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STATE OF THE EVIDENCE UPDATE: **Access to Capital for Young Entrepreneurs**

Part of the USAID Learning Series: Youth Workforce Development in 2022: What Have We Learned?

After four years advancing learning through its Youth Workforce Development Learning Agenda, USAID initiated a process in 2022 to review new evidence related to the learning questions. Toward this end, the USAID Center for Education commissioned a team of researchers to conduct a desk review, from which a series of **State of the Evidence Updates** offer a short synopsis of learning around some of USAID’s current learning agenda themes.

This State of the Evidence Update focuses on youth’s access to capital and how this contributes to youth self-employment outcomes. This brief explores one specific dimension of USAID’s research questions around program models, particularly those related to the most effective components, or combinations of components, in youth workforce development programs. Youth’s access to capital is one such component for attaining positive self-employment outcomes.



INTRODUCTION

Millions of young people in low- and middle-income countries are self-employed and/or microentrepreneurs,ⁱ and workforce development programs can help them develop their skills to start or expand a business. Research suggests that young entrepreneurs face special barriers compared to adults and are therefore more likely to succeed with a package of integrated, complementary services and supports. The combination of youth entrepreneurship services most often involves several of the following components: skills training; work exposure or work-based learning; coaching; market linkages; and extending access to capital, usually through cash transfers, business capital (cash grants, in-kind grants, soft loans, etc.), or financial services facilitation.^{1, 2, 3, 4, 5} The World Bank’s *State of Economic Inclusion Report 2021* observed “an unprecedented surge” in these types of “integrated economic inclusion programming”—reaching at least 92 million extremely poor and vulnerable people in 75+ countries, with 65 percent of these programs focused on youth.⁶

This evidence brief hones in on one component of this integrated package: when vulnerable, self-employed youth participate in integrated programs, to what extent does **access to business capital** contribute to youth self-employment outcomes? To answer this question, this brief builds on earlier work on the impact of cash transfers⁷ and

ⁱ USAID distinguishes among three main categories of jobs in USAID partner countries: (1) wage or salary jobs; (2) self-employment on a family farm; and (3) self-employment in a household business, also known as microenterprises and/or household enterprises, which include gig economy jobs. These classifications are distinct from the term “modern firm” which is a firm characterized by newer technology, economies of scale, and effective management practices. See [Getting Employment to Work for Self-Reliance: A USAID Framework for Programming](#), pp. vii–viii and 45–48. This brief uses the terms “self-employed” and “microentrepreneurs” interchangeably to reflect USAID categories 2 and 3.

explores the evidence around cash grants to determine whether a capital injection on its own is sufficient for young people to start or grow a business. It then presents recent evidence on other salient forms of youth financial inclusion programming such as financial literacy, savings, and microcredit.ⁱⁱ

Young microentrepreneurs continue to report that access to finance is a significant barrier to starting and/or growing their businesses, in both agricultural and non-agricultural sectors.^{8, 9, 10} Youth tend to struggle more with accessing finance than other groups because financial institutions tend to perceive youth as riskier clients who lack business experience, a credit history, or collateral in the form of savings or other assets.¹¹ Women in particular face considerable constraints in accessing finance, translating to a 6-percentage-point gender gap in access to finance as of 2021.¹² Many of the financial barriers for women include self-perception, discriminatory social norms, and early marriage.¹³ To illustrate one dimension of this gender gap, a recent report on the state of mobile money indicated that women face greater barriers to mobile money services due to limited access to technology, low literacy and other skills, low awareness of mobile money services, and other factors.^{14, 15, iii}



IN WHAT WAYS DOES A ONE-TIME CAPITAL INJECTION CONTRIBUTE TO YOUTH EMPLOYMENT OUTCOMES?

A one-time capital injection boosts youth entrepreneurship in the short term, particularly among men, but those effects appear to diminish after a few years. Earlier research found mixed evidence on the efficacy of cash grants on entrepreneurial outcomes (productive assets, incomes, profits, and business activity) for adults, with benefits mostly seen among men.^{16, 17, 18, 19} The recent evidence for youth populations paints an even more nuanced picture, suggesting that the gains youth experience from capital dissipate over time, either due to exogenous shocks that may affect youth receiving any form of assistance, or due to “catch-up” effects experienced by youth not receiving cash whose earnings caught up to those of the cash treatment groups over time.

