Determinants of Financial Exclusion in Kano State, North West Region of Nigeria

[1]Bashir Ahmad Daneji (PhD), [2]Ahmadu Aminu Hamidu (PhD),
[3]Mahmud Mohammed Kakanda (PhD)* & [4]Aliyu Umar Fudamu (PhD)

*Corresponding author
[1 & 2] Department of Banking and Finance, [3]Department of Accounting
Modibbo Adama University of Technology, Yola, Adamawa State, Nigeria.
[4]Department of Business Administration, Adamawa State University, Mubi
Adamawa State, Nigeria.
[1]badaneji@yahoo.com, [2]aahamidu98@yahoo.com, [3]manga4m@gmail.com
& [4]ab14407@gmail.com

Abstract

Financial exclusion indicates the rate at which financial services are not reachable or patronized by certain groups of individuals or business enterprises. Perceived benefits derived from use of financial services leads to reduction in level of financial exclusion. Determinants of financial exclusion covered by this study include; age barrier, income level, qualification level and perception attached to the use of financial services. All the variables are having impact on the level of financial exclusion in Kano state. For the purpose of this study, a survey questionnaire was administered to 320 respondents from various local governments of the state. A simple random sampling technique was used as the total population is not known. A PLS-SEM approach was used in analyzing the data. Usage of financial services is positively impacting the financial exclusion of the respondents. Age has less significant impact on financial exclusion. Concurrently, income level and qualification level have a strong positive relationship in determining the level of financial exclusion of the respondents. Suggestions were made on increasing awareness level, introduction of financial services that are relevant and affordable to the respondents, boosting economic activities and introduction of credit facilities with low interest rate. Further studies are needed to seek more robust findings based on introducing variables like; religion, cultural influences, entrepreneurial attitudes and possibility of sourcing data from managers of financial institutions to make more findings in future studies.

Keywords: *Financial Exclusion; Financial Services; Determinants; Financial Institutions; Income Level*

1.0 Introduction

Financial exclusion refers to the portion of population (both individuals and businesses) who could not access or are not capable of using financial services from formal financial institutions. The financial services include but not limited to deposits, savings, borrowing/financing, withdrawing, pension, insurance, and investing. Some of the formal financial institutions include Deposit Money Banks, Investment Banks, Development Banks, Microfinance Banks, Finance companies, Pension companies, Insurance companies, and Mortgage companies. Other relevant term is called 'financial inclusion' which refers to the portion of population who have access and capable of using financial services from formal financial institutions. Vividly, financial exclusion is an antonym of financial inclusion; the latter is beneficial to individuals, businesses and economy at large while the former is undesirable to all (Adewale, Pramanik, & Mydin, 2012). So, looking at individuals and businesses, it is either one is financially included or excluded no other class to belong.

In global financial discuss, war against financial exclusion is getting momentum in the reform agenda of nations because of the role financial inclusion play in addressing economic and social problems, the united nations' sustainable development goals (SDGs) and in different G20 leaders summit (Lagarde, 2014, and IMF, 2015a). It has been observed that access to financial services has a critical role in reducing extreme poverty, boosting and building sustainable economic growth, and achieving rapid development (Demirguc-Kunt & Klapper, 2012; World Bank, 2014). That is why the global effort to reduce financial exclusion to the

lowest level is ongoing in many countries and in different forms.

For economic growth to be sustained and culminates in economic development, reasonable financial inclusion must be ensured. All-encompassing financial inclusion would mobilize much savings which hitherto not. The savings could be used for investment by entrepreneurs thereby reducing poverty, unemployment and crime tendencies among citizens, manifesting in increasing standard of living of poor, rural populace and women (African Development Bank–AfDB, 2013). Through reasonable financial inclusion government economic empowerment, non-governmental organizations (NGOs), national and international donor agencies can easily reach the vulnerable poor and small businesses. Despite the fact that developing economies in Africa and Asia are recording successes in economic growth and development, the stubborn issues challenging their successes among others are poverty and income inequality. Political and to some extent religious turmoil experienced in Africa and Asia were caused by these negative economic indices. Averagely, less than 25 percent of the total adult population has account with a formal financial institution in Africa. Furthermore, about 35 percent of small businesses in developing economies find it difficult to access financial services. Even where the financial services are available and affordable, it favors the rich, urban populace and men at the expense of poor, rural populace and women (AfDB, 2013; International Monetary Fund–IMF, 2015). According to a survey by Enhancing Financial Inclusion and Access (EFIA) (2010) as noted by the Central Bank of Nigeria (CBN) (2012), 46.3 percent of Nigerian adults were financially excluded. Out of the remaining percentage some were financially included informally.

