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International Payment Methods and Export Performance in Nigeria

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Abstract

This paper investigates the linkages between international payment methods and export performance in Nigeria, focusing on the impact of payment-related financial and contractual frictions on export performance. Based on the theory of trade finance and the iceberg trade cost approach, the study examines how the different major international payment methods (cash in advance, open account, documentary collection, and letters of credit) affect the intensive and extensive margins of trade. The paper concludes that payment methods are not only operational devices that help to complete transactions across borders but also have significant effects on the allocation of risk and financing needs, as well as the efficiency of transactions. The research integrates the theories and empirical evidence to show that institutional quality, financial development, contract enforcement, and macroeconomic conditions play a role in the choice of payment method. The Nigerian context is considered, with the foreign exchange constraints, high borrowing costs, lack of access to trade finance, and lack of institutions all having an impact on export competitiveness and diversification. The paper also examines the key role of digital payment mechanisms, fintech innovation and regional settlement platforms in lowering the cost of transactions and boosting export potential, particularly for small to medium sized enterprises (SMEs). Recent research research shows that enhancements in digital payment system infrastructure and availability of trade finance have a positive impact on exports. The study also finds that improving the trade finance mechanisms, consolidating institutional frameworks, extending credit facilities and increasing the use of digital payments are critical to mitigating payment-related trade friction and driving Nigeria's export diversification strategy within the African Continental Free Trade Area (AfCFTA).

Keywords:

International payment methods, export performance, trade finance, letters of credit, digital payments, financial frictions, Nigeria, non-oil exports, AfCFTA.

1.0 Introduction

There are a few basic research questions that are used to guide the analysis. Who bears risk and cost on the main international payment methods; what would be the implication of the risk and cost allocation on the intensive and extensive margin of export activity? How much does the mix of payment instruments depend on the quality of institutions, financial development and characteristics of foreign-exchange regimes? What are the empirical relationships between traditional trade-finance instruments, volume of digital payment and export performance in Nigeria especially non-oil areas? Which policy and institutional changes are most likely to

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lower the costs of the financial iceberg, and to expand the participation of companies in export markets? This paper attempts to provide answers to these questions in an effort to educate both the academic community and practical policy design.

The mechanics of cross-border transactions and their financing and settlement arrangement in addition shape international trade and are therefore not observable as trade friction. This literature has focused on the importance of physical and policy-driven trade costs, but a recent strand of the literature has been to emphasise the importance of financial and contractual frictions that are part and parcel of international payment methods. In addition to playing a facilitating role, these mechanisms can also act as a barrier to trade flows, especially in the developing world (Antràs & Foley, 2015; Schmidt-Eisenlohr, 2013). Asymmetric information, weak contracts, limited access to formal finance and changing macroeconomics can make the difference between whether a potential transaction occurs at all, how much is transacted, the sharing of risk and benefit between buyers and sellers, and the ability of firms and countries to engage in global value chains. Payment arrangements are thus not only a part of the mechanics of the commercial dealings, but also form part of the underlying architecture of trade costs that governs the geography, composition and viability of global trade.

International payment systems are continually changing in response to payment risks, institutional weaknesses and financial innovation. The rise of digital finance, fintech platforms and regional payment systems have added new players and dynamics to the settlement processes in recent years, particularly in the African context. These metamorphoses show a significant yet incremental shift in financial intermediation, which have consequences for trade performance, firm participation, and market integration.

This paper examines how different international payment methods—cash in advance, open account, documentary collections, and letters of credit, affect export performance. It places payment mechanism in the context of the trade costs and considers payment mechanisms as being part of the "iceberg" costs that affect both intensive and extensive margins of trade. In addition, the paper examines the influence of institutional quality and the development of the financial sector and multilateral resistance on the choice and effectiveness of payment mechanisms, specifically focusing on Nigeria and other less developed countries (LDCs).

