



Trade Finance Gap in Emerging Markets and the IMF Role: A Case Study of the Nigerian Economy

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Abstract

This study investigated the trade finance gap in emerging markets, focusing on Nigeria and the role of the International Monetary Fund (IMF) in addressing the challenge. Trade finance is essential for facilitating international trade, yet access remains limited in many developing economies. The study assessed the level of trade finance accessibility in Nigeria, examined factors contributing to the gap, evaluated the IMF's role, and suggested sustainable solutions. A survey design was adopted, with data collected from 270 respondents drawn from commercial banks, export-oriented firms, SMEs, and relevant government agencies. Structured questionnaires generated quantitative and qualitative data, analyzed using frequency tables and percentages. Findings showed that trade finance access in Nigeria is inadequate, particularly for SMEs. Key constraints include foreign exchange volatility, stringent collateral requirements, weak credit systems, and high-risk perceptions by foreign lenders. While IMF interventions have supported macroeconomic stability through financial aid and policy guidance, their direct impact on improving SME access to trade finance has been limited. The study concludes that closing the trade finance gap requires coordinated domestic reforms and stronger international support. It recommends improved foreign exchange management, expansion of credit guarantee schemes, strengthened SME financial infrastructure, export diversification, and deeper IMF–Nigeria collaboration. Addressing these areas can enhance Nigeria's trade finance system, promote SME participation in global markets, and improve national competitiveness.

Keywords:

Trade finance gap, Emerging markets, Nigeria, International Monetary Fund (IMF), SMEs, Foreign exchange instability, Credit infrastructure, Export diversification, Macroeconomic stability, Financial reforms.

1. Introduction

Trade finance plays a pivotal role in facilitating international commerce, enabling businesses to import and export goods and services efficiently by providing credit lines, guarantees, and risk-mitigation instruments that ensure smooth cross-border transactions. For emerging markets, trade finance is not only a tool for commercial exchange but also a catalyst for economic growth,

industrial expansion, and integration into the global economy. Despite its importance, however, many developing countries continue to grapple with a significant trade finance gap, which constrains their ability to fully harness the benefits of global trade.

In the Nigerian context, this challenge is particularly pronounced. Nigeria, Africa's largest economy, relies heavily on international trade—especially crude oil exports and the importation of refined petroleum products, machinery, and manufactured goods. Yet, Nigerian businesses, particularly small and medium-sized enterprises (SMEs), encounter persistent barriers in accessing affordable trade finance. These barriers stem from weak financial infrastructure, limited creditworthiness assessments, foreign exchange volatility, high lending risks, and a fragile banking system (World Bank, 2020). Consequently, many SMEs remain excluded from international trade opportunities, constraining export diversification and undermining sustainable growth. Large corporations with international networks occasionally secure financing through foreign banks, but the exclusion of SMEs—which form the backbone of Nigeria's economy—deepens inequality in trade participation.

This persistent trade finance gap has profound economic implications. It limits Nigeria's competitiveness in global markets, heightens reliance on imports, weakens the balance of payments position, and exposes the economy to external shocks. The situation highlights the paradox of a resource-rich economy struggling to leverage trade as a driver of inclusive development. Addressing this issue requires not only strengthening domestic financial systems but also examining the role of international financial institutions in bridging the gap.

Globally, institutions such as the International Monetary Fund (IMF) have recognized the constraints posed by inadequate trade finance in emerging markets. The IMF provides financial resources, policy advice, and capacity-building programs that support macroeconomic stability and create enabling conditions for trade. In Nigeria, IMF interventions through assistance packages, stabilization measures, and structural reforms have sought to strengthen the trade environment (IMF, 2022). Yet, a considerable gap remains between these interventions and the realities faced by Nigerian businesses, raising questions about the adequacy, inclusiveness, and long-term impact of current measures (African Development Bank, 2021).

The foregoing challenges underscore the motivation for this study. Nigeria's experience reflects broader structural issues affecting emerging markets, where access to trade finance remains limited despite international support mechanisms. Without a deeper understanding of the drivers of this gap and the effectiveness of institutional responses, policymakers and stakeholders risk implementing piecemeal strategies that fail to achieve sustainable outcomes.

