

ABSTRACT

This study investigated the determinants of digital financial services (DFS) adoption among Small and Medium Enterprises (SMEs) In Arusha District, Tanzania. Employing a cross-sectional design, data was gathered from 129 SME owners through a structured questionnaire. Logistic regression analysis was utilized to explore the impact of various factors on DFS adoption. Findings revealed that SMEs with intermediate and expert ICT experience were more likely to have adopted DFS, emphasizing the role of technological familiarity. Notably, high financial literacy, particularly among those with very high literacy levels, positively influenced adoption. However, increased awareness among SME owners was associated with a decreased likelihood of DFS adoption, suggesting potential misconceptions or perceived barriers. The cost of technology diffusion emerged as a significant deterrent, with higher costs negatively affecting adoption probabilities. Access to digital infrastructure and devices, ease of use, and low perceived risk positively influenced adoption. Barriers hindering adoption included low technology usage within organizations, insufficient qualified staff, financial constraints, inadequate technology resources, and poor internet connectivity. To enhance DFS adoption, this study recommends that, policymakers should prioritize initiatives that enhance digital infrastructure, including improving internet connectivity and ensuring the availability of necessary hardware and software resources. Financial institutions can also play a pivotal role by designing flexible financial products tailored to the needs of SMEs. To offer financial literacy programs alongside these products can enhance SME owners' understanding of digital financial tools and their benefits.