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ABSTRACT

Inequality in the world is increasing in an alarming way. People with capital and high income are becoming richer while the rest's share of wealth is declining. A reason is that the rate of return of capital (which contributes to the wealth of capital owners) has been historically higher than the rate of GDP growth and the interest rate of common savings accounts. Millions of people in the world, however, do not even have financial savings and so, inflation makes their money lose its value faster.

Financial inclusion, as a policy to broaden access to formal financial products and services so they can be used to enhance low-income households' financial strategies and livelihoods, is helping to fight inequality. Conventional financial inclusion is composed of savings, payments and credit; and sometimes insurance. However, the category of investment, where the largest inequalities are and where the biggest barriers lie for low-income households, is often ignored, which means that it is not monitored either.

Literature indicates that financial capabilities of low-income people are lower than the rest. Therefore, promotion of investment – which by definition is risky – has been avoided within financial inclusion for this segment of the population, who are also economically vulnerable. Thus, it is important to check

their financial capabilities in terms of knowledge, behaviour and attitudes, in relation to investment. To do this, the city of Tuluá, in Colombia, is chosen as location for a survey. The target population is CCT recipients of the programme *Más Familias en Acción* and their partners.

Results show, as expected, low financial capabilities for investment in CCT-receiving population, with higher differences among individuals depending on their sex, schooling, bank account ownership, and income source (formal or informal) as well as frequency and regularity of income. In contrast with literature, this population was highly banked (98% had a bank account) and was used to saving through a pensions fund. A surprising result was that 18% of people had saved through time deposits in the previous year (just one person had knowledge of stocks).

Income source plays a very important role in financial capabilities, which draws to the observation that, more than education, life experience builds financial capabilities. High financial capabilities were found in a group of people that owned a business either formally or informally (registered or unregistered), mainly women with primary and secondary schooling only. This group was labelled as the entrepreneurs. Their knowledge of financial products is particularly good as well as the diversity of their savings portfolio. They use cooperatives more than the rest.

These findings are important to support the idea of introducing investment into financial inclusion policy. This would incentivise formal financial institutions and others to design products that lower the barriers low-income people encounter to invest in financial products. It would also encourage financial regulators to monitor investment products in terms of financial inclusion and identify those barriers. Time deposits, though not an investment product as such by this research's definition, could be promoted as a way to gain a higher return for low-income people.