March 2014

**Rebuilding SME’s confidence to borrow**

A new report from the Enterprise Research Centre (ERC) sheds more light on ‘discouraged borrowers’ – a previously under-explored group of SMEs who choose not to seek bank finance because they believe they will be unsuccessful. The report, ‘Back to Borrowing? Perspectives on the ‘Arc of Discouragement’, identifies a group of around 173,000 small business which are discouraged borrowers (about 4% of all firms). The report advocates six steps that banks, Government and others should take to encourage an extra 123,000 of these SMEs to apply for bank finance – two thirds of which the ERC estimates could be successful.

The research found that the basis for discouragement is often the refusal of a loan or overdraft application in the past. However, insights from case studies of small firms indicated that it is as much the way the refusal is delivered that discourages borrowers as the refusal itself. The research also found that media coverage of bank lending appears to have had relatively little impact on perceptions that applications will be successful.

Stuart Fraser, author of the report and Associate Professor of Enterprise at Warwick Business School, said:

“Our research raises a number of questions for banks, not least how important positive banking relationships are, and we’ve heard high street lenders commit to improving the quality of their service to SMEs, which is a positive development. But we think there are a number of other steps that could be taken to ensure smaller borrowers are sufficiently informed of the process, their rights, and the support that exists for them.”

Based on the findings of the research, the report recommends six measures for banks, Government and business support bodies to take that would help tackle the underlying issues that lead to discouraged borrower concerns:

1. Banks should ensure the Lending Code/Principles are implemented more consistently and effectively
2. Banks, the British Business Bank and business support groups should raise awareness of the Lending Code/Principles among borrowers
3. Banks, the British Business Bank and business support groups should raise awareness of the Appeals Process among borrowers
4. The British Business Bank, assisted by banks, credit reference agencies, business support groups and alternative finance providers should form a working group to explore how they can
	1. enhance business awareness of their credit health and the steps they need to take to improve it
	2. help businesses find alternative providers of finance where this is more appropriate
5. The British Business Bank and business support groups should raise awareness/take-up of support from the Start-Up Loans Company among borrowers
6. The British Business Bank and business support groups should raise awareness/take-up of the Enterprise Finance Guarantee Scheme among borrowers

The ERC report ‘Back to Borrowing? Perspectives on the ‘Arc of Discouragement’ features further insight and analysis into the reasons for discouragement and how businesses can be encouraged to apply for lending, as well as details of in-depth interviews with discouraged borrowers.

Download a copy of the report [here](http://erc.wpstaging.co.uk/publications/back-borrowing-white-paper-8/).

**ENDS**

**For more information or to arrange an interview with the report author please contact:**

Tom Yazdi/Mark Fuller

Linstock Communications

020 7089 2080

**Notes to Editors**

1. The Enterprise Research Centre (ERC)is an independent research centre which provides robust and reliable evidence to guide SME policy and practice. The ERC is a partnership between Warwick Business School, Aston Business School, Imperial College Business School, Strathclyde Business School and Birmingham Business School.

2. ERC funding is provided by the Economic and Social Research Council (ESRC), the Department for Business, Innovation & Skills (BIS), the Technology Strategy Board (TSB) and the British Bankers Association (BBA).

3. This report is part of the Enterprise Research Centre’s wider programme of work on finance and SME growth. For more information please visit <http://enterpriseresearch.ac.uk/>.