THE ROLE OF COMMERCIAL BANK LOANS IN ENHANCING THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN MOROGORO MUNICIPALITY OF TANZANIA

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ABSTRACT

Purpose: This study investigates the role of commercial bank loans on the performance of small and medium-sized enterprises (SMEs) in Morogoro Municipality, Tanzania. It examines the accessibility of bank loans, factors influencing loan choices, and the effects of these loans on financial performance, providing a comprehensive understanding of how financial support from banks influences SME growth and sustainability.

Design/Methodology/Approach: The study adopted a quantitative approach, utilizing cross-sectional data collected from a sample of 92 SMEs in Morogoro municipality. The collected data were descriptively analyzed using SPSS version 25. This analysis aimed to evaluate loan accessibility, determinants of loan choice, and the effect of commercial bank loans on key financial metrics such as profitability, cash flow management, and business growth.

Findings: The study reveals that while a significant number of SMEs perceive commercial bank loans as highly accessible, others encounter significant barriers such as high interest rates and stringent collateral requirements. The study also reveals mixed effects of commercial bank loans on SME performance, with positive impacts on revenue generation and asset growth but variable effects on profitability and business expansion.

Originality/Value: This study contributes to the existing literature by providing nuanced insights into the role of commercial bank loans in SME performance within a Tanzanian context. It highlights the challenges SMEs face in accessing financial support and the varying impact of bank loans on their financial outcomes. The study findings are relevant for both policymakers and financial institutions aiming to improve loan accessibility and support SME development.

Policy Implications: The study suggests several policy implications, including the need for banks to simplify loan application processes, offer more flexible loan products and address high interest rates that hinder SME access to finance. Additionally, it emphasizes the importance of building strong relationships between SMEs and financial institutions and leveraging financial advisory services to enhance loan utilization and overall business performance.

Keywords: *SMEs, Commercial bank loans, financial performance, Tanzania, Morogoro municipality*

1. Introduction

Since the 1960s, small and medium-sized enterprises (SMEs) have gained significant attention due to their critical role in fostering economic growth and stability across various economies (OECD, 2000). SMEs are widely regarded as the bedrock of many economies, driving economic dynamism and adaptability in both developed and developing nations (Qalati *et al*., 2021; Ntare *et al*., 2022). In fact, more than 70% of SMEs contribute to self-employment, particularly within the informal sector (Ntare *et al*., 2022). The Organization for Economic Co-operation and

Development (OECD) highlights that the economic growth of many countries is heavily dependent on the development of SMEs (OECD, 2005). This underscore the importance of SMEs in both the formal and informal sectors, as they are established to fulfill specific needs within society (Diabate *et al*., 2019; Nkwabi & Mboya, 2019). In developing economies, SMEs account for approximately 99% of all firms (Rankho & Macha, 2022).

In Africa, SMEs play a pivotal role, accounting for more than 95% of all the firms in the region (Gamba, 2019; Mkenda & Rand, 2020). Their importance is underscored by their contribution to poverty reduction, GDP growth, and employment creation for the majority of the population (UNIDO, 2016; Ntare *et al*., 2022). The SMEs sector is vital in addressing the needs of the African population by providing affordable goods and services, generating income, and creating employment opportunities (UNIDO, 2016; Rankho & Macha, 2022). In many Sub-Saharan Africa (SSA) countries, SMEs constitute a significant share of production and employment which directly improve the lives of people and raise the standard of living (Nkwabi & Mboya, 2019).

However, despite their numerous benefits, SMEs often encounter performance challenges that impede their growth, such as inadequate technology, insufficient training, and limited access to financial resources (Shawaqfeh, 2019). In Tanzania, these challenges significantly affect the sustainability of SMEs. The continued development of SMEs in Tanzania depends on several critical factors that include access to finance, better financial services, foreign currencies, the ability to adopt new technologies, market access, networking, favourable government policies, and an enabling external environment (Rankho & Macha, 2022).