- A nine-year longitudinal study of the Youth Opportunity Program in Uganda offered a one-time cash grant of \$400 to poor, mostly rural, unemployed youth ages 16 to 25 with some education (on average reaching eighth grade). Four years later, the treatment group showed a dramatic increase in skilled work, work hours, income, consumption, and durable assets, but after nine years the control and treatment groups had converged in employment, earnings, and consumption, and there was “little sustained effect on work hours or income flows.”²⁰ In the absence of start-up capital, control group members eventually found other, equally profitable sources of work, especially wage labor, in addition to saving and accumulating enterprise capital. The two impacts that did last for the treatment group over the nine-year period were increases to household durable asset stocks and movement into full-time skilled trades.^{iv, 21}
- A similar 2019 study on cash grants in Ethiopia’s light manufacturing sector saw the same convergence: a \$300 grant to young job seekers, mostly unemployed rural and urban women in their early twenties who had completed education between grades 6 and 10, led to short-term increases in productivity and earnings compared to a

ⁱⁱ The scope of this brief is to first answer the question “does cash alone matter?” in relation to capital injection in the form of cash grants, and second, to consider the impact of financial inclusion initiatives that are most relevant to youth entrepreneurs such as financial literacy education the mobilization of youth savings and lending groups, microenterprise lending, and digital financial services/mobile money. Outside of microenterprise loans, it does not consider financial products and services such as insurance, contract-based financing, value chain finance, or other instruments. Nor does it examine the impact of remittances or family sourced loans, grants, or in-kind assets. Most of the evidence around cash grants for youth enterprises focuses on the impact of one-time transfers; the evidence on regularized cash grants, e.g., those stemming from universal basic income or similar forms of social protection, largely focus on impacts at the household level and are therefore not disaggregated for youth.

ⁱⁱⁱ The findings from the GSMA report are corroborated in the summary brief [Overview of Findings from the USAID/Liberia Cross-Sectoral Youth Assessment Situational Analysis](#).

^{iv} “YPO start-up grants helped youth with capital to test their skills and luck in micro-entrepreneurship and accelerated the pace at which underemployed young people could reach their long-run income and employment levels. It also influenced their occupational choice. After nine years, control earnings and consumption converged to the treatment group.”

control group. However, those effects dissipated after five years, with “nearly complete convergence across all groups and outcomes” in earnings, employment, and health.^{v, 22}

- An RCT of young rural entrepreneurs participating in a USAID-funded activity in Rwanda²³ found that one-time lump sum transfers ranging from \$317 to \$750 had short-term effects on income, productive assets, savings, and consumption. These effects were greater for those receiving cash than those receiving an integrated package of services valued at \$338 (soft skills and entrepreneurship training, work-based learning opportunities, and savings group mobilization). Surprisingly, the cash-only treatment arms experienced greater effects than those receiving cash combined with the integrated services. Among all treatment groups, however, roughly half of the effects faded after three years, following the COVID-19 pandemic. Participants in the cash treatment arms tended to experience larger and sustained boosts in productive assets, livestock values, savings, and subjective well-being. Meanwhile, those who received the service package experienced a sustained increase in the number of productive hours, productive assets, and business knowledge, with a relatively smaller but sustained increase in monthly income. Household consumption faded over time across all treatment arms, but at end line tended to be larger among the cash group compared to the service package group. Meanwhile, the long-term impact on monthly income varied across the treatment arms. Overall, the researchers concluded that programs which seek to boost economic well-being in the short- and medium-term would benefit from incorporating cash as an intervention.

