

# **Banks' Trade Financing and its Contribution to SMEs Development in Tanzania “The Case of Selected SMEs in Dar es Salaam City, Tanzania”**

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## **Abstract**

The paper explores the Banks' trade finance and its contribution to SMEs development in Tanzania with reflection in Dar es Salaam region. Data for study were collected using questionnaires and interviews from SMEs owners and Commercial bank workers in selected areas. A descriptive design was opted for the purpose of describing the state of affairs as it exists. This enables the researcher not only to be strict to fact findings but also formulate important principles of knowledge and solution to significant problems. The result indicates that SMEs owners lack knowledge on trade finance services offered by commercial banks and they have concentrated on loans and deposit services leaving trade finance services which is an option for external trade. Traders take high risk by travelling to abroad to fetch manufactured goods carrying cash on their hands. This imply that trade finance is new in Tanzania environment, but if it could be provided it could bring a great results to SMEs growth.

## **Background**

Trade financing and investment are the most challenging issues facing new enterprises and SMEs in most developing and transition economies. To succeed in today's global business, SMEs must offer their customers attractive sales terms supported by the appropriate payment method to win sales against foreign competitors. This need the players in trade finance to choose the appropriate payment method to minimize the payment risk while also accommodating the needs of importer. Exporter and importer have diverse considerations and interests in trade. Exporter prefers payment in prior of shipment of goods while importer would prefer to receive goods before payment is made. Although some people in SMEs feel the problem is insignificant and is being overbrowed, trade finance is threatening to add another impediment to SMEs development efforts in Tanzania. Trade finance requires a strong network between the SMEs and Commercial banks. In Tanzania, only small per cent of SMEs apply the trade finance services while others continue to conduct business in traditional way. If this trend continues, Tanzania SMEs could be faced with a major crisis in growth and cannot compete with the overseas markets.

Commercial banks facilitate the international trade by making payments to the foreign exporter. A great percentage of the consumers live outside the production Centre, and also more of the SMEs in Tanzania engage in imports rather than exports. Hence if the SMEs will be selling domestically, they will reach just a small share of potential customers. Exporting enables SMEs to diversify their portfolios and insulates them against periods of slower growth. Trade finance helps SME's with necessary knowledge to grow and become competitive in overseas markets.

The trade finance environment requires countries to actively engage in negotiations with others to create a favourable international arena, whereby each must ensure that its domestic environment is favourable to trade development. The favourable environment of trade finance is measured by the economic cost of importing or exporting specific goods and services into or from the domestic market. However, SMEs in Tanzania faces a major challenge in transaction costs which includes transportation, financing and red tape. According to Dailami et al (2004), facilitating access to trade finance requires the development of trade finance infrastructure, defined as the institutions, laws, regulations and other system relating to provisions of capital, support services and international payment mechanisms. These have been the SMEs impediment in Tanzania for a number of years despite of the increase of international commercial banks which mostly open branches in the major cities alone. If this cannot be interfered the efforts made by government through its poverty reduction strategy will not be helpful and SMEs will continue to suffer in international trade.

The paper aims at making contributions to SMEs growth by investigating the interaction between Commercial Banks and SMEs trade financing services. Four specific research questions are addressed:

- Q1. What is trade finance related products offered by commercial banks to SMEs?
- Q2. What are the main finance-related challenges hindering growth of SMEs in Tanzania?
- Q3. To what extent has Trade Finance assisted Tanzanian SMEs attain their objectives?
- Q4. What key trade successes have Tanzania SMEs attained through Trade finance?

In order to answer these questions, different approaches were adopted. Trade related products offered by

commercial banks to SMEs were first identified in conjunctions with finance related challenges hindering SMEs growth. Challenges and related trade finance products were drawn on literature review while the extent at which trade finance has assisted SMEs attain objectives and key trade successes were determined through analysis of results and empirical study.

### Material Methods

The study was carried out in Dar-essalaam region in its three districts where local commercial banks were selected for study. Commercial banks are widely dispersed in the city; every district in the region has more than one branch of NMB, Akiba commercial Bank, NBC, CRDB and others. The area was selected because is the headquarter of both commercial banks and SMEs and further it is the hub of banking and business transactions in the country. Three districts which include Temeke, Kinondoni and Ilala were visited and SMEs customers were randomly selected based on the type of business practiced in the area as a means for income generation at individual level and household level.

The target population for this study was all SMEs involved with imported industrial goods and commercial bank employees in trade finance and credit departments. The study employed simple random sampling techniques to selected SMEs while purposeful sampling applied to select commercial banks for inclusion in sample. Using the technique in Temeke district SMEs were picked from Tandika market and Mbagala in Ilala from Kariakoo and Machinga complex while in Kinondoni were Mazense and Sinza area. The market leaders from each place surveyed were used to identify SMEs owners. The total of fifty (50) SMEs owners was surveyed from six markets identified. The criteria for reaching the sample size was based on the type and size of business conducted.