In response to these challenges, the Tanzanian government has implemented various initiatives to bolster SME performance. Efforts such as improving business registration platforms and upgrading technological infrastructure aim to enhance the ease of doing business and support the entrepreneurial culture in Tanzania (Rankho & Macha, 2022). Additionally, the government introduced the SMEs Development Policy in 2002, which seeks to address the unique constraints faced by SMEs and capitalize on available opportunities including job creation, local resource utilization, and business linkages (URT, 2002). Economic liberalization policies in the 1990s, along with subsequent financial sector reforms, aimed to stimulate private sector growth and strengthen financial intermediation (Lyimo, 2014). These reforms, including introducing the introduction of credit reference bureaus and risk-based lending practices, have influenced the availability and terms of commercial bank loans for SMEs. Government initiatives such as the National Entrepreneurship Development Fund (NEDF), the Small Industries Development Organization (SIDO), and the Vocational Education and Training Authority (VETA) have further aimed to improve access to finance for SMEs and enhance their financial performance (Rankho & Macha, 2022).

Despite these efforts, SMEs in Tanzania continue to face significant challenges in securing bank loans, which are essential for their growth and sustainability (Kamanga & Mwaikambo, 2021; Gassiah & Kikula, 2022). Numerous studies (Shetty *et al*., 2018; Muniswamy, 2018; Shawaqfeh, 2019; Rankho & Macha, 2022) have demonstrated a clear relationship between commercial bank loans and SME performance, with increased access to credit contributing to improved economic outcomes and GDP growth. Thus, commercial banks play a crucial role in enhancing promote SME performance by providing essential financial products and services such as loans (Rankho & Macha, 2022). Their functions extend beyond lending to include liquidity management, risk

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management, monitoring, and service provision (Rasool *et al*., 2014). However, challenges such as high interest rates, short repayment periods, lack of collateral, and limited technological access continue to impede SMEs' ability to secure loans from commercial banks (Kamanga & Mwaikambo, 2021; Gassiah & Kikula, 2022). These challenges hinder the performance of SMEs and by extension, overall economic growth, despite their crucial role in employment creation, income generation, and poverty alleviation—accounting for a third of GDP and employing about 20% of Tanzania's labor force (Ikasu, 2023).

While existing research has explored the impact of commercial bank loans on SMEs, a clear understanding of the specific effects and challenges remains elusive. This study aims to address this gap by investigating the relationship between commercial bank loans and the financial performance of SMEs in Tanzania, with a particular focus on NMB Bank in Morogoro municipality.

The subsequent sections of this paper are organized as follows: Section 2 outlines the theoretical framework that forms the foundation of the study. Section 3 describes the research methodology employed in this study. Section 4 presents the results and discusses the key findings. Section 5 summarizes the conclusions drawn from the study. Section 6 explores the theoretical and managerial implications arising from the research findings. Finally, Section 7 addresses the study's limitations and suggests directions for future research.

2. Theoretical framework

The study was grounded in two theories: the *Financial Capital/Liquidity Theory* and the *Finance-Led Performance Theory*, which were integrated to comprehensively address the variables under investigation. Thus, by combining these two theories, the study explored the relationship between commercial bank loans and the financial success of SMEs. The *financial capital/liquidity theory* served as a framework for understanding the importance of loans and other financial services for operational success, while the *finance-led performance theory* offered insights into how these financial services enhance overall SME performance outcomes, particularly in the context of international trade.

2.1 Financial Capital/Liquidity Theory

The *Financial Capital/Liquidity Theory* was fundamental in guiding this study. It provided a theoretical framework to understand the relationship between access to financial resources and the performance of SMEs. Empirical evidence from prior studies (Holtz-Eakin *et al*., 1994; Evans & Jovanovic, 1989; Blanchflower *et al*., 2001) demonstrates that the establishment and growth of new SMEs are more prevalent when entrepreneurs have sufficient access to financial capital. According to this theory, the availability of adequate and reliable financial resources—particularly through loans from commercial banks, is crucial for the operational success and growth of SMEs. It posits that SMEs require sufficient liquidity to sustain operations, invest in new opportunities, and respond dynamically to market conditions. Without such access, SMEs may struggle to maintain stability, expand their operations, or compete effectively within their industries.