Providing youth with access to capital enables them to pursue a more diverse range of economic opportunities, including entrepreneurship. The Rwanda study found that recipients of cash transfers (especially large ones) increased their engagement in non-agricultural self-employment as compared to the control group, who tended to stay in agricultural wage labor, and the workforce training participants, who tended to move into non-agricultural wage labor. The Uganda study also indicated that cash grants impacted youth’s choice of occupation: the treatment group had a higher likelihood of trying out a microenterprise in the skilled trades, as compared to the control group’s likelihood of engaging in wage labor.²⁴ A study of young entrepreneurs in Egypt found that cash grants, loans, and in-kind grants led to an increase in time-use for self-employment among both men and women. Women tended to shift out of unpaid chores and childcare duties, while men switched out of wage jobs into self-employment.^{vi, 25} The Ethiopia study found that young women receiving cash grants were less likely to engage in factory work, which they perceived as an occupation of last resort.²⁶ Comparatively, a study in Kenya looked at the impact of different frequencies of cash transfers on households.²⁷ Prior to the pandemic, all forms of transfers led to more entrepreneurial risk-taking, including diversification into non-agricultural enterprises and higher-risk/higher-return activities, with non-agriculture profits being the highest among those who received repeated transfers over the 12-year period.

During the COVID-19 pandemic, young entrepreneurs were particularly exposed to economic shocks; however, youth with prior access to capital and/or other inputs exhibited greater protective factors against the pandemic than others. The Rwanda study found that during the pandemic the treatment groups experienced a higher incidence of shocks compared to the control arm, meaning youth who had taken the risks to engage in entrepreneurship prior to the pandemic experienced greater losses in income, business ownership, and productive assets during lockdowns compared to the control group. However, the entrepreneurs in the cash arms ultimately retained more wealth and more of their businesses survived. Comparatively, in the previously mentioned Kenya study, the control group experienced the largest reductions in earnings during the pandemic compared to those receiving one-time or repeated installments. Several reports indicated that during the COVID-19 pandemic, [young people relied on stripping their savings and assets](#) to cope with the economic crisis arising from lockdowns—a powerful testimony to the role of savings groups in building youths’ resilience to economic shocks.²⁸

Cash transfer programs may have other positive socioeconomic outcomes at the individual and community levels, but additional research is needed to understand them. Even when income gains are only

^v To some extent, the start-up grant reduced the likelihood that women would engage in factory work, even after five years; interviews with youth suggested that they viewed low-skilled industrial jobs as a safety net to be used in times of need, whereas self-employment and informal work were seen as more preferable and profitable compared to factory work.

^{vi} This study provided either a cash grant, an in-kind grant, or a low-interest loan to young men and women ages 21 to 35 (average age 29) who were living in the relatively rural and poorer state of Qena and were either starting a business or expanding an existing one.

observed in the short term, some evidence suggests that if a capital assistance program boosts a youth enterprise timeline by two to four years or moves youth into entrepreneurship, these shifts may stimulate other effects such as changes in labor market dynamics, job creation, local investment, or other socioeconomic outcomes. For example, the Rwanda study found that cash transfers reduced women’s desired lifetime fertility (the total number of children they hope to have), while large cash transfers increased marriage and fertility among men. When thinking about how cash shifts the economic activities of youth, a 2020 Uganda study posits that there could be “important positive externalities on the local economy through the growth of a skilled sector.”²⁹ Moreover, a sizeable boost of cash into a local economy, in and of itself, may create those larger economic spillover effects: a recent experimental study in rural Kenya estimated that one-time cash transfers of \$1,000 to over \$10,500 to poor households in 653 villages resulted in a local fiscal multiplier of 2.5–2.8, which is defined as the cumulative effect of transfers on the local gross domestic product (GDP) relative to the total amount transferred.³⁰ However, additional research is needed to understand this further.



WHAT DO WE KNOW ABOUT OTHER WAYS FOR YOUTH TO ACCESS CAPITAL?

