FINYOUTH

Scaling Effective Financing Mechanisms for Youth Employment and Entrepreneurship

December 2023

ACKNOWLEDGEMENTS

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ACRONYMS

ADB	Asian Development Bank
AFD	Agence Francaise de Developpement
AI	Artificial Intelligence
ASPYEE	African Skills Portal for Youth Employment and Entrepreneurship
AU	African Union
AUDA-NEPAD	African Union Development Agency - New Partnership for Africa's Development
BII	British International Investment
CIB	Career Impact Bond
CGAP	Consultative Group to Assist the Poor
CRS	Catholic Relief Services
CSR	Corporate Social Responsibility
DFI	Development Finance Institution
DIB	Development Impact Bond
DRC	Democratic Republic of Congo
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EOF	Education Outcomes Fund
GDI	Global Development Incubator
GOYN	Global Opportunity Youth Network
HNWI	High Net Worth Individual
HR	Human Resources
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFI	International Finance Institution
ILO	International Labor Organization
ISA	Income-Share Agreement
KYEOP	Kenya Youth Employment & Opportunities Project
MCC	Millennium Challenge Corporation
MENA	Middle-East and North Africa
MFI	Microfinance Institution
MSME	Micro, Small and Medium Enterprise
NBFI	Non-Bank Financial Institution
OBL	Outcomes-Based Loan
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PCV	Permanent Capital Vehicle
RBF	Results-Based Financing
SACCO	Savings and Credit Co-Operative Society
SADC	Southern African Development Community
SAFE	Simple Agreement for Future Equity
SDG	Sustainable Development Goal
SEAF	Small Enterprise Assistance Funds
SGB	Small and Growing Business

SIB	Social Impact Bond
SIINC	Social Impact Incentives
SME	Small and Medium Enterprise
TA	Technical Assistance
TVET	Technical and Vocational Education and Training
UNCDF	United Nations Capital Development Fund
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
VC	Venture Capital
WB	World Bank

EXECUTIVE SUMMARY

INTRODUCTION

The world is facing a significant and complex youth unemployment challenge. Of the 1.2 billion youth aged 15–24 worldwide in 2019, close to half was not enrolled in an education program, not employed, underemployed or employed informally. This number is expected to grow significantly as the world approaches "peak youth", especially in Africa and South Asia, where the median age ranges from 15 to 25 years-old. Unfortunately, young people, and especially young women and youth with disabilities, are three times more likely than adults to be unemployed and amongst those that do work, 30 percent suffer from extreme or moderate poverty. This challenge is expected to be further exacerbated by climate change, domestic and international conflicts, migration flows and work automation with little progress in solutions that could redistribute wealth. Countless studies and interviews have shown that these young people share a strong desire to contribute productively to their communities, earn an income for their families and build their careers: the lack of opportunity to do so amounts to a massive waste of their potential, energy and creativity. On a larger scale, the under-utilization of human capital at this order of magnitude is unprecedented, destabilizing and prevents the world from reaping the benefits of youth-driven innovation, increased productivity and ultimately from achieving sustainable and equitable economic growth.

OBJECTIVES OF THE FINYOUTH REPORT

In every country, governments, donors, civil society organizations, corporates and young people have mobilized to address this issue, with an increasing recognition that a suite of solutions ranging from demand-driven skilling programs to mentorship and entrepreneurship support will be needed to address the problem at scale. Appropriate mobilization of financing and associated mechanisms is acutely needed to fund these solutions at the scale of the challenge. Importantly, a range of new models have emerged to address scalability, effectiveness and sustainability issues that often affect grant-funded programs. However, youth employment stakeholders lack familiarity with these financing solutions and have expressed the need for guidance on how and where to use these products. Finally, there have been limited opportunities for stakeholders to come together to share knowledge and coordinate interventions. The FinYouth report addresses these issues by:

a. Providing a comprehensive review of financing mechanisms for employment and entrepreneurship;

b. Identifying financing models proven to be the most effective, scalable and sustainable over time; and

c. Recommending products for stakeholders to consider launching and scaling in their markets.

ANALYTICAL FRAMEWORK

To organize the considerable number of financing solutions applicable to youth employment and entrepreneurship, FinYouth proposes a detailed analytical framework that identifies four main youth unemployment and underemployment issues, maps them to a comprehensive set of potential solutions, appropriate financing options, and diverse sources of capital. This root cause analysis is critical to identify the financing products and models that will be appropriate in a specific context, as different issues call for different solutions.

Once this analytical framework is established, the report reviews the effectiveness, scalability and sustainability of existing financing products, issues practical recommendations to youth employment stakeholders, and highlights promising financing products to develop, pilot or bring to scale.

FINYOUTH ANALYTICAL FRAMEWORK

WHY ARE YOUTH UNEMPLOYED OR UNDEREMPLOYED?

Note: in some communities, some of these may coexist, e.g., there may not be enough new jobs AND youth are not qualified for the jobs that do exist.

Issues	**SUPPLY GAP (skills gap)** *Jobs* exist but youth** are not qualified to get them*	**DEMAND GAP (jobs* gap)** *The economy is not creating enough new jobs*	**SKILLS/JOBS MATCHING ISSUES** *Employers and youth** jobseekers cannot find each other*	**LIMITED ECONOMIC RESILIENCE** *Youth** are very vulnerable to any economic setback*
	INEQUITY & EXCLUSION AS CROSS-CUTTING ISSUES			
Sub-issues	• Skilling programs do not lead to job placement and retention • Funding for skilling programs is constrained • The overall capacity of the skilling ecosystem is low • There are persistent biases against vocational training	• The growth of youth-employing businesses is constrained • Youth lack access to capital, skills and markets to start their own income-generating activities	• Information barriers make finding out about employment opportunities difficult and costly • Youth jobseekers do not know how to apply for employment opportunities effectively • Employers are unwilling to hire youth jobseekers • The costs of hiring formally are too high • Available jobs are not attractive for young job-seekers	• The youth lack the capacity to save • The youth lack access to credit for asset-building • The youth financial literacy rate is low • The youth lack access to adequate insurance products
Solutions	1. Increasing placement and retention rates of skilling programs 2. Increasing access to skilling programs 3. Increasing the capacity of the skilling ecosystem 4. Increasing work-based learning opportunities	1. Increasing access to finance for youth-employing businesses 2. Increasing access to finance for youth entrepreneurs 3. Increasing access to business development services and mentorship 4. Creating market links and developing value chains	1. Connecting young job-seekers to employers 2. Increasing access to effective job-seeking support services 3. Incentivizing employers to hire youth 4. Decreasing the costs of formal and dignified jobs	1. Enabling youth to save 2. Enabling youth to build assets 3. Designing financial services adapted to the needs of the youth 4. Increasing access to financial education 5. Increasing access to insurance products

Ecosystem solutions: solutions indirectly benefiting young people through other ecosystem actors (e.g., employers, skilling providers)

Youth solutions: solutions directly targeting young people

Jobs* refer here to any income-generating activity for youth (formal/informal employment and self-employment/entrepreneurship).

Youth** This report primarily focuses on "opportunity youth"—young people aged 15-29 who are out of school, unemployed, or working in informal jobs

CROSS-CUTTING RECOMMENDATIONS

FinYouth emphasizes four key messages for youth employment stakeholders interested in deploying new financing mechanisms in their communities:

1) Understanding the underlying causes of youth unemployment in a community is key

Youth unemployment can be caused by issues on the supply side (lack of skills), issues on the demand side (lack of jobs), or skills-jobs matching issues. Each of these issues calls for different types of solutions: adding more skills into an economy that is not creating enough jobs, for instance, is unlikely to have a significant impact. By matching issues to solutions, this report provides a detailed roadmap for stakeholders seeking to identify the most promising intervention opportunities for their local context.

2) How funding is used matters as much as how much funding is available

How effectively funds are being used can be a bigger issue than the actual amount of funding available for youth employment and entrepreneurship programs. There is often a lack of evidence to support the actual impact of youth employment and entrepreneurship programs, or worse, evidence of a lack of impact. Improving the impact of existing funds by shifting incentives towards outcomes is just as important as finding new sources of capital for these programs.

3) Financing mechanisms and tools requires expertise to be used effectively – but are not necessarily complex to implement

Just as managing government funds requires a different skillset than grant-making, deploying investment capital or blending investment capital with government or philanthropic capital effectively requires having the right expertise to do so. Funders interested in these products should ensure they have the right skills to assess, structure and manage investments, as well as a willingness to take risks. Some institutions may find it preferable to work through intermediaries to benefit from their expertise.

This need for expertise does not imply that these financing mechanisms are necessarily complex to implement – only that they require the right setup and mindset.

4) Cross-sector collaboration is critical for effectiveness and sustainability at scale

While managing different sets of stakeholders with different priorities can be complex, successful models at scale always involve a close collaboration with both the public, philanthropic and the private sector. The scale that government programs and effective commercial programs can reach is usually unmatched by philanthropic private programs; therefore, philanthropic funding should be used as a catalyst to shift government and commercial systems. While changing government policies and practices can be slow, it also has the potential to yield significant impact. While commercial capital is focused on achieving risk-adjusted returns, creating the right process and products can unlock significant funding. Furthermore, the private sector is where the majority of jobs and economic opportunities for young people are being created: it is therefore essential that programs are designed to meet the needs of these stakeholders.

FINANCING SKILLS

PROGRAMS & PRODUCTS ON THE SUPPLY SIDE

On the supply side, FinYouth considers four different sets of financing solutions that can help address skills gaps in a community:

1. **Solutions that increase the placement and retention rates of skilling programs** by changing the incentive structure and programmatic activities of skilling providers to be aligned with demand from employers, investors and markets for livelihoods and entrepreneurs;
2. **Solutions that increase young people's access to high-quality skilling programs** by introducing financing models to cover their up-front costs to then be repaid later;
3. **Solutions that increase the capacity of the skilling ecosystem** and improve its effectiveness by supporting skilling programs to establish up-to-date facilities, demand-driven training curricula and staff that can adjust to changing employer and market requirements; and
4. **Solutions that increase work-based learning opportunities** through on-going financing for internships and apprenticeships as an effective alternative or complement to classroom-based skilling programs.

The report highlights some promising financing solutions to address these issues. **Results-based financing** (RBF) models emerge as a critical tool to improve the quality of skilling programs by shifting financial incentives for skilling providers and driving a focus on outcomes (placement and retention) instead of activities (number of people trained). While scalability has been an issue with some RBF models in the past, the report emphasizes options to implement RBF at scale, such as outcomes funds and outcomes-based contracts.

For increasing access to skilling programs, **career impact bonds** (CIBs) can be used to facilitate investment into high-quality skilling programs. CIBs enable students to only pay back the cost of a skilling course once they have found a job above a minimum income threshold, shifting the timing of paying for the upfront costs of the training from the individual student to a bank or private investor. Finally, **public-private partnerships** can be very effective at increasing access to work-based learning opportunities, either by splitting the cost of internships/apprenticeships between governments and employers or by using existing government assets (e.g., physical space for training) to subsidize demand-led skilling. The report also considers solutions that can **shift governments' incentives** to increase the effectiveness of the skilling ecosystem, for example by improving the reliability of government payments to skilling providers. All of these solutions can be structured to **promote inclusion** of young women, youth with disabilities and other disadvantaged groups, for example by introducing higher financial incentives for providers to serve these particular groups.

FINANCING SKILLS

Recommendations

- Develop and invest in scalable results-based financing models to fund skilling programs
- Use career bonds to fund high-impact skilling programs
- Develop public-private financing models for work-based learning

Promising products

#1: Career Financing

#2: Workforce Development Outcomes Fund

#3: Government Incentive Fund

#4: Apprenticeship/Internship Fund

#5: Public-Private Skills Centers

FINANCING JOBS & ENTREPRENEURSHIP

PROGRAMS & PRODUCTS ON THE DEMAND SIDE

On the demand side, FinYouth considers four different sets of financing solutions that can help address jobs gaps in a community:

1. **Solutions to increase access to finance for youth-employing businesses** (predominantly SMEs) to enable their growth;
2. **Solutions to increase access to finance for youth entrepreneurs** (both visionary and livelihood entrepreneurs) to enable them to start an income-generating activity;
3. **Solutions to increase access to business development services and mentorship** to support both SMEs and youth entrepreneurs; and
4. **Solutions to create market links and developing value chains** to increase local economic opportunities.

Within this issue area, the report emphasizes the importance to segment the different types of youth-employing businesses and youth entrepreneurs, as their financing needs vary considerably. Facilitating the growth of youth-employing businesses, i.e. businesses in labor-intensive sectors that employ a lot of unskilled/low-skilled workers, should be an essential part of any youth employment strategy. **Specialized impact funds** that provide concessional financing to SMEs can help address the financing needs of such businesses. For youth entrepreneurs, a greater focus on meeting the financing needs of **livelihoods entrepreneurs** (as opposed to high-tech growth entrepreneurs that are often already well-connected to capital) could help thousands of young people establish an income-generating activity. A **large-scale livelihoods fund**, which would provide seed funding to livelihoods entrepreneurs and support the most successful ones towards further growth, is an interesting option to explore. Finally, while business development services (BDS) and mentorship are still proving to be difficult to establish as a self-sustaining commercial model, **partnerships between BDS providers and financial providers** could provide an avenue to scale up these programs. **Online, self-serve and peer-to-peer delivery models** also have the potential to reach very large number of entrepreneurs at a relatively low cost. Additional financing products and structures, such as **credit enhancements, smart subsidies or impact kickers**, can be used to make these solutions more inclusive of all youth, including young women, youth with disabilities and other disadvantaged groups. Interventions on the demand side also offer interesting opportunities to address other development priorities that intersect with job creation, such as climate change (e.g., advance market commitments to fund carbon removal efforts could include objectives linked to hiring and training young people to work in the sector) or infrastructure development (e.g., by incorporating youth employment requirements into large project finance investments).

FINANCING JOBS & ENTREPRENEURSHIP

Recommendations

- Develop and invest in large-scale livelihoods funds adapted to the needs of youth entrepreneurs
- Invest in youth-employing SMEs through specialized impact funds
- Develop partnerships and online delivery models to increase access to business development services

Promising products

#6: Livelihoods Fund

#7: Youth Impact Fund

#8: Project Finance for Youth Employment

FINANCING CONNECTIONS

PROGRAMS & PRODUCTS TO MATCH SUPPLY AND DEMAND

For matching issues, FinYouth considers four different sets of financing solutions that can help connect employers and jobseekers in a community:

1. **Solutions to connect young job-seekers to employers** through matching platforms and/or services;
2. **Solutions to increase access to effective job-seeking support services** for young people;
3. **Solutions to incentivize employers to hire youth**; and
4. **Solutions to decrease the costs of formal and dignified jobs**.

The report highlights existing difficulties with establishing commercial job-matching platforms adapted to the needs of the youth (i.e., offering entry-level jobs, covering informal economy opportunities, using alternative credentialing tools, etc.). **Grants and concessional capital** could play a critical role in facilitating the emergence of such platforms, ideally in an **open-source and low-tech** (e.g., SMS messaging) format to facilitate their replication at low-cost. In particular, grant funding can be used to enhance the inclusivity of these platforms to ensure that they meet the needs of all youth. For job-seeking support services, **results-based financing models** can again be used to improve quality and distinguish effective interventions from ineffective ones. As for skilling programs, these models can introduce higher financial incentives linked to serving specific groups of youth, such as young women or youth with disabilities. Finally, the report looks at the mixed evidence on **youth wage subsidies**, which cover partly or fully the cost of a young worker hired by an employer. Such subsidies tend to encounter significant implementation issues, and these funds could be better used if redirected towards more effective interventions, such as work-based learning programs (apprenticeships and internships). Subsidies that specifically aim at decreasing the costs of formal and dignified jobs (e.g., by covering employee or employer payroll tax or health benefits for a set period of time) may be more effective, and could be partly recouped by government through the tax revenue resulting from an increase in the share of formal v. informal businesses in the economy.

FINANCING CONNECTIONS

Recommendations

- Use grants and concessional capital to make catalytic investments in job-matching platforms tailored to the needs of the youth
- Use results-based financing models to demonstrate the value and effectiveness of job search assistance programs (including mentorship)
- Reallocate funds allocated to youth wage-subsidy programs towards more effective interventions

Promising products

#9: Youth Connect Innovation Fund

#10: Formal Work Fund

FINANCING RESILIENCE & FINANCIAL INCLUSION

PROGRAMS & PRODUCTS TO BUILD FINANCIAL SECURITY

Finally, FinYouth examines five different sets of financing solutions that can help foster youth financial resilience and inclusion:

1. **Solutions to enable youth to save;**
2. **Solutions to enable youth to build assets;**
3. **Solutions to design financial services adapted to the needs of the youth;**
4. **Solutions to increase access to financial education;** and
5. **Solutions to increase access to insurance products.**

The report highlights **digital financial services** as a key pathway to increase youth financial resilience and inclusion. Digital financial services can create significant economies of scale, enabling financial institutions to offer services to the youth at an affordable price, and they can be adapted to the specific needs of the youth, who tend to be more mobile and connected than older adults. Such solutions can enable youth to save (e.g., with **digital youth savings groups**) and build assets (e.g., with **pay-as-you-go financing**). Designing financial services that can serve all youth, including young women and youth with disabilities, is critical and requires a deep understanding of their needs, challenges and aspirations. The report also reviews a number of solutions that have been tried to increase young people's access to insurance products, but notes that these have been historically difficult to implement successfully. Lastly, while a commercial model for standalone **financial education services** seems out of reach, the report highlights promising approaches that seek to integrate such services alongside the provision of essential financial services.

FINANCING RESILIENCE & FINANCIAL INCLUSION

Recommendations

- Develop digital savings groups adapted to the needs of the youth
- Invest in digital financial services to reach and serve unbanked youth in a cost-effective way
- Partner with financial institutions to deliver financial education alongside financial services

Promising products

#11: Digital Youth Savings Groups

CONCLUSION

Achieving sustainable, significant impact at scale on youth unemployment is possible. As the FinYouth report demonstrates, a broad range of solutions exist to fund youth employment and entrepreneurship interventions beyond traditional grants and government budgets. Critically, a lack of funds is rarely the sole issue. In many cases, there is enough funding available to support effective interventions, but funds may be used inefficiently or fragmented over multiple small-scale solutions. Bringing more attention to how existing funding is used and shifting incentives towards desired outcomes would have a transformative impact on youth employment ecosystems globally. This would be a critical step forward for the millions of talented young people worldwide that aspire to work, grow and contribute productively to their communities, their families and themselves.

Following the publication of the FinYouth report, the Global Development Incubator and its partners Global Opportunity Youth Network and Catholic Relief Services will seek to establish a global community of practice around financing solutions for youth employment and entrepreneurship to foster learning and innovation. We warmly encourage any interested stakeholders to reach out to take part in this effort.

NAVIGATING PRODUCT RECOMMENDATIONS

The report includes eleven product recommendations tailored to different types of funders. Here's how to make the most of them:

- **Define your goals and constraints**: Consider your areas of interest (e.g., skilling, job creation), geographic priorities, desired impact, and specific investment parameters such as type of capital, risk level, funding duration, size, team capacity, and preferred partners.
    - Match products to your needs: With your parameters defined, you can identify the product recommendations that align with your goals. A summary table in the conclusion will help you map each product to its impact area, requirements, and capital needs.
    - Customize to your context: These recommendations are models that will likely need tailoring to your local situation. They are designed to inspire and guide, not prescribe a one-size-fits-all solution.

KEY TO PRODUCT RECOMMENDATIONS
Financing Skills
Financing Jobs & Entrepreneurship
Financing Connections
Financing Resilience & Financial Inclusion

FINYOUTH: PRODUCT RECOMMENDATIONS

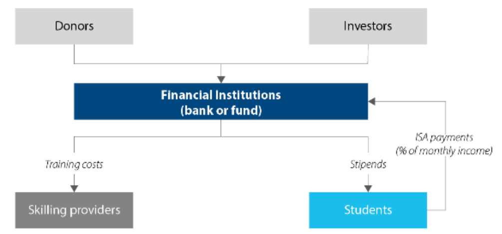
FINANCING SKILLS

PRODUCT #1: CAREER FINANCING

The challenge: Youth cannot afford skilling programs and cannot access traditional financing sources.

The solution: A financial institution (bank or fund) that issues income-share agreements (ISAs) to youth enrolled in high-impact skilling programs.

Scale	Initial funding required	Type of capital
5,000+ youth trained	**US$5-10 million**	• Debt • Grant funding



Scalability	Effectiveness	Sustainability	Ease of implementation
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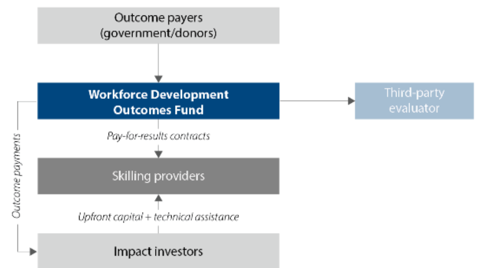
PRODUCT #2: WORKFORCE DEVELOPMENT OUTCOMES FUND

The challenge: Skilling providers are incentivized to deliver activities, not outcomes.

The solution: A fund that issues pay-for-results contracts to multiple skilling providers.

Scale	Initial funding required	Type of capital
10,000-20,000+ youth trained	**US$20+ million**	• Grant funding • Government funding • Impact investing



Scalability	Effectiveness	Sustainability	Ease of implementation
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FINYOUTH: PRODUCT RECOMMENDATIONS

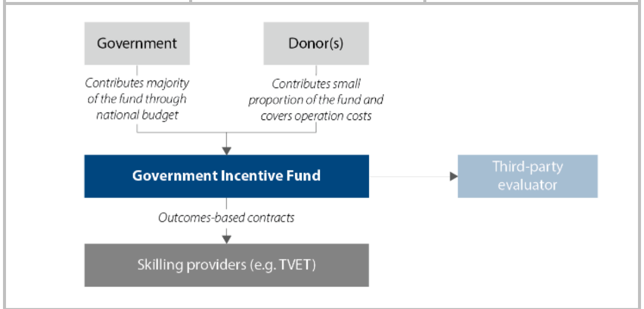
FINANCING SKILLS (CONTINUED)

PRODUCT #3: GOVERNMENT INCENTIVE FUND

The challenge: Skilling providers are incentivized to deliver activities, not outcomes; government payments to providers can be unreliable.

The solution: A fund that incentivizes better outcomes from skilling providers and increases the efficiency of government payments to providers.

Scale	Initial funding required	Type of capital
20,000+ youth trained	**US$2-5 million**	• Grant funding • Government funding



Scalability	Effectiveness	Sustainability	Ease of implementation
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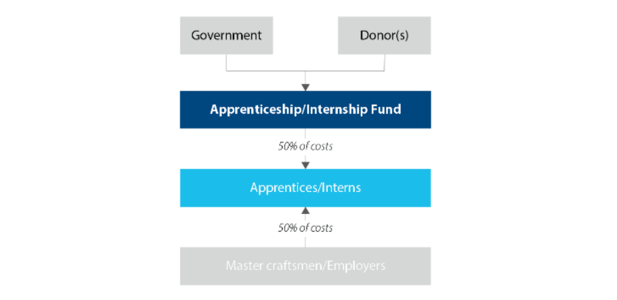
PRODUCT #4: APPRENTICESHIP/INTERNSHIP FUND

The challenge: Work-based learning is highly effective but employers have limited incentives to offer apprenticeships/internships.

The solution: A fund to cover partial stipends and additional classroom education for apprentices/interns, in close collaboration with employers.

Scale	Initial funding required	Type of capital
5,000-10,000+ apprentices/interns	**US$10-15 million**	• Grant funding • Government funding



Scalability	Effectiveness	Sustainability	Ease of implementation
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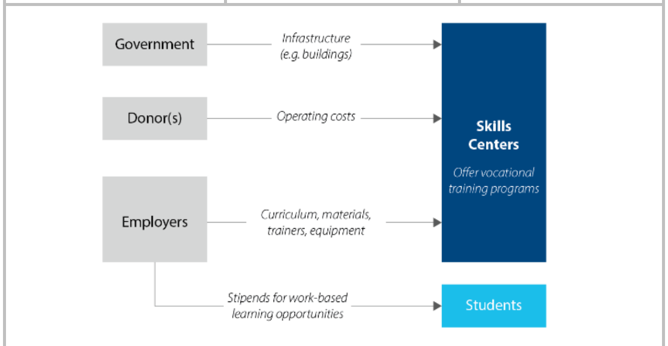
PRODUCT #5: PUBLIC/PRIVATE SKILLS CENTERS

The challenge: Government- and grant-funded skilling programs are often disconnected from employers' needs.

The solution: A public-private partnership to offer employer-aligned vocational training at scale.

Scale	Initial funding required	Type of capital
1,000-2,000 youth trained	**US$1-2 million**	• Grant funding



Scalability	Effectiveness	Sustainability	Ease of implementation
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FINYOUTH: PRODUCT RECOMMENDATIONS

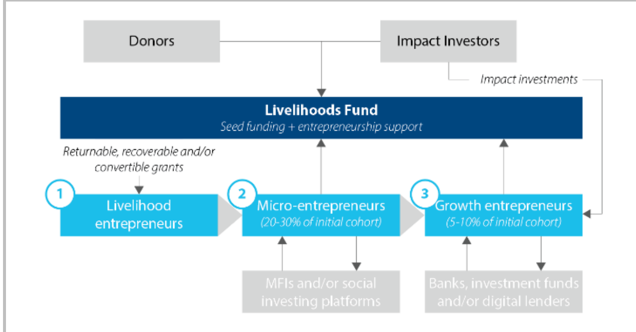
FINANCING JOBS & ENTREPRENEURSHIP

PRODUCT #6: LIVELIHOODS FUND

The challenge: Livelihood entrepreneurs struggle to access financing. Impact and commercial investors struggle to find viable to invest into.

The solution: A revolving fund to support livelihoods entrepreneurs and build a pipeline of investment opportunities for existing investors.

Scale	Initial funding required	Type of capital
2,500-10,000 entrepreneurs supported	**US$5-10 million**	• Grant funding • Impact investing



Scalability	Effectiveness	Sustainability	Ease of implementation
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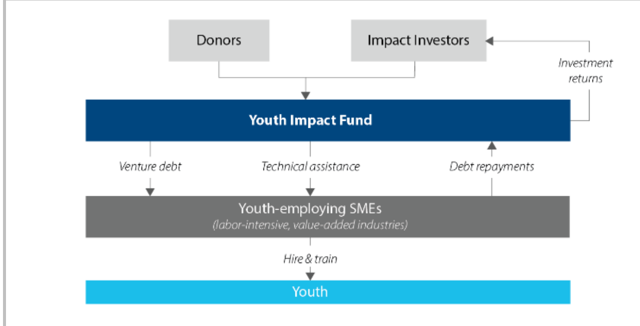
PRODUCT #7: YOUTH IMPACT FUND

The challenge: SMEs in labor-intensive, value-added industries that can hire youth lack access to capital to fund their growth.

The solution: A blended impact fund investing in SMEs with high potential for youth job creation and youth-friendly business practices.

Scale	Initial funding required	Type of capital
50-100 businesses supported	**US$10-15 million**	• Grant funding • Venture debt



Scalability	Effectiveness	Sustainability	Ease of implementation
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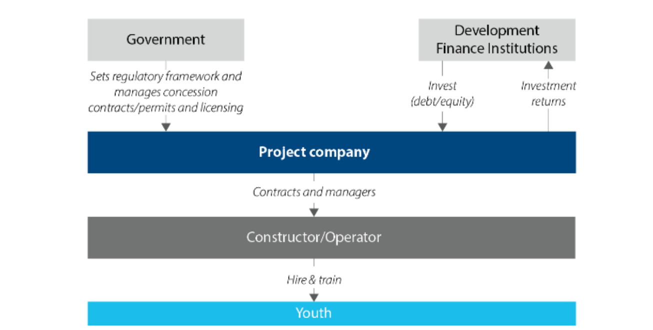
PRODUCT #8: PROJECT FINANCE FOR YOUTH EMPLOYMENT

The challenge: Large project finance investments do not necessarily lead to increased youth employment.

The solution: Project financing tied to local youth job creation outcomes.

Scale	Initial funding required	Type of capital
1,000-10,000 youth employed	**US$5-50 million**	• Impact investing



Scalability	Effectiveness	Sustainability	Ease of implementation
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FINYOUTH: PRODUCT RECOMMENDATIONS

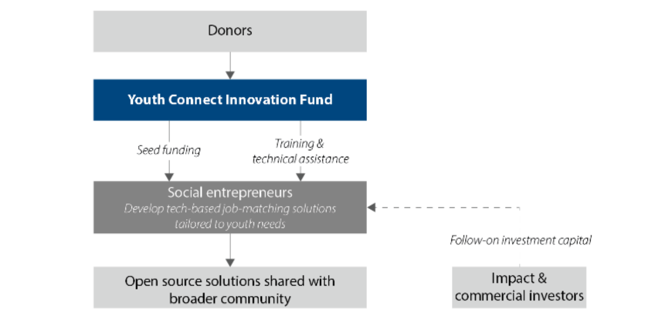
FINANCING CONNECTIONS

PRODUCT #9: YOUTH CONNECT INNOVATION FUND

The challenge: Current job-matching platforms are not tailored to the needs of the youth.

The solution: An innovation fund to seed and build youth-friendly job-matching solutions.

Scale	Initial funding required	Type of capital
8-12 solutions incubated	**US$2-4 million**	• Grant funding



Scalability	Effectiveness	Sustainability	Ease of implementation
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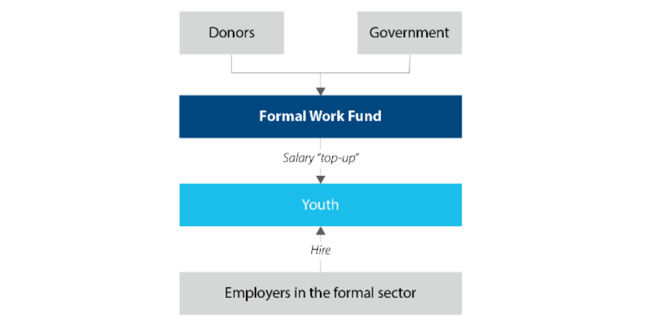
PRODUCT #10: FORMAL WORK FUND

The challenge: Young job-seekers underestimate long-term earnings in the formal sector and opt for informal jobs with higher short-term earnings.

The solution: A fund to increase entry-level earnings in the formal sector to incentivize young workers to take up formal jobs.

Scale	Initial funding required	Type of capital
10,000+ youth formally employed	**US$10+ million**	• Grant funding • Government funding



Scalability	Effectiveness	Sustainability	Ease of implementation
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FINYOUTH: PRODUCT RECOMMENDATIONS

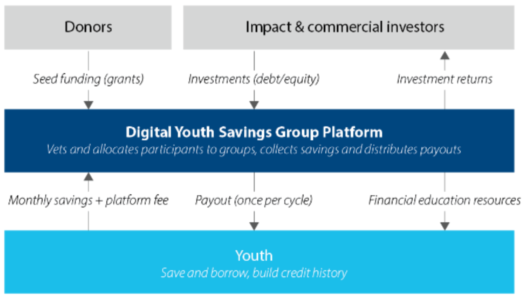
FINANCING RESILIENCE & FINANCIAL INCLUSION

PRODUCT #11: DIGITAL YOUTH SAVINGS GROUPS

The challenge: Traditional in-person savings groups do not work well for the youth, who are often mobile in early adulthood.

The solution: A digital version of traditional savings groups to provide unbanked youth with a simple way to save.

Scale	Initial funding required	Type of capital
10,000+ youth able to save	**US$1+ million** (development costs)	• Grant funding • Impact and commercial investing



Scalability	Effectiveness	Sustainability	Ease of implementation
●●●	●●●	●●●	●

INTRODUCTION

WHY THIS REPORT?

Of the 1.2 billion youth aged 15–24 worldwide in 2019, close to half was not enrolled in an education program, not employed, underemployed or employed informally.[1] The global youth population is expected to grow by 7% to 1.3 billion by 2030, peaking at 1.4 billion in 2065. [2] These young people – both currently and in the future – are disproportionately concentrated in South Asia and Africa, with young Africans projected to make up 42% of the world's youth by 2030.[3] As they enter the labor market, the same challenges await most of these youth: finding an opportunity to earn a decent living in dignified working conditions to support themselves and their loved ones, either through securing and maintaining employment or starting their own income-generating activity. In countries experiencing this rapid youth population growth, this influx of new workers can lead to increased economic growth and improvements in quality of life, but this is true only if young people are able to access productive employment opportunities.[4] All too often, however, that is not the case.

Young people are three times more likely than adults to be unemployed, and amongst those that do work, 30 percent suffer from extreme or moderate poverty.[5] Finding and retaining decent work[6] is especially challenging for young women, migrant youth, youth with disabilities and other marginalized groups.[7] Even when accounting for the fact that the youth labor force participation rate may decline in some regions as incomes increase and the youth stay in school longer, the world faces a significant youth employment challenge: African countries need to create between 8 and 9 million new jobs per year to absorb new market entrants,[8] as does India.[9] This is well above current formal job creation rates.[10]

This demographic pressure on labor markets is compounded by other global trends. In some countries, the Fourth Industrial Revolution is transforming the way we live and work, leading to new opportunities in the digital and technology sectors, but also the disappearance of traditional occupations through automation and the increased use of artificial intelligence.[11] These dynamics will "dramatically affect the future of jobs and the nature of work itself in the years to come".[12] The COVID-19 pandemic and ensuing economic crisis hit major youth-employing sectors such as the hospitality, tourism, manufacturing and services industries particularly hard and restricted access to education for millions of young people and continues to affect labor markets.[13] Climate change and ongoing conflicts also affect work opportunities for the youth by displacing workers, damaging economic infrastructure and disrupting markets.[14]

All over the world, governments, donors, civil society organizations, corporates and young people have mobilized to address this issue. Youth employment is

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[1] ILO, *Global Youth Employment Trends for Youth*, 2020
[2] United Stations, *Key messages for International Youth Day*, 2019
[3] African Union, *Africa's Future: Youth and the Data Defining Their Lives*, 2019
[4] For the purposes of this report, we will be using the term "employment" as an umbrella term including any type of productive income-generating activity, including formal wage employment, informal wage employment and self-employment/entrepreneurship.
[5] ILO, *Global Youth Employment Trends for Youth*, 2020
[6] Decent work is defined by the ILO as "productive work for women and men in conditions of freedom, equity, security and human dignity".
[7] United Nations, Global Issues – Youth (accessed May 2022)
[8] Fox, L., *It's easy to exaggerate the scope of the jobs problem in Africa. The real story is nuanced*, 19 April 2021
[9] McKinsey, *India's turning point: An economic agenda to spur growth and jobs*, 2020
[10] Estimates in the *2019 Ibrahim Forum Report* suggest only 3 million formal jobs are being created in Africa annually, leaving a 5–6 million gap. For India, annual job creation was estimated at slightly above 4 million between 2011 and 2018.
[11] ILO, *Global Youth Employment Trends for Youth*, 2020
[12] McAuliffe, *A Global Opportunity: Get Youth Working*, 2018
[13] ILO, *Statistical Brief: An update on the youth labour market impact of the COVID-19 crisis*, 2021
[14] Gugelev, *Creating jobs and sustainable livelihoods in a changing world*, 2018

often stated as a national priority for policy-makers.[15] The United Nations' 2030 Sustainable Development Goals (SDGs) specifically call out the need to achieve full and productive employment for young people.[16] Multilateral development banks and agencies have developed youth employment strategies, programs and knowledge banks.[17] Philanthropic donors and impact investors are mobilizing capital to fund solutions.[18] Large corporates have designed and implemented youth employment initiatives.[19] These efforts have been focused both on training programs to skill up youth jobseekers and match them to jobs, and more recently, on job creation and entrepreneurship programs to increase the overall number of opportunities available to young people. With the exception of the micro, small and medium enterprises (MSME) financing space, which has been attracting impact and commercial investors for a few decades, the overwhelming majority of these programs are grant- or government-funded.

New financing models are emerging to fund youth employment and entrepreneurship initiatives. These new models seek to address three critical issues with current programs:

(1) ***Scalability:*** as grant funding is limited and government budgets in low- and middle-income countries are heavily constrained, more commercial capital is required to deliver programs at the necessary scale;

(2) ***Effectiveness:*** incentives are not currently aligned to the impact stakeholders want to achieve, resulting in wasted public and donor funds (e.g., skilling programs that do not lead to jobs), and different financing mechanisms are required to set the right incentives; and

(3) ***Sustainability*:** grant funding is typically used for short-term projects, with calls for different financing instruments to support longer-term programs.

These new models come in many shapes and forms. The increased focus on youth entrepreneurship, for example, has brought along an interest in a broader diversity of financing instruments for these programs, such as seed funds or venture capital funds.[20] In the impact investing space, new funds are emerging with an explicit youth focus, including some with an additional focus on young women or local entrepreneurs.[21] Results-based financing (RBF) products, which seek to increase program effectiveness by tying payments to outcomes and have become increasingly popular over the last decade, have been used to improve placement rates of youth skilling programs.[22] Career Impact Bonds (CIBs) have introduced a new way of paying for skilling, where students repay the cost of their courses through a fixed percentage of their monthly income after graduation and placement into a job.[23] While these models are yet to demonstrate their impact at scale and justify their often higher structuring costs, they attest of an increased appetite for new financing solutions and are critical to explore as pathways to sustainable, effective youth employment and entrepreneurship programs that can meet the scale of the challenge.

Despite interest in these products, youth employment stakeholders lack familiarity with the range of financing solutions available to them. The relative rarity of these new financing models, their small scale to date (between a few hundred and a couple of thousand individuals), and the often-high structuring costs associated with them can act as deterrents for stakeholders. Clear guidance on how and where to use these products is also missing. Finally, outside of global forums such as Sankalp and SOCAP[24], there have been limited

[15] See, for instance, South Africa and Kenya.
[16] See SDG Goal 8, Decent Work and Economic Growth, whose targets 8.5 and 8.6 refer to young people.
[17] E.g., AFDB Jobs for Youth in Africa strategy, World Bank Solutions for Youth Employment (S4YE), AUDA-NEPAD African Skills Portal for Youth Employment and Entrepreneurship (ASPYEE), Generation Unlimited.
[18] E.g., Prudential Foundation, Mastercard Foundation, Botnar Foundation.
[19] See, for instance, Unilever and Coca-Cola.
[20] For example, Boost Africa, a joint initiative established in 2017 by the African Development Bank (AfDB) and the European Investment Bank (EIB) to "empower youth entrepreneurs", incorporates a € 200 million investment program including "seed funds, incubators, follow-on funds, business angel funds, equity-crowd platforms, and venture capital funds".
[21] For example, West Africa Bright Future Fund or Mastercard Foundation's Africa Growth Fund.
[22] For example, Colombia Workforce Social Impact Bond, Bonds4Jobs Social Impact Bond in South Africa, Skill Impact Bond in India.
[23] Repayments only start once students have found a job above a set income threshold.
[24] SOCAP (a combination of "social" and "capital") is a conference series dedicated to increasing the flow of capital toward social good.

opportunities for stakeholders to come together to share knowledge and coordinate efforts around this theme.

This report is a direct response to this issue. It was developed with the following goals:

- **Provide a comprehensive review of existing financing mechanisms for youth employment and entrepreneurship**, from government funds to commercial investing, to enable stakeholders to develop a broad understanding of their options.
- **Identify the financing models that have proven to be the most effective, scalable and sustainable over time** to facilitate coordination and capital mobilization behind these models going forward.
- **Recommend products** for stakeholders to consider launching and scaling in their markets
- **Test the idea of developing a Community of Practice** to share products, ideas and lessons under the "FinYouth" brand

WHO IS THIS REPORT FOR?

We hope the insights and recommendations in this report will benefit a broad range of stakeholders. The table on the next page summarizes how different audiences might make the best use of the report.

WHY READ THIS REPORT?

The FinYouth report can serve a variety of purposes for different audiences.

