stakeholders

2.10.1. Benefits for Consumers and Merchants

In addition to the numerous economic benefits that result from expanding the electronic payments markets, credit card payments systems also provide consumer and seller protection and convenience. For consumers, credit card payments systems provide an established system of dispute resolution, increase the security of their payments, and reduce their liability for stolen or misused cards. Electronic payments also provide immediate access to funds on deposit through debit cards and offer the convenience of global acceptance, a wide range of payment options, and enhanced financial management tools. For sellers, electronic payments improve the speed and security of the transaction processing chain, from verification and authorization to clearing and settlement. Such payments also provide better management of cash flow, inventory, and financial planning through rapid bank payments. Electronic payments may also reduce costs and risks by eliminating the need to run an in-house credit facility (Levine, 2005).

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For merchants, the basic tradeoff in accepting a payment card is that acceptance may attract more consumers but it means consumers may choose a payment method that is expensive for the merchant. For consumers, the terms they receive can vary widely within card networks and play a major role in their choice. Cards differ in their annual fee, their introductory and long-term interest rate, whether they are credit or charge cards, their spending limit, additional benefits such as rental car insurance and in various 'rewards' given for usage. Consumers value these differently depending on their situation (Marc, 2007).

Credit cards serve numerous legitimate needs in the everyday lives of consumers. Four of these functions are outlined below

First, it is useful, although trivial, to point out that credit cards provide a convenient tool for purchasing goods and services (Humphrey, 2004). Second, consumer credit can provide an important safety net in times of financial exigency (Warren and Warren-Tyagi, 2003). Third, contemporary culture imposes powerful social pressures on consumers to meet ever-evolving standards of appropriate outward presentation (De Botton, 2004). Finally, historical accounts indicate that at one time the accumulation of personal debt carried a heavy stigma and this discouraged people from developing a heavy reliance on it (Cohen, 2003).

2.10.2. Benefits for Banks (Credit card issuers)

To foster greater competition, advanced nations began to institute sweeping regulatory reforms during the 1980s and these changes, in combination with several technological innovations, enabled banks to achieve remarkable new economies of scale and to overcome the previously prohibitive barriers to entry (Cohen, 2007).

First, the advent of computerized databases eliminated the need for banks to invest the time and effort to get to know their borrowers on a personal level. Second, a related development involved the use of geographical information systems (GIS), computer software with the capacity to integrate vast amounts of data into elaborate, color-coded maps. In the case of financial services, firms can maximize their returns by tailoring the effective interest rate to customers' creditworthiness. Finally, the advent of 'toll-free call centers' made it possible for banks to field inquiries and to manage accounts much more cost effectively than was possible with extensive networks of branch offices (Cohen, 2007).

2.10.3. Credit card payment system Promote Economic Efficiency and Growth

Electronic payments expand the consumer market, increase banking access to the unbanked; improve macroeconomic efficiency, and encourage entrepreneurial activity (Amromin and Chakravorti, 2007).

2.10.4. Credit card payment system Expand the Consumer Market

The development of an electronic payments system enlarges the consumer market and boosts for example the purchase of U.S. exports, particularly in the e-commerce and travel and tourism sectors. According to an analysis of a cross-section of 50 countries by Global Insight, increasing the existing share of electronic payments in a country by a margin of just 10 percent will generate an increase of 0.5 percent in consumer spending.

2.10.5. Credit card Payment system Increase Access to the Banking System

Electronic payments act as gateways into the banking system for unbanked segments, which make up as much as 70 percent of the world's population. In a simulation of the U.S. economy for example, a 10 percent shift of currency into deposits or other reserves that can be used for loans increased GDP by more than 1 percent annually (Amromin and Chakravorti, 2007).

2.10.6. Credit card Payment system Create Macroeconomic Efficiency

Electronic payment networks have the potential to provide cost savings of at least 1 percent of GDP annually over paper-based systems through increased velocity, reduced friction, and lower costs (Humphrey *et al.,* 2003).

2.10.7. Credit card Payment systems are a Source of Capital for Start-ups

Credit cards are one of the most reliable sources of start-up funds for new entrepreneurs. Unlike bank loan officers, private angel investors, or government lending programs, credit cards off era simple and rapid access to capital that has helped a significant number of entrepreneurs establish new businesses. In addition, factoring future credit card receipts for short-term capital needs is a valuable option for many small businesses. The small and medium-sized enterprise sector in emerging countries, which typically has difficulty accessing financing, could benefit from that alter-native financing source.

2.10.8. Financial Sector Development Enhances Economic Growth and Innovation

Financial development increases economic growth by directing capital to an economy's most productive areas. The greater a country's financial development, the larger the economic growth over the subsequent decades (Levine, 2005).

A doubling of the size of private credit in a developing country is associated with a 2 percent annual increase in economic growth. Finally, more new firms are created in countries with developed financial systems, and capital-dependent industries and firms grow faster (Raghuram and Zingale, 1998).

The development of the financial system includes the banking, securities, and electronic payments sectors. Electronic payments, for example, contribute toward the development of a more efficient and sound financial system. Numerous studies show that the growth of electronic payments has measurable economic benefits for countries primarily because electronic payments are much more cost-effective on a large scale than cash payments.

2.10.9. Credit card Payment systems and Exports

In addition to its role in developing a country's domestic economy, the electronic payments sec-tor is also linked to an expansion of exports (Economist Intelligence Unit, 2007).

2.11. Dangers (disadvantages) credit card payment system for the different stakeholders

According to (http://www.articlealley.com/article_32102_63.html) the Potential dangers and risks with credit cards are;

1. Consumers may overuse them because they are so "easy" to use and so readily accepted in so many places. Moreover, credit card offers to households have reached record levels in recent years; more than 25 per family per year, on average.
2. Many consumers think of them as extra income, not debt, but debt is what you take on when you use your credit card.

