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*The Role of Commercial Bank Practices on the  
Performance of Small and Medium Enterprises in  
Tanzania: A case of Selected Commercial Banks in Dar  
es Salaam*

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## **The Role of Commercial Bank Practices on the Performance of Small and Medium Enterprises in Tanzania – A case of selected Commercial Banks in Dar es Salaam**

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### **Abstract**

*This study examined the role of commercial banks practices on the performance of Small and Medium Enterprises in Dar es Salaam. The study specifically focused on assessing the influence of credit services, trade finance services, foreign exchange services and omnichannel services on the performance of SMEs. The study was conducted by focusing on the commercial banks operating in Dar es Salaam. A mixed research method was involved where both quantitative and qualitative data were collected and analyzed. A sample of 150 staff of the commercial banks was selected to take part in the study. The analysis of the collected quantitative data was analyzed through descriptive statistics and multiple regressions to establish the relationship between variables. The qualitative data was analyzed based on the thematic analysis technique. The findings of the study revealed that all the four independent variables, credit services, trade finance, foreign exchange and omnichannel services have a significant influence on the performance of Small and Medium Enterprises. Therefore, the study concludes that the commercial banks` practices such as credit services, trade finance, foreign exchange and omnichannel services play a significant impact on the performance of SMEs. Thus, the study recommends that commercial banks should make sure they reduce or remove all the barriers to SMEs access to finance. The barriers include but are not limited to high-interest rates, high collateral requirements, credit rationing and inconveniences in accessing credit services. It is also recommended that commercial banks should make sure they provide convenient banking services especially by adopting modern technologies such as electronic banking and electronic commerce to make sure the banking services to SMEs are not disrupted.*

**Keywords:** Credit services, Trade finance, Foreign exchange, Omnichannel services and Performance of SMEs

### **Introduction**

SMEs are the engines of the world economies and the base to industrialization for both developed and developing societies (Qalati et al., 2021). In developing economies, SMEs is considered to be approximately 99% of all firms. They provide 60% to 70% of employment and a huge share of new jobs including 33% of GDP, and they contribute to value creation, initiating between 50% and 60% of value added on average globally (Kazimoto, 2014). When considering the contribution of informal enterprises into account, SMEs put up to more than half of employment and gross domestic product in most economies irrespective of

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income levels (Nkwabi & Mboya, 2019). Small businesses are the impulse at the back of all sort of radical innovations that are crucial for the economic Performance, due to their nature of operating outside of dominant paradigms, utilize technological and commercial opportunities that remain unexploited by large corporate companies or they recognize the commercialization of knowledge that would otherwise left un-commercialized in academic institutions and organizations (Mpunga, 2016).

Conventionally, SMEs have been focusing on the domestic market alone and continued to do so. Others are now increasingly becoming globalized through interfirm linkages and clusters. According to Gamba (2019), about 25% of manufacturing SMEs are internationally competitive and the number is increasing, and one fifth of them draw 10%-40% of their turnover from cross border activities. SMEs contribute between 25%-35% of world exports of manufactures and account for minimal share of foreign direct investment. The international active SMEs are substantially growing faster than their domestic equivalent (Ibid). Communication revolution makes it easier for SMEs to reach foreign partners and they are more involved in international strategic alliances and joint ventures. Larger corporations are now partnering with SMEs and getting technological advantage to economize on the research and development, minimize the lead time for new products and serve the emerging markets. SMEs are reaching across border to form international alliance and ventures forming globalized small firms (Nkwabi & Mboya, 2019).

In Africa, the SMEs are driving Performance accounting for more than 95% of all the firms in the region (Gamba, 2019; Mkenda & Rand, 2020). SMEs are very crucial for African region given their role in poverty reduction, amplify GDP and employment creation to the majority of the population. The sector is also paramount given its response to the majority of African demands and need by presenting affordable goods and services at decent terms and prices besides being a source of income and employment (UNIDO, 2016). In many African, countries SMEs form a remarkable share of production and employment which direct helps in changing lives of people and raise standard of living (Nkwabi & Mboya, 2019).

In Tanzania, SMEs play a key role in the economic Performance and poverty reduction. According to Tanzania SME Development Policy review (2013), a vast number of businesses in the country are small and medium business constituting more than 3 million businesses employing more than 5.2 million Tanzanian. The 2013 review of Tanzania SME Development Policy 2002, have pointed out that the industrial sector is made up of 25,000 enterprises of which 97% had less than 10 employees. The review

asserts that SMEs tend to be labour intensive and do create employment to the majority of Tanzanians(Aikaeli, 2011). The review argues that through business linkages, partnership and sub-contracting small and medium business pose a huge potential to supplement large enterprises in Tanzania. Several initiatives have taken in response to the challenges above; governments in the world recognize the importance of their own SMEs going global. To support them, they provide a wide range of financial and risk management services, such as insurance, bank guarantees and advice to SMEs exporters through government export credit and promotion agencies. Information on foreign markets, also, export opportunities are as well disseminated through government channels and electronics means (Lwesya, 2021). Similarly, the Government of Tanzania has been undertaking different reforms since 1980's to revamp the country's economy. One of the major reforms were shifting from the state-owned led economy to allow the private sector led economy which in addition created a Public Private Partnership engagement between the government and the private sector (Misati & Ngoka, 2021). In the 1990's the milestone set was on financial sector reforms as part of a wider economic reforms, that led to the re-introduction of Banking and Financial Act 1991 which allowed privately owned competitive banking abolished in 1961 to be revamped. The Act provides a ground for the liberalization of the banking and financial system so as to improve efficiency in the financial services provision and allowing competition in interest rates, removing the administrative credit allocation, opening up for the entry of both local and foreign banks in the market and further empower the Bank of Tanzania's role in regulating and supervising financial institutions (Nkwabi & Mboya, 2019). Commercial banks created specialized services to cater for the need of the SMEs and compete with each other to create the relationship with the best small businesses in the given areas (Nkwabi & Mboya, 2019). Commercial banks are key partners for SMEs Performance as they are the main sources for loans, financial services and advice for small business and employees of SMEs forms core market for banks consumer businesses. Commercial banks are established to fill an existing need for the banking services in a given area. When the economy is prosperous, competition increases and small business in the area will benefit from the banks credit and other valuable financial services (Mpunga, 2016).

In recent times, the banking sector has seen the increased use of Internet and mobile banking services which have enabled the integration of banking services with mobile phone financial service providers (BOT,2017). There is an increasing of digital delivery channels including Automated Tellers Machines (ATMs), Point of Sale (POS), Electronic Cards and mobile branches which provide services such as Money Transfer and payment services (Ibid). The electronic payment services, especially Mobile Payment Services, has

recorded significant Performance and contributed towards improving financial inclusion in Tanzania (Ibid). Services offered by commercial banks are business loans of short- and long-term maturity; business training and advice; trade finance and deposit services. Other services are like money transfers and overdrafts (Mori &Richard, 2012). To be successful in the competitive global business, SMEs are obliged to offer their clients, attractive sales terms and conditions with the modern payment practices to compete with other cross border counterparts (Lwidiko et al., 2014).

Commercial bank's omni channels tailored proposition to SMEs has simplified banking for business people, providing them with advisory services, smooth and easy banking experience. The increasing evolution and development of banking products and services that showcase innovation has led to hassle free banking. Stanbic Bank has its special product and service for SMEs called "Biashara Direct" that simplified banking process through digital solutions by having a dedicated business banker assisting SMEs with financial advice via phone or email(Tmava et al., 2013). The product offers USD payment solutions to client's mobile phones, Swahili language options, multiple signatories (maker/checker functionality) and made it convenience for SME to transfer funds, pay bills and monitor activities on their accounts, while at the same time allowing them to focus on running their businesses (Ibid). The tailormade product helps empowering financial success of the SME sector in Tanzania and made Stanbic bank win of Tanzania's "Best SME Bank" by the Banker Africa Awards in 2018.