1.1 Payment Methods as Trade Costs

In traditional trade theory, trade costs are regarded as obstacles that add to the cost of goods when they are transported from one country to another. The Samuelson (1954) concept of iceberg trade costs makes the assumption that some goods are lost during transport. In modern trade theory, the non-physical costs such as information asymmetries and contractual frictions are also incorporated. Within this broader structure, payment methods have both direct financial costs as well as indirect risks (Schmidt-Eisenlohr, 2013). These costs include tariff, transportation and non-tariff barriers. In recent years, however, trade theory has seen a welcome development in incorporating contractual frictions, such as the friction from payment arrangements (Antràs & Foley, 2015). The costs are similar to the concept that a portion of the value of a traded product is "lost" in the trading process. Although there are no physical reductions, the payment methods and the financial and contractual tensions that arise from them reduce the benefits of trade. This is especially so when the frictions are high, as in a developing economy with weak financial systems.

The timing of payments, allocation of risk and the financial intermediation is determined by using international payment method. These, therefore, present explicit costs (bank charges, interest), and implicit costs (risk exposure, delayed payments). These costs can be represented as iceberg trade costs, with a share of the products' value “melting” away from the final demanders because of financial frictions.

Furthermore, payment methods affect the behaviour of firms in situations of asymmetric information and incomplete contracts. When legal enforcement is light, the more expensive forms of secure payment methods (such as letter of credit) are used more. On the other hand, in very trustful settings firms could choose for open account transactions, which minimise the costs but raise the risk exposure (Schmidt-Eisenlohr, 2013).

For instance, letters of credit (LCs) reduce default risk through bank guarantees but increase transaction costs due to fees and compliance requirements. Conversely, open account (OA) transactions reduce costs but expose exporters to payment risk. These trade-offs affect both the intensive margin (volume of exports) and extensive margin (number of exporting firms).

2.0 Payment Methods and Risk Allocation

There's a fundamental issue of trust on international trade transactions. The exporter should guarantee that he will be paid for the goods sent for export, and the importer should guarantee that the importer will get the goods for which he/she paid. To solve this problem, payment methods have been devised that distribute the risk between the two parties.

Cash-in-advance is a situation where the risk of the transaction rests with the importer who pays first and gets the goods later. This has the highest level of export security, but may deter trade if importers will not or cannot pay in advance.

Open account transactions are the reverse of the above. In this instance the exporter sends the products and the importer pays later. This allows trade to proceed without the importer having to pay for it, but at the cost of the exporter if the importer doesn't pay.

Documentary collections are a bank's role to facilitate the release of shipping documents in exchange for payment. This approach decreases the risk, but does not offer a complete payment protection.

Letters of credit are a safer deal, where the bank guarantees payment to the exporter, subject to some "if"s and "then"s. This approach has much less risk but is also a more expensive approach because of bank charges and administration.

All of these payment options involve a risk/reward trade-off. The approach that is taken will vary based on the degree of mutual trust among the trading partners, the quality of institutions, and financial services availability. The use of any payment method, however, adds costs to the transaction that reduce the efficiency of the transaction.

3.0 Payment Methods as Financial Frictions

The modes of payment may also be interpreted as finance barriers that affect cross-border trade and investment. These tensions occur because there are a number of different factors, such as credit restrictions, the interest rate charged and the need for collateral.

For instance, if exporters use bank-intermediated payment methods, they might have to arrange financing in order to pay for production and shipping before they get paid. It can be difficult in particular for small and medium-sized companies that may have limited credit availability.

Likewise, importers might need financing to make advance payments, or to comply with the conditions of specific payment methods. In an underdeveloped financial market, these restrictions can be quite restrictive for companies' international trade.

The financial frictions are a part of the iceberg trade cost framework as they diminish the actual volume of trade. In the event that there is demand, companies might not be able to take part in worldwide markets because of the cost of financing as well as payment methods.

4.0 Typology of International Payment Methods

In international trade, the selection of payment method is essentially a risk management judgement that is determined by trust, institutional quality, and the financial situation. There are four main methods of payments discussed below:

4.1 Cash in Advance (CIA)

Under Cash in Advance the importer pays the exporter in advance of shipment. This approach carries the lowest risk for the exporter, but gives the importer 100% risk. It is used extensively in high-risk situations and/or when exporters have bargaining power. But it can lead to less trade and importers may be unwilling or unable to pre-finance trade (Ahn, Khandelwal, & Wei, 2011).