Against this background, the aim of this study is to examine the trade finance gap in emerging markets, with a particular focus on Nigeria, while evaluating the role of the IMF in addressing this challenge. Specifically, the study seeks to assess the current state of trade finance accessibility in Nigeria; identify the key factors contributing to the trade finance gap in the Nigerian economy; examine the role of the IMF in supporting trade finance and economic stability in Nigeria and propose strategies to bridge the trade finance gap and promote sustainable trade growth. By

pursuing these objectives, the study contributes both to academic discourse and to practical policy debates. It provides insights for scholars, businesses, and financial practitioners on the structural barriers affecting trade finance in Nigeria, while offering evidence-based recommendations for policymakers and international partners. Ultimately, the study aims to inform reforms that strengthen Nigeria's capacity to leverage trade finance as a driver of diversification, resilience, and inclusive development within the global economy

2. Literature Review

Trade finance refers to the financial instruments and products that facilitate international trade, including letters of credit, guarantees, export credit, and trade loans. These instruments reduce risks associated with cross-border transactions, such as payment delays, currency volatility, and political instability, while ensuring liquidity for businesses engaged in trade (World Bank, 2020). In emerging markets, trade finance is particularly critical because domestic businesses often face limited access to credit, underdeveloped banking systems, and heightened financial risks.

Globally, trade finance serves as a backbone for economic development, supporting over 80% of international trade flows (WTO, 2019). However, the gap between the demand for trade finance and its supply is significant in developing countries. According to the Asian Development Bank (2021), the global trade finance gap reached approximately \$1.7 trillion, with emerging markets bearing the greatest share of this deficit. In Nigeria, trade finance plays a vital role in both imports and exports. While oil exports dominate foreign exchange earnings, the lack of adequate trade finance instruments has limited export diversification, especially in non-oil sectors such as agriculture, manufacturing, and services (Central Bank of Nigeria, 2022). Small and medium-sized enterprises (SMEs), which account for most of Nigeria's private sector, are often excluded from formal trade financing because of high collateral requirements, lack of credit history, and weak financial infrastructure. This situation exacerbates the trade finance gap and reduces Nigeria's competitiveness in global markets.

The trade finance gap arises when the demand for trade-related credit and financial instruments exceeds the supply available from banks and financial institutions. In emerging markets, this gap is driven by multiple factors such as foreign exchange shortages, undercapitalized banks, weak risk assessment frameworks, and high transaction costs (African Development Bank, 2021).

In Nigeria, the persistence of this gap is evident in several dimensions:

- i. Limited SME access** – Small and medium-sized exporters and importers struggle to secure trade loans or letters of credit.
- ii. Foreign exchange instability** – Volatile exchange rates and shortages of foreign currency make financing international trade more difficult.
- iii. High-risk perceptions** – Nigerian businesses face high-risk ratings from international lenders, which discourages foreign banks from providing credit lines.
- iv. Weak domestic financial infrastructure** – Limited credit history databases and underdeveloped capital markets further restrict access to trade finance.

Tracking the progress of trade finance in Nigeria and other emerging markets requires both quantitative and qualitative indicators. Four key measures include:

- i. Volume of Trade Finance Transactions:** The total value of trade credit, guarantees, and loans extended to businesses indicates the level of financial support available to the trade sector (IMF, 2022). An upward trend reflects better access to capital and improved trade facilitation.
- ii. SME Participation:** The extent to which small and medium-sized enterprises access trade finance is a critical measure. Increased participation suggests progress toward financial inclusion and broader economic benefits.
- iii. Impact on Export Diversification:** A functional trade finance system should enable countries like Nigeria to expand beyond oil exports into sectors such as agriculture, manufacturing, and services. The degree of export diversification is a key measure of trade finance effectiveness.
- iv. Macroeconomic and Institutional Stability:** Since trade finance relies on trust and reduced risk, macroeconomic indicators such as exchange rate stability, inflation control, and strong regulatory frameworks are essential for assessing the effectiveness of trade finance systems

The Financial Intermediation Theory explains the role of financial institutions in bridging the gap between surplus units (savers) and deficit units (borrowers). It emphasizes how banks and other intermediaries reduce transaction costs, mitigate risks, and provide credit for productive activities, including international trade (Scholtens & Van Wensveen, 2003). In the Nigerian context, this theory highlights why well-functioning financial institutions are crucial for providing trade credit, letters of credit, and guarantees that enable businesses—especially SMEs—to participate in global trade. Weak intermediation often leads to persistent trade finance gaps in emerging economies.