Savings and lending groups offer a powerful pathway for youth enterprise start-up, but they are not a substitute for the larger capital injections needed to grow a successful business. A body of research highlights savings groups as an important pathway for youth to start a business and access traditional finance.³¹ There has also been growth in savings through mobile money-enabled financial services, particularly in Sub-Saharan Africa and since the COVID-19 pandemic.³² But earlier research suggests the impact of savings is not necessarily transformative.³³ Indeed, [a review of 11 USAID YouthPower activities](#) found that in over half of the programs, youth reported that group-based savings and lending were powerful agents for starting a business, but the small-sized loans from these groups did not offer a sufficient level of capital for youth to grow their businesses.³⁴ Similarly, research among youth in Uganda found that they viewed access to credit as the most important material benefit of participating in Village Savings and Lending Associations (VSLAs); however, VSLA loans were “often insufficient to meet investment or entrepreneurial goals.”³⁵ In a qualitative study of a USAID-funded activity in Rwanda, economically disadvantaged rural youth reported that participating in savings and internal lending communities (SILCs) was a significant factor for business start-up and entrepreneurial success; however, to grow their businesses, youth needed larger tranches of capital.³⁶ To add to this body of work, results from the [Youth Quality of Life Assessment for a USAID-funded activity in Tanzania](#) suggested that skills training combined with savings mobilization and/or loan facilitation with microfinance institutions contributed to improvements in youth’s assets. It found that, “small loans made a significant change in the trajectory of a starting or existing business, but youth businesses continue to face barriers in access to finance.”³⁷

Although the evidence from low- and middle-income countries is nascent, financial literacy shows early promise to be linked to youth entrepreneurship success. A 2021 systematic review of the financial literacy of entrepreneurs concluded that “financial literacy improves [the] performance of an enterprise” at varying sizes and stages. The studies on youth-owned enterprises covered by this systematic review linked financial literacy to a number of positive effects such as increased chance of business profitability, survival, and sustainability, among others. ^{vii, 38}

The evidence remains mixed on whether microcredit^{viii} has significant positive effects on economic and employment outcomes, and there is little to no evidence to date that microcredit particularly benefits youth. The most rigorous research over the past decade demonstrated that microcredit has a modest effect on self-employment activity, business profits, and investment, but little impact on poverty reduction.³⁹ These studies have focused on adult populations, mostly women, but not youth, indicating a need for more rigorous evidence.

Some youth microentrepreneurs benefit from accessing any form of capital—a loan, cash grant, or in-kind grant—but for a certain segment of youth, their needs go well beyond cash. Youth microenterprises and

^{vii} This literature review covered a total of 67 studies between 2009 and 2021; while the findings were not exclusive to youth entrepreneurs, several of the studies covered by this review either focused on or included youth as part of the research.

^{viii} Microcredit is the lending of small amounts of money at low interest to nontraditional borrowers such as the poor in rural or undeveloped areas, often to start or scale microenterprises.

start-ups in the Egypt study experienced increased incomes and assets when they received any form of capital injection, whether it was a low-interest loan, a one-time cash grant, or an in-kind grant.^{ix, 40} After 16 months, all three treatment groups (loans, cash grants, and in-kind grants) saw increases in profits and business assets, and the treatment groups experienced comparable increases in income.^x Notably, across all three treatment groups, the capital assistance had a large impact on a small subset of people at the top of the income distribution, but little to no impact for those at the bottom. These findings supplement a 2021 meta-analysis of microcredit's impact on household profit, which found that it has a “zero effect” on households in the 5th to 75th quantiles, and “uncertain yet large effects on the upper tails, particularly for households with business experience.”⁴¹ Taken together, this suggests variations in impact were driven more by individual differences among the entrepreneurs than differences in the type of capital assistance. The Egypt study did not identify any common characteristics of those who had the greatest income gains, suggesting an area for further research. The study did conclude that capital assistance programs should be clear about their intended objectives and how they target youth enterprises. If the aim is to achieve large gains in income, then programs should target high-performing individuals with the likelihood of generating high returns. Conversely, if a program's goal is social protection, then cash assistance may not be sufficient and the program should work to understand the needs of the target groups and the type of support required to achieve the intended outcome. One study of a program in Sierra Leone suggests larger factors at play. When a program combined “cash-plus-training” for youth during the Ebola crisis, it found that youth with higher initial soft skills experienced positive labor market and entrepreneurship impacts compared to youth from poorer backgrounds who tended to possess comparatively weaker soft skills at the start. Those with lower initial soft skills, especially women, experienced greater changes in both cognitive and soft skills as a result of the skills and business training and stipends, and they tended to use their gains in earnings for household consumption rather than productive investments.⁴² This would confirm that cash-based interventions targeted to highly marginalized and/or conflict-affected youth should be supplemented with [soft skills development](#) to support resilience to shocks as well as success in employment.