4.2 Open Account (OA)

By the use of open account transactions, the importer is able to settle the transaction after receiving the goods. This approach is common in developed markets, where the law is enforced. Although it helps to reduce financing expenses and improve the flow of trade, it puts exporters at risk of default. Antràs & Foley (2015) provide some empirical evidence indicating that open account trade is more prevalent in North-North trades than in developing countries.

4.3 Documentary Collections (DC)

The documentary collections are collections in which the banks serve as intermediaries and transfer shipping documents and make payments. They are less secure than letters of credit, but offer a compromise between cost and risk. They are not, however, guarantees of payment as banks are not liable.

4.4 Letters of Credit (LC)

Letters of credit are rather bank-guaranteed payments instruments, which guarantee to pay to the exporter when certain conditions are met. They offer substantial level of risk reduction, and also include high compliance and funding expenses. LCs play a strong role in trade among nations lacking strong institutions or trust (Schmidt-Eisenlohr, 2013).

5.0 Payment Methods and Export Performance

Payment methods have multiple impacts on export performance:

5.1 Risk Allocation and Trade Participation

The level of risk sharing between exporters and importers influences firm's willingness to participate in international markets. Risk sharing between exporters and importers will impact firm participation in the international markets. The limited capacity to bear risk might turn off small and medium-sized enterprises (SMEs) from exporting because of the high-risk payment methods. On the other hand, secure approaches can make sure that users can access the system, but can be prohibitively expensive.

5.2 Financing Constraints

Credit constraints to exporters in developing countries may be an obstacle to providing open account terms. Trade finance, especially via LCs, can help overcome these constraints, improve export performance (Beck, 2002).

Under Cash in Advance payment, the exporter will not have to face credit risk as the payment of the goods will be done before the actual receipt of the cash. Exporters use the most popular Cash in Advance payment methods for international sales: wire transfers and credit cards. The Internet's development has led to another Cash in Advance alternative for small-sized export transactions – escrow services. This, however, is the most protective method for the exporter, but the most disadvantageous for the buyer, since the buyer has to pay in advance, which adversely affects cash flow. The foreign buyers also worry that the goods won't be delivered if they pay before receiving them. So if an exporter insists on this payment method, unlike others who are more “flexible”, then he/she will suffer. In competitive markets, where buyers are able to exert greater influence on the pricing, Cash in Advance will therefore often be commercially impractical, as it represents the simplest allocation of risk. Furthermore, it is raising concerns about possible opportunistic behavior: the importer takes the risk of the goods not being delivered or that they will not conform to the contract.

Letters of Credit play an important role in international trade finance. It is characterized by the replacement of the creditworthiness of the buyer with that of the bank which assumes the obligation to pay to the exporter when certain papers are presented. This organization adds to transactional security and helps parties engaged in trade conduct themselves in various legal and economic structures. It also creates intricate legal concepts such as the autonomy principle and the rule of strict compliance, that are applicable in documentary credit transactions. A Letter of Credit is an instrument from a third party, guaranteeing payment for goods/services under specified conditions, in that it specifies that the seller will provide acceptable documentation for the payment to be made. Letters of Credit are typically issued by banks or other financial institutions but in some instances, financial services firms with strong credit ratings, such as insurance companies or mutual funds, may issue letters of Credit.

The Letter of Credit, represents a rather sophisticated legal instrument. This causes the allocation of risk to change because it involves a third-party financial institution (usually a bank) that assumes an independent liability to make payment to the beneficiary when the necessary documents are presented in conformity. The exporter is thereby safeguarded against the risk of a buyer's default, and the importer is assured that the goods will not be shipped until the exporter provides a certain set of documents, typically documents of shipment. The Law of

the Letter of Credit is a system of contractual relations; a system of interconnected but separate contractual relations. These are the application/sale contract, contract between the applicant (importer) and the issuing bank, and the bank's commitment to the beneficiary (exporter). These relationships are independent; one of the key aspects of the instrument and why it is effective in international trade.