In an attempt to reduce the huge financial exclusion portion in Nigerian economy, the CBN and other stakeholders considered implementing National Financial Inclusion Strategy. The strategy aimed at reducing the percentage of Nigerians that were excluded from financial services from 46.3 percent in 2010 to 20 percent by 2020. The financially included Nigerians with formal sector will be increase from 36.3 percent in 2010 to 70 percent by 2020 (CBN, 2013).

Although financial inclusion has become topical on the global policy agenda for sustainable development (Arun & Kamath, 2015), yet, academic literatures on financial exclusion/inclusion, is still at its infancy, and much need to be done (Asian Development Bank – ADB, 2015). Among the six regions of Nigeria, North West and North East regions were leading in the country with 68 percent each when it comes to financial exclusion. North Central, South-South, South West, and South East followed with 44 percent, 36 percent, 33 percent, and 32 percent respectively. In-depth analysis shows that North West is worse than North East with only 13 percent formally banked population as against 15 percent formally banked in North East (CBN, 2013). When it comes to poverty level rating, the same North West and North East regions were excelling, which indicates the likely relationship between poverty and financial exclusion.

In view of the above, this study is aimed at studying the determinants of financial exclusion in Nigeria with special focus on Kano State, in North West region of the country. This is because Kano state is the most populous and economically important in the region and the country at large. Also, the study intends to expose the stubborn determinants inhibiting the efforts of all stakeholders towards achieving reasonable financial inclusion for sustainable economic growth and development of Kano state. This study is made up of; introduction, literature review, methodology, result and discussion and conclusion and recommendation which occupies section one, two, three, four and five respectively.

2.0 Literature Review

2.1 Concepts of Financial Inclusion and Financial Exclusion

According to Deepali (2011), Reserve Bank of India viewed Financial Inclusion as a process of ensuring that low income earners, vulnerable and weaker section of the society are provided with the financial product and services at affordable price and in a simple manner by the institutional players. A process of ensuring access, availability, and usage of formal financial services can also be considered as financial inclusion (Sarma, 2008; Ratna *et al.*, 2015).

Financial exclusion is the other side of the coin of financial inclusion. A section of society is said to be financially excluded when they don't have access or are not capable of getting financial services from financial institutions. Sometimes the financial services may be very much available and affordable, but a section of the society may not have interest for one reason or the other. As such World Bank (2014) observed that financial exclusion is of two categories; voluntary and involuntary. Voluntary financial exclusion is when some individuals and businesses deliberately refused to enjoy financial services from recognized financial institutions while involuntary financial exclusion is when they (individuals and businesses) are willing to enjoy the financial services but could not get it because of some avoidable reasons.

However, Demirguc-Kunt and Klapper (2012) and Connolly (2014) as cited in Arun and Kamath (2015), consider financial exclusion as the summation of unbanked population and under-banked population in an economy. Unbanked population are adult without formal bank out and under-banked are adults that cannot access safe, affordable, or appropriate financial services like insurance and pension services. This shows that financial inclusion is much more than having a formal account but must include the availability and affordability of other financial services.

2.2 Dimensions of Financial Inclusion

A broader definition of financial inclusion which includes three dimensions; access, usage and quality were suggested by Alliance for Financial Inclusion (AFI) and Financial Inclusion Data Working Group (FIDWG) (2011) as cited in AfDB (2013). Access dimension contains; availability of formal regulated financial services i.e. physical proximity and affordability. Usage dimension contains; actual usage of financial services and product i.e. regularity, frequency and duration of time used. Quality dimension; products are well tailored to client needs i.e. appropriate segmentation to develop products for all income levels (AFI, FIDWG, 2011).