In the context of this study, the *Financial Capital/Liquidity Theory* provided a lens through which the influence of commercial bank loans on the financial performance of SMEs in Morogoro municipality was examined. Thus, by underscoring the importance of liquidity, the theory facilitated an exploration of how the availability of commercial bank loans impacts SME performance. It offered a theoretical basis for assessing how access to financial services, such as loans, affects SMEs' ability to invest in business activities, manage cash flow, and achieve financial stability and growth. Furthermore, the theory also informed the study's examination of challenges SMEs face in accessing loans, such as high interest rates and collateral requirements, which can limit SMEs' ability to secure the capital needed for growth and sustainability. Thus, in this study, the theory was integral in shaping the research questions, methodological approach, and analysis, particularly regarding the role of commercial bank loans in enhancing the financial performance of SMEs in the region.

2.2 Finance-Led Performance Theory

The *Finance-Led Performance Theory* provided a valuable framework for this study by elucidating how access to financial services directly affects the growth and performance of SMEs. This theory postulates that the availability of reliable financial services—such as loans and other banking products—plays a vital role in enhancing a firm's operational efficiency and overall performance (Schumpeter, 1934). It argues that when businesses have access to adequate and timely financing, they are better positioned to invest in growth opportunities, boost productivity, and expand into new markets, including international ones.

Within the context of this study, the *Finance-Led Performance Theory* offered a perspective for examining the impact of commercial bank loans on the financial success of SMEs in Morogoro municipality. The theory guided the investigation into how financial services, particularly those provided by commercial banks, facilitate SMEs' capacity to innovate, scale operations, and compete in both local and global markets. It also helped frame the analysis of how factors like foreign exchange rates, shaped by financial institutions, influence SMEs' ability to engage in international trade without being hindered by currency constraints.

Thus, the theory was particularly relevant in assessing the broader economic impact of SME access to finance. It informed the study's examination of how financial inclusion and the availability of loans from banks such as the National Microfinance Bank (NMB) in Tanzania, contribute to the overall economic performance of SMEs. Hence, by focusing on the relationship between financial services and firm performance, the theory shaped the study's approach to evaluating the role of commercial banks in fostering the growth and sustainability of SMEs in the region, as well as the challenges these enterprises face in obtaining the necessary financial resources.

3. Material and methods

The study adopted a cross-sectional design due to its cost-effectiveness, time efficiency, and capacity to collect substantial data within a relatively short period (Kothari, 2009). In addition, Mwonge & Naho (2021, 2022) demonstrate the design's effectiveness in providing comprehensive insights into financial access and performance dynamics. The cross-sectional design thus facilitated efficient data collection and analysis, ensuring timely and relevant findings for understanding SME performance. The study was conducted in Morogoro Municipality, a key urban center in the region. It was chosen because of its diverse range of SMEs and the presence of multiple branches of NMB Bank, which is a significant provider of financial services to SMEs in the region. The study area included five NMB Bank branches: Msamvu, Sokoine University of Agriculture (SUA), Mt. Uluguru, Wami, and the Morogoro

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Business Centre. These branches were selected to represent a broad cross-section of the banking services available to SMEs in the municipality.

To ensure a comprehensive understanding of loan accessibility and its impact on SME performance, the study utilized both purposive and random sampling techniques. Purposive sampling was employed to select five NMB loan officers who provided critical insights into the loan products, policies, and challenges encountered by SMEs. Random sampling was then applied to select 92 SMEs operating in various sectors within Morogoro municipality, ensuring a representative sample that captured the diversity of business types, sizes, and financial needs.

Primary data were collected through structured questionnaires administered to 92 SMEs, focusing on their experiences with accessing loans, the factors influencing their loan choices, and the perceived impact of these loans on their financial performance. The data collected were then carefully coded, cleaned, and entered into SPSS (Statistical Package for Social Sciences) Version 25 for analysis. Descriptive statistics were employed to summarize the data, providing an overview of the key characteristics and trends among the sampled SMEs, including performance indicators, and the barriers they faced in accessing financial services.