STAKEHOLDERS	DESCRIPTION	INTENDED USE
Governments	National and local government departments and agencies working on and/or allocating funds in support of youth employment and entrepreneurship. This also includes multilateral funding (e.g., World Bank) working through governments for youth employment programs and parastatal entities such as state-owned development banks and employment agencies.	To gain a comprehensive view of the range of financial models and products related to youth employment and entrepreneurship and assess their respective benefits, outcomes and challenges, in order to better inform resource allocation, strategy development, program design and policy-making.
Corporates	For-profit entities interested in youth employment and entrepreneurship initiatives from a corporate social responsibility, corporate investment, human resources, supply chain and/or product development perspectives. This includes both multinational corporations and local businesses (including MSMEs).	To better understand how corporates can achieve their growth and hiring goals, most effectively support dignified youth employment, and achieve double/triple bottom line objectives.
Funders, investors and financial enablers (excl. governments)	Organizations and institutions that have the objective of achieving at least returnable capital or have financial products such as credit/first loss guarantees to crowd-in investment capital. Funders and investors can provide capital to grow entities started by youth or employing youth, such as SMEs. This includes commercial banks, Venture Capital (VC) and Private Equity (PE) investors, impact investors, multilateral development banks and development finance institutions, banks and microfinance institutions. Increasingly, mobile network operators (MNOs) are also getting into the financing game, especially for livelihoods. Importantly, this group also includes philanthropies that have investment teams that seek returnable capital or impact investing opportunities.	To find investible opportunities that align with an investment thesis of inclusive economic growth and development; to learn and consider a range of financial models and products related to youth employment and entrepreneurship.
Foundations and grant providers	Philanthropic donors including private and corporate foundations, as well as bilateral and multilateral agencies providing grant funding. This group has no expectation of financial returns.	To find opportunities to best use grant funding to achieve a catalytic impact on youth employment outcomes; to learn and consider a range of financial models and products related to youth employment and entrepreneurship.
Service providers	Organizations and institutions that provide services related to youth employment and entrepreneurship. This includes nonprofits, educational and skilling institutions, social innovators and fintech companies.	To better understand the range of financial models and products that can be used to pay for services (beyond grants) and what these models and products require from service providers to be implemented effectively; to learn how to improve their own effectiveness and understand the shift in donor and government practices that is currently underway to pay for outcomes.
Youth and youth-focused civil society organizations	Young people with an interest in youth employment and entrepreneurship issues, either from a personal, professional or civic engagement perspective; and the civil society organizations working with such young people.	To better understand the range of financial models and products related to youth employment and entrepreneurship and assess their respective benefits and challenges in order to advocate for increased availability, access and funding for such products. Critically, youth serving organizations should have the tools to advocate and support programs that are most effective and have better outcomes for youth.
Intermediaries and researchers	Intermediaries, consultants and researchers that are structuring interventions and designing programs related to youth employment and entrepreneurship.	To better understand the range of financial models and products related to youth employment and entrepreneurship, in order to inform research and program design.

METHODOLOGY

Over the course of 2022, the research process included interviews with over 60 stakeholders from 50 organizations, as well as an extensive review of relevant reports and publications.

Throughout the research period, the project team consulted closely with a working group of youth employment and entrepreneurship experts drawn from the Global Opportunity Youth Network (GOYN[25]), who provided the impetus for the project in collaboration with its long-term global partners Global Development Incubator (GDI) and Catholic Relief Services (CRS). Emerging findings and recommendations were tested with working group members who provided feedback and helped refine the conclusions of the report. Additional insights were provided by expert advisors.

STRUCTURE OF THE REPORT

This report is organized in five chapters.

Chapter 1: Challenges in Youth Employment and Entrepreneurship

Introduces the analytical framework developed to support this research. In this section, the core issues related to youth employment and entrepreneurship are broken down and specific financing models and products that may be able to address these issues examined. This chapter also lays out definitions of scale, effectiveness and sustainability in the context of youth employment and entrepreneurship, three key concepts that are used throughout the report to assess financing products.

Chapter 2: Sources of Capital and Types of Financing Products

Presents the typology of financing products and sources of capital relevant to the scope of this research. A brief overview of each product is provided, and a mapping of products to types of investors is presented. This mapping offers an instant overview of the field to the reader. This chapter also includes a brief overview of market failures and capital deployment challenges.

Chapter 3: Beyond Finance

Reviews the enabling environment required for improving youth employment and entrepreneurship outcomes and for financing solutions to be effective.

Chapter 4: Products, Uses and Case Studies

Presents the key findings and recommendations from the research. The chapter is organized based on the four core youth employment issues of the analytical framework presented in Chapter 1. For each issue, the report examines how finance can offer potential solutions; reviews existing financing products and their scalability, effectiveness and long-term sustainability; and makes recommendations based on the analysis, highlighting both financing models to promote and actions that non-financing stakeholders (such as service providers) can take in support of these models.

Chapter 5: Conclusion and Recommendations

Summarizes the main conclusions of Chapter 4, including promising products to develop or accelerate and key recommendations for each stakeholder group.

HOW TO USE THIS REPORT

Reading the report

The report is structured to guide readers through a comprehensive understanding of financing solutions to support youth employment and entrepreneurship. Here's how to navigate it:

1. **Understand the Framework:** Chapter 1 introduces the four categories of the analytical framework used for the report. For readers new to financial concepts, Chapters 2 and 3 will provide context.

[25] GOYN is a multi-stakeholder initiative committed to catalyzing place-based systems shifts in communities around the world through the creation of sustainable economic opportunities for "Opportunity Youth," aged 15-29 who are out of school, unemployed or underemployed.

2. **Identify Your Focus Areas:** Based on Chapter 1, readers should pinpoint the issues most relevant to them, such as supply-side issues, demand-side issues, matching issues, or resilience and inclusion issues.
3. **Explore Interventions:** In Chapter 4, readers will find the sections that cover their chosen issues. Here, readers can learn about various financing solutions, sub-issues, and how to address them.
4. **Review Recommendations and Products**: Each intervention section in Chapter 4 concludes with detailed recommendations and promising financing products. These include design parameters, key success factors, value propositions, expected impact, and examples. We recommend readers dedicate time to understand these, as they are central to the report's practical application.

NAVIGATING PRODUCT RECOMMENDATIONS

The report includes eleven distinct product recommendations tailored to various types of funders. These recommendations are based on different factors such as areas of interest, risk appetite, and return expectations. Here's a simplified guide to help funders navigate these recommendations:

Step 1: Define your goals and constraints

Before diving into the recommendations, it's essential to understand your specific goals and constraints. Consider the following aspects:

- **Areas of interest**: Identify the specific issues you want to address, such as skilling, job creation, financial resilience, etc.
- **Geographic focus**: Consider the local labor market dynamics, such as high growth vs. low growth regions, skilled vs. low-skilled workers, etc.
- **Desired impact**: Define the scale, depth, and sustainability of the impact you aim to achieve.
- **Investment/funding Parameters**: Determine the type of capital available (e.g., grants, debt, equity), target returns, risk level, funding size, and team capacity.

Step 2: Match your Goals with product recommendations

With your goals and constraints defined, you can now match them with the product recommendations in the report. Here's how:

- **Refer to the summary table:** The report includes a summary table (Conclusion section) that maps each product to its impact area, key requirements, and type of capital needed. Use this table to identify the products that align with your goals.
- **Consider different lenses:** You can approach the table from various angles, such as targeting a specific problem, focusing on scale or effectiveness, or aligning with a particular type of capital.

Step 3: Customize and Explore

Remember, these product recommendations are models that will likely need customization to fit the local context. They are designed to inspire and encourage further exploration, not to be rigid blueprints.

CHAPTER 1: CHALLENGES IN YOUTH EMPLOYMENT AND ENTREPRENEURSHIP

Building a comprehensive overview of financing products for youth employment and entrepreneurship[26] requires three key steps: first, understanding the underlying causes of youth unemployment and the associated solutions; second, understanding which financing models may support these solutions; and third, which of these models are being funded, which are not, and why.

MAPPING THE UNDERLYING CAUSES OF YOUTH UNEMPLOYMENT AND UNDEREMPLOYMENT

At its core, structural youth unemployment or underemployment is a result of an imbalance in the labor market between the labor supply (the youth looking for jobs) and the labor demand (employers looking to hire). As illustrated in Figure 1, different underlying causes can create an imbalance:

1. **There is a supply gap (skills gap) in the labor market**: there are enough job openings for unemployed youth, but young people do not have the right skills, experience or support to access these jobs. For example, an urban area has a booming tech sector where employers are seeking to hire but the youth do not have the technical skills for the jobs that need to be filled. Required skills for employment also include soft skills that enable young people to not only take up jobs, but also retain them. Specific skills are also required for self-employment (including gig work), such as marketing and digital skills.
2. **There is a demand gap (jobs gap) in the labor market:** the economy is simply not creating enough new jobs to absorb unemployed youth and youth entering the labor market. A stagnating or contracting economy that only creates a thousand new jobs every year in a context where hundreds of thousands of young people enter the labor market annually can cause such a jobs gap. Such a situation can have multiple causes. For instance, a lack of access to appropriate credit and markets for livelihood businesses and Micro, Small and Medium Enterprises (MSMEs) can constrain economic growth and thereby job creation. A lack of local investment in economic activity and enabling infrastructure (e.g., roads for market access) can result in a lack of jobs in local labor markets. At the macroeconomic level, global trends in automation and capital market pressure reward capital investment and returns to capital, further reducing job opportunities. It is also important to note that in some economies, jobs or self-employment opportunities may be available, but not provide a consistent and sustainable source of income (above a living wage). This lack of "dignified jobs" is an issue in its own right.[27]
3. **There is a matching issue between the supply and demand of labor:** there are situations where the economy is growing and creating jobs and the youth have the skills and experience that employers are looking for, yet

[26] For simplicity purposes, we are using the term "employment" as an umbrella term including any type of productive income-generating activity, including formal wage employment, informal wage employment and self-employment/entrepreneurship.

[27] For the purposes of this report, we define "dignified jobs" as jobs that provide a legal, consistent and sustainable source of income, a safe and healthy work environment, and basic social benefits (e.g., health insurance coverage).

many of these youth remain unemployed. This is due to matching issues in the labor market; the mechanisms that connect jobseekers to employment opportunities (e.g., job search platforms) may be lacking, the youth may not be using effective job search strategies, jobs may go only to employers' personal connections, the pay and benefits (e.g., lack of healthcare) are not clearing the market (i.e., they are either too high for employers or too low for jobseekers), jobs are perceived to be unsafe or have poor working conditions, or employers may be discriminating against the youth for reasons unrelated to their skills (e.g., perception that the youth are unreliable or lazy). The prevalence of the informal sector (which can be due to labor regulations, livelihood and entrepreneurship regulations, and/or taxation policies) tends to reinforce matching issues. The lack of wraparound supports (such as childcare or affordable transportation) can be an additional barrier for youth to access jobs that they are qualified for.

In addition, a fourth category of issues tends to compound the negative effects of youth unemployment:

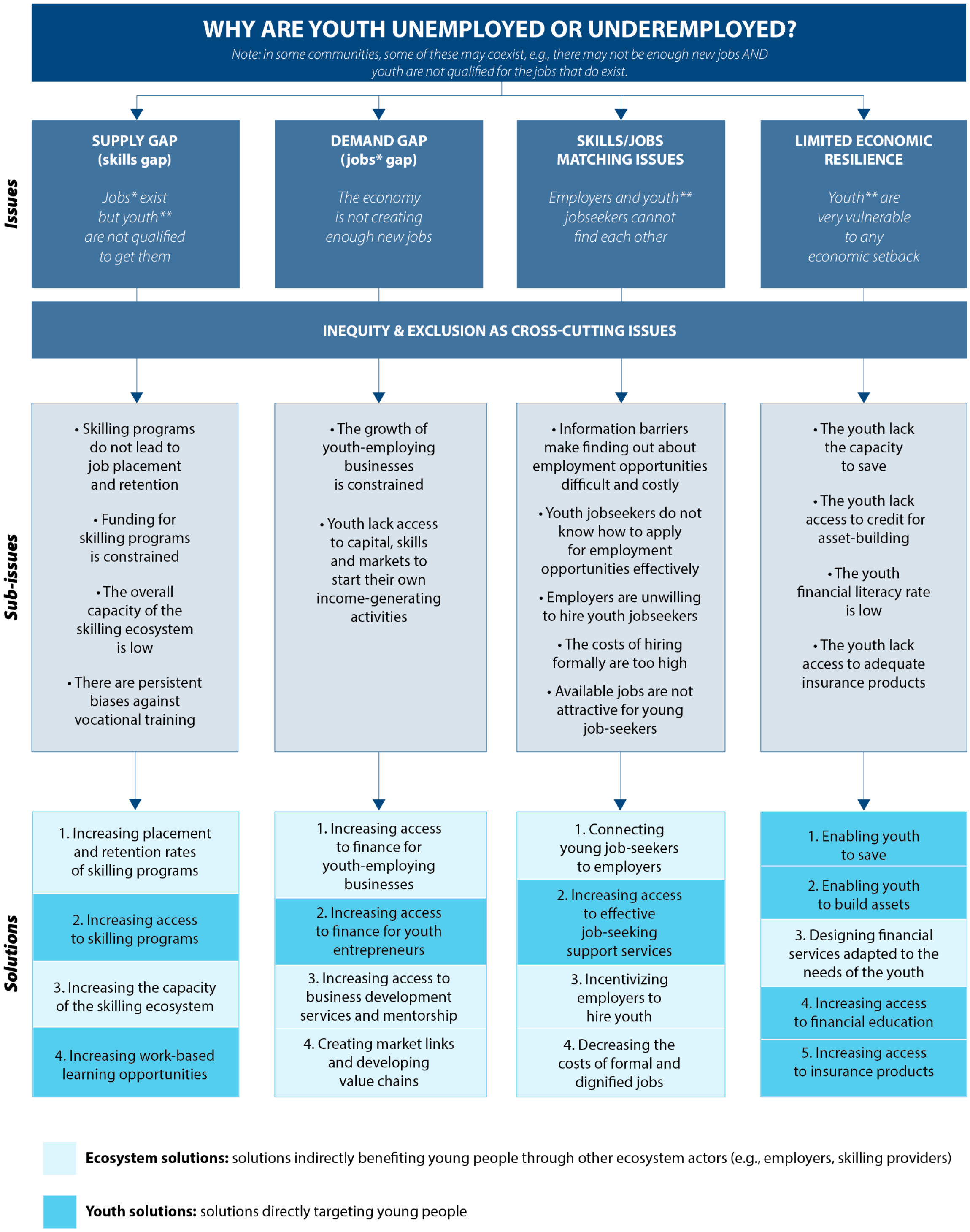
4. **Young people lack the financial resilience to withstand economic shocks.** Income from jobs or self-employment is only one component of financial stability. Resilience is the ability of the youth to build assets through savings and investments that will enable them to sustainably improve their standards of living. When the youth lack the tools and knowledge to build such assets, they remain highly vulnerable to any type of economic shock (e.g., job loss, business failure or health issues). This vulnerability is compounded by a lack of access to affordable insurance products against these types of shocks.

It should be noted that these issues are not mutually exclusive. Furthermore, for specific groups, such as young women (including young mothers), youth with disabilities and other marginalized groups, inequity of access and exclusion are compounding issues that cut across all four categories.

As illustrated in Figure 1, each of these issues comes with its own set of solutions. Some of these solutions involve providing targeted support to young people (for instance, increasing access to skilling programs or access to finance for youth entrepreneurs). Others aim to strengthen the broader economic ecosystem and its capacity to create economic opportunities for young people. For instance, investing in skilling providers to increase their capacity to serve youth or increasing access to finance for youth-employing businesses are important ways to support youth employment and entrepreneurship, even if young people are not the primary recipients of the support provided. These "ecosystem solutions" constitute an essential part of the field of financing for youth employment and entrepreneurship, and they figure prominently in this report.

It is critical for youth employment stakeholders, which includes governments, donors, companies, investors and civil society organizations, to understand which of the issues outlined above are the focus of their efforts. Depending on their priorities, different financing tools will be needed to address different challenges. Some ecosystem builders will want to address multiple challenges in one community. Other stakeholders will want to prioritize the specific causes of youth unemployment in their communities. Without this understanding of the underlying issues, stakeholders risk implementing the wrong set of solutions: for instance, investing heavily in vocational training programs may help resolve a skills gap but will do little against a significant jobs gap, as youth may become more skilled but cannot be placed into jobs that do not exist. Furthermore, stakeholders might be incentivizing the wrong behavior or not realize that they can use financial products to incentivize more impactful behavior. Financing mechanisms themselves should be considered a powerful tool as part of program design to improve outcomes in youth employment and entrepreneurship.

FIG. 1: FINYOUH ANALYTICAL FRAMEWORK



Jobs* refer here to any income-generating activity for youth (formal/informal employment and self-employment/entrepreneurship).

Youth** This report primarily focuses on "opportunity youth"—young people aged 15-29 who are out of school, unemployed, or working in informal jobs

DEFINING SCALABILITY, EFFECTIVENESS AND SUSTAINABILITY

This report defines the measures of success by which youth employment financing products should be assessed as: scalability, effectiveness and sustainability. These three dimensions tend to be interrelated:

SCALABILITY

Operating "at scale" is often a stated objective of youth employment and entrepreneurship programs. However, the definition of scale is highly contextual and usually linked to the starting point of a given program: for instance, moving from serving 30 youths to 300 youths can be described as "scaling up", even if the overall impact remains minimal in comparison to the size of the challenge (i.e., hundreds of thousands of young people looking for decent work opportunities). To be meaningful, scale needs to be defined in the context of the intervention, such as a geographic area (city, region, country, continent), a sector and/or a specific population (e.g., youth with disabilities).

Considering the variety of programs and products analyzed for this research, we adopted a broad definition of scale, where programs and products successful *at scale* have demonstrated their capacity to make a significant impact on youth employment in their area of intervention. **Practically speaking, these are programs and products that can provide sustainable employment opportunities for several thousands of young people annually.** Building on this definition, our scalability assessment took two dimensions into account:

1. Is the program/product *currently* having an impact at scale?
2. Does the program/product have the *potential* to have an impact at scale, either through growth, replication and/or adoption by other stakeholders or through triggering a long-lasting systemic change?

EFFECTIVENESS

A program may be operating at scale, but that is insufficient to make it effective. For instance, a skilling institution may be providing training to thousands of young people, but if none of its graduates are able to find and retain jobs after the training, the intervention had no impact on youth employment.

In the context of this research, we defined *effectiveness* as the capacity of a program and/or product to provide the youth with access to an employment opportunity, which may be a formal wage job, an informal job or a self-employment opportunity.[28] While more and more attention is and should be paid to the quality of such economic opportunities, this was not a practical indicator to use for this review. Job quality definitions vary widely, including dimensions from income levels to working conditions and protection of labor rights, which makes job quality complex to measure and report consistently across sectors and countries. For most of the programs and products considered here, measuring job creation outcomes (as opposed to measuring outputs, such as the number of youths trained) is already a significant undertaking and a step forward from current practices.

SUSTAINABILITY

Finally, our review considered the *sustainability* of the programs and products in our scope, which we define as a program or products' capacity to be effective in the long run without requiring regular injections of philanthropic funding. There are three main pathways to reaching sustainability at scale: [29]

- **Government adoption:** operating costs are covered by public funds generated through taxes with a long-term commitment to maintain funding levels.
- **Commercial adoption:** this can take many forms, for example: a) self-sustaining financial

[28] Formal employment implies a written contractual arrangement between a registered company and an employee. Informal jobs, which can be offered by registered or unregistered firms, do not involve a written contract and typically offer limited or no benefits or job security. Self-employment is working for oneself, which may include freelancing, taking part in the gig economy or owning a business.
[29] Gugelev & Stern, Stanford Social Innovation Review, *What's Your Endgame?*, Winter 2015

model: operating costs are covered through the sale of a product or service (where the seller may be a nonprofit or for-profit entity, such as social enterprises or microfinance institutions), or b) financing of livelihoods, SMEs or results-based financing products by a commercial bank or by venture capital/private equity investors.

- **Social and community structures:** programs are self-managed by communities without donor or government support; for example, this includes savings groups, cooperatives and credit unions.

Additionally, short-term use of grants and subsidies can have a catalytic impact and lead to a significant change in the youth employment and entrepreneurship ecosystem. If this change is sustained over time without further capital injections, such programs can also be considered sustainable.

CHAPTER 2: SOURCES OF CAPITAL AND TYPES OF FINANCING PRODUCTS

From philanthropic grants to peer-to-peer lending, there is a broad range of financial products being used to finance youth employment and entrepreneurship programs. Similarly, sources of capital for these products stretch from governments to commercial banks, development finance institutions, multilateral development agencies and high net-worth individuals (HNWI). Different types of funders use different products. This chapter builds a map of the field by giving an overview of existing financial products and their main funders. Detailed definitions of these products and sources of capital is available in the Annex of this report.

FINANCIAL PRODUCTS

For the purpose of this report, we have grouped financial products for youth employment and entrepreneurship into six broad categories:

1. **Government policies & spending:** Includes tax instruments, public subsidies and public youth employment programs.
2. **Grant-based products:** Lump sums given to individuals or organizations for a specific purpose, with no return expectation. Includes program-related grants, vouchers, scholarships, and seed grants for entrepreneurship.
3. **Impact investments:** Broad range of financial products that are used to produce both social and financial returns. This includes innovative grant structures that can lead to partial or full capital preservation, such as recoverable grants, convertible grants and forgivable loans, mission- and program-related investments, venture philanthropy, concessional finance, credit enhancement tools (such as first-loss capital and guarantees), directed lending, social crowdfunding platforms, microfinance, and savings and lending groups.[30]
4. **Commercial financing:** Debt, equity, quasi-equity and all financial products that provide capital to support business growth or individual investment (e.g., student loans) with the primary purpose of achieving financial returns, also includes investments in infrastructure, value added processing, project finance and other economic development activities that yield a return and create jobs;
5. **Results-based financing (RBF):** Financial structures in which all or part of the funding is tied to the achievement of specific outcomes by the organization or company receiving the funding, rather than to the delivery of outputs and activities.[31]

It is important to note that the lines are increasingly blurring between "impact investments" and "commercial financing", with some impact investors acting much more like commercial investors, while commercial financing actors are increasingly deploying "ESG[32]-aligned" responsible capital, with some going as far as measuring their performance against a "triple bottom line".[33]

[30] Please see Annex for a full list and definitions of products considered as impact investment products for the purpose of this report.

[31] RBF overlaps with the four first categories: depending on the funding structure, the terms of the funding and the nature of the funding organization, an RBF model can be considered a government expenditure, a philanthropic grant, an impact investment or a commercial investment.

[32] ESG (short for environmental, social and governance) is a framework that considers the impact of corporate activities in these areas as a strategy to reduce risks and thereby maximize risk-adjusted returns.

[33] The "triple bottom line" refers to a focus on social and environmental impact as well as economic profits.

SOURCES OF CAPITAL

We have organized funders of youth employment and entrepreneurship initiatives into eight main groups:

1. **Governments**, including national and local government bodies and agencies;
2. **Philanthropic institutions**, defined as nongovernmental, nonprofit organizations funded by private donors that deploy capital to address select social issues, such as youth unemployment;
3. **International Financial Institutions (IFIs)**, which invest public capital to foster economic development and achieve social impact, including through job creation;
4. **Commercial banks**, which provide access to capital to youth-led and youth-employing businesses and funding for skilling programs (through student loans);
5. **Non-Bank Financial Institutions (NBFIs)**, including fintech companies, microfinance institutions (MFIs), and savings and credit cooperative organizations (SACCOs);
6. **Investment funds**, of which **impact funds** are a subset;
7. **Corporates**, which can support youth employment and entrepreneurship as part of their core business strategy or through corporate social responsibility (CSR) initiatives; and
8. **Individuals**, which include both HNWI using their funds for philanthropic purposes and users of crowdfunding and/or peer-to-peer lending platforms.

Based on this typology, the table on the next page presents a comprehensive view of the current field of financing models for youth employment and entrepreneurship initiatives, mapped to the institutions that fund them.

MAPPING PRODUCTS TO FUNDERS: WHO FUNDS WHAT?

Products / Sources of capital	Government	Philanthropic institutions	International Financial Institutions (IFIs)	Commercial banks	NBFIs (incl. fintech, MFIs, SACCOs)	Investment funds (incl. impact funds)	Corporates	Individuals
Government policies & spending								
Tax instruments	•							
Public subsidies	•							
Public youth employment programs	•							
Grant-based products								
Program-related grants	•	•	•			•	•	•
Cash transfers	•	•						•
Vouchers	•	•	•					
Scholarships	•	•	•				•	•
Seed grants	•	•	•			•	•	•
Impact investments								
Recoverable grants	•	•						
Convertible grants		•						
Forgivable loans		•						
Mission- and program-related investments		•						
Venture philanthropy		•						
Catalytic investments (concessional finance)	•	•	•		•	•		
Credit enhancement tools (first-loss capital, guarantees, risk-sharing facilities)	•		•			•		
Directed lending			•			•		
Crowdfunding (with an impact lens)								•
Microfinance and microinsurance	•	•	•		•	•		
Savings and loan groups								•
Commercial financing								
Responsible investments			•	•		•		
Consumer and corporate lending	•			•	•	•		
Supply chain financing	•		•	•			•	
Receivables financing	•			•	•		•	
Angel/Venture Capital/Private Equity investing			•			•		•
Peer-to-peer lending								•
Crowdfunding (with a financial lens)								•
Results-based financing								
Outcomes-based contracts	•	•	•					
Social Impact Bonds	•	•	•			•		
Development Impact Bonds		•	•			•		
Social Impact Guarantees	•	•	•					
Social Impact Incentives		•	•			•		
Impact-linked Loans		•				•		
Outcomes Funds	•	•	•			•		
Income- and revenue-share agreements								
Income-share agreements and outcomes-based loans (incl. Career Impact Bonds)	•	•	•			•		
Revenue-share agreements / Revenue-based financing			•			•		

UNLOCKING FINANCING FOR YOUTH EMPLOYMENT AND ENTREPRENEURSHIP

If both capital providers and products for youth employment and entrepreneurship exist, why isn't finance "naturally" flowing to fund these solutions? Primarily, it comes down to a market imbalance: the returns on making these investments, be they financial returns for investors or social returns for governments and donors, are not worth, or perceived to be worth, the costs and risks they involve for the decision-maker. Another often overlooked driver is that stakeholders involved may lack awareness or knowledge of available financing instruments, or of how these may be adapted to their communities.

As illustrated in Figure 2, this issue can be broken down into several smaller issues:

1. **On the programmatic side,** when no financial returns are expected from a program, governments and donors are constantly allocating funds across competing priorities. If they choose not to fund a given youth employment solution, it is because it is seen as having less impact as compared to other programs that are considered to be more efficient and/or more effective for the overall goals of the government or donor. This may be linked to the costs of the program, a lack of evidence for the anticipated impact, or a misalignment or absence of incentives to drive results. Financing products and models that seek to increase the efficiency and effectiveness of youth employment and entrepreneurship programs, such as fintech solutions and results-based financing models, can help shift that equilibrium.

2. **On the investment side,** when financial returns are expected, investors balance the risks of making an investment with the anticipated returns of the investment.[34] If return expectations do not match the level of risk (or perceived level of risk), investors do not invest. The country context, sector, business stage (e.g., start-up), structure and duration of an investment all affect its level of risk. Return expectations depend, amongst other factors, on the growth and exit prospects for an equity investment, or on the coupon (annual interest rate) for a debt investment.

   The costs of making the investment can also affect investment decisions. Because there are minimum costs involved with each transaction (e.g., to cover legal expenses, due diligence research, portfolio management costs, etc.), making multiple small investments is usually costly compared to making a few larger ones.

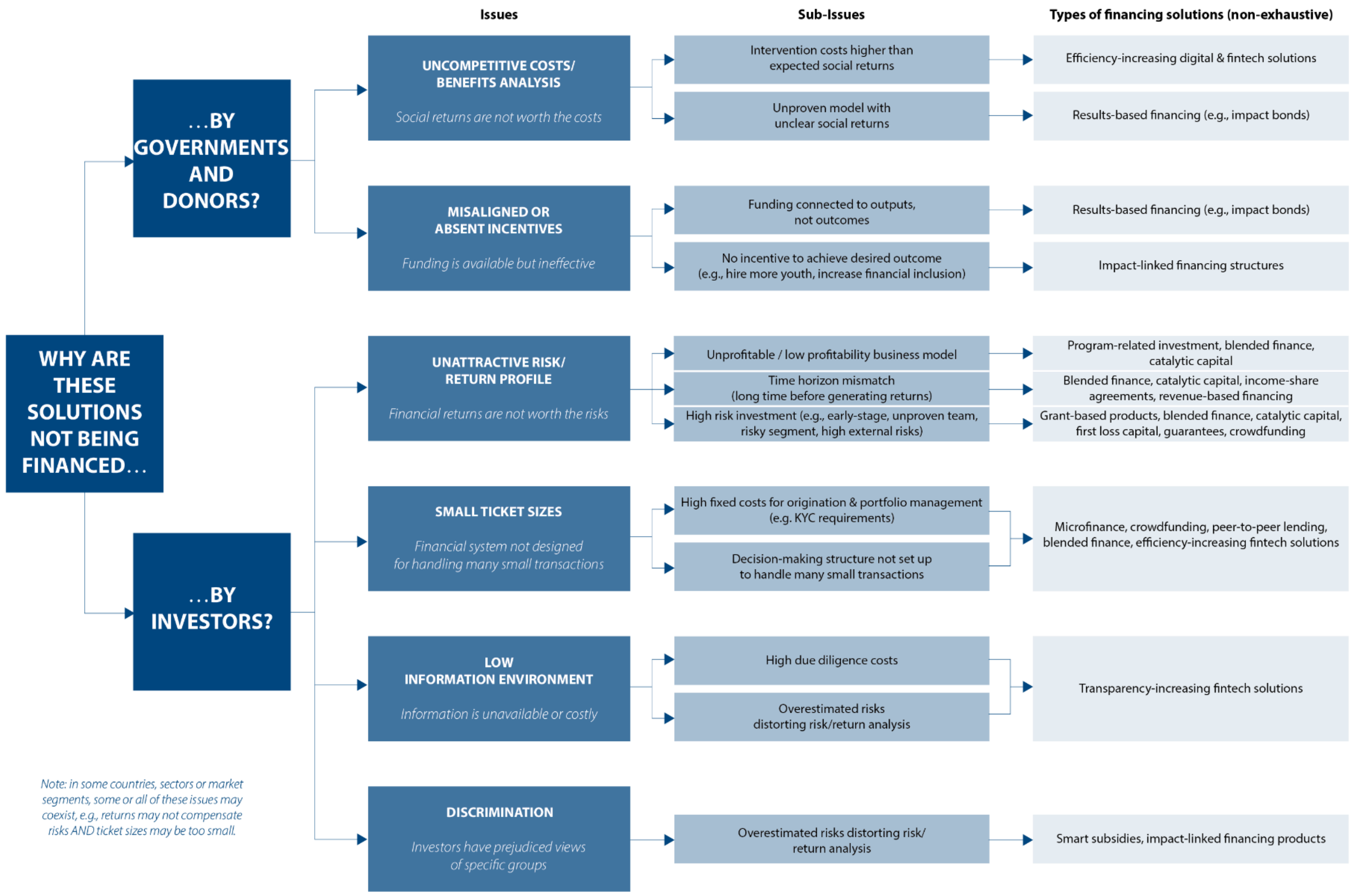
   Another issue is the lack of readily available information on investment opportunities, which is common in emerging markets with a large informal economy. This tends to drive up investment costs by increasing due diligence costs, and to increase (real or perceived) financial risk due to the absence of transparent and reliable information to support an accurate risk assessment.

   Financing products and models that help investors reduce their level of risk (such as guarantees or blended finance models) or alleviate investment costs (such as origination subsidies, which are bonuses granted to investors for each investment made to offset some of transaction costs) can both drive more funding towards youth employment and entrepreneurship solutions.

Just as it is essential to understand the structural causes of youth unemployment in a given community in order to identify the right solutions to implement, it is likewise critical to understand the underlying issues that result in a lack of funding for these solutions because resolving these issues will call for different financing products and models.

[34] When making that assessment, commercial investors will exclusively consider the expected *financial returns* of the investment. Impact investors, however, will also consider the *social returns* of the investment, in essence, accepting a higher level of risk or lower financial returns in exchange for achieving that impact.

FIG. 2: FINANCING ISSUES & SOLUTIONS



Note: in some countries, sectors or market segments, some or all of these issues may coexist, e.g., returns may not compensate risks AND ticket sizes may be too small.

CHAPTER 3: BEYOND FINANCE

The right suite of financing tools may be able to drive more funding towards youth employment and entrepreneurship interventions, but it is not enough to solve youth unemployment at scale. To be effective, appropriate financing must be complemented by a stable overall market system, including:

- **A conducive political and macroeconomic environment:** political, economic or social crises have a significant negative impact on economic activity and job creation.
- **Functioning education systems:** educational attainment and labor force participation tend to be highly correlated[35].
- **A supportive policy framework:** public policies can support youth employment and entrepreneurship in many ways, such as setting quality standards for vocational training and higher education institutions, designing interventions to reconnect inactive youth to education and employment, promoting work-based learning, fostering a business-friendly environment, or providing social safety nets.
- **Physical infrastructure:** labor markets do not exist in a vacuum. Markets require physical infrastructure to function efficiently. These include reliable water and electricity to produce goods and services; roads and other transportation channels to connect suppliers, producers and retailers as well as enable workers to commute to their places of work; and information and communications technology (ICT) infrastructure to share and access information on a real-time basis.
- **A diverse ecosystem of youth-focused services:** the youth need support services beyond skilling, job placement and business development services to access economic opportunities. These include mentorship programs, social activities (sports, arts) and health services; to be most effective, this ecosystem of youth-supporting institutions needs to be broad, deep and well-coordinated.

These non-financing elements are detailed further alongside the findings and recommendations emerging from the research in in Chapter 4.

[35] Paper commissioned for the Education For All Global Monitoring Report 2013/4, *Teaching and learning: Achieving quality for all*

CHAPTER 4: PRODUCTS, USES AND CASE STUDIES

This chapter presents the key findings and recommendations from the research, following the four key areas of the analytical framework introduced in Chapter 1:

Intervention #1: Financing Skills

Products and models designed to address skills gaps.

Intervention #2: Financing Jobs & Entrepreneurship

Products and models designed to address skills gaps.

Intervention #3: Financing Connections

Products and models designed to address skills/jobs matching issues in the labor market.

Intervention #4: Financing Resilience & Financial Inclusion

Products and models designed to increase young people's economic resilience.

For each area of intervention, the report includes the following sections:

- ***What is the issue?***: A detailed analysis of the issue at stake.
- ***How finance can help***: A high-level description of the ways financing products and models can contribute to solving the issue.
- ***Inclusion considerations***: A discussion of equity and inclusion issues related to the area of intervention, including how financing products and models may be used to address these issues.
- ***Beyond finance*****:** A list of critical non-financing elements required for interventions to be effective in this area.
- ***What works?***: Case studies and discussion of existing financing products and models related to this area of intervention.
- ***Recommendations***: Financing and non-financing recommendations for stakeholders interested in working on these issues.
- ***Promising products***: Prototypes of effective products related to the area of intervention, including product structure, design parameters, key success factors, value proposition, expected impact and existing examples of similar products.

INTERVENTION #1: FINANCING SKILLS

WHAT IS THE ISSUE?

In economies experiencing a skills gap or supply gap, jobs and self-employment opportunities exist but the youth, especially "Opportunity Youth",[36] lack the required skills to access the opportunities. The issue may be due to a lack of technical skills (e.g., knowing how to code) or to a lack of soft skills (e.g., time management, problem-solving, work ethic, communications, etc.). The gap between the skills the youth have and those required by employers can be caused by multiple factors, such as a disconnection between the curricula of skilling programs and the needs of the labor market (e.g., outdated practical training) or a lack of affordable skilling programs.

On the surface, solving a skills gap is straightforward: the youth need access to training to gain the skills that will qualify them for employment or enable them to start an economic activity. Four main issues can stand in the way of achieving this outcome:

a) Skilling programs do not lead to job placement, long-term job retention or business sustainability

The overwhelming majority of skilling providers are disconnected to demand and remunerated based on outputs (for example, hours and themes of instruction), as opposed to outcomes, such as the placement and retention rates of students into jobs after graduation. While tracking outputs is easier than tracking outcomes, this financing structure has three negative consequences:

- Many skilling programs are disconnected from labor market demand and employer needs, leading to young people learning unusable or obsolete skills (e.g., training on outdated equipment and materials[37]);
- Skilling providers have no incentives to track and communicate on the outcomes of their programs, making it extremely difficult to compare the effectiveness of programs and invest in what works; and
- Skilling programs support entrepreneurship training but missing investment capital, mentorship and many other post-business start supports to make youth successful.[38]

In addition, in some countries, there are additional barriers to job placement on the employer side, such as:

- Labor regulations can make it very difficult to fire and hire people, and so employers take on part-time contractors, hire people informally or leverage automation rather than labor;
- Labor regulations for dignified work require minimum wage, health insurance and/or social security contributions, workplace safety, workers compensation insurance and accurate cost reporting in the company's accounts;
- Some national authorities require certifications to hire people for certain jobs. However, many of these are too difficult, outdated and critically fail to recognize prior learning or informal on the job training (recent recognition of prior Learning (PRL) or micro-credentialing efforts are trying to address this gap); and
- Employers value workers with experience and so find it difficult to take a chance on new workers, completing a skilling program is insufficient and work-based learning (e.g., apprenticeship) and/or previous work experience are required for placement.

When employers do accept workers on an informal basis, there often many abuses, non-dignified work and no recourse by the employee to improve their working conditions.

Even when youth are placed into jobs, retention can be a significant challenge. The majority of employers are SMEs without strong human resources (HR)

[36] By the definition of the Global Opportunity Youth Network, "Opportunity Youth" are youth aged 15–29 that are not enrolled in an education program, not employed, or employed in informal jobs.
[37] For example, youth being trained on outdated engine blocks from two decades ago when all current engines are computer-based.
[38] This issue will be discussed further in the Financing Jobs & Entrepreneurship section.

departments, and many struggle to support new youth hires appropriately. Youth that are coming from informal settlements or rural areas, youth that are of different tribes, casts and/or socio-economic status than their colleagues or youth that are simply unfamiliar with professional workplaces can struggle with adjusting to this new environment, and end up leaving jobs shortly after being hired in the absence of appropriate support. These employer-side issues will be discussed in more depth in the “Financing Connections” section of this report, which reviews financial mechanisms to incentivize employers to hire youth.

b) Funding for skilling programs is constrained, requiring payments by the youth themselves or by a third party

Paying for the costs of a skilling program can be considered as an investment into the student’s future earning ability. Like all investments, it comes with a risk that the student may not find a job or self-employment opportunity lucrative enough to make up for the costs of the training after graduation. Therefore, who should be taking that risk? Many of the youth and their families do not have the resources to make the initial investment. Most banks are unwilling to extend loans without guarantees. Employers who can provide work-based learning opportunities have limited incentives to invest in young people that may prove unable to learn or may resign shortly after acquiring new skills. Governments and donors can (and do) fund skilling programs, but without comprehensive information on placement and retention rates post-graduation (as per #1 above), assessing the costs and benefits of individual programs to decide which ones to support is a near-impossible exercise.

c) The overall capacity and infrastructure of the skilling ecosystem is too low

In some cases, there are simply not enough high-quality skilling opportunities to absorb all the young people requiring skilling. Setting up an in-person skilling program can come with high fixed costs (e.g., for classrooms, computers, equipment, etc.), with only limited opportunities for economies of scale, for instance, the number of students per instructor or the physical space available automatically limits cohort sizes. Digital platforms may be easier to set up and run, but they often remain out-of-reach for the youth that do not have access to the equipment, data or digital literacy necessary to follow online courses. Furthermore, as noted above, most vocational training programs have outdated equipment and facilities that do not enable youth to receive the right training. This issue is compounded by a lack of appropriate trainers with the right knowledge and information to train youth on modern and relevant employer requirements.

d) There are persistent biases against vocational training

Outside of the European leaders of Germany and Switzerland, most vocational training programs are perceived to be a lower level career pathway. Many of those that do attend see it as a last resort when it is not possible to attend college, start a business or find a job. Combined with poor placement outcomes, this mindset creates is a significant bias against vocational skilling programs amongst youth and their families.

These issues are not mutually exclusive and call for four broad categories of solutions:

1. **Increasing the placement and retention rates of skilling programs** by changing the incentive structure and programmatic activities of skilling providers to be aligned with demand from employers, investors and markets;
2. **Increasing access to skilling programs** by introducing new financing models to cover their up-front costs to then be repaid later;
3. **Increasing the capacity of the skilling ecosystem** by bringing high-quality skilling programs with the right facilities and training staff to scale; and/or
4. **Increasing work-based learning opportunities** as an effective alternative to classroom-based skilling programs.

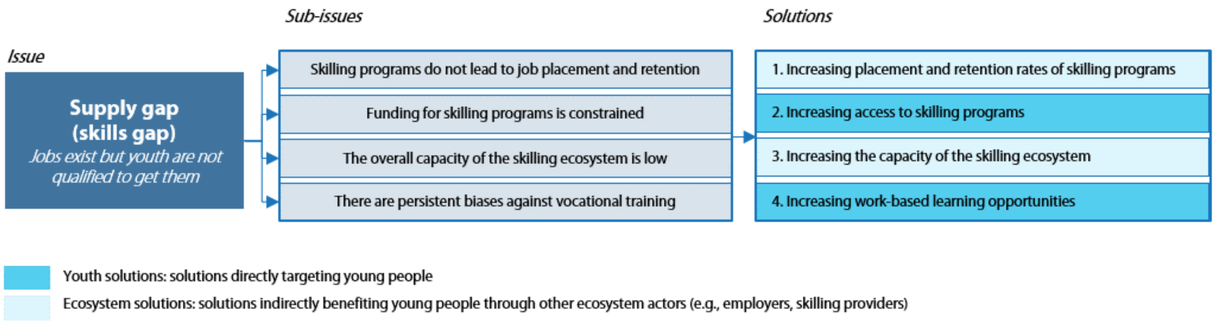


Fig. 3: Supply/skills gap issues and solutions

HOW FINANCE CAN HELP

Financing products can support these solutions in multiple ways. For instance, results-based financing models can be used to **change the incentives** of skilling providers and push them to focus more strongly on increasing placement and retention rates by making all or some of their funding dependent on the achievement of specific placement and retention targets. Financing products can also be used to **shift or spread the timing and greater amount of financing associated with investing in high-quality skilling programs**. For example, an income-share agreement structure, in which students only pay back the cost of a skilling course once they have found a job above a minimum income threshold, shifts the timing of paying for the upfront costs of the training from the individual student to a bank or private investor. Other financing structures, such as endowment funds[39] set up by foundations or high net worth individuals (HNWI), can provide recurrent funding for skilling programs. Finally, financing models such as blended finance funds can be used to **increase investments into the higher education and vocational training sector**, enabling the emergence of new providers and the growth of existing ones to provide more skilling opportunities for young people. This chapter will discuss these solutions, and many others, in greater detail.