However, despite all those measures and services offered by SMEs, there are still challenges in the performance of SMEs. Thus, this study seeks to examine the influence of commercial banks` practices on the performance of SMEs. Two theories will lead this research: the financial capital/liquidity theory and the finance led performance theory. To address the study's variables, the theories are merged. According to the financial capital/liquidity theory, in order for enterprises (SMEs) to operate better, they must have appropriate and dependable financial services, such as loans from commercial banks and Microfinance Institutions. Aside from that, the idea contends that enterprises must have easily available banking services (bank's omni channels services) and trade financing in order to function well in the sector. According to the finance led performance hypothesis, the availability of trustworthy financial services such as foreign exchange rates enables firms to do business worldwide with no currency barriers, allowing them to perform better.

## **Research Problem**

The role played by Small and Medium Enterprises (SMEs) towards economic development cannot be overlooked. SMEs have such an important role to play in the development of an economy in a way that it is difficult to disregard them. SMEs contribute to economic development through discovering of new markets and exploiting them to their advantage (Kazimoto, 2014). They are the center of new ventures and a source of income and employment for millions of Africans. SMEs remain central to wealth creation by stimulating demand for goods, investment and trade (Mori, 2014; Marwa, 2014; Nkwabi, 2019).

Despite their importance, SMEs in Tanzania have been facing many challenges which affect the sustainability of their businesses. This is from the fact that the sustainability of SMEs development depends on several factors such as the access to finances, access to better financial services, access to foreign currencies, ability to adopt of new technologies, access to market for selling their goods, networking, favorable government policy and external environment (Ramezani and Hosseininia, 2016).

In response to the above challenges, the Tanzanian government has taken several initiatives to promote the performance of SMEs. The government has introduced efficient business registration platforms; and technological infrastructure is being upgraded, all in the aim to improve the ease of doing business and support the entrepreneurship culture that is at the heart of the Tanzania. Other initiatives include liberalization of the financial sector to widen SMEs' access to financial services, formulation of National SME Policy, 2003 (URT, 2003) and introduction of numerous training and incubation programs through SIDO, VETA and government and non-government institutions (Kanju, 2020).

Despite all these efforts, 4% out of the 6% established SMEs in the country have collapsed within a year after their establishment (BRELA Report, 2016). Similarly, there have been continual challenges in access to finance and other financial services such as reliable banking services and reliable supply of foreign exchange among others. Therefore, it is against this background the study seeks to assess the influence of commercial banks practices on the Performance of SMEs in Tanzania.

## **Objectives of the Study**

### **General Objective**

The main objective of this study is to examine the influence of commercial banks practices on the Performance of SMEs in Tanzania.

### **Specific Objectives**

The following objectives guided the study:

- (i) To examine the influence of commercial bank's credit solutions on the performance of SMEs in Tanzania.
- (ii) To determine the influence of commercial bank's trade finance on the performance of SMEs in Tanzania.
- (iii) To analyze the influence of commercial bank's foreign exchange (FX) on the performance of SMEs in Tanzania.
- (iv) To examine the influence of commercial bank's omni channels services on the performance of SMEs in Tanzania.

### **Research Questions**

The study will be guided by the following questions:

- (i) What is the influence of commercial bank's credit solutions on the performance of SMEs in Tanzania?
- (ii) What is the influence of commercial bank's trade finance on the performance of SMEs in Tanzania?
- (iii) What is the influence of commercial bank's foreign exchange (FX) on the performance of SMEs in Tanzania?
- (iv) What is the influence of commercial bank's omni channels services on the performance of SMEs in Tanzania?

## **Literature Review: Conceptual, Theoretical and Empirical Review**

### **Commercial Bank**

A commercial bank is a financial institution providing financial services, such as loans, deposits and payment services, and performs the most extensive financial services for business companies (Shetty et al., 2018). According to Muniswamy (2018), the bank is an institution whose activities include lending and

the acceptance of deposits by the public. The commercial banks roles are therefore considered to be lending, liquidity management, risk management, monitoring companies’ activities and service function(Rasool et al., 2014).

### **Small and Medium Enterprises (SMEs)**

The SME Development Policy 2002 in Tanzania defined SMEs categorical into micro, small and medium by specifically focusing on the number of employee and capital invested. Micro enterprises are those employing up to 4 people and have an investment capital of up to 5 million Tanzanian shillings. Small enterprises are considered formalized with a number of employees ranging from 5 to 49 and capital investment of above 5 million shillings to below 200 million shillings. Medium enterprises employ 50 to 99 employees and have an investment capital of above 200 million shillings to below 800 million shillings. Table 2.1 shows the categories of SMEs in Tanzania with the number of employees and capital investments as per the Government of Tanzania categorization.

**Table 2.1 Categories of SMEs in Tanzania**

<b>Category</b>	<b>Employees</b>	<b>Capital investment in machinery (Million Tshs)</b>
<b>Micro enterprise</b>	1-4	Up to 5
<b>Small enterprise</b>	5-49	Above 5 below 200
<b>Medium enterprise</b>	50-99	Above 200 below 800
<b>Large enterprise</b>	100+	Above 800

**Source:** URT (2002)

### **SMEs Performance**

Mahmood & Hanafi (2013) asserts that there has been no agreement with searchers on the appropriate measure of business performance and growth. However, previous researches have suggested that growth measures include level of sales and growth, increase in size, scale of operation, creation of employment, and an improved economy. The most used measures of performance in literature include profitability, sales, growth in employees, and survival. However, Fakoki and Machirori (2013) concluded that performance may be measured directly, using financial and non-financial measures. Financial measures are the results of firm operations in terms of profitability. Financial measures are also known as objective measure because they can be measured individually (Amoah-Mensah, 2013). Non-financial measure is also referred to as subjective performance measure of performance. Non-financial measure is considered as intangible assets of the firm such as organisation reputation, loyalty and customer satisfaction (Machirori, 2012).



## **Theoretical Perspectives**

This study will be guided by two theories which are financial capital/Liquidity theory and the finance led performance theory. The theories are combined to address the variables of the study. The financial capital/liquidity theory emphasizes that for firms (SMEs) to perform better, they need to have adequate and reliable financial services including loans from commercial banks and Microfinance Institutions. Apart from that, the theory postulates that firms need to have readily available banking services (bank's omni channels services) and trade finance to perform better in the industry.

With respect to the finance led performance theory, it is argued that, the availability of reliable financing services such as the foreign exchange rates allows firm to do business internationally with no currency barriers hence allowing them to perform better in the industry. Therefore, the two theories are discussed in details below;

### **Financial Capital/Liquidity Theory**

Empirical research has showed that the founding of new firms is more common when people have access to financial capital (Blanchflower et al, 2001). By implication this theory suggests that people with financial capital are more able to acquire resources to effectively exploit entrepreneurial opportunities, and set up a firm to do so (Clausen, 2006). However, other studies contest this theory as it is demonstrated that most founders start new ventures without much capital, and that financial capital is not significantly related to the probability of being nascent entrepreneurs (Aldrich,1999). This apparent confusion is due to the fact that the line of research connected to the theory of liquidity constraints generally aims to resolve whether a founder's access to capital is determined by the amount of capital employed to start a new venture (Clausen, 2006). In his view, this does not necessarily rule out the possibility of starting a firm without much capital. Therefore, founders' access to capital is an important predictor of new venture growth but not necessarily important for the founding of a new venture (Hurst & Lusardi, 2004).