3. Delay in paying can hurt your credit bureau report (credit rating) and make future borrowing more costly as well as create other problems (e.g., in getting a job or qualifying for insurance coverage). Many people don't realize that credit bureaus scattered around the United States and other countries as well usually have a record of every card account as well as any other borrowing that we take on. When we go to borrow more, a lender may see all of the debt we have already taken on and refuse to make us a new loan.
4. Credit cards commit our future income – will our future income be enough? It's easy to get overwhelmed with credit card debt. U.S. household bankruptcies have averaged more than a million per year in every year since 1995. Moreover, most credit card charges (by dollar volume) are for optional purchases, not necessities.

2.11.1. Abuse of Credit Cards

Ready access to credit cards gives consumers a very convenient tool for timing their payments, but it may also give them the opportunity to go so far into debt that they have trouble catching up. If all consumers were well enough informed that they recognized the consequences of credit-card borrowing as they made purchases, then the only people who would get into trouble with excessive debt would be those who choose to. They might decide that future credit problems are worth it either because they intend to default (and thus commit fraud) or because they place a tremendously high value on having the goods immediately that they purchase with their cards.

However, consumers may get into credit problems unwittingly if they do not fully realize how difficult repayment will be or if they suffer job loss or some other unexpected, adverse event that diminishes their ability to repay. Some have argued that the ready availability of credit cards encourages consumers to get themselves into these problems. It is an open question (and one that can lead to interesting discussion) how much responsibility banks bear for abuse of credit cards (Evans and Richard, 2000).

2.12. Suggestions for good credit card management

There are several things you can do to prevent credit card fraud:

- If you lose your card or wallet, report it to your credit card company immediately.
- Don't loan your credit card to anyone and only give out your credit card information to trusted companies or Web sites.
- Check your statement closely at the end of each month to make sure all charges are yours.
- You can find out more about protecting your personal information by visiting our Personal Safety course.

Credit cards can make life easier and be a great tool, but if they aren't used wisely they can become a huge financial burden. If you do decide to use credit cards, remember these simple rules:

- Keep track of all your purchases.
- Don't spend outside your budget.
- Pay off your balance on all of your credit cards at the end of each month.
- Don't loan your credit or give out your credit card information to anyone but reliable companies (http://www.mtstcil.org/skills/budget-12.html).

CHAPTER THREE

Presentation of findings, analysis and interpretation of data

To under take the research two types of questionnaires were prepared one for consumers and the other for bank workers because it is believed that these bank employees and consumers can give a reliable data for the research.115 questionnaires were distributed to the bank employees out of them 104 questionnaires are collected. For the consumers 87 questionnaires were distributed but only 80 of them were collected. The collected data through both questionnaires is analyzed using the SPSS15 software and using description statistical tools.

The employees were from all commercial banks and national bank of Ethiopia (Employees of commercial bank of Ethiopia, Abessenia bank, Awash bank, Construction and Business bank, Nib bank, Wegagen bank, Hibret bank and Dashen bank). From each bank employees of specific department which are thought to be relevant for the research were selected. The selected departments include foreign exchange, credit division, business development and IT (information Technology).

Table1.Level of awareness

Level of awareness(S1-S3)	N	Minimum	Maximum	Mean	Std. Deviation
1. The existing employees of Ethiopian banks have the awareness about credit card	104	1.00	5.00	3.2788	1.0745
2. Ethiopian merchants (business) have the awareness on credit card	104	1.00	5.00	2.3750	.9051
3. Ethiopian households (consumers) have the awareness on credit card	104	1.00	5.00	2.1731	.9290

Source: Questionnaire-1

Note: S is to mean statement in questionnaire1 (Example, S1 means the first statement in questionare1)

The mean of the responses of the respondents for S_1 is grater than the expected value (3.2788>3). This implies existing employees of Ethiopia bank have the awareness abut credit card.

When we see the means of the responses with regard to the awareness of the merchants it is less than the expected value (2.3750<3). Similarly the mean of responses in the awareness of the Ethiopian consumer (household) is less than the expected value (2.1731<3). And the standard deviation for S_2 and S_3 is less than one which shows us less variation among the responses. Both merchants and consumers (households) have less awareness on credit cards.

In general from table1 the level of awareness of Banks' employees is better than that of merchants and the consumers. Merchants also have better awareness on credit cards than the consumers (Banks' employee awareness > merchants > households). The level of awareness about credit card in Ethiopia is low.

Table2. Infrastructure

Infrastructure(S4-S7)	N	Minimum	Maximum	Mean	Std. Deviation
4. Responsible bodies in Ethiopia can give immediate authorization to introduce credit card payment system.	104	1.00	5.00	2.7981	1.0647
5. Ethiopian merchants (businesses) can have the required infrastructure to handle credit cards payments.	104	1.00	5.00	2.6731	.9078
6. There are established credit bureaus (associations) that can give accurate credit information to credit card issuing banks.	104	1.00	5.00	2.1346	.9660
7. There are financial literacy initiations (consumer education) that can help to promote safe and responsible banking habit when new payments systems are introduced in the country.	104	1.00	5.00	2.4038	1.1106

Source: Questionnaire-1

The means of the responses on the four infrastructure related questions (S4-S7) is less than average that is 3> (2.798 < 2.6731 < 2.4038 < 2.1345). The required infrastructures to introduce credit card are not fulfilled in Ethiopia.

