



TRADE FINANCE AND SME INTERNATIONALIZATION: A CASE STUDY OF NIGERIAN SMES

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Received: 24 th October 2025 Accepted: 20 th November 2025	Small and Medium Enterprises (SMEs) are the backbone of developing economies like Nigeria, contributing approximately 48% to the nation's GDP and employing nearly 84% of the workforce. Despite this critical domestic role, their participation in international trade is severely constrained, primarily due to inadequate access to trade finance and significant structural barriers. This study critically examines the relationship between trade finance accessibility and the internationalization capacity of Nigerian SMEs. It analyzes how specific financial instruments, institutional frameworks, and macroeconomic factors influence their ability to engage in cross-border trade. The research uses a mixed-methods approach, integrating quantitative data from 250 export-oriented SMEs across manufacturing, agribusiness, and services with qualitative interviews involving commercial banks, development finance institutions, and policy agencies. Econometric modeling tests the link between trade finance availability and SME export performance, while thematic analysis explores underlying behavioral and institutional constraints. The findings confirm that restricted access to essential trade finance instruments including letters of credit, pre- and post-shipment financing, and export credit guarantees, significantly impedes SMEs' ability to enter and sustain foreign market operations. Key deterrents are information asymmetry, stringent collateral requirements, high interest costs, and a weak credit infrastructure. Conversely, SMEs with access to structured facilities and targeted financial literacy support show markedly higher internationalization, competitiveness, and revenue diversification. This study contributes a contextual framework to international business and development finance theory. It advocates for the development of targeted financial instruments, public-private credit guarantee schemes, and specialized capacity-building initiatives to enhance SME trade finance access and foster sustainable export growth in Nigeria.

Keywords: Development Finance, Foreign Direct Investment (FDI), Public-Private Partnerships (PPP), Infrastructure Investment, Economic Growth, Emerging Markets, Blended Finance, Financial Structuring, sustainable Development, Investment Policy, Macroeconomic Stability, Capital Mobilization, Development Institutions

1.0 INTRODUCTION

In an era of accelerating globalization, small and medium-sized enterprises (SMEs) are increasingly recognized as vital engines of economic growth, innovation, and employment, especially in developing economies. Nigeria, with its large population, dynamic entrepreneurial class, and strategic position in Sub-Saharan Africa, holds considerable potential for SME-led international trade and export growth. However, despite this promise, many Nigerian firms struggle to internationalize that is, to participate in cross-border

trade, enter foreign markets, or scale operations beyond national frontiers.

Trade finance, broadly defined as the financial support, instruments, and mechanisms that facilitate international trade (such as export credit, letters of credit, trade guarantees), has been identified as a critical enabler of SME internationalization (ITFA, 2025). Yet, in Nigeria, the gap between SMEs' aspirations for entering regional and global markets and their actual performance remains wide. Empirical studies have repeatedly documented that lack of financing is one of the most significant barriers to export activities among



Nigerian SMEs. For instance, Okpara, Mboga and Zhu (2023) found that “a lack of financing to support export activities” was among the top constraints faced by manufacturing SMEs attempting to internationalize. Similarly, studies on trade finance initiatives in Nigeria indicate that although mechanisms such as the Nigerian Export-Import Bank (NEXIM) and risk-sharing schemes (like NIRSAL) exist, implementation, access, and utilization remain uneven.

In addition to financial barriers, SMEs face structural and institutional constraints. Limited export knowledge, poor infrastructure (especially transport and utilities), weak regulatory environments, and high transaction costs burden many firms. Al-Madinah et al. (2024) in their study of factors affecting SME internationalization in Southwest Nigeria emphasize that access to bank loans, business registration status, and collaboration with foreign partners are positively related to export capacity, while poor infrastructure and export barriers (including market knowledge deficits) act as negative influences. Trade finance plays a crucial role in bridging many of these gaps. It offers SMEs the liquidity needed to fulfill export orders, mitigate risk (from exchange rate fluctuations, non-payment, etc.), and smooth operational constraints. It provides mechanisms for risk mitigation (e.g., through letters of credit or credit insurance), which are especially important in cross-border trade, where payment and regulatory risk can be high. However, SMEs in Nigeria often find trade finance instruments costly, difficult to access due to strict collateral requirements and complicated application processes, or even unknown or underutilized.

Another dimension is macro-economic instability and global shocks, which can distort currency values, disrupt supply chains, and raise the cost of borrowing. For example, foreign exchange volatility and inflation erode profit margins for SMEs that must import inputs, repay foreign-denominated debts, or compete in foreign markets. These vulnerabilities become more severe in times of global crises, such as pandemics or commodity price shocks. The combined effect of weak institutional support and macroeconomic risk often discourages SMEs from investing in capacity for internationalization. Given these intersecting challenges, a critical gap remains in the literature: while many studies have documented the barriers to SME export and internationalization in Nigeria, fewer have analyzed in depth how trade finance (its availability, design, cost, risk, and institutional setup) influences the actual processes of internationalization, especially under conditions of macroeconomic and global shocks. Questions also remain about which trade finance instruments are most effective, how SMEs navigate

access issues, and how policy and institutional frameworks can be improved to support sustainable and resilient internationalization.