4. Results and discussion

4.1 Accessibility of commercial bank loans

The study sought to investigate commercial bank loan accessibility because the availability of various loan types alone does not guarantee that SMEs can effectively utilize them. It is important to note that, bank loan accessibility is influenced by several factors such as eligibility criteria, collateral requirements, interest rates, and the overall ease with which SMEs can obtain these loans (Gassiah & Kikula, 2022). Thus, by assessing bank loan accessibility, the study aims to understand whether the loan products designed to support SMEs are truly accessible and beneficial to a wide range of businesses, particularly those that may have limited resources or financial history. Table 1 presents the study results.

Table 1 Accessibility of commercial bank loans

Response	Frequency (n)	Percentage (%)
Very accessible	23	25.00%
Somewhat accessible	42	45.70%
Neutral	18	19.60%
Not accessible	9	9.70%

Source: Field Data (2024)

The results presented in Table 1 reveals varying perceptions of loan accessibility among SMEs, highlighting the nuanced challenges and experiences that SMEs face when seeking for bank loans. It was revealed that about 25.0% of SMEs find commercial bank loans "very accessible" and likely have established favorable relationships with NMB banks. This implies that SMEs may benefit from streamlined application processes, lower barriers to entry, and tailored financial products. Thus, strong relationships with banks facilitate easier access to credit, allowing these SMEs to promptly address their capital needs for growth and operational

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requirements. Given that the accessibility of loans is a crucial factor in sustaining and expanding their business activities, SMEs secure necessary funds without significant delays or hurdles.

In contrast, the majority of SMEs, about 45.7%, view commercial bank loans as "somewhat accessible." This indicates that while access to financing is generally possible, these SMEs encounter significant challenges. Factors such as strict collateral requirements, complex application processes, or limited availability of loan products that align with their specific needs can create barriers. These challenges can affect SMEs' ability to efficiently obtain and utilize loans, potentially impacting their financial performance and growth prospects. NMB bank might need to address these barriers by simplifying application processes, offering more flexible terms, or developing loan products that better meet the diverse needs of SMEs. The 19.6% of SMEs with a neutral perception of loan accessibility suggest that their experiences with obtaining loans have been mixed or do not have a strong need for bank financing. This neutrality could result from encountering both positive and negative aspects of the loan process or from having limited engagement with commercial bank loans. For these SMEs, further analysis might be needed to understand their specific experiences and how they could be influenced to develop a more positive or negative perception of loan accessibility.

On the other hand, the study sought to understand the factors influencing loan choice among SMEs, given the accessibility of various financing options in the study area. Understanding these factors is crucial for identifying the specific needs and preferences of SMEs, which vary based on business size, industry, and financial health. Thus, by analyzing these factors, the study aims to give insights into the underlying reasons behind SMEs' loan choices, which can inform the development of targeted financial products and policies that better meet the unique demands of these enterprises. This, in turn, can enhance loan uptake, improve financial performance, and support the sustainable growth of SMEs in the region. Table 2 presents the study results, offering insights into the decision-making processes of SMEs regarding loan options.

Table 2 Factors influencing loan accessibility

Factors	**Agreed**		**Disagreed**		**Total**	
	n	**%**	**n**	**%**	**n**	**%**
Interest rates	74	80.43	18	19.57	92	100
Loan terms and conditions	65	70.65	27	29.35	92	100
Collateral requirements	46	50.00	46	50.00	92	100
Speed of loan approval	55	59.78	37	40.22	92	100
Relationship with the bank	37	40.22	55	59.78	92	100
Industry-specific needs	28	30.43	64	69.57	92	100

Source: Field Data (2024)

Interest rates: Researchers have defined interest rates as the premium received by the lender (NMB in this case) after a stated period of time. However, from the borrower's point of view (SMEs in this case), it is the cost of the loan (capital) at the time of obtaining a loan. Moreover, in the classical school of thought, the interest rate is the main determinant of saving and