An open account transaction is a sale made with the goods shipped and delivered prior to receiving payment, usually within 30, 60 or 90 days of delivery of the goods in international sales. It's one of the most beneficial for the importer with regards to cash flow and cost, and one of the riskiest options for the exporter. Open account and Consignment must be the other extreme opposite to the Cash in Advance in the sense that the exporter sends the goods before the payment is made. These are more likely to be made with commercial partners with whom there is already a strong relationship of trust. Legal-wise, it essentially renders the exporter an unsecured creditor, with the risk of not being paid, especially in cross-border situations where mechanisms of enforcement are not guaranteed or may be expensive. There is great competition in export markets, and the credit terms granted by the exporter to the importer are more likely to be open account terms than they are in other countries. So exporters who aren't inclined to sell on credit terms may miss out on a sale to their competitors. Using export credit insurance, exporters can provide competitive open account terms and request additional insurance coverage. Nigeria is a particularly instructive case. The nation is Africa's most populous, and is one of the largest economies overall, and is highly reliant on hydrocarbon exports, yet it has ambitious plans to diversify away from those exports. The non-oil exports totaled about US$6.1 billion in 2025, which is a record high set in cocoa, urea, cashew, sesame, solid minerals and selected manufactured products (Nigerian Export Promotion Council [NEPC], 2026). However, there are ongoing structural challenges such as foreign exchange shortages, high rejection ratio of trade finance for small and medium-size businesses (SMEs), partial digital payment systems for business-to-business transactions, and high costs of cross-border settlement. Therefore, it is important to have insights into the relationship between these payments and export outcomes to understand the sustainability of Nigeria's diversification drive and the resulting benefits from the African Continental Free Trade Area (AfCFTA).

The theory behind this inquiry is based on the fact that international trade is sequential and time-extended in nature. The cross-border deals are normally characterized by a substantial delay between the allocation of the funds by the exporter, the delivery of the goods and the actual settlement of the payment. These periods expose parties to various risks such as risks of non-performance by importer after receipt of goods, exporter's risk of non-performance of the contract goods, the risk of change of exchange rate, the risk of political and sovereign risk, the risk of non-performance of the contract by the documentation and logistics intermediaries, and the risk arising from the banking intermediaries. How these risks are distributed is decided by the means of payment, and how much bank or other financial institutions stand between the trading parties. Cash in advance means that the money is paid in advance and this takes the burden of financing and delivery nearly entirely with the importer. Open account places finance and non-payment risk with exporter. Letters of credit and documentary collections are examples of ways that banks can serve as middlemen to help alleviate some risks at an added cost, and to provide an intermediate level of security at a lower cost than letters of credit.

One of the most detailed empirical studies of these trade-offs is by Antràs and Foley (2015). They provide examples of the prevalence and determinants of alternative financing terms based on transaction-level data of a large exporter of frozen and refrigerated food products (mainly

poultry) from the United States. Their analysis indicates that cash in advance and open account are much more often used than letters of credit and documentary collections in their sample. The chances of transactions are higher if the importer is in a country with weak contractual enforcement or on cash-in-advance or letter of credit terms. The more the parties interact the more trust will be built and the more they will move to less secure but less costly contracts. The global financial crisis brought further evidence of the importance of the payment terms for macroeconomic shocks; the exporter was more inclined to seek cash-in-advance terms at new customers and customers who had earlier negotiated cash-in-advance or letter-of-credit terms cut their purchases by a larger amount than the other customers. The results confirm the importance of endogenous nature of payment methods in institutional contexts and in relationship capital and the role they play in conveying economic shocks to trade volumes.