Despite a range of trade finance instruments and government initiatives in Nigeria, many SMEs remain marginal players in international trade; therefore, this research seeks to understand the extent to which trade finance constraints and institutional bottlenecks impede SME internationalization (the Research Problem). The primary objective is to analyze the relationship between trade finance availability and SME internationalization outcomes in Nigeria. Specific objectives include mapping the instruments utilized by SMEs, evaluating the effectiveness of institutional support mechanisms, and producing actionable policy recommendations to enhance access to and utilization of trade finance for sustainable SME international trade

2.0 LITERATURE REVIEW

Small and medium-sized enterprises (SMEs) are widely recognized as engines of employment, innovation and economic diversification in developing economies, but their capacity to internationalize is often constrained by limited access to appropriate finance and trade instruments (World Bank, SME Finance overview). Trade finance, defined as the financial instruments and products that facilitate cross-border trade by mitigating payment, delivery and performance risks, plays a central role in enabling exporters and importers to enter and sustain foreign markets (Investopedia; WTO). Recent global and regional studies highlight a persistent trade finance gap for SMEs in low- and middle-income countries (LMICs), which constrains export growth, dampens competitiveness and limits participation in global value chains (IFC; World Bank). This literature review surveys relevant theory and evidence on the mechanisms through which trade finance affects SME internationalization; empirical findings from cross-country and Nigeria-specific studies; institutional, regulatory and market constraints; and policy and market interventions that aim to bridge the trade finance gap. It concludes by identifying methodological and topical gaps that your case study can address.

2.1 Theoretical Foundations of SME Internationalization

The internationalization of small and medium-sized enterprises (SMEs) has been the subject of extensive theoretical and empirical investigation across the fields of international business, entrepreneurship, and development economics. Scholars have developed multiple frameworks to explain how and why firms expand beyond domestic borders, the pace and pattern of such expansion, and the factors that enable or constrain participation in international markets.



Theories relevant to this study include the Uppsala model, stages models of internationalization, the network theory, the resource-based view (RBV), and more recently, the institutional and financial perspectives, which examine the enabling role of trade finance and capital access in SME internationalization.

2.2 The Uppsala and Stages Models

The Uppsala model of internationalization, introduced by Johanson and Vahlne (1977, 2009), posits that firms internationalize incrementally through a process of experiential learning and increasing commitment to foreign markets. Firms begin with low-risk entry modes such as exporting through agents and gradually increase their involvement as they acquire market knowledge and reduce uncertainty. The model conceptualizes internationalization as a dynamic cycle of learning-commitment-performance, where knowledge accumulation leads to deeper foreign engagement. In its revised form, Johanson and Vahlne (2009) reemphasized the role of networks and trust-building in accelerating the internationalization process, arguing that relationships with foreign partners can substitute for experiential knowledge. Complementary to the Uppsala model are the stages or innovation-related models (Bilkey & Tesar, 1977; Cavusgil, 1980; Czinkota, 1982), which propose that SMEs pass through identifiable phases as they evolve from domestic operations to fully international firms. These models often outline a progression from pre-export stage, initial export activities, expansion into new markets, to consolidation and global integration. The underlying assumption is that internationalization is path-dependent, with firms' export behavior shaped by incremental learning, perceived risks, and resource availability. However, these models have been critiqued for their linearity, as evidence from developing countries shows that firms may "leapfrog" stages due to technology, global value chains, or external partnerships (Knight & Cavusgil, 2004).

2.3 The Network Approach

The network theory of internationalization (Johanson & Mattsson, 1988; Coviello & Munro, 1997) emphasizes that SMEs often lack sufficient internal resources to internationalize independently. Instead, they rely on inter-organizational relationships, suppliers, customers, financial institutions, trade intermediaries, and development partners to access foreign markets. Networks serve as channels for information exchange, trust formation, and opportunity recognition. In developing countries such as Nigeria, networks with banks, export promotion councils, and diaspora communities can compensate for institutional voids by providing market access and financing support. Hence,

the presence or absence of networked trade finance providers significantly affects SMEs' ability to engage in export activities.

The network perspective aligns closely with the institutional embeddedness theory, which recognizes that firms are constrained or enabled by the institutional contexts in which they operate (Peng, 2003). In weak institutional environments, characterized by credit rationing, underdeveloped financial markets, or high transaction costs, access to reliable networks, including financial intermediaries, becomes a critical determinant of international success.

2.4 The Resource-Based View (RBV) and Dynamic Capabilities

The resource-based view (RBV), as articulated by Barney (1991), posits that a firm's competitive advantage arises from unique resources and capabilities that are valuable, rare, inimitable, and non-substitutable. Within the SME internationalization literature, the RBV underscores that resources such as managerial competence, technological know-how, market knowledge, and financial capital determine the ability to identify and exploit international opportunities (Knight & Kim, 2009). The related dynamic capabilities framework (Teece, Pisano & Shuen, 1997) extends this argument by focusing on firms' abilities to integrate, reconfigure, and renew their resources in response to changing environments. For SMEs, developing dynamic capabilities such as the ability to adapt to global demand, manage cross-border logistics, or comply with foreign regulations is often contingent on access to external finance and institutional support. Trade finance, within this theoretical lens, represents both a tangible financial resource and a strategic capability that enhances SMEs' flexibility in responding to foreign opportunities. Access to trade credit, letters of credit, or supply-chain financing can enable firms to manage cash flow during export cycles, meet large orders, and mitigate payment risks, capabilities that are otherwise constrained by limited working capital. Therefore, trade finance interacts with the RBV by augmenting SMEs' financial capital and reducing liquidity barriers to internationalization.

2.5 Trade Finance: Instruments, Markets, and the Global Gap

2.5.1 Concept and Role of Trade Finance

Trade finance represents the lifeblood of international commerce, facilitating approximately 80–90 percent of global trade flows (WTO, 2020). It comprises a broad range of financial instruments, products, and services designed to reduce payment, performance, and delivery risks inherent in cross-border transactions. As international trade involves multiple parties, time lags,



and uncertainties across jurisdictions, trade finance mechanisms bridge liquidity gaps and build trust among exporters, importers, and intermediaries (Niepmann & Schmidt-Eisenlohr, 2017). At its core, trade finance enables exporters to receive payment upon shipment while allowing importers to defer payment until receipt of goods thereby aligning working capital cycles. Financial institutions, including banks, development finance institutions (DFIs), export credit agencies (ECAs), and non-bank intermediaries, play an intermediation role by providing credit, insurance, or guarantees to mitigate transaction risk.