### **Finance Led Performance Theory**

The Finance Led Performance theory suggests that financial institutions practices are significant tools for expanding the productive magnitude of any economy. The theory believes that economies with strong and developed financial arrangement and systems do grow rapidly. Schumpeter (1934) believed that commercial banks had a role in fostering technological innovation as the intermediary player in an economy

through the provision of credit towards productive sectors. He believes that directing savings to funding entrepreneurs capable of successfully implementing innovative products and production processes are tools to achieve the technological innovation. Ehikioya and Mohamed (2014) point out that other scholars have supported Schumpeter assertion about the role of commercial banks towards fostering better financial environment for economic Performance in any given country.

Moreover, Levine (2004) puts forward that the major role of the financial sector is to ensure economic performance by lessen information, enforcement and costs of doing transactions. That can be realized by particular functions performed by financial sectors, including mobilizing and pooling savings, producing information based on forecasted possible investments and allocating capital, monitoring investments and applying corporate governance, facilitating the trading, diversification and management of risks and facilitating the exchange of goods and services (Ibid).

This theory suggested significant roles of financial system, especially commercial banks to the economy. It points out key functions of commercial banks that help businesses and investment to perform and grow in an economy. The theory helped the researcher to clearly examine the functions of commercial banks to the performance of SMEs in the Tanzania's economy.

## **Empirical Literature Review**

### **The influence of commercial bank's credit solutions on the performance of SMEs**

Subhanij (2016) studied on the contribution of commercial banks in SMEs in Jordan. The study employed descriptive statistic methods in the data analysis, based on secondary data and information gathered from different sources and publications for the purpose of analysis. The information was mainly gathered from annual reports of the sample of study, articles in the daily and periodical newspapers, research works done in the sector and publications by other individuals. The study found out that commercial banks contribute only 10% of their total financing towards SMEs projects, the ration which does not meet the intended purpose. Also, the findings revealed that commercial banks are unwilling to lend to SMEs for fear of the failure of SMEs projects which will then affect the volume of liquidity in commercial banks. The findings indicate that commercial banks offer no advantages to SMEs projects by either interest rate, terms of loan duration, grace periods, and guarantees.

Abara et al., (2017) conducted a study on the role of banks in SMEs financing: the case being Kosovo. It investigated the impact of firm and entrepreneurship characteristics in SMEs investment finance by using debt financing. The study gathered the information from self-organized questionnaires which were administered to 150 SMEs in Kosovo and used econometric model of linear regression to identify key factors which influence investment Performance financed by debt. The research findings revealed that there is a mutual correlation among the firm's age, size, business plan, sector, number of owners, sources of financing and the investment Performance financed from banks. The research findings also suggest that access to external sources of financing such as debt financing is a significant factor that influences the investment Performance.

A study by Rasool et al., (2014) about an assessment of SMEs financing by commercial banks in Zimbabwe, sought to assess the extent to which Zimbabwe's commercial banks finance SMEs. The study employed document analysis and extensive review of the literature to contextualize and draw framework analysis for the study. The study findings have revealed that SMEs are of great socio-economic significance in developing countries, but accessing financial services for SMEs in Zimbabwe remains low. Also, the findings reported that banks have taken different strategic initiative to support SMEs such as negotiating off-shore lines of credit; introducing viability-based lending; technical training of bank staff in SME financing; providing SME training workshops; and customizing credit policies to suit SMEs' needs.

### **The influence of commercial bank's trade finance on the performance of SMEs**

Shawaqfeh (2019) studied about the future of SME banking which recognized progressive changes in the banking sector, caused by increasing SMEs demand and advancement of technology in United Kingdom. The study used empirical study and identified that commercial banks have unfolded with specific center of interest being on serving the needs of SMEs. The study unveiled that; the largest commercial banks are now focusing on maintaining their market share in the SME banking market. New commercial banks have rose up which are providing particular categories of financial needs. These new players are not curb in any way with traditional banking processes or technology, rather they are continuously delivering the services and products to meet the needs of SMEs business. It was also found out that, Commercial banks based on their experience in business banking and industry expertise in areas of agriculture, oil and gas and bulky of information at their disposal they will provide world class product and services to small businesses. The

study furthest revealed that creating products and services demanded by SMEs will form the basis for a targeted and innovative solutions.

In their study on the role of commercial banks in the production of SMEs in Pakistan, Muniswamy (2018) reported that SMEs are very instrumental as they put up more than half of the economic establishments in the global economies; and in Pakistan SMEs gives a massive amount of contribution in national economic Performance and development. Information for the study was gathered through secondary data collection from statistical bulletins, development finance review and economic surveys. The study findings revealed that the availability of finance, trade finance and fixed investment as SMEs working capital is accessed only through commercial banks than in other financial institutions arrangements. Moreover, the study findings showed a negative Performance in private sector financing to SMEs from all scheduled banks; the negative marginal contribution of commercial banks to SME financing led to declining SME national output.

Lwidiko et al., (2014) carried out study on bank trade financing and its contribution to SME's development in Tanzania. The study aimed at examining the trade finance and its contribution on SME's development in Tanzania. Research data were collected through questionnaires and interviews from SMEs and commercial banks. The study used descriptive approach in order to discuss the state of affairs as it exists. The study found out that trade financing is a challenging issue faced by startups and SMEs which also impede their Performance efforts in emerging economies and Tanzania in particular. Also, the study findings revealed that SMEs practitioners are not aware on trade finance services provided by banks that is SMEs are only focusing on loans and other traditional services such as deposits leaving out the trade finance which is a panacea to cross border trade. The findings furthest revealed that commercial banks are reluctant to offer trade finance on the fear of losses as the service requires trust among both parties. The findings show that the trade finance services provided do not help SMEs to grow due to inaccessibility, information gap and commercial banks are unwillingly to offer the service.

### **The influence of commercial bank's foreign exchange (FX) on the performance of SMEs**

Sharma and Sarmah (2019) studied on the effect of commercial banks credit solutions on the Performance of SMEs in 1986 to 2012: the study focused on the econometric evidence from Nigeria. It was realized that there is long run relationship between selected macroeconomic variables and SME output. The study was

conducted by co-integration and Error Correction Modelling (ECM) techniques to investigate empirically the impact of commercial bank credit on SMEs in Nigeria between 1986 and 2012. The study revealed that savings time deposit and exchange rate have noteworthy impact on SME output in Nigeria.

Also, David, Chinelo and Eugenia (2020) examined the impact of exchange rate on the performance of small and medium enterprises in Nigeria using econometric regression model of the Ordinary Least Square (OLS). Findings revealed that exchange rate, capital, tax, managerial skill, market size, infrastructure and level of education conform to the a priori expectation of the study and are statistically significant in explaining SMEs performance in Nigeria.

Furthermore, Anigbogu et al., (2014) looked at real exchange rate movement misalignment and Volatility- and the Agricultural Sector: Evidence from Nigeria using single-regression model via the ordinary least squares. They found that RER misalignment and RER volatility impact negatively on agricultural production value. Also, appreciation of the RER inhibits the sector's performance, while, on the contrary, financial intermediation to the sector (proxy as the ratio of agricultural bank credit to total bank credit) serves as a positive impetus to the sector.

### **The influence of commercial bank's omni channels services on the performance of SMEs**

Shetty et al., (2018) studied on the roles of commercial banks in the Performance of SMEs in Albania. The study was conducted through quantifiable and qualitative research to test the hypotheses of the study so as to have a complete and accurate result, specifically through surveys of SMEs (questioner's field by the representatives of SMEs), interviews with bank's managers and documentary analysis of bank's activity in Albania. The study found out, that commercial banks have an essential role in the country's economic development as they promote firms' Performance through positively mitigating the information-related issues between the investor and the borrower by ensuring a well-planned system and structures to utilize depositor funds and securing their own funds. The study findings reveal further that commercial banks improve the performance of SMEs operations through giving them product and services such as deposit, Internet banking, domestic and foreign payment.

