Sudan Academy for Banking and Financial Sciences

Center for Research, Publishing & Consultancy (CRPC)

IN COLLABORATION WITH

Islamic Development Bank – Jeddah

Islamic Research and Training Institute (IRTI)

Proceedings of

"2nd International Conference on Inclusive Islamic Financial Sector Development

Enhancing Islamic Financial Services for Microenterprises

09th – 11th October 2011, Khartoum - Sudan

Financial Citizenship Barriers among Muslim Micro-entrepreneurs in Ilorin, Nigeria: A Factorial Invariance Analysis

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Abstract

This study examines the factors that explain the lack of financial citizenship among selected respondent poor households in the inner city of a densely Muslim populated area. Specifically, Ilorin, Kwara State, North Central geo-political zone of Nigeria was the study area in this regard. Data elicited via a survey questionnaire was analysed using both the SPSS 17.0 and Amos 17.0 software. Based on both the exploratory and confirmatory factor analyses, the study revealed that the barrier factors can be divided into two broad categories. While debt phobia, religion, financial complacency, and cultural capital explain voluntary exclusion, affordability and eligibility factors explain the involuntary financial exclusion barriers. The results indicate that the lack of financial citizenship is explained by both lack of access and unwillingness to patronise certain sources of funds. Factorial indifference was also found along demographic divides of the respondents except for age and primary occupation in which case no difference was found between the trading and non-trading micro entrepreneurs.

Keywords: Financial Citizenship, Cultural Capital, Eligibility, Affordability, Factorial Invariance

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Introduction

Micro-enterprises may be thought of as the smallest but nonetheless important unit of entrepreneurial activities (Demirguc-Kunt et al, 2008:2). They are usually single person, owner operated or slightly larger units engaging one or more family members. Often than not, they lack formalities like licensing, official operating premises, and accounting procedures (Adewale, 2006a). These attributes, notwithstanding, microenterprises development is a sine qua non for economic development particularly in developing countries. This is because according to Aribbas and Vila (2007), entrepreneurship is a major driver of innovation, competitiveness and growth. Such contributions according to Fairley (1998) have far reaching socioeconomic and political implications even in developed countries like the US and the United Kingdom. However, without being prejudicial to the relative importance of other factors that affect the development of microenterprises, outright or marginal financial exclusion has been indicated in many studies to be pivotal. For instance, based on individual and social characteristics, Demirguc-Kunt, Klapper and Panos (2007:27) suggest that financial citizenship is crucial both in promoting entry into self-employment and its subsequent success.

Financial Exclusion

According to Mor and Ananth(2007: 1121) financial exclusion or what Dymski (2005) referred to as lack of 'financial citizenship' may be viewed as the inability of some individual or *businesses*to access and use basic financial services. Such services include

savings, loans, and insurance in a manner that is reasonably convenient, reliable and flexible in terms of access and design. The relative importance of an all-inclusive financial system, therefore, cannot be overemphasised. As such, enormous research activities had been carried out to further the discourse of the subject matter among scholars of development finance. Arguably, and of relative prominence among such studies on enhancing an all-inclusive financial system are those of Barr, Kumar and Litan (2007) and Demirguc-Kunt, Beck and Honohan (2008). As argued in these and related studies an efficient and inclusive financial system is needed to ensure efficient allocation of resources, and to prevent inequalities in outcome and opportunities especially among the unbanked including the poor micro entrepreneurs (Demirguc-Kunt, Beck, and Honohan, 2008). Otherwise, it is likely that every attempt at empowering the economic active poor to exit their poverty status through micro-entrepreneurial development may flounder. Beck and De la Torre (2006), therefore, argued that poverty may be persistent due to the financial exclusion of the poor entrepreneurs. This is because such exclusion in turn exacerbates the poor's inability to transform their talents into productive uses due to lack of inherited physical, financial and social capital[1].Following this line of argument, considerable efforts had been made at both the governmental and non-governmental levels to broaden the access of micro entrepreneurs to requisite financial services. It would be expected therefore, that as long as there is access, every unbanked person should avail himself of the opportunity. However, the converse is the case as some either self-exclude themselves, or are rationed out by the stringent conditionality attached to such access, at least in their own context.

