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Community Capitals: Financial Capital

Cheryl Jacobs, Extension community development educator

INTRODUCTION

Financial capital is often the easiest to measure, and it can be used to measure the other community capitals. Financial capital is money that is used for investment rather than consumption. Money is a tangible asset that can be measured: profits and losses can be tracked, and it is easily turned into other kinds of assets. Money can be used in two basic ways: (1) consumption, where money helps us to purchase goods and services; and (2) investment, where money earns interest which can be used to earn more money.

Examples of financial capital in a community:

- bond issues to aid community economic development
- foundation grants as a source of external financial support
- revolving loan funds
- micro loans to aid community economic development
- tax abatements
- gifts
- transfers of wealth

FINANCIAL CAPITAL AT WORK IN A COMMUNITY

An illustration of how financial capital has the potential to impact several other types of capital can be found in the following example (fig. 1 illustrates the cycle of financial capital):

The city council voted (*political capital*) to use a 1% sales tax to help fund community projects. When people shop at the stores on Main Street, they pay a 1% sales tax, which generates money (*financial capital*) to be deposited into

the “Build Our Community Fund” (BOCF). The BOCF board works together to come up with ideas (*social capital* and *human capital*) and decides to use the money to build a new park in the community. The new park includes newly planted trees, a bird habitat area, and a nature trail (*natural capital*), making it a great place for individuals and families.

Soon, word spreads in the region that this community is making positive changes in the town. That attracts new residents who shop on Main Street, paying the 1% sales tax, which grows the BOCF, and the cycle continues.

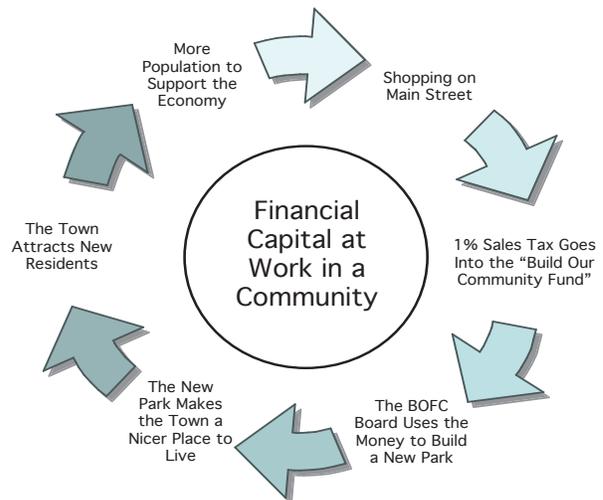


Figure 1. Cycle of financial capital

USING FINANCIAL CAPITAL FOR CONSUMPTION OR INVESTMENT

We can further define the difference between using financial capital for consumption or investment. An example of investment can simply mean purchasing a

savings bond, which earns interest, which can be used to develop other types of capital.

But in our definition of community capitals, capital is any resource capable of producing other resources. If money is used to “buy a car for personal enjoyment, the car is not considered a form of capital. But if you buy a car in order to run a shuttle service, the car becomes a means for generating income. A resource (the car) is capable of producing other resources (your income)” (Flora et al. 2004).

Financial capital is typically the most easily converted capital of the seven community capitals, and, for some, the easiest to measure, because spending dollars and cents is a tangible measurement that people understand. Financial capital is not always in the form of money. It can also include things like stocks, bonds, lines of credit, and real estate.

GRANTS AND LOANS

Another common example of financial capital available to a community includes grants and loans. While these are good sources of funding for community development, they are not the only answer. Many communities find that, while grant writing is not difficult, it needs to be learned to be successful.

There are two main sources of grant funds available to communities: (1) government grants and (2) foundation grants. Government grants are typically more complicated and often have strict guidelines for applying. Qualifications, applications, and deadlines for foundation grants differ depending on the entity offering them, but are another good source of resources to seek out. Experienced grant writers will tell you that success rates for getting a grant funded are not that high, so persistence is the key.

Another method communities use to create fi-

ancial capital is through the creation of community foundations. Local citizens, businesses, and organizations invest assets in a foundation that provides loans and grants to entrepreneurs, business owners, and a variety of community-economic-development and -betterment projects. These local foundations have a say in how local projects are funded and are specific to a set of goals outlined by the community.

In addition to seeking grants and loans, communities are starting to look at the wealth found within their own communities. Too often, major investors living in their own communities are overlooked. Communities can encourage local citizens to do estate planning and transfers of wealth to a community fund, rather than or in addition to other charitable causes. Communities can cultivate financial capital by making the most of intergenerational transfers of wealth and providing ways for people to give back to their community.

Financial capital is more than just money: it is often based on the connections to power (political capital) and is probably the one community capital that has the most potential to impact all of the other capitals. It is also often the focus of all community development, as money is the resource that drives many community change projects. Communities depend on financial capital to invest in the growth of the community and to ensure sustainability for the future.

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