INCLUSION CONSIDERATIONS

Access to skilling programs is rarely equitable. In many countries, specific groups such as young women, youth with disabilities, young people without a secondary education certificate, and young people from other marginalized groups face additional barriers to enroll, attend and graduate from skilling courses. For instance, secondary-level TVET enrollment rates are lower among women than men, with a wider gap in countries with larger TVET systems, suggesting that vocational training expansion tends to increase, rather than resolve, inequity.[40] Financing mechanisms can help overcome these barriers in different ways. For example, results-based financing models can introduce higher financial incentives for skilling providers to serve young people that are at higher risk of exclusion. Inclusion requirements can also be an integral part of program design, for instance, by specifying that a fixed share of the funding be used to support youth from a specific group.

BEYOND FINANCE

While financing products offer helpful avenues to solve skilling issues, they need to be complemented by other elements, including the following:

- A **policy framework** that sets and enforces minimum standards for skilling providers and promotes best practices in higher education

[39] An endowment fund is an investment fund whose initial capital is derived from grants and whose returns on capital are used to fund programs. When managed appropriately, endowment funds can provide funding for programs in perpetuity.
[40] World Bank, Minding the gender gap in training in Sub-Saharan Africa: Five things to know, 2019

and technical and vocational training (TVET) institutions

- **Robust government capacity** to manage funds for higher education and TVET programs effectively, including the capacity to implement results-based financing models
- **An ecosystem of high-capacity skilling providers** with close relationships to employers and the ability to track students' placement and retention rates (or the willingness to invest in developing that ability)

Finally, the effectiveness of *any* supply-side (skilling) intervention is limited by the overall demand for labor in the market: even the highest-skilled youth cannot be placed in jobs that do not exist.[41]

[41] See "Financing Jobs & Entrepreneurship" section for a review of financing solutions that can support and accelerate job creation for young people.

FIG. 4: FINANCING SKILLS: PRODUCT MAPPING

FINANCING SKILLS
Programs & products on the supply side

Impact sought	*Financing solutions*			
1. Increasing placement and retention rates of skilling programs	Outcomes-based contracts	Development Impact Bonds (DIBs)	Social Impact Guarantees (SIGs)	
	Social Impact Bonds (SIBs)	Outcomes funds		
2. Increasing access to skilling programs	Self-financing (student loans)	Grant-funded skilling programs	Subsidized student loans	Crowdfunding platforms
	Tuition grants/scholarships	Government-funded skilling programs	Student finance fintech loans	Career Impact Bonds (Income-share agreements/ Outcomes-Based Loans)
3. Increasing the capacity of the skilling ecosystem	Grants			
	Impact investing (blended finance)			
4. Increasing work-based learning opportunities	Government-funded programs	Blended financing models		
	Employer-funded programs			

Definitions of these financing solutions can be found in the Annex.

FINANCING SKILLS: WHAT WORKS?

Figure 4 summarizes the range of existing financing products and models that can be used to finance skills. The following section reviews and assesses the most scalable, effective and sustainable of these financing models for each of the four impact areas identified above.

1. INCREASING PLACEMENT AND RETENTION RATES OF SKILLING PROGRAMS

The challenge

As noted above, the lack of focus on job placement and retention rates of skilling programs is a critical issue for youth employment[42], leading to skilling programs disconnected from labor market demand[43], young people acquiring skills that do not improve their employability, and a collective inability to identify and support the most effective skilling models.

This is a serious concern for government-funded programs, which are the primary way to deliver skilling programs for young people at scale but are often ineffective. Indeed, government-funded skilling programs have both the budgets and capacity to reach the youth at a scale unmatched by private or grant-funded skilling providers. Governments typically rely on a national network of publicly funded (or subsidized) higher education and TVET institutions that can absorb tens or hundreds of thousands of students annually[44]. However, the quality of these skilling programs in low- and middle-income countries is often poor, with only a third of programs shown to have a significant impact on youth employment or earnings.[45] TVET programs, in particular, tend to be low-quality and underfunded, and as a consequence are perceived as lesser alternatives to universities and colleges.[46]

The financing models of these skilling programs is a key part of the problem. The overwhelming majority of programs are funded on an output basis, where skilling providers receive a fund allocation based on the number of students trained. This means skilling providers have no incentives in ensuring graduating students find and retain jobs or self-employment opportunities after the programs or even track placement and retention rates (in fact, they have an incentive *not* to track and report such data, if they believe it would not reflect positively on the institution). As a result, governments have very limited information on which skilling programs are actually effective at placing the youth into jobs, a myriad of different training models continues to coexist without an ability to differentiate and replicate the best ones, and funds are almost exclusively used to cover training costs as opposed to developing closer private sector partnerships or providing the pre- and post-placement support that many of the youth need to be successful in the labor market.

While this situation amounts to a serious waste of government funding, it also represents a significant opportunity to achieve impact at scale by introducing different incentives that could induce systems change.

What works?

Results-based financing (RBF) models offer solutions to these pervasive quality issues. RBF covers a broad range of financing products where payments to service providers are partly or fully conditioned on the achievement of specific outcomes ("outcome payments"). In the context of youth employment, RBF models seek to link outcome payments to students' employment outcomes, such as placement and retention rates.

The most common RBF models are social impact bonds (SIBs, where the government pays for outcomes) and development impact bonds (DIBs, where traditional grant providers or bilateral development agencies pay for outcomes). Under both models, impact investors (in an ideal situation) or foundations provide the upfront capital required for the service providers to execute the

[42] For simplicity purposes, we are using the term "employment" as an umbrella term including any type of productive income-generating activity, including formal wage employment, informal wage employment and self-employment/entrepreneurship.
[43] World Bank/AFD, The Skills Balancing Act in Sub-Saharan Africa, 2019
[44] For instance, the Kenya Youth Employment & Opportunities program trains 56,000 people annually; Colombia's Jovenes en Accion trains 27,000; Mexico's Jovenes Construyando el Futuro trains 107,000; and India's DDU-GKY trains 160,000. In comparison, private or grant-funded skilling programs rarely reach more than a few thousand young people annually.
[45] Kluve et al., Do Youth Employment Programs Improve Labor Market Outcomes? A Systematic Review, 2016
[46] UNESCO, Diversifying the funding sources for TVET, 2013

program, then collect the outcome payments. If the program is successful, these outcome payments return to investors their initial capital along with a financial return compensating them for the risk taken. These returns have been observed to reflect senior debt product returns (5-10%). As noted, the difference between SIBs and DIBs lies in the nature of the outcome payer: in a SIB, outcome payments are made by a government or public sector entity; in a DIB, these payments are made by donors (e.g., development agencies, philanthropists, and HNWIs).

While impact bonds have gathered increasing attention over the last decade, it is important to highlight that only a handful of such impact bonds[47] has been implemented in the employment space in low- and middle-income countries, making it difficult to draw definitive conclusions about their impact. Generally speaking, however, impact bonds have shown promising results. For instance, in South Africa, the Bonds4Jobs SIB placed 1,809 economically excluded youth (18–35) into jobs, achieving 90% of the SIB's initial target.[48] The Colombia Workforce Development SIB placed 899 vulnerable workers into jobs (46% of all program participants, but over a hundred more than the target number of 766 participants placed), of which 79% remained employed for at least three months.[49]

By tying payments to outcomes, impact bonds drive a focus on results rather than outputs, encouraging skilling providers to invest in employer partnerships and placement support to deliver outcomes. They also give providers more freedom to adapt programs as they learn through implementation (e.g., by adding or removing training components, introducing new teaching tools and methods, etc.).[50] Finally, by introducing a financial return element, they can attract new sources of capital to invest in skilling programs.

There are two main issues with impact bonds. The first one is the high cost of structuring and managing these programs. Impact bonds require extensive coordination and negotiations between stakeholders, to include investors, skilling providers, outcome payers; their legal structure is often complex and unfamiliar for governments and donors[51]; and they involve extensive monitoring and evaluation (M&E) processes. The model can be made more cost-efficient through the setup of an Outcomes Fund, which relies on pooling of funds, use of digital solutions and standardization of contracts to generate economies of scale (more on this

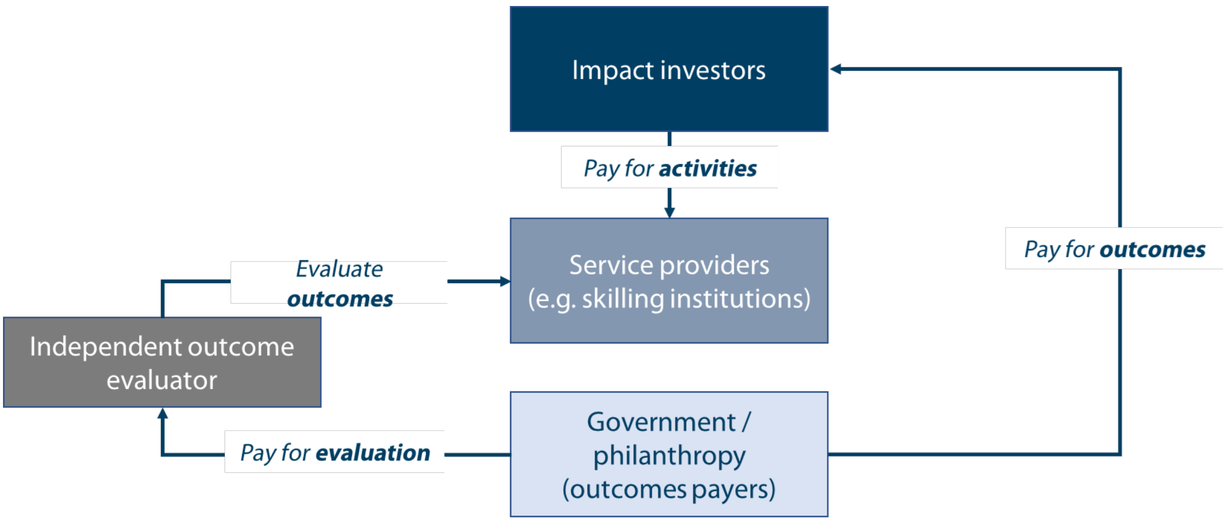


Fig. 5: Standard Social/Development Impact Bond structure (simplified view)

[47] Oxford's Government Outcomes Lab impact bond dataset references eight impact bonds related to employment and training in low- and middle-income countries as of 2022. Six of those have a youth focus.
[48] Intellidex, The Bonds4Jobs Social Impact Bond, 2021
[49] GO Lab, Colombia Workforce Development Social Impact Bond Case Study (accessed May 2022)
[50] Adaptive management is typically more difficult to implement when payments are linked to the delivery of specific outputs (e.g., training modules).
[51] In the case of SIBs, in particular, government budgetary processes are rarely designed to accommodate outcome payments, which introduce an element of uncertainty both on the amount and timing of payments.

below). The second issue is scalability. With the exception of the India Skill Impact Bond (see Case Study 1 below), none of these programs involve more than a few thousand participants.[52] This relatively small scale means they are typically implemented with high-quality skilling providers, raising the question of whether their success is linked to provider selection, or the financial incentives introduced by the impact bond structure. Getting an impact bond model to scale requires both enough funds to make outcome payments at the desired scale (which can be a hurdle for cash-constrained governments), full buy-in from government partners, and enough skilling providers to deliver programs at the expected quality level, which can be a challenge in itself.[53]

Nonetheless, impact bonds can have an important demonstration effect in bringing a sharp focus on outcomes rather than outputs, which can open the door to simpler Results-Based Financing models for youth employment programs. For instance, governments can issue outcomes-based contracts that partly pay skilling providers based on placement and/or retention rates without involving upfront capital from impact investors (see Case Study 2 below). Outcomes funds, which pool funds from governments and donors to issue and manage multiple, standardized outcomes-based contracts are also a potential solution to creating economies of scale (see Case Study 3 below). More recently, social impact guarantees (SIGs) have emerged as an alternative to SIBs by proposing a model where governments would continue to pay for programs as usual but would receive money back (which may be repurposed to other programs) if specific outcomes were not achieved, facilitating the integration of the program within traditional government budgetary processes.[54] Examples of governments moving towards results-based financing frameworks for their vocational training and workforce development spending include Morocco[55] and Colombia.

Case Study #1

India Skill Impact Bond: a youth employment impact bond at scale[56]

Year started: 2021 (November)

Location: India

Scale: 50,000 youth to be trained, certified, placed and retained in jobs, with a target of 60% women

Budget: US$14.4 million over 4 years

How it works:

- Large-scale development impact bond (outcome payers = donors)
- Implemented through 4 large training providers across India, with the National Skill Development Corporation (a quasi-government agency) as the core partner holding relationships with skilling providers
- Focused on Covid-19 recovery sectors: retail, apparel, healthcare, logistics
- Aims at building capacity of India's skilling and TVET ecosystem through knowledge exchange and promotion of good practices

In Colombia, the SIBs.CO program co-funded by the Swiss Agency for Development and Cooperation and the Inter-American Development Bank (IDB) LaB, with Fundación Corona as the local intermediary, designed and implemented SIBs in four different cities in Colombia. After the success of the first SIB, SIBs.CO was able to shorten the design phase while increasing the pool of impact investors for each subsequent SIB. After the second SIB, SIBs.CO set up an Outcomes Fund with the government to host the third and fourth SIBs. The Outcomes Fund was designed to issue SIBs or other RBF mechanisms, and is managed by a government team that will be able to learn over time how to design and implement their own RBF programs. In parallel, the SIBs.CO team has helped the city of Bogota design a simpler outcomes-based contract with the aim to place 20,000 people into jobs (a much higher scale than the SIBs, which aimed for a maximum of 1,200 people placed). Under this contract, 80% of the funding is output-based (payments for activities), with 20% tied to outcomes (placements into jobs). The contract includes higher financial incentives for women and youth. While achieving scale is easier with this type

[52] The India Skill Impact Bond managed to reach such a scale by working very closely with India's National Skill Development Corporation, a quasi-government entity with close relationships with skilling providers.
[53] Capacity constraints of the skilling ecosystem are discussed in more depth later in this report.
[54] Stanford Social Innovation Review, Social Impact Guarantees: The Next Evolution in Outcomes-Based Funding, Aug 2021
[55] The Moroccan government, in partnership with the Millennium Challenge Corporation (MCC), worked with Instiglio from 2018-2023 to design an RBF program for workforce development in aimed at youth and women, resulting in the selection of 8 service providers to provide employment services who are paid partially on their results, and to build a monitoring and evaluation platform for the program (more information here).
[56] Case study references: Skill Impact Bond - British Asian Trust, interview data.

of contract, the SIBs were critical to demonstrate the effectiveness of RBF models and educate stakeholders on results-based financing mechanisms. Importantly, the technical assistance provided by SIBs.CO was a key success factor for the SIBs, the Outcomes Fund and the Bogota outcomes-based contract, as it supported information-sharing, learning and promotion of the RBF approach with stakeholders (including skilling providers, which required significant support to shift their operations and be ready to operate within an RBF framework).

Case Study #2

Nepal Employment Fund: results-based financing at scale[57]

Years implemented: 2008–2016

Location: Nepal

Scale: 100,000 youth trained, 80% from disadvantaged groups, over 50% women

Budget: ~US$ 37 million

How it works:

- Implemented by Nepal government, funded by SADC, UK Aid and WB, with nonprofit Helvetas acting as fund secretary
- Skilling program combining 20% theory and 80% practical training
- Skilling providers received 40% of fee at graduation, 25% for placement and 35% for income above minimum wage

Achievements:

- 90% of youth trained found employment, 75% above minimum wage
- Monthly income multiplied by 3.6 post training
- Several Employment Fund modalities became included in the Nepali government's Vocational Education and Training policy

Case Study #3

Education Outcomes Fund: aggregating outcomes-based contracts to achieve economies of scale[58]

Year started: founded late 2017, with work in early childhood education starting in 2021

Location: Ghana, Sierra Leone, MENA

Scale: Ghana Outcomes Fund – 70,000 children; Sierra Leone Outcomes Fund – 200,000 children

Budget: Ghana Outcomes Fund – US$ 30 million; Sierra Leone Outcomes Fund – US$ 26.5 million

How it works:

- Two outcome-funds launched in Ghana and Sierra Leone were focused on improving primary school outcomes; currently, they, are developing a workforce development-outcomes fund focused on the MENA region
- Governments and donors co-fund outcomes, with the expectation of greater government share over time
- Outcome payments are committed to EOF, who works with governments to set objectives and price targeted outcomes, then issues standardized outcomes-based contracts to service providers
- Fundraising for upfront operating costs of service providers is managed by providers themselves (can choose to self-fund or bring in impact investors)
- Equity focus embedded into the design of the funds, e.g., with additional payments for female pupils

[57] Case study references: NORRAG, Helvetas' Skills and Knowledge for Youth Project:A Case Study of Results-Based Financing for Vocational Education and Training, 2021; Helvetas, Results-Based Financing – Employment Fund in Nepal
[58] Case study references: Education Outcomes Fund, interview data

Tab. 1: Overview of financing solutions for increasing placement and retention rates of skilling programs

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Outcomes-based contracts	Skilling providers are paid (fully or partly) based on job placement/retention outcomes.	•Incentivizes skilling providers to focus on placement and retention	•Potentially high risk for skilling providers •High monitoring & evaluation (M&E) costs	●●●	●●●	●●●	•Skills & Knowledge for Youth (Helvetas, Ethiopia) •Nepal Employment Fund •Quiero Ser Digital Fund; Empléate; and Secretariat of Economic Development of Bogotá (Colombia)
Social impact bonds (SIBs)	A outcomes-based contract where impact investors provide the upfront capital to skilling providers. Government pays for outcomes.	•Reduces the risk placed on skilling providers	•Complex legal structure •High M&E costs	●	●●●	●●	•Colombia Workforce Development SIB •Buenos Aires Youth Employability SIB •Bonds4Jobs SIB (South Africa)
Development impact bonds (DIBs)	A social impact bond where outcome payments are made by donor(s).	•Outcome payments can be simpler for donors than governments	•Complex legal structure •High M&E costs	●	●●●	●	•Finance for Jobs (West Bank & Gaza) •Skill Impact Bond (India)
Outcomes funds	A fund that aggregates multiple SIBs or DIBs.	•Larger scale than individual SIBs/DIBs •Streamlined processes reduce implementation costs	•Scale still limited by labor market demand	●●●	●●●	●●	•Education Outcomes Fund (Africa) •SIBS.CO Outcomes Fund (Colombia)
Social impact guarantees (SIGs)	Government pays upfront for outcomes. If outcomes are not met, donor(s) commit to paying back the government.	•Better aligned to public budgetary processes than impact bonds	•Complex legal structure •High M&E costs	●	●●●	●●	•Social Impact Guarantee (Singapore)

2. INCREASING ACCESS TO SKILLING PROGRAMS

The challenge

Even when skilling programs are effective at placing students into jobs, many young people cannot afford to pay for the upfront costs of such programs. Grants can be used to solve that issue, either through direct payments to skilling providers or through the provision of vouchers or scholarships to students, but such schemes are necessarily limited in scale by the amount of funds available. They are also unsustainable in the long run, requiring recurrent injections of capital to cover new cohorts. Endowment funds, which provide scholarships through the interest earned on an initial donation of money or property, offer a more sustainable model but are also limited in scale and typically set up for university programs rather than technical and vocational training.

Typically, large-scale financing for skilling programs comes from governments, which can partially or fully cover the costs of such programs (e.g., Pradhan Mantri Kaushal Vikas Yojana program in India, which aimed to train 10 million youth between 2016-2020). However, many of these government programs require sufficient and sustainable fiscal budgets, as well as efficient transfers of resources to programs and youth.

When public or philanthropic funds are not available to cover skilling costs, self-financing through borrowing is the key tool available to youth. Banks have long provided student loan products; however, these typically require collateral or guarantees, and many young people simply do not have access to formal financial services. Government-subsidized student loans can help, but they still come at a risk: if students cannot find a job after graduation, they still need to repay their debt. Concerningly, many skilling programs are not aligned with market demand and have resulted in students ending up with significant debt upon not being able to find a job.

More recently, digital platforms have emerged to provide alternatives to traditional student loans, with two main models:

- **Crowdfunding platforms** enable individuals to pool their funds to extend unsecured loans to students in need of financing. The platform selects the borrowers eligible for loans. Because the risk of each loan is spread across many individuals investing small amounts, and these individuals are motivated by the social impact of their loan rather than the potential return, the terms of the loans are much more affordable to students than typical student loans.
- **Student finance fintechs** extend fast, affordable student loans to students enrolled at partner universities (see Case Study 4 below).

While the online nature of both of these models makes them easy to scale, their ability to ensure broad access to drive youth employment is questionable. First, they tend to target the youth that are enrolled at preselected higher education institutions (e.g., top universities), who tend to already have an advantage in the labor market. Student finance fintechs may also decrease their risk exposure further by requiring borrowers to have a guarantor with a stable income, leaving out the youth from disadvantaged backgrounds.

In addition, loan repayments are not linked to employment post-graduation, which is either high-risk for the lender (if they lack the ability to enforce debt collection) or for the student (as with any type of student loan, they may be forced to repay while still unemployed). This can lead to sustainability issues. For instance, the crowdfunding platform Kiva struck a partnership with Strathmore University, a top university in Kenya, to provide full-tuition loans to students in need. However, the partnership had to be terminated after six years as the loan portfolio experienced high delinquency rates due to "graduates struggling to find jobs, doing unpaid internships, and ultimately, not earning enough to repay the full loan amount due each month".[59] Finally, these online financing models require borrowers to be digitally literate and have access to the technology and data to get onto the platform, a requirement that will typically leave out the most marginalized groups.

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[59] https://www.kiva.org/about/where-kiva-works/partners/218

Case Study #4

Erudifi: a South-East Asian student finance fintech[60]

Year started: 2018

Location: Philippines, Indonesia

Scale: 12,000 students served since 2018, in partnership with > 100 educational institutions

How it works:

- Online lender providing 12 to 24-month affordable loans to students enrolled at partner universities (0–1.9% monthly interest rate + one-time 3% origination fee)
- Loans of up to ~US$ 2,000 (Philippines) and ~US$ 14,000 (Indonesia); new loans can be issued every term to provide additional financing as required (as long as repayments are made on time)
- 1–5 days approval time
- Requires a guardian (adult > 21 years old) and a guarantor with a proof of stable income (working students can be their own guarantors)
- Payments start maximum one month after approval with no grace period

What works?

Career Impact Bonds (CIBs) are an innovative financing model offering new funding avenues for skilling programs.

CIBs, which can take the form of income-share agreements (ISAs) or outcomes-based loans (OBLs), shift the risk of investing in a skilling course from the student to one or more investors (who may be public or private entities). Under both models, students do not pay any upfront costs when enrolling in a skilling course and only start repaying the cost of the program once they have found a job over a pre-agreed minimum income threshold. With an ISA, the student pays a fixed percentage of their monthly salary over a set period of time (usually with a cap on maximum repayments), while with an OBL, the student makes monthly payments until the principal and interest have been repaid. From the investor's perspective, such structures spread the risk over the entire pool of students taking on the ISAs or OBLs with the gains made on successful students compensating for the losses linked to students that drop out or do not find a job. Importantly, the initial funding for the program can be set up as an evergreen or "pay-it-forward" fund, in which student repayments are used to fund the next cohort of student, thereby creating a self-sustaining financing model for the program. In addition, philanthropic donors can provide a first-loss guarantee (covering all losses up to a certain share of the portfolio) to make the financial structure more attractive to investors.[61]

While these models are promising and are starting to be tested in low- and middle-income country contexts (see Case Study 5 below), stakeholders interested in implementing such models should keep in mind the following points:

- To avoid selection effects, ISA and OBL providers should first be choosing which skilling programs to support (based on the quality of education they provide and, critically, their proven connection to market demand with a history of placement), rather than selecting the "best" students to receive financing (regardless of the skilling program they are enrolling in), as this second approach reinforces inequities instead of reducing them.
- To be sustainable, these financing models need to be implemented for high-quality skilling programs that can deliver an income-step change within a reasonable timeframe because students do not make repayments during the program (or only minimal ones), so the longer the program, the lower the present value of future repayments and returns to investors. The supply of such programs, as well as the availability of matching high-paying jobs, is usually limited within a given economy, which can make scaling up the program difficult. However, there are some bright spots. The Pan IIT Alumni Reach for Jharkhand Foundation program in India (Case Study 9 below), for example, has a placement taskforce with strong relationships with employers that define the program curricula and commit to hiring graduates. This program has full operating program cost payback periods of 5-6 months on a 1-2 year program, making it a worthwhile investment. Importantly, the Pan IIT program chooses students meritocratically from the

[60] Case study reference: Erudifi

[61] This is especially relevant when working with Opportunity Youth, as the risk levels may still be too high to achieve a commercial return on investment.

poorest communities in Jharkhand state (using standardized tests), and provides them with a step-change program with top quality trainers, materials and sufficient time to get a quality education. Another successful program, albeit at a smaller scale, is in South Africa, where RLabs has developed a high-quality, 1-year digital advertising program for ex-convicts and prisoners. The placement rates are close to 100% and program repayment time is within 3-4 months. This program transforms the lives of students, whereas other training courses placing youth into entry-level jobs are much less successful. However, scaling up the program has been challenging, primarily due to perception and up-front costs. Both of these programs would benefit from a Career Impact Bond.

- Implementing ISAs or OBLs require the financial provider to have the ability to track students' income after graduation and to collect payments. Usually, this requires having access to third-party data (e.g., tax authority, social security, etc.) or data/loan obligations from the students. Another option is to build a relationship with the employers to directly deduct payments from wages. This setup requires a clear legal agreement with all parties involved, to ensure that it is not exploitative for the youth.
- Finally, ISAs and OBLs are not necessarily youth-friendly. If no caps are placed on maximum repayments, for instance, ISAs can lead students to pay interest over the initial cost of their course many times over the market rate for student loans. Requiring ISA and OBL providers to be regulated by local financial authorities is an essential step to ensure borrower protections are in place. As ISAs and OBLs are still uncommon in many countries, providers of these products should also invest heavily in educating the youth and their families upfront to ensure they understand the product and to what they are committing.

Case Study #5

Chancen International: implementing an income-share agreement model in Rwanda[62]

Year started: 2018

Location: Rwanda (now expanding to South Africa and Kenya)

Scale: 10,000 students for 2021–2025 (Future of Work Fund)

Budget: US$ 21 million for 2021–2025 (Future of Work Fund)

How it works:

- Regulated financial provider issue income-share agreements in partnership with rigorously selected education institutions (Akilah Institute, Kepler, INES)
- Students start repaying ISAs once they are placed in a job earning above twice the minimum wage
- Repayments capped at annual market interest rate (20%)
- Regulated state enables access to tax and social security data to track students' incomes and to follow regular credit processes for debt collection
- The initial cohort was funded off Chancen's balance sheet, and they have now raised a "Future of Work" blended finance fund from a mix of donors and impact investors to fund 2021–2025 cohorts

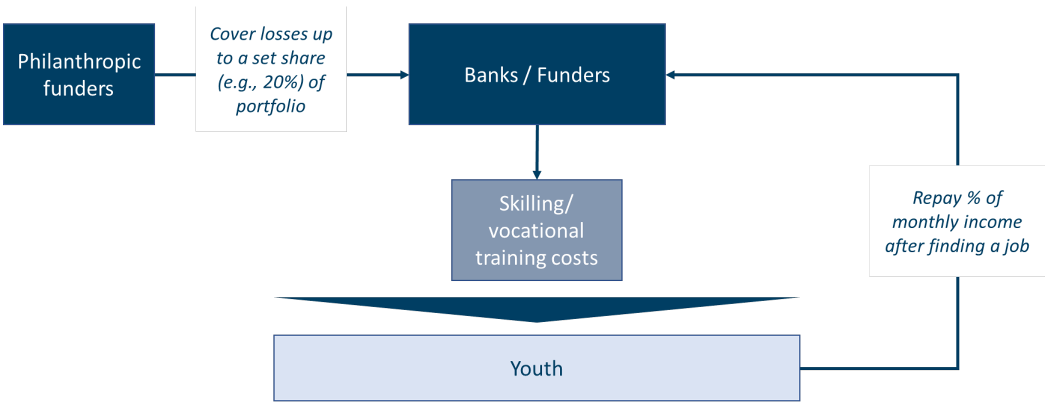

Fig. 5: Standard Career Impact Bond structure (simplified view)

[62] Case study references: CHANCEN International, interview data

Scaling up CIBs can be a challenge. CIBs are most successful when the skilling programs funded by the ISAs or OBLs can deliver a step change for students through placement into higher income jobs. In a given country, there may be a limited supply of such programs. In that case, the funds raised by CIBs can be used to help providers scale up their services to reach larger number of students. However, that scale-up will still need to consider whether enough new jobs are being created in the economy to absorb graduates from the program. The Google Career Certificates Fund (Case Study 6) is an example of CIB done at scale.

Case Study #6

Google Career Certificates Fund: a Career Impact Bond at scale[63]

Year started: 2022

Location: United States

Scale: 20,000 students

Budget: US$ 100 million

How it works:

- Google-funded Fund managed by Social Finance, providing grants to training providers which provide support and wraparound services to learners of Google Career Certificates, an online training program which equips people with job-ready skills in fields like Data Analytics, IT Support, Project Management, and UX Design within 3-6 months—with no degree or experience required
- Students repay via flat monthly payments for a set term, as long as their income remains above a $40,000 minimum threshold
- Repayments are reinvested into the program to enable future learners to benefit
- Wraparound services include both career development services, such as coaching and job preparedness training, but also support to address real-life challenges, such as childcare costs or transportation support
- Program aims to realize over US$1 billion in aggregate wage gains over the next decade

[63] Case study references: New York Times, Google Creates $100 Million Fund for Skills Training Program, 17 February 2022; Social Finance

Tab. 2: Overview of financing solutions for increasing access to skilling programs

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Self-financing	The youth borrow funds from family, friends, informal lenders and/or financial institutions to cover the costs of a training program.	•Enables the youth to borrow funds against future earnings	•High risk for the youth: training does not necessarily lead to employment •Many youths do not have access to formal financial services •Guarantees and collateral requirements from financial institutions can limit youths' access to credit •Funding terms (esp. from informal lenders) can be exploitative and lead to over-indebtedness	●●	●●	●●●	•FNB Student Loan (South Africa) •SBI Student Loan Scheme (India) •FNE P-Fies (Brazil)
Grant-funded skilling programs	A grant funds the costs of a skilling program (partially or fully).	•No financial risk for students or service providers	•Funding usually connected to outputs not outcomes: skilling providers have no incentives to respond to labor market demand and focus on placement/retention •Not financially self-sustaining •Limited in scale by the size of the grant	●	●●	●	•Kafawa Training Program (Mastercard Foundation, Nigeria)
Government-funded skilling programs	A government funds the costs of a skilling program (partially or fully). This funding can either come as a direct funding allocation from the government's budget, or as vouchers distributed to students for redemption at pre-selected training institutions.	•Typically, large scale (tens of thousands) •No financial risk for students or service providers •Can be focused on sectors/industries aligned with national priorities	•Funding usually connected to outputs not outcomes: skilling providers have no incentives to respond to labor market demand and focus on placement/retention	●●●	●	●●●	•Kenya Youth Employment & Opportunities Project (KYEOP) •Pradhan Mantri Kaushal Vikas Yojana (India)
Tuition grants/ scholarships	A student receives a grant to cover the costs of tuition for a higher education program or training course. The grant may also include a stipend to cover housing and living costs during the duration of the program.	•No financial risk for students or service providers •Can be focused on skills in demand in the labor market	•Training does not necessarily lead to employment •Not financially self-sustaining •Limited scale •Awards are often merit-based (i.e., going to students who already have higher probability of success)	●	●●	●	•Initiative Southern Africa (SADC region) •Kenya Education Fund
Endowment funds	Investment income generated by a donation of money or property is used to cover tuition costs/scholarships for students.	•No financial risk for students or service providers •Sustainable financial model (after initial fundraising)	•Requires sound financial management to avoid fund depletion •Scale limited by size of initial endowment •Typically set up for universities, not vocational training programs •Awards are often merit-based (i.e., going to students who already have higher probability of success)	●	●●	●●●	•UCT Fund (South Africa) •Kenya Education Endowment Fund •JN Tata Endowment (India)
Subsidized student loans	A government or philanthropic entity provides low-interest loans for eligible students to help cover the cost of a higher education or vocational training course.	•More affordable than traditional student loans and often include advantageous terms (e.g., no collateral, grace period) •Can be focused on skills in demand in the labor market	•Training does not necessarily lead to employment •Many youth do not have access to formal financial services •High risk: students need to repay even if they are not employed	●●	●●	●●	•Higher Education Loans Board (Kenya) •Central Government Interest Subsidy Scheme (India) •FIES (Brazil)

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Career Impact Bonds (Income-share agreements/ Outcomes-based loans)	Investor(s) fund the costs of a training program. When graduates start earning above a minimum threshold, they repay a percentage of their monthly salary for a set period.	•Shifts the timing of paying for the upfront costs of the training from the individual student to a bank or private investor •Skilling providers can bear part of the risk •Financial risk for investors spread over total pool of students	•Skilling program(s) need to match labor market demand closely •Scale limited by capacity of skilling provider(s) and number of jobs available at the right income level •Ability to track revenue and collect earnings	●●	●●●	●●●	•Social Finance Career Impact Bonds (USA) •Pursuit (USA) •CHANCEN Akilah ISA (Rwanda) •Fondo Evolución Digital (Colombia) •Brighter Investments (Ghana) •Laboratoria (Latin America)
Crowdfunding platforms	Through an online platform, individuals lend money to borrowers to support education costs.	•Enables borrowers to access affordable financing •Mobilizes capital from global pool of investors	•High risk: no control over quality of skilling programs or placement rates	●●●	●	●	•Kiva-Strathmore partnership (Kenya)
Student finance fintech loans	A fintech provides affordable student loans to students admitted to partner higher-education institutions.	•More affordable than traditional student loans •Decreases risk by targeting students admitted to select courses and institutions (i.e., students with higher future earning potential)	•Reserved to students admitted in select courses and institutions ("best and brightest"); not open to all •High risk: students need to repay even if they are not employed	●●●	●	●●●	•Erudifi (South-East Asia)

3. INCREASING THE CAPACITY OF THE SKILLING ECOSYSTEM

The challenge

In some contexts, there are not enough skilling providers able to equip the volume of young people requiring skilling with skills on demand in the labor market (including both technical and soft skills). In such cases, the entire skilling ecosystem needs to adapt and grow, ideally by bringing high-quality skilling providers to scale.

As discussed in section 1 above, due to the pervasive lack of data on placement and retention outcomes, identifying the most effective models to scale up constitutes a first hurdle. Privately-funded skilling providers – either for-profit institutions or nonprofits – that need to demonstrate such outcomes to attract funding and students tend to be more responsive to labor market demand, investing more systematically in building partnerships with employers and in pre- and post-placement support for students.[64] However, these programs tend to reach a much smaller number of students than government-funded programs. They also tend to have a higher cost per student. This means not only that their overall impact may be small but also that their effectiveness might be driven by student selection; for instance, if students need to borrow to finance the costs of the program, financial institutions are more likely to extend funding to the youth that can already demonstrate an advantage in the labor market (e.g., family resources, secondary education, etc.), and without a pre-agreed selection process, donor-funded programs have an interest in picking the students most likely to succeed in the labor market (also known as "creaming").

Securing funding to scale up effective models is the second hurdle. The majority of public and philanthropic funding for education targets primary and secondary education, leaving higher education and technical and vocational training institutions underfunded[65]. Attracting commercial capital is equally difficult: few skilling providers – especially those focused on Opportunity Youth – can deliver financial returns at the level sought by investors. They may also lack the systems and processes necessary to receive investment capital.

What works?

Blended finance structures, which can bring together commercial capital, impact capital and grant funding, offer an interesting pathway to mobilize capital to scale the skilling ecosystem.

Blended finance structures can take different shapes, with the common feature of using public or philanthropic capital to attract commercial investments. For instance, commercial investors seeking market-rate returns may invest in a fund alongside impact investors willing to accept a lower level of returns in exchange for "impact" (in the case of a fund focused on the skilling ecosystem, this impact may be measured as an increase in the number of students trained or placed into jobs). In this case, impact investors provide a layer of protection to commercial investors, enhancing their return expectations. Instead of investing directly, public and philanthropic investors may also provide a first-loss guarantee to commercial investors, again with the goal of enhancing their expected impact returns and crowding in commercial capital. A blended finance structure can also include grant funding in the form of technical assistance (TA) funds available to the recipient(s) of an otherwise commercial investment. Because it strengthens the chances of success of the investment at no cost to the commercial investors, such a structure also boosts their return expectations. These different combinations of commercial capital and public or philanthropic funds are not mutually exclusive.

An impact investment fund is an ideal vehicle for blended finance, as it creates economies of scale by pooling capital from commercial and impact investors and supports a series of investments using the same funding structure (as opposed to creating a different funding structure and raising separate funds for each individual investment). This overcomes the typical challenges of impact bonds where the structuring costs are too high to warrant the creation of a complex structure, despite improved outcomes. Case Study 7 illustrates the use of blended

[64] It is important to emphasize that most privately funded skilling providers are not measured on placement and retention rates, leading to the same lack of incentives as most publicly funded providers. Private funding is therefore not a guarantee of quality for skilling programs.
[65] Unesco Institute for Statistics Database

finance in an impact fund in the higher education and skilling space.

Case Study #7

I&P Education Impact Fund: seeding and scaling education businesses in Cote d'Ivoire[66]

Years of activity: 2017-2022

Location: Cote d'Ivoire

Scale: six investments in education SMEs

Budget: €1 million

How it works:

- The fund brings together capital from a philanthropic funder (Fondation Jacobs) and an SME-focused investment fund (Comoe Capital).
- The fund provides both seed funding (€10-60K) and growth capital (€60-200K) to SMEs in the education sector with a high-growth, high-impact potential.

Achievements:

- The fund invested in six education SMEs, including two vocational training institutions, an e-learning platform and an education publishing house.
- As a follow-up to the Education Impact Fund, I&P is raising a €50 million "Education to Employment" fund with a more specific focus on higher education and training institutions and ancillary services. The fund will be complemented by a €16 million grant-funded "access fund" to deepen and sustain the impact of the fund's investments.

Beyond blended finance, there are a few other models that can support the scale up of private skilling providers:

- **Government partnerships:** leveraging public institutions to deliver key components of the program, for instance through a "train the trainer" model associated with strong quality control mechanisms (see Case Study 8 below).
- **Public-private partnerships:** leveraging the respective strengths of public and private sector stakeholders to fund a program, for example with the government covering capital expenditures (e.g., by making existing empty or low-utilization buildings available for the program) and the private sector providing high-quality training materials. This model allows skilling providers to scale without needing to invest in every aspect of the program.
- **Partnerships with financial service providers:** partnering with financial institutions (including banks, microfinance institutions, fintech, etc.) that can extend loans to students to cover the costs of the program, using data on program effectiveness to facilitate access to financing (see Case Study 9 below).
- **Commercialization:** the skilling provider covers (fully or partially) the costs of training by selling services to employers (e.g., recruitment support, corporate training). For example, WAVE in Nigeria has helped over 50,000 young people improve their employability by using a sustainable business model under which skilling costs are shared between the trainee and the employer.
- **Digitalization:** providing part or all of the training curriculum online and using innovative edtech tools to generate economies of scale. While this is cost-effective, this approach comes with a risk of leaving out the youth that do not have access to the necessary tools, data and digital literacy to follow an online course.

[66] Case study references: I&P, interview data

Case Study #8

Forge Foundation: innovating and partnering to deliver at scale[67]

Year started: 2005

Location: Argentina, Colombia, Chile, Mexico, Peru and Uruguay

Scale: over 10,000 youth directly reached in 2020 + 58,000 reached through strategic alliances

Budget: ~US$ 4 million annually, funded by a mix of corporates, foundations, multilateral organizations and public funds

How it works:

- Main program ("Tu Futuro") is a one-year personal leadership and job orientation program for young people looking for their first job (c. 3-hours/week commitment, open to youth aged 17–24 that graduated from secondary school)
- Moved to a 100% digital model in 2020, enabling them to enroll over 10,000 youth and expand their geographical reach beyond capital cities
- Partners with corporates and organizations to provide additional support to youth (e.g., mock interviews, experience-sharing sessions)
- Works through strategic alliances to achieve scale, including public sector partnerships (teacher training, community of practice), social franchise model enabling other NGOs to replicate programs and employer partnerships to facilitate hires of young people trained.