Voluntary and Involuntary Financial Exclusion

Although financial exclusion has been generally viewed from the perspective of the existence of price and non-price barriers, recent related studies have also taken cognizance of whether such exclusion is voluntary or involuntary. For instance, exclusion may be voluntary due to a plethora of reasons like religious tenets, phobia for debt, superstitions, and so forth (Datta, 2004; Wallace and Quilgar, 2005; Corr, 2006; Adewale, 2007; Demirguc-Kunt et al, 2008). These variants of voluntary exclusion typify what Corr, (2006) referred to as self-exclusion barriers. Voluntary exclusion may also be caused at times by cultural capital.[2] For instance, in a US study by Osili and Paulson (2006:22), they found that cultural distrusts for banks based on past experiences, or preference for privacy may cause the voluntary exclusion of some clients from usage of financial services. This kind of exclusion is what Beck and De la Torre (2006) described as a psychological response to systematic financial discrimination.

[1]According to Chowdhury, Ghosh, and Wright (2005), evidences abound that the financial repressions from both the formal and informal sources of finance interact with many other economic, social and demographic factors to cause the vicious circle of poverty.

[2]Experiences which individuals bring with them and which makes their resistance to updating and modification stern.

On the other hand, the unbanked may be involuntarily excluded. An example of such financial exclusion barrier is the lack of awareness of financial sources (Owualah, 2002). This is consistent with what Beck and De la Torre (2006) referred to as financial illiteracy. As such, people are financially excluded due to lack of knowledge of the existence of some financial inclusion options. Other variants of involuntary exclusion listed in Corr (2006) include: geographical, access, condition, price, marketing, resource, and electronic financial exclusions. Most of these financial exclusion variants are similar to those Demirguc-Kunt et al (2008) classified into physical, affordability, and eligibility barriers to financial inclusion.[1]

Financial Exclusion Issues

A discernible fact from the foregoing is the tendency to take for granted that access to finance implies use. This assumption may be misleading especially given that while access is supply-driven, use is both demand and supply driven (Demirguc-Kunt et al, 2008). It is likely that some people who have access to finance may still chose not to use such financial services. For instance,Adewale (2006, 2007) found that some apparently poor proprietors of microenterprises in Ilorin, Nigeria never used formal financial services due mainly to Islamic religious inclinations, which abhors interests on loan.This is consistent with the findings of Wallace and Quilgar (2005) in England and Corr (2006) in Ireland who also find mild religious explanations as barriers to financial inclusion.

Moreover, as noted in Kumar, Beck, Campos and Chattopadhyay (2005), it is highly commendable that the demographic profile of the patrons of financial services is factored into policy formulation. Kumar et al (2005) for instance found gender, educational attainment, and other demographic construct as having significant impact on access to financial services. However, the analysis in most studies on financial exclusion often makes the simplistic assumption of homogenizing the poor as a lot and with same socio-economic status and needs (Ayyaggari and Maksimovic, 2006). The consequence is that beneficiaries of intervention programs aimed at broadening financial access and use are thus targeted by chance rather than by systematic targeting (Kotler et al, 2006). This lack of systematic targeting makes certain categories of intended beneficiaries miss the opportunity of partaking in in suchprogrammes.

Furthermore, most of these researches on financial exclusion are carried out at the macro level. The fear that aggregate data can be misleading was, however, raised by most researchers. This is due to the differences in the socio-economic condition of countries and the paucity of requisite data upon which such aggregate findings can be validated.

[1] Another classification in the literature is that of Honohan (2004). He made a distinction between price factor (financial service is available but not affordable), informational factors (poor credit records and ratings of borrower household and or individual, and product and service barrier (non-offer of the most needed financial services).

Sequel to the issues raised above, the main objective of this paper, consequent upon determining the financial citizenship barriers facing micro-entrepreneurs in Ilorin, Nigeria is to assess the factorial invariance along demographic divides of respondents. This is because identifying the indicating factors and understanding their inter-linkages facilitates coming up with the right policy formulation to mitigate the likely negative outcomes of financial exclusion.

