



DORTMUND

NORDHAND

Facilitating access to loans for small and microbusinesses in disadvantaged areas

Dortmund's Nordstadt area has around 53 000 inhabitants and 3 500 companies. Migrants run one third of them. The area has the most difficult socio-demographic situation in the city: it has the highest unemployment rate (25%), the highest proportion of migrants (70%), and the lowest purchasing power.

The job and shopping opportunities available in urban areas contribute significantly to their desirability, with areas with a lot of work and amenities being more popular and perceived as offering a good quality of life.

Underperforming or deprived neighbourhoods have an impact on the whole city, damaging its image. These areas also have higher social welfare costs.

Traditionally, banks have not provided financial services, such as loans, to clients with little or no cash income. Because of these difficulties, small entrepreneurs often rely on relatives or local moneylenders, whose interest rates can be very high.

LOOKING UP

City authorities in Dortmund created NordHand credit union in 2006 as a way to help establish or expand small businesses. It provides microloans; assisting entrepreneurs overcome short-term financial problems. This microfinance can help revitalise disadvantaged areas.

Microfinancing is part of an integrated strategic policy to stimulate and support the local economy. Accessing external funding, particularly bridging loans or pre-finance orders, is often very difficult for small and micro-enterprises in Nordstadt. Reasons include poor credit-worthiness, language issues and a lack of information when presenting company statistics.

A completely new model of microfinancing was developed by the city's economic development agency, taking into account Germany's legal structure. Together with GLS Bank Bochum and the Deutsche Mikrofinanz Institut (DMI), Dortmund city authorities developed a type of credit union that could provide microfinancing to local businesses. Loans of up to €20 000 for 36 months means entrepreneurs can access start-up finance or avoid insolvency. This microfinancing has become an important service with a unique organisational format in Germany.

NordHand is increasingly becoming an advisory network for its members. Members can get advice from one of the two chairpersons or share their experience with other entrepreneurs through regular meetings and information events run by NordHand.



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SUCCESSSES

NordHand began with 16 members and now has 130 member companies. Demand for microfinancing continues to grow. In 2008, three loans totalling €30 000 were approved; today this has grown to 47 loans totalling over €400 000. This has created or saved more than 300 jobs in the area. NordHand is the first point of call for small companies with liquidity problems. It is an established partner for chambers of commerce and stakeholder associations. Assuming annual unemployment costs of €20 000 per unemployed person, NordHand has achieved an overall profit for the city amounting to over €6 million.

CHALLENGES

- 1 Many challenges are associated with running a microfinancing organisation, including setting lending rates, financial supervision and trade laws. However the biggest problem is the low profitability of microfinancing.
- 2 Five elements are crucial to the success of the credit union:
 - competent and engaged colleagues
 - a clear, legally protected structure
 - established networks and support from stakeholders
 - a visible office in the area
 - (in this case) a cooperative bank in the background.
- 3 Every district is different, depending on people and their cultural background. Therefore any authorities thinking of creating a similar system in their city need to get to know their local clients.

FACING THE FUTURE

The NordHand team plans to welcome more members, introduce new products and continue providing advice to their clients. The loan programme will extend the programme to new target groups: real estate owners, the creative industries, women and specific migrant communities (Islamic Banking). These new potential areas for growth will be developed and set up according to the specific needs of these groups. The existing range of topics the credit union team can offer advice on will be assessed and extended.

FUNDING

The credit union is funded under the federal research programme 'ExWoSt', receiving €85 000. The credit union also received €15 000 under URBAN II and the European Structural Fund (ESF). The German federal level contributed €120 000 in total between 2009 and 2012 under BIWAQ, a federal-level ESF programme, and €65 000 from the Dortmund economic development agency's own resources, as well as the BMAS – Mikrofinanzfonds Deutschland, a federal-level fund which provides security for microfinance loans.