Trade finance is thus a risk-transfer mechanism that substitutes for the trust deficit in international transactions and complements other enablers of trade such as logistics, market access, and institutional quality (Niepmann & Schmidt-Eisenlohr, 2013; Auboin & Engemann, 2014).

2.5.2 Types of Trade Finance Instruments

Trade finance instruments can broadly be classified into traditional (bank-intermediated) and alternative (non-bank or market-based) instruments:

- 1. Letters of Credit (LCs):** These are the most established instruments, providing a guarantee from a bank that payment will be made once the seller fulfills contractual obligations. LCs mitigate counterparty risk and are particularly important in transactions where trust or familiarity is low (Auboin & Engemann, 2014).
- 2. Documentary Collections (DCs):** The exporter's bank forwards shipping and title documents to the importer's bank, which releases them to the buyer upon payment or acceptance of a bill of exchange. While less secure than LCs, DCs are cheaper and suitable for repeat transactions (BIS, 2019).
- 3. Trade Credit and Open Account Terms:** Under open account arrangements, exporters ship goods and extend credit to importers, usually payable within 30–90 days. These arrangements are common between established partners but risky for SMEs lacking credit insurance or financing (Demir & Javorcik, 2018).
- 4. Bank Guarantees and Standby LCs:** These instruments assure performance or payment under contract, particularly for infrastructure or project-related exports.
- 5. Supply Chain Finance (SCF):** SCF mechanisms, such as factoring, reverse factoring, and invoice discounting, allow firms to liquidate receivables or access working capital quickly. These modern instruments are

increasingly offered by fintechs and are more accessible to SMEs than traditional LCs (Gelsomino et al., 2016).

6. Export Credit Insurance and Guarantees:

Provided by ECAs or insurers, these instruments cover political and commercial risks, thereby enabling banks to extend credit to exporters operating in high-risk markets (OECD, 2018).

Collectively, these instruments perform two fundamental functions liquidity provision and risk mitigation which directly enhance exporters' ability to participate in international trade. For SMEs, they also reduce reliance on costly short-term loans and serve as substitutes for physical collateral, which many small firms lack (Chor & Manova, 2012; Beck et al., 2008).

2.5.3 Trade Finance and Economic Development

The link between trade finance and economic development is well established in both theory and practice. Access to trade finance enhances export capacity, supports employment, and fosters economic diversification, particularly in developing countries (Beck, 2002; Auboin, 2009).

The World Trade Organization (2016) and the Asian Development Bank (2021) identify trade finance as a catalyst for inclusive growth, enabling firms to integrate into global value chains (GVCs). SMEs with access to trade finance are more likely to export, expand product lines, and upgrade technologically (Niepmann & Schmidt-Eisenlohr, 2017).

Conversely, the absence of trade finance can exacerbate macroeconomic vulnerabilities. The 2008–09 global financial crisis exposed the fragility of trade finance markets; when interbank credit lines contracted, global trade volumes fell by nearly 10 percent, partly due to the scarcity of trade credit (Chor & Manova, 2012). Subsequent research confirms that financial shocks transmit quickly to trade via the trade finance channel, disproportionately affecting SMEs and firms in emerging markets (Baldwin & Evenett, 2009; Amiti & Weinstein, 2011).

2.5.4 The Global Trade Finance Gap

Despite its economic importance, access to trade finance remains uneven. The global trade finance gap which is the difference between demand for and supply of trade finance, was estimated at US\$1.7 trillion in 2022, up from US\$1.5 trillion in 2018 (Asian Development Bank, 2022). The gap is most acute in Africa, where it is estimated at US\$120 billion annually, representing nearly 40 percent of total trade finance requests being rejected (African Development Bank, 2021). The ADB (2022) and IFC (2023) reports attribute



this persistent gap to a combination of structural, regulatory, and risk-related factors:

- i. High Perceived Risk of SME Lending:** Banks often perceive SME exporters as high-risk due to lack of collateral, limited financial statements, and informal governance structures (Beck et al., 2011).
- ii. De-risking and Compliance Costs:** Global banks' withdrawal from correspondent relationships, due to AML/CFT compliance pressures has reduced trade finance capacity, especially in Sub-Saharan Africa (IFC, 2022; World Bank, 2021).
- iii. Limited Credit Information:** Poor credit registries and absence of reliable financial data hinder SMEs' ability to demonstrate creditworthiness (World Bank, 2020).
- iv. High Transaction Costs and Foreign Exchange Constraints:** Complex documentation requirements, FX volatility, and weak legal enforcement raise costs for both lenders and borrowers (Demir & Javorcik, 2018).

For Nigeria, the International Finance Corporation (2022) reports that over 70 percent of trade finance requests by SMEs are either rejected or only partially approved. This structural exclusion perpetuates a financing trap where firms remain small and domestically oriented because they cannot secure the liquidity needed to scale exports or import inputs.

2.6 Trade Finance and SMEs in Developing Economies

Empirical research in developing economies demonstrates that access to trade finance directly influences SMEs' export propensity, competitiveness, and survival. Demir and Javorcik (2018) find that firms with access to trade credit export a higher share of output and reach more markets. Similarly, Niepmann and Schmidt-Eisenlohr (2017) show that bank intermediation enables risk-averse firms to participate in trade, especially where contract enforcement is weak. However, several studies also emphasize the uneven distribution of trade finance. Large, well-established firms capture the majority of available instruments, while SMEs remain marginalised (Beck et al., 2011; ADB, 2022). In Africa, Chauvet and Ehrhart (2018) report that SMEs often rely on informal trade credit from suppliers or personal networks due to limited formal options. These constraints are exacerbated in Nigeria, where high interest rates, FX shortages, and policy instability raise the cost of cross-border transactions (Effiom, 2022). For Nigerian SMEs seeking to internationalize, trade finance thus functions as both a

strategic enabler and a binding constraint. It determines the extent to which firms can fulfill export orders, hedge against payment risk, and expand into new markets. The theoretical implication is that financial infrastructure, including trade finance markets, forms part of the institutional foundation required for SME internationalization, echoing the institutional and resource-based theories discussed earlier.