Data were collected using an administration of questionnaire and key informants interview. In addition, extra information was gathered by interviewing bank employees and market leaders. Data were analysed using both qualitative and quantitative methods. Descriptive statistics such as frequency tables, pie charts and bars were used

### Results and Discussion

The survey conducted to determine the need and importance of trade finance for development of businesses in Tanzania. The survey aimed to cover the whole main land to determine the shortfall for business development specifically on the provision of trade finance products by commercial banks. However, due to limited time and funds, Dar es Salaam region was selected as a case study for various reasons one being business centre and another being headquarter of different organizations and commercial banks. In order to obtain relevant data for study questionnaires were prepared to capture information from SMEs entrepreneurs and Commercial Bank Workers from departments of trade finance and loan. The data collected were analysed using computer programme called SPSS version 12 and the results were as here under:

#### *Employment Status of SMEs Owners*

More than fifty Per cent of the respondents approached in the study were neither employed in public nor private Organization and only few of them that is 12 Per cent who were employed. The survey results indicate that most of the people who engage in business activities are self-employed and this is a means of sustaining their livelihood. Although few of the employed people engage in business, they do so as a supplement to employment income and they do not rely much on it. As they spent much of their time at the working areas, they have employed some people to do their business, which cause difficulties to account for whether they earn profit or not. The survey statistics indicate that SMEs employ a large number of people; hence there is a need of deliberate efforts from government and private organizations to enhance business enterprises. Table 2 below shows the results.

**Table 2: Employment status of the Respondents**

Response	Frequency	Percentage
Employed	6	12
Self-employed	44	88
Total	50	100

Source: Field Data 2011

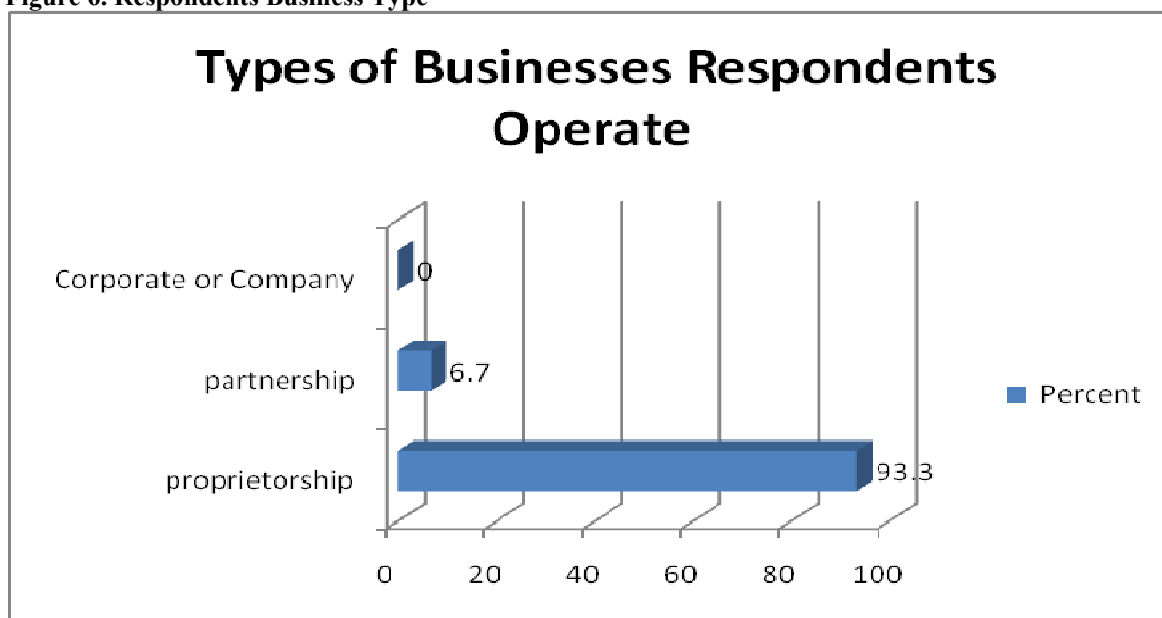
**Type of Business Owned by Respondents**

In the survey more than ninety Per cent had a sole proprietorship kind of business and only 6.7 Per cent had partnership and Limited company kind of business. The results indicate that more of the business entrepreneurs prefer the proprietorship kind of business because is easy to operate and require small amount of initial capital. Limited company has some condition to establish, this gives some difficulties for SMEs owner to decide as they will go long process which requires money until they start operations. Hence SMEs owner have negative attitudes against establishment of limited company because of the disclosure requirements and tax implication. They do not like reporting their business revenues every time due to lack of expertise on book keeping and at the same time they are not willing to pay tax as they link limited companies with tax. This is justified by one business man who was quoted saying:

‘I have sole proprietor kind of business which is simple to start and no one make follow up of it. Limited company requires fulfilling some procedures including payments of tax but with simple business it is not necessarily to comply with’.