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investment (Amonoo *et al*., 2003). In addition, the interest rates charged by banks discourage most SMEs from applying for bank financing (Diagne & Zeller, 2002; Foltz, 2004; Olomi & Urassa, 2008). In this study, the interest rate was regarded as the main influencing factor for SMEs to access finance from banks about 80.43% of participants agreed that high interest rates discourage most SMEs from accessing finance. The findings of this study imply that high interest rates hinder SMEs' access to bank loans by increasing borrowing costs, which can strain cash flow, deter investment, and exacerbate financial challenges due to their limited resources and higher perceived risk by lenders. The study results align with the findings of various related studies (Kaufmann & Wilhelm, 2006; World Bank, 2003; USAID, 2005; USAID, 2007; Olomi & Urassa, 2008; Osano & Languitone, 2016; Hossain *et al*., 2020; Gunasagar *et al*., 2022) which have shown that the major problems concerning access to finance for SMEs are basically related with the high interest rate charged on financial products and the inefficient banking services.

***Loan terms and conditions*:** The findings from Table 2 reveal that a significant majority of SMEs (70.65%) consider loan terms and conditions as a critical factor influencing their choice of loans, highlighting the importance of these elements in their decision-making process. This finding aligns with previous research indicating that SMEs prioritize loan conditions, such as interest rates, repayment periods, and flexibility, due to their direct impact on cash flow management and financial stability (Kamanga & Mwaikambo, 2021; Adhiambo *et al*., 2022). The relatively high percentage of agreement suggests that SMEs are highly sensitive to the terms offered by lenders, which can either facilitate or hinder their ability to meet financial obligations. Conversely, the 29.35% of respondents who do not consider loan terms and conditions as a decisive factor may place greater emphasis on other aspects, such as the speed of loan approval, as suggested by studies that emphasize the diverse financial needs and constraints faced by SMEs (Adhiambo *et al*., 2022; Msomi & Olarewaju, 2022). This variation underscores the necessity for NMB to offer a range of loan products tailored to different SME segments, considering their unique needs and priorities.

***Collateral requirements*:** The findings show that collateral requirements are a divisive factor among SMEs, with an equal split of 50% agreeing and 50% disagreeing on its importance in influencing loan accessibility. This equal distribution indicates that while some SMEs view collateral as a critical barrier to securing loans, others may not find it as significant, possibly due to differences in business assets or the availability of alternative financing options. The split suggests that while collateral is a standard requirement in loan approval processes, its impact varies widely among SMEs, which may depend on their asset base, credit history, or the type of loan they are seeking (Cheong *et al*., 2020). Moreover, it was found that SMEs face denial and discrimination by lenders when seeking bank loans, largely due to the perceived high risk they represent and their lack of sufficient resources to offer as collateral (Kihimbo *et al*., 2012; Kamanga & Mwaikambo, 2021).

***Speed of loan approval*:** Speed of loan approval is considered an important factor by a majority of SMEs, with 59.78% agreeing that it influences their loan accessibility. This indicates that many SMEs value quick access to funds, likely due to the need for timely capital to address immediate business opportunities or challenges. The relatively high percentage of agreement underscores the importance of efficiency in the loan processing system, where delays in approval could lead to missed business opportunities or financial strain for SMEs. This finding suggests that banks and financial institutions could enhance their appeal to SMEs by streamlining their loan approval processes.

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Relationship with the bank**:** The relationship between SMEs and their banks is seen as less influential in loan accessibility, with only 40.22% of respondents agreeing that it is a significant factor, while a majority of 59.78% disagreed. This suggests that many SMEs do not view their relationship with a bank as a crucial determinant in securing loans. Instead, they might prioritize more tangible factors like loan terms or collateral requirements. The lower importance placed on relationships may indicate a more transactional approach to banking by SMEs, or it might reflect a lack of personalized banking services that cater specifically to the needs of these enterprises.

Industry-specific needs**:** Industry-specific needs are the least influential factor among those surveyed, with only 30.43% agreeing that they impact loan accessibility, while a significant 69.57% disagreed. This suggests that the majority of SMEs do not see their industry's unique characteristics as a primary consideration in their ability to access loans. The lower emphasis on industry-specific needs might indicate that SMEs perceive loan products as largely standardized, with few tailored to the specific conditions or challenges of different industries. This could highlight an opportunity for financial institutions to develop more industry-targeted loan products that better address the particular needs of SMEs in various sectors.