International Monetary Fund (IMF) Stabilization Theory

The IMF Stabilization Theory is rooted in the institution’s mandate to promote global monetary cooperation, financial stability, and balanced international trade. It explains how IMF interventions—through loans, policy advice, and technical assistance—help countries stabilize their macroeconomic environments, restore external balances, and strengthen financial systems (IMF, 2019). For Nigeria, this theory is relevant in understanding how IMF programs, such as standby arrangements and extended credit facilities, aim to create conditions that improve access to trade finance by reducing currency volatility, enhancing investor confidence, and promoting sound financial regulation.

A study by Azeez and Salisu (2020) on “Trade Finance and SME Export Participation in Nigeria” revealed that SMEs face severe challenges in accessing trade finance due to high collateral requirements, limited credit histories, and foreign exchange instability. Their findings suggest that without targeted financial reforms, SMEs will remain excluded from global trade opportunities. Similarly, Okafor and Ibrahim (2021) examined “Financial Barriers to Export Diversification in Sub-Saharan Africa” and found that Nigeria’s heavy dependence on crude oil exports is partly

sustained by the limited availability of trade credit for non-oil sectors. The study emphasized that increased access to trade finance could support industrialization and reduce vulnerability to oil price shocks.

An IMF (2022) report on “Trade Finance in Emerging Economies” highlighted that global banks often perceive countries like Nigeria as high-risk destinations for credit, leading to reduced participation in cross-border trade finance networks. This risk perception widens the trade finance gap and disproportionately affects small-scale exporters. In addition, the African Development Bank (2021) reported that Nigeria contributes significantly to Africa’s trade finance shortfall, with SMEs being the most affected. The report recommended expanding credit guarantee schemes, strengthening regulatory frameworks, and leveraging IMF-backed reforms to bridge financing gaps.

Gap Identification

While numerous studies have examined trade finance in Africa (Azeez & Salisu, 2020; Okafor & Ibrahim, 2021; AfDB, 2021), there remains limited research focusing specifically on the Nigerian economy and the direct role of the IMF in addressing its trade finance gap. Much of the literature tends to generalize findings across Sub-Saharan Africa without providing detailed insights into Nigeria’s unique structural challenges such as exchange rate volatility, oil dependency, and weak financial infrastructure.

Additionally, while existing global research emphasizes the importance of trade finance for SMEs, there is insufficient evidence on how Nigerian SMEs specifically navigate IMF-backed reforms and domestic policies aimed at financial inclusion. Furthermore, few studies evaluate the long-term sustainability of IMF interventions in closing trade finance gaps, raising questions about whether current approaches adequately address the root causes of Nigeria’s financing constraints.

This gap justifies the need for a focused case study on Nigeria to critically assess both the challenges of the trade finance gap and the role of the IMF in mitigating these constraints

3. Methodology

This study adopted the survey research design. This design was considered appropriate because it enables the researcher to collect first-hand information from a large and diverse group of respondents within a limited period. Given the nature of the study, the survey method provided an effective means of understanding perceptions, challenges, and opportunities related to the trade finance gap in Nigeria and the role of the IMF in addressing it.

The population for this study comprised stakeholders in Nigeria’s trade and financial sectors, including officials from commercial banks, export-import businesses, small and medium-sized enterprises (SMEs), and policymakers in government agencies connected to trade and finance. These groups were considered relevant because of their direct involvement in trade financing and their awareness of the constraints and opportunities in the Nigerian context.

The information for the study was obtained using a structured questionnaire. This instrument was chosen to ensure systematic data collection and to allow both quantifiable responses and detailed opinions. The questionnaire consisted of both closed-ended questions, which facilitated statistical analysis, and open-ended questions, which captured deeper insights into respondents' experiences with trade finance and IMF-related reforms.

The population for this study comprises 1,350 stakeholders engaged in Nigeria's trade and financial sectors, including officials from commercial banks, export-oriented companies, small and medium-sized enterprises (SMEs), and policymakers in government agencies connected to trade and finance. This group was selected because they are directly involved in trade financing, possess knowledge of the structural and institutional challenges affecting trade finance, and are actively impacted by policies and interventions from institutions such as the International Monetary Fund (IMF).

The study adopted a sample size of 270 respondents from a total population of 1,350 stakeholders in Nigeria's trade and financial sectors. To ensure adequate representation across key stakeholder groups and geographic hubs, the 270 questionnaires were apportioned as follows:

Stakeholder Group	Total Respondents	Lagos	Abuja
Commercial Banks Officials	90	50	40
Export-Oriented Companies	60	35	25
Small and Medium Enterprises (SMEs)	80	45	35
Government Trade & Finance Agencies	40	25	15
Total	270	155	115

Lagos was allocated 155 respondents because it serves as Nigeria's largest commercial hub, with a high concentration of commercial banks, export-oriented firms, and small and medium-sized enterprises (SMEs) actively engaged in international trade activities. Abuja was assigned 115 respondents in recognition of its role as the nation's administrative and policy center, where key government ministries, regulatory authorities, and trade and finance agencies are headquartered.