Most of the respondents explained that tax authority officers have created fear to them. They have not been educating them the way they should maintain their records for easy tax assessment. But when they own sole trade kind of business tax is paid once the tax assessor does estimates which is subject to negotiation. Figure 6 below shows the field results.

**Figure 6. Respondents Business Type**



Source : Field Data 2011

**SMEs owners Experience**

Business experience has a great contribution to growth, the survey revealed that more than fifty per cent had an experience of 6-10 years and only 14 Per cent had more than 10 years. Experience measures the strength and tolerance on difficulties encountered due to business hardship and how it is resolved to continue in business. The changes in business conditions always affect business both positively and negatively. Those affected negatively have to find some means of financing in order to keep in track. Therefore good financing mechanism should appropriately be selected considering conveniences, cost and risk. Institutions taking care of businesses should be structured to the extent that it serves for business growth through provision of current financing products which suit the global dynamics. Trade liberation and globalization, need safety and trust among the business actors, which are financial institutions, suppliers and traders. Hence, to guarantee business growth, financing products like letter of credits both confirmed and guaranteed, and commercial draft and loans should be granted with training package. There are hurdles in business which make many to despair as one author in entrepreneurship said “When you are in business many problems happen, when things goes right you admire and say that this is why i decided to be in business but if things goes wrong you regret and ask why you decided to be in business”. **Table 3 below shows the number of years respondents were in business.**

**Table 3: Distribution of number of years a respondent in Business**

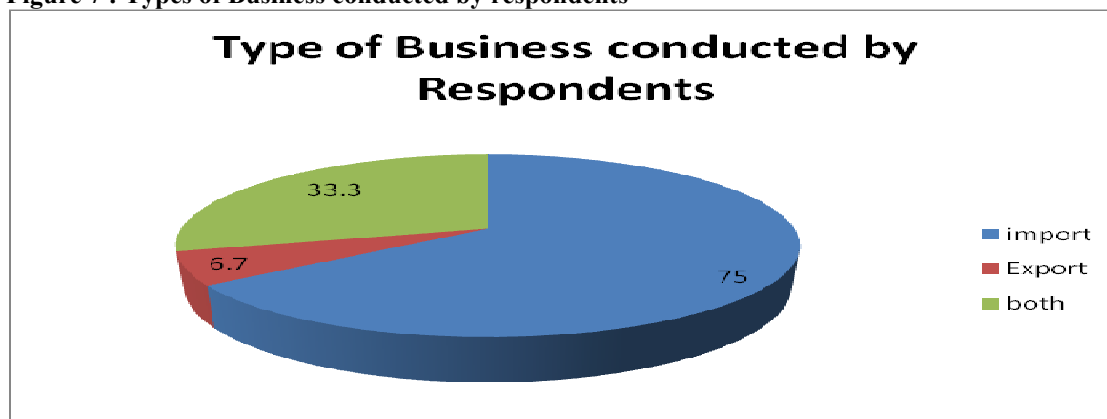
Number of Years in Business	Frequency	Per cent	Cumulative Per cent
0-5	17	34	33.3
6-10	26	52	86.7
more than 10 years	7	14	100
Total	50	100.0	

Source: Field data 2011

***Nature of Business conducted by SMEs owners***

Business activities conducted include soft products from agriculture, manufactured goods and hard products eg minerals. However, the survey concentrated on manufactured goods which almost 75 Per cent were imports while less than 33.3 Per cent constituted to exports. The imports included mobiles phones, clothes, motor bikes spare parts, and other advanced technology manufactured goods while artisan and agricultural products were the only export products. Traders were travelling all the way to fetch these products from china, Thailand, Hong Kong, India, Pakistan and USA carrying hard cash in their bags. This indicate that most of the traders are ignorance in international trade financing mechanism, and they use to pick items from one shop to the other shop and pay cash in the countries from which they have gone to fetch the products and subjected into high risk. It came to our knowledge that, it is not their default but the weaknesses of financial institutions and its reliability has completely affected them. The commercial bank workers interviewed from NMB, AKiba, CRDB and NBC were used of normal loans; the knowledge of trade finance was an illusion to them as most were doing marketing for loans but not trade finance products. When asked about trade finance, some of the institutions employees explained that the banks have not established good link with corresponding foreign bank in terms of trade finance but they have been doing money transfers and exchange. Most of the multinational companies in the country use foreign banks in trade finance issues eg Standard Chartered, Barclays, Stanbic and Federal Bank of Middle East. Local institutions workers direct customers on need of the service to these institutions. Figure 7 below shows the field results.

**Figure 7 : Types of Business conducted by respondents**



Source: field data, 2013

***Services offered by Commercial Banks to SMEs***

Commercial Banks offers different financial services to traders in order to promote businesses and guarantee economic growth. The study revealed that more than fifty Per cent were used of finance loans and only few of them used other services like trade finance services. More use of finance loan service is not their preference, but lack of an option service enforces them. They were unable to mention other services as they are ignorance on it and if commercial banks could have marketed the products they would have used it. This had implication that commercial banks had not promoted other products they offer to the business entrepreneurs but only loans had been well marketed to the extent that most of the SMEs were aware on this product. Table 5 below indicates the field results.