Study Area

The study area covered in this study is some parts of Ilorin metropolis. The choice of Ilorin is based on the fact that it is the base of one of the authors. Moreover, it is predominantly Muslim and noted for its Islamic inclination. As such, an assessment of religious reasons as barriers may be assessed. Ilorin metropolis is located some 300 kilometres from Lagos and 500 kilometres from Abuja, the Federal Capital Territory of Nigeria, on latitude North 8^0 30^1 and longitude East 4^0 35^1 of the equator. Ilorin, city in North-Central Nigeria, capital of Kwara State is a commercial, manufacturing, and transport centre situated in an agricultural region producing grain, yams, peanuts, and livestock. Manufactured goods include processed food, cigarettes, crafts, and sugar. The community was established in the late 18th century, becoming the centre of a state that was part of the Oyo Empire. In the 1820s it became a Muslim emirate associated with the Fulani caliphate of Sokoto. The emirate subsequently annexed considerable territory. The British captured Ilorin in 1897. Its population based on the 2006 national census estimate is about 2,371,089 people (Adedibu, 1981; National Population Commission, 2006).

Methodology

Primary data elicited through survey questionnaires were used mainly in this study. Added to obtaining data on respondents' demographic profile, the issues raised in the questionnaire focused mainly on access to and use of financial services, and the factors impeding financial inclusion. As there is no standard financial exclusion scale, questions were developed by the researchers following issues raised in previous empirical studies and surveys. The target respondents are proprietors of microenterprises in the Ilorin metropolis.[1] Out of 450 micro-entrepreneurs sampled based on convenience sampling, only 302 questionnaires among the returned met the criteria for usage in this study and therefore, were used for analysis[2]. The demographic distribution of the respondents is shown in table 1 below.

[1]According to the Nigeria Economic Summit Group-NESG (2002),…..the best way to capture the definition of micro-enterprises in Nigeria should be by nature and magnitude of their business. For example, roadside artisans, petty-traders, pure/bottled water producers, bakers, local fabricators and so forth. constitute the Nigerian micro-enterprises

[2]Some of the cases deleted had missing data. The data in this instance was missing completely at random (MCAR). As suggested by Hair et al (2006), any remedy for missing data could be used. However, given sufficient sample size for the SEM, the authors preferred to exclude affected cases from further analysis.

Demographic Variables	Frequency (%)
Gender	
Male	55
Female	45
Age	
20-30 years	5
31-40 years	26
41-50 years	48
Above 50 years	21
Education Level	
No formal education	12
Primary school	65
Secondary school	22
Degree/Equivalent	1
MSEs Type	
Survivalists	35
Growth Oriented	65
Primary Education	
Trading	41
Services	50
Manufacturing	6
Arts and Crafts	3

Source: Filed Survey

Data obtained were further subjected to data cleaning, test of normality[1], adequacy and reliability tests using the skewness, kurtosis, kolmogorov-smirnov, KMO and Bartlett's test of Sphericity, and the Chronbach Alpha tests respectively. Thereafter, based on an exploratory factor analysis through the Principal Component Analysis (PCA), the five variables of interest (affordability, eligibility, financial complacency, religious belief, and cultural capital) had high loadings. As such, they were identified and used subsequently as the latent variables for the purpose of the analysis conducted.

Thereafter, the goodness of fit of the measurement model was tested. The relative indispensability of doing this is well captured in Hattie (1985:49) cited in Firdaus (2005: 10): 'a set of items forming an instrument all measure just one thing in common is a most

[1]. Maximum Likelihood Estimates (MLE) that was used in the CFA is robust against a moderate departure from the assumption of multivariate normality archetypal of social science data (Micceri, 1989; Smith and Langfield-Smith, 2004, Pallant, 2006, Hair et al, 2006).

critical and basic assumption of measurement theory.' In order to arrive at a conclusion in this regard, a confirmatory factor analysis based on the Structural Equation Modelling (SEM) was conducted on the five observed variables using AMOS 16.0 Graphics Model-Fitting Program and adopting maximum likelihood estimation (Sahari et al, 2004). The essence was to assess how closely the items that loaded in the five variables represent the same latent construct.

In achieving the foregoing, a number of descriptive fit indices were estimated in agreement with Hair et al (2006). These indices include the minimum value of the discrepancy between the observed data and the hypothesised model divided by the degree of freedom (CMN/df). Other measures of fit adopted are the Comparative Fit Index (CFI), Normed Fit Index (NFI) and the Root Mean Square Error of Approximation (RMSEA) as suggested by Meyers et al (2006), and Mueler and Hancocks (2008). These measures are all expected to range between 0 and 1 in value with higher values, say above 0.9 indicating a very good fit.