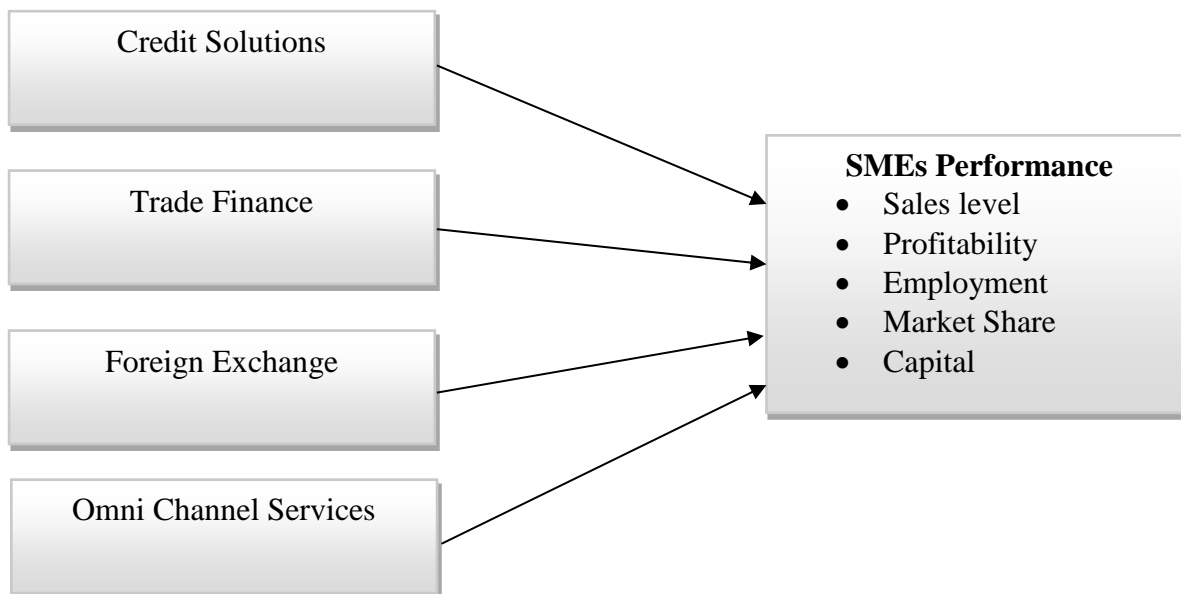
Mwakababu (2013) assessed the contribution of commercial banks to the success of SMEs in Tanzania, the case being NMB bank PLC in Morogoro municipality. The study examined the extent to which commercial

bank have created a conducive environment for the performance and success of SMEs. The study employed purposive sampling along with snowballing sampling and data were collected using structured questionnaires and interview guide. The study indicates that business management training is imperative for SMEs to cope with the changing business situations. The study did not assess the relationship between financial management practices and SME profitability, a gap which was filled by this study.

Mutuma & Omagwa (2019) did a study to establish the effect of microfinance services on financial performance of Small and Medium Enterprises in Meru Town, Meru County, Kenya. The specific objectives of the study were: to determine the effect of credit facilities, savings programs and entrepreneur training programs on financial performance of SMEs in Meru Town. The study adopted descriptive research design to obtain information regarding the current status of the phenomena to describe “what exists” on variables in a situation. A sample size of 93 respondents was used. Data collection was collected using a questionnaire. Descriptive statistics and multiple regression analysis were used to analyze data. The study found a fairly strong positive relationship ( $R= 0.632$ ) between microfinance services and financial performance of the SMEs. The study found a significant relationship between Microfinance Services and Financial Performance of the SMEs studied at a significance level of 0.05 that is credit facilities ( $p\text{-value}= 0.034$ ), savings programmes ( $p\text{-value}= 0.026$ ) and entrepreneur training ( $p\text{-value}= 0.015$ ).

### **Conceptual Framework of the study**

The conceptual framework identifies the relationship that exist between the commercial banks and SMEs by showing the factors that support the Performance and development of SMEs. Figure 2.1 below explains further this relationship. The figure 2.1 below summarizes the relationship between predictor variables (credit solutions, trade finance, foreign exchange and omni channel’s services) and outcome variables (Performance of SME’s). The motives behind is a notion that commercial banks practices are paramount in SMEs Performance taking into account the rich expertise and resources available to them. Therefore, commercial banks through business banking are ready to serve and cater for SMEs business needs which in turn will strengthen their business relationship. The role of commercial banks practices such as credit solutions, trade finance, foreign exchange and omni channels services provide targeted solutions to SMEs based on their business needs, development stage and their industry focus, hence SMEs Performance by increasing revenue and employment.



**Figure 2.1: Conceptual Framework**

### **Predictor Variables**

Predictor variable is an alternative term for independent variables which is simply a variable that causes or influences another variables or associated variables (Lwesya, 2021). The predictor variables for this study are commercial banks practices including credit solutions, trade finance, foreign exchange and omni channels services as indicated in the conceptual framework. Commercial banks credit solution is an external source of financing to SMEs and a significant factor that influences the investment Performance (Razali et al., 2018). Moreover, commercial banks trade finance smoothens the global trade through reducing payment risk and accommodate the needs of importer (Qalati et al., 2021). Furthermore, commercial banks foreign exchange market helps SMEs to avoid speculations and secure their margins through fixed rate or forward exchange contract and protect them from any unexpected currency fluctuations (Nkwabi & Mboya, 2019). The commercial banks Omni channels services lead to hassle free banking, a simplified banking process through digital solutions by providing financial advice and payment solutions to SMEs. The digital platform makes it convenient for SMEs to transfer funds, pay bills, monitor their accounts and at the same time smoothly running their businesses (Tanzania Invest, 2018). SMEs have revealed that 85% of financial product and services provided by commercial banks have led to their development and Performance (Cicea et al., 2019).

## **Outcome Variables**

Outcome variables are usually dependent variables observed and measured by changing predictive variables or variable which change due to causal-effect relationship (Baporikar et al., 2016). SMEs Performance is the outcome or dependent variable of this study. Relating to this study, the outcome variables attributes include increase in revenue and employment.

## **Research Methodology**

This study used largely positivism, but complemented by interpretivist paradigm in order to understand the view points of the subjects being observed or studied. The study used quantitative and qualitative data collection techniques. Qualitative design was deployed because the study needed explanations and oral evidences from respondents. Furthermore, quantitative data collection methods were designed so as to provide insights on the role of commercial banks on the Performance of small and medium enterprises. The study was carried out in Dar es Salaam, a major commercial hub in Tanzania and business center for largest number of enterprises including small and medium businesses. Study population contained all employees from the selected fifteen (15) commercial banks in Dar es Salaam. Questionnaires were used to collect information direct from the premises of the particular institutions. The study involved developing a questionnaire of five-point Likert scale whereby choices ranged from strongly agree, disagree, agree to strongly disagree. The coding of data for easy analysis was done by SPSS which allows easy presentation of the data and lead to valid conclusion in respect to the subject investigated. Multiple regression was employed to establish the relationship between independent and dependent variables. The Multiple regressions model was in the following form;

$$SME's = \beta_0 + \beta_1 CS + \beta_2 TF + \beta_3 FE + \beta_4 OC + \mu$$

Whereby, CR variable indicating Credit Solutions

TF presenting Trade Financing

FE presenting Foreign Exchange

OC presenting Omni Channels

## **Analysis and Findings**

The study generally assessed the influence of commercial banks practices on the performance of SMEs in Tanzania. Reliability was tested using Cronbach's alpha ( $\alpha$ ) on predictor variables. The generally accepted lower limit for Cronbach's  $\alpha$  is 0.70; means a Cronbach's alpha value of below 0.7 means the variable isn't



reliable. Therefore, internal reliability of the 21-item scale was assessed. Items assessing credit solutions and trade finance had alpha values of 0.896 and 0.940 respectively while those assessing foreign exchange, Omni channel services and SMEs performance had cronbach`s alpha values of 0.962, 0.888 and 0.927 correspondingly. Therefore, all items had a cronbach`s alpha above the required Cronbach`s  $\alpha$  of 0.70. This indicates that both research instruments and data obtained were reliable as detailed on Table 4.1 below;