**Table 4: Distribution of respondents by product of interested**

Type of Product/Services	Frequency	Percent
Other. Please specify	2	18.2
normal loans	9	81.8
Total	11	100.0

Source:Field data,2013

The financing of the business is an important element for business growth. However, the surveys revealed that one-third of the respondents had financed their businesses through bank loan and own means and 20 per cent used their own money. Results contradict with the normal circumstances in the country, as more of the business entrepreneurs start their business by using their own funds. Commercial banks finance the traders at the time when they are well established, and none of them finance a start-up business. Hence the survey results imply that all SMEs conducted had already in business for long period to the extent that they were able to qualify to solicit loan for their business growth. Table 6 below shows the results.

**Table 5.Business financing**

Type	frequency	percent	Cumulative percent
Through Bank Loan	20	40	40
Own funds	10	20	60
Both own fund and loan	20	40	100
Total	50	100	

Source: Field data, 2013

Besides the financing, study determined the strength of relationship between commercial banks and SMEs. The results indicate that NMB have strong relationship with SMEs by more than fifty Per cent while NBC, CRDB and Akiba had a normal relationship by 20 percent and had 13.3 Per cent respectively. The commercial banks preferred by entrepreneurs had an element of public or government ownership while private commercial banks had an element of segregation and preference of one SME to another. Although no reasons given, but most of the private commercial banks needs big businesses and this can be justified by the advertisement made by Barclays Bank that 'A Big Bank needs a Big business' also the minimum balances and other account opening requirements are the base of choice on which kind of commercial bank they can afford to maintain an account. Further it was noted that other commercial banks have opened branches in big cities while NMB had branches in almost all over the country. Table 7 below shows the distribution of respondents according to the commercial bank of their interest.

**Table 6: Commercial banks preferred by entrepreneurs**

Commercial Banks	Frequency	Per cent	Valid cent	Per	Cumulative cent	Per
NMB	30	60.0	60.0		60.0	
NBC	7	13.3	13.3		73.3	
CRDB	10	20.0	20.0		93.3	
Barclays and others	3	6.7	6.7		100.0	
Total	50	100.0	100.0			

Source: Field data, 2013

**Importance of SMEs in Employment Creation**

SMEs plays an important role in employment creation, the study indicate that more than fifty Per cent of the SMEs employ people between 1-5 and 26.7 Per cent employ 5-10 people. An average income of SMEs employees is Tsh 200,000/=, this has come after determining that 53.3 Per cent receives salaries between 200,001- 300,000 Shillings and 46.7 Per cent between 100,000- 300,000. However, salaries received by SMEs employees differ from one SMEs to another depending on location. SMEs located in Mbagala, Temeke and Ilala pays lower salaries than those in Kariakoo and Kinondoni area. Table 6 displays the survey results.

**Table 8: Number of employments and Salaries Paid by SMEs**

Number of employment	Percentage	Amount of Salaries	Percentage
Between 1- 5 people	36(73.3%)	100,000-200,000	23(46.7%)
5-10 people	14(26.7 %)	200,001-300,000	27(53.3%)
<b>Total</b>	50(100%)	Total	50(100%)

Source: Field data 2013

SMEs incur expenses of an average of Tsh 200,000/=. The study identified that more than one-third of SMEs incurs expenses of Tsh 150,000 and 33.3 Per cent between 150,001- 250,000 while 26.7 Per cent have expenses above 250,000 per month. Beside the expenses, the study examined the SMEs revenue per month and revealed that fifty Per cent have revenue ranging from 1m-10m and 35.7 Per cent between 11 m – 25m while 14.3 Per cent had revenues above 26 m. SMEs revenues earned differed from one SME to another depending to business location, size and type of goods sold. Table 7 below shows these results.