Table3. Skilled labor

Skilled labor (S8-S10)	N	Minimum	Maxium	Mean	Std. Deviation
8. The existing employees of Ethiopian banks have the required skill to handle credit card transactions.	10 4	2.00	5.00	3.173 1	1.0187
9. Ethiopian merchants (business) have the required skill to manage credit card transactions.	10 4	1.00	5.00	2.471 2	.9026
10. Ethiopian households (consumers) have the required skill to make payments with credit card.	10 4	1.00	5.00	2.182 7	.8787

Source: Questionnaire-1

The responses for S_8 are disagree, no opinion, agree and strongly agree and the mean of these responses is greater than the expected value (3.1731 > 3). This implies the existing employees of Ethiopian banks have the required skill to handle credit card transactions if credit card is introduced in Ethiopia. But the mean of the responses for S_9 and S_{10} is less than the expected value (2.4712 < 2.1827) < 3. Ethiopian house holds and merchants have lesser skill to make payment and manage credit card transactions respectively.

Table4. Economic back ground

Economic back ground (S11-S13)	N	Minimum	Maximum	Mean	Std.Deviation
11. Banks in Ethiopia have enough economic capacity to give credit card service (loan) to the households (consumers).	104	1.00	5.00	3.2788	.9996
12. Ethiopian household (consumers) have the economic capacity to repay their credit.	104	1.00	4.00	2.8462	.9113
13. Ethiopian merchants (businesses) are economically strong to accept credit card payments.	104	1.00	5.00	3.0769	.9316

Source: Questionnaire-1

The mean of the responses on S_{11} is grater than the average, meaning the economic capacity of Ethiopian bank can give credit card payment services (financial). Likewise the mean of the responses on S13 is more than the expected value. On the contrary the mean of the responses of S12 is less than or equal to the expected value. Consequently Ethiopian Banks and merchants have the required economic back ground to introduce credit card payment system unlike Ethiopian consumers (households).

Table5. Legal system

Legal system (S14)	N	Minimum	Maximum	Mean	Std.Deviation
14. There are effective operational regulations that can be adhere by all participants (banks, merchants, and households) in credit card payment.	104	1.00	5.00	2.5096	.9754

Source: Questionnaire-1

The response on S14 is less than average (expected value) there are no effective operational regulations that can be adhered by all the participants if credit card payment system is introduced.

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Table6. Security

Security (S15-S16)	N	Minimum	Maximum	Mean	Std.Deviation
15. Banks in Ethiopia have the capacity to keep accounts of merchants and consumers safe from theft (hackers).	104	1.00	5.00	3.4519	1.0873
16. There are consulting firms which can help consumers in managing their credit card credits and its associated risks	104	1.00	5.00	2.2885	.9314

Source: Questionnaire-1

The responses on S15 have a mean value which is greater than the expected value. The Ethiopian banks have the capacity to keep electronic accounts of merchants and consumers from hackers. But there existence of consulting firms which can help consumers in managing their credit card credits and credit card associated risk is questionable as the mean for S16 is less than the expected value.

Table7. Conclusive idea

Conclusive idea (S17)	N	Minimum	Maximum	Mean	Std.Deviation
17. In general Ethiopia fulfills the minimum requirement to introduce credit card payment system.	104	1.00	5.00	3.0000	1.0520

Source: Questionnaire-1

The mean value for the response in S17 is equal to the expected value. According to the data to the data Ethiopia has fulfilled the minimum requirements to introduce credit card payment system.

In general results in tables 1 -7 indicate that there are potential challenges and opportunities. These include;

1. The potential opportunities to introduce credit card in Ethiopia are

- the level of awareness of existing employees of Ethiopian banks
- the skill of existing employees of Ethiopian banks
- the economic (financial) capacity Ethiopian banks and merchants
- the capacity of banks to keep electronic accounts of merchants and consumers

2. potential challenges to introduce credit card in Ethiopia are

- Low level of awareness of merchants and consumers
- Weak infrastructural issues (lack of immediate authorization, financial literacy initiations, well established credit bureau, and required infrastructure of merchants)
- Lack of skill of both the merchants and the consumers
- Weak economic capacity of the consumers
- Unclear legal system and
- Non existence of consulting firms that can help consumers in managing their credit card expenses.

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Table8. Ethiopian Households (cardholders)

Ethiopian Households(cardholders) S18-S24	N	Minimum	Maximum	Mean	Std. Deviation
18. Credit cards can be more convenient to carry than cash to consumers.	104	3.00	5.00	4.6154	.5627
19. Credit cards can offer a high degree of loan flexibility than other type of loans to consumers.	104	2.00	5.00	4.1058	.8115
20. Credit card payments provide established system of dispute resolution for consumers.	104	1.00	5.00	3.6442	.7995
21. Credit card payments may increase the security of consumer payments.	104	1.00	5.00	3.9615	.8467
22. Credit cards reduce consumer liability for stolen or misused cards.	104	1.00	5.00	3.5385	.9129

23. Credit cards offer the convenience of global acceptance for consumer even to make online purchases.	104	1.00	5.00	4.2885	.7842
24. Generally consumers will be benefited if credit card is introduced.	104	2.00	5.00	4.3462	.6350

Source: Questionnaire-1

The means of the responses for S18-S24 are more than the expected value. As can be seen from the table8 Ethiopian house holds are expected to be benefited if credit cards are introduced in Ethiopia. The expected benefits of Ethiopian house holds (consumers) are the convenience of credit cards, loan flexibility associated with credit cards, established dispute resolution, security of consumer payments, reduced reliability for stolen or misused cards and global acceptance of payments. Moreover as can be seen the mean of the responses for S24 is greater than the expected value and it's more than satisfactory (4.3462>3).

Though most of the respondents are agreed on the above benefits they are less convinced on S19 – S22 is less than four. Whereas the means of the responses on S23,and S24 are greater than 4.