Finally, a RMSEA value expected to have a value of 0.08 or less is required to have a reasonable error of estimate and to glean how well the model would fit the population covariance matrix. This is in the event of including an unknown but optimally chosen parameter values. Shown in the Figure 1 below is the output of the confirmatory factor analysis (measurement model fits) as calculated using AMOS 16.0. Table 2 below indicates the threshold for the various indexes.

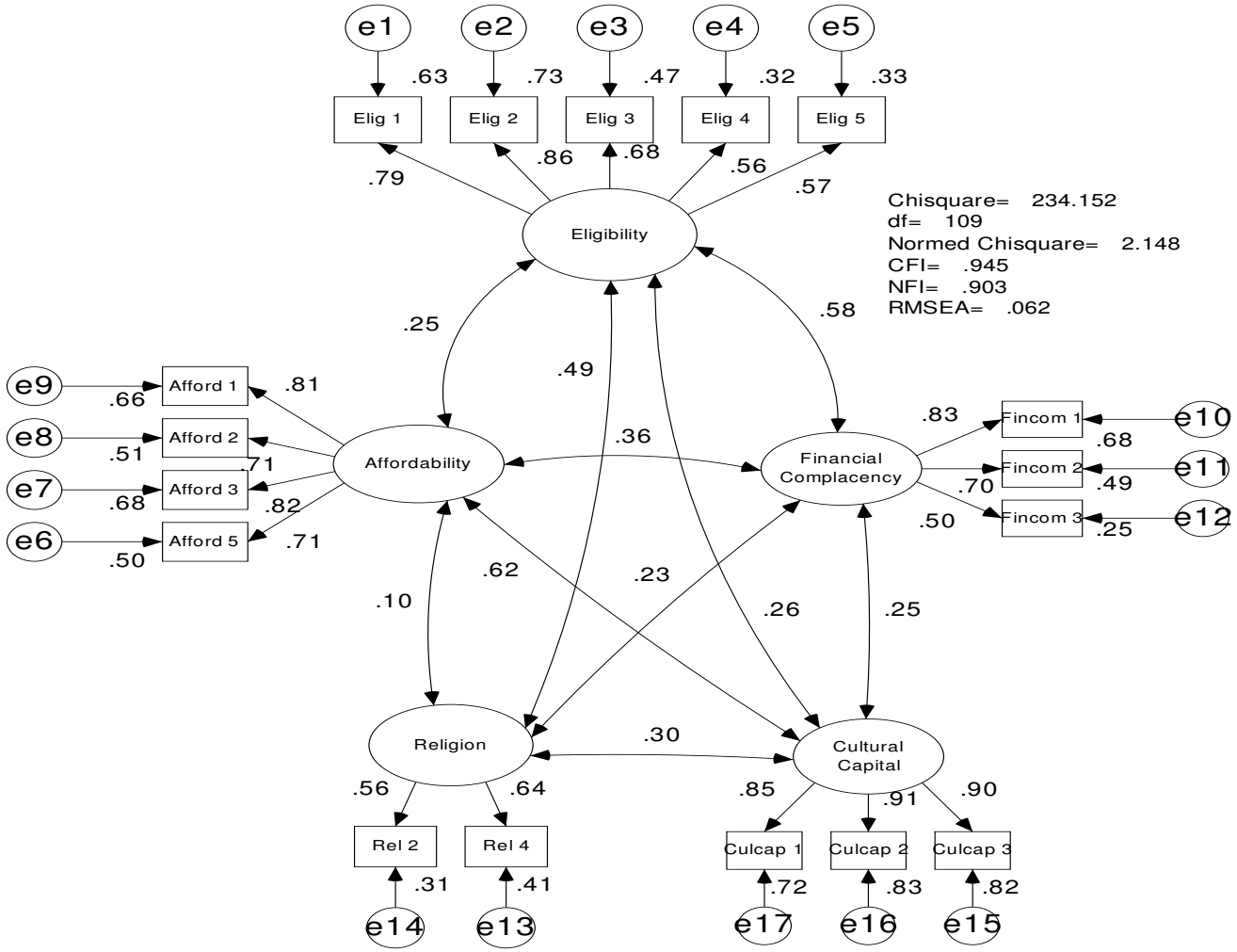
Table 2.Evaluation of SEM with Goodness-of-fit Measures

Types Measures	**Goodness-of-fit Measures**	**Level of Acceptable**
Absolute fit measure	Goodness of fit index (GFI)	Greater than .90
	Root mean square error of approximation (RMSEA)	Under .08
	Adjusted goodness-of-fit index (AGFI)	Greater than .90
Incremental fit measure	Tucker Lewis index (TLI)	Greater than .90
	Normed fit index (NFI)	Greater than .90
	Comparative fit index (CFI)	Greater than .90
Parsimonious fit measure	Normed-chi-square ($\chi 2$/df)	Lower limit 1.0 Upper limit 2.00/3.00 or 5.00

Source: Hair et al. (2006); Meyers et al (2006)

Figure 1.