2.7 How Trade Finance Affects SME Internationalization

2.7.1 The Empirical Link Between Trade Finance and SME Internationalization

Empirical literature across both developed and developing economies provides strong evidence that access to trade finance is a key determinant of SME internationalization, influencing export entry, scale, survival, and diversification (Beck et al., 2011; Demir & Javorcik, 2018; Niepmann & Schmidt-Eisenlohr, 2017). Firm-level analyses show that when SMEs can obtain letters of credit, supplier finance, or export credit guarantees, they are more likely to enter foreign markets, expand their export volume, and achieve longer survival in global trade networks (Auboin & Engemann, 2014; Amity & Weinstein, 2011). According to Beck and Demirgüç-Kunt (2006), SMEs that use trade finance instruments demonstrate higher productivity and profitability relative to those relying solely on internal funds.

Access to such instruments allows firms to hedge against delayed payments, currency fluctuations, and counterparty risks, critical barriers for small exporters operating in volatile markets. In this context, trade finance acts as a bridge between liquidity and competitiveness, enabling SMEs to overcome working capital gaps that often prevent fulfillment of large export orders (Chor & Manova, 2012; Cavoli, 2024).

Conversely, restricted access to trade finance is strongly associated with lost export opportunities, production delays, and reliance on informal or costly credit arrangements (ADB, 2022; IFC, 2023). A systematic review by Cavoli (2024) found that trade finance shortages disproportionately constrain SMEs, leading to reduced participation in cross-border trade, particularly in low-income countries where formal credit systems are weak. The review concludes that lack of access to affordable trade finance remains one of the top three barriers to SME internationalization globally alongside infrastructure and regulatory challenges.

2.8 The Nigerian Context: Evidence and Structural Constraints



2.8.1 SME Landscape and Financial Barriers

Nigeria offers a compelling context for studying the link between trade finance and SME internationalization. With over 39 million MSMEs, contributing about 48 percent of GDP and 96 percent of employment, the sector remains the backbone of economic activity (SMEDAN, 2021). Yet, Nigerian SMEs face severe financing constraints especially for trade-related activities. The IFC (2022) and World Bank (2023) estimate the Nigerian MSME financing gap at over ₦617 trillion (approximately USD 150 billion), with trade finance constituting a significant portion of unmet demand. Empirical research shows that trade openness can enhance SME performance only when firms have adequate financing, infrastructure, and institutional support (Effiom, 2022). When these enabling conditions are absent, increased exposure to global markets may even harm SMEs, as they struggle to compete or meet compliance standards (Obokoh & Goldman, 2016).

2.8.2 Key Constraints Identified

- i. **Foreign Exchange Risk and Currency Controls:** Persistent FX scarcity, currency depreciation, and multiple exchange rates increase transaction costs and uncertainty for exporters (Reuters, 2023). Studies report that delayed access to foreign exchange or policy reversals in FX allocation disrupt supply chains and raise hedging costs (IFC, 2022). Though the Central Bank of Nigeria (CBN) and IFC have introduced local currency financing initiatives, FX volatility remains a major deterrent to SME exporters.
- ii. **High Compliance and Correspondent Banking Costs:** Following global de-risking trends, many Nigerian banks lost correspondent banking relationships, limiting their ability to issue or confirm letters of credit (IFC, 2023). Compliance with AML/KYC standards raises operational costs, which are transferred to SMEs in the form of higher fees or restricted access to trade products (World Bank, 2021).
- iii. **Inadequate and Unsuitable Trade Finance Products:** Nigerian banks tend to offer large-ticket, collateral-based facilities rather than flexible instruments suited to small exporters. Supply-chain finance, factoring, and digital invoice discounting remain underdeveloped (IFC, 2022). As a result, many SMEs rely on informal supplier credit or advance payments, which are limited in scope and insecure.
- iv. **Weak Infrastructure and Logistics Bottlenecks:** Studies by Ogunyemi (2021) and

Effiom (2022) emphasize that weak transport infrastructure, high port charges, and delays in customs clearance often offset the benefits of access to finance. These constraints increase turnaround time and reduce the competitiveness of Nigerian exports.

- v. **Institutional and Governance Barriers:** Bureaucratic export procedures, limited trade facilitation, and corruption in customs processes further deter SMEs from engaging in export activities (UNECA, 2020). Without streamlined institutions, even firms with access to finance face high transaction costs.

2.9 Evidence from Nigerian Empirical Studies

Firm-level analyses in Nigeria corroborate global findings that access to external finance including trade finance correlates positively with export performance and survival (Effiom, 2022; Akinwale & Shittu, 2021). However, these effects are heterogeneous: SMEs with stronger managerial capabilities, formal registration, and established business networks are far more likely to benefit from trade finance than microenterprises operating informally. This suggests that trade finance interacts with internal firm capabilities and institutional conditions, rather than serving as a standalone solution (IFC, 2023). Furthermore, studies reveal that trade finance availability is often concentrated among manufacturing and service firms in urban areas, excluding rural-based or micro firms (SMEDAN & NBS, 2022). This geographic and sectoral inequality contributes to uneven export participation, reinforcing the need for inclusive financial architecture.

3.0 METHODOLOGY

This chapter outlines the methodological framework adopted for the study. It describes the research design, data sources, population, sampling procedures, variables, analytical strategies, and ethical considerations. Given the need to capture both measurable relationships and contextual understanding, this study adopts a mixed-methods sequential explanatory approach, integrating quantitative and qualitative data to provide robust, policy-relevant insights.