Table9. Ethiopian Merchants

Ethiopian Merchants(S25-S31)	N	Minimum	Maximum	Mean	Std.Deviation
25. Credit cards may provide better management of cash flow for merchants.	104	2.00	5.00	3.9615	.8805
26. Credit cards may help merchants to manage their inventory.	104	1.00	5.00	3.6635	.8659
27. Credit cards can facilitate financial planning for merchants through rapid banking payment.	104	2.00	5.00	4.0288	.7031
28. Credit cards increase sales volume for merchants; as cardholders prefer merchants who can accept their card for payment.	104	2.00	5.00	4.1923	.6244
29. By accepting Credit cards for payment the merchant reduce the amount of cash on hand and then the associated risk.	104	3.00	5.00	4.4423	.6046
30. By doing business with Credit cards merchants can significantly reduce costs of cash management as collections are made electronically (easy to control).	104	1.00	5.00	4.3558	.7493
31. Generally merchants will be benefited if credit card is introduced.	104	3.00	5.00	4.3942	.5980

Source: Questionnaire-1

The respondents have a positive response on all the mentioned (S25– S31) benefits of credit cards for merchants. They are well convinced that credit cards can give the above mentioned benefits in table 9 but as compared to the others the responses are weaker for S25 and S26.

Table10. Ethiopian Banks (Issuing and Acquiring

Ethiopian Banks(Issuing and Acquiring)S32-S40	N	Minimum	Maximum	Mean	Std.Deviation
32. Credit cards are additional product that serves as an additional stream (source) of income.	104	2.00	5.00	4.1154	.7414
33. The banks can increase their customer base (acquire more customer) using credit cards.	104	2.00	5.00	4.2212	.6379

Source: Questionnaire-1

The responses of the respondents for S32 and S33 are more of positive. That is the means of the responses for the statements is 4.1153 and 4.2212 respectively which is more than the expected value. Based on these values Banks are expected to enjoy the above benefits (in table10) of credit cards when they are introduced.

Table11. Over economy

Over economy (S34-S40)	N	Minimum	Maximum	Mean	Std.Deviation
34. Credit cards reduce cost of printing cash notes.	104	1.00	5.00	4.0865	.9149
35. Credit cards reduce cost of distributing cash notes.	104	2.00	5.00	4.2596	.6535
36. Credit card may increase the potential for hard currency earning.	104	1.00	5.00	3.6635	.95135
37. Credit cards could stimulate consumption leading to increase in GDP.	104	2.00	5.00	3.7885	.7965
38. Credit card payment networks have the potential to provide cost saving over paper based loan systems.	104	1.00	5.00	3.9712	.7939
39. Credit card may be one of the most reliable sources to start-up funds for new entrepreneurs.	104	1.00	5.00	3.4038	.9401
40. Credit cards can help coordinate receipts for tax purposes.	104	2.00	5.00	3.9038	.7823

Source: Questionnaire-1

From the responses on the table for S34 – S40 we can see the means of the responses for each statement is greater than the expected value (i.e. >3). This implies that the respondents are convinced about the benefit of credit card on the over all economy of the country. The respondents are more convinced on the benefits stated in S34– S35 than in S36-S40.

In general, from table8-11 the respondents are more certain that credit cards can benefit consumers, merchants banks and the over all economy. The potential benefits of credit cards for Ethiopian consumer can be convenience, loan flexibility, established system of dispute resolution increased security of payments, reducing consumer liability for stolen or misused cards and global acceptance.

The potential benefits of credit cards for Ethiopia merchants are better management of cash flow, facilitated inventory management, facilitated financial planning, increased sales volume, reduced amount of cash on hand and then reduced associated risk and reduced costs of cash management (electronically).

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According to the results credit cards have also potential benefits to Ethiopian banks. They may increase the customer bases of the banks and may attract new customers with these new products.

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The above expected benefits of credit cards on consumers, merchants and bank can have contribution to the over all economy of the country by reducing the cost of printing cash notes, reducing the cost of distribute cash notes, increasing the potential for hard currency earning, stimulating consumptions, providing cost saving over paper based loans systems, becoming reliable sources of start up funds and helping coordinated receipts for tax purposes.

So the banks, merchants and consumers must work hand in hand and create conducive environment which can fit credit card payment system. This may help each party to maximize its benefits and contribute towards the creation of overall economic benefits of credit card payment system in the country.

Table12. Merchants

Merchants (S41-S44)	N	Minimum	Maximum	Mean	Std.Deviation
41. Credit cards may increase cost of transaction to merchants.	104	1.00	5.00	2.7308	1.0814
42. Accepting credit card payments can increase merchants' exposure to fraud whether the transaction is face-to-face or online.	104	1.00	5.00	2.9327	1.1343
43. Merchants may be required to learn new terms and technology to correctly process credit card payments,	104	1.00	5.00	4.1154	.7671
44. Merchants need to train staff in fraud prevention measures.	104	2.00	5.00	4.1827	.7073

Source: Questionnaire-1

From the mean value of the responses for each statement from the table, mean of S41 and S42 are less than expected value (2.9327 < 2.7308<3). This implies accepting credit cards as payment may not increase cost of transaction for merchants and may not expose merchants to fraud (hackers). The means of the responses of S43 and S44 are greater than the expected value (4.1827 >4.1154 > 3). Meaning Ethiopian merchants and their staffs need training in fraud prevention measures and learn new terms and technology to facilitate credit card payments.