This complementary theoretical approach formalizes the optimal choice of financing method in the context of cash in advance, open account and letters of credit (bank intermediation), which is developed by Schmidt-Eisenlohr (2013). In the model, differences in financing costs and in enforcement probability between countries are traded off in the choice of firms. The equilibrium contract will be influenced by the capital costs between the source and destination market and capital costs between the source market and its contract enforcement. The higher the enforcement probabilities, the greater the trade volumes, and the greater the financing costs, the lower the trade volumes, the size of these effects is proportional to what it takes to complete a trade. Later empirical studies based on microdata at the firm level and bilateral trade-finance statistics have mostly confirmed the model's predictions (Hoefele et al., 2016; Niepmann & Schmidt-Eisenlohr, 2017). Although in value less important than open account terms in many corridors, letters of credit and related bank-intermediated instruments are important for larger transactions, and for trade with destinations that present a higher risk. Documentary collections fall somewhere between the extremes of full letters of credit and the truly open account, with the flexibility and security of the latter and the added security and cost-effectiveness of the former.

These theoretical and empirical findings assume greater relevance in developing economies and LDCs. Under such conditions, domestic interest rates tend to be high and long-term domestic currency borrowing is limited, the exchange rate is volatile and commercial contracts are not enforced by the judiciary, or are enforced at expense. As banks continue to de-risk, some financial institutions have decreased correspondent banking relationships, which has increased the cost and decreased availability of letter-of-credit confirmations. There are still significant gaps in trade finance in West Africa. According to International Finance Corporation (IFC) and World Trade Organization (WTO) evidence, up to US$14 billion of trade-finance deficit has been experienced annually among Côte D'Ivoire, Ghana, Nigeria, and Senegal; and the most affected are SMEs due to lack of affordable trade-finance facilities caused by collateral constraints, information asymmetries, and perceived country risk (International Finance Corporation [IFC] and World Trade Organization [WTO], 2022). Trade finance application rejections are high, due to insufficient collateral, information available for the applications, and country risk. As a result, many potential exporters are not in the formal international markets or are able to deal only at sub-optimal payment terms which result in higher effective costs and reduce competitiveness.

Nigeria is a case in point of challenges and opportunities for development. The export mix of the country is still very diversified into crude oil and natural gas, contributing to foreign exchange earnings dominance in most of the years. This focus makes the economy vulnerable

to fluctuations in commodity prices, and has traditionally restricted the growth of a diversified export sector. Concurrently, various governments have made diversification policies with a focus on agriculture, solid minerals, manufacturing and services. In recent years, value of non-oil exports has increased, due to strengthening of some value chains, policy support, and increased world demand for some commodities. However, the sustainability of this growth relies heavily on Nigerian companies' capacity to secure safe and low-cost payment and financing solutions, particularly smaller companies. The Nigerian enterprises survey suggests that businesses continue to use electronic funds transfers and international wire transfers for cross-border sales, while letters of credit are utilized by a significant proportion of businesses in longer or bigger business associations (according to the Stanbic IBTC Bank Africa Trade Barometer). Cash is still not as prevalent in formal cross-border trade while digital channels are growing significantly, such as mobile payments, point-of-sale and instant payment systems.

The econometric analysis conducted in Nigeria over the last few years shows positive and statistically significant relationship between mobile payments, point-of-sale payments, NIBSS Instant Payments and export performance, and positive and non-significant relationships between web-based payments and export value (Boma & Bidemi, 2026). The complementary analysis of non-oil exports' performance with monthly data from 2010 to 2023 suggests that the availability of trade credit and the adoption of electronic payment systems have a significant positive effect on the performance of non-oil exports (Shuaibu & Gana, 2025). The results are in line with the theoretical prediction that easing financial frictions leads to an increase in the extensive margin of trade, in addition to the intensive margin (increased volumes of the existing exporters). They also recommend that digital payment platforms can partially remove some of the limitations of bank-intermediated instruments if certain complementary reforms are incorporated to solve the issues of foreign exchange convertibility, repatriation and infrastructure gap.