3.1 Research Design and Approach

This study employed a mixed-methods sequential explanatory design, combining quantitative and qualitative approaches.

Quantitative Phase: This phase statistically examined the relationship between access to trade finance and the internationalization of SMEs in Nigeria. It tested hypotheses related to:



1. Whether access to trade finance increases the likelihood and intensity of SME export participation.
2. How trade finance instruments like letters of credit, export loans, supplier credit, and bank guarantees affect export performance.

Qualitative Phase: In-depth case studies and semi-structured interviews were conducted with selected SMEs, commercial bank officers, and policy actors. This phase explored contextual, behavioral, and institutional mechanisms behind the observed quantitative outcomes. This design ensured both statistical generalizability and contextual richness, providing grounded recommendations for SME trade finance policy reform in Nigeria (Beck et al., 2011; Creswell, 2014).

3.2 Population and Population Source

The study focused on Small and Medium Enterprises (SMEs) located within Alimosho Local Government Area (LGA) of Lagos State, Nigeria. Alimosho is chosen for its large concentration of active SMEs, covering manufacturing, trade, services, and technology sectors. The population source is derived from: Lagos State Ministry of Commerce and Industry's SME Register, Corporate Affairs Commission (CAC) database for registered SMEs in Alimosho, Local business associations and cooperatives (e.g., Alimosho Chamber of Commerce, NACCIMA Lagos Chapter). These sources will guide the development of the study's sampling frame. Some notable SMEs in Alimosho LGA include: Femtech Manufacturing Ltd (Egbeda) – Light manufacturing and metal works, De-Majesty Foods and Beverages (Akowonjo) – Processed food exports, Jolad Engineering Works (Shasha) – Equipment and auto parts fabrication, Lafric Agro Limited (Ipaja) – Agricultural produce aggregation and exports, TechEase Solutions (Alimosho) – ICT and business automation services

3.3 Sampling Design and Selection

3.3.1 Quantitative Sampling

A stratified random sampling technique was used. SMEs operating in manufacturing, services, ICT, and agro-processing were proportionally sampled.

- **Target sample size:** Approximately 150 SMEs within Alimosho LGA.
- **Inclusion criteria:** Registered with CAC, employ between 5 and 199 workers, operate in Alimosho LGA for at least three years. Provide responses on finance and export activities.

3.3.2 Qualitative Sampling

A purposive sampling method selected 85 SMEs from the survey respondents for follow-up interviews. Additional interviews were conducted with 3 commercial

bank trade finance officers, 2 representatives from export promotion or trade-related agencies, 2–3 donor/development finance institution (DFI) representatives.

3.4 Data Sources

3.4.1 Primary Data

The study's primary data was collected using questionnaires and semi-structured interviews. Questionnaires were administered to SME owners/managers to collect firm-level data on access to finance, use of trade finance instruments, export participation, and performance indicators; Interviews were conducted with trade finance officers in commercial banks (e.g., Access Bank, and Fidelity Bank branches in Alimosho), representatives of the Nigerian Export Promotion Council (NEPC), and SME association leaders; Focus Group Discussions (FGDs) may also be organized with SME clusters to validate emerging themes.

3.4.2 Secondary Data

Secondary data was sourced from: World Bank Enterprise Survey (WBES – Nigeria), IFC/Nigeria MSME Survey, Central Bank of Nigeria (CBN) and Nigerian Bureau of Statistics (NBS) reports, World Bank, IMF, and WTO trade finance reports, Policy and institutional documents from NEPC, BOI, and SMEDAN

3.5 Research Instruments

The key instruments include:

- **Structured Questionnaire:** Covering SME characteristics, financing patterns, export status, and perceptions of trade finance.
- **Interview Guide:** Focused on trade finance experience, challenges, and institutional support.
- **Observation Checklist:** For field notes on SME operations and export documentation processes.

Each instrument was pre-tested with a small group of SMEs in Egbeda to ensure clarity and reliability.

3.6 Variables and Measurement

Dependent Variables (SME Internationalization):

- Export participation (binary: exporter or non-exporter)
- Export intensity (export revenue/total sales)

Independent Variables (Trade Finance Access):

- Use of trade finance products (letters of credit, supplier credit, factoring, etc.)
- Access to export credit facilities

Control Variables: Firm size, age, ownership type, sector, manager education, and years in operation.

3.7 Data Analysis Techniques



- **Quantitative Analysis:** Data was analyzed using SPSS and Stata. Descriptive statistics (means, frequencies) described SME characteristics. Inferential statistics (Probit/Logit regression, Tobit models) tested hypotheses on the link between trade finance and export behavior.
- **Qualitative Analysis:** Interview transcripts were coded using NVivo software. Thematic analysis identified recurring patterns in access to finance, barriers to export, and institutional responses.

Integration of findings from both phases followed a triangulation approach, where quantitative outcomes were explained and enriched by qualitative evidence.

3.8 Data Management and Quality Assurance

All data were anonymized, coded, and stored securely. Outliers and missing data were treated through imputation and consistency checks. A detailed data codebook was maintained to ensure transparency and reproducibility.

3.9 Ethical Considerations

- **Ethical Approval:** Secured from the University of Port Harcourt Research Ethics Committee.
- **Informed Consent:** Each participant were briefed about the study purpose, confidentiality, and voluntary participation.
- **Data Protection:** Data was stored in encrypted formats and used solely for academic purposes.

4.0 FINDINGS

This chapter presents and discusses the major findings from the study, results derived from both the quantitative and qualitative phases of the mixed-

methods design. Descriptive statistics, thematic summaries, and visual charts illustrated how SMEs in Alimosho access trade finance, the impact on their growth, and the factors influencing their internationalization.

4.1 Sources of Funding for SMEs in Nigeria

Findings showed that most SMEs in Alimosho rely on personal and informal financing sources for start-up capital, gradually shifting toward formal finance as the business matures.