Table13. Households (consumers)

Households (consumers) S45-S51	N	Minimum	Maximum	Mean	Std.Deviation
45. Consumers may over use credit cards because of their convenience to use.	104	1.00	5.00	3.6058	1.0279
46. Consumers may think credit cards as extra income not debt.	104	1.00	5.00	3.1346	1.0618
47. Delay in payment of credit may increase the future interest (financial burden) of the consumers in credit cards use.	104	1.00	5.00	3.7500	.8214
48. Credit cards commit future income of consumers as they may initiates operational purchases (not necessity purchases).	104	1.00	5.00	3.4327	.8897
49. Consumers can fall into the habit of using credit cards to extend their income.	104	1.00	3.00	3.5288	.92387
50. Credit cards give access to unsecured credit (no collateral required against amounts charged) creates a temptation to over spending.	104	1.00	5.00	3.7115	.9520
51. Credit cards have high interest rates.	104	1.00	5.00	3.2500	.9629

Source: Questionnaire-1

The means of the responses for each statement in the table are greater than the expected value (all > 3). The respondents are convinced that the disadvantages of credit cards to the consumers are over using of credit cards , assuming credit cards as extra income not debt, increasing interest rate (delay in repayment), commuting future income, developing a habit of using credit card, and they creat temptation to over spending (no required collateral).

Table14. Banks

Banks (S52-S53)	N	Minimum	Maximum	Mean	Std.Deviation
52. Bank earnings may be down primarily because loan loss provisions may be up.	104	1.00	4.00	3.2885	.9919
53. Banks will experience a sharp spike in delinquency (criminal behaviors).	104	1.00	5.00	3.3654	.9249

Source: Questionnaire-1

The means of the responses for S52 and S53 are greater than the expected value. This indicates Ethiopian bank are expected to face problems (difficulties) of increased loan loss provisions and sharp spike in delinquency if credit cards are introduced. Banks will face high loan loss provisions and high delinquency.

In general, merchants, consumers and banks should work in an integrated manner so as to minimize the potential disadvantages of credit card payment system. This may contribute to the reduction of potential disadvantages of credit card and creating good over all economic performance in the country.

Table15. Respondents' Educational level

Respondents' Educational level	Frequency	Percent
diploma	12	11.5
Degree	79	76.0
above degree	13	12.5
Total	104	100.0

Source: Questionnaire-1

The educational level of the respondents is assumed to have a significant impact in creating a barrier in understanding the content of the questionnaires. As a result respondents were chosen to have at least a diploma to fill these questionnaires. It is done in order to increase the reliability of the responses (the data) from the respondents and so as to give valued conclusions and recommendations. Greater than fifty percent of the respondents (76%) are degree holders while 12.5% and 11.5% are above degree and diploma respectively.

Table16. Respondents' Position

Respondents' Position	Frequency	Percent
Assistant relationship manager	**2**	**1.9**
Auditor	**3**	**2.9**
Card holder Suc. officer	**1**	**1.0**
Credit information officer	**5**	**4.8**
Clerk	**3**	**2.9**

Credit and Risk analyst	2	1.9
Credit analyst	6	5.8
Credit officer	1	1.0
Division head credit analyst	1	1.0
Deputy manger	1	1.0
Division head	1	1.0
Foreign clerk	1	1.0
Forex clerk	2	1.9
Forex inspector	1	1.0
Foreign exchange inspector	1	1.0
Forex dealer	2	1.9
Head accountants & fund managment	1	1.0
Head credit follow up	3	2.9
Head business development division	1	1.0
Head	1	1.0
Inspector	2	1.9
It & system auditor	4	3.8
Junior bank inspector	2	1.9
J. merchant officer	1	1.0
Loan officer	4	3.9
Manager	6	5.8
Management member	2	1.9
None	2	1.9
Officer	5	4.8
Plan officer	1	1.0
Programmer	1	1.0
Programmer II	2	1.9
Principal switching system administrator	2	1.9
PSU officer	1	1.0
Research officer	2	1.9
Relationship manager	2	1.9
Senior bank inspector	3	2.9

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Senior credit analyst	4	3.8
Senior credit research officer	2	1.9
Secretary	1	1.0
Senior analyst	1	1.0
Senior examiner	1	1.0
Senior inspector	1	1.0
Senior loan officer	2	1.9
Senior merchant service officer	1	1.0
Senior market research officer	2	1.9
Senior officer	3	2.9
System administration	1	1.0
System support specialist	1	1.0
Training officer	1	1.0
Teller	2	1.9
Total	104	100.0

Source: Questionnaire-1

The respondents are employees of the eight commercial banks and national bank in Ethiopia. Selective sampling was used to select the relevant departments but random sampling was used to select the respondents with in the departments. They are from credit division, foreign exchange, IT division and business development sections. As can be observed from the table these employees have diverse positions in their respective departments and organizations. This has helped to entertain diverse attitudes and ideas about credit cards payment system. Majority of the respondents are Credit analyst, Manager, Credit information officer, Officer, IT & system auditor, and senior credit analyst

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Table17. Awareness

Awareness (Q1-Q3)	N	Minimum	Maximum	Mean	Std.Deviation
1. I know What credit card is all about	80	2.00	5.00	4.1250	.7693
2. The disadvantage of credit cards out weigh its advantages	80	1.00	5.00	2.4125	1.1440
3. I am highly interested to use credit cards if they are introduced	80	1.00	5.00	3.9125	1.1384

Source: Questionnaire-2

Note: Q is to mean statement in questionnaire2 (Example, Q1 means the first statement in questionare2)

The mean of the responses on Q1 is greater than the expected value (4.1250 > 3). That means consumers are aware what credit card is all about. The mean of the responses for Q2 is less than the average which indicates the disadvantages of credit cards do not out weigh the advantages. For Q3 the mean of the responses is still greater than the expected value implying that most of the consumers are willing to use credit card, if they are introduced.