**Table 4.1 Cronbach`s Alpha Test Results**

<b>Variable</b>	<b>Number of Items</b>	<b>Alpha Value</b>	<b>Variable Type</b>
Credit Solutions	4	0.896	Predictor
Trade Finance	4	0.940	Predictor
Foreign Exchange	4	0.962	Predictor
Omni Channel Services	4	0.888	Predictor
SMEs Performance	5	0.937	Predicted

Source: Research Findings (2021)

### **Respondents` Profile**

The profile of respondents was also examined to make sure the respondents fit for the study. The profile of respondents in terms of gender, age, education level and work experience were assessed and results presented below;

### **Respondents` Gender**

With respect to gender of respondents, the study wanted to make sure data is collected from both male and female respondents. Therefore, when assessed, findings revealed that 82 respondents (54.67%) were male while 68 respondents (45.33%) were female. Table 4.2 below indicates the findings;

Table 4.2 Gender of Respondents

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	82	54.67%
Female	68	45.33%
<b>Total</b>	<b>150</b>	<b>100%</b>

Source: Research Findings (2022)

Through the distribution of male and female respondents wasn`t equal but at least the study collected data from significant number of male and female respondents. Apart from that, banks had more male employees

than female, thus the study having a fair distribution of male and female. Therefore, the study opinions comprised those collected from male and female customers.

### Respondents` Age

The study evaluated the age of respondents, this was conducted to make sure all the respondents belong to the age of majority. Apart from that, this was done to make sure opinions about the influence of commercial banks` practices on SMEs performance are collected from all the age groups. In reference to age, it was revealed that majority of respondents were aged between 38 - 47 years (35.3%), followed by those aged 28 – 37 years (30.7%), 18 – 27 years (20.7%), 58 years and above (7.3%) and 48 – 57 years (6.0%). Efforts were made to involve a wide category of age groups thus opinions were obtained from respondents belonging to both young and older age brackets. Table 4.3 below portrays the findings;

Table 4.3 Age of Respondents

Age	Frequency	Percentage
18 – 27 Years	31	20.7%
28 – 37 Years	46	30.7%
38 – 47 Years	53	35.3%
48 – 57 Years	09	06.0%
58 Years and Above	11	07.3%
<b>Total</b>	<b>150</b>	<b>100%</b>

Source: Research Findings (2022)

### Respondents` Education Level

The study also assessed the education level of respondents on the attempt to find out if respondents have enough level of education to understand how commercial banks` practices influence the performance of SMEs. Therefore, respondents` education levels were determined and the majority had acquired Diploma level of education (38.7%) followed by those who had bachelor`s degree and above (30%). The study also found out that of the surveyed respondents, 23.3% had certificate level of education while 8% had secondary education level. Generally, respondent`s education level implies that the majority had sufficient education

and literacy level to basically understand they provided reliable opinion for the study. Table 4.4 below indicates the findings on education level of respondents;

Table 4.4 Education Level of Respondents

<b>Education Level</b>	<b>Frequency</b>	<b>Percentage</b>
Secondary Education	12	08.0%
Certificate Level	35	23.3%
Diploma Level	58	38.7%
Bachelor`s Degree and Above	45	30.0%
<b>Total</b>	<b>150</b>	<b>100%</b>

Source: Research Findings (2022)

### **Work Experience of Respondents**

The study also examined respondents' work experience in years to assess how experienced they were with the commercial banks they were working for. Findings on the working experience of respondents are as presented on table 4.5 below;

Table 4.5 Respondents` Work Experience

<b>Years of Experience</b>	<b>Frequency</b>	<b>Percentage</b>
Less than a Year	3	02.0%
1 – 3 Years	24	16.0%
4 – 6 Years	72	48%
7 – 9 Years	41	27.3%
10 Years and Above	10	06.7%
<b>Total</b>	<b>150</b>	<b>100%</b>

Source: Research Findings (2022)

Findings revealed that majority of them had 4 – 6 years (48%) of working experience, others had 7 - 9 years (27.3%) of experience, some had 1 – 3 years (16%) while 6.7% of respondents had more than 10 years of experience. Thus; the majority had enough experience to provide reliable opinions. Since the

majority of the respondents had an experience of at least a year, they were in a good position to tell how commercial banks` practices influence SMEs performance.

### **The Influence of Credit Solutions on SMEs Performance**

The first objective of this study was to assess the influence of credit solutions on the performance of SMEs. The analysis was conducted to see if the credit provided by the commercial banks have any influence on the performance of SMEs. Data was collected from the staff of the selected commercial banks through questionnaires and the findings are as reported below. Table 4.5 below indicates responses on credit solutions to SMEs;

Table 4.5 Responses on Credit Solutions

<b>Statements</b>	<b>Responses</b>	<b>SD</b>	<b>D</b>	<b>I</b>	<b>A</b>	<b>SA</b>
<b>The bank loans are helpful in expanding SMEs businesses</b>	Frequency	16	9	22	33	70
	Percentage	10.7	6	14.7	22	46.7
<b>SMEs use bank loans for investment purposes</b>	Frequency	7	24	9	49	61
	Percentage	4.7	16	6	32.7	40.7
<b>Commercial banks offer different types of loans for different SMEs needs</b>	Frequency	14	19	0	14	103
	Percentage	9.3	12.7	0	9.3	68.7
<b>SMEs exploit different business opportunities as a result of bank loans</b>	Frequency	8	12	10	40	80
	Percentage	5.3	8	6.7	26.7	53.3

Source: Research Findings (2022)

Findings of the study revealed that the credits provided by commercial banks to SMEs are helpful in expanding their business since majority of the respondents strongly agreed (46.7%) and agreed (22%) while a minority few strongly disagreed (10.7%) and disagreed (6%) and the rest were indifferent (13.4%). Therefore, findings indicate that commercial banks play a significant role in expanding SMEs businesses. Moreover, it was revealed that commercial bank loans to SMEs are useful in enhancing the investments by SMEs as the majority of respondents (40.7%) strongly agreed and agreed (32.7%); few respondents disagreed (16%) and strongly disagreed (4.7%) while the rest were neutral (6.0%). Therefore, it can be

generally stated that the majority of the respondents found that commercial banks` loans enhance the investment activities by SMEs.

Majority of respondents were also in support of the fact that commercial banks offer different types of loans for different SMEs needs; most of the respondents (68.7%) strongly agreed and 9.3% agreed while 12.7% disagreed and 9.3% strongly disagreed on the same. The distribution of responses shows that majority of respondents who are the staff of commercial banks agree that their banks offer different types of loans for SMEs.

Additionally, the study aimed at determining whether commercial bank practices play any role in enhancing SMEs in exploiting different business opportunities; and to this the majority (53.3%) of respondents strongly agreed, 26.7% agreed, 6.7% neutral, 8.0% disagreed and 5.3% strongly disagreed on the same fact. Thus, most of the respondents agreed that there is high chance of exploiting different business opportunities when commercial banks offer loans to SMEs.