**Table 9: SMEs Expenditure and Revenues per Month**

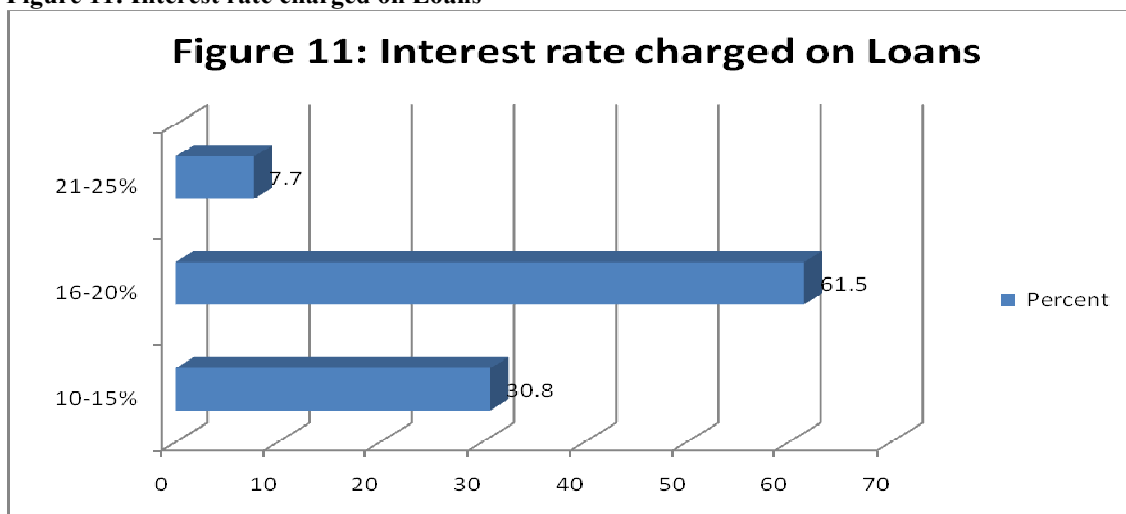
Expenditure	Percentage	Revenue	Percentage
0-150,000	20(40.0%)	1m-10m	25(50.0%)
150,001-250,000	17(33.3%)	11m-25m	18(35.7%)
Above 250,000	13(26.7%)	Above 26m	7(14.3%)
<b>Total</b>	50(100%)	Total	50(100%)

Source: Field Data 2013

**Cost on trade finance and Loan**

Commercial Banks enact some charges on services rendered to SMEs. Charges levied consider cost incurred on services provided like inflation premium, default risk premium, liquidity premium and maturity risk premium. SMEs owner interviewed indicates that more than fifty Per cent of commercial banks charge an interest from 16 to 20 and few which is 30. 8 Per cent from 10 to 15 while 7.7 Per cent had an interest from 21 to25. The interest rate charges in developing countries are very high to the extent that multinational corporations are not willing to secure loans from country’s of operation. Survey results contradict to prevailing circumstances as most of commercial banks charge an interest rate more than 20 Per cent. SMEs owners who receives loan do not bother to understand the real cost of loan at time they sign agreement and consider it as a fortune to them but not their right. The mentality that has been built for long period has affected SMEs to the extent that more of commercial banks local and foreign continue to open branches in the country. On the other hand trade finance services charge is more expensive to commercial banks which happen to offer it. Opening one L/C is estimated to Tsh 250,000 and above as explained by one officer from NMB who previously worked at Standard Chartered Bank. The cost is too high to SMEs taking into account the average revenues does not exceed one million per month. The use of trade finance service is obstructed by high charges made by commercial banks considering it as a unique service while it was supposed to be a common service rendered at minimal charge. Figure 11 below shows the results.

**Figure 11: Interest rate charged on Loans**



Source: Field Data 2013

SMEs were categorized according to the number of times each has taken loan. Most of the SMEs interviewed had taken loans more than one in the same bank or from two different banks while other SMEs had outstanding loans from different banks. Those SMEs happened to have repeat loans from the same bank, honoured their repayments while other SMEs had some difficulties in paying their dues, and hence were forbidden to get repeat loans from the same bank. Most of the SMEs were paying loans from revenues generated from their businesses and ranked bank loans as convenient by more than 93.3 per cent while 6.7 per cent who ranked against had some difficulties to pay their loans. In a normal circumstances SMEs t loan aimed to increase the rate of business growth, hence is not necessary to ask for repeat loan if the objective has been met. However, SMEs preferred repeat loan as at the time they graduate for the first loan they always have drawn their capital and if no repeat loans granted the business dies. The results imply that loans granted to SMEs do not aim to gear growth but ditch the business income whether deliberately or through poor assessment of business requirements. Table 8 shows the survey results.

**Table8: Number of Times SMEs have Taken Loan**

Number of Times	Frequency	Percent	Cumulative Percent
Only once	32	64.3	64.3
Two times	14	28.6	92.9
Above Three times	4	7.1	100.0
Total	50	100.0	

Source: Field Data 2013

**The role of Trade finance and Loans to SMEs**

Trade finance and loans aim to boost SMEs growth. The survey indicates that businesses were growing once loans were granted. The result was contradicting according to the normal situation as we were not expecting SMEs to have repeat loans. The result indicate that the loans received might have not been used for business purpose, but used to acquire estates and other tangible assets that why they ask for repeat loans as the first loan was not directed to the business. Beside trade finance and loans other factors mentioned were Good relationship with customers (40 per cent), Good control of expenses (26.7 Per cent), Good financial reporting (13.3 per cent), Education or professional business (6.7 per cent), Business specification market (6.7 per cent) and good product layout, specialization and location (6.7 per cent). Table 9 shows the factors contributing to business growth.