Table18. Benefits of credit cards

Benefits of credit cards	N	Minimum	Maximum	Mean	Std.Deviation
4. Credit cards can facilitate transaction	80	2.00	5.00	4.6250	.5597
5. Credit cards can be more convenient to carry than cash	80	4.00	5.00	4.8000	.4025
6. Credit cards can offer a high degree of loan flexibility than other type of loans to consumers	80	1.00	5.00	3.9375	.9592

7. By accepting credit cards for payment the merchant may reduce the amount of cash on hand and then the associated risk	80	1.00	5.00	4.1750	1.1668
8. Credit cards offer the convenience of global acceptance for consumer even to make online purchases.	80	1.00	5.00	4.4000	.7892
9. Consumers will be benefited if credit cards are introduced.	80	1.00	5.00	4.2000	.9467
10. Credit cards offer consumers an easy way to track expenses.	80	2.00	5.00	4.0875	.8448
11. I think making payments in credit cards is more enjoyable than making it with cash.	80	1.00	5.00	3.9250	1.1559
12. Credit cards will bring positive impact on the over all economy of the country.	80	1.00	5.00	3.8125	1.0075

Source: Questionnaire-2

As can be seen from the table the mgt consumers the means of the responses for Q4-Q12 is greater than the expected value where, consumers are loss convinced about the benefits in S6, Q11 and Q12 as compared to that of the others benefit. In general consumer believe that credit cards can give the stated benefits in the table above and can have a positive impact on the over all economy of the country.

Table19. Disadvantages of credit cards

Disadvantages of credit cards	N	Minimum	Maximum	Mean	Std.Deviation
13. Consumers may over use credit cards because of their convenience to use	80	1.00	5.00	3.8375	1.2164
14. Consumers may think credit cards as extra income not debt.	80	1.00	5.00	3.3750	1.1067

15. Consumers can fall into the habit of using credit cards to extend their income.	80	1.00	5.00	3.4750	1.0789
16. Credit cards give access to unsecured credit (no collateral required against amounts charged) creates a temptation to over spending.	80	1.00	5.00	3.9250	1.0765
17. Credit cards have high interest rates.	80	1.00	5.00	3.3750	.9857

Source: Questionnaire-2

In the table the means of the responses for Q13-Q17 are values grater than the average value (all > 3). The consumers are certain about same disadvantages of credit cards which are stated in the table.

Table20. Respondents' Educational level

Respondents' Educational level	Frequency	Percent
Diploma	28	35.0
Degree	28	35.0
Above Degree	24	30.0
Total	80	100.0

Source: Questionnaire-2

Table21. Respondents' Position

Respondents' Position	Frequency	Percent
Account	2	2.6
Assistant Lecturer	3	3.8
Auditor	1	1.3
Clerk	1	1.3
Construction Engineer	1	1.3
Consultant	1	1.3
Contractor	1	1.3
Driver	2	2.5
Economist	1	1.3
Engineer	2	2.5
Graduate assistant II	1	1.3
Graduate assistant I	1	1.3
Housewife	2	2.5
Instructor	5	6.3
IT expert	1	1.3
Laboratory technician	1	1.3
Lawyer	1	1.3
Lecturer	3	3.8
Manager	3	3.8
Merchant	14	17.5
None	5	6.3
Nurse	2	2.5
Office Engineer	1	1.3
Pharmacist	1	1.3
Police	1	1.3
Programme officer	1	1.3
Project manager	1	1.3
Researcher	1	1.3

Secretary	1	1.3
Statistician	1	1.3
student	9	11.3
System analyst	1	1.3
Teacher	4	5.1
Technician	1	1.3
Teller	1	1.3
Tourist	2	2.5
Total	80	100.0

Source: Questionnaire-2

For Q18 most of the respondents have tried to list out the potential advantages and disadvantages of credit cards. According to the consumer the advantages of using credit cards are they create easy access to money during emergency, easy to carry (convenience), easy for transacting with others, reduce the risk of theft because of carrying cash in pocket, new means (ways) of investing and spending decisions, facilitating transactions and enjoyable payment process, flexibility of payment and are good for dynamic environment.

The disadvantages of credit cards stated by the respondents are credit card lead to spending more than what consumers would have, have changing interest rates, accounts of consumers may be corrupted by hackers, un manageable bad loans for banks, and credit cards requires sophisticated technology may be expensive .

CHAPTER FOUR

Conclusion and Recommendation

4.1. Conclusion

The level of awareness about credit card in Ethiopia is low except that of bank employees.

The infrastructural situation for credit cards is not good.

The skill of the merchants and the consumers is found to be low.

The economic back ground of Ethiopia (merchants and banks) is good except that of consumers.

There is no clearly established legal system to control the participants in the electronic payment system.

Security problems with regard to the accounts of merchants and consumers will not be as such high. And there are no consumer consulting firms which can help consumers in managing their credit card and their associated risk.

The potential opportunities to introduce credit card in Ethiopia are

- the level of awareness of existing employees of Ethiopian banks
- the skill of existing employees of Ethiopian banks
- the economic (financial) capacity Ethiopian banks and merchants
- the capacity of banks to keep electronic accounts of merchants and consumers

The potential challenges to introduce credit card in Ethiopia are

- Low level of awareness of merchants and consumers
- Weak infrastructural issues (lack of immediate authorization, financial literacy initiations, well established credit bureau, and required infrastructure of merchants)
- Lack of skill of both the merchants and the consumers
- Weak economic capacity of the consumers
- Unclear legal system and
- Non existence of consulting firms that can help consumers in managing their credit card expenses.

The expected benefits of credit cards for consumers are the convenience of credit cards, the loan flexibility associated with credit cards, established dispute resolution, increased security of consumer payments, reduced liability for stolen or misused cards and global acceptance of credit card payments.

The potential benefits of credit cards for Ethiopia merchants will be better management of cash flow, facilitated inventory management, facilitated financial planning, increased sales volume, reduced amount of cash on hand and then reduced associated risk and reduced costs of cash management (electronically).

Credit cards may have potential benefits to Ethiopian banks. That is they may increase the customer bases of the banks and may attract new customers with these new products.