Case Study #9

Pan IIT Alumni Reach for Jharkhand Foundation: partnering with a financial institution to cover skilling costs[68]

Year started: 2016

Location: Jharkhand, India

Scale: 10,000 youth trained/year

Budget: ~US$ 1,000/student

How it works:

- Partnership between Pan IIT and government of Jharkhand
- Best-in-class skilling for youth from rural areas (most disadvantaged group, targeting 30–50% women), selected with standardized tests to avoid "cherry-picking"
- 1–2 years vocational education courses delivered in live-in training centers
- Uses Memoranda of Understanding with employers to define hiring requirements and negotiate salary and benefits, then trains youth to fill the roles using state-of-the-art equipment, thus guaranteeing placement at graduation
- Partners with financial institutions to provide student loans covering training costs (underwritten by the Foundation), repaid through monthly instalments after placement; repayments are used to fund the next cohort.

Tab. 3: Overview of financing solutions for increasing the capacity of the skilling ecosystem

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Grants	Donors provide seed funding to start-ups in the education/vocational training space.	•Enables development of new business models (e.g., edtech) •No risk for entrepreneurs •Successful start-ups can go on to raise commercial capital	•Not financially sustainable •Not all investments will succeed	•	•••	•	•Centre for Innovative Teaching and Learning in ICT (Mastercard Foundation, Africa)
Impact investing (blended finance)	Investors accept higher risks/lower returns to invest in businesses in the education/vocational training space. These concessional investments can be used in a blended finance structure to mobilize additional commercial investment into the sector.	•Enables development of new business models (e.g., edtech) •Can be combined with technical assistance •Successful start-ups can go on to raise commercial capital	•High risk and high transaction costs •Not all investments will succeed	•	•••	••	•I&P Education to Employment & Education Impact Fund (Africa) •Kaizenvest (Asia) •Acumen (Education portfolio, global) •Village Capital (Future of Work, global)
Partnership with financial institutions	A training provider partners with one or more financial institutions to finance the cost of the course for students, through loans repaid after graduation.	•Students only start repaying loans after graduation •Commercially sustainable for partner institutions	•Only sustainable for high-quality training programs with very high placement rates	•••	•••	•••	• Pan IIT Alumni Reach for Jharkhand Foundation (India)

[67] Case study reference: Forge Fondation

[68] Case study references: Pan IIT Alumni Reach for India Foundation, interview data

4. INCREASING WORK-BASED LEARNING OPPORTUNITIES

The challenge

There is strong evidence that skilling programs that combine classroom teaching with on-the-job training (e.g., dual education programs, apprenticeships, traineeships, internships) are highly effective at providing students with either job placements or self-employment opportunities.[69] Through work-based learning, students acquire directly relevant technical skills for employment, develop soft skills and may also absorb the business culture of the company in which they are embedded, which facilitates their transition to employment. Work-based learning is also cost-effective because it does not require dedicated staff, equipment or physical space (these resources are provided by the employer hosting the learner). For all these reasons, work-based learning can offer a robust alternative to classroom-based skilling programs, especially if these are affected by the quality, cost and capacity issues described in the previous sections. The duration of work-based learning programs is a key success factor; successful programs typically last at least a year and often two or three (see case studies below).

Different models of work-based learning coexist globally. Some countries, like Germany, have very formal, long-term, work-based learning programs centrally coordinated by the state.70 In countries with a large informal sector, however, informal apprenticeships are often the primary channel for work-based learning (and do not complement a classroom teaching component).[71]

Work-based learning implies costs for the employer who invests time and resources in training the student, and for the student, who provides labor to the employer. For the employer, this investment carries a risk: that the student will drop out of the program before they have become productive enough to offset the costs of their training. To incentivize employers to offer more work-based learning opportunities, this risk must be minimized.

What works?

There are different financing models to cover the costs of work-based learning. Informal apprenticeships are typically **self-financing**, with apprentices and master craftspersons sharing the costs of the training (e.g., the apprentice provides free labor and a small fee to the master craftsperson, the master craftsperson provides training and minimal wages or in-kind contributions). Under this type of arrangement, the apprentice carries most of the risk, as they need to invest in their own training without any guarantee that this will lead them to employment. Many young people may not have the resources to make that investment. At a small scale, **philanthropic funding** may be used to cover the costs of the apprenticeship (Case Study 10 below).

Case Study #10

Severin Craftsman Training Center: a CSR-funded apprenticeship program[72]

Year started: 2019

Location: Mombasa, Kenya

Scale: 70 youth trained per cohort

Budget: ~US$ 3,000/student for a 3-year program

How it works:

- Program funded by Skills for Africa (philanthropic CSR organization) and developed in partnership with GiZ
- Offers German-style apprenticeships in five different craft trades
- Focus on practical training with trainees working together with experienced craftsmen in the maintenance departments of the companies funding the program, combined with a theoretical training component
- 3-year program including one year of primarily theoretical training followed by two years of work-based learning during which trainees receive a small stipend
- Program licensed by the Kenyan Ministry of Education as a TVET training center, with trainees taking national certification exams as they complete their training

Governments commonly subsidize work-based learning programs by providing a partial or full stipend to students for the apprenticeship/traineeship/internship period (see Case Study 11 below). As this decreases the costs for both employers and students, this can be highly effective at increasing access to work-

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[69] ILO, *Does work-based learning facilitate transitions to decent work?*, 2018
[70] https://whatworksgrowth.org/resource-library/apprenticeships/
[71] ILO, *Upgrading informal apprenticeship: a resource guide for Africa*, 2012
[72] Case study reference: Severin Craftsman Training Center

based learning. However, coordinating and administering funds for work-based learning programs requires high government capacity, which often leads to such programs being underfunded in comparison to simpler, traditional training programs. In addition, such subsidies tend to be more easily accessed by larger, more formal companies, leaving out a large part of the labor market in emerging economies, and they can create perverse incentives for employers who may see students as a pool of cheap labor to be replaced at the end of the program, rather than as an investment in future employees (this is especially a risk for programs where governments assume 100% of the costs, leading employers to consider apprentices as "free" labor). Apprenticeship programs can also be subsidized by **philanthropic institutions**. For example, Partners in Food Solutions (PFS), a nonprofit working closely with the food processing sector, has partnered with universities and technical schools to identify strong candidates for employment in the food industry and place them into a 12-month apprenticeship at one of PFS's SME partners, with salary costs split between PFS and the SME employer. The combination of work-based learning with mentorship by PFS has proven highly effective to date, with 78% of apprentices accepting a full-time position immediately following their apprenticeship.

Employer-funded programs are an alternative to government-funded programs. Under this model, employers cover all program costs, including student stipends. This model is only attractive to employers if they see a direct benefit in running the program, for instance, the creation of a pipeline of highly-specialized skilled works (see Case Study 12 below).

Case Study #11

India National Apprenticeship Training Scheme: government-subsidized work-based learning[73]

Year started: 1961

Location: India

Scale: ~110,000 apprentices placed/year

Budget: ~US$ 150 million/year for 2021–2026

How it works:

- 6-12 month apprenticeship program, open to youth above 16 with a degree/diploma certificate, not self-employed and without work experience
- Apprenticeship stipend is split 50-50 between employer and government
- Apprentices are issued a Certificate of Proficiency by the Government of India which can be registered at all employment exchanges across India as valid employment experience

Achievements:

- 79% of trainees are employed after their apprenticeship
- 71% of employers pay higher stipends than required
- Limitation: low female participation (20%)

Case Study #12

Kentucky FAME: a model of employer-funded work-based learning[74]

Year started: 2010

Location: Kentucky, United States

Scale: ~80 students/year (2010–2018)

How it works:

- Partnership of regional manufacturers funding apprenticeship programs combined with community college classes to create a pipeline of highly skilled workers
- 5 semesters program combining 2 days of classes and 3 days of work with a local employer per week, leading to an Associate Degree
- Partnership of regional manufacturers funding apprenticeship programs combined with community college classes to create a pipeline of highly skilled workers

Achievements:

- 80% graduation rate (v. 29% for non-FAME students)
- Median earnings one-year post-program = US$ 59K (US$ 36K for non-FAME); three years post-program = US$ 89K (v. US$ 41K); five years post-program = US$ 98K (v. US$ 52K)

[73] Case study reference: National Apprenticeship Training Scheme
[74] Case study reference: FAME USA, *Opportunity America/Brookings, Kentucky FAME: Fulfilling the promise of apprenticeship, 2020*

Finally, **blended finance models** can bring together government, philanthropic donors and employers together to spread and share the costs of work-based learning across the three actors. Under such models, the government can provide an in-kind asset (e.g., physical space for training, machinery), donors can cover operating costs (e.g., complementary classroom training) and employers can cover student stipends. This type of structure can be an effective way to work around limited government funds or capacity while ensuring employers maintain "skin in the game", incentivizing them to provide high-quality training to increase students' productivity. Over time, if the program demonstrates its value, employers may be willing to cover a larger share of the costs and philanthropic funding may be phased out.

For work-based learning programs as for all skilling programs, placement into jobs is the ultimate goal. By enabling employers to assess and train apprentices before making a formal hiring decision, work-based learning reduces the risk and costs usually associated with new hires. But there may be other obstacles to hire, such as constraining labor regulations or extra costs associated with formal employment (e.g., health insurance, social security contributions, workers compensation insurance, etc.). Other financial mechanisms can help address these issues and are discussed in more depth in the "Financing Connections" section of this report, which reviews financial solutions that can incentivize employers to hire youth.

Tab. 4: Overview of financing solutions for increasing work-based learning opportunities

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Government-funded or grant-funded work-based learning programs	Government or philanthropic institution pays a full or partial stipend to the youth taking up an internship, apprenticeship or traineeship in a company.	•Low risk for employers •Enables the youth to gain work experience •The youth may be hired by the business after demonstrating their skills during the internship/apprenticeship/traineeship	•Employers may undervalue the youth in these positions and underinvest in their skilling •May be reserved to graduates in certain sectors •Does not necessarily lead to long-term employment •Subsidies are usually only available to larger, more formal companies	●●●	●●	●●●	•Kenya Youth Employment & Opportunities Project (KYEOP) •National Apprenticeship Training Scheme (India) •Jóvenes construyendo el futuro (Mexico) •Severin Craftsman Training Center (Kenya)
Employer-funded work-based learning programs	Employers cover the full costs of the program, including stipends, to the youth taking up an internship, apprenticeship or traineeship in a company.	•Long-term sustainability •Training provided is fully aligned to employers' needs, increasing the youth's future employability •Employers have a vested interest in ensuring students learn relevant skills	•High risk for employers – they need to see a high value in running the program •Requires coordination of multiple employers to operate at scale	●●	●●●	●●●	•Kentucky FAME (US)
Blended financing models	Costs of the program are split between government (in-kind contribution or capital expenditure), philanthropic donors (operating costs) and employers (stipends).	•Can be easier to fund and administer for governments •Employers cover some of the costs, incentivizing them to provide high-quality training	•Scale and sustainability conditioned by the availability of philanthropic funding	●●	●●●	●●	

FINANCING SKILLS: RECOMMENDATIONS

1. DEVELOP & INVEST IN SCALABLE RESULTS-BASED FINANCING MODELS TO FUND SKILLING PROGRAMS	
FINANCING RECOMMENDATIONS	
Stakeholders	**Recommendations**
Governments	• Allocate existing public funds for TVET to TVET providers through outcomes-based contracts (payments based on placement and retention rates). • Financial allocation to TVETs should be more selective. Contracting by governments of TVETs should be conditional on TVETs publishing their placement results, having the support of a human resource agency or being highly rated on the African Union (AU) dashboard report.
Funders (excl. governments)	• Structure and finance large-scale outcomes funds that can execute multiple employability impact bonds. Outcomes can be funded by a mix of public and private funds to facilitate demonstration effect, learning and potential government adoption. • Promote outcomes funds alongside efforts to support capacity building and TVET restructuring. • On the investor side, create the opportunity to use blended finance products to mobilize capital.
BEYOND FINANCE	
Stakeholders	**Recommendations**
Governments	• Establish a technology-based platform to support and facilitate government-funded programs (e.g., global dashboard of existing programs tracking program capacity, length, cost/student, placement and retention rates, etc.). • Develop a data readiness roadmap, including a manual of structures and toolkits on how to collect, clean and analyze data to support program oversight with an aim to increase placement and retention into quality jobs. • Beyond money for placement, more generally increase focus on the effectiveness of training and placement programs.
Service providers	• TVET providers: invest in digital monitoring and evaluation (M&E) systems to consistently track placement and retention rates, learn and adapt programs based on data collected; invest in employer relations to improve training quality and link graduates to job opportunities. Review case studies of successful TVET programs on platforms such as the AU's African Skills Portal for Youth Employment and Entrepreneurship (ASPYEE) to learn and promote best practices. • Advocate for tying funding to placement and retention rates and build internal processes that can handle outcomes-based financing models.
Funders (excl. governments)	• Identify the top performing programs in terms of placement and retention rates historically and accurately validate their performance. Reliable measurement metrics will enable the scaling of effective programming. • Development banks can set objectives linked to placement and retention outcomes when issuing government loans for tertiary education investments. • Development banks can also support governments in building their capacity to design outcomes-based programs and structure better incentives for skilling providers (e.g., through training sessions or dissemination of information on these structures).

2. USE CAREER BONDS TO FUND HIGH-IMPACT SKILLING PROGRAMS	
FINANCING RECOMMENDATIONS	
Stakeholders	**Recommendations**
Funders (excl. governments)	• Offer career bonds at scale to finance transformative vocational training programs for youth from underserved communities sustainably, either by structuring and securing initial capital for "pay-it-forward" career impact funds (i.e., funds that issue career impact bonds and reinvest proceeds into new cohorts) or by partnering with financial institutions (banks or fund managers) to include career bonds as part of their services. • Use the recoverable grant model for higher cost programs.
BEYOND FINANCE	
Stakeholders	**Recommendations**
Service providers	• Skilling providers should invest in M&E systems that can track pre- or post-training income and dropout rates to enable the successful design and implementation of ISAs/OBLs for their programs (e.g., by helping determine the minimum income appropriate for students to start repaying and inform financial modeling assumptions to guarantee long-term sustainability). • As career bonds are a novel financing instrument for many countries, fund managers can play a key role by managing the issuance of income-share agreements, monitoring outcomes and tracking repayments.

3. DEVELOP PUBLIC-PRIVATE FINANCING MODELS FOR WORK-BASED LEARNING	
FINANCING RECOMMENDATIONS	
Stakeholders	**Recommendations**
Governments	• Leverage existing public funds (e.g., from skills development levies) to provide partial funding (25–50%) for internship/apprenticeship stipends, with the rest of the funding provided by employers.
Youth and youth-focused civil society organizations	• Work with industry associations to develop employer-funded apprenticeship programs. Identify roles which support a continuum of learning and qualifications (i.e., pay grade levels, career ladders, progression metrics, and increase in salary metrics). • Structure apprenticeships for both job placement and entrepreneurship.
Funders (excl. governments)	• Support SME work-based learning programs through externally funded in-house training programs. • Support SMEs in applying to match-making facilities. Large companies can finance any technology requirements.
BEYOND FINANCE	
Stakeholders	**Recommendations**
Governments	• Prioritize funding for skilling programs that include a work-based learning component. • Market the benefits of internships/apprenticeships to employers.
Service providers	• Skilling providers should develop private sector partnerships to guarantee placement of interns/apprentices after initial training.

FINANCING SKILLS: PROMISING PRODUCTS

PRODUCT #1: CAREER FINANCING

The challenge

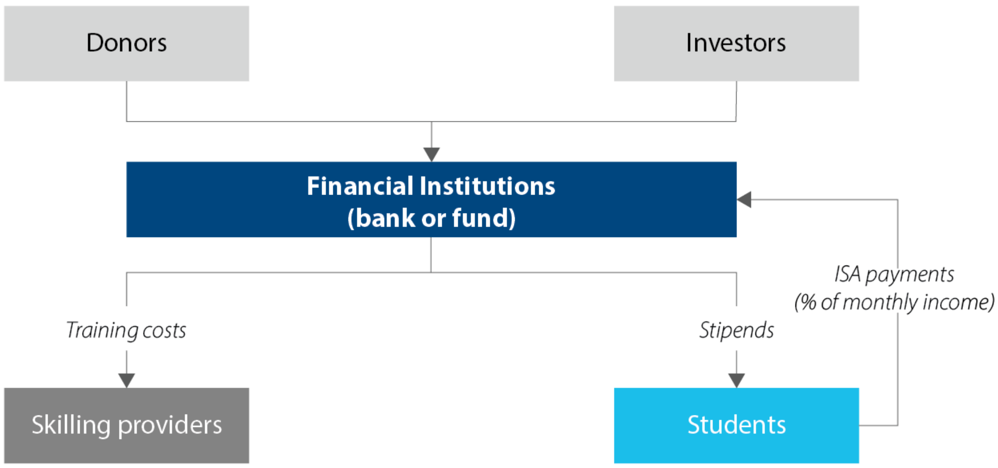
Youth cannot afford skilling programs and cannot access traditional financing sources (e.g., student loans).

The solution

A financial institution (bank or fund) that issues income-share agreements (ISAs) to youth enrolled in high-impact skilling programs.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●●	●●●	●●●	●●

Structure



Design parameters

Scale: dependent on labor market demand, capacity of skilling providers and program cost – US$10m fund could cover 5,000 students at a cost of US$2,000 per trainee; scalable to $100m+ fund covering tens of thousands of students

Initial capital requirement: US$5-10m investment capital + $1.5-2.5m in grant funding to cover structuring and administrative costs and provide a 20% first-loss guarantee (dependent on cohort size and repayment term)

Type of capital: debt + grant funding

Design features:

- Skilling providers select students based on agreed criteria (e.g., age, gender, income, etc.)
- Financial institution pays skilling providers for training costs and provides technical assistance for wraparound services; and pays students a living stipend during training
- Students repay a share of their monthly income once in a job above a minimum income threshold, for a set period of time or up to a maximum cap (to ensure repayments do not amount to an excessive interest rate over the initial costs)
- Income threshold is based on expected earnings after program completion and cost of living, ensuring students earn enough to repay the ISA and cover living expenses
- Specialized agency handles student tracking and collection of ISA payments, paid for by a small fee on each repayment (i.e., agency keeps a small percentage of each repayment made to the fund)

Potential permutations:

- Can be developed as a retail product by a bank or as a fund pooling capital from multiple impact investors, with proceeds either distributed or reinvested into future cohorts
- ISA payments can be managed by students themselves or by employers partnering with skilling providers and/or the financing institution

• Students can receive the financing in full and manage payments to skilling providers, or the financing can be provided directly to skilling providers • Use of a debt collection agency is necessary only if the financing institution does not have debt collection capabilities • ISAs can be replaced by outcomes-based loans (OBLs), under which students repay a set amount rather than over a set period of time • To foster a "culture of repayment", students can be required to repay a very small share of the ISA during the period of the program (however, this may create an additional barrier for the most disadvantaged youth – to preserve accessibility, individual exemptions from these payments should be considered) **Inclusion considerations:** • Youth from specific groups (e.g., young women, youth with disabilities, migrant youth and other marginalized groups) can receive additional support throughout the program (e.g., higher stipends, access to childcare, transportation vouchers, etc.) to account for their specific needs • Skilling providers can receive bonuses based on placement and retention rates, with higher bonuses for specific groups of youth • These bonuses would be negotiated with skilling providers to ensure they are set at a level high enough to ensure providers are incentivized to reach these objectives
Key success factors
• Growing economy with high demand for technical skills • Skilling programs (preferably <1 year) leading to step-change in income (+50% or more) • Close links between skilling providers & employers to design curricula and place students • Wrap-around services to drive up placement and retention rates • Ability to track income & collect payments • Supportive regulatory framework fit for ISAs[75]
Value proposition
• Self-sustaining financial model • Reduces students' risk of investing in skilling as they only repay if they earn above a minimum income threshold (note: program must include safeguards to ensure students commit to seeking employment after the program) • Incentivizes skilling providers to focus on placement and retention • Incorporates job placement support services alongside skilling
Expected impact
• Thousands of youth graduating with substantially higher earnings prospects than prior to the program (who would have otherwise not had access to such skilling programs)
Inspiring examples
• **Chancen International Future of Work Fund (Sub-Saharan Africa)** - US$21 million raised to support student financing for 10,000 young people through ISAs with multiple high-quality higher education institutions • **Fundo Evolución Digital (Colombia)** – US$1.5 million fund aiming to finance access to high-quality "bootcamps" (short training programs preparing students for jobs in the digital sector) for 1,000 young people through ISAs

[75] A key regulatory feature that may hinder expansion of this model is that many countries do not legally recognize ISAs as lending instruments, which limits the funder's ability to resort to the legal system to collect dues. In such cases, ISA trainees must provide guarantors who are willing to repay in case of default (unless the funder is willing to assume that risk). As low-income youth cannot easily find guarantors, this can be limiting factor for implementing ISAs.

PRODUCT #2: WORKFORCE DEVELOPMENT OUTCOMES FUND

The challenge

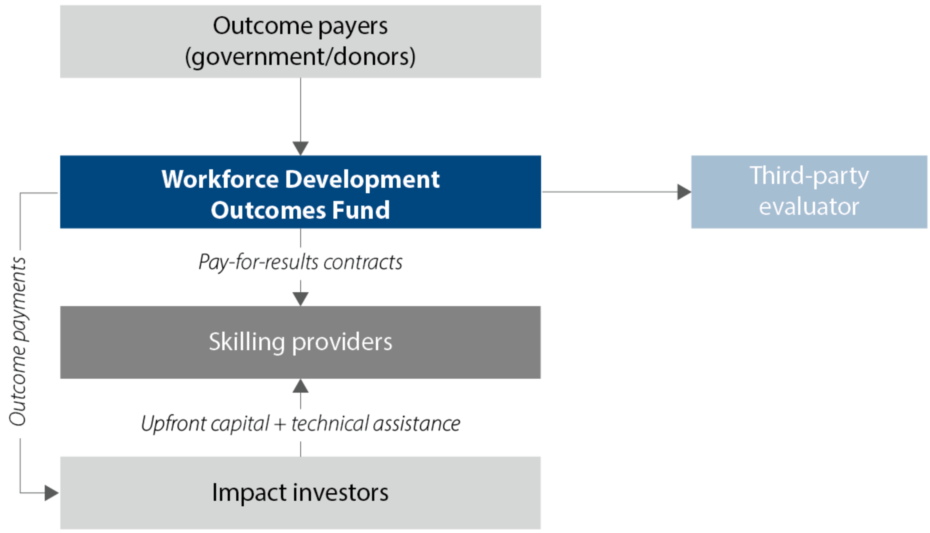
Skilling providers are incentivized to deliver activities, not outcomes.

The solution

A fund that issues pay-for-results contracts to multiple skilling providers.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●●	●●●	●●	●●

Structure



Design parameters

Scale: up to 10-20K youth, based on labor market demand and capacity of skilling providers – start in one location/sector and expand over time

Capital requirement: US$20m+ (dependent on scale, cost of training, incentive structure)

Type of capital: grant funding for outcome payers (donors and government), concessional capital and grants (for TA) for impact investors

Design features:

- Outcome payers (donors and government) capitalize fund
- Targets for desired outcomes (placement and retention rates for skilling programs, increased income and/or business value for entrepreneurship programs) are set
- Skilling providers apply to the fund and are selected for outcomes-based contracts based on their track record and ability to scale up their programs
- Fund issues standardized outcomes-based contracts to skilling providers, linked to achievement of desired outcomes
- Impact investors provide upfront funding to skilling providers to implement activities and technical assistance (grants) to improve performance
- Third-party evaluator (paid by the fund) validates outcomes
- Fund makes outcome payments to investors if desired outcomes are achieved (with higher achievements leading to higher payments)

Potential permutations:

- Outcome payments can be made directly to skilling providers (e.g., if they are paying for activities from their own funds)
- Impact investors can invest indirectly through the fund rather than directly through skilling providers
- Large scale is required to make the structuring and management costs worthwhile; smaller funds can be used for impact bonds (same structure but limited to one skilling provider)

Inclusion considerations:

- Higher outcome payments can be made for specific groups, e.g., young women, youth with disabilities, migrant youth and other marginalized groups

Key success factors
• Growing economy with high demand for vocational skills • High-quality, high-capacity skilling providers with evidence of high placement/retention rates and demonstrated ability to run programs at scale and/or scale up existing programs • Close links between skilling providers & employers to design curricula and place students • Standardized outcomes-based contract that can be rolled out in multiple sectors, with multiple skilling providers (i.e., same outcomes tracked, same payment terms for outcomes achieved, same contract duration, etc.) • Streamlined third-party evaluation process to validate outcomes (i.e., one evaluator for all skilling providers, using the same methods and process to verify the achievement of outcomes, creating economies of scale where appropriate) • Supportive regulatory framework
Value proposition
• Enables the execution of outcomes-based contracts at scale through standardization and economies of scale • Drives systemic change to reward effective training solutions, connected to demand and markets • More effective and measurable/accountable uses of funding • Brings in more diverse donors and investors • Changes mindsets in the long term about effectiveness of vocational training • Less micro-managing of specific interventions allows for innovation and testing of different approaches (e.g. shorter/longer training, on the job training, employability/soft skills), and requires deep employer engagement (instead of just "demand alignment")
Expected impact
• Improved performance of skilling providers, with likely spillovers to other programs not covered by an outcomes-based contract • Demonstrated effectiveness of results-based financing at scale, opening the way for possible government adoption
Inspiring examples
• **Education Outcomes Fund (Africa)** – two outcomes funds raised for a total of US$56.5 million, aiming to improve primary education outcomes for 270,000 children in Ghana and Sierra Leone (similar structure could be developed for vocational training/skilling programs) • **SIBS.CO Outcomes Fund (Colombia)** – employability outcomes fund (intermediary: Fundación Corona)

PRODUCT #3: GOVERNMENT INCENTIVE FUND

The challenge

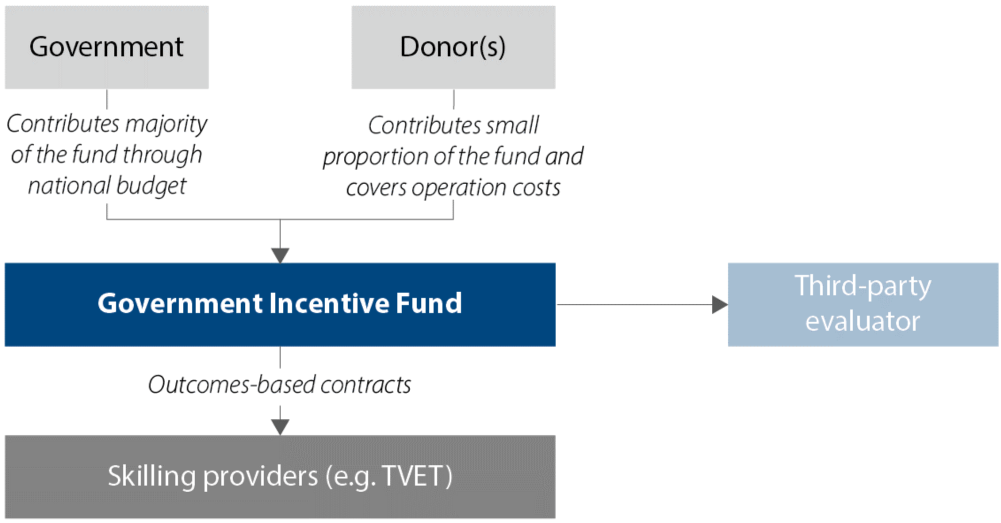
Skilling providers are incentivized to deliver activities, not outcomes; government payments to providers can be unreliable.

The solution

A fund that incentivizes better outcomes from skilling providers and increases the efficiency of government payments to providers.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●●	●●●	●●●	●●

Structure



Design parameters

Scale: 5-10% of total TVET students in a country (e.g. for Kenya, 15-25K students/year)

Initial capital requirement: proportional to national budget for vocational training (e.g. for Kenya, total TVET budget ~ US$50m, Incentive Fund could be ~ US$2.5-5m)

Type of capital: government funding + grant funding

Design features:

- Government capitalizes the fund with a small proportion (5-10%) of national budget for vocational training
- Donors contribute a small share of the fund to incentivize government to participate, and covers the fund's operational costs (i.e. fund management fees and third-party evaluator)
- Funds are held in escrow and managed professionally at a low fee
- Fund makes payments to skilling providers based on their achievement of specific outcomes (e.g., placement and retention rates for skilling programs, increased income and/or business value for entrepreneurship programs)

Inclusion considerations:

- Skilling providers can be required to serve a set number or percentage of youth from specific groups, e.g., young women, youth with disabilities, migrant youth and other marginalized groups
- Higher outcome payments can be made for specific groups, e.g., young women, youth with disabilities, migrant youth and other marginalized groups

Key success factors

- Professional fund manager operating at a low fee
- Clear terms for outcomes payments to skilling providers (with verification mechanism for outcomes achieved)
- High enough outcomes payments to create a real incentive for skilling providers to improve their performance

• End-to-end transparency over use of funds
Value proposition
• Changes incentives for both government and skilling providers • Drives systemic change to reward effective training solutions, connected to demand and markets • Increases efficiency of government payments by ringfencing the funds for outcomes payments
Expected impact
• Improved performance of skilling providers • Improved efficiency and reliability of government payments to skilling providers, giving providers more certainty to plan and budget
Inspiring example
• **Results-based Financing for Inclusive Employment (Morocco) –** a government-led results-based financing program using outcomes-based contracts with skilling providers, supported by the Millenium Challenge Corporation (note: while this program did not set up a separate incentive fund, it did use the type of outcomes-based contracts that would be necessary to implement this product.)

PRODUCT #4: APPRENTICESHIP/INTERNSHIP FUND

The challenge

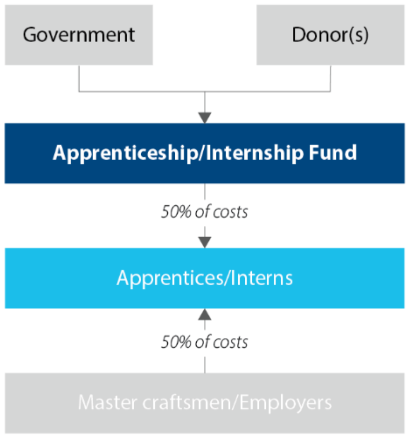
Work-based learning is highly effective but employers have limited incentives to offer apprenticeships/internships.

The solution

A fund to cover partial stipends and additional classroom education for apprentices/interns, in close collaboration with employers.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●●	●●●	●●	●●●

Structure



Design parameters

Scale: 5,000-10,000 apprentices/interns (dependent on sector and location)

Initial capital requirement: US$10-15m (dependent on cohort size and costs of classroom education)

Type of capital: government + grant funding

Design features:

- Cost of apprentices/interns and classroom education is shared between the Fund and employers – incentivizing employers to monitor curricula and invest in training
- Funders (donors / government) capitalize apprenticeship/internship fund
- Funders, employers and skilling providers structure apprenticeship/internship program
- Funders and employers share equally the costs of stipends and classroom education for apprentices/interns, with funds going directly from the fund and employers to apprentices/interns and classroom education providers
- Governments may provide additional in-kind support (e.g., physical space for training delivery)
- Subsidy expires at the end of the apprenticeship/internship (i.e., after a year for a 1-year program) – apprentices/interns can be hired by employer or look for another opportunity with a formal certificate issued by the employers' coordinating body (e.g., industry association) and recognized locally by the sector

Potential permutations:

- Classroom education component is optional, this can be a 100% work-based learning program

Inclusion considerations:

- Stipends for youth from specific groups, e.g. young women, youth with disabilities, migrant youth and other marginalized groups should be higher to cover their additional costs to participate in the program (e.g., childcare, transportation, etc.); these additional costs should be covered by the Fund.
- To incentivize employers to offer apprenticeships/interns to these youth, the Fund could also cover a higher share of stipends and classroom education (e.g., 75%) for these groups

Key success factors

- Growing sector with high demand for specific technical skills requiring practical experience supported by classroom education (10-20% of time) (e.g., manufacturing, engineering, construction; demand for skills should be assessed in partnership with local industry associations)
- Minimum 1-year apprenticeship/internship program (sufficient to learn skills and increase productivity)

• Close links between donors, employers and skilling providers to align classroom curricula to apprenticeship/internship structure and employer needs • Pre-existing coordination mechanism between employers (or willingness to build one), such as an industry association • Provision of wrap-around services for apprentices/interns (e.g., help with transportation and childcare costs)
Value proposition
• Fully demand-driven; young people are trained on specific skills required by employers • Employers have a dual incentive to hire apprentices/interns (50% costs are covered by the Fund) and to train them properly (50% costs are covered by the employer; these costs need to be matched or exceeded by the value delivered by the apprentice/intern to the business)
Expected impact
• Thousands of young people skilled through work-based learning and given access to potential job opportunities • Increased alignment and coordination between government, funders, employers and skilling providers to deliver practical, relevant training to young people
Inspiring example
• **National Apprenticeship Training Scheme** (India): a government-funded one-year apprenticeship scheme, with stipend costs split equally between employers and government (~180,000 apprentices placed/year)

Product #5: Public-Private Skills Centers

The challenge

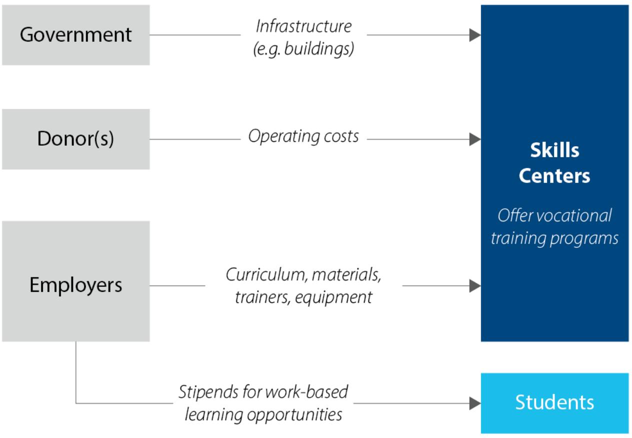
Government- and grant-funded skilling programs are disconnected from employer needs.

The solution

A public-private partnership to offer employer-aligned vocational training at scale.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●	●●●	●●	●

Structure



Design parameters

Scale: dependent on sector and location – pilot at a limited scale (1,000-2,000 students), then use pilot outcomes to make a compelling case for replication

Initial capital requirement: dependent on terms of public-private partnership (up to US$1-2m for the pilot phase)

Type of capital (for donors): grant funding

Design features:

- Government provides infrastructure for skill centers (e.g., buildings) as an in-kind contribution and authorizes the development and delivery of a demand-led curriculum
- Donors cover operating costs (e.g., utilities, administrative support, etc.)
- Employers design curricula, provide trainers and up to date equipment and materials, and covers student stipends for related work-based learning opportunities
- Partnership plays on the strengths of each stakeholder and ensures students receive demand-aligned, up to date training leading to high placement and retention rates
- Partnership reduces costs for government, supporting the long-term sustainability of the program

Inclusion considerations:

- Government and donors can require a minimum proportion of youth from specific groups, e.g., young women, youth with disabilities, migrant youth and other marginalized groups, as a precondition for the partnership

Key success factors

- Employers with an unmet need for skilled employees trained on up to date machinery and technical know-how
- Existing coordination mechanism for employers (e.g., industry association) that can be relied on to develop the partnership
- Clear roles and responsibilities for all stakeholders, with enforcement mechanisms and consequences if one of the parties reneges on its commitment

Value proposition

- Solves for high costs of vocational training by leveraging each stakeholder's strengths and resources: government ownership of land and buildings, donors ownership of funds (cash), and employers' technical knowledge and ownership of equipment

• Employer involvement ensures course content is up to date and responsive to demand in the labor market, and provides work-based learning and post-graduation placement opportunities • Encourages a close connection between employers and skilling providers (often a missing piece)	
Expected impact	
• Thousands of young people trained on up to date technical knowledge and equipment • Increased alignment and coordination between government, donors and employers	

INTERVENTION #2: FINANCING JOBS & ENTREPRENEURSHIP

WHAT IS THE ISSUE?

In economies experiencing a job or demand gap, population growth has outpaced the job creation rate and the labor market is not able to absorb all new entrants, no matter how skilled. For instance, only three million wage-earning jobs are created in sub-Saharan Africa alone, compared to the 8–9 million who enter the labor force each year.[76] Many of the world's economies are simply not creating new wage-earning jobs quickly enough to absorb their growing workforce.

Solving a jobs gap is much more difficult than solving a skills gap. Economic growth and job creation are driven by global and local macroeconomic trends and structural factors that are not easily changed by one single intervention. If employers do not anticipate a growth in demand for their products and services, they have no incentives to hire, and nor should they. Nevertheless, there are barriers to business growth that can be removed to stimulate economic activity and address a jobs gap. In the context of youth employment and entrepreneurship, these issues can be grouped into two broad categories:

a) The growth of youth-employing businesses is constrained

Not all the youth have the skills, aspirations and risk appetite for self-employment. Supporting the growth of businesses that are most likely to employ the youth is a critical piece of the puzzle. In particular, this means supporting Small and Medium Enterprises (SMEs)[77], which create 7 out of 10 jobs in emerging markets.[78] Lack of financing is one of the primary obstacles to business growth for these companies. SMEs tend to be underserved by financial institutions because of their small size, perceived risk profile and the informality of their business practices. Consequently, they cannot grow or are forced to borrow at much higher rates (from either banks, informal lenders or microfinance institutions), which constrains their growth and job creation potential.[79] Beyond finance, growing a business also requires skills and support services that youth-employing SMEs typically cannot afford. Such programs are usually government- or donor-funded, but similar to skilling programs, there is limited information on the effectiveness of such programs, which makes assessing their costs and benefits to decide which ones to support difficult. Some investor-funded accelerator programs do exist, but they tend to target a very small segment of high-growth, high-tech startups, leaving out the majority of SMEs in emerging markets.

Beyond access to financing, other factors can constrain the growth of youth-employing SMEs. Key enablers of economic growth, such as capital investments (either by government or international firms and investors), ease of business-related administrative procedures (e.g., to start a business, request permits, pay taxes, export and import goods, etc.), enforceability of contracts and protection of property rights, may be lacking. There may also be a lack of infrastructure to support economic growth: most businesses require a reliable access to water and electricity, and roads, ports and airports are critical for trade. Finally, public economic policies may not be leveraging local assets for economic growth, for instance by failing to provide fiscal incentives to promote investment in local value chains.

b) Youth lack access to capital, skills and markets to start their own income-generating activities

Youth entrepreneurship is increasingly seen as an answer to the lack of formal jobs in developing economies.[80] However, starting even the most basic income-generating activity usually requires some initial capital to invest in business assets (e.g., tools, vehicles, machines) and cover operating costs (e.g., working capital for daily purchases, salaries, raw materials) until the activity starts generating a profit. This investment comes with a risk: that the business will fail and be

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[76] Fox, L., *It's easy to exaggerate the scope of the jobs problem in Africa. The real story is nuanced*, 19 April 2021
[77] Definitions of MSMEs can vary by country and by sector. IFC defines small enterprises as firms with less than 50 employees and total assets and total annual sales both below US$3 million, and medium enterprises as firms with less than 300 employees and total assets and total annual sales both below US$15 million.
[78] World Bank, SME Finance, accessed March 2023
[79] World Economic Forum, *Small and growing businesses make the biggest impact on economies, and they need more support*, 2021
[80] See, for instance, the 2016 African Development Bank's Jobs for Youth strategy.

unable to recover the initial startup costs. As a majority of new businesses fail, and youth entrepreneurs, even when they have access to formal financial services, rarely have a strong track record, banks are generally unwilling to take that risk. Transaction size is also an issue because commercial banks are not set up to offer and manage very small loans. In addition to these financing issues, starting a successful income-generating activity requires a basic set of business skills as well as a good understanding of market opportunities (and an ability to seize such opportunities). Unfortunately, youth entrepreneurship programs and business accelerators primarily focus on high-growth startups, which constitute only a minority of youth-led ventures, and are not always connected to market demand and broader industry trends, limiting the growth potential of such businesses.

These issues call for four broad categories of solutions:

1. **Increasing access to finance for youth-employing businesses** to enable their growth;
2. **Increasing access to finance for youth entrepreneurs** to enable them to start an income-generating activity;
3. **Increasing access to business development services and mentorship** to support both SMEs and youth entrepreneurs; and
4. **Creating market links and developing value chains** to increase local economic opportunities.