The questionnaires were distributed electronically using Google Forms. This approach ensured efficient data collection, wider reach, cost-effectiveness, and timely retrieval of responses from participants across both locations. The electronic distribution method also enhanced accessibility and convenience for respondents while maintaining accuracy and confidentiality in data handling.

4. RESULTS AND DISCUSSION

This section presents the analysis of data collected and the results derived based on the research questions stated earlier in this study. The responses from the distributed questionnaires were analyzed using frequency distribution tables and simple percentages to provide clarity on the patterns and trends identified.

4.1 Analysis

A total of 270 questionnaires were distributed to respondents, and all 270 were successfully retrieved, giving a 100% response rate.

Table 1: Gender Distribution of Respondents

Response	Frequency	Percent (%)	Cumulative Percent
Male	150	55.56	55.56
Female	120	44.44	100
Total	270	100	100

From Table 1 above, 55.56% of respondents were male stakeholders (bank officials, exporters, SMEs, and policymakers), while 44.44% were female. This distribution reflects the diverse representation of Nigeria's financial and trade sectors.

Table 2: Research Question One

What is the current state of trade finance accessibility in Nigeria?

Variable	Frequency	Percent (%)	Cumulative Percent
Adequate access to trade finance	40	14.81	14.81
Moderate access with restrictions	70	25.93	40.74
Limited access, especially for SMEs	110	40.74	81.48
Very poor access	50	18.52	100
Total	270	100	-

From Table 2, 40.74% of respondents reported that access to trade finance is limited, especially for SMEs, while 18.52% noted very poor access. Only 14.81% indicated adequate access, showing that Nigeria still faces a significant trade finance gap.

Table 3: Research Question Two

What factors are contributing to the trade finance gap in the Nigerian economy?

Variable	Frequency	Percent (%)	Cumulative Percent
Foreign exchange instability	85	31.48	31.48
High collateral requirements	70	25.93	57.41
Weak credit infrastructure	60	22.22	79.63
High-risk perception by international lenders	55	20.37	100
Total	270	100	-

From Table 3, the most significant factor contributing to the trade finance gap was foreign exchange instability (31.48%), followed by high collateral requirements (25.93%). This reflects how structural and institutional weaknesses restrict access to trade finance in Nigeria.

Table 4: Research Question Three**How has the IMF contributed to addressing Nigeria's trade finance challenges?**

Variable	Frequency	Percent (%)	Cumulative Percent
Provided financial assistance packages	75	27.78	27.78
Promoted macroeconomic stability through reforms	80	29.63	57.41
Offered technical assistance and capacity building	65	24.07	81.48
Minimal direct impact on SMEs	50	18.52	100
Total	270	100	-

From Table 4, 29.63% of respondents indicated that IMF support has promoted macroeconomic stability, while 27.78% recognized direct financial assistance. However, 18.52% felt IMF interventions had minimal direct impact on SMEs, highlighting a gap between policy-level support and grassroots access to trade finance.

Table 5: Research Question Four**What strategies can be adopted to bridge the trade finance gap and strengthen Nigeria's participation in global trade?**

Variable	Frequency	Percent (%)	Cumulative Percent
Expand credit guarantee schemes	75	27.78	27.78
Strengthen foreign exchange stability policies	80	29.63	57.41
Improve financial infrastructure and SME access	65	24.07	81.48
Enhance IMF-Nigeria collaboration for tailored reforms	50	18.52	100
Total	270	100	-

From Table 5, 29.63% of respondents emphasized strengthening foreign exchange stability policies, while 27.78% favored expanding credit guarantee schemes. Both measures suggest that bridging the trade finance gap requires domestic reforms combined with international institutional support

4.2 Discussion of Findings

The analysis of data from the 270 respondents provides valuable insights into the nature of Nigeria's trade finance gap and the role of the IMF in addressing this challenge.