Ethiopian merchants and their staffs may lack knowledge about credit card technology and how to take fraud prevention methods.

The disadvantages of credit cards to the consumers are over using of credit cards , assuming them as extra income not debt, increasing interest rate (delay in repayment), commuting future income, developing a habit of using them, and their temptation to over spending (no required collateral).

Banks are expected to face high loan loss provisions and high delinquency.

Consumers have some awareness about credit cards, they believe that their advantages out weigh their disadvantages and are willing to use credit cards.

4.2. Recommendation

Ethiopian banks should make intensive advertisements on credit cards and should at least initiate the members of users of debit cards which have already started by Dashen Bank.

The required infrastructural ground should be up graded by the banks and other responsible bodies to introduce credit card payment system.

The bank employees, merchants and consumers should be exposed to the credit card technology and how to process transactions in the system through workshops or trainings.

As credit card payment system requires different legal system than cash payment system the national bank of Ethiopia and responsible authorities should create conducive legal environment to introduce credit card payment system.

Consulting firms that can help consumers in managing their credit cards should be flourished as consumers may be exposed to the different dangers of credit cards if they lack the right information in making credit card related decisions.

Banks, merchants and consumers must work hand in hand and create a conducive environment which can fit credit card payment system. This may help each party to maximize its benefits and contribute towards the creation of overall economic benefits of credit card payment system in the country.

Merchants and their employees should be well trained on the credit card payment technology

To over come the dangers of credit card consumers, associations which can give consumer literacy prgrammes (Training) should be established.

Banks should issue credit cards with low credit limits and should be careful when they recruit consumers for credit card service.

Banks and merchants should consider this opportunity (some awareness about credit cards, they believe that their advantages out weigh their disadvantages and are willing to use credit cards) and move towards introducing credit card payment system.

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Appendix A

Questionnaire-1

Addis Ababa University
Faculty of Business and Economics
MBA Program

Statement of the problem

Most developing countries are mainly using traditional cash based payment systems, which lacks flexibility and efficiency. Ethiopia shares similar problems. Therefore the research is designed to address the following questions

1. What are the determinant factors (prerequisites) to introduce credit card payment systems in Ethiopia?
2. What could be the potentials for the introduction of credit card payment systems in Ethiopia?
3. What could be the possible challenges that might be faced with introduction of credit card payment systems in the country?
4. Would its introduction really benefit Ethiopian household, merchants and financial institutions (banks)?
5. What will be the potential danger (disadvantages) for the various stakeholders (households, merchants, banks and economy) of introducing credit card payment system under the prevailing situation in Ethiopia.

Introduction of credit card payment in the banking system requires different legal, security, economic, awareness level, skill level and infrastructure than cash payment system. Some banks in Ethiopia have already introduced **debt cards** (secured credit card) *where, you are supposed to deposit a certain amount in the bank or with your creditors, and at the time of purchase of goods and services, the amount that you have deposited becomes your maximum credit limit*. They work with **"buy now, pay now"** concept. Whereas **credit cards** (unsecured credit card) *do not require you any deposit or a down payment of the deposit* and work with **"buy now, pay later"**.

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Though credit cards are heavily used in developed and some developing countries, Ethiopian banks have not introduced credit card payment system till now.

The research is to be conducted on the topic *'the potential challenges and opportunities to introduce credit card payment system in Ethiopia'.* The main instrument of data collection will be questionnaire. The managers and employees of the banks at the head offices in the relevant departments are expected to complete this questionnaire. Your kind cooperation is appreciated.

Questionnaire

Position;___________________________

Educational level;____________________

I. Table

		5	4	3	2	1
	Ethiopia has the <u>required</u>	***Strongly Agree***	***Agree***	***No Opinion***	***Disagree***	***Strongly Disagree***
1	**Level of awareness ,S1-S3** The existing employees of Ethiopian banks have the awareness about credit card.					
2	Ethiopian merchants (business) have the awareness on credit card.					
3	Ethiopian households (consumers) have the awareness on credit card					
4	**Infrastructure, S4-S7** Responsible bodies in Ethiopia can give immediate authorization to introduce credit card payment system.					
5	Ethiopian merchants (businesses) can have the required infrastructure to handle credit cards payments.					
6	There are established credit bureaus (associations) that can give accurate credit information to credit card issuing banks.					
7	There are financial literacy initiations (consumer education) that can help to promote safe and responsible banking habit when new payments systems are introduced in the country.					
8	**Skilled labor, S8-S10** The existing employees of Ethiopian banks have the required skill to handle credit card transactions.					
9	Ethiopian merchants (business) have the required skill to manage credit card transactions.					
10	Ethiopian households (consumers) have the required skill to make payments with credit card.					
11	**Economic back ground, S11-S13** Banks in Ethiopia have enough economic capacity to give credit card service (loan) to the households (consumers).					
	Ethiopian household (consumers) have the					

12	economic capacity to repay their credit.					
13	Ethiopian merchants (businesses) are economically strong to accept credit card payments.					
14	**Legal system, S14** There are effective operational regulations that can be adhere by all participants (banks, merchants, and households) in credit card payment.					
15	**Security , S15-S16** Banks in Ethiopia have the capacity to keep accounts of merchants and consumers safe from theft (hackers).					
16	There are consulting firms which can help consumers in managing their credit card credits and its associated risks.					
17	**conclusive idea, S17** In general Ethiopia fulfills the minimum requirement to introduce credit card payment system.					