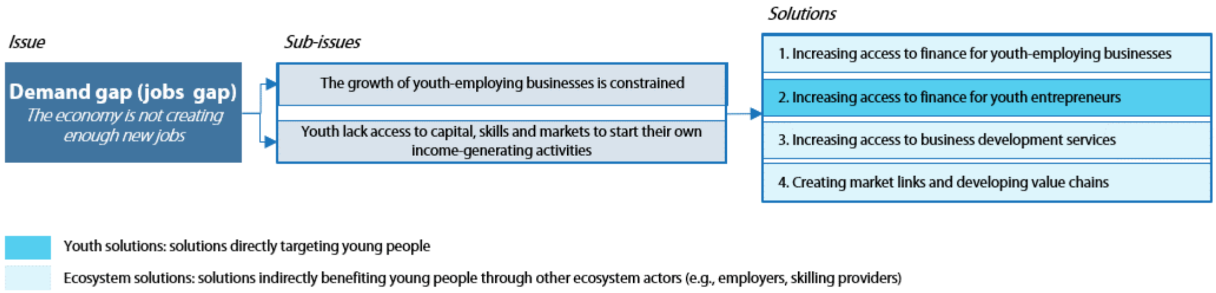

Fig. 7: Demand/jobs gap issues and solutions

HOW FINANCE CAN HELP

Different financing products can support these solutions. For instance, financing instruments can be used to **increase the amount of seed funding** available to youth entrepreneurs. For example, recoverable, returnable and convertible grants enable funders to recover funds if the business is successful, allowing them to reinvest in a new cohort of youth entrepreneurs. Microfinance, crowdfunding platforms and some fintech solutions can also provide very small loans to youth entrepreneurs**, getting around the issue of ticket sizes** and high transaction costs. Other models, such as micro-franchising, can also **decrease the risks of investing in youth entrepreneurs** by providing funding alongside a “ready-to-build” business model, thereby maximizing their chances of success.

Likewise, financing solutions exist to facilitate access to growth capital for youth-employing SMEs. This includes **direct investments by SME-focused impact funds or government funds**, which tolerate a higher level of risk in exchange for the positive social impact of SME growth, as well as products that **enhance the returns or decrease the risks** for financial institutions to invest in SMEs (such as credit enhancement tools, smart subsidies and directed lending). Fintech companies have also developed **alternative lending models** that could direct more capital towards SMEs by assessing their investment risks more accurately.

On the business development services side, results-based financing structures can drive up the effectiveness of business development services by **incentivizing service providers to demonstrate specific outcomes** (e.g., with a Development Impact Bond). They can also be used to improve the sustainability of such services, for instance by making the beneficiaries of such services cover their costs once they have achieved a predetermined income level. Finally, some financing products can help **improve the links between youth-led and youth-employing businesses and the broader market**. This includes, for instance, cooperative models, investments in industry clusters and public-private partnerships.

Responsible investments can also lead to growth and jobs. For instance, large investments in the film industry supported significant job creation in Nigeria, as in the ICT sector in Durban, South Africa or in the automotive sector near Pune, India. Such investments are made with a focus on training youth in the construction of the sites and provide employment opportunities once the sites are up and running. Public investments in physical infrastructure can also lead to a massive economic and job creation boom.[81] The Works Progress Administration in the United States in the 1930s and the Reconstruction and Development Programme in South Africa in the 1990s are two strong examples of public investment in infrastructure leading to significant job creation.[82]

INCLUSION CONSIDERATIONS

While accessing financing for self-employment and entrepreneurship is challenging for all young people, which face similar issues in terms of lacking a track record and credit history, specific groups such as young women, youth with disabilities, young people without a secondary education certificate, and young people from other marginalized groups face even more daunting challenges due to systemic injustices and the prevalence of negative stereotypes about their groups. For example, 70% of women-owned SMEs are unable to access adequate financing, resulting in a global US$300 million credit deficit[83]. Carefully designed financing models can help foster inclusion. Just as financing products can be used to decrease the risks of investing in youth as a whole, they can be used to decrease the risks of investing in specific groups (for instance, through the use of credit enhancements and smart subsidies linked to serving particular groups and "impact kickers" that give additional financing or reduced costs of borrowing for inclusion of certain groups). Financing can also be made conditional upon the inclusion of a minimum number of youths from specific groups into a program. At a more macroeconomic level, investors can also target sectors of the economy that are more likely to employ young people from a particular group (e.g., healthcare and education services for young women).

BEYOND FINANCE

While financing products offer helpful avenues to support youth job creation, they need to be complemented by other elements, including the following:

- **A favorable macroeconomic environment** conducive to investment and business growth
- A **business-friendly regulatory environment** that supports entrepreneurship and private sector growth; this includes, for instance, low business registration costs, simple and transparent regulatory procedures, minimal waiting periods to obtain approvals, availability of information on regulatory issues, favorable tax regimes for small businesses, and protection of intellectual property rights
- **Links to domestic and international markets** enabling businesses to scale production and increase quality of products and services
- A **cultural context supportive of entrepreneurship**, encouraging risk-taking, minimizing stigma around business failure and facilitating restarts

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[81] IMF, *The Direct Employment Impact of Public Investment*, 2021
[82] In parallel to the FinYouth research, the Global Opportunity Youth Network has been supported the development of a Youth Futures Development Bank (YFDB), which would aggregate resources from market investments in global infrastructure to create a renewable pool of financing that would be invested in efforts to reach and employ Opportunity Youth. The Bank aims to complete a first set of illustrative deals by June 2024.
[83] World Bank, Women Entrepreneurs Finance Initiative

FIG. 8: FINANCING JOBS & ENTREPRENEURSHIP: PRODUCT MAPPING

FINANCING JOBS & ENTREPRENEURSHIP
Programs & products on the supply side

Impact sought	*Financing solutions*						
1. Increasing access to finance for youth-employing businesses	Community development finance institutions (CDFIs)	SME funds	Directed lending	Smart subsidies / social impact incentives	Digital lending (fintech)	Crowdfunding (equity)	SAFE notes
	Savings and credit cooperatives (SACCOs)	Government-subsidized loans	Credit enhancement tools	Impact-linked loans	Venture philanthropy	Revenue-based financing	Open-ended investment funds
2. Increasing access to finance for youth entrepreneurs	Seed funding (grants)	Returnable grants	Crowdfunding (debt)	Microfinance	Tranched financing		
	Development Impact Bonds (DIBs)	Cash transfers	Micro-franchising	Digital lending (fintech)			
3. Increasing access to business development services	Grant-funded programs	Government-funded programs					
	Corporate-funded programs	Revenue-share agreements					
4. Creating market links and developing value chains	Responsible investments	Shared value programs					
	Cluster initiatives						

Definitions of these financing solutions can be found in the Annex.

FINANCING JOBS & ENTREPRENEURSHIP: WHAT WORKS?

Figure 8 summarizes the range of existing financing products and models that can be used to finance job creation. The following section reviews and assesses the most scalable, effective and sustainable of these financing models for each of the four impact areas identified above.

1. INCREASING ACCESS TO FINANCE FOR YOUTH-EMPLOYING BUSINESSES

The challenge

SMEs create 7 out of 10 jobs in emerging markets.[84] In developing economies where youth represent a significant share of the workforce, supporting the growth of youth-employing SMEs is therefore a critical pathway to youth employment. Lack of financing is one the key obstacles faced by SMEs: the International Finance Corporation (IFC) estimates that 40% of them, or 65 million firms, have an unmet financing need of US$5.2 trillion every year. This is equivalent to 1.4 times the current level of global SME lending.[85]

SMEs are not a homogeneous group, and their financing needs and the challenges they face in accessing financing differ widely. It is helpful to segment SMEs into three distinct categories, as presented on the next page: established enterprises in traditional industries, innovative ventures in niche markets, and high-growth ventures seeking to scale into large addressable markets.[86]

To unlock growth and job creation, these SME segments require different solutions to their financing challenges. Five key factors should be considered when assessing whether a financing product meets the needs of SMEs:[87]

- **Cost**: the cost of capital (e.g., interest rate) must match SMEs' business model and growth stage
- **Terms**: financing terms (e.g., tenor, grace period, legal covenants), must match SMEs' needs
- **Amount**: SMEs need to be able to access the right amount of capital for their business needs
- **Type**: SMEs need the right financing products to meet their needs (e.g., equity, debt, mezzanine, revenue-based financing, etc.), and sometimes a mix of different products
- **Timing**: SMEs need to be able to access capital quickly and at the right time

Importantly, not all SMEs have an equal propensity to create jobs for young people. **SMEs in labor-intensive sectors, with business models that rely on large numbers of lower-skilled and/or entry-level workers**, are much more likely to offer professional opportunities to young people than high-tech, capital-intensive businesses relying primarily on highly-skilled workers. To have a positive impact on youth employment, the financing products discussed in this section should therefore be directed to this type of SMEs.

The table below summarizes the financing challenges faced by the three categories of SMEs mentioned above. It is important to note that even in the absence of these general financing challenges and in a conducive macroeconomic and regulatory environment, SMEs may be reluctant to hire youth formally for a number of reasons, including their relative lack of experience compared to more seasoned workers, additional employer costs related to formal employment (e.g., social security, health insurance, additional taxes), complex labor regulations, or prejudiced views of youth. These issues and their potential solutions are discussed further in the following section, "Financing Connections".

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[84] World Bank, SME Finance, accessed March 2023

[85] World Bank, SME Finance, accessed March 2023

[86] Adapted from Omidyar Network and the Collaborative for Frontier Finance, *The Missing Middles: Segmenting Enterprises to Better Understand Their Financial Needs*, 2018

[87] Dalberg, *Closing the Gaps: Finance Pathways for Serving the Missing Middles*, 2020

Tab. 5: SME segmentation and financing challenges

Category	Established enterprises in traditional industries	Innovative ventures in niche markets	High-growth ventures
Description	• Firms operating in established industries – e.g., trading, manufacturing, retail, and services	• High-growth ventures seeking to grow in a specific market segment	• Scalable startups introducing new products, services and business models • Led by ambitious entrepreneurs with high risk tolerance
Business model	• Deploy existing/proven business models; seek to grow through market extension or incremental innovations	• Create innovative products and services that target niche markets or customer segments	• Disruptive business models and targeting large addressable markets
Growth potential	• Moderate	• Moderate	• High
Youth employment potential	• High	• Moderate/high, depending on sector and business model	• Moderate/high, depending on sector and business model
Financing needs	• Working capital • Asset financing • Growth capital	• Seed funding • Working capital • Asset financing • Growth capital	• Seed funding • Working capital • Asset financing • Growth capital
Main financing providers	• Banks (for mature businesses) • Fintech (for mature businesses)	• Donors • Impact investors • Banks • NBFIs	• Impact investors • VC/PE investors • Banks • NBFIs • DFIs
Challenges	• Both too small and risky for commercial banks and too large for microfinance, not profitable enough for VC/PE investors • High interest rates linked to high risk and high transaction costs • High collateral requirements • Inflexible repayment terms • Lack of long-term financing products	• Limited sources of seed funding for innovation • Limited exit opportunities for equity investors • High interest rates linked to (real or perceived) high risk	• Limited supply of VC/PE capital in emerging markets • Short-term investment horizons • Limited follow-on capital available after initial funding rounds • Limited exit opportunities for equity investors

Sources: Adapted from Omidyar Network and the Collaborative for Frontier Finance, *The Missing Middles: Segmenting Enterprises to Better Understand Their Financial Needs*, 2018; Dalberg, *Closing the Gaps: Finance Pathways for Serving the Missing Middles*, 2020

What works?

As different SME segments face different financing challenges, they also require different solutions.

a) **Established enterprises in traditional industries**

Established enterprises in traditional industries need access to both short-term capital and growth capital, but fail to meet the requirements of traditional financial service providers: they are too big for microfinance, too small and/or risky for commercial banks, and not profitable enough for VC/PE investors. Because these enterprises account for a large proportion of SMEs in developing economies and tend to have labor-intensive business models that employ many unskilled and low-skilled workers, their growth is critical for youth employment.

SME-focused investment funds offer one avenue to fund this SME segment. Investors in these funds are willing to take on the higher risk of investing in SMEs in return for the associated positive social impacts, such as youth job creation. These funds can adapt their investments to the needs of SMEs, providing debt, equity or any combination of the two, as well as more innovative structures such as revenue-based loans.[88] They can also provide technical assistance to investee businesses to support their growth. SME funds rely on a variety of funding models:

- **Grant-funded:** investors in the fund have no return expectations (e.g., philanthropic institutions)
- **Impact-first investors:** all investors in the fund are impact-driven, with lower return expectations than commercial investors (e.g., impact-focused high-net worth individuals or DFIs)
- **Blended finance funds:** the fund brings together commercial investors alongside impact investors and/or donors whose funds are used to catalyze commercial capital by protecting the returns of the commercial investors (e.g., through a first-loss guarantee)

Case Study #13

GroFin SGB Fund: an SME-focused investment fund[89]

Year started: 2014 (stopped investing at the end of 2020)

Location: Africa

Scale: US$ 123.4 million invested in 219 businesses by end of 2020

How it works:

- Capitalized by a mix of impact investors, DFIs, donors and philanthropic organizations
- Offers loans to SMEs operating in education, healthcare, agri-processing, manufacturing and key services (water, energy and sanitation), as well as business support, including help with formalization
- Additional grant funding available for technical assistance to investees

Achievements:

- > 13K direct jobs supported by end 2021 (including 8K youth jobs); additional 30K jobs supported indirectly and 200K livelihoods supported
- 110 jobs sustained by US$ 1 million invested

SME funds offer a variety of products to meet SMEs' funding needs, including equity, debt, quasi-equity/mezzanine financing, and revenue-based financing.[90] They are an attractive model to support SMEs underserved by financial institutions, but not a perfect solution. For instance, while such funds may offer a broader range of financial products than commercial banks and aim for lower returns than traditional VC and PE funds, they do not always meet all the needs of SMEs. For instance, few offer local currency lending, and equity investments are usually structured with a specific timeline to exit investments, which may not match the growth timeline of the business. They also require a strong local presence to find and manage investments, which tends to drive up management costs and limits the amount of capital that can be deployed (i.e., the number of businesses they can support). Funds that do scale up often need to increase their average ticket size, which pushes them away from the market segment they were initially targeting

[88] Loans repaid through a fixed percentage of future revenues.
[89] Case study references: GroFin Impact Report 2021, interview data
[90] Revenue-based financing is a funding structure under which the funding recipient repays the investor through a pre-agreed share of its increased revenue over time. This structure decreases the risk for the funding recipient, since they only need to repay if they can successfully grow their business, and increases the potential for an upside for the investor. Linea Capital offers an example of revenue-based financing.

(SMEs). Nonetheless, some SME funds, like BPI in South Africa (Case Study 14), have built their entire business model to meet SMEs' needs, and have been able to support hundreds of businesses.

Overall, the amount of investment capital in SME funds remains small as compared to the need. This does not diminish the critical role that SME funds can play in emerging markets: first, they channel much-needed investment capital to SMEs that would otherwise be growth-constrained, and second, they contribute to building the capacity of the local investment ecosystem, for instance, bringing new commercial and local investors to invest in SMEs (see Case Study 15 below).

Case Study #14

Business Partners International (BPI): a specialized SME investor[91]

Year started: 1981

Location: East and Southern Africa

Scale: over US$1 billion invested since inception

How it works:

- Provides debt and equity to formal SMEs in East and Southern Africa, aiming to support job creation and improve livelihoods
- Makes local currency investments between US$30,000 and US$3,000,000 (average deal size US$250-300,000), with personalized pricing and repayment terms for each SME
- Assesses SMEs based on cash flow viability and business potential, as opposed to existing assets
- Offers technical assistance at a zero-interest rate (repaid over the same period as the initial financing) to support investee businesses in areas such as financial management, corporate governance, strategy, sales, and ESG, as well as access to carefully selected mentors

Achievements:

- Over 70,000 SMEs financed since inception
- 2019 SME Bank of the Year (Africa)

Case Study #15

IPDEV2: a blended finance facility to build the SME investment ecosystem in Africa[92]

Year started: 2018

Location: Africa

Scale: € 24 million (investment capital) + € 21 million grant funding for capacity-building and technical assistance

How it works:

- Builds on I&P's impact investing experience to set up and sponsor 10 African impact funds, staffed by African investment professionals and capitalized by African investors
- Set up as an evergreen fund to build out the funds and provide € 1–2 million anchor investments for each fund
- Funds will target € 50K–€ 500K ticket sizes, ultimately aiming to fund 500+ SMEs and support 15K jobs

Achievements:

- Five funds launched to date, two more currently fundraising
- At the end of 2020: 47 local investment professionals recruited and 34 companies supported through equity investments, impacting over 43K stakeholders (including suppliers, small producers, family members and direct and indirect job creation)

An alternative to support this segment of SMEs is to work directly through local financial institutions. Banks have the networks and capacity to serve SMEs at scale, but do not find it profitable to do so: small ticket sizes carry the same transaction and portfolio management costs as larger ones, and SME investments tend be riskier due to a lack of collateral, credit data and performance track record. In addition, banks are usually heavily regulated, which can hinder the use of innovative solutions to overcome some of these challenges.

State-owned development banks[93], which pursue economic development objectives with lower financial return expectations, are an exception in this regard. When professionally managed and preserved from political interference, such institutions can be instrumental in supporting SME growth through investment (see Case Studies 16 and 17 below). Development banks can also support informal SMEs with the formalization process.

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[91] Case study reference: Business Partners International

[92] Case study reference: I&P, *IPDEV2: Building Investment Capacity in Africa*, September 2020; IPDEV2 Impact Report, March 2021; interview data

[93] Development banks are government-backed financial institutions designed to make investments into productive sectors of the economy, to support economic growth and job creation.

Case Study #16

Small Industries Development Bank of India: a state-owned MSME bank[94]

Year started: 1990

Location: India

Scale: ~US$ 25 billion portfolio, including US$ 1.7 billion in direct MSME lending

How it works:

- Provides refinancing facilities to banks and NBFIs to support their own lending activities, as well as direct loans to MSMEs through a network of branches across India; also extends financing to microfinance institutions through the SIDBI Foundation for Micro Credit
- Leads range of initiatives related to youth entrepreneurship and MSME capacity-building (e.g., formalization support)
- Has set up an online platform for MSME receivables financing (TReDs)

Case Study #17

General Delegation for Rapid Entrepreneurship of Women and Youth (DER – Senegal government agency)[95]

Year started: 2018

Location: Senegal

Budget: US$ 220 million annual budget (2021)

How it works:

- Government agency created to accelerate entrepreneurship amongst youth and women in Senegal
- Three types of funding: "economic self-sufficiency" (micro loans for most vulnerable), MSME loans for capex investments and working capital, and value chain financing
- Uses an online platform to process funding requests and subsidizes the cost of formalizing informal businesses.
- Aims to allow entrepreneurs to create a business within 24–48 hours
- Focused on priority sectors aligned with market potential
- Partnerships with banks and MFIs to disburse and administer loans
- Targeted vocational training for youth and women provided through online platform (DERAcademy)

Achievements:

- > US$ 80 million invested
- > 100,000 individuals supported
- 80,000 bank accounts opened
- 2,500 MSMEs supported with additional non-financial services

In the absence of a government-owned, SME-focused development bank, some financial products can help shift that status quo and increase commercial banks' lending to SMEs:

- Governments or DFIs can extend loans at a preferential rate to banks for on-lending to SMEs (**directed lending**). This can be an effective tool if the bank is committed to growing its SME portfolio, but there is a need for close oversight to ensure the capital is not used to support the bank's existing portfolio.[96] [97]
- **Credit enhancement tools**, such as guarantee schemes and risk-sharing facilities (where a third party, such as a DFI, agrees to partially cover losses for a specific portfolio of borrowers), can also support the expansion of banks' SME portfolios.
- Banks can also be incentivized to lend to SMEs through **smart subsidies and social impact incentives**, such as partial loan guarantees and origination bonuses when signing a new SME loan (see Case Study 18 below), as well as **impact-linked loans**, whose interest rates decrease with the achievement of set milestones (e.g., size of SME portfolio). Such products need to be designed carefully to ensure that they create a strong enough incentive without completely de-risking the bank's investment.[98]

When used appropriately, these models can lead to long-term change by enabling SMEs to access corporate loans after demonstrating their ability to repay on a subsidized loan (and therefore become less risky from the bank's perspective), resulting in a growth of the bank's lending portfolio and associated profits.

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[94] Case study reference: SIDBI
[95] Case study reference: Gouvernement du Senegal, interview data
[96] CDC Group, *Directed Lending: Current Practices and Challenges*, 2021
[97] The Triple Jump Financial Inclusion Resilience Fund, which provides subordinated debt to financial intermediaries serving MSMEs and low-income borrowers in emerging markets, is an example of directed lending.
[98] An absence of risk could lead banks to lend to low-quality borrowers in order to simply obtain the subsidy.

Case Study #18

Aceli Africa: smart subsidies for agri-SMEs[99]

Year started: 2020

Location: Africa

Budget: US$ 62 million secured in donor commitments

How it works:

- Raises grant funding to provide smart subsidies to local financial institutions to incentivize lending to SMEs in the agricultural sector by reducing transaction costs and financial risk
- Subsidies are provided as first-loss guarantees (covering 2% to 8% of loan value) and as origination incentives (payments to compensate for higher transaction costs)
- Financial institutions receive "impact bonuses" (higher subsidies) for loans to women-led and youth-led businesses
- Incentives are higher for new borrowers and decrease with each follow-on loan
- Size of incentives is based on extensive data analysis to avoid over-subsidizing (analyzed 9.1K loans from 31 lenders, worth US$ 3.7 billion)

Achievements:

- 18 active local partners
- US$ 48 million mobilized across 369 loans to SMEs supported by Aceli's incentives
- 379,000 farmers in the supply chain of supported SMEs

As with livelihood-sustaining enterprises, **digital lenders** can offer an alternative funding path for dynamic enterprises. By using technology such as artificial intelligence and machine learning, some fintech companies have introduced alternative credit scoring and risk assessment models that enable them to better assess the risks of smaller businesses (see Case Study 19 below[100]). In addition, online delivery models generate economies of scale and lower transaction costs, enabling fintech companies to serve customers with smaller financing needs. These capacities make them better able to meet the financing needs of SMEs than traditional banks.

There are some key limitations to fintech financing models. Because they require a minimum financial history and revenue threshold, they are usually unable to serve early-stage businesses. Fintech companies also tend to have a higher cost of capital and take higher risks on the loans they extend, which they cover by charging their clients higher interest rates and fees.[101] Finally, the loans they offer are generally short-term (1–3 years), which is useful for businesses in need of working capital but less adapted to support longer-term growth needs.

Nevertheless, fintech companies are still filling an important market gap by serving the upper end of the SME segment that is unable to access credit through traditional banks, and new fintech models are constantly trying to reach a broader customer base. Programs that support digitization and financial literacy of SMEs can also increase the impact of fintech by enabling more businesses to make use of their services.

Case Study #19

Lulalend: working capital for South African SMEs[102]

Year started: 2014

Location: South Africa

How it works:

- Allows SMEs to apply for and receive funding online – lending decisions are automated and funding is provided within 24 hours
- No collateral required
- Loan ranges from R10,000–5,000,000 (~US$ 500–US$ 300,000), for 6–12 months tenors, monthly payments of one-sixth or one-twelfth the total loan with monthly costs of 2 to 6 percent
- Uses a proprietary credit scoring algorithm that leverages data from online sources
- Applicants must have been in business for 1 year and have an annual revenue greater than ZAR 500,000 (~US$ 30,000)

Achievements:

- Over 2,000 loans worth US$ 18+ million disbursed by 2020

b) Innovative ventures in niche markets

Innovative ventures in niche markets primarily need to access financing to develop and bring to market innovative products or services. Such ventures can have an explicit youth and/or employment focus (e.g., providing innovative skilling solutions). These ventures face a double financing challenge: on the one hand, because they target a specific sector or customer segment, their growth and scale potential are limited, making them less attractive investments for traditional VC/PE investors; on the other hand, the novelty of their

[99] Case study references: Aceli Africa, interview data
[100] Other examples of SME-focused fintech companies include Sempli in Colombia and Liiwa in Jordan (a peer-to-peer lending platform).
[101] *Prove, FinTech Lending: A Trojan Horse for Small Businesses?*, October 2021
[102] Case study reference: Lulalend

business models is too risky for commercial banks to take on.

Venture philanthropy, which replicates the approach and tools of traditional venture capital (VC) financing (such as very active investor engagement) but with minimal return expectations, is an ideal tool to support niche ventures. For example, Acumen is a "venture capital fund for the poor" capitalized with grant funding which invests in innovative, early-stage social enterprises whose products and services can enable the poor to transform their lives. Acumen has invested over $146 million to date in 155 companies serving low-income customers, including LabourNet in India, which helps informal workers increase their productivity and income through work-integrated job training.

Grant-based financing products, such as recoverable and convertible grants and forgivable loans, are also effective tools to provide financing to niche ventures[103]. Such products can be pooled to increase the impact of each investment. For instance, Upaya Social Ventures raised a US$1 million Pool of Recoverable Grants in 2019, used to invest in 14 Indian impact-driven companies creating jobs for people in extreme poverty. Upaya looks specifically for companies that can scale through employment of many low-wage workers; to date, its investments have created over 10,500 dignified jobs.[104] When Upaya is able to exit successfully from an investment, the capital is returned to the donors and can be reinvested for other philanthropic purposes, multiplying the impact of the funds over time.

Finally, **crowdfunding platforms** that pool capital from socially-minded investors, such as Crowdcube or Seedrs, offer another avenue for bringing financing to niche ventures. By fundraising from many small and impact-motivated investors, such platforms decrease the individual risk taken by each investor.

c) High-growth ventures

High-growth ventures are typically best served by investors, especially in economies with a growing investment ecosystem. However, they often struggle to attract sufficient amounts of growth capital past the seed funding stage but prior to having demonstrated their commercial viability (the "pioneer gap"[105]). Furthermore, traditional VC and PE investors tend to be more familiar with "asset-light" companies leveraging technology to disrupt existing markets, with "asset-heavy" ventures with more capital-intensive growth paths finding it much more difficult to raise sufficient funds to grow. High-growth ventures can be an important source of youth employment if they rely on a labor-intensive business model that employ unskilled and low-skilled workers.

A few innovative solutions have emerged to support such ventures. Similar to the income-share agreements discussed in the "Financing Skills" section of this report, under a **revenue-based financing agreement**, investee companies repay investors with a percentage of their future earnings over a set period of time. From the company's perspective, revenue-based financing structures provide investee companies with the growth capital they require without requiring collateral or diluting the ownership of the company. From the investor's perspective, such structures are less risky than equity investments (which only deliver returns at exit), with a potential for higher returns than a classic business loan if the business exceeds revenue expectations.

Simple Agreement for Future Equity (SAFE) notes are another financing tool that can be used to support high-growth ventures in their initial high-risk stage. SAFE notes allow investors to provide capital to a company in exchange for a stake in a future equity round. SAFE notes have two key benefits for SMEs: they provide them with capital that does not need to be repaid (unlike a loan), and they do not require extensive negotiations on company valuation prior to being issued (unlike an equity investment). The simplicity of the structure is also attractive for investors.

More broadly, high-growth ventures benefit from access to an active and diverse investment ecosystem. Impact investing funds can contribute to building such an

[103] Recoverable grants are grants that are partly or fully repaid by the recipient if they reach a predetermined success threshold (e.g., getting a job, earning above a set income level, etc.). Convertible grants are grants to early start-up businesses that are converted into an equity stake if the business is successful (as defined by set indicators in the funding agreement). Finally, forgivable loans are loans that are converted into grants in cases of success.

[104] GivingCompass, *Philanthropy Magnified: The Unique Power of Recoverable Grants*

[105] Monitor and Acumen Fund, *From Blueprint to Scale*, 2012

ecosystem, as described in the IPDEV2 Case Study above (Case Study 15). **Open-ended fund structures** such as permanent capital vehicles (PCVs) offer interesting models to support ventures with capital needs that go beyond the typical investment horizon of VC and PE funds. Such funds do not have an end date, which gives them the flexibility to best serve companies with longer-term growth plans.

Tab. 6: Overview of financing solutions for increasing access to finance for youth-employing businesses

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
SME funds	Investors provide concessionary capital (may include grants, debt, equity, revenue-based financing) to SMEs.	•Provides capital to the "missing middle", filling the gap between microfinance and commercial investing •Often combined with technical assistance	•Transaction costs and risks remain high •Origination and portfolio management require strong local presence •Small ticket sizes make scaling up difficult	●●	●●●	●●	•West Africa Bright Future Fund •I&P Developpement, I&P Afrique Entrepreneurs (Africa) •Africa Growth Fund •Root Capital (global) •GroFin (global) •Linea Capital Partners (South Africa) •SEAF (global)
Government-subsidized loans	A government agency provides loans at preferential terms for MSMEs (disbursed through microfinance or financial institutions). Financing may be coupled with non-financial services, e.g., vocational training.	•Provides capital to the "missing middle", filling the gap between microfinance and commercial investing •Can direct capital to priority sectors/market segments	•May be politicized, leading to institutional instability •Requires human and logistical resources to reach decentralized areas •Public sector needs to build professional investment skillset	●●●	●●●	●●	•Delegation for Rapid Entrepreneurship of Women and Youth (DER/FJ, Senegal) •Small Industries Development Bank of India (SIDBI)
Directed lending	An IFI/DFI extends a loan at preferential terms to a financial intermediary for on-lending to SMEs.	•Relies on local banks for origination and portfolio management •Lowers the risk profile of SMEs •Positions borrowers for follow-on lending at commercial rates •Builds local capacity	•Need to control that funding is used to grow SME lending portfolio, not just de-risk existing portfolio •Limited control over which businesses receive funding	●●●	●●	●●●	•International Finance Corporation (IFC) •European Bank for Reconstruction and Development (EBRD) •British International Investment (BII)
Credit enhancement tools (risk-sharing facilities, guarantees)	An institution (e.g., government fund, IFI, DFI, philanthropic organization) guarantees loans made to qualifying individuals or businesses by partner financial institutions, enabling them to borrow without collateral. The guarantee can cover all or part of the loan.	•Relies on local banks for origination and portfolio management •Lowers the risk profile of SMEs •Positions borrowers for follow-on lending without guarantees •Builds local capacity	•Need to control that funding is used to grow SME lending portfolio, not just de-risk existing portfolio •Control over which businesses receive funding may be limited •May create perverse incentives for financial institutions if loans are entirely de-risked (no "skin in the game" removes incentive to select quality loan recipients)	●●●	●●	●●●	•African Guarantee Fund (Africa) •Nasira (FMO, Africa/MENA) •Credit Guarantee Fund Trust for Micro and Small Enterprises (India) •Oxfam Enterprise Development Program (global) •Opportunity International Waymaker Campaign (global)
Smart subsidies / social impact incentives	Donors subsidize financial intermediaries for extending qualifying loans through cash payments or guarantees, to reduce transaction costs and/or decrease risk.	•Directly targets market segment(s) underserved by local banks •Addresses high transaction costs •Can include "impact bonuses" to incentivize support to underserved populations (e.g., the youth)	•Setting the right level of subsidies can be challenging (dependent on multiple variables) •Scale dependent on target region or sector	●●	●●●	●●	•Aceli Africa •Social Impact Incentives (SIINC)

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Impact-linked loans	An impact investor extends a loan to a business whose balance can be lowered upon the achievement of pre-agreed impact milestones (e.g., percentage of new hires from a specific population).	•Simple structure, easy to understand for both lender and borrower •Incentivizes business to achieve desired impact	•High M&E costs •More complex to manage than a standard business loan •Customized milestones for each loan/business (i.e. difficult to manage at a large scale) •May not generate enough returns for long-term sustainability	●	●●●	●●	•BOLD – Impact Investment Group (Australia)
Digital lending (fintech)	A company uses technology to reduce risks and/or transaction costs to increase MSMEs' access to finance.	•Alternative risk assessment models can enable more MSMEs to access financing •Tech-based models can be easier to scale	•Users need to be digitally literate and have access to tech infrastructure/data •Best suited for small working capital loans, not long-term growth investments	●●●	●●	●●●	•Nomanini (Africa) •Sokowatch (Kenya) •TradeDepot (Nigeria) •LendingKart (India) •Lulalend (South Africa) •Konfio (Mexico)
Venture philanthropy	A philanthropic institution invests in an impactful business with the goal of rapidly bringing their model to scale, without any minimum return expectations.	•Uses the tools and approaches of venture capital funds (e.g., active investor engagement, advisory services)	•Higher portfolio management needs than grants •Active engagement model can create tensions between investor and investee •Returns unlikely to lead to long-term sustainability	●●	●●	●●	•Acumen (global)
Recoverable & convertible grants	An impact investor makes a grant to a SME, which can be recovered by the investor or converted into equity if the business reaches specific pre-agreed milestones.	•Recovered grants can be reinvested into new SMEs over time	•Requires clear pre-agreed milestones and a way to track and report against them •Returns unlikely to lead to long-term sustainability	●	●●	●●	•Upaya Social Ventures (India)
Crowdfunding (equity)	Through an online platform, individuals can invest small amounts of equity directly into businesses.	•Gives SMEs access to a large pool of potential investors •Capital can be recycled into new ventures over time	•High risk for investors •Requires minimum digital literacy and online presence	●●●	●●	●●	•Crowdcube (global) •Seedrs (global)
Revenue-based financing	An investment agreement under which the investee company repays the investor with a percentage of their future earnings over a set period of time.	•Repayments adjust to earnings in any given month •Does not dilute ownership of the business •Lower risk than equity, higher upside than debt	•Ability to track revenue and collect earnings	●●●	●●●	●●●	•Linea Capital Partners (South Africa) •Iungo Capital (East Africa)
SAFE notes	An investor provides capital to a company in exchange for a stake in a future equity round (as opposed to directly buying a share of the company).	•Capital does not need to be repaid •Does not require extensive negotiations on company valuation •Simple structure attractive for investors	•Dilutes ownership of the business	●●	●●●	●●●	•Y Combinator (global)
Open-ended investment funds	An investment fund without a set end date.	•Fund can fundraise, invest and exit investments as needed, rather than according to a preset timeline •Better fit for companies with longer-term growth trajectories	•Uncertain timeline for realized returns	●●	●●●	●●●	•Solon Capital Partners (West Africa)

2. INCREASING ACCESS TO FINANCE FOR YOUTH ENTREPRENEURS

The challenge

Most entrepreneurship programs target "youth" in general, without considering the significant differences that exist between the youth aspiring to self-employment. This can lead to misalignment between the type of capital and support services offered by such programs, and those actually required by the youth.

Youth entrepreneurs can be split into three main categories:[106]

- **Subsistence or livelihood entrepreneurs,** also called nano-entrepreneurs, form the largest category of youth entrepreneurs. While these youth are often entrepreneurs out of necessity, they can also be passionate about their business ventures. They run low productivity, single-person enterprises with low growth potential, such as a beauty salon or a small retail shop with a limited set of clients, which may not be sufficient to cover their income needs [107]. Gig workers, which do short-term work for multiple clients (often found through an online platform), can be considered as a subset of livelihood entrepreneurs[108]. Livelihood entrepreneurs are typically unskilled, disconnected from the formal financial system and unused to digital tools. Livelihood entrepreneurship does not lead to significant economic growth[109], but it is an essential source of work and income for the millions of poor who own these businesses, as evidenced by the success of the graduation approach[110]. These entrepreneurs need access to a small amount of low-cost, unrestricted capital to start their business (e.g., grants), basic business and financial literacy training, access to markets, as well as tools to differentiate their product and/or service offering (e.g., marketing support).
- **Micro-entrepreneurs** manage small informal enterprises that employ less than five workers, often family employees (subsistence entrepreneurs are a subset of micro-entrepreneurs). These businesses are usually not formally registered and have limited growth potential (e.g., small farm, bakery), but just like subsistence businesses, they can cumulatively represent large numbers of jobs. Again, although micro-entrepreneurs may be self-employed out of necessity, they may also have a genuine aspiration to entrepreneurship. A small minority of micro-entrepreneurs will have the potential to grow their businesses with the right support, such as access to finance and markets, help with formalization and business management skilling programs[111]. Micro-entrepreneurs can also benefit from access to market aggregators that can consolidate and distribute products and services from many different micro-entrepreneurs.
- **Growth entrepreneurs** make up the minority of youth entrepreneurs in emerging economies. These entrepreneurs are entrepreneurs by choice, typically graduates with some amount of wealth. Growth entrepreneurs can be further split into two categories:
    - *Moderate growth entrepreneurs*: leaders of moderate-growth dynamic enterprises[112] built on proven business

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[106] Adapted from Gugelev, *Creating jobs and sustainable livelihoods in a changing world*, 2018.
[107] Michael and Susan Dell Foundation, *Why we need to talk about nano entrepreneurs*, 2021
[108] Examples of gig work include food delivery and ride-sharing services.
[109] UNICEF, *Youth entrepreneurship: Concepts and Evidence*, 2019
[110] Based on a model developed in 2002 by BRAC in Bangladesh, the graduation approach consists of a carefully coordinated, multi- sectoral, "big push" intervention comprising of social assistance to ensure basic consumption; skills training; seed capital or access to employment opportunities to jump-start an economic activity; financial education and access to saving instruments; and coaching or mentoring to build confidence and reinforce skills. The interventions are time bound (generally 18–36 months) to preclude long-term dependence. Continued linkages to market opportunities or the labor market, as well as effective access to social protection systems, are needed to maintain a sustained upward trajectory. (See Gugelev, *Creating jobs and sustainable livelihoods in a changing world*, 2018)
[111] Jayachandran, *Micro entrepreneurship in Developing Countries*, 2020
[112] See SME segmentation in the previous section.

models and seeking to grow through market extension or incremental innovations.

- *Breakout scale entrepreneurs*: youths with an innovative, early-stage business with high growth ambitions. These businesses have higher capital requirements and are higher risk investments, but are also the most likely to generate significant income and create jobs. Most youth entrepreneurship programs are designed to serve this segment of youth entrepreneurs.

Each of these groups has specific financial and non-financial needs. Current youth entrepreneurship programs have three key issues. First, they tend to be overly focused on growth entrepreneurs, despite them representing a minority of entrepreneurs, often with existing access to resources. Second, they often fail to see entrepreneurship as a journey requiring continuous support; for instance, many programs provide initial seed funding to start a business, but not the follow-on investment required to grow the business past a certain stage. Finally, many entrepreneurship programs do not operate with a thorough understanding of market demand, thus supporting the creation of businesses that are difficult to sustain (for instance, there are only so many bakeries a district can support).

Tab. 7: Segmentation of youth entrepreneurs[113]

	A. Subsistence / livelihood entrepreneurs *(majority)*	B. Micro-entrepreneurs *(significant minority)*	C. Moderate growth entrepreneurs *(small minority)*	D. Break-out scale entrepreneurs *(small minority)*
Business description	• Self-employed/single person enterprise/gig worker • Minimum capital requirements • Low risk • Low productivity • No growth potential	• Very small informal enterprise (1–5 workers) • Moderate capital requirements • Higher risk • Limited growth and job creation potential	• SME using a proven business model • Moderate to high capital requirements • Moderate risk • Moderate growth and high job creation potential	• Early-stage business with high growth ambitions • High capital requirements • High risk • High growth and job creation potential
Typical youth profile	• Unskilled • "Necessity" entrepreneur • Device, data and network coverage to access gig platform (for gig workers)	• Vocational skills • "Necessity" entrepreneur, incl. minority with potential to become growth entrepreneurs	• Graduate • "Choice" entrepreneur	• Graduate • "Choice" entrepreneur
Needs	• Basic business plan and financial literacy training • Small initial investment • Access to markets	• Business management skills • Mentorship • Initial capital investment • Working capital • Access to markets • Aggregators	• Business management skills • Mentorship • Initial capital investment • Working capital	• Incubation and acceleration services • Initial capital investment • Working capital

[113] Adapted from Gugelev, *Creating jobs and sustainable livelihoods in a changing world*, 2018

What works?

The most effective financing solutions for youth entrepreneurs are the ones tailored to their specific needs.

a) Livelihood entrepreneurs

For unskilled youth, integrated solutions that offer financing, training and business planning are the most likely to succeed. For instance, the **graduation approach** combines financing, business planning, savings groups, financial literacy training and mentoring over an extended period and has demonstrated its effectiveness at helping participants start and sustain a subsistence activity (see Case Study 20 below). While the program is initially grant-funded, the savings groups set up as part of the graduation approach then become a source of additional capital for participants to grow their businesses. Eventually, if their business demonstrates its commercial viability and growth potential, entrepreneurs may be able to access formal lending from a microfinance institution or even a commercial bank.

Case Study #20

Village Enterprise: graduating out of poverty[114]

Year started: 1987

Location: Africa (Uganda, Kenya, Rwanda, DRC, Mozambique)

Scale: 214,000 entrepreneurs equipped and 58,000 businesses started (6,000 in 2021)

Budget: ~US$ 5 million (annual budget)

How it works:

- One-year model with participants grouped in training cohorts of ~30 people
- 3-month skills + financial literacy and business management training, followed by a first tranche of seed funding (US$ 120) and nine-month mentoring support
- As entrepreneurs start generating income, the cohort becomes a savings group and can extend loans to its members

Achievements:

- Randomized control trial found significant increases in consumption and assets
- Limitations: youth-focused programs have been harder to implement, partly because many rural youth aspire to move to urban areas and take up wage employment rather than start a subsistence business in their community

Micro-franchising models, which provide participants with seed funding, a ready-to-go business model and market links, thus virtually eliminating business risk for entrepreneurs, have also demonstrated their effectiveness (see Case Study 21 below). Some social enterprises follow a similar model by selling the inputs and services required to create a value-added product, and then buying that product back to sell to the market. For example, Chicken Basket in Kenya sells chicks, feeds and medication to women and youth, trains them on poultry management and provides them with veterinary services, and then buys back the chickens once they are mature and ready to be sold to its network of customers (e.g., butcheries and restaurants).