Measurement model for Financial Exclusion Determinants in Ilorin, Nigeria



Source: Authors' computation.

Results

A review of the Confirmatory Factor Analysis model above based on the various criteria in SEM shows that there are no offending estimates[1] and that the model fits well. The hypothesised measurement model was assessed using AMOS version 16.0 maximum likelihood factor analysis.The model was evaluated by four fit measures: a) the chi-square, b) the comparative fit index (CFI), the normed fit index (NFI), and the root mean square error of approximation (RMSEA) as per Meyers et al (2006) and Mueler and Hancock (2008). Results of all four fit indexes support the proposed model. The chi-square had a value of 234.152 (109, N=302), p=0.000, indicating a statistical significance. Model fit based on chi-square in SEM should not be statistically significant in order to indicate a good fit. However, given that the chi-square is highly susceptible to sample sizes, Mueller and

[1] A direct path coefficient or regression coefficient with a value greater than 1.00. This is considered unacceptable in an SEM analysis.

Hancock (2008), Blunch (2008), suggested the normed chi-square (CMIN) should be used instead.[1] With a CMIN value of 2.148, this is within the range of between ratios 3:1 as suggested in Hair et al (2006:748) and attests to the fit of the measurement model. Moreover, the baseline fit indices are also more than the 0.90 cut-off point specified in most SEM studies. In this case, the CFI = 0.945, and NFI= 0.903, indicate good fit of the measurement model. With a RMSEA value of 0.062 (P Close= 0.038), this is also less than the cut-off point of 0.08. This result is shown in Table 3 below.

Table 3.

Tabular Presentation of Fit Indices Criteria Compared to Baseline Model Output

Fit Indices	Recommended Threshold	Model Output
CMINDF	$2 \geq \text{CMINDF} \leq 5$	2.148
P	$P \geq 0.05$	0.000
CFI	$\text{CFI} \geq 0.90$	0.945
NFI	$\text{TLI} \geq 0.90$	0.903
RMSEA	$\text{RMSEA} \leq 0.08$	0.062

Source: Authors' computation

Factorial Invariance

To test factorial invariance, a simultaneous analysis of the divides was carried out. For instance in terms of gender, analysis based on Male and Female grouping was carried out to determine the configural fit of the model[2]. In this case, all the factor loadings were unconstrained to be equal to each other across the groups (Male = n1= 167) and (Female = n2 =135). All the fit indices met the criteria for model fit.The chi-square test for differences was subsequently carried out to test the statistical significance of the moderating effect of gender on the measurement model. In this case, the five latent constructs were constrained while the indicators (questionnaire items) were allowed to load freely. It was revealed that the hypothesized model was not invariant between the two groups: male and female micro entrepreneurs, χ^2 (5, N= 302) = 12.143, $p< 0.01$. This result is shown in Table 4 below:

[1] A normed chi-square is denoted by χ^2/df. That is, chi-square value divided by degrees of freedom. It is a goodness of fit (GOF) measure in SEM. According to Hair et al (2006:748), generally, χ^2:*df* ratios on the order of 3:1 or less are associated with better fitting models except when sample size is greater than 750. This measure also called the relative likelihood ratio was used to mitigate the susceptibility of chi square to spuriousness especially as sample size grows bigger (Firdaus, 2005). For this measure, a value of between 2 and 5 is considered acceptable (Sahari et al, 2004).

[2] Similar groupings were made for age (Below 40 years and Above 40 years); Occupation (Trading and Non-Trading); MSE type (Survivalists and Growth Oriented), Educational attainment (primary school and below, secondary school and above) etc.