The findings were parallel to those obtained from interviews where it was discovered that credits extended to SMEs play a significant role in enhancing their performance. It was also noted that since majority of the SMEs have small capital, thus, they like using external sources of finance such as loans to finance their operations and enhance their performance. This was noted from one of the interviewees who remarked;

*“yes, we offer different types of credits to SMEs since majority of them have insufficient capital to finance their operations, therefore, they opt for bank loans. The bank loans have primarily been used to finance their business operations and majority of them have managed to expand their businesses”  
(Interviews with commercial banks loan officers in Dar es Salaam, February, 2022).*

### **The Influence of Trade Finance on SMEs Performance**

The second specific objective of the study was to assess the influence of commercial banks` trade finance activities on the performance of SMEs. The aim was to assess if other commercial banks` services such as insurance, overdraft services, risk management and export credit have any influence on the performance of SMEs.

Findings revealed that majority of respondents are on the support that the insurance services offered by commercial banks have a positive impact on the performance of SMEs. This was evidenced by a majority

of respondents who strongly agreed (44.7%) followed by those who agreed (26.7%), 12.0% disagreed and 6.0% strongly disagreed while the remaining 10.7% were undecided. This implies that majority of commercial banks` staff offer insurance services to SMEs and they believe that the service is helpful in enhancing SMEs performance. Findings also revealed that the commercial banks offer overdraft services to SMEs which in turn play a significant role in enhancing their performance (41.3% strongly agreed, 37.3% agreed, 10.7% disagreed, 6% strongly disagreed while the remaining 4.7% were indifferent).

This study also determined whether the commercial banks offer risk management services for SMEs and to this, the majority (56.7%) of respondents strongly agreed and agreed (21.3%) that SMEs enjoy risk management services from the commercial banks. However, 10.7% of respondents disagreed, 10% strongly disagreed while 1.3% were neutral. Moreover, the majority of respondents were in support of the fact that commercial banks offer export credit for SMEs businesses. This was evidenced by the most of them who strongly agreed (55.3%) and agreed (21.3%) while a minority few (20%) disagreed, 0.7% strongly disagreed and 2.7% were neutral. Table 4.2 below portrays responses on trade finance services in relation to the performance of SMEs;

Table 4.6 Responses on Trade Finance Services

<b>Statements</b>	<b>Responses</b>	<b>SD</b>	<b>D</b>	<b>I</b>	<b>A</b>	<b>SA</b>
<b>Commercial banks offer insurance services for SMEs businesses</b>	Frequency	9	18	16	40	67
	Percentage	6	12	10.7	26.7	44.7
<b>Commercial banks offer overdraft services for SMEs businesses</b>	Frequency	9	16	7	56	62
	Percentage	6	10.7	4.7	37.3	41.3
<b>SMEs enjoy risk management services from commercial banks</b>	Frequency	15	16	2	32	85
	Percentage	10	10.7	1.3	21.3	56.7
<b>Commercial banks offer export credit for SMEs businesses</b>	Frequency	1	30	4	32	83
	Percentage	0.7	20	2.7	21.3	55.3

Source: Research Findings (2022)

Findings were not far from those obtained from loan officers of the commercial banks. It was indicated that trade finance services help SMEs to run their businesses smoothly. They also noted that there are SMEs who normally insure their goods and therefore manage the risks. They also noted that there are SMEs which enjoy the bank overdraft services from the commercial banks. They therefore, use this as a short-term source of finance to finance their short-term needs. One of the loan officers commented;

*“...apart from loans we also offer other trade finance services such as overdrafts and insurances. These are also very important for the SMEs since when the goods or assets are insured by our insurance services, helps SMEs to manage their risks....” (Interviews with commercial banks loan officers in Dar es Salaam, February, 2022).*

Another respondent added;

*“the overdraft services offered by our bank have been helpful in financing the short-term finance needs by SMEs. It is through this service where many SMEs have managed to finance their operations....” (Interviews with commercial banks loan officers in Dar es Salaam, February, 2022).*

### **The Influence of Foreign Exchange on the Performance of SMEs**

The third specific objective of this study was to examine the extent at which foreign exchange services influence SMEs performance. The aim was to assess how SMEs use the foreign exchange services from commercial banks for their operations and enhance the performance of SMEs.

Findings of this study revealed that the SMEs get prompt access to foreign exchange when they engage into international trade; the majority of respondents (47.3%) strongly agreed and (26.7%) agreed. Few of them (11.3%) strongly disagreed and 9.3% disagreed while 5.3% were neutral. Findings also revealed that the availability of foreign currencies through commercial banks makes international trade convenient for SMEs as evidenced by 39.3% of respondents who strongly agreed, 32% agreed, 6% neutral, 11.3% disagreed and 11.3% strongly disagreed.

Furthermore, the study assessed if there are any special favors for SMEs as far as foreign exchange is concerned. Findings discovered that commercial banks have some specialized services such as special foreign exchange rates for SME as evidenced by majority 54.7% who strongly agreed, 10.7% agreed, 12% were neutral, 21.3% disagreed and 1.3% strongly agreed. It was also found that the SMEs may engage in the foreign exchange business through commercial banks as evidenced by 53.3% of respondents who

strongly agreed and 23.3% who agreed. However, 19.3% disagreed, 1.3% strongly disagreed and 2.7% were neutral. Findings are as portrayed on Table 4.7 below;

Table 4.7 Responses on Foreign Exchange Services

Statements	Responses	SD	D	I	A	SA
<b>SMEs get prompt access to foreign exchange when they engage into international trade</b>	Frequency	17	14	8	40	71
	Percentage	11.3	9.3	5.3	26.7	47.3
<b>The availability of foreign currencies through commercial banks makes international trade convenient for SMEs</b>	Frequency	17	17	9	48	59
	Percentage	11.3	11.3	6	32	39.3
<b>Commercial banks offer specialized foreign exchange rates to SMEs</b>	Frequency	2	32	18	16	82
	Percentage	1.3	21.3	12	10.7	54.7
<b>SMEs may engage in the foreign exchange business through commercial banks</b>	Frequency	2	29	4	35	80
	Percentage	1.3	19.3	2.7	23.3	53.3

Source: Research Findings (2022)

Similar findings were revealed from the qualitative data. Majority of the interviewed respondents indicated that foreign exchange services offered by commercial banks have been helpful in making sure SMEs take advantage of the overseas businesses. They also indicated that there are SMEs which are engaged in foreign businesses and therefore get their foreign currencies through commercial banks. One of them observed;

*“SMEs which are engaged in international finance enjoy the commercial banks services in foreign exchange. it is through the commercial banks where foreign currencies are made available for SMEs to trade internationally....” (Interviews with commercial banks loan officers in Dar es Salaam, February, 2022).*

### **The Influence of Omni Channel Services on the Performance of SMEs**

The fourth objective of the study was to find out the influence of omni channel services on the performance of SMEs. Different omni channel services such as credit services, credit interest, prompt banking services and specialized services were examined.



Findings of the study revealed that commercial banks offer prompt credit services to SMEs (60% strongly agreed, 12% agreed, 7.3% neutral, 15.3% disagreed and 5.3% strongly disagreed). Apart from that it was also evidenced by the findings of the study that low interest credit services are provided to SMEs by commercial banks (52% strongly agreed, 29.3% agreed, 8.7% neutral, 8.7% disagreed and 1.3% strongly disagreed). The study also assessed the level of convenience of the banking services offered by commercial banks; the study findings revealed that SMEs enjoy convenient banking services from the commercial banks as majority of the respondents strongly agreed (56.7%) and agreed (20.7%); others strongly disagreed (0.7%) and disagreed (14.7%) while the rest were neutral (7.3%). Table 4.8 below indicates the findings;

Table 4.8 Responses on Omni Channel Services

Statements	Responses	SD	D	I	A	SA
<b>Commercial banks offer prompt credit services to SMEs</b>	Frequency	8	23	11	18	90
	Percentage	5.3	15.3	7.3	12	60
<b>Low interest credit services are provided to SMEs by commercial banks</b>	Frequency	2	13	13	44	78
	Percentage	1.3	8.7	8.7	29.3	52
<b>SMEs enjoy convenient banking services from the commercial banks</b>	Frequency	2	24	1	40	83
	Percentage	1.3	16	0.7	26.7	55.3
<b>Commercial banks offer specialized banking services to SMEs</b>	Frequency	1	22	11	31	85
	Percentage	0.7	14.7	7.3	20.7	56.7

Source: Research Findings (2022)

The findings from the interviews were in support of the quantitative ones. It was observed that the commercial banks are trying their level best to make sure they provide convenient banking services to SMEs. This includes having different services to make sure the banking services are accessible and available at any time. It was also revealed that SMEs enjoy the internet banking services. It was noted from one of the bank loans officers;

*“SMEs do their business operations better when there are convenient banking services from the commercial banks. Services such as internet banking provided by commercial banks are crucial for them to perform better in business....” (Interviews with commercial banks loan officers in Dar es Salaam, February, 2022).*

### SMEs Performance

This study considered SMEs performance as the dependent variable which was measured through different measures such as the sales level, profitability level, number of employees, capital level and business expansion.