Case Study #21

InTouch's *10 000 Jambaars*: Micro-franchising as an entrepreneurship pathway[115]

Year started: 2020

Location: Senegal

Scale: 10,000 youth entrepreneurs

Budget: ~US$ 5 million (annual budget)

How it works:

- Partnership between InTouch (fintech) and Mastercard Foundation
- Participants receive a one-stop-shop platform to distribute digital financial services in their community (money transfers, mobile money deposits, bill payments, etc.), entrepreneurship training and business development support

b) Micro-entrepreneurs

More established micro-entrepreneurs primarily need small amounts of short-term working capital, occasional financing for business assets such as land or equipment, and financial products that enable investment in their businesses at low cost and are flexible enough to tolerate shocks (such as an illness or a drought). When these entrepreneurs have a track record of profitability and some existing assets to use as collateral, they can usually be serviced by microfinance institutions (MFIs). However, when they do not – for instance because they have only just started operating or have mostly been operating informally –, sources of capital are usually restricted to friends and family or informal lenders, which can charge very high interest

[114] Case study references: Village Enterprise, interview data
[115] Case study references: InTouch, interview data

rates. For micro-entrepreneurs served by microfinance institutions, interest rates can be high and evidence of impact on business growth is mixed.[116] Adjustments to the traditional microfinance model, such as the introduction of a grace period[117] or the use of digital solutions,[118] can make it more effective and efficient.

Returnable grants, such as the Revive Alliance model (Case Study 22 above) offer an interesting alternative by combining the complete flexibility of a grant with partial capital preservation: they only come with a moral obligation to repay once the grantee feels they are in a position to do so. **Direct cash transfers,** with or without an entrepreneurship focus, have also been shown to be effective at increasing investment in micro-businesses, if only temporarily (see Case Study 23 below). GiveDirectly, an online platform that lets donors send money directly to the world's poorest households, has collected significant evidence of the positive impact of cash transfers on income and assets.

Case Study #22

REVIVE Alliance: returnable grants for micro-entrepreneurs[119]

Year started: 2020

Location: India

Scale: 173,000 informal workers and entrepreneurs supported

Budget: US$ 20 million

How it works:

- Facility set up to help informal workers and entrepreneurs affected by COVID-19 maintain or restart an economic activity
- Returnable grants (at 0% interest) for workers and entrepreneurs, with only a moral obligation to repay + Pay for Performance grants for borrowers who successfully use and pay back the initial capital
- Additional non-financial support provided including skilling, access to social security schemes and business digitization

Case Study #23

Youth Opportunities Program: cash transfers for rural entrepreneurship[120]

Year started: 2006-2008

Location: Uganda

Scale: ~6,000 youth supported

Budget: ~US$ 2 million

How it works:

- One-time US$8,000 cash grants to small groups of 15–25 rural, poor youth (i.e., ~US$ 400/youth) that planned to set their members up as craftspersons
- Cash used to fund training, tools and materials, and startup costs
- No oversight or monitoring of funds use by the government

Achievements:

- 38% increase in earnings and 10% increase in consumption four years after the intervention
- Effects dissipated after nine years as investments leveled off

In the US and the UK, **Community Development Finance Institutions** (CDFIs) offer an interesting model to support micro-entrepreneurs. CDFIs are lenders that specifically seek to bring financial services to underserved communities. CDFIs typically offer low-interest rate loans,[121] financial education and business coaching to their clients, with a focus on supporting local economic growth and livelihoods. CDFIs can be either for-profit or nonprofit institutions, and come under different forms: community development banks (regulated, for-profit institutions with community representation on their boards), community development credit unions (regulated, nonprofit cooperatives owned by their members), community development loan funds (nonprofit institutions providing a specific type of loan, e.g., microenterprise loans), or community development venture capital funds (investment funds providing equity and mezzanine investments). There are more than 1,300 CDFIs in the US managing over US$222 billion, with 83% of CDFI clients classifying as low-income. To date, CDFIs have supported close to 700,000 businesses and 2.6 million jobs. The CDFI model requires a source of subsidized capital (government of philanthropic funds)

[116] IPA, *Evidence on Microcredit: Rethinking Financial Tools for the Poor*, accessed September 2022
[117] Field et al., *Does the Classic Microfinance Model Discourage Entrepreneurship Among the Poor? Evidence from India, 2013*
[118] CGAP, *Digitization in Microfinance*, October 2021
[119] Case study references: Samhita
[120] Case study reference: Blattman, Fiala and Martinez, *The Long-Term Impacts of Grants on Poverty: Nine-Year Evidence from Uganda's Youth Opportunities Program, 2020*
[121] Low-interest rates are a key difference between CDFIs and MFIs. Like CDFIs, MFIs focus on underserved populations, but usually charge relatively high interest rates to compensate for the high level of risk they take.

to function, however, this capital is leveraged to raise additional private sector investment: for example, CDFIs in the US raise an average of $8 in private sector investment for $1 in public funding.[122] In Africa, **Savings and Credit Co-Operatives (SACCOs)** are credit unions that play a similar role to CDFIs and provide a critical alternative to traditional banks for financing business assets and taking on small business loans.

Finally, for digitally literate micro-entrepreneurs, **crowdfunding platforms** with an impact lens (e.g., Kiva and Rang De) can offer low-cost loans by spreading the risks over a large pool of investors, and **fintech solutions** can support their business growth by facilitating access to working capital and supply-chain financing (e.g., Nomanini). These solutions are using technology to meet the needs of micro-entrepreneurs, for example by developing alternative risk assessment models and lowering the transaction costs of serving many small businesses. Some fintech companies are now specifically targeting informal businesses with supply-chain solutions and relying more on digital payments, online orders and sales rather than bank statements to assess creditworthiness (see Case Study 23 below).[123] A number of fintech are also providing asset-financing solutions that can help young people quickly start an income-generating activity with a proven business model. For example, Asaak, a Ugandan fintech company, extends loans to drivers of motorcycle taxis to enable them to buy their vehicle. The platform uses behavioral and financial data (e.g., earnings, trips made, platform ratings) to assess credit risk and has already financed the purchase of over 5,000 motorbikes.[124] In India, Jai Kisan enables smallholder farmers to borrow against the inputs and equipment they need to enhance their productivity. The company claims over 100,000 customers and has facilitated credit over US$220 million on an annualized basis.[125]

Case Study #24

TradeDepot: an online platform for informal retailers [126]

Year started: 2016

Location: Nigeria, Ghana, South Africa

Scale: Serves more than 100,000 merchants

How it works:

- B2B (business-to-business) marketplace that connects small shops, kiosks and retailers with wholesalers of global consumer brands that have access to food, beverages and personal care products
- Has its own warehouses and fleet of drivers to distribute products
- Provides a full range of services for informal retailers e.g., digital wallets, "buy now, pay later" (interest-free short-term loans), credit
- Does not provide cash advances – directly send the products to merchants

Achievements:

- Raised US$ 110 million in equity and debt from DFIs and private investors by the end of 2021
- Active across 12 cities in Nigeria, Ghana and South Africa off

c) Moderate growth entrepreneurs

Moderate growth entrepreneurs lead SMEs with a proven business model, seeking to grow through market expansion or incremental innovation. For this type of entrepreneurs, the solutions for increasing access to financing for dynamic enterprises discussed in the previous section are also relevant here. These solutions include SME-focused investment funds, development banks, incentives for financial institutions to better serve this customer segment, and fintech solutions that can reduce transaction costs and/or use alternative risk assessment tools (please see previous section for a full discussion of these products). To help financial institutions better serve youth entrepreneurs, FMO's Y Initiative has published a Compendium of Global Good Practices to provide practical guidance to help these institutions better understand and serve the youth market.

d) Break-out scale entrepreneurs

[122] Opportunity Finance Network
[123] ImpactAlpha, *Africa's biggest bank turns to fintech to extend lending to informal businesses*, February 2022
[124] TechCrunch, *Ugandan fintech Asaak raises $30 million to support acquisition of motorbikes, smartphones by taxi operators*, January 2022
[125] VCCircle, *Jai Kisan Snags $50 Mn In First Close Of Series B At $200-240 Mn Valn*, 29 July 2022
[126] Case study references: TradeDepot, TechCrunch, *TradeDepot raises $110M from IFC, Novastar to extend BNPL service to merchants across Africa*, 6 December 2021

Break-out scale entrepreneurs have significantly different needs than other entrepreneurs. Their initial capital requirements are higher, and if their business survives its early stages, it will quickly require follow-on capital to scale up. While many entrepreneurship programs offer seed funding (e.g., through a business plan competition, such as YouWin in Nigeria), few provide successful entrepreneurs with sources of additional funding, such as impact and commercial investors. Too many incubators and accelerator programs, in particular, fail to provide entrepreneurs with access to investment capital.[127]

The financing solutions for high-growth ventures described in the previous section also apply here. In addition, accelerator programs where access to investment capital is built in from the start and where investment decision-making is bottom-up rather than top-down, such as Village Capital's peer-selected investment approach (Case Study 25), are more effective at supporting entrepreneurs on their growth journey. Finally, tranched financing models offer an interesting approach to mitigate the credit risk of youth entrepreneurs. Under such models, funding is disbursed in several increments (tranches) upon the achievement of pre-agreed milestones. These milestones can be linked to specific business indicators (e.g., revenue growth) or the acquisition of new skills by the entrepreneur (e.g., completion of skilling program). This approach enables youth entrepreneurs to build a credit history and track record with the lending institution, building trust and unlocking additional funding over time.[128]

Case Study #25

Village Capital: incubating impactful businesses[129]

Year started: 2009

Location: Global

Scale: 1,100 entrepreneurs supported through 100 accelerator programs since 2009

How it works:

- Village Capital local teams select seed-stage, impact-driven entrepreneurs to participate in accelerator programs sponsored by partners (e.g., foundation, impact investors)
- Entrepreneurs are organized in cohorts of 10–12 who work alongside each other to develop their ideas
- Unique peer-selected, bottom-up investment approach that shifts decision-making power to entrepreneurs themselves: at the end of the program, entrepreneurs rank each other on 8 business success parameters, and the top two receive investment capital from the cohort's funding partner(s)

Achievements:

- Village Capital entrepreneurs raise 3X more capital, earn 2X more revenue and create over 40% more jobs than a control group

[127] Global Accelerator Learning Initiative, *Does Acceleration Work?*, May 2021
[128] World Bank, *Unlocking finance for youth entrepreneurs: Evidence from a Global Stocktaking*, 2020. Includes multiple case studies of tranched financing models.
[129] Case study reference: Village Capital, interview data

Tab. 8: Overview of financing solutions for increasing access to finance for youth entrepreneurs

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Savings and Credit Co-Operatives (SACCOs)	Regulated savings and lending platforms with membership drawn from similar groups (e.g., the youth, doctors, farmers, teachers, lawyers, etc.).	•Provide a bouquet of formal banking services at affordable rates •Enhance financial inclusion for groups underserved by traditional financial institutions	•Limited borrowing amounts •Highly leveraged as capital is often drawn from member deposits and external loans •Corporate governance relatively weak as independence is limited	●●	●●	●●	•UNAITAS (Kenya) •WeCan Youth SACCO (Kenya)
Seed funding (grants)	Grants are awarded to youth entrepreneurs to start/develop their business. Can be part of a "graduation approach" combining seed capital, training, mentorship and savings groups.	•No risk for entrepreneurs •Provides initial capital for proof of concept •Often combined with training and/or mentorship	•Access to follow-on financing is not guaranteed •Not financially self-sustaining	●	●●	●	•TEF Entrepreneurship Program (Africa) •Youth Empowerment Program Initiative (Kenya) •Village Enterprise/Mercy Corps DYNAMIC program (Uganda) •YouWin (Nigeria)
Development impact bonds (DIBs)	A DIB structure is used to fund a livelihoods or graduation program. If the project is successful, investors are repaid by the outcome funder (philanthropy or aid agencies). However, if the project fails, the investors do not receive anything.	•Mobilizes capital from philanthropic and impact investors •Drives focus on outcomes	•Complex legal structure •High M&E costs •Appropriate for livelihoods and micro-enterprises, not for larger ventures •Access to follow-on financing is not guaranteed	●	●●●	●	•Village Enterprise DIB (Kenya) •Refugee Impact Bond (Jordan)
Returnable grants	An entrepreneur receives a grant with a "moral" obligation to repay once the business is generating sufficient earnings.	•No risk for entrepreneurs •Helps businesses weather unexpected shocks •Returns can be reinvested in other businesses	•Requires ability to track businesses over time to encourage repayment •Unlikely to generate enough returns for long-term sustainability	●	●●	●●	•REVIVE (India)
Crowdfunding (debt)	Through an online platform, individuals can lend funds to borrowers to finance assets and build livelihoods.	•Enables borrowers to access affordable financing •Mobilizes capital from global pool of investors •Capital can be recycled into new ventures over time	•High risk for investors (selection process is led by platform and partners) •Appropriate for livelihoods and micro-enterprises, not for larger ventures • Business does not receive anything if funding goal is not attained as the funds pledged are returned to investors	●●●	●●	●●	•Rang De (India) •Kiva (global)
Microfinance	Provision of small business loans to individuals that do not have access to the traditional banking system.	•Enables borrowers to access affordable financing •Often combined with training and/or mentorship	•Lending rates can be high and can create a risk of over-indebtedness •Appropriate for livelihoods and micro-enterprises, not for larger ventures	●●●	●●	●●	•Uganda Youth Venture Capital Fund •Baobab (Africa)

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Cash transfers	Direct payments from a government, a development partner or an individual to an individual. Can be conditional (e.g., based on income, age, children) or unconditional (accessible to everyone).	•Increase household expenditure and consumption (reducing poverty) •Boost household productivity through investments in productive assets •Multiplier effect (supports economic growth) •Additional social benefits, e.g., increased access to health services, improved mental health, improved food and housing security	•Costly at scale •Eligibility verification process (for conditional transfers) •Corruption/theft •Reaching eligible population (including unbanked & low digital access groups)	●●●	●●	●	•PROGRESA/Oportunidades (Mexico) •Youth Opportunities Program (Uganda) •Give Directly (global)
Micro-franchising	A corporate provides a youth entrepreneur with a "ready-to-implement" business model along with training and/or financing to start the venture (these may be provided by other partners, e.g., government fund, nonprofit).	•Decreases risk by supporting proven business model •Aligns training and financing with business plan	•The youth are preselected to benefit from the program; it is not open to everyone •Growth path beyond micro-enterprise uncertain	●●	●●	●●	•Bizniz in a Box (Coca-Cola, South Africa) •10,000 Jambaars (Senegal) •Fan Milk (Ghana) •Jibu (Africa) •Grameen Village Phone Program (Bangladesh)
Digital lending (fintech)	A company uses technology to reduce risks and/or transaction costs to increase access to finance for youth entrepreneurs, either through direct lending or by working with traditional financial institutions.	•Alternative risk assessment models can enable the youth to access financing •Tech-based models can be easier to scale	•Lending rates can be high and can create a risk of over-indebtedness •AI-powered algorithms can be discriminatory •Users need to be digitally literate and have access to tech infrastructure/data	●●●	●●	●●	•Carbon (Nigeria) •Tala (Kenya) •Micredi (Colombia)
Tranched financing	A financial institution disburses a loan to a youth entrepreneur in several increments (tranches) upon the achievement of pre-agreed milestones.	•Mitigates the risk for the lender •Enables youth entrepreneurs to build a credit history and business track record	•More appropriate for larger/high-growth ventures •Not accessible to unbanked youth •More complex to manage than a standard business loan	●●	●●●	●●●	•Startuperi/TBC Bank (Georgia)

3. INCREASING ACCESS TO BUSINESS DEVELOPMENT SERVICES AND MENTORSHIP

The challenge

Business development services, which cover a range of services include training, mentoring, networking and provision of support functions (e.g., legal, communications, accounting) can play a critical role in helping early-stage companies grow. However, sustainable financing models for such services in emerging economies are difficult to find. As youth entrepreneurs and SMEs typically cannot afford the costs these services, business development programs are usually grant- or government-funded. Common issues include:

- **Disconnection from market dynamics:** support is provided to businesses without consideration of market demand
- **Funding provided for activities, not outcomes:** programs are funded without clear evidence of their ultimate impact on business growth and job creation
- **No "skin in the game":** entrepreneurs do not always see the value of "free" services
- **Limited in scale:** in-person support is costly and hard to deliver on a large scale

What works?

Alternative financing models can address some of these issues. For instance, corporate sponsorship for incubators and accelerator programs can ensure critical market links for participating businesses while helping large corporates build out local supply chains and seed innovation. Such programs are highly customized to the interests of the sponsoring corporates and operate at a small scale.[130]

Results-based financing models, such as DIBs, can create incentives around outcomes for service providers with similar limitations to the ones laid out in the previous chapter for skilling programs. Revenue-share agreements are not, however, an effective way to attract businesses to pay for these services, unlike income-share agreements for skilling programs. Because most start-ups fail in any context and would not generate enough revenue to cover the costs of the program, accelerator programs structured around a revenue-share model require significant scale to be sustainable. However, the quality of services provided usually decreases with cohort size. Revenue tracking over time is also an issue. Cost-sharing, where participants partially pay for the costs of the program, may be a more promising approach: it creates an incentive for participants to seek out quality programs and incentivizes providers to offer "value for money".

Case Study #26

Google for Startups Accelerator – Africa: a corporate accelerator for African tech startups[131]

Location: Africa

How it works:

- 3-month virtual accelerator program for high-potential seed to Series A tech startups based in Africa
- Provides mentorship, technical project support, workshops focused on product design, customer acquisition, and leadership development for founders, specialized training, media opportunities and access to Google's network of engineers and experts
- Equity-free support for the duration of the program
- Similar Google Accelerator programs exist for Southeast Asia, India, Brazil and the MENA region than a control group

Achievements:

- Over 90 African startups supported

Finally, grants and/or government funding may be used to create a catalytic impact on the provision of business development services. For example, online delivery models can be a cost-effective way to reach scale, although their audience will necessarily be limited to digitally literate entrepreneurs. The initial development of such online assets can be financed through grants and/or government funding.

Another interesting use of traditional grant funding is capacity-building for the whole ecosystem of providers of business development services. These intermediaries play a critical role in supporting entrepreneurs: improving the quality of their services can have positive ripple effects on all of the businesses that they support; in addition, this is a long-lasting improvement that will

[130] Applico, *All About Corporate Accelerators*, accessed 2022
[131] Case study reference: Google for Startups

continue delivering results long after the initial grant funding has expired. Case Study 28 is an example of such a use of grant funding.

Case Study #27

MSME Academy: Online business development services for African MSMEs[132]

Year started: 2020

Location: Africa

How it works:

- Funded by AUDA-NEPAD (African Union Development Agency) as part of their "100K MSMEs" initiative, in partnership with Ecobank
- Online platform combining training programs on range of topics relevant to MSME business development, e.g., business plan development, digital transformation, informational webinars and mentorship for MSMEs
- Mix of country-specific and pan-African content, with resources available in English and French
- Will connect with the two other pillars of the "100K MSMEs" initiative: the MSME Marketplace, which will connect MSMEs to opportunities to sell their products and services, and the MSME Financing Facility, which will connect MSMEs to financing opportunities

Case Study #28

Uganda Ecosystem Builders: Building an entrepreneurship support ecosystem[133]

Year implemented: 2019

Location: Uganda

How it works:

- "Accelerator of accelerators" program to develop entrepreneurship support organizations (ESOs) in Uganda, funded by Argidius Foundation and implemented by Village Capital
- Program included an in-depth diagnosis to assess ESOs against industry standards, support to develop a performance plan for critical business areas and opportunity to pitch for grant funding to implement the plan, best practice sessions on critical business areas, and 1:1 business advisory support from experienced mentors
- Worked with a cohort of 13 ESOs, six of which received additional grant funding to implement their performance plan

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[132] Case study references: AUDA-NEPAD, interview data
[133] Case study reference: Village Capital, Uganda Ecosystem Builders 2020

Tab. 9: Overview of financing solutions for increasing access to business development services

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Grant-funded programs	Costs of business development services are partly or fully covered by grants.	•No or low cost for entrepreneurs and businesses •Any profit can be reinvested into the business rather than used to pay back for services •Online delivery models can enable scale	•Not financially self-sustaining •Services might be undervalued by entrepreneurs and businesses if they can access them at no cost •Sometimes disconnected from market needs	●●	●●	●	•Oxfam-EDC Impact SME Development (Nigeria, Somalia, Uganda and Vietnam) •STRYDE (East Africa)
Government-funded programs	Costs of business development services are partly or fully covered by government funding.	•No or low cost for entrepreneurs and businesses •Any profit can be reinvested into the business rather than used to pay back for services	•Services might be undervalued by entrepreneurs and businesses if they can access them at no cost •Sometimes disconnected from market needs	●●●	●●	●●	•Kenya Youth Employment & Opportunities Project (KYEOP) •NYDA Business Management Training (South Africa)
Corporate-funded programs	A corporate entity runs an incubator/accelerator program aligned with its own business priorities.	•No or low cost for entrepreneurs and businesses •Access to relevant corporate expertise •Direct link to market	•Very selective and small scale •Tailored for high-growth startups, not livelihood/micro entrepreneurs	●	●●●	●●●	•Google for Startups Accelerator (global)
Revenue-share agreements	Entrepreneurs agree to pay back BDS providers (incubators/accelerators) through a share of their business revenue.	•Incentivizes BDS providers to focus on outcomes •Does not dilute founder ownership and removes pressure to exit	•High risk for BDS providers •Requires strong pipeline of high-growth businesses for long-term sustainability •Ability to track revenue and collect earnings •Can prevent early-stage businesses from reinvesting revenue (not suited for high CAPEX industries) •Can be negatively perceived by investors •Needs to be done at scale to be financially sustainable	●	●●	●●	•ADA Microfinance YES Initiative (Africa, Central America) •Viwala (Mexico)

4. CREATING MARKET LINKS AND DEVELOPING VALUE CHAINS

The challenge

In addition to financing and skills, a growing business also needs to be connected to a market. Entrepreneurs and small businesses need to develop a thorough understanding of market dynamics (demand and existing supply) and local value chains, and to build connections with a large enough pool of customers and, if appropriate, suppliers (e.g., of raw materials). Unfortunately, grant- and government-funded youth entrepreneurship programs, incubators and accelerators are too often disconnected from market needs, which leads them to support businesses that are unlikely to succeed in the long run.

What works?

Creating market links and developing value chains typically require more than financing, for instance, policy interventions might be necessary to foster the growth of a particular sector of the economy, or market data and intelligence need to be made more readily available to aspiring entrepreneurs to help them tailor their business plans to market demand. Nevertheless, two financing models are worth calling out here. Shared value programs are designed with a company, or a set of companies with similar needs, that has a direct business interest in the development of its upward (suppliers) or downward (customers) value chain. For instance, a bank might fund a youth entrepreneurship program through grants and low-interest loans with the goal of growing its business customer base down the line, or an automotive company might offer skilling and seed funding for auto part retailers that will be able to distribute its products. Case Study 29 below offers an example of a successful shared value program in Kenya.

Case Study #29

2jiariri: A large-scale shared value program in Kenya[134]

Year started: 2016

Location: Kenya

Scale: aims to create 1 million direct and 500, 000 indirect jobs for the 2019-2024 period

Budget: US$100 million for the 2019-2024 period

How it works:

- Initiated with KCB Bank as a CSR initiative to support youth employment and drive future business growth, with additional funding received from donors (including Mastercard Foundation).
- Holistic "ecosystem" approach to youth entrepreneurship: selected participants start with a 3-6 month training course, of which a subset then receives a zero-interest loan and business development support to establish a business. The most promising businesses are then granted a market-rate loan by the bank. Proceeds from these loans can be reinvested into the program, enhancing its sustainability.
- The three-stage approach mitigates the bank's credit risk, as loans are granted to youth entrepreneurs that they have known and supported for some time.

Cluster initiatives are another interesting model. Usually government-driven, cluster initiatives combine financial investments and policy interventions (e.g., free-trade zones) to build out or strengthen a whole industry in a given geographic location. Industry clusters are mutually reinforcing: agglomerating companies from the same sector enables them to share supporting services and infrastructure, to attract skilled workers, and to learn from one another through their close proximity.[135] These initiatives can be very effective to develop an entire economic sector in a community, supporting the growth of multiple businesses and ancillary services as well as the skilling ecosystem to train their workforce. However, cluster initiatives can be difficult to execute well, as they require significant, long-term investments and work best when they are driven by the private sector (i.e., investments support a small pre-existing cluster, rather than attempt to build an entire industry from scratch).[136]

[134] Case study references: KCB Group, interview data
[135] Brookings, *Rethinking Cluster Initiatives*, July 2018
[136] Center for Strategy and Competitiveness, *Cluster Initiatives in Developing and Transition Economies*, 2006

Tab. 10: Overview of financing solutions for creating market links and developing value chains

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Responsible investments	Investments in projects or companies that embed social and environmental principles and objectives (e.g., youth employment goals).	•Potential to be transformative at scale •Can be part of a risk management strategy for the investor •Returns on investment can be reinvested into new projects	•Limited enforcement mechanisms •Limited ability to target specific subgroups of youth	●●●	●●	●●●	•Invest for Jobs (Africa)
Shared value programs	A program combines training provision, access to finance and market links to insert the youth into the supply chains of pre-identified industries.	•Combines skills, access to finance and links for successful insertion into a supply chain	•Requires strong partnerships and relationship management to be successful •Scale dependent on market demand	●●	●●●	●●	•2jiajiri (Kenya)
Cluster initiatives	A donor or government invests in targeted sectors to build a local cluster of interconnected businesses that can connect to global markets.	•Builds up self-reinforcing business ecosystem •Supports emergence of local specialized businesses •Deepens labor markets •Encourages cross-firm learnings and cooperation	•Requires strong government capacity and long-term political commitment •Sustainability risk for donor-led initiatives disconnected from government •Risk of choosing and subsidizing clusters rather than supporting emerging industries •Minimal control over end beneficiaries	●●	●●	●●●	•Transformando Campeche (Mexico) •Arranjos Produtivos Locais (Brazil) •Tanzania Cluster Initiative Project •Suame Manufacturing Cluster (Ghana) •SIDBI Cluster Development Initiative (India)

FINANCING JOBS & ENTREPRENEURSHIP: RECOMMENDATIONS

1. DEVELOP & INVEST IN LARGE-SCALE LIVELIHOODS FUNDS ADAPTED TO THE NEEDS OF YOUTH ENTREPRENEURS

FINANCING RECOMMENDATIONS

Stakeholders	Recommendations
Governments	• Structure and finance "mass entrepreneurship funds" that can meet the differentiated needs of youth entrepreneurs (large numbers of entrepreneurs, small investment size, limited or no collateral, limited financial history, limited business skills and experience).
Funders (excl. governments)	• Start by providing grants and seed funding for subsistence entrepreneurs, then provide follow-on capital for successful ventures with a growth potential (without this follow-on capital, promising businesses might stall or fail), effectively creating a "conveyor belt" that de-risks entrepreneurs as their businesses grow.

BEYOND FINANCE

Stakeholders	Recommendations
Service providers	• Build partnerships with financial institutions to provide youth entrepreneurs with growth pathways beyond the program, and invest in robust data systems that youth entrepreneurs can use to demonstrate credit history and financial viability and attract future investment.

2. INVEST IN YOUTH-EMPLOYING SMES THROUGH SPECIALIZED IMPACT FUNDS

FINANCING RECOMMENDATIONS

Stakeholders	Recommendations
Funders (excl. governments)	• Invest in impact funds to direct concessional financing towards youth-employing SMEs (in labor-intensive sectors, with business models that rely on large numbers of lower-skilled and/or entry-level workers).

BEYOND FINANCE

Stakeholders	Recommendations
Governments	• Financial sector regulators should consider regulatory reforms that could encourage SME lending, such as reducing the amount of capital required to be held by banks for their SME exposures, or facilitating access to non-bank SME financing (e.g., leasing, factoring, supply chain financing).
Corporates	• Industry associations in sectors that employ a large number of youths can collect and share data on the impact they are having on youth employment; and use this data to approach impact investors and advocate for better access to finance through financial institutions (working with funders and governments to overcome obstacles).
Financial institutions	• Analyze past data to estimate added risk and costs of lending to SMEs and then seek partners willing to cover these costs.

3. DEVELOP PARTNERSHIPS AND ONLINE DELIVERY MODELS TO INCREASE ACCESS TO BUSINESS DEVELOPMENT SERVICES

FINANCING RECOMMENDATIONS	
Stakeholders	**Recommendations**
Governments	• Use grant funding and catalytic capital to facilitate the development of online business development resources that can be accessed by entrepreneurs at scale, and/or to improve the overall quality of business development services (ecosystem approach).
Funders (excl. governments)	• Seek out partnerships with business development services providers when setting up and/or investing into entrepreneurship funds.
Service providers	• Seek out financing partners with aligned incentives (e.g., industry associations, large corporates in the supply chain and/or customer base of supported businesses, financial institutions and/or investors funding supported businesses). • Develop cost-sharing models that require supported businesses to pay for part of the services provided.

BEYOND FINANCE	
Stakeholders	**Recommendations**
Service providers	• Collect and analyze data on supported businesses to demonstrate the value of the services provided
Financial institutions	• Consider partnering with business development services providers to support corporate clients and entrepreneurs, as a way to improve loan repayment rates and drive further investment into successful businesses

FINANCING JOBS & ENTREPRENEURSHIP: PROMISING PRODUCTS

PRODUCT #6: LIVELIHOODS FUND

The challenge

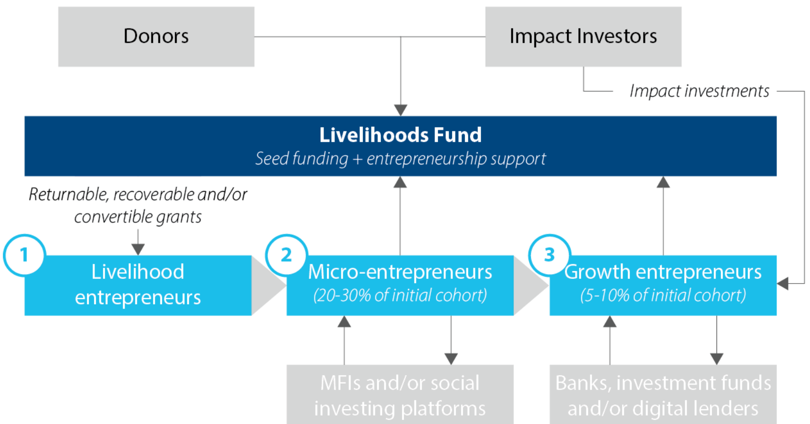
Livelihood entrepreneurs struggle to access financing. Impact and commercial investors struggle to find viable businesses to invest into.

The solution

A revolving fund to support livelihood entrepreneurs and build a pipeline of investment opportunities for existing investors.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●●	●●●	●●	●●

Structure



Design parameters

Scale: 2,500-10,000 youth entrepreneurs supported (dependent on fund size)

Initial capital requirement: minimum US$5-10m

Type of capital: grant funding (with opportunity for follow-on impact investments)

Design features:

- A revolving fund providing returnable, recoverable and/or convertible grants to young livelihood entrepreneurs (stage 1)
- Fund provides $500-$1,000 grant + access to online entrepreneurship support services, mentorship and peer network (provided by the fund and/or specialized partners)
- Youth-focused NGOs/CSOs (e.g., youth hubs) can support youth outreach
- Online platform enables entrepreneurs to build financial history and business track record
- 20%-30% of livelihood entrepreneurs will grow sufficiently to receive loans from microfinance institutions and/or social investing platform (stage 2)
- Of these, some will grow even further and raise commercial funding from banks, investment funds and/or digital lenders (stage 3)
- Entrepreneurs that fail to establish a successful business can still leverage their newly acquired skills and track record to secure employment
- Entrepreneurs that reach stages 2 and 3 repay their initial grant into the fund
- These returns are reinvested into a new cohort of livelihood entrepreneurs

Potential permutations:

- Initial grant can be provided in tranches conditioned on the achievement of specific business milestones reported through the online platform (e.g., completing entrepreneurship course, reaching a set income threshold, etc.)
- Partnerships can be developed with stage 2 and stage 3 funders (MFIs, banks, lending platforms, etc.) to facilitate entrepreneurs' access to follow-on capital

• In addition to grant funding for the fund, impact investors can also provide concessional financing to entrepreneurs that reach stage 3 (growth entrepreneurs) **Inclusion considerations:** • Requirement to include a minimum % of youth from specific groups in the initial cohort, e.g., young women, youth with disabilities, migrant youth and other marginalized groups • Provide customized entrepreneurship support to youth from these specific groups	
Key success factors	
• Strong partnerships with local organizations that have existing connections to aspiring entrepreneurs and resources to manage grants/investments • Strong partnerships with providers of business development services and entrepreneurship support programs (level of effort aligned to stages and type of entrepreneur) • Provision of wrap-around services for youth entrepreneurs (mentoring and peer networks) • Supportive regulatory framework for entrepreneurship (e.g., straightforward business registration process and taxation policies) • Large business mentor network; with sector groups for mentors focused on funding businesses • Business enabler tools, e.g., "business in a box", franchising, market aggregation platforms • Use technology to create economies of scale and reduce costs	
Value proposition	
• De-risking of entrepreneurs over time unlocks broader access to financial services • Partnership approach leveraging teams and networks of existing financial institutions	
Expected impact	
• Thousands of youth accessing sustainable self-employment opportunities • Hundreds of youth supported in going further on their entrepreneurship journey, with the potential of hiring hundreds of other young people as their businesses grow	

PRODUCT #7: YOUTH IMPACT FUND

The challenge

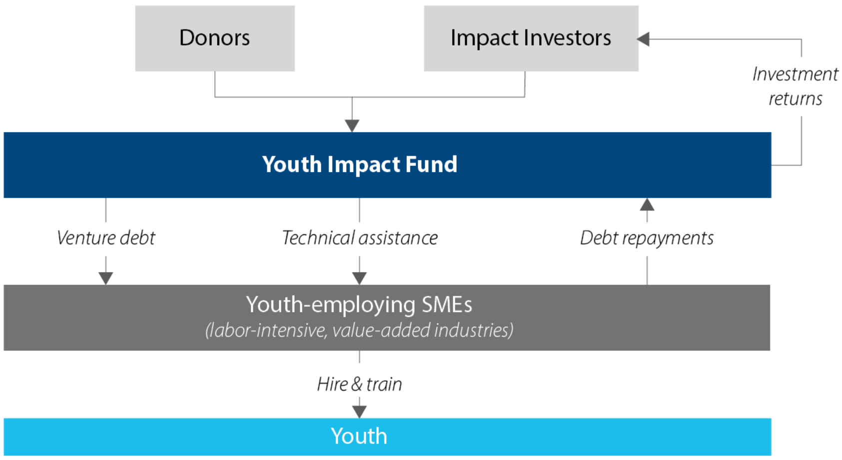
SMEs in labor-intensive, value-added industries that can hire youth lack access to capital to fund their growth.

The solution

A blended impact fund investing in SMEs with high potential for youth job creation and youth-friendly business practices.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●	●●●	●●●	●●●

Structure



Design parameters

Scale: 50-100 businesses supported over fund lifecycle

Initial capital requirement: US$10-15m (ticket sizes US$75K-250K)

Type of capital: grant funding + debt

Design features:

- Unsecured loans (venture debt) in high-growth SMEs in sectors likely to employ youth (i.e., **labor-intensive, value-added industries** – specific sectors will differ by country, but may include agriculture, construction, manufacturing and hospitality & tourism)
- Investments must finance business growth (e.g., capex investments instead of working capital/operating expenditures)
- Small ticket sizes to match SME needs
- Patient capital (5-10 year investment horizon)
- Technical assistance (grants) provided to support business growth and formalization, as well as implement youth-friendly business practices (e.g., youth-friendly hiring and training practices)
- To ensure commitment to implementation, businesses will need to apply to the fund for technical assistance and cover a small proportion of the cost from their own funds

Potential permutations:

- Loans can be structured as revenue-share instruments, with debt repayments structured as a % of the company's monthly revenue over a predetermined threshold – this gives SMEs the flexibility to adjust repayments to their own cash flow
- Fund can be set up as a venture capital (equity) fund as well, though SME owners may be wary of equity dilution
- Partnerships with financial institutions (banks) can be set up to attract additional market-rate investments over time

Inclusion considerations:

- Sector focus could target sectors more likely to hire young women (e.g., hospitality, healthcare)
- Fund manager bonus for jobs created going to youth from specific groups
- Technical assistance funds can be used to help investee businesses adopt more inclusive hiring practices

Key success factors
• Experienced fund manager with solid on-the-ground presence to build pipeline and manage investment portfolio; incentive fee to increase impact focus • Clear selection criteria (sectors, value chain positioning, youth employment potential) for investments • Grant funding to provide technical assistance on youth-related practices to portfolio businesses (hiring, working conditions, professional development) • Small ticket sizes to best meet the needs of SMEs
Value proposition
• Impact fund focused on supporting youth employment creators • Financing adapted to the needs of SMEs • Fund management fees kept low through use of local investment and portfolio management teams
Expected impact
• Creation of 5,000-10,000 youth jobs over fund lifecycle (direct and indirect employment)
Inspiring example
• **West Africa Bright Future Fund** – US$21.8 million impact-first investment fund investing in SMEs and small-scale entrepreneurs through MFIs, focusing on sectors most impactful for women and youth (agriculture, clean energy and waste management)

PRODUCT #8: PROJECT FINANCE FOR YOUTH EMPLOYMENT

The challenge

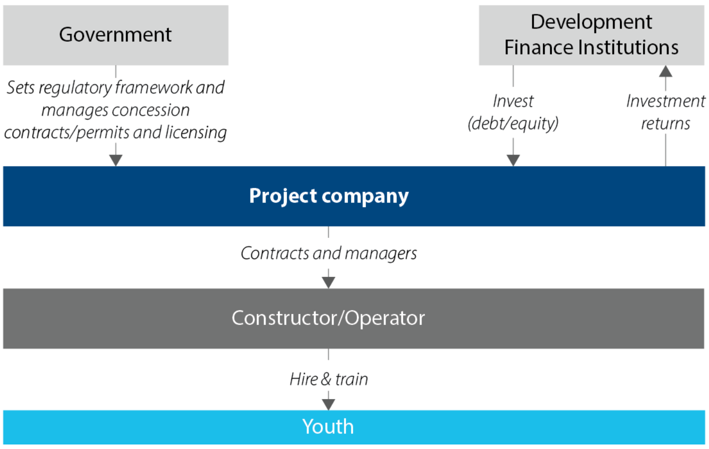
Large project finance investments do not necessarily lead to increased youth employment.

The solution

Project financing tied to local youth job creation outcomes.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●●	●●●	●●●	●

Structure



Design parameters

Scale: 1,000-10,000+ youth (dependent on project financed)

Initial capital requirement: US$5-50+m (dependent on project financed)

Type of capital: impact investing (debt/equity)

Design features:

- Can be used to finance large labor-intensive projects (e.g., infrastructure, manufacturing, construction)
- Concessional investments (debt and/or equity) are conditioned to the allocation of a minimum share of jobs created by the project to local youth, with the provision of relevant training (both work-based and classroom-based)
- Project implementation will require coordination with skilling providers to ensure local youth have the minimum skills required to be hired and succeed in these jobs

Potential permutations:

- Additional financial incentives can be created to incentivize the project to overperform on its youth employment targets (e.g., tax rebates, lower interest rates)

Inclusion considerations:

- Project company can be required to hire a minimum % of youth from specific groups, e.g., young women, youth with disabilities, migrant youth and other marginalized groups
- Additional incentives can also be created to reward employment of these specific groups (e.g., impact kickers)

Key success factors

- Government partnership is critical to reach scale and provide sufficient incentives to project developers (e.g., tax incentives)
- Partnerships with skilling providers to ensure there are enough local youth, with the appropriate skills, to meet the project's hiring needs (or project quality/delivery risks to be compromised)
- Attractive working conditions for local youth, including professional development opportunities
- Verification and enforcement mechanism, with penalties for projects failing to meet hiring and training requirements

Value proposition
• Maximize the value of large investment projects by increasing their impact on youth employment
Expected impact
• Thousands of youth with additional training and work experience, which can be transferred to local businesses at the end of the projects

INTERVENTION #3: FINANCING CONNECTIONS

WHAT IS THE ISSUE?

In certain contexts, the youth may have the required skills for employment, and the economy is creating enough jobs to absorb them. Yet, youth unemployment persists because young workers and employers cannot seem to find each other: there is a skills-to-jobs matching issue. While this "connection gap" often presents itself in addition to a skills gap or jobs gap, it is distinct and calls for different solutions, including on the financing side.