Table 4

Results of Multiple Group Modeling (Gender)

Demographic Factor	Model	χ^2	Df	Critical-Value	$\Delta \chi^2$	Sig.
Gender	Unconstrained	349.60	188			
	Constrained[1]	484.56	212	42.98	134.96	Sig
Age	Unconstrained	389.18	188			
	Constrained	421.42	212	42.98	32.24	N.S
Educational Attainments	Unconstrained	357.73	188			
	Constrained	487.32	212	42.98	129.62	Sig
Primary Occupation	Constrained	390.36	188			
	Unconstrained	357.83	212	42.98	32.53	N.S
MSEs Type	Constrained	400.17	188			
	Unconstrained	353.29	212	42.98	46.88	Sig

P< 0.01

N.S. = Non-Significant

As shown in Table 4 above, there is a statistically significant difference between the male and female groups' measurement models though they both havereasonable fit. However, the constrained models indicate that the male micro-entrepreneurs are more involuntarily excluded than the female household heads. In terms of financial exclusion, the males are most likely to have lesser access to and use of savings services. The females on the other hand are mostly excluded from the mainstream credit services. In terms of age and primary occupation, there was no sufficient evidence based on the data used in this study to conclude that there is a factorial invariance among the respondents. However, factorial invariance was noted based on MSE type and educational attainments. In terms of the latter, the factor loadings on the affordability and eligibility as barriers of financial citizenship were lesser for the respondents that were educated up to secondary school level compared to their cohorts that had at most primary school education. In a similar vein, the microenterprises that are classified as survivalists show more exclusion based on factor loadings on the five latent constructs relative to the growth-oriented microenterprises.

[1] In the constrained model, the indicators and path estimates are constrained to be equal across the various groups (e.g males and females). If the $\Delta \chi^2$ is > χ^2,α=0.001, then the moderating variable has statistical significance on the baseline model.

Discussion of Findings and Implications

A notable finding in this paper is that financial exclusion may be viewed from varying perspectives. As such, it may be convenient to categorise it into two vis. voluntary and involuntary. The import of this categorization is to avoid the likely pitfall and the likely implication for policy formulation if access to and use of financial services are viewed as same. This classification which is in line with Demirguc- Kunt et al (2008) makes the understanding of the issues relating to financial exclusion less confounding. In this regard, while both eligibility and affordability can be classified as involuntary financial exclusion barriers, financial complacency, cultural capital and religious considerations are likely indicators of involuntary financial exclusion.

Moreover, the findings in this study is consistent with those of Ikhwan and Johnston (2009) in Indonesia, Corr (2006) in Ireland, Osili and Paulson (2006) in the Unites States of America, Kumar et al (2007) in Brazil, and the World Bank study on an finance for all by Demirguc-kunt et al (2008). Other studies are those of Navajas and Tejerina (2006) in Latin America and Morduch (2007) in Southeast Asia. Each of these studies also either identified all or most of the five barriers found in this study based on exploratory and subsequent confirmatory factor analysis. Particularly, this study in alignment with the extant literature noted that even when both the voluntary and involuntary factors had high factor loadings; it appears that the incidence of self-exclusion is more prevalent. This offers a rebuttal to the often simplistic assumption that access would automatically translate into use of financial services (Anand and Rosenberg, 2009).

A major objective of this study was also to assess the factorial invariance based on the demographic profile of respondents. The analysis reveals that gender, education and type of microenterprises have statistically significant moderating effect on the lack of financial citizenship among the respondents in the sample. This is consistent with the findings of Kumar et al (2005) and Campbell (2006). This is unexpected especially where a higher level of education would have implication for the level of awareness and understanding of the complexities of documentation archetypal of financial services in developing countries like Nigeria.[1]

In conclusion, the independent and mutual implications of both the voluntary and involuntary barriers to financial citizenship are noted. 'This may have serious consequence for the microenterprise development effort of the Nigerian government as part of its National Economic Empowerment Development Strategy (NEEDS). Moreover, since lack of use reflects more of the financial exclusion than access to financial services, it may be necessary for the monetary authority to re-examine its policy framework. Perhaps, it has provided more room for regulatory arbitrage in the guise of a broader access. As such, more

[1] See Owualah (2002) and Ikhwan and Johnston (2009).

microfinance banks are springing up, but patronage is not maximized as noted in Isern et al (2009) in their FinScope Survey of Nigeria. Finally, the implication of the demographic invariance analysis would suggest that more awareness campaign may be needed to arouse the consciousness of the less educated. Perhaps, their voluntary exclusion may be linked to their lack of awareness!

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