Findings indicated that 46.7% of respondents strongly agreed, 22% agreed, 10.7% strongly disagreed, 6.0% disagreed, and 14.7% were indifferent on the proposition that commercial banks practices lead to increased sales level for the SMEs. This means that the sales levels of SMEs are likely to grow as a result of commercial banks offering different financial services to them. Moreover, it was discovered that commercial banks services are useful in increasing the profitability levels as evidenced by majority of respondents who strongly agreed (44.7%) and agreed (26.7%) while others disagreed (12%), strongly disagreed (6.0%) and undecided (10.7%). Table 4.9 below portrays the findings on SMEs Performance;

Table 4.9 SMEs Performance

Statements	Responses	SD	D	I	A	SA
<b>Commercial banks practices lead to increased sales level for the SMEs</b>	Frequency	16	9	22	33	70
	Percentage	10.7	6.0	14.7	22	46.7
<b>Commercial banks services are useful in increasing the profitability levels</b>	Frequency	9	18	16	40	67
	Percentage	6	12	10.7	26.7	44.7
<b>Commercial banks services are helpful in widening the market share for the business</b>	Frequency	17	14	8	40	71
	Percentage	11.3	9.3	5.3	26.7	47.3
<b>Commercial banks practices lead to business expansion in terms of capital</b>	Frequency	8	23	11	18	90
	Percentage	5.3	15.3	7.3	12	60
<b>Different commercial banks services are useful for increasing the number employees for the business</b>	Frequency	10	20	2	34	84
	Percentage	6.7	13.3	1.3	22.7	56

Source: Research Findings (2022)

Further disclosures were that commercial banks services are helpful in widening the market share for the business as evidenced by majority of respondents strongly agreed (47.3%) and agreed (26.7%). However, 9.3% disagreed and 11.3% strongly disagreed while 5.3% were neutral. Likewise, it was discovered that commercial banks practices lead to business expansion in terms of capital and to this, 60% respondents strongly agreed, 12% agreed while a few respondents were neutral (7.3%), strongly disagreed (5.3%) and disagreed (15.3%). Also, results were that different commercial banks services are useful for increasing the number employees for the business (56% strongly agreed, 22.7% agreed, 13.3% agreed, 6.7% strongly disagreed and the remaining 1.3% were neutral). Multiple regression summary indicates how the five independent variables (credit solutions, trade finance, foreign exchange and omni channel services) correlate with the dependent variable (SMEs performance). Table 4.10 below shows the summary;

Table 4.10 Multiple Regression Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.984 <sup>a</sup>	0.968	0.967	0.21952

a. Predictors: (Constant), Credit\_Solutions, Trade\_Finance, Foreign\_Exchange, Omni\_Channel\_Services

Source: Research Findings (2022)

Findings show that independent variables (credit solutions, trade finance, foreign exchange and omni channel services) were joint predictors of dependent variable (Revenue Collection) with a correlation of 98.4% and adjusted R square equal to 0.967, this means that the predictor variables jointly explained 96.7% of SMEs performance, while the remaining 3.3% could be due to the effect of other variables not considered in this study. All the four independent variables (credit solutions, trade finance, foreign exchange and omni channel services) were found to uniquely, significantly and positively influence the prediction of revenue collection ( $\beta=0.258$   $p=0.000$ ), ( $\beta=0.117$   $p=0.007$ ), ( $\beta=0.450$   $p=0.000$ ) and ( $\beta=0.209$   $p=0.000$ ) respectively. Results are indicated in table 4.11 below.

From the analysis model  $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$

Then;

$$SMEs\ Performance = \alpha + \beta_1(CS) + \beta_2(TF) + \beta_3(FE) + \beta_4(OCS) + \epsilon.$$

Therefore;

$$SMEs\ Performance = -0.172 + 0.258(CS) + 0.117(TF) + 0.450(FE) + 0.209(OCS)$$

Table 4.11 Multiple Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.172	.078		-2.196	.030
Credit Solutions (CS)	.258	.063	.254	4.063	.000
Trade Finance (TF)	.117	.043	.116	2.714	.007
Foreign Exchange (FE)	.450	.050	.470	8.981	.000
Omni channel Services (OCS)	.209	.040	.177	5.159	.000

a. Dependent Variable: SMEs Performance

Source: Research Findings (2022)

### Summary and Discussions

On the first specific objective which was to assess the influence of credit solutions on the performance of SMEs. On this objective, the study revealed that credit solutions offered by commercial banks have a positive significant impact on the performance of commercial banks. It was further noted that bank loans are helpful in expanding businesses, SMEs use bank loans for investment purposes, commercial banks offer different types of loans for different purposes by SMEs and SMEs exploit different business opportunities as a result of bank loans.

The findings are similar to those obtained by Abara et al., (2017) who conducted a study on the role of banks in SMEs financing: the case being Kosovo. The research findings suggest that access to external sources of financing such as debt financing is a significant factor that influences the investment Performance. Similarly, a study by Rasool et al., (2014) about an assessment of SMEs financing by commercial banks in Zimbabwe, sought to assess the extent to which Zimbabwe’s commercial banks finance SMEs. The findings reported that banks have taken different strategic initiative to support SMEs such as negotiating off-shore lines of credit; introducing viability-based lending; technical training of bank

staff in SME financing; providing SME training workshops; and customizing credit policies to suit SMEs' needs.

However, the findings of this study were different from those obtained by Subhanij (2016) who studied on the contribution of commercial banks in SMEs in Jordan. The study found out that commercial banks contribute only 10% of their total financing towards SMEs projects, the ration which does not meet the intended purpose. Also, the findings revealed that commercial banks are unwilling to lend to SMEs for fear of the failure of SMEs projects which will then affect the volume of liquidity in commercial banks. The findings indicate that commercial banks offer no advantages to SMEs projects by either interest rate, terms of loan duration, grace periods, and guarantees.

On the second specific objective of the study, the influence of trade finance services by commercial banks to SMEs was assessed. The study used difference trade finance measures such as insurance services, overdraft services, risk management services and export credit. Findings of the study revealed that all the mentioned trade finance services are being practiced by the selected commercial banks. Additionally, the study revealed that trade finance services by commercial banks have a significant positive impact on the performance of SMEs. Thus, SMEs are enjoying the trade finance services in enhancing their performance levels. The essence at which the commercial banks started offering such trade finance services was from the fact that, the services were highly demanded by SMEs.

Therefore, when commercial banks are offering services which are demanded by the customers, it makes their customers enjoy the commercial banks' services. The findings were not far from those obtained by Shawaqfeh (2019) who studied about the future of SME banking which recognized progressive changes in the banking sector, caused by increasing SMEs demand and advancement of technology in United Kingdom. The study furthest revealed that creating products and services demanded by SMEs will form the basis for a targeted and innovative solutions.