**Table10: Factors contributing to Business Growth**

S/N	Factors contributing to business growth	Frequency	Percent	Cumulative Percent
1	Good relationship with customers	20	40.0	40.0
2	Good control of expenses	14	26.7	66.7
3	Good financial reporting	7	13.3	80.0
4	Education- professional business	3	6.7	86.7
5	Business specification-market	3	6.7	93.3
6	Good product layout, specialization and location	3	6.7	100.0
	Total	50	100.0	

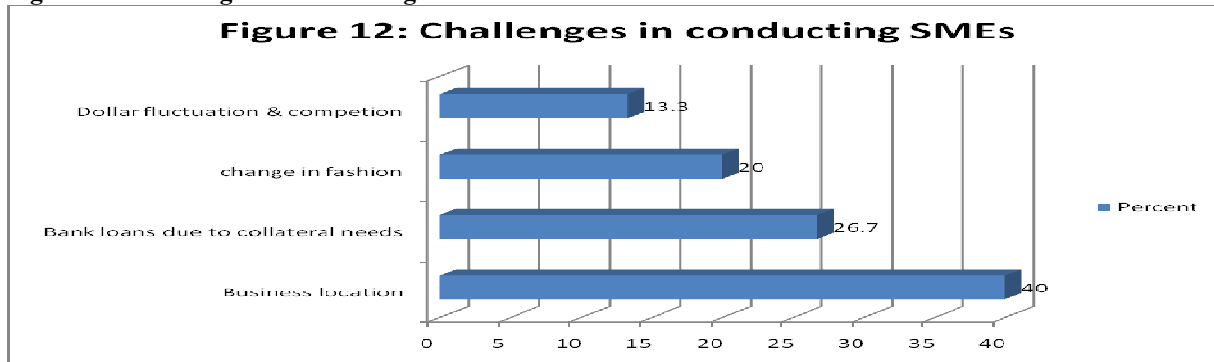
Source: Field Data 2013

**Challenges of SMEs**

Beside the factors contributing to business growth, the survey examined the challenges faced by SMEs entrepreneurs. Challenges mentioned includes business location (40.0 per cent), Bank loan due and collateral asked for (26.7 per cent), change in fashion (20.0 per cent) and Price fluctuation and competition (13.3 per cent). These were the big challenges in doing businesses. Risk on importation of goods was not mentioned, as most of

the SMEs owner travel to china and other places to fetch some manufactured goods carrying cash in their bags. Although some have faced some problems on the way including robbery, substandard goods and exchange rate fluctuations, lack of knowledge on the safe method of importation remain the main obstacle of business growth. Figure 12 below shows the challenges mentioned by SMEs entrepreneurs.

**Figure 12: Challenges in conducting SMEs**



Source: Field Data 2013

**Commercial banks and Services offered to SMEs**

The survey incorporated commercial bank workers in trade finance and loans departments. The sections were purposeful chosen in order to obtain relevant information concerning the none use of trade finance products by SMEs and the kind of services trade finance and loans departments offered to SMEs entrepreneurs. The survey results revealed that more than fifty per cent of commercial banks served SMEs businesses group while 18.2 per cent were corporate businesses. Further it was realized that none of commercial banks had made some adverts to promote trade finance services. Some of the foreign commercial banks had some notion that SMEs in Africa are similar in character and size of that in developed countries. This misconception led all SMEs to be unfit for services rendered by most of the foreign commercial banks. However in recent years all commercial banks turned to serve SMEs using criteria set in SMEs policy about capital size, number of employments and sales turnover per year. Local banks had no doubt about SMEs while Barclays, Standard chartered, Baroda and Federal Bank of Middle East were doubting to provide trade finance and loans to SMEs considering their more risky. Table 10 shows the responses recorded in the field.

**Table 11: SMEs Business**

Response	Frequency	Percent
YES	41	81.8
NO	9	18.2
<b>Total</b>	50	100.0

Source: Field Data 2011

**Trade Finance Products offered by Commercial Banks**

The researcher, wanted to know the product offered by Commercial Banks to its SMEs customers. However, it was revealed that most of the commercial banks offer loans related trade finance by 33.3 per cent while others did not show exactly what kind of product offered. The survey results indicate that trade finance products are little offered to SMEs even though they deal on imports and exports. Some of the commercial bank workers were ignorance on trade finance products to the extent that they did not know what specifically was required by the customers. But foreign commercial banks visited were serving their customers with the trade finance products eg Letter of Credit (L/Cs) and other related trade finance services like insurance and confirmed LCs. The trade financing products mentioned represented by 87.5 per cent LCs, GHC and invoice discounting and 12.5 per cent mentioned Gfees & LCS. This indicates that commercial banks have trade finance products but they don't provide to their customers for the reasons they know themselves.

**Costs for opening L/Cs**

The survey revealed that few customers used trade finance products. The reasons for none use by most of SMEs was transaction charges and LCs opening fees. It was learnt that an LCs opening fees ranged from \$250 dollars to \$500 dollars, hence for a normal SMEs could not afford such charges. Further it was explained that commercial banks have not given education on trade finance products, the customers could opt even though charges are high. Also the nature of Tanzanian Business trader was a bottleneck for the provision of the service



as they do not honour their obligations. Trade finance products require trust of the customers to commercial banks and on the other hand exporter and foreign bank. Hence the environment for trust has not been built to the extent that the use of the trade finance product can enhance business growth.