It is not enough to provide/make available the financial services by the financial institutions because it may not be affordable or useable. In simple terms, opening an account is one thing and continue using it is another as evidenced in Enhancing Financial Inclusion and Access (EFIA) (2010), where 2.8% out of 30% of adult Nigerians that had banking services dropped out. Sometimes it is not only low-income earners, weak or vulnerable section of the society that is financially excluded as opined by Deepali (2011), even high-income earners may be excluded. Similarly, in contrast to what was cited by AfDB (2013), our concern in this study are Access and Usage dimensions which collectively contains physical proximity, affordability, regularity, frequency and duration of time used.

AFI (2013) observed that three different levels of financial inclusion exist; access, usage and quality which inversely applies to financial exclusion. The first level is access, which is the most severe because it indicates total absence of financial services in an area. The second level is usage, which signifies lack of optimal use of the available financial services by individuals and businesses. Third level is inadequacy of quality of the financial product/services, which resulted from inappropriate segmentation in developing financial products/services.

However, countries are classified into four based on their adoptions level of financial inclusion as; early days, transitioning, payments ready and most advanced (Arun & Kamath, 2015). Early days, is the least level of financial exclusion with not more than 25% adoption of other financial products and 50% adoption of payments financial products. Nigeria belongs to this level but aspire to move to the next level. Most advanced level is the level with the highest adoption of other financial products as well as payment products, a target by all countries.

2.3 Consequences of Financial Exclusion

Financial exclusion has negative consequences on individuals, businesses and the economy at large (Adewale, Daud, & Salami, 2013; Dymski, 2005). It makes poverty to thrive and stimulates income inequality by making it difficult if not impossible for poor section of the society to access financial services (ADB, 2015; World Bank, 2014). This is corroborated by Tijjani (2018) who opines that alarming rate of financial exclusion among youths is the major cause of poverty in Nigeria. It can be inferred from Cull, Tilman and Nina (2014) who stressed that as a result of financial exclusion, individuals and businesses could not get access to credit, savings, insurance, and even electronic banking services which reduced costs and share risks. Also, it was negatively

correlated with economic growth, employment, capital distribution and financial stability. Furthermore, government, non-governmental, and other private social safety net transfer will be difficult.

However, Arun and Kamath (2015), observed that financial exclusion costs government much when it comes to payment of social grant to citizens. They cited example of South African government that saved almost $400 million over five years for their social grant which hitherto could have been spent as administrative charges.

2.4 Financial Exclusion Stimulants

World Bank (2014) mentioned some stimulants for financial exclusion as; cost of the financial service, travel distance to get the service, cumbersome paper work involves, and lack of demand for the financial product or service. Another view mentioned income, physical access, financial literacy, affordability and eligibility as the stimulant to financial exclusion (EFIA, 2010; IMF, 2015b). Moreover, Deepali (2011) identifies two sides of exclusion; demand and supply from where financial exclusion emanates. Literacy level, remote areas, disadvantaged social group, and informal sources of credit were on the demand side. While on the supply side, there were; distance from banks, appropriate product, convenient timing, and attitude of staff, identification, large number, low value and high transaction cost. In Nigeria, Jimoh (2018) identified high cost of transaction, distance of bank customers and complexities in the financial system as some of the major stimulants to financial exclusion. In another survey, David–west (2018) discovered misidentification of customers need is another factor stimulating financial exclusion.

Basically, majority of the financially excluded were found in rural areas (Johnson & Nino, 2009). It might not be unconnected with the fact that financial institutions hardly establish their presence in the rural areas for economic reasons. Economic activities in rural areas failed to attract financial institutions. Consequently, they locate themselves in cities. Correspondingly, financial literacy is also lower in rural areas than in cities (CBN, 2013). Further analysis revealed that women, rural dwellers, youth, people living in North-east and North-west Nigeria and Micro Small and Medium Enterprises (MSME) were grouped as financially excluded at different levels (CBN, 2018).