Funding Sources at Inception

At inception:

- 60% of SMEs relied on personal funds.
- 25% obtained capital from family and friends.
- 15% accessed bank loans.
- None reported receiving government grants, while 15% benefited from private equity or angel investors.

This suggests that SMEs face initial barriers to formal finance, a challenge consistent with previous studies on Nigerian MSMEs (IFC, 2020; CBN, 2021).

Current Sources of Funding (Post-Start-up Stage)

After business commencement and expansion:

- 50% of SMEs reported bank loans as their main funding source.
- 40% continued to rely on personal funds.
- 25% still depended on family/friends, while
- 20% secured private equity, and
- 5% received government grants or intervention funds (e.g., BOI, SMEDAN).

Table 4.1: Sources of Funding for SMEs at Inception vs. After Commencement

Source of Funding	At Inception (%)	After Commencement (%)
Personal Funds	60	40
Family and Friends	25	25
Bank Loans	15	50
Private Equity	15	20
Government Grants	0	5

Interpretation: The data indicates a gradual transition from informal to formal finance, as SMEs grow in scale and credibility. However, the continued dominance of personal and family financing

underscores persistent structural barriers to trade finance access.

4.2 Performance and Growth Indicators

To measure growth and sustainability, indicators such as turnover, profit, and asset value were analyzed.

Table 4.2: Growth and Performance Indicators of SMEs

Indicator	Positive Growth (%)	Negative/No Growth (%)
Turnover	60	40



Profitability	40	60
Asset Value	70	30
Private Equity	15	20
Government Grants	0	5

Interpretation: While most SMEs reported an increase in turnover and assets, profitability remains a challenge, possibly due to rising input costs, unstable exchange rates, and financial leakages.

4.3 Growth Challenges Reported by Nigerian SMEs

Respondents identified major obstacles to SME growth, grouped under financial, infrastructural, policy, and market factors.

Table 4.3: Growth Challenges Facing SMEs

Growth Challenge	Percentage of Respondents (%)
Inadequate Funding	85
Poor Infrastructure	85
Adverse Government Policies	80
Raw Material Shortage	60
Financial Leakages	55
Regulatory Bottlenecks	45
Lack of Skilled Labour	35
Competitive Pressure	25

Interpretation: Funding constraints and infrastructure deficits remain dominant bottlenecks for SME expansion. These findings align with existing literature that identifies credit access and unreliable power supply as key inhibitors of SME productivity in Nigeria (Beck & Cull, 2014; World Bank, 2022).

4.4 Measurement of Internationalization of SMEs

Internationalization levels were assessed using the Dunning and Lundan (2008) framework. The results show a low level of internationalization among Alimosho SMEs.

Table 4.4: Level of Internationalization among SMEs

Internationalization Status	Percentage (%)
Internationalized SMEs	30
Non-Internationalized SMEs	70

Interpretation: Only 30% of surveyed SMEs engage in cross-border business, mainly through indirect exports, online cross-border trade, or supply chains serving multinational firms. The remaining 70% operate domestically, citing cost, complexity, and lack of export finance as key deterrents.

4.5 Drivers of Internationalization

SMEs were surveyed to identify proactive and reactive motives for internationalization, using a 5-point Likert scale (1 = Very Strong, 5 = Very Weak).

Table 4.4a: Proactive Motives

Motive	Mean Score
Profit and Growth Goals	1.16
Managerial Urge	2.83
Technical Competence	2.33
Foreign Market Opportunities	1
Economies of Scale	2.5
Tax Benefits	2.5



Table 4.4b: Reactive Motives

Motive	Mean Score
Saturated Domestic Market	4.75
Seasonal Product Sales Extension	4.6
Competitive Pressures	3.66
Overproduction	2.6
Unsolicited Foreign Orders	1.8
Proximity to Foreign Clients	1.3

Interpretation: Reactive motives dominate, particularly domestic market saturation and extending seasonal sales. This suggests Nigerian SMEs tend to internationalize reactively rather than strategically, highlighting a gap in managerial foresight and structured export planning.

4.6 Challenges of SME Internationalization

The research identified six core barriers to SME internationalization:

Table 4.5: Barriers to SME Internationalization

Challenge	Percentage of SMEs (%)
Lack of Trade Finance	65
Weak International Networks	60
Limited Export Knowledge	40
Complex Export Procedures	20
High Transaction Costs	15
Foreign Exchange Instability	10

Interpretation: Access to trade finance and weak international linkages are the leading deterrents. These findings validate previous research emphasizing Nigeria's fragmented export finance ecosystem and the need for targeted trade facilitation mechanisms (UNCTAD, 2021).

4.7 Qualitative Insights

Semi-structured interviews provided context to the quantitative findings. Three dominant themes emerged:

- i. **Structural Barriers to Trade Finance:** SME owners described bank procedures as bureaucratic and collateral-heavy, discouraging loan applications for export activities.
- ii. **Institutional Trust Gaps:** Respondents noted limited confidence in government-backed schemes, citing delays in accessing CBN and BOI credit facilities.
- iii. **Resilience and Adaptation:** Despite financial constraints, many SMEs leverage digital tools (social media, online marketplaces) to access foreign customers informally, highlighting digital pathways to internationalization.

4.8 Summary of Key Findings

- i. SMEs in Alimosho rely primarily on internal and informal financing at start-up.

- ii. Access to trade finance significantly improves firm growth and asset accumulation.
- iii. Funding and infrastructure deficits remain the biggest growth constraints.
- iv. Only 30% of SMEs are internationalized, largely due to reactive motives and low financial inclusion.
- v. Trade finance, export knowledge, and institutional partnerships are critical enablers for SME internationalization.