Most of the commercial banks justified the none use of trade finance products by showing the default rate. The average default rate among commercial banks ranked 28.6 per cent. This is the highest rate compared to other developed countries where customer honours their obligations. Some of the commercial bank workers explained that time will tell since the default rate in few years ago was almost 50 per cent, hence the decrease shows the level of improvement and ultimately in few years to come customers will be allowed to use trade finance products.

## CONCLUSION AND RECOMMENDATION

### *Conclusion:*

SMEs business needs finance for expansion and growth. Even though the nature of business has influence on the kind of financing required, more of SMEs need debt financing to support their operations. Debt finance is more predominant to SMEs than any other commercial bank trade finance services. Although equity financing is not appropriate to SMEs due to lack of equity back-up, trade finance products could be the only solution for SMEs, if it could have been promoted to traders. In the study it was learnt that SMEs entrepreneurs were ignorance on the trade finance products, this is not an excuse to the commercial banks managers as financial institutions are established to channel funds to economic system of which SMEs are part of it. Alan C.S, (2004) stated that a financially strong exporter can finance the entire trade cycle out of its own funds by extending credit until the importer has converted these goods into cash and alternatively, the importer can finance the entire cycle by paying cash advance or using letter of credit. The use of letter of credit, draft, consignment and open account needs financial intermediaries. It is a role of the commercial banks to educate SMEs owners on the trade finance products in order to help them avoid risk on loss of money and imported goods. As general rule, the greater the protection afforded the exporter, the less convenient are the payment terms for the buyer (importer). In this survey it was discovered that most of SMEs are not aware on the trade finance product. This can be deduced through the question which wanted to know the kind of facilities SMEs obtains from the commercial Banks. Most of the traders conducted mentioned loans as the only product offered, this also can be not a problem of the SMEs entrepreneurs but for the commercial bank workers as they have not promoted the product. In addition to that the SMEs identified in this study may be are not really SMEs according to the classification of SMEs made early by Mohamed Yunus. Classification based on the number of employees and the size of seed capital. However the number of employment and size of capital of SMEs in this study were not in any category mentioned by Mohamed Yunis, this could be the reason why they were not using trade finance product as they do not engage on importing or exporting of products. The findings reveal that commercial banks are not interested to offer trade finance services to SMEs customers as such service needs trust on both parties otherwise one side will suffer a great loss. It is vital for SMEs executives have knowledge of the institutions and documentary procedures that have evolved over the centuries to facilitate the international movement of goods. Most of the customers asked on trade finance products were silence, but when commercial bank workers asked they mentioned many products related to trade finance offered. Although they mentioned a number of related trade finance products, they offer limited range of trade finance products to the extent even staffs have little knowledge of the products. This is insufficient know-how to act by the bank.

Generally the study reveal that trade finance services given to SMEs by commercial Banks in Tanzania is not sufficient enough for the kind of customers to grow, develop and attain their socio-economic objectives due to accessibility hardship, knowledge and information gap and lack of will to offer by commercial banks. Hence its contribution to SMEs business growth have been very limited and need to be improved and taken as a learning point for the Government and Commercial Banks not to concentrate on loans only but should diversify their products to cater other SMEs needs. Beside the loan they received from commercial banks, interest rate mentioned as the main problem ranging from 21 to 25 per cent. If the SMEs constitute more than 81 per cent commercial bank customers why do they not orient them into trade finance services? Solution should be found immediately and an alternative way to enable trade finance products be mostly used despite of the SMEs characteristics and perception that has long been developed.

### *Recommendation*

Commercial banks should educate their staffs on trade finance products it offers so that they can disseminate the same to SMEs customers on the advantages and disadvantages of using trade finance facilities. This will help traders at Kariakoo and other areas in the country who travels to fetch goods to opt on the use of letter of credit, consignments and other means of trade finance.

SMEs classifications bring ambiguity to commercial Banks. Its classification bases on the number of employees, capital size and sales revenue turnover. But such kind of classification depends on the economic

stands of the nation. Hence clear classification of SMEs should be established basing on the criteria mentioned above by the use of economic stands of Tanzania. This will enable clear distinction when discussing about SMEs as for the moment confusion happen on SMEs and micro businesses.

Trade finance promotes business growth as it allows exporter and importer finance their businesses out of their pocket. Hence commercial banks in the country should not offer this service in Dar-essalaam region alone; up-countries branches should start offering the same. This will enable the stabilization of prices of goods within the country, as more of the upcountry traders buy goods from Dar-essalaam market and sale to the up countries customers at high prices. If these traders could have been educated on trade finance services they could import goods direct from manufacturing industries in abroad and sale at low prices.

Trade finance is safer compared to other means of financing for SMEs, this reduces costs and risk on loss of money and goods imported. SMEs customers once start using trade finance will increase the profitability margin as the money that could be incurred in travelling and accommodation expenses in china and other countries will not long be incurred.