2.5 Research Question and Hypothesis

Despite its relevance in addressing economic challenges in today's world especially developing economies, financial exclusion is a topic that received little attention from the academia but much from policy makers and world of finance (ADB, 2015). Many determinants of financial exclusion were mentioned in the reviewed literatures. This study aims at examining the determinants that stimulates financial exclusion more than others in Nigeria to enable policy makers, regulators and other stakeholders to pay more attention to them. The question is what are the determinants that play significant roles in excluding individuals and businesses from getting financial services? However, among the determinants of financial exclusion, the following four are among the most disturbing;

i. Income
ii. Use of financial services
iii. Financial literacy/Educational qualification
iv. Eligibility age wise

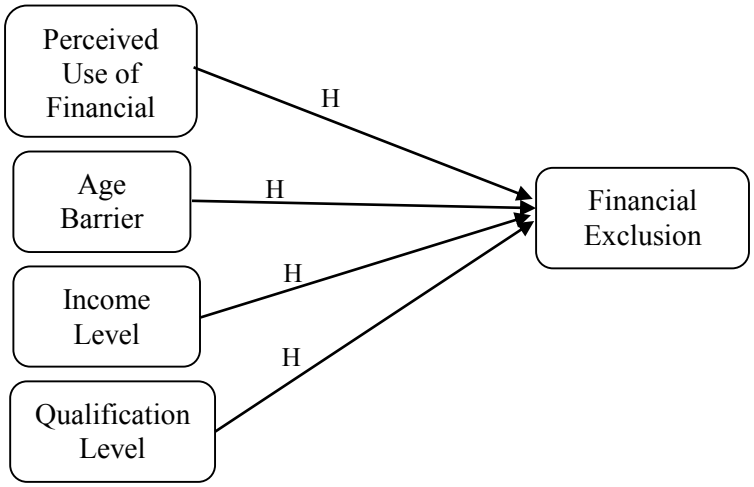


Fig. 1
Research Model

After the review of related literatures and depiction of the research model, the study shows a relationship exist between perceived usage of financial services and the level of financial exclusion. The following hypothesized relationships are stated;

H1 – Usage of financial services directly influences the level of financial exclusion

H2 – Age barrier affects the level of financial exclusion

H3 – Income level influences the level of financial exclusion

H4 – Level of qualification has an impact on the level of financial exclusion

3.0 Methodology

The study utilizes a quantitative approach in analyzing the results from the data collection process. The sampling technique is a simple random sampling targeting those who are expected to be facing a form of exclusion from financial institutions services. Therefore, 320 respondents successfully answered the survey instrument. The study area is Kano state consisting of major towns of the 44 local government areas. Respondents from local governments with major towns are more than the number of those from remote and small local governments. Each local government has not less than 7 respondents, making up the total number of 352 respondents, after sorting out the unusable ones the 320 responses emerged as the valid observations for analysis purpose.

Considering the general awareness or level of literacy especially on formal financial institutions services is not high enough, large numbers of questionnaires were distributed to cover unusable ones because of the nature of the respondents. Nonetheless, the amount of used questionnaire for the study is considered adequate because the sample requirement for use in Partial Least Square (PLS) is already attained (Hair, Hult, Ringle, & Sarstedt, 2014). According to the requirement of sampling for Partial Least Square-Structural Equation Modelling (PLS-SEM), the sample size should be more than 90 and ten times the number of paths or hypothesized relationship in the research model. The questionnaire consists of questions on categorical variables like; age, income, qualification, and usage dimension all having impact on financial exclusion of the respondent. The dependent variable is financial exclusion adapted from (Adewale *et al.*, 2012), as an outcome variable measurement it consists of items that measure affordability, eligibility, physical presence, and financial literacy.

Moreover, the variable financial exclusion measurement is intended to afford the respondents the avenue to rate answers on the level at which they can afford to patronize or be in need of financial services offered by different financial institutions and how their eligibility to receive financial services depend on factors like his income level, age of eligibility to engage in contracts, and securing a formal job before subscribing to a service offered by financial institutions. Finally, the level of awareness or financial literacy of the respondents is used as a yardstick for studying the determinants of financial exclusion in Kano state. PLS-SEM (partial least square-structural equation modeling) is used for analyzing the data because of sample requirement is low, assumption of normality is not required, the study is aimed at predicting factors that lead to financial exclusion, hence PLS-SEM is quite suitable because it is purposely invented for prediction of outcomes. According to (Hair et al, 2014) PLS is suitable for analyzing a model that is complex with multiple variables and at the same time with relaxed requirements on sample size, distribution assumptions and measurement scale requirements. The measurement model is used to test reliability and validity of all variables in the study. After establishment of validly, the data is subjected to path analysis in the structural model where all hypothesized relationships are tested and the predictive analysis of the model is given.