The wider literature on the trade costs also supports the importance of payment methods. Overall, ad-valorem equivalent trade costs for representative pairs of developed countries are estimated at around 170 percent by Anderson and van Wincoop (2004). Only a relatively small proportion of this is due to tariffs; the others include transportation costs, border barriers (including information barriers, currency conversion and contractual barriers) and distribution costs. Payment methods include explicit costs (bank charges, confirmation fees, amendment costs, and intermediary lifting costs), and implicit costs (opportunity cost of working capital, risk premiums, administrative costs, and delays in receiving proceeds). In the sometimes-tongue-in-cheek terminology of iceberg costs, as originally expressed by Samuelson (1954), the commercial value of traded goods “melted” by a fraction prior to the completion of the sale. Where the financing cost is high, enforcement is lax, and capital accounts are not fully convertible, this melting can be significant, and can prevent the marginal exporter from being competitive and drive some out of business.

Further, the relationship between payment methods and institutional quality and financial development creates path dependence and the inequality of opportunity among firms. Those businesses that have a long history of banking, audited accounts, assets that can be utilized as collateral and export experience are more likely to secure Letters of Credit, post shipment financing or open account financing. Barriers are higher for firms that are informal or have recently formalized, and these are a significant number of potential non-oil exporters in Nigeria and many other African economies. This gives rise to a dual structure where large oil, gas and commodity exporters can deal with foreign markets with relative sophistication in trade finance,

but smaller exporters of agricultural, light-manufacturing and service products are left with the options of cash in advance prices from foreign buyers, high-cost informal finance, or even being barred from some markets. The digital platforms could be a potential equaliser as they reduce up-front costs of entry and allow smaller firms to get paid faster and more transparently. However, these can only work in conjunction with the resolution of foreign exchange conversion issues, creation of comprehensive digital ID systems, strengthening of cybersecurity and regulation that fosters interoperability without undue compliance costs.

This also adds to the significance of this inquiry in the policy context. Nigeria's ratification of AfCFTA has the potential to create greater opportunities for accessing the region's market, but this benefit needs to be more than just tariff cuts and rules of origin changes. Complements such as seamless cross border payments, efficient settlement of obligations in local currency and hard currency, and trade finance that is accessible to everyone are required. UNECA and Afreximbank studies reveal that efficient cross-border payment and settlement systems is an important enabler for the implementation of AfCFTA. The lack of payment system interoperability, transaction costs, foreign exchange settlement issues are key trade integration constraints within the African economies and in Nigeria. Analyses of these existing export financing and incentive schemes – viz., Export Expansion Grant, Non-Oil Export Stimulation Facility, Non-Oil Export Proceeds Repatriation Rebate Scheme of RT 200 and various export financing facilities of NEXIM Bank – show that although they have had limited success, the factors limiting the success are design flaws, strict eligibility criteria, funding volatility, delays in processing and banks' continued reluctance to finance SME exports.

First, in our analysis, we try to merge the theoretical lessons of the modern trade-finance literature, and specifically the contract-theoretic models developed by Antràs and Foley (2015) and Schmidt-Eisenlohr (2013) with the institutional and empirical features of a key African economy. In so doing it makes a link between the abstract level of models of payment-contract choice and the concrete level of constraint faced by Nigerian exporters. Second, it also includes new evidence on digital and fintech payment systems, which are mainly ignored in the previous theoretical studies, and evaluates the new dimensions these instruments are bringing to export performance. Third, it places the payment-method frictions in the context of economic diversification, SME development, and regional integration, and explains that better payment-method frictions require better trade-finance and settlement infrastructure to be part of a comprehensive trade-facilitating policy package.

5.3 Intensive and Extensive Margins of Trade

The choices of payment methods impact the intensive margin of trade, the number of trading relations (the extensive margin). For example, secure payment processes can facilitate the creation of new business relationships, and low-cost payment processes can boost payment frequency.

6.0 Trade finance and Firm Heterogeneity

The more productive companies are more likely to be able to withstand the expenses of secure payment techniques. This creates selection effect in so far as only the most productive firms make risky or expensive trade arrangements (Melitz, 2003). A crucial lesson learned from the modern theory of trade is that companies are not alike. On the contrary, they are different in terms of productivity, resource availability and cost bearing capacity. This diversity has significant implications for the impact that payment methods can have on trade.