However, the findings of this study were different from those obtained by Lwidiko et al., (2014) who carried out study on bank trade financing and its contribution to SME's development in Tanzania. The study found out that trade financing is a challenging issue faced by startups and SMEs which also impede their Performance efforts in emerging economies and Tanzania in particular. The findings show that the trade

finance services provided do not help SMEs to grow due to inaccessibility, information gap and commercial banks are unwillingly to offer the service.

Also, according to Muniswamy (2018), in their study on the role of commercial banks in the production of SMEs in Pakistan, reported that the availability of finance, trade finance and fixed investment as SMEs working capital is accessed only through commercial banks than in other financial institutions arrangements. Moreover, the study findings showed a negative Performance in private sector financing to SMEs from all scheduled banks; the negative marginal contribution of commercial banks to SME financing led to declining SME national output.

The study also examined the influence of foreign exchange services offered by commercial banks to SMEs. Foreign exchange services such as access to foreign currency, availability of foreign exchange, specialized rates and SMEs engagement in foreign exchange business were measured in relation to SMEs performance. On these, findings of the study revealed that commercial banks offer different types of foreign exchange services to SMEs. Apart from that, it was revealed that foreign exchange services have positive and significant influence on the performance of SMEs. Therefore, through the availability of foreign exchange services, SMEs use the services to take advantage of the international business such as exporting and importing goods and services. Apart from that, they engage in foreign exchange business and thus earn profits.

The findings were parallel to those obtained by Sharma & Sarmah (2019) who studied on the effect of commercial banks credit solutions on the Performance of SMEs in 1986 to 2012 in Nigeria. Their study revealed that there is long run relationship between selected macroeconomic variables and SME output. The study revealed that savings time deposit and exchange rate have noteworthy impact on SME output in Nigeria.

Also, David, Chinelo and Eugenia (2020) examined the impact of exchange rate on the performance of small and medium enterprises in Nigeria. Findings revealed that exchange rate, capital, tax, managerial skill, market size, infrastructure and level of education conform to the a priori expectation of the study and are statistically significant in explaining SMEs performance in Nigeria. Furthermore, Anigbogu et al., (2014) looked at real exchange rate movement misalignment and Volatility- and the Agricultural Sector:

Evidence from Nigeria using single-regression model via the ordinary least squares. They found that RER misalignment and RER volatility impact negatively on agricultural production value. Also, appreciation of the RER inhibits the sector's performance, while, on the contrary, financial intermediation to the sector (proxy as the ratio of agricultural bank credit to total bank credit) serves as a positive impetus to the sector. On assessing the influence of Omni channel services on the performance of SMEs, the study measured different omni channel services such as prompt credit services, low interest credit services, convenient banking services and specialized banking services. The study revealed that the banks are putting efforts in making sure they offer convenient omni channel services to SMEs to make their businesses convenient. Additionally, it was revealed that the available omni channel services offered by the commercial banks have a significant impact on the performance of SMEs. Commercial bank services in relation to omni channel play a significant role in making sure SMEs carry out their businesses conveniently hence increasing their sales and profitability levels.

The findings were similar with those obtained by Shetty et al., (2018) who studied on the roles of commercial banks in the Performance of SMEs in Albania. The study findings revealed that commercial banks improve the performance of SMEs operations through giving them product and services such as deposit, Internet banking, domestic and foreign payment. Also, Mwakababu (2013) assessed the contribution of commercial banks to the success of SMEs in Tanzania, the case being NMB bank PLC in Morogoro municipality. The study indicated that business management training by commercial banks is imperative for SMEs to cope with the changing business situations.

Additionally, Mutuma & Omagwa (2019) did a study to establish the effect of microfinance services on financial performance of Small and Medium Enterprises in Meru Town, Meru County, Kenya. The study found a fairly strong positive relationship between microfinance services and financial performance of the SMEs. The study also found a significant relationship between Microfinance Services and Financial Performance of the SMEs studied that is credit facilities, savings programmes and entrepreneur training.

## **Conclusions**

The research analyzed the influence of commercial bank practices on the performance of Tanzanian SMEs in general. The study had four specific objectives: to look into the influence of commercial bank credit solutions on SMEs' performance, to look into the influence of commercial bank trade finance on SMEs'

performance, to look into the influence of commercial bank foreign exchange on SMEs' performance, and to look into the influence of commercial bank omni channels services on SMEs' performance. Quantitative and qualitative data was collected, processed, and conclusions were presented in line with the study's specific goals. Quantitative data was analyzed through descriptive statistics as well as multiple regressions to establish the relationship between variables. Also, the qualitative data collected through interviews was analyzed and presented through thematic analysis technique.

On the first specific objective, the study revealed that commercial bank credit solutions have a positive substantial influence on commercial bank performance, according to the study. SMEs employ bank loans for investment objectives, commercial banks give different sorts of loans for different purposes by SMEs, and SMEs exploit diverse business prospects as a consequence of bank loans, it was also stated.

On the second specific objective, the study unveiled that, the selected commercial banks provide all of the aforementioned trade financing services. Furthermore, the study found that commercial banks' trade finance services had a considerable favorable influence on SMEs' performance. As a result, SMEs benefit from trade financing services in terms of improving their performance.

Regarding the third specific objective, it was revealed that commercial banks offer different types of foreign exchange services to SMEs; the foreign exchange services offered were such as access to foreign currency, availability of foreign exchange, specialized rates. Findings of the study further revealed that commercial banks offer different types of foreign exchange services to SMEs. Apart from that, it was revealed that foreign exchange services have positive and significant influence on the performance of SMEs.

Concerning the fourth specific objective, it was discovered that commercial banks provide a variety of omni channel services, including prompt credit, low-interest credit, convenient banking, and specialized banking. According to the survey, banks are working hard to ensure that SMEs have access to easy omni channel services to help them run their operations more efficiently. Furthermore, it was shown that the commercial banks' accessible omni channel services have a substantial influence on the performance of SMEs.

Considering the findings presented above, commercial banks are found to be significant contributors to the performance of SMEs in Tanzania. With regard to the credit services, commercial banks play a significant



role in ensuring SMEs get access to external sources of finance in terms of credit for financing their operations.

Similarly, with respect to trade finance services, it is vivid that SMEs require different trade finance services in their daily business operations. Therefore, with the presence of commercial banks offering different types of trade finance services, SMEs get access to the services and enhance their performance.

Also, the world has become dynamic to the extent that SMEs operate globally in different economies and thus different currencies. Therefore, SMEs require accessibility to the foreign currencies so that they trade globally. The commercial banks are found to be very useful in enhancing the accessibility and availability of foreign currencies to SMEs. In that sense, SMEs carry their operations smoothly hence boost their performance.

The convenience of other banking services is also an important aspect in making the SMEs businesses operate smoothly. From the study, the commercial banks play significant role in making sure the banking services are convenient and readily available to make sure the SMEs operations are run smoothly. In turn, this has been enhancing the performance of SMEs.

### **Recommendations**

From the findings above, the study came up with two recommendations. Foremost, since it has been found that credit services by commercial banks play a significant role in enhancing their performance. Then, the study recommends that commercial banks should make sure they reduce or remove all the barriers for SMEs access to finance. The barriers include but not limited to high interest rates, high collateral requirements, credit rationing and inconveniences in accessing credit services. Secondly, from the fact that SMEs operations depends on the banking services such as trade finance, foreign exchange and omni channel services, commercial banks should make sure they provide convenient banking services especially by adopting modern technologies such as electronic banking and electronic commerce to make sure the banking services to SMEs are not disrupted.

The study confined itself on the banking services offered by commercial banks to SMEs. However, commercial banks offer more other services to SMEs; these services include training and management

assistance. Therefore, the study recommends that other studies should focus on how the training services and management assistance by commercial banks to SMEs influence their performance.

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