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# Financial Cooperatives: Narrowing the Gaps in Financial Inclusion

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Financial inclusion has been identified as a priority target in the national agenda for inclusive growth and poverty reduction in the Philippines. The government aims for an inclusive and resilient financial system through a more efficient mobilization of financial resources and improved environment for the financial system. The *Bangko Sentral ng Pilipinas* (BSP) defines financial inclusion as the state where there is effective access to a wide range of financial products and services by all. With effective access, we mean having access of all market segments to a full suite of financial products and services, which are designed to address the clients' needs and purposes and to lead to actual usage that will improve their welfare.

At present, the Philippines is among the countries in the world with the most conducive environment for financial inclusion; however, on the demand side, financial access remains a problem. It is known for a fact that financial services in rural and far-flung areas are less available and accessible than in highly populous and urbanized areas, which the formal institutions find more lucrative due to the presence of more bankable clients. As such, 36% of the country's municipalities remain unserved by banks as of 2014 (http://www.bsp.gov.ph/downloads/publications/2015/PhilippinesNSFIBooklet.pdf). In 2015, only 26% of adult Filipinos had savings accounts, 20.6% were covered by microinsurance, and 10.5% had access to formal credit (Survey of Global Microscope 2015).

With the imbalance in spatial distribution of the financial services across localities, alternative financial service providers (FSPs) like cooperatives can be a potential solution. Besides rural and cooperative banks, which are present in areas that universal and commercial banks do not usually reach, financial cooperatives are also effective access points or delivery channels that can narrow the gaps in financial inclusion. Next to banks, credit cooperatives are the most common type of financial institution where households save . As of 2014, there are already 3,194 local credit cooperatives and 14,912 multipurpose cooperatives, most of which provide financial services. Credit cooperatives cover 814 or 50% of all municipalities and cities in the country.

These cooperatives are among the FSPs with high potential of bridging and moving the people tied with the informal financial providers to the formal financial sector. They can effectively target the unbanked poor communities and facilitate their access to finances. As a business model guided by the principle of "people before profit," a financial cooperative is motivated to help people with their needs and aspirations by ensuring their access to financial services. It operates based on the values of democracy, self-help and self-responsibility, equality and equity, and solidarity. It promotes a more equitable distribution of capital within a community. A cooperative fosters inclusiveness through its open and democratic nature and its commitment to serve the community. It offers conditions on financial contracts that are appropriate and adaptable to the characteristics of its members.

The reach and impact of financial cooperatives is more meaningful because they are owned by the people who created and financed them using their pooled resources. Because of its member- and community-based approach in delivery of financial services, a cooperative could be a viable model for improving financial access. This "cooperative way" of doing financial business is highly supportive of financial inclusion. Studies to determine to what extent cooperatives are able to address the financial needs of underprivileged communities are imperative.

The Sorosoro Ibaba Development Cooperative, an example of cooperative providing savings and credit services to its members

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