Firms that are more productive are better able to take the burden of costs of secure payment methods, like letters of credit. They are also more likely to be able to undertake external financing, enabling them to deal with liquidity problems better. Consequently, these companies are more likely to be involved in international trade and increasing the export amounts.

Conversely, less productive companies will be unable to afford the expenses of some payment methods. They might even not be able to export at all or only be able to do so within less secure export channels, which are subject to increased risk.

This leads to a selection effect, in that only the most able firms can trade internationally. The mode of payment, thus, is not only decisive for the amount of trade transactions but also for the export structure of the exporting firms.

This effect is especially marked in developing economies where financial constraints are more likely to be a problem. Improvements in access to trade finance can boost exports and export performance overall, while restrictions can result in otherwise viable firms not participating in trade.

7.0 Implications for trade

This paper shows the significance of payment channels as a factor influencing trade performance. Payment methods influence the volume and structure of international trade both because of their impact on risk allocation and finance terms and because of the effect on the participation of firms in international trade.

Especially, the use of high-cost payment systems can lead to lower trade volumes because of the high transaction costs and because of market access constraints. This effect tends to be stronger in developing countries where financial and institutional impediments are more rigid.

Meanwhile, there is opportunity to boost trade performance through strengthening payment systems and financial infrastructure, thereby lowering costs and improving efficiency. Digital payment system and regional settlement systems can revolutionize international trade.

8.0 The Nigerian Context

The challenges of Nigeria's export performance are a result of the institutional development challenges, foreign exchange limitations and financial sector challenges. Oil exports, currency fluctuations and government restrictions on trade make trade difficult.

In Nigeria, the following factors affect the methods of payment:

- Restricted availability of trade finance
- The difficulty in obtaining loans at low rates of interest.
- Weak contract enforcement
- Foreign exchange restrictions

These factors contribute to greater use of letter of credit and cash-in-advance transactions, rising trade costs, and a lack of diversification in exports. This is especially impacting on SMEs, which are not able to afford these expensive payment agreements.

9.0 Emerging Trends in Payment Systems

Payments are changing internationally as a result of recent advances in digital finance. Innovations include:

- Trade Finance Platforms with Blockchain technology
- Digital currencies and central bank digital currencies (CBDCs)
- All regional payment systems (PAPSS)
- Fintech-enabled cross-border payments

These innovations could lower transaction fees, increase transparency and increase financial inclusion. Their use is still a small percentage in LDCs, though, because of regulatory and infrastructure issues.

9.1 Policy Implications

The following policy measures are recommended to improve the payment systems for exports:

1. Enhancing the legal and institutional environment to better enforce contracts
2. Improving access to credit for the agriculture sector, including for SMEs and women farmers
3. Supporting development of the financial sector and lower financial cost
4. Promoting the use of digital payment technologies
5. Improving integration efforts in the region through systems e.g., PAPSS

Conclusion

International payment methods are one of the key but neglected export performance factors. They affect the quantity and composition of trade by affecting the allocation of risk, cost of financing, and firm behavior. Financial and institutional factors related to payment methods are major challenges in Nigeria and developing countries, and therefore need to be tackled to enhance trade outcomes. To conclude, payment methods are important but neglected factors affecting export performance in Nigeria and other developing countries. The study aims to add to the understanding of trade barriers and opportunities in international trade by broadening the analytical lens of trade costs to include the financial and contractual frictions, and by developing rigorous and detailed analysis on this topic, within the specific institutional context of Nigeria. The consequences are that they're pretty serious. Those frictions in payment, if well resolved, can assist in the growth of non-oil export, improve the competitiveness of firms, increase the number of firms that export and improve Nigeria's ability to exploit market opportunities in the region and the world. If left unchecked, these tensions could extend the reliance on oil, restrain the benefits of trade deals and leave broad portions of the productive economy out of the benefits of globalization.

The effects of payment tools on trade flows need to be quantified in the future with micro-level data, as well as the contribution of digital innovations to the future of trade finance.

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