There are five common matching issues that need to be addressed:

a) Information barriers make finding out about employment opportunities difficult and costly

Most job search platforms are designed for formal, white-collar job opportunities that do not match the skills' profiles of majority of youth jobseekers. Many employment opportunities, especially in the informal sector, are not publicly advertised and rely instead on word-of-mouth or family connections to find workers. The youth may have to travel in person to specific locations (e.g., public employment agency, local job fair) to hear about opportunities, which may be time-consuming and costly. Such information barriers make youth jobseekers less likely to find suitable positions, even if they have the required skills. On the employer side, most MSMEs do not have HR teams that can actively seek out and evaluate job-seekers and rely instead on their existing networks, which youth may not have access to.

b) Youth jobseekers do not know how to apply for employment opportunities effectively

The youth may lack guidance on how to conduct their job search. For instance, they may not know where to focus their efforts to maximize their chances of success and waste time applying to positions for which they are not qualified. They may also not know how to communicate their skills and experience to potential employers. This is a common issue for the youth who, by definition, have a shorter work history than other workers. Job search assistance programs, job preparedness training and mentorship can all help the youth search for work more effectively, but these programs need to be funded by a third party and the quality of these programs varies widely. This is especially true for youth that do not have large personal networks. Furthermore, there are hundreds of thousands of MSMEs in any location or region, making the labor market so fragmented that youth find it difficult to navigate opportunities and choose where to apply. MSMEs mostly do not advertise for their positions and often end up hiring people they know and remain chronically understaffed. In addition, outside of some higher-end listings, job board information is notoriously not up to date, especially for entry level jobs. Finally, there may be risks associated with job-searching, for example, unscrupulous third parties can sometimes entice youth or their families to pay to be introduced to a non-existent job opportunity and interview.

c) Employers are unwilling to hire young jobseekers

For an employer, hiring for any position is an investment: it comes with a cost of the time and activities required to hire and onboard the new worker, and a risk that the employee will not work out and will need to be replaced before these hiring costs have been offset. Because of their shorter work history, youth jobseekers are often seen as more "costly" investments: employers assume that they will require more guidance and training and that there is a higher chance that they will not perform. They may prefer leaving a position unfilled rather than taking that risk. Furthermore, most employers are micro and small businesses that do not have HR teams, nor strong outreach and on-boarding processes, and are therefore less willing to take the risk of hiring youth that may need extra support compared to more seasoned workers.

d) The costs of hiring formally are too high

Workers that are formally employed experience more adequate labor and social protection as well as faster career progression and earnings growth. [137] However, employing workers formally comes with both an administrative cost (contract management, reporting to tax authorities, etc.) and a financial cost (employer and employee taxes, additional benefits such as health insurance and paid leave, etc.). This extra cost can be a deterrent for the employer, which may resort to employing workers informally or may reduce the salary of the employee to cover for those costs. If the latter, workers may prefer taking up an informal job rather than a lower-paid formal one, even if the informal position offers limited opportunities for professional development.

e) Available jobs are not attractive for young job-seekers

Finally, young job-seekers may not be willing to take up the jobs available on the labor market. This may be due to low pay, poor working conditions, limited career advancement opportunities, misconceptions about the nature of the work or cultural barriers related to certain professions (e.g., some industries may be perceived as inappropriate for young women or men).

These issues are not mutually exhaustive and call for three broad categories of solutions:

1. **Connecting young job-seekers to employers** through matching platforms and/or services;
2. **Increasing access to effective job-seeking support services** for young people;
3. **Incentivizing employers to hire youth**; and
4. **Decreasing the costs of formal and dignified jobs**.

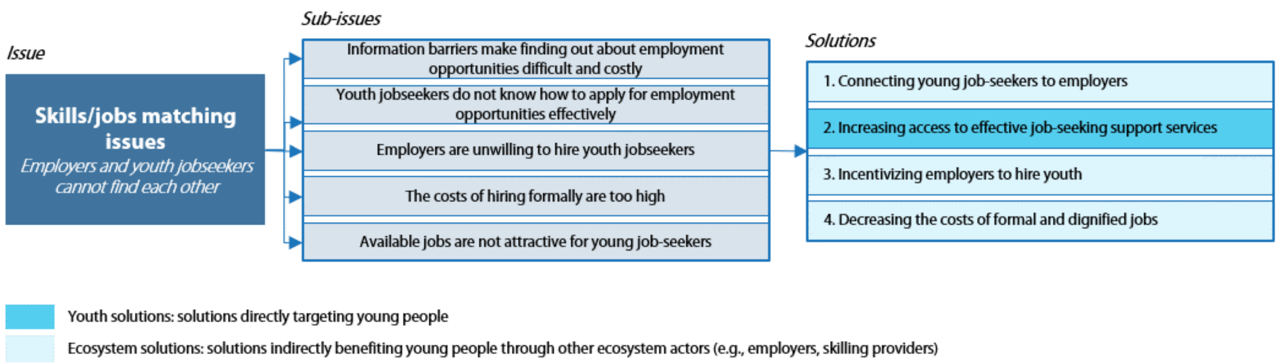


Fig. 9: Skills/jobs matching issues and solutions

HOW FINANCE CAN HELP

Financing products can help address these issues in different ways. For instance, they can be used to **bring down the costs of searching for work** by funding public goods, such as youth-focused job platforms or job fairs, that increase jobseekers' access to information about available work opportunities. Other products, such as transport subsidies, can help cover the costs associated with job searching. Financing models can also be used to **identify and increase funding available for effective job search assistance programs**. As for skilling programs, results-based financing models can be used reward the most effective service providers based on their placement rates rather than on the delivery of program activities. They may also help generate new funding streams for these programs.

Financing mechanisms such as youth wage subsidies, hiring bonuses and impact-linked loans can incentivize employers to hire youth jobseekers by **compensating for the extra costs associated with hiring and training young workers** (as compared to more experienced workers), and **offering dignified working conditions**.

[137] ILO, *Transition from the Informal to the Formal Economy – Theory of Change*, February 2021

Subsidies and impact-linked loans can also be used to **reduce the costs of hiring young people formally**, for instance by covering the extra costs associated with formalization for the employer (e.g., government covering health insurance costs), or by providing workers with a temporary salary "top-up" to cover the wage differential between formal and informal jobs.

INCLUSION CONSIDERATIONS

Accessing adequate information about existing job opportunities can be more difficult for youth from specific groups, such as young women, youth with disabilities, young people without a secondary education certificate, and young people from other marginalized groups, as these groups tend to have less social capital and a smaller professional network. Financing can be used to lower barriers to access for young people from these groups. For example, funders and/or investors into a job-matching platform can combine investment capital with technical assistance funds to ensure that the platform is designed to meet the needs of young people with disabilities. And as for skilling programs, results-based financing models can introduce higher financial incentives for providers of job search assistance services (including mentorship) to serve young people that are least likely to benefit from support from their immediate family and peer network, such as migrant youth.

BEYOND FINANCE

While financing products offer helpful avenues to address matching issues in the labor market, they need to be complemented by other elements, including the following:

- **Physical and digital infrastructure** that can support job search activities (e.g., transport infrastructure, mobile networks, internet access points, job search centers, etc.)
- **Reliable public services** for jobseekers, such as public transportation or libraries
- **Robust government capacity** to develop and execute subsidy schemes (for employers and/or jobseekers)

FIG. 10: FINANCING CONNECTIONS: PRODUCT MAPPING

FINANCING CONNECTIONS
Programs & products to match supply & demand

Impact sought	*Financing solutions*	
1. Connecting young jobseekers to employers	Grants	Commercial investments
	Impact investments	
2. Increasing access to job search assistance programs	Grants	
	Social Impact Bonds (SIBs)	
3. Incentivizing employers to hire youth	Youth wage subsidies	
	Impact-linked loans	
4. Decreasing the costs of formal and dignified work	Youth wage subsidies	Formal work incentives
	Impact-linked loans	

Definitions of these financing solutions can be found in the Annex.

FINANCING CONNECTIONS: WHAT WORKS?

Figure 10 summarizes the range of existing financing products and models that can be used to finance connections (i.e., match employers and youth jobseekers). The following section reviews and assesses the most scalable, effective and sustainable of these financing models for each of the three impact areas identified above.

1. CONNECTING YOUNG JOB-SEEKERS TO EMPLOYERS

The challenge

Searching for jobs comes at a cost, requiring jobseekers to gather information about available positions, taking the time to apply (sometimes in person), and traveling to interviews. Online job platforms can significantly reduce the costs of searching for work by centralizing information about existing job opportunities and employer requirements. They also help jobseekers build accurate expectations about working conditions (including compensation) in a given sector or location, and they improve the effectiveness of the job searching process by recommending appropriate opportunities to workers based on their skills (and conversely, recommending appropriate applicants to employers based on their stated needs). Most importantly, once past their initial development stage, job platforms can quickly scale up and impact thousands of jobseekers. While in developed economies, the availability of such platforms may be taken as a given, it is not always the case in developing economies, especially where large segments of the economy operate informally. In the absence of an effective job platform, job searching becomes a costly, inefficient process for both employers and workers.

One of the main challenges of developing such platforms in developing economies is that private job platforms rely on advertising and membership fees from employers and/or jobseekers to cover their operating costs. This drives them to focus on attracting experienced, urban professionals with higher education credentials and listing formal, white-collar job opportunities. Informal work experience or qualifications are typically not recognized on these platforms. These features are leaving out an enormous part of the labor market and are not adapted to the needs of most youth jobseekers. Furthermore, using these platforms requires access to digital tools (e.g., smartphone) and data which many youths do not have. Youth may not feel comfortable navigating these platforms, or may find it a waste of their time if they believe that they are not qualified for the jobs advertised.

On the employer side, most MSMEs do not have HR teams that would be able to systematically publish and update opportunities on job-search platforms, or process the thousands of applications that may arise from these platforms. Incentivizing these employers to use such platforms is therefore another significant challenge.

What works?

Digital job platforms have the potential to connect the youth to economic opportunities at scale – if they are designed to meet their needs. This means developing platforms focused on entry- and mid-level positions, that can capture openings in the informal sector, include alternative ways to assess skills (e.g., through online tests or through recognition of previous work experience), require minimal literacy from users and would be free to use. The principal obstacle to the emergence of such platforms is their initial development cost. Few companies can afford the risk of building a product that may not end up profitable. Job matching also requires extensive connections with local employers (to encourage use of the platform), which implies significant on-the-ground resources in addition to the development of a digital tool. Not only is the connection to a large number of fragmented employers challenging, but keeping the platform up to date is difficult. Finally, getting youth to use the platform consistently over time is also often a challenge.

Google's Kormo Jobs (Case Study 30 below) offered a promising model, reaching over 4.5 million jobseekers across three countries in the span of four years, but was discontinued in 2022 following the likely failure to establish a sustainable business model.[138] Similarly, in Kenya, Lynk was launched in 2015 as an online platform connecting skilled workers from the informal sector to individuals or companies in need of their services. Lynk facilitated over 150,000 transactions, with over 2,000 workers joining the platform, but ultimately could not find a successful business model and was acquired by another company in 2022.[139]

Grant-based products and impact investments can help remove some of these obstacles by providing the catalytic capital necessary to cover the initial development costs of the platform. Once a platform has reached a critical mass of users, it may then be able to evolve towards financial sustainability (e.g., by charging employers for premium recruitment services or using advertisements), or it may need to rely further on philanthropic or government funding to cover maintenance costs. The use of grant funding or impact investing capital should be tied to a requirement that the platform be built as an open source project to enable low-cost replication in other contexts (as in Case Study 31 below), and is inherently built for scale. Indeed, one of the issues with the current landscape of job-matching platforms is the multiplication of proprietary platforms that fail to reach scale or replicate existing platforms.[140]

Gig economy platforms, which match individual jobseekers to individual employers for short-term contracts, can be particularly effective to connect young people to immediate income-earning opportunities, such as delivery or housekeeping services. While these roles offer limited career development perspectives, they can represent a first professional experience to build on. In addition, gig economy platforms can support the formalization and professionalization of roles previously filled informally, improving working conditions for workers. Alternative technologies (e.g., relying on texts) can be used to enable jobseekers to access the platform without a smartphone or internet access (Case Study 32 below).

Case Study #30

Kormo Jobs: a job platform app for entry-level jobs[141]

Years of operation: 2018 – 2022

Location: Bangladesh, Indonesia, India

Scale: over 2.7 million jobs posted and 4.5 million jobseekers engaged

How it works:

- Google-owned jobs platform specialized in entry-level jobs
- Worked directly with employers to control quality of job postings
- Tailored to the specificities of emerging markets
- Partnered with governments, youth agencies and private organizations to increase reach
- Included CV development features, online courses and skill-building exercises
- Discontinued at the end of June 2022 (likely due to the difficulty of establishing a sustainable business model)

Case Study #31

Giraffe: an open source job platform seeded by UNICEF[142]

Year started: 2015

Location: South Africa

Scale: attracted 1 million jobseekers and 3,000 businesses

Budget: US$ 99,950 seed funding from UNICEF Innovation Fund

How it works:

- Automated job-matching platform focused on entry/mid-level jobseekers, combined with free online courses to increase employability and job preparedness
- Matching algorithm improves probability of passing job selection process by 50%
- Partnered with mobile network providers to make the platform accessible at no cost for jobseekers
- The technology developed, including matching algorithm, is open source and free for use by anyone

Achievements:

- Raised three rounds of funding since 2015
- Acquired by Harambee (leading youth employment organization in South Africa) in 2021 and integrated into SA Youth (national network of learning and earning opportunities for youth)

[138] Google did not publicly disclose the rationale behind the decision of terminating Kormo Jobs.
[139] The Flip, *Lynk: Lessons Learned The Hard Way*, September 2022
[140] The Societal Thinking approach, which focuses on developing large-scale, open-source solutions to societal issues would be interesting to explore for the youth employment space.
[141] Case study references: kormo.google.com, Google India Blog
[142] Case study reference: UNICEF Innovation Fund

Case Study #32

HelloTask: formalizing the care economy in Bangladesh[143]

Year started: 2018

Location: Bangladesh

Scale: 2,000+ domestic workers on the platform, aiming to scale to 16,000 by 2023

Budget: raised over US$420,000 from angel investors, NGOs and impact investors

How it works:

- Gig economy platform connecting domestic workers to individual employers in Dhaka
- Partnerships with Oxfam and BRAC to train domestic workers and improve quality of services; skilled workers receive higher pay
- Uses a computer-automated interactive voice response (IVR) system to enable users without smartphones or internet to access the platform
- Employers can rate workers on the platform, increasing opportunities and pay levels for best workers; similarly, workers can rate their experience with employers
- Contributes to the formalization of domestic work and the improvement of working conditions for these workers (pre-agreed hours and pay)

It is worth noting that there are alternatives to digital platforms to reduce costs related to job searching, for instance vouchers to attend a job fair or transport subsidies for jobseekers. While such interventions can be effective, [144] they are typically limited in scale, space and time whereas a digital platform can reach a much broader population and be built as a growing repository of information on labor market opportunities. Nevertheless, offline interventions should be considered in contexts where access to digital infrastructure and devices is limited or where literacy may be an issue. In India, the Confederation of Urban Industry (CII) offers one such example of offline intervention. One of CII's many offerings is job counselling and placement, which they do via Model Career Centres (MCCs). At these MCCs, CII has a detailed database of each job opportunity listed with them by companies and a database of candidates who visit their job fairs or participate in placement drives. These databases are manually stored as alphabetized paper files, and CII seeks out candidates specifically for job openings provided to them by companies. This demand-driven approach has been very effective for placement, and shows how non-digital tools can be useful when hiring staff or candidates might not be trained to use digital platforms, or when there is a lack of budget or connectivity to support digital platforms.

[143] Case study reference: HelloTask; *B-Briddhi, HelloTask: Building Bangladesh's first on-demand domestic helper service*, 2021
[144] J-PAL, *Reducing search barriers for job seekers*, January 2022

Tab. 11: Overview of financing solutions for connecting young jobseekers to employers

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Grants	Grant funding is provided to cover the initial development costs of a youth-focused job-matching platform.	•Highly scalable past the initial development stage •Can be tailored to the needs of specific groups (e.g., unskilled youth) •Grants can request tech to be open-source, enabling replication by others	•Requires a pathway to sustainability (advertising, advisory services, private-sector partnership) •Users need to be digitally literate and have access to tech infrastructure/data	●●	●●●	●	•Bong Pheak (Cambodia) •Giraffe (South Africa)
Impact investments	Impact investors provide concessional capital to a social business providing youth-focused job matching services.	•Online models are highly scalable past the initial development stage •Can be tailored to the needs of specific groups (e.g., unskilled youth)	•Requires a pathway to sustainability (advertising, advisory services, private-sector or public-sector partnership)	●●●	●●●	●●	•Lulaway (South Africa) •HelloTask (Bangladesh) •Lynk (Kenya)
Commercial investments	Investors provide capital to a company to develop a youth-focused job-matching platform, or a company invests its own funds to develop such a platform.	•Highly scalable past the initial development stage •Sustainable business model •Responsive to user needs and feedback	•Needs market scale to make business sense •Profit-driven, limited incentives to develop individualized products for different youth segments •Users need to be digitally literate and have access to tech infrastructure/data	●●●	●●●	●●	•Kormo Jobs (Asia)

2. INCREASING ACCESS TO EFFECTIVE JOB SEARCH ASSISTANCE PROGRAMS

The challenge

Job search assistance programs, including job preparedness training and mentorship, can help youth jobseekers look for work more effectively[145]. For instance, job search assistance programs can provide guidance about where to find opportunities, how to apply for work and how to present one's skills and experience. However, limited information is available on the effectiveness of different programs, which makes cost-benefit analyses difficult for funders (governments, philanthropic organizations or jobseekers themselves).

What works?

As in the skilling space, results-based financing models, such as impact bonds, can generate new income streams for job search assistance programs that demonstrate their effectiveness. These models can be used here to drive a focus on outcomes (e.g., placement and retention rates) rather than activities (e.g., number of mentoring sessions). By incentivizing providers to maximize their impact, they can encourage innovation and adaptative management, and they may also attract new sources of funding (such as impact investors) for these programs.

Scalability remains the key issue: impact bonds are lengthy and costly to develop and execute, and they require the existence of high-quality, high-capacity service providers in the youth employment ecosystem. Just like in the skilling space, these models might be best used to demonstrate the value of focusing on outcomes rather than outputs, and to encourage service providers to invest more heavily in monitoring and reporting against these outcomes. This would enable funders to identify, support and potentially replicate the most effective interventions (as in Case Study 33 below).

Case Study #33

DUO for a JOB: a Social Impact Bond for a mentorship program[146]

Years of operation: 2014 - 2017

Location: Belgium

Scale: 322 young unemployed immigrants

Budget: €347,000

How it works:

- Intergenerational mentorship program that pairs young immigrants with Belgian mentors aged 50+ with the goal of finding a job within 6 months
- Social Impact Bond with Actiris, the Brussels Employment Office (government agency) as the outcome funder and KOIS Invest as the SIB developer

Achievements:

- 42% employment rate after three years, 28% higher than that of the control group
- Investors in the SIB earned a 4% annual return
- The SIB helped DUO build its impact measurement capabilities and increased its credibility (demonstrated effectiveness)
- DUO developed a structural partnership with Actiris and went on to raise funding from 50+ organizations, enabling the organization to scale its model and expand to more locations in Belgium, France and the Netherlands

[145] J-PAL, *Reducing search barriers for job seekers*, January 2022

[146] Case study references: KOIS Invest; interview data

Tab. 12: Overview of financing solutions for increasing access to effective job search assistance programs

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Grants	A nonprofit receives a grant to run a job search assistance program (e.g., mentorship program).	•Very effective if structured and executed properly •Digital models can create economies of scale	•In-person programs are hard to scale •Varying quality and effectiveness •Not financially sustainable	●	●●	●	•Mentor Together (India)
Social impact bonds	An outcomes-based contract where impact investors provide the upfront capital to the provider of mentoring services. Government pays for outcomes.	•Financial value of mentoring services is recognized (government saves on future benefits payments) •Drives focus on outcomes	•Small scale •Complex legal structure •High M&E costs	●	●●●	●●	•DUO for a JOB SIB (Belgium)

3. INCENTIVIZING EMPLOYERS TO HIRE YOUTH

The challenge

Because of their comparative lack of experience, the youth can be perceived as more risky and costly hires by employers: they will require more training than a more seasoned worker, and they may end up not working out at all and having to leave before their hiring costs have been offset. Because of this risk, employers might be more reluctant to hire young jobseekers, especially if they cannot leverage formal education credentials to vouch for their skills. This is especially true for MSMEs, which are the main source of jobs but often do not have a strong HR function to search and evaluate candidates: beyond personal networks, prior experience is typically the first selection criterion for these employers. Negative stereotypes of young people (e.g., that they are unwilling to work hard or learn new skills) can compound this issue.

Skilling issues, such as a mismatch between vocational training curricula and employer needs, or a lack of soft skills, often coexist with the matching issues described above. These skilling issues and their potential solutions are described in detail in the "Financing Skills" section above.

What works?

Financial incentives, such as youth wage subsidies, can be introduced for employers to "de-risk" youth hires and cover these additional costs. These subsidies can take different shapes, for instance, cuts in payroll taxes, hiring subsidies, wage supplements, etc., but all amount to lowering the youth labor costs for employers.[147] Usually, subsidies are used for a set period of time, from a few months to a couple of years, to help overcome employers' initial reticence to hiring: after that period, the young worker should have demonstrated sufficient value to the company to remain employed without a subsidy. While they rely on similar financial mechanisms, youth wage subsidies are distinct from public-funded or donor-funded apprenticeship and internship programs (i.e. work-based learning). Wage subsidies apply to youth hired as *employees* in a company, while apprenticeships and internships are fixed-term programs with an explicit focus on skilling. For a deeper discussion of financing mechanisms for work-based learning, please see the "Financing Skills" section above.

While the theory behind youth wage subsidies is sound, their execution often suffers from design flaws, and existing evidence suggests that such subsidies only have a modest and short-term impact on the youth employment rate.[148] Indeed, youth wage subsidies carry a risk of unintended consequences,[149] such as substitution effects (the youth are hired to replace older workers rather than to fill new jobs) or windfall effects (the youth are hired so the employer can benefit from the subsidy, then terminated).

In addition, the administrative costs to employers seeking to benefit from subsidies can be high, making large companies much more likely to benefit than smaller ones, even though smaller companies tend to drive job creation. Youth wage subsidies also require robust government capacity to be implemented successfully and come with high monitoring, compliance and communications costs (employers need to be informed about the subsidies to be able to claim them).

Leaving aside these implementation challenges, evidence suggests that youth wage subsidies are most likely to be effective when they are highly targeted (e.g., limited to first-time jobseekers), which increases the subsidy budget per individual and minimizes substitution effects (if fewer of the youth benefit from the subsidy, fewer workers risk being displaced)[150]. Longer subsidies are also more effective than shorter ones, as they enable the youth to learn on the job and increase their productivity, thus improving their chances of remaining employed once the subsidy expires. Young workers should also benefit from training during the duration of the subsidy. Last, a favorable macro-economic context is essential for a successful subsidy program: if demand for overall labor is low, reducing labor costs has limited effects.

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[147] ILO, *What works in wage subsidies for young people: a review of issues, theory, policies and evidence*, 2015
[148] ILO, *What works in wage subsidies for young people: a review of issues, theory, policies and evidence*, 2015
[149] 3ie, *Interventions to improve the labor market outcomes of youth*, 2017
[150] ILO, *What works in wage subsidies for young people: a review of issues, theory, policies and evidence*, 2015

Overall, youth wage subsidies are complex to design and implement, with limited supporting evidence for their long-term effectiveness. They also come at a significant cost when deployed at scale. Reallocating these funds to other interventions likely to connect youth jobseekers to work opportunities, such as a public digital job platform or job search assistance programs that have demonstrated their effectiveness, may therefore be more effective than trying to develop and implement the 'right' wage subsidy program. Alternatively, these funds could also be directed towards increasing work-based learning opportunities, such as internships and apprenticeships. As discussed in the "Financing Skills" section above, such programs are a lot more successful at enabling the youth to gain relevant work experience, and often lead to employment opportunities within the firm.

Impact-linked loans are another potential financing mechanism for incentivizing employers to hire youth, though they have yet to be tested in the youth employment space. With an impact-linked loan, the interest rate paid by a company on its corporate loans is linked to one or more impact metrics (e.g., number of young workers hired/employed). If the company achieves specific impact milestones (e.g., "20% of new hires are under the age of 25"), its interest rate is lowered. While this can be an effective tool, it may be difficult to standardize across many borrowers, as each company will need its own set of targets and associated interest rates.

Tab. 13: Overview of financing solutions for incentivizing employers to hire youth

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Youth wage subsidies	Employers receive a subsidy that aims to lower the employment cost of youth workers (e.g., payroll tax credits or exemptions, hiring subsidies, wage supplements, etc.). Note: this does **not** include work-based learning programs (e.g., apprenticeships and internships).	•Decreases the financial risk employers take when opening a new position •Incentivizes employers to consider the youth for positions •May have net-zero effect as government claws back tax through widening tax bracket	•Requires execution capabilities •Administration costs can decrease employer take-up •Risk of displacing jobs from older to younger workers •Impact is often short-term	●●●	●	●●	•Employment Tax Incentive (South Africa) •First Job Program/PPE (Mexico)
Impact-linked loans	An impact investor extends a loan to a business whose balance can be lowered upon the achievement of pre-agreed impact milestones (e.g., percentage of new hires from a specific population).	•Simple structure, easy to understand for both lender and borrower •Incentivizes business to achieve desired impact	•High M&E costs •More complex to manage than a standard business loan •Customized milestones for each loan/business (i.e. difficult to manage at a large scale) •May not generate enough returns for long-term sustainability	●	●●●	●●	•BOLD – Impact Investment Group (Australia)

4. DECREASING THE COSTS OF FORMAL AND DIGNIFIED JOBS

The challenge

In some contexts, employers are willing to hire young people, but the costs of doing so formally may be high. Formal employment may involve, for example, administrative expenses, costs linked to health insurance and other benefits, payroll taxes, and stricter government regulations (e.g., restrictions on firing employees). As a consequence, employers may either resort to hiring workers informally, or may offer lower wages, which may lead young people to take up higher-paid, informal work.[151] While this trade-off can deliver higher earnings for youth in the short-term, it can become detrimental in the long run, as formal employment is associated with faster salary growth and professional development opportunities. In addition, informal workers do not benefit from the same legal protections as formal employees, which can lead to exploitation and poor working conditions.

For similar cost reasons, even employers that are ready to hire formally may not be able or willing to invest into making job opportunities attractive to young people, e.g., by offering decent wages, benefits, good working conditions, career development opportunities, etc. As a result, young job-seekers may simply refuse to take up available jobs in the hope that a better opportunity will present itself.

What works?

Subsidies can be used to decrease the costs of formal employment. As for the youth wage subsidies described in the previous section, these subsidies can be directed towards employers (e.g., through payroll tax credits or exemptions or tax breaks), and eligibility can be made conditional on certain worker characteristics, such as age or level of experience. As discussed above, this type of subsidies can be challenging to implement due to administration costs and potential market distortions, and are most effective when used in a highly-targeted and time-bound way.

While such subsidies are typically government-funded, they can also be provided by a philanthropic donor. For example, as part of placement support at the end of a skilling program, the funder of the program may cover health insurance costs for trainees hired after graduation, with this support phased out after a set period of time (at which point the worker has demonstrated their value addition and the employer is more likely to accept the extra cost).

Another model directs the subsidies at the young workers themselves. In that scenario, tested as part of a research project in Mexico involving 2,000 young people, young workers receive a subsidy of a set percentage of the entry-level wage (20% in the Mexico case) for a predetermined period of time (six months in the Mexico case) if they hold a formal job[152]. The purpose of the subsidy is to incentivize youth to take up formal work over informal work, even if informal work may offer higher pay and other advantages, such as shorter commuting time, as youth tend to underestimate the rate of formal wage growth and the value of other protections offered by formal work. In the Mexico case, the subsidy was highly effective for graduates of vocational training institutions, increasing their formal employment rate by 4.2 percentage points (14.5%). Youth were 26% less likely to leave their jobs, and 70% more likely to transition to a permanent contract. Importantly, the subsidy had no effect on graduates of general schools (which prepare their students for higher education rather than employment), meaning that it had no negative effect on the decision of these youth to pursue further education. While in this case, the subsidy was implemented as a salary "top-up" for young workers, it could also be implemented by reducing employee payroll deductions (e.g., social security contributions) for this category of workers, which would directly raise their net pay.

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[151] India is an example of how high costs of formal work can affect formal job creation. The cost of employing a worker formally in India is estimated to be 10-20 times the "natural" labor cost. Laws like the Industrial Disputes Act and the Apprenticeships Act, created to protect workers, have over the decades evolved to inhibit the creation of fresh employment and encouraged mass movement towards hiring contract labor. As a result, formal job creation in India has lagged significantly behind its economic growth, especially in comparison to other countries such as Bangladesh, Brazil and South Africa (source: Praveen Pardeshi, National Conference on "India @100 - Youth Employability and Entrepreneurship", January 2023).

[152] Abel and Carranza, *Can temporary wage incentives increase formal employment? Experimental evidence from Mexico*, 2022

Interesting, because an increase in the formal employment rate generates an increase in government revenue, subsidy costs (whether to employers or workers) may be partly or fully recovered by governments.

As discussed in the previous section, impact-linked loans, which link a company's interest rate to specific impact metrics could also be used here to support employers hiring formally and encouraging them to provide their employees with benefits and career development opportunities.

Tab. 14: Overview of financing solutions for decreasing the costs of formal and dignified work

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Youth wage subsidies	Employers receive a subsidy that aims to lower formal employment costs (e.g., payroll tax credits, waiver on social security contributions, etc.).	•Decreases the costs of hiring formally •Incentivizes employers to hire formally instead of informally •May have net-zero effect as government claws back tax through widening tax bracket	•Requires execution capabilities •Administration costs can decrease employer take-up	●●●	●●	●●	•Employment Tax Incentive (South Africa) •First Job Program/PPE (Mexico)
Formal work incentives	Youth receive a subsidy for holding a formal job (either as a salary "top-up" or through reduced payroll deductions).	•Incentivizes youth to take up formal jobs over informal jobs •Compensates for youth's underestimation of formal wage growth and benefits •May have net-zero effect as government claws back tax through widening tax bracket	•Requires strong execution capabilities •Incentives need to be set at the right level to be effective	●●●	●●●	●●	•Mexico (research project)
Impact-linked loans	An impact investor extends a loan to a business whose balance can be lowered upon the achievement of pre-agreed impact milestones (e.g., percentage of new hires from a specific population).	•Simple structure, easy to understand for both lender and borrower •Incentivizes business to achieve desired impact	•High M&E costs •More complex to manage than a standard business loan •Customized milestones for each loan/business (i.e. difficult to manage at a large scale) •May not generate enough returns for long-term sustainability	●	●●●	●●	•BOLD – Impact Investment Group (Australia)

FINANCING CONNECTIONS: RECOMMENDATIONS

1. USE GRANTS AND CONCESSIONAL CAPITAL TO MAKE CATALYTIC INVESTMENTS IN JOB-MATCHING PLATFORMS TAILORED TO THE NEEDS OF THE YOUTH	
FINANCING RECOMMENDATIONS	
Stakeholders	**Recommendations**
Funders (excl. governments)	• Use grants and/or invest catalytic capital to develop sustainable, innovative job-matching platforms that focus on entry-/mid-level jobs, including in the informal sector, that are well suited for youth jobseekers (for instance, offering alternative credentialing models)
BEYOND FINANCE	
Stakeholders	**Recommendations**
Corporates	• Consider the business opportunity in developing tools able to meet the needs of youth jobseekers and the employers who need them
Service providers	• Build the business case for operating a job platform adapted to youths' needs and seek partnerships with corporates that already operate "standard" job-matching platforms that could be adapted to better serve youth jobseekers

2. USE RESULTS-BASED FINANCING MODELS TO DEMONSTRATE THE VALUE AND EFFECTIVENESS OF JOB SEARCH ASSISTANCE PROGRAMS (INCLUDING MENTORSHIP)	
FINANCING RECOMMENDATIONS	
Stakeholders	**Recommendations**
Governments	• Use results-based financing models (such as SIBs) to test out innovative job search assistance programs and incentivize service providers to focus on outcomes
Funders (excl. governments)	
BEYOND FINANCE	
Stakeholders	**Recommendations**
Governments	• Build capacity to execute and manage multi-year results-based financing programs, including quality measurement targets and frameworks
Service providers	• Invest in M&E systems that can track pre/post-intervention outcomes (e.g., placement rates, increase in assets and income, etc.)

3. REALLOCATE FUNDS ALLOCATED TO YOUTH WAGE SUBSIDY PROGRAMS (FOR EMPLOYMENT) TOWARDS MORE EFFECTIVE INTERVENTIONS, SUCH AS WORK-BASED LEARNING PROGRAMS	
FINANCING RECOMMENDATIONS	
Stakeholders	**Recommendations**
Governments	• Reallocate existing funds used for youth wage subsidies to support youth employment interventions that have proven their effectiveness and are easier to implement, such as work-based learning programs (apprenticeships and internships)
BEYOND FINANCE	
Stakeholders	**Recommendations**
Youth and youth-focused civil society organizations	• Raise awareness of the execution risks associated with youth wage subsidies and advocate for fund reallocation towards more effective programs, such as work-based learning programs (apprenticeships and internships)

FINANCING CONNECTIONS: PROMISING PRODUCTS

Product #9: Youth Connect Innovation Fund

The challenge

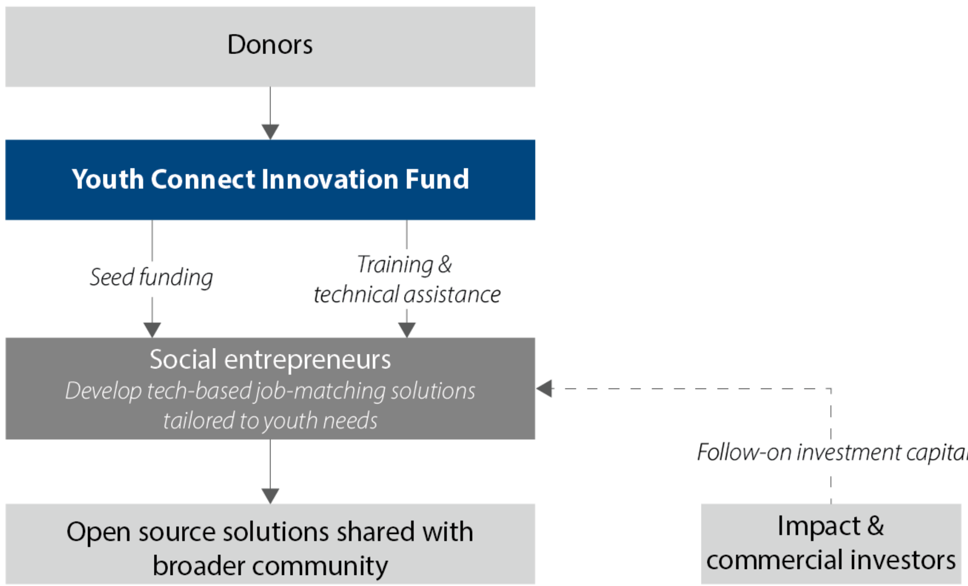
Current job-matching platforms are not tailored to the needs of the youth.

The solution

An innovation fund to seed and build youth-friendly job-matching solutions.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●	●●●	●●	●●●

Structure



Design parameters

Scale: 8-12 social businesses supported in each cohort

Initial capital requirement: US$2-4m for the fund (assuming ~$100K seed funding per platform + technical assistance and fund management); up to US$10m in additional impact investment

Type of capital: grant funding

Design features:

- Hyper-focused, highly selective innovation fund for social entrepreneurs developing job-matching solutions adapted to youth needs (e.g., focused on entry-level/informal jobs, using alternative credentialing systems, etc.)
- Solutions should build on existing open source tools (where applicable) and include a clearly innovative component (e.g., targeting an unsolved issue or serving a new sector or market segment)
- $100K of seed funding per participant + tailored accelerator program to build general business capacity & technical capacity
- Tools & solutions developed with seed funding are shared open source so that a broader community can benefit
- Most successful ventures can attract follow-on capital from impact and commercial investors

Potential permutations:

- Program can incorporate a partnership with impact investors who pre-commit to invest in the top 3 solutions from the cohort
- Program scope can be expanded to include broader tech-based youth employment solutions (not just job-matching focused)

Inclusion considerations:

- Selection of participants should consider how the proposed solutions will take an inclusive approach to better serve all youth, including young women, youth with disabilities, migrant youth and other marginalized groups

Key success factors
• Robust communications strategy to improve number and quality of applicants • Rigorous selection process to identify solutions with highest potential (selection committee made of entrepreneurs with direct youth employment and technology expertise, applicants need to demonstrate commitment, proof of concept, and road to viability) • Well-designed accelerator program with demonstrated ability to take businesses from the ideation to growth stage (possible partnership with existing accelerator program)
Value proposition
• Thematic focus on youth employment and job-matching solutions, enabling peer-to-peer learning within cohort • Open source approach enables further dissemination of tools and solutions
Expected impact
• Increased number of youth-appropriate job-matching platforms • Increased number of young people matched to appropriate employment opportunities
Inspiring examples
• **UNICEF Innovation Fund** – 124 investments (for a total of US$11.6 million) made since 2016 in open source solutions with the potential to improve the lives of children and youth, including in job-matching platforms (e.g., Giraffe) • **Village Capital** – 1,400+ startups supported through 150+ accelerator programs since 2009, with a focus on supporting cutting-edge innovators tackling big global issues

Product #10: Formal Work Fund

The challenge

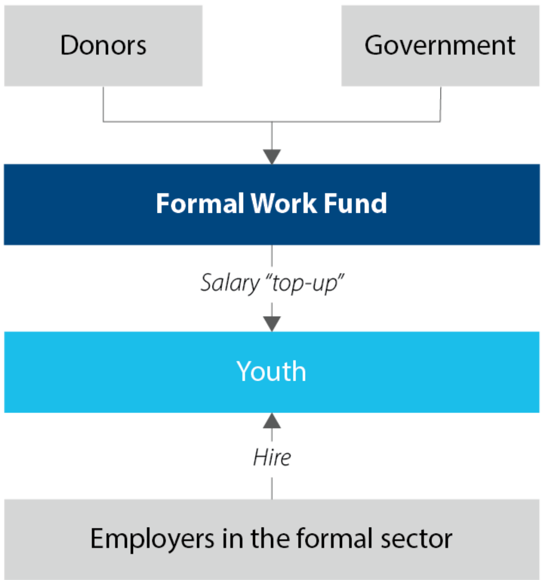
Young job-seekers underestimate long-term earnings in the formal sector and opt for informal jobs with higher short-term earnings.

The solution

A fund to increase entry-level earnings in the formal sector to incentivize young workers to take up formal jobs.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●●	●●●	●●	●●

Structure



Design parameters

Scale: 10,000+ youth (dependent on fund size)

Initial capital requirement: variable per country and wage levels; US$10m could supplement tens of thousands of youth in formal jobs for a year in a lower-income country setting

Type of capital: grant funding + government funding

Design features:

- Government-managed fund that provides a salary "top-up" to youth for their first 12 months in a formal job (either through a stipend or income tax rebate distributed directly to the worker, not through employers)
- Salary "top-up" covers initial differential between informal and formal sector wages, as youth tend to underestimate salary growth and professional development potential in the formal sector
- "Top-up" amount should reflect the wage differential at entry-level between the formal and informal sector
- Youth are only eligible for the subsidy for their first 12 months of formal employment
- Cost of the program can be partly offset by additional tax revenue from increased formal sector employment
- Once the effectiveness of the program is demonstrated, donor funding can progressively be phased out

Inclusion considerations:

- Specific groups of youth, including young women, youth with disabilities, migrant youth and other marginalized groups, could benefit from a longer subsidy period and/or higher subsidy amount

Key success factors

- Sufficient formal entry-level work opportunities
- Robust government capacity to administer funds and track beneficiaries
- Available data on informal/formal wage differential to set subsidy level

Value proposition
• Overcomes youth's underestimation of long-term benefits of formal employment (salary growth, professional development, non-salary benefits) • Encourages employers to formalize to attract young workers • Cost of program partly offset by increased tax revenue
Expected impact
• Increased share of youth in formal employment, with higher expected earnings in the long run
Inspiring examples
• Model successfully tested as part of a research program in Mexico (further details included in the above section of the report)

INTERVENTION #4: FINANCING RESILIENCE & FINANCIAL INCLUSION

WHAT IS THE ISSUE?

A regular source of income is essential, but not sufficient, to achieving long-term financial security. The youth also need the ability to withstand economic shocks, such as a job loss or health issues, and to accumulate wealth to durably improve their standards of living and financial resilience. This requires the youth to have the knowledge and tools necessary to build assets through savings and investment.