4.0 Results and Discussions

After explanations on the methodology used comprising the variables measurement, the next item is the measurement model.

4.1 Measurement Model

Applying the two-stage approach in data analysis using the PLS-SEM approach requires determining the convergent and discriminant validity of constructs with their measurement indicators or items. Convergent validity focuses on the reliability and validity of all measurement items of the study (Hair *et al.*, 2014). The essence of establishing convergent validity is to ensure all items are reliable as well as consistent when grouped together under a variable of study. It conveys the level at which all items converge in terms of reliability and

consistency because they are expected to measure the same variable. Major items to inspect for convergent validity include; factor loading (> 0.7, for exploratory studies), average variance extracted AVE (> 0.50) and composite reliability CR (> 0.70) (Hair *et al.*, 2014; Wong, 2011).

In this study, all the factor loadings exceed the minimum threshold of 0.7, and no items were dropped because of low loadings. All the 8 items for FS (use of financial service) and 16 items for FE (Financial exclusion) are therefore included in the analysis. For the composite reliability of variables, all are above the required minimum of 0.7. The average variance extracted (AVE) for all the constructs exceed 0.5. The highest AVE is 0.739 for financial exclusion, while the lowest value 0.702 is for the variable 'use of financial services. Table 1 carries the convergent validity of constructs.

Table 1 *Convergent Validity*

Variables	Items	Factor Loadings	CR	AVE
Use of Financial Services (FS)	FS1	0.832	0.926	0.702
	FS2	0.863		
	FS4	0.884		
	FS5	0.922		
	FS6	0.824		
	FS7	0.801		
	FS8	0.812		
Financial Exclusion (FE)	FE1	0.773	0.911	0.739
	FE2	0.783		
	FE3	0.835		
	FE4	0.823		
	FE5	0.852		
	FE6	0.830		
	FE7	0.902		
	FE8	0.818		
	FE9	0.872		
	FE10	0.861		
	FE11	0.928		
	FE12	0.836		
	FE13	0.802		
	FE14	0.716		
	FE15	0.864		
	FE16	0.828		

4.2 Discriminant Validity

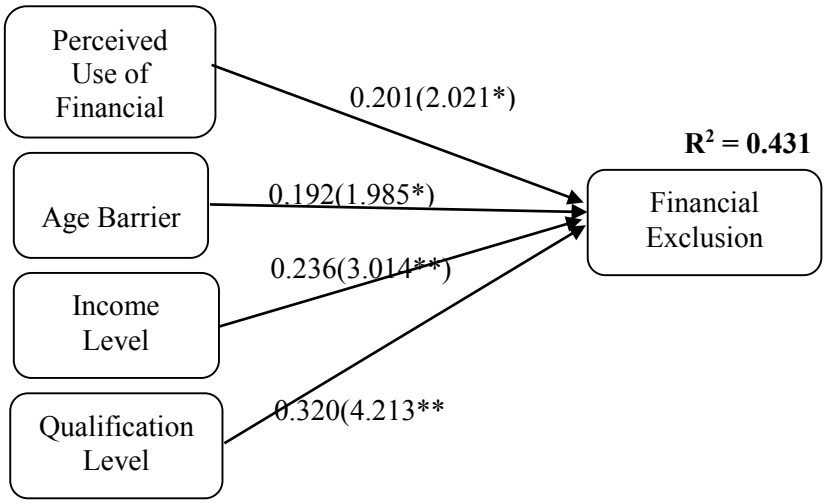
Discriminant validity is used in the measurement model to test the level at which construct gets discriminated from other constructs in the model. Two approaches are used in establishing the discriminant validity of constructs; the Fornell and Larcker (1981) criterion which specifies that the square root of AVE for each variable must exceed the level of correlation it has with all other variables in a model (Henseler, Ringle, & Sarstedt, 2015). Table 2 shows the discriminant validity using the Fornell-Larcker criterion. The second approach is the HTMT ratio of correlation shown in brackets which indicates all values not exceeding 0.80. Therefore, the data for this study is not deficient in discriminant validity of constructs.