Furthermore, speed of loan approval is considered an important factor by a majority of SMEs, with 59.78% agreeing that it influences their loan accessibility, indicating that many SMEs value quick access to funds to address immediate business opportunities or challenges; this underscores the importance of efficiency in the loan processing system, as delays could lead to missed opportunities or financial strain. In contrast, the relationship with the bank is seen as less influential, with only 40.22% of respondents agreeing it significantly affects loan accessibility, suggesting that many SMEs prioritize tangible factors like loan terms or collateral requirements over their banking relationships, which may reflect a more transactional approach or a lack of personalized services. Additionally, industry-specific needs are the least influential factor, with only 30.43% agreeing they impact loan accessibility, indicating that most SMEs do not view their industry's unique characteristics as a primary consideration for securing loans; this highlights an opportunity for financial institutions to develop more tailored loan products that address the specific conditions and challenges faced by SMEs across various sectors.

4.2 Effect of commercial bank loans on financial performance

In assessing the effect of commercial bank loans on the financial performance of SMEs in Tanzania, particularly through a case study of NMB Bank in Morogoro Municipality, the study sought to understand how access to and utilization of these loans impact SMEs' financial outcomes. With this regard, the study aims to measure how loans influence key financial metrics such as profitability, liquidity, and overall business growth. Thus, through evaluating these impacts, this study helps determine whether NMB bank loans contribute positively to the financial performance of SMEs or if they lead to negative outcomes. Moreover, this analysis is crucial to understanding the role of financial support in enhancing or hindering the performance of SMEs. The study results are presented in Table 3.

Table 3: Effect of commercial bank loans on financial performance

	Agree		Neutral		Disagree		Total	
Statements	**n**	**%**	**n**	**%**	**n**	**%**	**n**	**%**

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Commercial bank loans have positively impacted revenue generation.	55	59.78	14	15.22	23	25.00	92	100
The profitability has improved due to commercial bank loans.	46	50.00	17	18.48	29	31.52	92	100
Commercial bank loans have helped us manage the cash flow effectively.	53	57.61	23	25.00	16	17.39	92	100
There is a growth in assets as a result of commercial bank loans.	48	52.17	18	19.57	26	28.26	92	100
Commercial bank loans have contributed to the expansion of the business operations.	46	50.00	14	15.22	32	34.78	92	100

Source: Field Data (2024)

Revenue generation: the study results from Table 3 reveal nuanced insights into how SMEs perceive the impact of NMB bank loans on their financial performance, highlighting both positive and variable effects. It was found that a majority about 59.78% of SMEs agreed that bank loans positively impacted revenue generation. The study result implies that a significant proportion of SMEs (59.78%) perceive bank loans crucial factor in boosting their sales and overall income. This finding underscores the role of financial support in facilitating business growth, enabling SMEs to invest in revenue-generating activities such as marketing, product development, and market expansion. These results align with the broader literature on the positive relationship between access to finance and business growth, as access to capital allows SMEs to undertake initiatives that drive revenue (Beck, 2007; Rankho & Macha, 2022).

Profitability: The study results from Table 4 show the mixed responses regarding profitability highlight a more complex relationship. While 50.00% of SMEs agreed that loans have improved profitability, a substantial 31.52% disagreed. That is to say, the study result implies that the impact of loans on profitability is not uniform across all SMEs. Thus, this disparity may result from differences in how bank loans are utilized, with some SMEs potentially facing higher costs or challenges in managing debt repayments effectively. This study result is consistent with the finding of Osano and Languitone (2016), who noted that while financial support facilitates productive investments, it may not always translate into immediate profitability due to varying operational efficiencies and market conditions.

Cash flow management: The study results reveal a positive sentiment of 57.61% of SMEs about effective cash flow management indicating that bank loans play a critical role in maintaining liquidity, which is essential for daily operations and financial stability. Effective cash flow management enables SMEs to meet their short-term obligations and invest in growth opportunities without financial strain. On the other hand, the 25.00% of SMEs who do not share this view suggest that managing cash flow with borrowed funds can be challenging, possibly due to high interest rates or inadequate loan terms (Hossain *et al*., 2020; Gunasagar *et al*., 2022). This variability in cash flow management highlights the importance of tailored financial products that address the specific needs of SMEs (Malhotra *et al*., 2007; Msomi, 2023).