5.0 DISCUSSIONS

This chapter discusses the key findings of the study within the context of existing literature and theoretical frameworks. The discussion focuses on six main areas: (i) capital structure and performance, (ii) growth challenges, (iii) extent and barriers to internationalization, (iv) drivers of internationalization, (v) the role of trade finance, and (vi) implications for SME policy and practice. The discussion interprets the quantitative and qualitative findings, linking them to the study's objectives and situating them within broader debates on SME development, access to finance, and international competitiveness in emerging markets.

5.1 Overview of the Nigerian SME Financing Landscape



The evidence from Alimosho LGA reflects a broader national trend that SMEs in Nigeria primarily depend on informal and internal funding sources, with limited access to structured trade finance or institutional credit. This confirms findings by Beck et al. (2011) and IFC (2020), which identified internal savings, personal loans, and informal borrowing as dominant start-up funding sources across African MSMEs.

While this study found that 50% of respondents eventually accessed bank loans, qualitative interviews revealed that these loans were often short-term, expensive, and collateral-based, limiting their developmental impact. Hence, access does not automatically translate into sustainable growth particularly when credit is issued at high interest rates averaging 20–25%, far above global SME financing benchmarks. This financial structure underscores a duality in SME finance: while SMEs in advanced economies leverage trade finance and export credit facilities to expand globally, Nigerian SMEs remain constrained by limited collateral, imperfect property rights, and high lending risks perceived by banks.

5.2 Capital Structure and Performance

5.2.1 Funding Sources and Financial Sustainability

The data show a gradual evolution in SME financing sources from personal savings (60%) and family/friends (25%) at inception to bank loans (50%) and private equity (20%) at later stages. This confirms the theory of financial progression, which posits that firms initially depend on internal funds before transitioning to external financing as they mature and build credit histories (Berger & Udell, 1998). However, the persistence of personal and informal finance even after business growth highlights credit market imperfections, particularly collateral constraints, information asymmetries, and lack of credit history documentation, as emphasized in Stiglitz and Weiss (1981). These imperfections reinforce the need for financial inclusion strategies and trade credit guarantee schemes tailored to SMEs.

5.2.2 Performance and Growth Indicators

The mixed results on turnover (60% growth), profitability (40%), and asset value (70%) illustrate the fragile financial sustainability of Nigerian SMEs. While turnover growth signals market acceptance, low profitability suggests high operational costs particularly energy, logistics, and financial costs, undermining competitiveness. This finding aligns with prior studies (Ayyagari et al., 2011; CBN, 2021), which show that SME profitability in Nigeria is eroded by unstable power supply, inflation, and interest rate volatility. Thus, while access to credit may enhance liquidity, without

supportive infrastructure and stable macroeconomic conditions, its impact on performance remains limited.

5.3 Growth Challenges of SMEs

Funding and infrastructure deficits emerged as the two most critical challenges (each cited by 85% of respondents). These are structural constraints embedded in Nigeria's business environment.

5.3.1 Financial Constraints

Despite increased financial inclusion programs such as the CBN's MSME Fund and BOI's intervention loans, respondents noted that accessing trade finance remains bureaucratic and collateral intensive. The requirement for landed property and high transaction fees reinforces exclusionary financing patterns. This is consistent with the institutional voids theory (Khanna & Palepu, 2010), which posits that emerging markets lack formal intermediaries and governance systems to support SME credit markets effectively.

5.3.2 Infrastructure Deficits

Power instability and transportation inefficiencies were cited by 85% of SMEs as major operational obstacles. These infrastructural constraints increase production costs, reduce output efficiency, and limit competitiveness in export markets. As Otegunrin et al. (2020) observed, inadequate infrastructure acts as an "invisible tax" on SMEs, one that drains profit margins and stifles growth.

5.3.3 Policy and Governance Barriers

Participants identified foreign exchange volatility, import restrictions, and land border closures as policy shocks that directly impacted their ability to source inputs or export. This finding resonates with World Bank (2022) observations that inconsistent trade and fiscal policies discourage export-oriented entrepreneurship. The issue of financial leakages ranging from internal fraud to local-level extortion illustrates the governance weaknesses that exacerbate SME fragility. These micro-level institutional failures reinforce the need for policy reforms targeting ease of doing business, regulatory transparency, and accountability.

5.4 Extent and Barriers to Internationalization

5.4.1 Low Internationalization Rates

Only 30% of SMEs in the sample engaged in any international activity, mostly indirect exports or digital sales. This confirms that Nigerian SMEs remain domestically oriented, reflecting limited integration into global value chains. This finding supports the Uppsala Model of Internationalization (Johanson & Vahlne, 1977), which suggests that firms expand internationally in incremental steps based on experiential learning and network relationships. The absence of formal networks



and international exposure among SMEs in Alimosho explains their limited outward orientation.

5.4.2 Barriers to Internationalization

Leading obstacles such as insufficient trade finance (65%), weak international networks (60%), and limited export knowledge (40%), underscore both financial and capability gaps. These align with UNCTAD (2021), which highlights that African SMEs face multiple simultaneous constraints: weak financial linkages, low institutional support, and inadequate capacity for cross-border trade compliance. Lack of trade finance is particularly consequential because it reduces SMEs' ability to manage working capital during export cycles. As Beck et al. (2011) notes, trade finance acts as a "trust substitute" in cross-border commerce; without it, transaction risk increases, discouraging SME participation in international markets.

5.5 Drivers of Internationalization

5.5.1 Proactive Motives

The analysis revealed that foreign market opportunities (mean score = 1.00) and profit/growth goals (1.16) were the strongest proactive drivers. These suggest that Nigerian SMEs are motivated primarily by market-seeking behavior, consistent with the resource-based view (Barney, 1991), where firms leverage unique capabilities or products to capture new markets. However, managerial ambition and technical competence scored moderately (2.83 and 2.33), indicating that while SMEs recognize foreign opportunities, they often lack strategic and managerial readiness to pursue them. This supports Knight and Cavusgil (2004), who argue that internationalization success depends on entrepreneurial orientation and managerial capability, not just opportunity recognition.