SMEs must have a working knowledge of loan financing facility they seek. They should have clear understanding on the financial institution's culture, philosophy and reputation in order to know where and when to go about as far as the need is concerned. Further SMEs should develop a good discipline on how to use the loan granted and make repayments according to the schedules provided. If this culture will be induced among SMEs will create a good image and also bigger loans will be provided. Trust worth in this case is mostly insisted. Banks maintain a perception that SMEs are riskier, however it has been found that commercial banks receives more income from SMEs compared to Corporate firms. If this is true then commercial banks are asked to give priority to finance SMEs and ensure a close monitoring on its operations is done. This will include provisions of trainings to SMEs on how to keep records on the transactions and prepare the final accounts at every end of the month to enable an evaluation of the business performance at any point of time.

#### **Areas for further Study**

This study confined in Dar-es salaam region alone. Sample studied was 50 SMEs owners and five commercial banks both public and privately owned. Hence it is recommended that another study should be carried out that should include large sample taken from all regions of Tanzania and more commercial banks be involved which were not covered in this study.

Also the study was conducted as a cross-sectional research where data were collected at one point in time: further research should be conducted longitudinally to prove the validity. Trade finance products are new in Tanzania; the researcher's purpose was to awake Banks and other scholars to understand trade finance. As the term is broad it can be taken as a beginning point to study the products and suggest the best instrument to be used by SMEs.

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## APPENDICES

### Appendix I

#### QUESTIONAIRES

##### PART A

##### Profile of the Entrepreneur

1. In which District are you residing? Temeke/Ilala/Kinondoni.....
2. What is your marital status?
  - a) Married
  - b) Divorced
  - c) Single
  - d) Widow/widower
3. What is your sex?
  - a) Male
  - b) Female

4. How old are you?.....
5. How many Children do you have?.....
6. How many children have you sent to school?
  - a) Nursery School.....
  - b) Primary School.....
  - c) Secondary School.....
  - d) Higher Learning Institutions.....
7. Which level of Education have you reached?
  - a) Standard Seven
  - b) Form Two
  - c) Form Four
  - d) Form Six
  - e) Certificate
  - f) Degree Holder
  - g) Others
8. Are you Employed by the Government or Private Organization?  
YES ( ) NO ( )

## PART B

### Profile of the Enterprise

9. Which type of Business do you have? .....
  - a) Proprietorship
  - b) Partnership
  - c) Company Ltd
  - d) Cooperative
10. How long have you been in this business? .....
11. Is your company Import or Export oriented or both?
  - Import
  - Export
  - Both
12. What products are you interested in?
  1.  Import Collection
  2.  Import Letter of Credit
  3.  Export Collection
  4.  Export Letter of Credit
  5.  Standby Letter of Credit
  6.  Letter of Credit Reimbursement
  7.  Other. Please specify
13. How do you finance your Import and/Export?
14. Where do you bank with?
15. Where did you get the initial capital or the start-up capital
  - a) From your own pocket
  - b) From Bank
  - c) From your Employer

- d) Sold your domestic assets
  - e) Others-Mention
16. How much was your initial capital for the business?.....
17. How many people have you employed in your business?.....
18. How much do you pay them as salary per month?.....
19. How much do you get per day from your business?.....
20. How much is your expenditure per day?.....
21. What is the interest rate for the Bank Loan you are getting?.....
22. How many times have you taken the Bank Loan?.....
- a) Only once
  - b) Two times
  - c) Three times
  - d) More than three times
23. Have you ever failed to pay the Bank Loan?  
YES ( ) NO ( )
24. If yes, what actions were taken by the Bank against you?
- a) Denied for the second Loan
  - b) Mortgaged Assets were confiscated
  - c) Sent to Court
  - d) Left free
  - e) Others- Mention
25. Are you paying the Loan from your business revenue or from other sources?  
YE ( ) NO ( )
26. How do you rank the Bank Loans on your Trading?
- a) Convenient
  - b) Inconvenient
27. Is your Business Growing?  
YES  
NO
28. What are the most important factors that help your business to grow?
- 1. ....
  - 2. ....
  - 3. ....
29. What do you consider to be the biggest constraint preventing your business from growing?
- 1. ....
  - 2. ....
  - 3. ....

**PART C**

**Profile of the Commercial Banks:**

1. Do you have any SME business?  
Yes  
No
2. If yes, how many SME Customers are banking with you?

3. Which product do you offer to your SME Customers?
4. Do you have any Trade Finance Business:  
Yes  
No
5. If yes, which Trade finance product(s) do you offer?
6. Do you have any SME Customer who is engaging in Trade finance?  
Yes ( ) No ( )
7. If yes, How many Customers.
8. Do you have any SME Customer who has defaulted?  
Yes  
No  
- If yes, what were the reasons?
9. How many SME customers have reached to become corporate due to their good Performance?
10. Does your SME customers worth to your bank in terms of profit making?  
Yes ( ) No ( )  
  
If yes explain how?

.....  
.....