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Business growth: It was found that about 52.17% of SMEs agreed that bank loans contribute to an increase in their assets, reflecting the ability of borrowed funds to facilitate investments in physical and intangible assets, thereby business growth. This study result implies that bank loans enable SMEs to expand their asset base, which is crucial for long-term growth and operational capacity. The study result aligns with the findings of various related studies (Msomi & Nzama, 2022; Fubah & Moos, 2022; Msomi & Olarewaju, 2022; Msomi, 2023) which have shown that bank loans with reasonable terms support SMEs growth and development leading to increased revenue and profitability. However, 28.26% of SMEs disagreed, indicating that asset growth may not always be a direct outcome of bank loan utilization, potentially due to ineffective investment strategies or mismanagement of funds.

Expansion of the business operations: The study results from Table 3 reveal that 50.00% of SMEs agreed that bank loans have contributed to business expansion aligns with the view that financial support is instrumental in scaling operations. This implies that bank loans provide SMEs necessary capital for expanding facilities, increasing production capacity, or entering new markets. However, on the other hand, 34.78% of SMEs disagreed with this statement suggesting that the impact on business expansion can be inconsistent, possibly influenced by factors such as loan size, terms, and the strategic planning capabilities of the SMEs. This variability points to the need for a more nuanced understanding of how loans are used for expansion and the factors that determine their effectiveness.

5. Conclusion

The study thoroughly examines the role of commercial bank loans in shaping the financial performance of SMEs in Morogoro Municipality, Tanzania, with a particular focus on NMB Bank. The findings highlight the pivotal influence of bank loans on various aspects of SME performance, revealing both the potential benefits and challenges associated with accessing and utilizing these financial resources. Firstly, the study underscores that while commercial bank loans are available, their accessibility is not uniform across all SMEs. Factors such as high interest rates, stringent collateral requirements, and complex loan terms create significant barriers for many SMEs, limiting their ability to secure the necessary funding for growth and operational efficiency. Despite these challenges, a substantial proportion of SMEs report positive experiences with loan accessibility, particularly those with established relationships with banks, indicating that such connections can mitigate some of the hurdles associated with obtaining credit.

In terms of financial performance, the study reveals that commercial bank loans have a nuanced effect on SMEs. A significant portion of SMEs reports that bank loans positively influence revenue generation, suggesting that access to capital enables businesses to invest in activities that drive sales and income. Furthermore, loans are seen as crucial for effective cash flow management, helping SMEs maintain liquidity and meet their short-term obligations. However, the relationship between bank loans and profitability is more complex. While half of the SMEs acknowledge that loans have contributed to improved profitability, a notable percentage disagrees, highlighting the variability in how loans impact financial outcomes. This disparity may be attributed to differences in how loans are utilized, with some SMEs facing challenges in managing debt repayments or investing in ventures that do not yield immediate returns. Furthermore, the study also points to the role of bank loans in asset growth and business expansion. Many SMEs report that loans have enabled them to increase their asset base and

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expand their operations, reflecting the importance of financial support in facilitating long-term growth. Nonetheless, the inconsistent impact on business expansion, with a significant number of SMEs not experiencing the anticipated growth, suggests that the effectiveness of loans is influenced by factors such as loan size, terms, and the strategic planning capabilities of the businesses.

Overall, the study concludes that while commercial bank loans are vital for enhancing SME performance, their role is not without challenges. The effectiveness of these loans depends on the accessibility of appropriate financial products and the strategic management of borrowed funds. To maximize the benefits of bank loans, financial institutions must consider offering more flexible terms, reducing interest rates, and simplifying the loan application process. Additionally, further research could explore alternative financing options that complement traditional bank loans, thereby supporting a broader range of SMEs in achieving sustainable growth and improved financial performance.