II. Table

		5	4	3	2	1
	Will the introduction of credit card payment system **really benefit**?	***Strongly Agree***	***Agree***	***No Opinion***	***Disagree***	***Strongly Disagree***
18	**A) Ethiopian Households(cardholders), S18-S24** Credit cards can be more convenient to carry than cash to consumers.					
19	Credit cards can offer a high degree of loan flexibility than other type of loans to consumers.					
20	Credit card payments provide established system of dispute resolution for consumers.					
21	Credit card payments may increase the security of consumer payments.					
22	Credit cards reduce consumer liability for stolen or misused cards.					
23	Credit cards offer the convenience of global acceptance for consumer even to make online purchases.					
24	Generally consumers will be benefited if credit card is introduced.					
	B) Ethiopian Merchants, S25-S31 Credit cards may provide better management of					

25	cash flow for merchants.					
26	Credit cards may help merchants to manage their inventory.					
27	Credit cards can facilitate financial planning for merchants through rapid banking payment.					
28	Credit cards increase sales volume for merchants; as cardholders prefer merchants who can accept their card for payment.					
29	By accepting Credit cards for payment the merchant reduce the amount of cash on hand and then the associated risk.					
30	By doing business with Credit cards merchants can significantly reduce costs of cash management as collections are made electronically (easy to control).					
31	Generally merchants will be benefited if credit card is introduced.					
32	**C) Ethiopian Banks(Issuing and Acquiring, S32-S33** Credit cards are additional product that serves as an additional stream (source) of income.					
33	The banks can increase their customer base (acquire more customer) using credit cards.					
34	**D) Over economy, S34-S40** Credit cards reduce cost of printing cash notes.					
35	Credit cards reduce cost of distributing cash notes.					
36	Credit card may increase the potential for hard currency earning.					
37	Credit cards could stimulate consumption leading to increase in GDP.					
38	Credit card payment networks have the potential to provide cost saving over paper based loan systems.					
39	Credit card may be one of the most reliable sources to start-up funds for new entrepreneurs.					
40	Credit cards can help coordinate receipts for tax purposes.					

III. Table

	Introduction of credit card payment system in Ethiopia has **potential disadvantages** to	5 ***Strongly Agree***	4 ***Agree***	3 ***No Opinion***	2 ***Disagree***	1 ***Strongly Disagree***
41	**Merchants S41-S44** Credit cards may increase cost of transaction to merchants.					
42	Accepting credit card payments can increase merchants' exposure to fraud whether the transaction is face-to-face or online.					
43	Merchants may be required to learn new terms and technology to correctly process credit card payments,					
44	Merchants need to train staff in fraud prevention measures.					
45	**Households (consumers) S45-S51** Consumers may over use credit cards because of their convenience to use.					
46	Consumers may think credit cards as extra income not debt.					
47	Delay in payment of credit may increase the future interest (financial burden) of the consumers in credit cards use.					
48	Credit cards commit future income of consumers as they may initiates operational purchases (not necessity purchases).					
49	Consumers can fall into the habit of using credit cards to extend their income.					
50	Credit cards give access to unsecured credit (no collateral required against amounts charged) creates a temptation to over spending.					
51	Credit cards have high interest rates.					
52	**Banks S52-S53** Bank earnings may be down primarily because loan loss provisions may be up.					
53	Banks will experience a sharp spike in delinquency (criminal behaviors).					

ADDIS ABABA UNIVERSITY

Appendix B

Questionnaire-2

Addis Ababa University
Faculty of Business and Economics
MBA Program

Introduction of credit card payment in the banking system requires different legal, security, economic, awareness level, skill level and infrastructure than cash payment system.

Some banks in Ethiopia have already introduced **debt cards (secured credit card)** where, you are supposed to deposit a certain amount in the bank or with your creditors, and at the time of purchase of goods and services, the amount that you have deposited becomes your maximum credit limit. They work with **"buy now, pay now"** concept. Whereas **credit cards (unsecured credit card)** do not require you any deposit or a down payment of the deposit and work with **"buy now, pay later"**.

Though credit cards are heavily used in developed and some developing countries, Ethiopian banks have not introduced credit card payment system till now.

The research is to be conducted on the topic *'the potential challenges and opportunities to introduce credit card payment system in Ethiopia.'* The main instrument of data collection will be questionnaire. Your kind cooperation is appreciated.

Questionnaire

Position;__________________________

Educational level;____________________

		5	4	3	2	1
		Strongly Agree	*Agree*	*No Opinion*	*Disagree*	*Strongly Disagree*
1	I know what credit card is all about.					
2	The disadvantage of credit cards out weigh its advantages					
3	I am highly interested to use credit cards if they are introduced					

4	Credit cards can facilitate transaction					
5	Credit cards can be more convenient to carry than cash					
6	Credit cards can offer a high degree of loan flexibility than other type of loans to consumers					
7	By accepting credit cards for payment the merchant may reduce the amount of cash on hand and then the associated risk					
8	Credit cards offer the convenience of global acceptance for consumer even to make online purchases.					
9	Consumers will be benefited if credit cards are introduced.					
10	Credit cards offer consumers an easy way to track expenses.					
11	I think making payments in credit cards is more enjoyable than making it with cash.					
12	Credit cards will bring positive impact on the over all economy of the country.					
13	Consumers may over use credit cards because of their convenience to use					
14	Consumers may think credit cards as extra income not debt.					
15	Consumers can fall into the habit of using credit cards to extend their income.					
16	Credit cards give access to unsecured credit (no collateral required against amounts charged) creates a temptation to over spending.					
17	Credit cards have high interest rates.					

18) Please list out credit card advantages and disadvantages that you know

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Declaration

I, the undersigned, declare that this project paper is my original work and has not been presented for a degree in any university, and that all source of materials used for the thesis have been duly acknowledged.

Declared by:

Name: FYERY ADHENA

Signature: ____________________

Date: 28/07/2008

Confirmed by Advisor:

Name: ____________________

Signature: ____________________

Date: ____________________

Place and date of submission: ____________________