Findings in Table 2 revealed that a majority of respondents (40.74%) described access to trade finance as limited, particularly for SMEs, while 18.52% stated that access was very poor. This outcome aligns with the African Development Bank (2021) report, which identified Nigeria as one of the countries most affected by the African trade finance shortfall. The results also support Azeez and Salisu's (2020) conclusion that SMEs face the greatest exclusion from formal trade financing due to stringent requirements and underdeveloped credit systems. These findings confirm that

Nigeria's trade finance system remains underdeveloped and unable to meet the demands of its economy.

The analysis (Table 3) showed that foreign exchange instability (31.48%) and high collateral requirements (25.93%) are the most significant contributors to the gap. Weak credit infrastructure (22.22%) and international lenders' risk perceptions (20.37%) also play important roles. These results correspond with Okafor and Ibrahim (2021), who found that exchange rate volatility and oil dependency create systemic constraints for trade finance in Nigeria. The findings also align with Financial Intermediation Theory, which emphasizes the role of strong financial institutions in bridging credit gaps. The evidence suggests that without addressing structural weaknesses in the financial system, Nigeria will continue to experience restricted access to trade finance.

According to Table 4, 29.63% of respondents indicated that IMF reforms helped promote macroeconomic stability, while 27.78% recognized direct financial assistance. However, 18.52% believed IMF interventions had minimal direct impact on SMEs. These results suggest that while IMF support has been significant at the macroeconomic level—such as stabilizing exchange rates and providing policy advice—it has not fully translated into direct improvements in SME access to trade finance. This partially validates the IMF Stabilization Theory, as stabilization measures improve financial confidence but may not immediately trickle down to smaller businesses. The gap between IMF interventions and SME realities highlights the limitations of top-down financial reforms in addressing grassroots financing challenges.

The responses in Table 5 showed that strengthening foreign exchange stability policies (29.63%) and expanding credit guarantee schemes (27.78%) were considered the most effective strategies, followed by improving financial infrastructure (24.07%) and enhancing IMF-Nigeria collaboration (18.52%). These findings align with the IMF (2022) report, which stressed that Nigeria's external trade growth depends on stronger macroeconomic frameworks and financial reforms that support SMEs. The results also resonate with the African Development Bank (2021), which recommended credit guarantees and institutional support as crucial for closing trade finance gaps.

5. Conclusion and Recommendations

5.1 Conclusion

This study examined the trade finance gap in emerging markets with a focus on Nigeria and the role of the International Monetary Fund (IMF) in addressing this challenge. The findings revealed that Nigeria faces a persistent trade finance gap, particularly affecting small and medium-sized enterprises (SMEs). Key factors responsible for this gap include foreign exchange instability, high collateral requirements, weak financial infrastructure, and the high-risk perception of Nigerian businesses by international lenders.

The study further established that while IMF interventions have contributed significantly to promoting macroeconomic stability, providing financial assistance, and offering technical support, their direct impact on SME access to trade finance remains minimal. This suggests that IMF policies, though essential for creating a stable financial environment, need to be better aligned with domestic policies that directly address SME financing challenges.

It is evident from the data that bridging the trade finance gap in Nigeria requires both domestic reforms and international collaboration. A multi-stakeholder approach—combining government policy reforms, financial sector strengthening, and tailored IMF support—will be essential in ensuring inclusive access to trade finance and enhancing Nigeria’s competitiveness in global trade.

5.2 Recommendations

Based on the findings of this study, the following recommendations are made:

1. **Strengthen Foreign Exchange Stability Policies:** The Nigerian government should implement stronger measures to ensure exchange rate stability, as currency volatility was identified as the leading barrier to accessing trade finance.
2. **Expand Credit Guarantee Schemes:** Establishing and expanding credit guarantee programs will reduce the risks faced by banks in lending to SMEs, thereby improving their access to trade finance.
3. **Enhance SME Financial Infrastructure:** Developing credit bureaus, trade information systems, and digital financial platforms will improve SME visibility, reduce information asymmetry, and encourage lenders to extend credit.
4. **Improve IMF–Nigeria Collaboration:** IMF support should go beyond macroeconomic stabilization to include tailored programs that directly enhance SME access to trade finance. This could include dedicated SME trade funds, technical assistance, and risk-sharing facilities.
5. **Promote Export Diversification:** Policies should focus on reducing Nigeria’s overreliance on crude oil exports by channeling trade finance resources into agriculture, manufacturing, and services, thereby broadening the country’s export base.
6. **Public–Private Partnerships:** The government, in collaboration with commercial banks, development partners, and the IMF, should design inclusive financial policies that prioritize SMEs and ensure sustainable trade sector growth

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