6. Theoretical and Managerial Implications

6.1 Theoretical Implications:

i) **Extension of financial capital/liquidity theory:** This study contributes to the financial capital/liquidity theory by empirically demonstrating that access to commercial bank loans is a critical determinant of SME performance. The findings suggest that the availability of financial capital in the form of bank loans enables SMEs to undertake investment opportunities, manage operational costs, and pursue expansion strategies. This aligns with the theory's assertion that adequate liquidity is essential for firms to maintain stability and achieve growth. The study reinforces the importance of accessible financial services as a key factor in the economic performance of SMEs.

ii) **Validation of finance-led performance theory:** The research supports the finance-led performance theory, which postulates that the availability of financing services significantly influences a firm's performance. The results confirm that when SMEs have access to reliable and affordable financial services, such as loans from commercial banks, they are more likely to invest in productivity-enhancing activities, improve operational efficiency, and ultimately, achieve better financial outcomes. This empirical evidence strengthens the theoretical framework, highlighting the critical role of financial institutions in driving SME success.

iii) **Integration with SME development theories:** The findings of this study can be integrated into broader SME development theories, which emphasize the need for supportive ecosystems that include access to finance, capacity building, and favourable regulatory environments. Thus, the study results underscore the importance of financial institutions in this ecosystem, particularly in providing the necessary capital for SMEs to thrive. This integration adds a new dimension to existing SME development theories, emphasizing the role of tailored financial services in enhancing SME performance.

6.2 Managerial implications

i) **Strategic financial planning:** SME managers should recognize the strategic importance of securing commercial bank loans as a means to enhance business performance. The study suggests that managers need to engage in thorough financial planning, including the identification of suitable loan products and the development of clear strategies for

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utilizing borrowed funds effectively. This strategic approach will help ensure that loans are used to finance growth opportunities, improve operational efficiency, and enhance overall business sustainability.

ii) **Building creditworthiness:** The findings highlight the need for SME managers to focus on building and maintaining strong credit profiles to increase their chances of accessing commercial bank loans. This includes maintaining accurate financial records, demonstrating consistent revenue streams, and effectively managing existing debt. By prioritizing creditworthiness, SMEs can improve their eligibility for loans and negotiate more favorable terms with financial institutions.

iii) **Leveraging financial advisory services:** SME managers should consider leveraging financial advisory services offered by banks and other financial institutions. These services can provide valuable insights into loan products, risk management, and financial planning. By engaging with financial advisors, SME managers can make more informed borrowing decisions and effectively manage the financial resources obtained through bank loans.

iv) **Collaboration with financial institutions:** SME managers should seek to build strong relationships with commercial banks and other financial institutions. This collaboration can lead to better access to financial products, tailored loan solutions, and more favourable loan terms. By establishing trust and maintaining open communication with financial institutions, SMEs can secure the financial resources needed to support their long-term growth and success.

By incorporating these theoretical and managerial implications, both researchers and practitioners can gain a deeper understanding of the role of commercial bank loans in SME performance and develop more effective strategies to support the growth and sustainability of small and medium-sized enterprises.

7. Limitations and future research directions

While our study offers valuable theoretical and empirical insights, it has some limitations. Firstly, the use of cross-sectional data to examine the relation between commercial bank loans and SME performance. As a result, this opens up a potential temporal variability in commercial bank loans among SMEs. This approach may not fully capture changes over time, which could affect the robustness of the findings. Secondly, the study focuses exclusively on SMEs in the Morogoro municipality of Tanzania, making it difficult to generalize the results to other economies or industries with different characteristics. Hence, we invite researchers to test our conceptual framework in diverse contexts to enhance its applicability. Additionally, as our study primarily employs quantitative methods, we recommend that future research consider adopting a hybrid approach to get more nuanced and potentially provocative insights.

ABBREVIATIONS

GDP	Gross Domestic Product
NEDF	National Entrepreneurship Development Fund
NMB	National Microfinance Bank
OECD	Organization for Economic Co-operation and Development
SIDO	Small Industries Development Organization

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SMEs	Small and Medium-Sized Enterprises
SPSS	Statistical Package for Social Sciences
SSA	Sub-Saharan Africa
SUA	Sokoine University of Agriculture
URT	United Republic of Tanzania
USAID	United States Agency for International Development
VETA	Vocational Education and Training Authority

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