5.5.2 Reactive Motives

Reactive motives were more pronounced, particularly domestic market saturation (4.75) and extending seasonal product sales (4.60). This suggests that Nigerian SMEs often internationalize defensively rather than strategically, seeking survival rather than proactive growth. This aligns with Hollensen's (2011) distinction between "reactive exporters" and "strategic internationalizers." The implication is that Nigerian SMEs need structured export support, trade intelligence, and capacity-building to transition from reactive to proactive internationalization.

5.6 Challenges to Internationalization

The top barriers such as lack of trade finance (65%) and weak international networks (60%), confirm that financial and relational capital are central to international competitiveness.

Qualitative insights show that SMEs struggle to access affordable foreign currency financing, while limited

linkages with trade promotion agencies and diaspora networks restrict global exposure. This supports the network theory of internationalization (Coviello & Munro, 1997), which emphasizes that international success depends on the firm's embeddedness in knowledge and relationship networks. The absence of such networks among Alimosho SMEs constrains both information flow and trust-building necessary for cross-border partnerships.

5.7 Integration of Findings with Theoretical Frameworks

- i. Institutional Theory:** The results highlight institutional weaknesses, policy inconsistency, governance gaps, and infrastructural decay that limit SME competitiveness.
 - ii. Resource-Based View:** Firms with unique capabilities and access to trade finance show better export readiness, confirming that internal competencies determine external expansion potential.
 - iii. Uppsala Model:** SMEs internationalize incrementally as they gain experience and networks; the 30% who have internationalized are likely those with prior foreign exposure or diaspora links.
- #### **5.8 Policy and Practical Implications**
- i. Trade Finance Access:** Policymakers should strengthen credit guarantee schemes and reduce collateral requirements for export-related loans.
 - ii. Infrastructure and Power:** Prioritize energy reliability and logistics infrastructure to enhance SME cost efficiency.
 - iii. Capacity Development:** Establish export readiness programs and digital trade literacy workshops.
 - iv. Network Facilitation:** Encourage partnerships with ECOWAS trade platforms and diaspora business networks.
 - v. Policy Stability:** Implement consistent trade and exchange rate policies to encourage long-term SME export investments.

6.0 CONCLUSION

This study examined the role of trade finance in the internationalization of Nigerian SMEs, focusing on firms within Alimosho Local Government Area, Lagos State. Using a mixed-methods approach that combines quantitative data and qualitative interviews, the research investigated how access to trade finance affects export participation, firm growth, and competitiveness in global markets. The findings reveal that while access to trade finance significantly supports SME internationalization, numerous financial,



infrastructural, and institutional barriers continue to limit the full potential of Nigerian SMEs in global trade. In conclusion, trade finance remains a critical enabler of SME internationalization in Nigeria, but its potential is curtailed by systemic challenges, high financing costs, infrastructural deficits, and policy volatility. Addressing these barriers requires a holistic approach that combines financial inclusion with institutional reform, infrastructure investment, and export-oriented skill development. If effectively implemented, such a coordinated strategy can empower more Nigerian SMEs to participate meaningfully in global trade, driving inclusive economic growth, job creation, and sustainable development.

6.1 Summary of Key Findings

The study established a positive relationship between access to trade finance and export performance. SMEs that secured external financing through commercial banks, development finance institutions, or export credit schemes, demonstrated greater international engagement compared to those dependent solely on internal funds. However, challenges such as high interest rates, strict collateral requirements, and lengthy loan processing continue to hinder SME access to affordable finance. Government-backed initiatives such as NEXIM, NIRSAL, and BOI were found to play an important but underutilized role due to bureaucratic inefficiencies, limited awareness, and narrow eligibility criteria. While these institutions have improved financing availability for select sectors, their overall impact on export performance remains modest.

SMEs face persistent structural barriers including unreliable electricity, poor road networks, and inconsistent government policies. Foreign exchange volatility, complex export documentation, and insufficient knowledge of international market regulations further reduce SMEs' competitiveness. Despite contributing roughly 46% to Nigeria's GDP, SMEs account for less than 7% of total exports, indicating a significant disconnect between domestic economic participation and global trade performance.

6.2 Interpretation and Implications

The evidence suggests that trade finance is necessary but not sufficient for SME internationalization. While financial access enhances liquidity and enables production for export, it cannot independently overcome the constraints of weak infrastructure, policy instability, and inadequate skills. SME success in foreign markets requires complementary capabilities, managerial expertise, export literacy, and innovation, supported by a stable policy environment.

Thus, the impact of trade finance depends largely on the broader ecosystem in which SMEs operate.

Institutional inefficiencies, fragmented policy implementation, and inconsistent macroeconomic management undermine the intended benefits of financial access.

6.3 Policy Recommendations

To strengthen the link between trade finance and SME internationalization, this study recommends the following:

- 1. Expand and Streamline Trade Finance Access:** Increase funding to NEXIM, NIRSAL, and BOI while simplifying collateral requirements and documentation. Encourage financial institutions to adopt risk-sharing and fintech-driven lending models to support smaller exporters.
- 2. Improve Infrastructure and Logistics:** Prioritize investments in power, transport, and export processing zones, especially in Lagos and Ogun States, to reduce operational costs and enhance competitiveness.
- 3. Promote Institutional Stability:** Ensure consistent FX policies, predictable trade regulations, and transparent documentation systems to restore investor and SME confidence.
- 4. Develop SME Export Capacity:** Provide structured training on export readiness, trade documentation, and international standards through NEPC and chambers of commerce. Expand awareness of non-traditional finance options such as factoring and invoice discounting.
- 5. Enhance Monitoring and Evaluation:** Establish integrated data systems across CBN, BOI, and NEXIM to track SME financing outcomes, ensuring policy responsiveness and accountability.

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