Table 2 *Discriminant Validity*

	FS	FE
Use of Fin. Services (FS)	0.873	
Financial Exclusion (FE)	0.634 (0.573)	0.861

4.3 Structural Model

The next step is assessment of the structural model. The structural model consists of assessing the path coefficients (that is, the beta and t-values), the R^2 values indicating variance explained on outcome variables in the model as 0.43. The Q^2 value of predictive relevance indicate an acceptable value of 0286 which is greater than 0. Figure 2 presents the structural model of this study while Table 2 shows the result of the path analysis. All the 4 proposed direct relationships are significant with effect sizes ranging from 0.152 to 0.312 and t-values of 1.985 to 4.213.



Note: (* and ** = p< 0.05 and 0.01 respectively)
Fig. 2 *Path Analysis (path coefficients, t-values in parentheses (), and R^2 value)*

Table 2 *Test of Hypotheses*

		β value	t-value	f^2 value	R^2	Q^2	Decision
H1	FS → FE	0.201	2.021*	0.183	0.431	0.286	Yes
H2	AB → FE	0.192	1.985*	0.152			Yes
H3	IL → FE	0.236	3.014**	0.243			Yes
H4	QL → FE	0.320	4.213**	0.312			Yes

Note: (*p < 0.05; **p < 0.01) FS = Perceived Use of Financial Services, FE = Financial Exclusion, AB = Age Barrier, IL = Income Level, QL = Qualification Level

All relationship between perceived use of financial services and level of financial exclusion, age barrier to subscribing for services, income level of respondents, and qualification level to financial exclusion are supported. Age barrier has the lowest impact on level of financial exclusion H2 (β = 0.192; t-value = 1.985), the reason for this low impact is that age barrier is minimal among the requirements for subscribing to services and virtually most of the respondents are not minors. There are also services rendered by financial institutions to even minors like kid accounts and family investment trust funds which accept transactions on behalf of minors, therefore age barrier has limited influence on level of financial exclusion.

Use of financial services is also having a less significant impact on financial exclusion H1 (β = 0.201; t-value = 2.021), the perceived benefit attached to a financial service has less impact because respondents level of awareness with expected benefits is not so low to certain extent. The theory of perceived benefit is in support of dealing with perception and how it affects pattern of behavior or attitude.

The remaining relationship are strongly impacting on financial exclusion H3 (β = 0.236; t-value = 3.014), H4 (β = 0.320; t-value = 4.213), income level of respondents greatly influences level of financial exclusion, all those having low income cannot invest in channels that require huge capital deposits, and those that are having less educational qualification tend to

be unaware of existence of other investment alternatives, because investments that are highly formal in nature require high level of awareness and professional qualification to participate like brokerage, investment banking, and financial consulting.

5.0 Conclusion and Recommendations

The study used variables that are associated with perceived use of financial services like age, income and qualification level to determine the level of financial exclusion of respondents from Kano state of Nigeria. The study found out that age barrier has lowest impact in determining how respondents are excluded from financial services. Income and qualification level matters most in determining exclusion because there are investments that require a sizeable and steady income from a professionally qualified person before going into it, the study is in concurrence with the some studies (Muhammad et al, 2018; Akeem et al, 2018). This study concludes by recommending the increase in awareness level, sources of income generation to ordinary citizens and financial institutions are expected to identify a new customer base that require more services to reduce exclusion, also as noted in (Shinkafi et al, 2019) to influence those willing to invest in non interest alternatives, there must be an extensive public awareness of products and services offered by financial institutions. Since the research is conducted in Kano state there is need to replicate it in other commercial towns of Nigeria with the addition of variables like religion, cultural influences, values and ethics etc to make more robust findings. Furthermore, observing that the variance explained by the outcome variable is moderate, there is a need for conducting another study with additional predictors to have outcomes that is outstanding. Financial exclusion is also determined by gender of the respondents as exposed in (Felicia et al, 2018), hence there is need for more studies on the impact of gender on level of financial exclusion. The study used a simple random sampling, there is need in the future to consider other sampling techniques and also increasing the number of respondents. There is need of targeting managers of financial institutions among the sample of respondents to reduce bias caused by a data from single source.

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