

Research Paper No. 69

**EXECUTIVE SUMMARY
May 2018**

(full paper link: <https://www.enterpriseresearch.ac.uk/our-work/publications/>)

**An empirical examination of discouraged borrowers
in the UK**

Ross Brown

Centre for Responsible Banking & Finance, School of Management,
University of St Andrews

Ross.Brown@st-andrews.ac.uk

Jose Liñares-Zegarra

Essex Business School, University of Essex and Centre for Responsible Banking & Finance,
School of Management, University of St Andrews

jmlina@essex.ac.uk

John O.S. Wilson

Centre for Responsible Banking & Finance, School of Management,
University of St Andrews

jsw7@st-andrews.ac.uk

ABSTRACT

This paper investigates the differences between small and medium sized firms (SMEs) that apply for funding and those that are discouraged from applying for funding - so-called discouraged borrowers. The dynamics and determinants of borrower discouragement, together with its impact on the activities of SMEs are also investigated. Data from the Longitudinal Small Business Survey suggests that one in ten SMEs (9.3%) can be classified as being a discouraged borrower or as many as half a million UK SMEs could be discouraged borrowers. Micro SMEs (employing between 1-9 employees) reported the largest levels of borrower discouragement compared to larger SMEs. Service sector SMEs are less likely to be discouraged borrowers compared to manufacturing counterparts. Discouraged borrowers can be found across all the regions throughout the UK, however, London stands out as the region with the greatest overall level of discouraged borrowers (15.7% in 2015). More generally the regions exhibiting higher levels of borrower discouragement are more peripheral in nature. Discouragement also varies strongly in terms of a firm's future growth-orientation, with growth-oriented SMEs substantially more likely to be discouraged borrowers than non-growth-oriented counterparts. At a more personal level, the biggest single factor shaping the overall intensity of borrower discouragement is risk aversion. The unwillingness of entrepreneurs to take on additional risk was one of the critical factors explaining their (self-imposed) borrower discouragement. Another was fear of rejection and concerns with the prevailing economic conditions.