CONCLUSIONS AND RECOMMENDATIONS

Capital assistance to youth microenterprises creates a number of short-term gains, and may create long-term impact on assets, but is not likely to have a long-term impact on youth earnings. In most cases, capital injections appear to accelerate the pace of youth entrepreneurship: in the short term they move youth from wage employment to self-employment, stimulate new business activity, and increase investments, productive assets, and income. But over time, youth who do not receive such capital injections eventually converge with those receiving capital assistance, either due to a period of catch-up or an economic shock. Thus, capital addresses marginal constraints to youth entrepreneurship that could otherwise be overcome with time as people increase their working hours and/or save and invest incrementally.

Cash grants can be an effective approach to build youth's resilience to economic shocks both before and during times of crisis. Cash grants tend to increase savings, so capital assistance offers an important protective factor against the negative effects of economic shocks. And as the COVID-19 pandemic showed, cash assistance during a shock becomes a powerful form of bridge financing, effectively allowing a budding youth-owned business to avoid collapse. Governments may be tempted to dismiss capital assistance simply because of the costs involved;⁴³ however, digital financial payments may provide governments with more cost-effective ways to distribute cash transfers at scale.⁴⁴

A transformative pathway out of poverty for the most vulnerable youth requires diverse types of support in addition to capital to address their specific needs. Access to capital has so far failed to be a transformative pathway out of poverty, especially for young women, because the barriers women face are likely derived from the

^{ix} In each treatment group, the injection of cash, loan, or in-kind grant generated the same amount of income. However, there were differences in impact *within* each treatment group, suggesting that the qualities of the entrepreneur—not the form of capital—mattered most.

^x The in-kind grants led to greater business profits than the other capital injections; cash grants and loans especially led to greater levels of wage employment. Interestingly, for women, subsidized loans were the most cost-effective way to increase employment and well-being, while in-kind grants were the most cost-effective way to increase income.

business environment in which they operate. A Brookings Review of Women’s Economic Empowerment notes that “for successful interventions to be transformative, they need to move beyond basic access to financial and human capital and also tackle central psychological, social, and skills constraints on women entrepreneurs.”⁴⁵ [USAID’s updated Youth in Development policy](#) highlights the importance of youth systems change,⁴⁶ and this [State of the Evidence series](#) also includes a brief on youth systems change for workforce development outcomes.⁴⁷ Expanding access to capital is still a valuable endeavor. For economies and markets to be more inclusive, they must offer youth-friendly and inclusive investment options that allow young people, women, and the poor to upgrade their economic activities.

Based on the evidence, the following promising approaches have been identified for programs that aim to support (1) youth self-employment, and (2) youth resilience and social protection.

Exhibit I. Promising Approaches: Youth’s Access to Capital

PROMISING PRACTICES IN CAPITAL ASSISTANCE FOR YOUTH SELF-EMPLOYMENT, MICROENTERPRISE PERFORMANCE, AND INCLUSIVE ECONOMIC GROWTH

- ✓ Use capital assistance to accelerate youth’s entry into self-employment, while monitoring and evaluating the short- and long-term economic and social impacts of doing so.
 - ✓ Consider strategic methods for identifying and targeting young entrepreneurs or youth segments whose enterprises could benefit from cash support.
 - ✓ Incorporate savings and lending groups to help young men and, especially, young women start a business and/or diversify their income sources. Meanwhile, integrate solutions that allow youth to gain access to larger amounts of capital to grow their businesses.
 - ✓ Make financial services more inclusive of youth by working with financial institutions and/or creating a more enabling environment for youth-inclusive finance.
 - ✓ Invest in research on the complementarity of financial literacy (and other skills development interventions) and capital assistance.
 - ✓ Use qualitative evaluation and learning efforts to better understand the broader, unanticipated effects of capital assistance.
 - ✓ Donors and NGOs can expand youth financial services by: (1) buying down the cost of market research by financial institutions; (2) partnering with financial institutions to offer non-financial services that complement financial services, and in a way that is customized and timed to coincide with the stages of fund disbursement; (3) supporting an enabling environment that encourages more youth-inclusive finance, such as tax breaks or government-backed guarantees for youth enterprises, regulatory reforms regarding collateral requirements, or the integration of entrepreneurship curriculum in schools and universities.⁴⁸
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