This means addressing four main issues:

a) The youth lack the capacity to save

Globally, almost half of young people do not have access to a bank account at a formal financial institution, leaving them without a safe way to save their earnings.[153] The youth in low-income countries, unemployed or inactive youth, rural youth and young women are most likely to be excluded from financial services, such as savings accounts.[154] This is due to a mix of factors.[155] Services offered by financial institutions may not meet the needs of the youth, especially low-income youth (e.g., unaffordable fees, minimum deposit requirements, etc.).[156] Regulatory restrictions may also limit youths' access to financial services (e.g., age restrictions, regulations limiting digital financial services).[157] The costs to financial institutions of opening and maintaining savings accounts for the youth with low and/or irregular income streams may not be offset by the revenue that can be generated off these accounts.

b) The youth lack access to credit for asset-building

This lack of access to financial services also affect the youth's ability to build assets. Without access to appropriate and affordable financial services, young people face significant challenges to borrow capital to finance assets (e.g., vehicle, house, business assets) and invest in income-generating opportunities. Financial institutions may require collateral, guarantees or a credit history to access financing. As mentioned above, available financial products may not meet the needs of the youth (e.g., complex products, minimum borrowing requirements, absence of a grace period, etc.).

c) The youth financial literacy rate is low

Having a sound understanding of how financial services work and how to manage one's money effectively is critical to achieving financial resilience. Without financial literacy, the youth are more likely to make poor financial decisions (such as taking on too much debt) or to be victim of fraud or predatory lending practices.[158] They are also less likely to make the best use of the financial services that they do have access to or to understand more complex financing products such as ISAs or fintech offerings. Financial literacy is often acquired through observing others, such as parents, teachers and other influential adults as well as peers. Where this informal learning does not happen, for instance because adults themselves are financially illiterate, formal financial instruction is crucial, and the costs of providing this financial education must be covered either by the youth themselves or a third party (corporate, government or philanthropic organizations).

d) The youth lack access to adequate insurance products

Finally, young people need access to insurance products to decrease their vulnerability to events outside of their control (illness, economic recession, crop failure, etc.). However, such products are often inaccessible to young people in low and middle-income countries, for a variety of reasons including cost, lack of appropriate products (e.g., crop insurance), lack of awareness and understanding of insurance products, and lack of an appropriate regulatory framework. Because of these issues, insurance provision in low- and middle-income

[153] OECD, *Advancing the financial inclusion of youth*, 2020
[154] Ibid.
[155] United Nations, *Financial Inclusion of Youth*, 2013
[156] CGAP, *Paying Attention to the Financial Needs of Youth*, accessed October 2022
[157] UNCDF, *Policies and Regulatory frameworks that improve access to finance for youth*, 2014
[158] Anne Casey Foundation, *Financial Literacy for Youth*, 2021

countries has been historically difficult, and savings might remain the best insurance policy for youth in these settings.

These issues call for five types of solutions:

1. Enabling youth to save;
2. Enabling youth to build assets;
3. Designing financial services adapted to the needs of the youth;
4. Increasing access to financial education; and
5. Increasing access to insurance products.

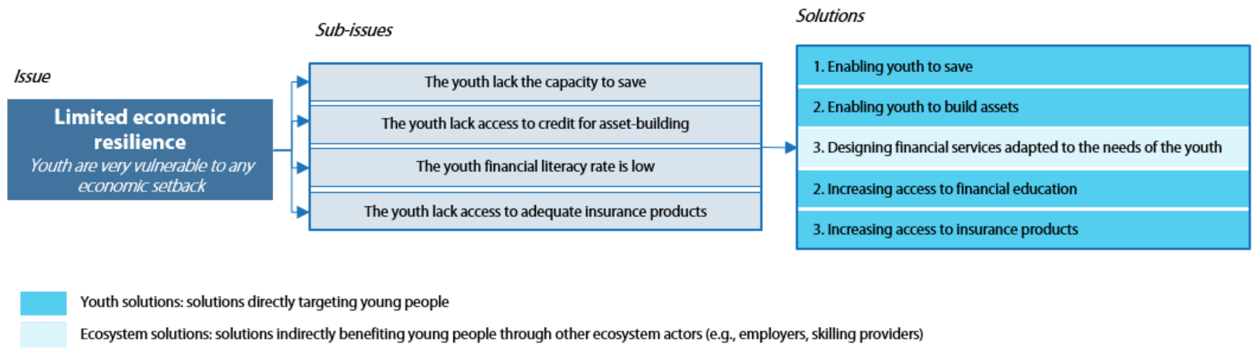


Fig. 11: Resilience issues and solutions

HOW FINANCE CAN HELP

Financing products can help address these issues in different ways. Some financial models, such as informal savings groups and savings and credit cooperatives (SACCOs), can provide the youth that do not have access to formal banking services with an opportunity to **save safely and borrow small amounts of money**. These models will typically be group- or membership-based and rely heavily on peer accountability and support. With the appropriate links, they can be a gateway to accessing more formal financial services. Other financial products, such as digital or mobile banking, can also reduce the costs of providing the youth with financial services by **increasing the efficiency of service provision**. On the financial education side, **grants and impact investing products** can be used to create public financial literacy resources, such as online platforms, and to **seed innovative financial education models**, such as digital financial literacy courses. These solutions are discussed in this chapter.

INCLUSION CONSIDERATIONS

Young people from specific groups, such as young women, youth with disabilities, young people without a secondary education certificate, and young people from other marginalized groups, tend to be more vulnerable than others, making building economic resilience even more critical. Yet, they are more likely to be underserved by financial institutions: in Sub-Saharan Africa in 2021, for example, only 49% of women have a bank account, compared with 61% of men (a similar but narrower gender gap can be observed in Latin America and South Asia as well)[159]. They also tend to exhibit lower financial literacy levels, for instance with a persistent gender gap in financial literacy[160]. In addition, some groups may have different needs, for example, youth with disabilities may require tailored financial education to help them plan financially for any additional support they may need in adulthood (e.g., specialized care, home adjustments, etc.). Designing inclusive financing products is essential to ensure these groups are appropriately served; such inclusive design requires developing a deep understanding of the needs, challenges and aspirations of these groups, which will vary in different contexts (e.g., rural v. urban).

BEYOND FINANCE

While financing products can help the youth build financial resilience, they need to be complemented by other elements, including the following:

- **Digital infrastructure** that enables the youth to access online financial services and online financial literacy resources (e.g., mobile networks, internet access points, affordable devices, etc.)
- **Youth-friendly regulatory environments** for financial institutions (e.g., lower age restrictions on opening a savings account, protection from predatory lending)
- **Inclusion of financial education in public education courses** to limit the need for additional financial literacy programs (e.g., in schools and higher education institutions)
- **Adequate insurance infrastructure and regulatory framework** to support the provision of insurance to young people

[159] World Bank, Global Financial Inclusion DataBank, 2021
[160] Rani and Goyal, Gender Gap in Financial Literacy: Literature Review, 2022

FIG. 11: FINANCING RESILIENCE AND FINANCIAL INCLUSION: PRODUCT MAPPING

FINANCING RESILIENCE & FINANCIAL INCLUSION

Programs & products to build financial security

Impact sought	*Financing solutions*			
1. Enabling youth to save	Informal savings groups	Digital savings groups		
	Savings and Credit Cooperatives (SACCOs)			
2. Enabling youth to build assets	Savings and Credit Cooperatives (SACCOs)	Pay-as-you-go (PAYG) financing		
	Housing microfinance			
3. Designing financial services adapted to the needs of the youth	Grants	Digital financial services (fintech)		
	Impact investments			
4. Increasing access to financial education	Grants			
	Impact investments			
5. Increasing access to insurance products	Microinsurance	Group insurance	Index-based insurance	Public-private partnerships
	Mobile-based microinsurance	Community-based microinsurance	Government-subsidized insurance	

Definitions of these financing solutions can be found in the Annex.

FINANCING RESILIENCE & FINANCIAL INCLUSION: WHAT WORKS?

Figure 11 summarizes the range of existing financing products and models that can be used to finance resilience (i.e., improve youths' economic resilience). The following section reviews and assesses the most scalable, effective and sustainable of these financing models for the two impact areas identified above.

1. ENABLING YOUTH TO SAVE

The challenge

Having the ability to save is an essential part of financial resilience. However, young people often lack access to the basic financial services that would enable them to save money safely. High transaction costs are one of the reasons financial institutions are reluctant to serve young people. The youth often have low and irregular deposit patterns that do not allow financial institutions to cover the costs of opening and maintaining their savings accounts. For rural youth, physical distance to branches can also be a barrier to serving youth.

What works?

For unbanked populations, informal savings groups allow members to pool savings and borrow small amounts of money at a low interest rate. Savings groups are self-managed and typically work in cycles, with participants receiving their deposits and interest earnings at the end of each cycle. This model, which was introduced by Grameen Bank in Bangladesh in the 1970s, is low-cost and highly scalable, with millions worldwide currently involved in such groups. In addition to providing members with access to credit, these groups also build a savings culture, encourage sound financial habits and can lead to an increase in asset ownership.[161] As they are easy to understand and only require small deposits, savings groups can be especially adapted to youths' needs.[162] However, savings groups work best when members save and borrow over multiple cycles and are therefore not always adapted to the youth that tend to move more frequently for work or education opportunities. Youth may also struggle with the traditional savings group meeting format.

While informal savings groups offer an entry point to start saving, they are not a full substitute for formal financial services. Theft remains a concern and borrowing is limited in value and time.[163] However, by enabling the youth to build a saving and credit history, savings groups can be a gateway to accessing more formal financial services. Programs that have linked informal savings groups to accounts at formal financial institutions (see Case Study 34 below) have shown that such links benefit members in multiple ways, such as increased cash security, ability to borrow throughout the year and longer loan tenures.[164] Evidence also suggests that formal links improve savings groups' financial performance, with increased saving and investment rates.[165] In addition, from the perspective of the financial institution, servicing one account for the entire group (c. 20–30 individuals) is more efficient than opening accounts for each individual.

Establishing such links is not without challenges. Physical access to branches remains an issue in rural communities. The costs of services can be high, and savings groups may not be familiar with banking services. The regulatory framework of financial institutions (e.g., KYC requirements) can also prevent financial institutions from servicing these groups. Finally, creating links at the group level prevents individuals from receiving differentiated services based on their personal needs. Successful links rely on a careful assessment of partner financial institutions and education of the members of savings groups on the range of banking services available.[166] Digital savings groups can reduce origination and transaction costs (see Case Study 35 below), and may also be more adapted to the needs of mobile youth by eliminating the requirement of having all members meet regularly in person.

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[161] Smith, W., L. Scott, and A. Shepherd, *Financial Inclusion Policy Guide: Enhanced Resilience Through Savings and Insurance via Linkages and Digital Technology*, 2015.
[162] Markel, E., and D. Panetta, *Youth Savings Groups, Entrepreneurship and Employment*, 2014.
[163] BMGF, *Outcompeting the Lockbox – Linking Savings Groups to the Formal Financial Sector*, 2014
[164] Ibid.
[165] UNCDF, *Savings Groups and Linkages*, 2017
[166] Plan, Barclays, CARE, *The Banking on Change Youth Savings Group Model*, 2016

Case Study #34

Banking on Change: linking savings groups to formal financial services[167]

Years of operation: 2009–2015

Location: Egypt, Ghana, India, Kenya, Tanzania, Uganda, Zambia

Scale: 310,000+ youth

How it works:

- Partnership between CARE International, Plan International and Barclays (1st partnership between global bank and NGOs)
- Combined creation of savings groups (including youth savings groups) with financial literacy and business training, with an objective of linking mature savings groups (2+ years) to formal financial services from Barclays or other banks
- Links were most successful in Uganda, where Barclays developed financial products tailored to the needs of savings groups (digital ledger to capture savings group data, e-keys mobile platform allowing mobile transactions, group overdraft strategy)

Achievements:

- 310,000+ youth joined informal savings groups
- +31% savings between 1st and 2nd cycle
- 100,000+ received enterprise training
- 5,000 groups (125,000 individuals) linked to formal financial services
- 2,200+ individual accounts opened by group members (66% youth)

Case Study #35

Oraan: Digital savings groups[170]

Years of operation: 2009–2015

Location: Pakistan

Scale: 10,000+ users across 170+ cities

Budget: over US$4 million raised in funding from venture capital funds (commercial capital)

How it works:

- Women-led , women-focused fintech company formalizing Rotating Savings and Credit Associations (ROSCAs, informal saving groups)
- Individuals apply to join an "Oraan Committee" and are matched to a group based on their saving potential and borrowing goals; digital format enables people to join committees outside of their communities and networks
- Members contribute monthly to their Committee and choose when they want to receive their payout
- Oraan handles the verification process (ID, address, references)
- Multiple payment methods possible, including through a family member's bank account or through a mobile money app
- Fees are based on the month during which members receive their payout (higher fees for earlier months)
- Oraan offers online financial education resources to support members' saving and borrowing goals
- Members build a credit history through Oraan, which can be leveraged to access other financial services

More broadly speaking, digital solutions offer promising avenues to increase young people's access to financial services by making "youth banking" (and more generally, servicing low-income populations) a viable commercial proposition. Benefits from using digital financial services include greater operational efficiency,[168] leading to reduced transaction costs, broader reach in rural areas, additional revenue streams, and greater savings mobilization by making the saving process more convenient to the user.[169] Digital offerings are also easier and cheaper to scale than models relying on physical infrastructure such as bank branches.

[167] Case study reference: Plan UK
[168] E.g., by removing the need for physical branches (replaced by a network of digital banking agents).
[169] Alliance for Financial Inclusion, *Digital transformation of microfinance and digitization of microfinance services to deepen financial inclusion in Africa*, 2018
[170] Case study references: Oraan, *TechCrunch, Oraan raises $3M to increase financial inclusion among Pakistani women*, 27 September 2021

Tab. 15: Overview of financing solutions for enabling youth to save

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Informal savings groups	Small informal groups that meet regularly and frequently to save. Savings are pooled to make loans, with a service fee or interest rate that, in turn, increases the loan fund.	•Accessible to the youth underserved by financing institutions (e.g., rural, unskilled youth) •Builds a savings culture among members and provides access to affordable short-term credit, enabling asset-building •Simple and easy to understand	•Unregulated and informal •Not sufficient to support significant growth in income generation •Youth groups tend to dissolve more quickly than non-youth groups because the youth tend to move more frequently for jobs or educational opportunities	●●●	●●	●●	• Banking on Change (Plan International UK, Barclays and CARE Intl, Africa) •SILC (CRS, global)
Savings and Credit Co-Operatives (SACCOs)	Regulated savings and lending platforms with membership drawn from similar groups (e.g., the youth, doctors, farmers, teachers, lawyers, etc.).	•Provide a bouquet of formal banking services at affordable rates •Enhance financial inclusion for groups underserved by traditional financial institutions	•Highly leveraged as capital is often drawn from member deposits and external loans •Corporate governance relatively weak as independence is limited	●●	●●	●●	•UNAITAS (Kenya) •WeCan Youth SACCO (Kenya)
Digital savings groups	A fully digital version of informal savings groups, which eliminates the needs for in-person meetings.	•Anyone can join a group •Participants can borrow at any time in the cycle •No requirement to know the other members of the group	•Users need to be digitally literate and have access to devices and connectivity	●●●	●●●	●●●	•Oraan (Pakistan)

2. ENABLING YOUTH TO BUILD ASSETS

The challenge

Beyond the ability to save, young people also need access to credit to finance assets that will enable them to build wealth in the long run, such as capital expenditures for their business, a vehicle or a house. Young people often struggle to access credit from formal financial institutions, which may only offer loans at a high interest rate or may require collateral, guarantees or a lengthy credit history to access financing.

What works?

As discussed in the "Financing Jobs & Entrepreneurship" section above, there are a number of financing solutions that can expand youth's access to credit to start or develop an income-generating opportunity, including microfinance, crowdfunding platforms and digital lenders (see above for a full discussion of these and other products).

Savings and Credit Co-Operatives (SACCOs), which are regulated savings and lending platforms with membership drawn from similar groups (e.g., members of a certain profession, such as teachers), typically offer asset financing products as part of their services. SACCOs differ from traditional banks in that they are equally owned by their members (regardless of the amount invested by each member) and are non-profit organizations. They offer low-interest loans to their members, typically with more flexible payment terms and less requirements than banks. However, borrowing amounts from SACCOs are limited in value, especially for smaller SACCOs. There are also significant variations in SACCOs' management quality and financial performance, which can put members' savings at risk.

Other solutions exist to facilitate access to credit for personal (i.e., non-business related) assets. For example, housing microfinance seeks to expand access to financing for home purchases and home improvements by low-income populations. Donors and impact investors can have a catalytic impact by helping financial service providers develop housing microfinance products. For example, the "Building Assets, Unlocking Access" partnership between Habitat for Humanity and Mastercard Foundation worked with financial institutions to develop scalable and innovative housing microfinance to be replicated by other financial institutions in Kenya and Uganda. The partnership enabled over 70,000 households to access housing microfinance products to improve their living conditions, and showed that housing microfinance loans had a similar profitability than traditional microfinance loans.[171] Similarly to other microfinance products, however, housing microfinance has also been associated with very high interest rates compared to the traditional housing finance market, for example in India.[172] By providing concessional capital to housing microfinance providers, impact investors can help lower the costs of these products for borrowers.

For smaller personal assets, such as smartphones, fintech companies have also developed innovative financing solutions, such as pay-as-you-go (PAYG) financing, where borrowers repay loans through daily micropayments over a long period. The asset financed is used as collateral by the lender, which can recover or disable the asset if the borrower stops making payments. This model was introduced by M-KOPA in Kenya in 2011. Initially, M-KOPA used the PAYG model to provide off-grid households with access to solar home systems, but has since expanded its offering to include lights, fridges, TVs and smartphones. By 2022, M-KOPA had provided over US$600 million in financing for underbanked customers.[173] Interestingly, M-KOPA's growth was funded by a mix of commercial and impact investors (including IFC and BII), demonstrating the role that concessional capital can play to help accelerate innovative financing models.

[171] Devex, *How housing microfinance in Africa can improve quality of life*, 7 March 2019
[172] NextBillion, *Microfinance for Better Housing: How the Sector Can Serve Low-Income Borrowers in India and Other Emerging Markets*, 7 December 2021
[173] GSMA, *M-KOPA: Applying the pay-as-you-go model to smartphones in Africa*, May 2022

Tab. 16: Overview of financing solutions for enabling youth to build assets

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Savings and Credit Co-Operatives (SACCOs)	Regulated savings and lending platforms with membership drawn from similar groups (e.g., the youth, doctors, farmers, teachers, lawyers, etc.).	•Provide a bouquet of formal banking services at affordable rates •Enhance financial inclusion for groups underserved by traditional financial institutions	•Limited borrowing amounts •Highly leveraged as capital is often drawn from member deposits and external loans •Corporate governance relatively weak as independence is limited	●●	●●	●●	•UNAITAS (Kenya) •WeCan Youth SACCO (Kenya)
Housing microfinance	Microfinance loans designed for home purchases or home improvements.	•Offers access to credit for housing to customers underserved by financial institutions •Designed to meet the needs of low-income households •Similar profitability to other microfinance loans	•Requires a strong regulatory framework •Interest rates can be very high compared to mainstream lenders	●●●	●●	●●●	•MicroBuild Fund (global)
Pay-as-you-go (PAYG) financing	Customers buy an asset on credit, which they repay through daily micropayments over a long period. The asset is used as collateral by the lender.	•Eliminates the need for deposits, credit checks or collateral •Can be used for a wide range of domestic appliances •Once the asset has been fully repaid, it can be used as collateral for cash loans	•Does not work for assets that cannot be controlled at a distance by the lender •Only profitable at a very large scale	●●●	●●●	●●●	•M-KOPA (Kenya)

3. DESIGNING FINANCIAL SERVICES ADAPTED TO THE NEEDS OF THE YOUTH

The challenge

As noted above, the lack of financial services tailored to the needs of the youth, especially low-income youth, is a key barrier to their financial inclusion. Products offered by financial institutions often come with conditions that youth are unable to meet, such as unaffordable fees, minimum deposit or transaction requirements, guarantees, collateral or credit history requirements. Products may also be too complex for the needs of the youth. This issue may not be seen as a priority by financial institutions, which can sometimes consider youth as customers with lower purchasing power and profitability compared to other segments.

What works?

Different models have successfully relied on technology to extend financial services to the youth and other low-income groups. Some banks have heavily invested in technology to build commercial business models for the low-income customer segment (Case Study 36 below). This model has multiple advantages: it builds upon an existing physical infrastructure upon which customers can call if necessary, it offers customers access to a full suite of banking services, and it is developed within an existing regulatory framework protecting customers from fraud and predatory practices. However, it requires banks to have the institutional capacity to innovate, partner and manage their digital transformation successfully. Donors and impact investors can support financial institutions interested in moving in that direction, by offering them grants or concessional capital to develop their offerings for this market segment. For institutions interested in expanding the share of the youth in their portfolio, FMO's Y Initiative has published a Compendium of Global Good Practices to provide practical guidance to help financial institutions better understand and serve the youth market. YouthSave, a large financial inclusion effort supported by the Mastercard Foundation from 2010-2015, also yielded important lessons on how to design youth savings accounts to maximize uptake and youth engagement, including implementing systems to enable youth to track their account activity, offering transaction points in places easily accessible to the youth, or providing "nudges" to encourage them to save (e.g., via text messages).[174]

Fully digital banks have also emerged with an explicit focus on underserved populations. These banks rely on their digital models to offer a limited range of banking services (checking and savings accounts, debit cards) at a low cost. They can use partnerships to provide their customers with physical access points, for example, with retailers, as is the case for TymeBank (Case Study 37).

Case Study #36

Equity Bank: innovating to reach the underserved[175]

Year started: 1984, with significant strategic shift in 2004

Location: Kenya, Uganda, South Sudan, Rwanda and Tanzania

Scale: 9+ million customers

How it works:

- Pioneered online and mobile banking offerings in the early 2000s
- Acquired a mobile virtual network operator license (MVNO) in 2014, which enabled the development of platform ecosystem Equitel, giving Equity Bank more control over its mobile network environment at a lower cost
- Relies on a network of 40,000+ agents to reach and serve customers with no access to physical branches
- Explicit focus on underserved populations: women, youth and smallholder farmers
- High volume, low margin business model
- Partnered with donors and development finance institutions to support financial inclusion efforts (including Mastercard Foundation, UNCDF, IFC) through loan guarantees and risk-sharing facilities

Achievements:

- Over 400K youth customers (age 18–35) reached between 2007 and 2020

Finally, fintech companies have developed digital platforms that target the youth and other unbanked segments, offering basic financial services such as savings and investing as well as fostering sound financial habits. While these innovations can help move the field towards greater financial inclusion, they often operate without a strong regulatory framework, which

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[174] *YouthSave 2010-2015: Findings from a Global Financial Inclusion Partnership*, October 2015

[175] Case study references: Scale2Save, *Savings and Retail Banking in Africa: A case study on connecting with low-income customers through digitalization*, August 2021; Scale2Save, *Savings and Retail Banking in Africa: A case study on mobile financial services: unlocking the potential value of mobile for low-value account holders*, March 2021; Equity Bank, 2021 Annual Report

can leave customers unprotected. They also tend to offer a more limited set of services than a bank. Nonetheless, they can have a transformative impact, especially when integrated within a traditional bank's offering or deployed in partnership with other financial institutions (Case Study 38).

Funders and impact investors have a key role to play in supporting the growth of digital financial services that can meet the needs of underserved youth. Grants can be used to seed innovative but unproven ideas and develop proofs of concept (e.g., Strive Community Innovation Fund). Once a viable product exists, impact investments can then bring the model to scale and profitability,[176] helping attract commercial capital to fuel further growth. Non-financial support can also add significant value. For instance, the Inclusive Fintech 50 (IF50) sponsored by Visa, Metlife Foundation and Jersey Overseas Aid/Comic Relief is a global innovation competition that highlights fintech companies focused on increasing financial inclusion. All IF50 applicants have access to an investors' network, and winners can use the increased visibility to raise funds.

While digital financial services offer promising avenues for youth financial inclusion, it is critical to remember that they require supporting infrastructure (networks, data, devices) and digital literacy to be effective. Any digitization strategy must consider potential gaps in digital access within the youth population, and where appropriate, support digital offerings with offline outreach to foster maximum inclusion.

Case Study #37

TymeBank: low-fee digital banking[177]

Year started: 2018

Location: South Africa

Scale: 4+ million customers

How it works:

- Fully digital bank with a financial inclusion focus, offering checking accounts, savings accounts, money transfer services, "buy now, pay later" service, and credit cards
- Cost savings realized through the no-branch model enables TymeBank to offer lower banking fees to customers, including zero-fee account opening
- Customers can access services through digital devices and cell phone, but also in person through Tyme kiosks, ATMs and partner retailer chains (10,000 till points across South Africa)
- Platform also includes financial education tools
- Funded by a mix of commercial investors and impact investors

Achievements:

- Acquired 3.5 million customers in 25 months
- 60–65% of customers are from low-income and underserved groups
- CGAP 2022 case study: 73% of customers reported an increased in savings due to TymeBank; 54% reported decreased financial stress levels
- Successfully raised US$ 180 million in two Series B rounds
- Planning expansion to the Philippines

Case Study #38

Bankaya: essential financial services for the unbanked[178]

Year started: 2019

Location: Mexico

Scale: 450,000+ customers

How it works:

- Banking-as-a-Service (BaaS) platform connected to Consubanco (large Mexican retail bank)
- Offering essential financial services (checking and savings accounts, debit card, buy now pay later)
- Partnership with Chedraui retail chain offering cash bonuses when shopping in Chedraui stores
- Offline customer acquisition model targeting unbanked populations and focused on building trust and understanding of financial services

Achievements:

- Over 800K transactions processed in December 2021
- 59% of customers earn below the national average, 69% do not own a credit card

[176] Different types of impact investing products (venture philanthropy, concessional capital) may be needed depending on the development stage and risk profile of the opportunity.

[177] Case study references: TymeBank; CGAP, *TymeBank Case Study*, January 2022

[178] Case study references: Bankaya; TechCrunch, Meet Bankaya, a Mexican fintech that is going offline for customer acquisition, 5 January 2022

Tab. 17: Overview of financing solutions for designing financial services adapted to the needs of the youth

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Grants	Grant funding is provided to cover the initial development costs of a youth-focused financial product/service.	•Enables financial institutions to innovate and test products without financial risk	•Products and services developed might fail to scale or reach sustainability	●●	●●	●●	•YouthStart (Africa)
Impact investments	Impact investors provide concessional capital to a financial institution to develop youth-focused financial products/services.	• Enables financial institutions to innovate and test products at low risk •Preserves an incentive for reaching commercial sustainability	• Products and services developed might fail to scale or reach sustainability	●●●	●●●	●●	•Equity Bank (Kenya)
Digital financial services (fintech)	Financial services (e.g., saving account, saving group, credit) are provided through a web- or app-based platform that enables economies of scale.	•Increases efficiency and reduces operational costs •Accessible to people without access to physical branches •More convenient for users	•Users need to be digitally literate and have access to devices and connectivity •Limited range of services •Some type of physical presence still required (may be provided through partnerships)	●●●	●●●	●●●	•TymeBank (South Africa) •Bankaya (Mexico)

4. INCREASING ACCESS TO FINANCIAL EDUCATION

The challenge

Financial literacy is an important foundation to build financial resilience. Higher levels of financial literacy translate into positive financial behaviors, such as budgeting, saving a portion of each paycheck, or setting financial goals.[179] Financial education is especially critical at key moments along a young person's life journey, e.g., when getting a first job, choosing a skilling program, or starting a small business. Good (and bad) financial decisions made at these transition points (such as establishing a budget, opening a savings account or taking out insurance) can have lasting consequences, which is why early financial education can have a significant positive impact.[180]

Financial literacy programs are not financially sustainable as standalone offerings, as participants generally do not have the means or desire to pay for such courses. In-person delivery is expensive and difficult to scale. Voluntary programs also suffer from self-selection: participants unwilling to take the course may be the ones who need it the most. For all these reasons, financial education is best delivered through integration with other programs and services, and a variety of possible models exist.

What works?

With government funding, financial literacy courses can be integrated within public education curricula at the school or higher education level (e.g., as part of TVET programs). Evidence suggests that school-based financial education programs can be very effective at increasing youth financial literacy when delivered as a mandatory part of the curriculum.[181] The benefits of this approach include scale and equity (all students attend the course). Downsides include a risk of adding on yet another mission to public education and skilling institutions that are already suffering from quality issues (as discussed in Chapter 3 above), as well as stretching limited public resources even further. Donors can alleviate the funding issue by providing governments with dedicated funds for financial education (see Case Study 39 below).

Financial education can also be built into donor-funded programs, such as skilling programs or entrepreneurship programs. For instance, financial literacy training is built into poverty graduation programs, as is the case for Village Enterprise (Case Study 21). In these cases, the sustainability of the financial education component is linked to the overall sustainability of the program. Financial literacy courses or resources are especially important for programs that involve financing elements, such as savings groups, loans or income-share agreements.

Case Study #39

Pacific Financial Inclusion Program: delivering financial education through TVET[182]

Years of implementation: 2014–2018

Location: Papua New Guinea, Solomon Islands

Scale: ~2,000 students per year

Budget: US$ 35 million (all components)

How it works:

- Donor-funded program to support greater financial inclusion in the Pacific Islands
- Included a component embedding financial education curriculum into TVET curricula (FinEd), piloted in Papua New Guinea and the Solomon Islands

Achievements:

- TVET provided more flexible environments to pilot courses, but required extensive teacher training
- Pilots demonstrated need for government funding to support long-term delivery of financial education programs, to overcome TVET financial constraints

A third model delivers financial education alongside other financial services. Financial institutions such as banks or MFIs have a direct interest in increasing the financial literacy of their customers. Indeed, more financially literate customers are more likely to save and deposit more in their accounts, borrow responsibly and pay loans back on time, and they use a broader range of financial services over time, ultimately increasing revenue for the financial institution. Offering financial literacy resources also supports trust-building between customers and financial institutions. Integrating

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179 Hastings, Madrian and Skimmyhorn, *Financial Literacy, Financial Education and Economic Outcomes*, 2012
180 Brookings, *A Review of Large-Scale Youth Financial Literacy Education Policies and Programs*, 2018
181 Inter-American Development Bank, *The Impact of Financial Education for Youth*, 2019
182 Case study reference: UNCDF, *Delivering financial literacy through educational institutions*, February 2022

financial education within a commercial business model has multiple advantages: it is financially sustainable (funded through the increase in revenue), it encourages innovation to maximize the effectiveness and reduce the costs of financial literacy training, and it reaches customers in the same environment where they access financial services, facilitating the application of learnings. However, this approach to financial education may leave out unbanked populations who will need other delivery channels, and financial institutions may not have in-house expertise to develop appropriate financial literacy resources. Partnerships with specialized NGOs and fintech companies can help address the latter. Impact investors can also support this commercial delivery model in two ways: one, by extending concessional funding to financial institutions with an explicit financial literacy focus (Case Study 40), and two, by investing in innovative models of financial education delivery with which financial institutions can then partner (Case Study 41).

In addition, grant funding can be used to develop and maintain public financial literacy platforms, which can then be used as a resource by all programs and services seeking to incorporate financial education components. For such platforms, broad accessibility, including local language resources, and guidance on how to use the resources for training others (e.g., lessons plans) are key considerations. Visa's Practical Money Skills website, accessible from and customized for 30+ countries, is a good example of such a platform.

Case Study #40

RBL Bank: a suite of bank-led financial literacy programs and resources[183]

Year started: 2013

Location: India

Scale: 350,000 women trained over 8 years

How it works:

- Started in 2013 with Saksham, a classroom-based financial literacy training for women in low-income communities, covering savings and insurance, borrowing and repaying loans responsibly, using banking technologies such as ATMs, financial planning and management of daily household expenses
- Added a hybrid online and in-person customer education program in 2016 (Unnati)
- Complemented by mobile application Swadhaar Saathi to support financial planning and management of daily expenses
- Program expansion was supported by investments and technical assistance grants from development finance institutions (Asian Development Bank, British International Investment)

Achievements:

- 348,000 women reached as of December 2021, including close to 100,000 trained during the COVID-19 pandemic through classroom instruction and telephone training services

Case Study #41

Flourish FI: financial education through digital and mobile banking[184]

Year started: 2018

Location: USA, Bolivia, Brazil

How it works:

- Financial wellness and customer engagement platform integrated within a bank's digital and mobile banking platform
- Drives revenue by increasing customer savings and sharing financial education tips through gamified content and rewards

Achievements:

- Partnered with leading Bolivian MFI BancoSol to encourage MSME borrowers to save and invest
- Received grant funding from the Strive Community Innovation Fund to develop MSME-focused features

[183] Case study references: BII, *RBL Bank Partners with CDC to expand its Financial Literacy program "Saksham" in Madhya Pradesh*, 11 March 2015; *ADB, In India, Financial Literacy Programs Are Lifting Families Out of Debt and Fueling New Prosperity*, 8 March 2022
[184] Case study references: FlourishFI; TechCrunch, Bank engagement startup Flourish Fi leans into concept of 'banks aren't going anywhere', 23 November 2022

Tab. 18: Overview of financing solutions for increasing access to financial education

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Grants	Free financial literacy program or resources funded by a grant.	•Free of charge for participants •Online programs are easy to scale •Can be provided alongside skilling or entrepreneurship programs	•Not financially self-sustaining	●●	●●●	●	•Operation HOPE (USA) •Practical Money Skills (global)
Impact investments	Concessional financing is extended to financial institutions with an explicit financial literacy focus, or to startups developing innovative financial education provision models.	•Integrated within the business model of the organization receiving the funds •Free of charge for participants •Provided alongside basic financial services •"Win-win" service for participants and providers •Returns can be reinvested into other organizations	•Participants need to have access to basic financial services (unbanked populations may not benefit) •Providers may have an interest in pushing certain products onto participants through the program (e.g., credit)	●●●	●●●	●●	•Saksham (RBL, India) •Flourish FI (Latin America)

5. INCREASING ACCESS TO INSURANCE PRODUCTS

The challenge

Access to insurance is essential for building economic resilience. Without insurance, young people remain deeply vulnerable to events outside of their control, such as illness, economic recession, or crop failure. Such events may lead them to take on debt or delay investing in the assets that would enable them to build up longer-term wealth (e.g., capital expenditure for self-employment). However, access to adequate insurance products can be an issue for young people in low- and middle-income countries, for a variety of factors:

- **Cost**: insurance premiums may be too expensive for young people, who may be consider "riskier" populations by insurance providers than other groups.
- **Lack of appropriate products**: there may not be insurance products available to cover the potential risks faced by young people (e.g., health insurance products may not offer coverage for certain illnesses).
- **Lack of awareness, understanding and/or trust**: young people may not be aware of what insurance products exist or how they work; they may be reluctant to pay for a service that they might never need, or they may not trust the insurance providers to pay out future claims.
- **Lack of insurance infrastructure**: in some countries, the insurance infrastructure may be limited (e.g., lack of insurance agents or offices).
- **Inadequate regulatory framework**: in some countries, regulations can limit the type of insurance products available or restrict the ability of providers to operate.

What works?

Because of these issues, insurance provision in low- and middle-income countries has been historically difficult, and savings might remain the best insurance policy for youth in these settings. Nevertheless, several financial mechanisms can be used to help overcome these challenges. Microinsurance products are specifically designed to be affordable by low-income individuals, with lower premiums and simplified coverage options. While enthusiasm about microinsurance has been high, as these products have the potential to be both commercially viable and highly impactful, key challenges have prevented large-scale adoption. For example, to be profitable, microinsurance products need to be deployed at scale. However, the transaction costs associated with selling and administering insurance are high, especially in more isolated rural areas, and when these costs are integrated into the pricing of these products, uptake is extremely low[185]. Some providers, such as Bima (Case Study 42 below), rely on technology to drive transaction costs down. While this has been effective, it may not be appropriate in contexts with low digital literacy rates and limited access to data and mobile devices.

Case Study #42

Bima: Mobile-based micro-insurance[186]

Year started: 2010

Location: South Asia, East Asia, Africa

Scale: over 35 million insurance policies sold

How it works:

- Offers mobile-based life and health micro-insurance products, working in partnership with financial institutions, mobile operators and insurance underwriters
- Customers can sign up in minutes through a local agent, the Bima app or social media channels, with no paperwork required
- Customers are educated about the product and pay through prepaid airtime, monthly bills or mobile wallets
- Claims are processed digitally and paid in three working days

Achievements:

- Active in 10 markets with over 35 million insurance policies sold
- 75% of customers are accessing insurance for the first time
- Has built on initial health micro-insurance to offer a full suite of digital health solutions (e.g., 24/7 access to doctors, personalized health records, health management advice, etc.)

Another option to drive costs down is to offer coverage for a group instead of single individuals, with two different models:

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[185] Next Billion, *Launching India's Microinsurance Revolution*, 2021

[186] Case study reference: BIMA; TechCrunch, BIMA nabs $30M more for micro-health and life insurance aimed at emerging markets, 7 September 2020

- Group insurance is a type of insurance that is offered to a group of individuals, typically through an employer or organization. Group insurance reduces customer acquisition and management costs for the insurance provider, and if the group is large enough, it can benefit from more advantageous insurance terms than individuals.
- Community-based insurance is an insurance scheme that is designed and managed by the community. Each member contributes to a pool of funds, which is used to provide coverage to members of the community. Community-based insurance can be helpful in contexts where there are no formal insurance providers accessible to community members; however, implementation can be challenging due to limitations on the fund size (which restricts the level of potential payouts), shared vulnerabilities in the community (e.g., multiple members of a farming community will be vulnerable to the same weather events and suddenly require payouts at the same time, which the fund may not be able to provide), and the voluntary nature of such schemes (people with lower risk levels tend to opt out).[187]

A variation on group insurance models is index-based insurance, which is extended to individuals but uses specific triggers, such as weather events, to determine automatic payouts instead of relying on individual insurance claims. For example, ACRE Africa offers a weather index insurance product designed for smallholder farmers, which relies on daily rainfall data to estimate losses and associated payouts.

Alternatively, government subsidies can be used to make insurance more affordable for young people. These may take the form of grants to insurance providers or coverage of a specific share of insurance premiums. As with other forms of subsidies, challenges include the administration costs linked to implementing the subsidy, as well as setting the subsidy at the appropriate level (high enough to make the product affordable to the targeted group, but not high enough to inflate the profit margins of insurance providers).

Finally, public-private partnerships can bring together several of these elements, for example through the provision of a government-subsidized microinsurance product. Such partnerships can be difficult and lengthy to develop, but may also help address issues with the insurance regulatory framework, as well as support financial education efforts to increase awareness and understanding of insurance products. For example, in the Philippines, the Asian Development Bank (ADB) has supported the launch of a public-private partnership between the government's crop insurance corporation and a private microinsurance provider to expand insurance coverage to farmers growing selected high-value crops. Under the partnership, the government and the private provider will share the risk underwritten for each insurance policy, and will build on each other's strengths to reach more farmers. In parallel, ADB will continue to support government reforms to improve financial inclusion in the country.[188] Similar partnerships could be developed with a focus on youth.

Tab. 19: Overview of financing solutions for increasing access to insurance products

[187] WHO, *Community-based Health Insurance*, 2020
[188] ADB, *Testing Public–Private Partnership in Crop Insurance to Boost Filipino Farmers' Resilience*, 2022

Financing models	How it works	Benefits	Challenge(s)	Scalability	Effectiveness	Sustainability	Examples
Microinsurance	Insurance scheme targeted at low-income populations, with affordable premiums and simplified coverage options.	•Accessible to groups underserved by traditional providers •Simple for customers with limited financial literacy •Potential for commercial viability	•Only profitable at a very large scale •High transaction costs	●●●	●●●	●●	•Credit Shield Insurance by BRAC (Bangladesh)
Mobile-based microinsurance	A microinsurance scheme administered through a mobile-based app.	•Reduced transaction costs •Streamlined onboarding, premium payments and claim processing •Potential for commercial viability	•Requires digital literacy and access to data and mobile devices	●●●	●●●	●●●	•Bima (Asia & Africa)
Group insurance	An insurance scheme that is offered to a group of individuals, typically through an employer or organization.	•Reduces transaction costs •Large groups can benefit from economies of scale and lower premiums	•Requires continued group membership to benefit •Limited customization of plans to individual needs	●●	●●●	●●●	•Employer-provided insurance schemes
Community-based insurance	An insurance scheme that is designed and managed by the community, with each member contributing to a pool of funds, which is used to provide coverage to members of the community.	•Community-led and managed •Can fill a coverage gap where there is a gap of formal insurance providers	•Size of funds limits amounts of payouts •Voluntary scheme (higher risk individuals are more likely to subscribe) •Some risks likely to affect many community members (e.g., weather event)	●	●●	●●	•Community-based health insurance (CBHI) schemes
Index-based insurance	An insurance scheme under which subscribers do not submit individual claims but receive automated payments when certain events occur (e.g., heavy rainfall, drought).	•Rapid payouts using publicly available data •Simple to understand for subscribers	•Payments are not linked to individual claims – risk of underpaying or overpaying •Appropriate for weather-related risks, harder to implement for other types of insurance	●●●	●●	●●●	•ACRE Africa
Government-subsidized insurance	An insurance scheme subsidized by the government, either through grants to insurance providers or partial coverage of premiums or claims.	•Lowers the cost of individual premiums for customers •Lowers the risk of insurance providers	•Requires strong government capacity •Setting subsidies at the appropriate level can be difficult	●●●	●●●	●●●	•Pradhan Mantri Fasal Bima Yojana (India) •Seguro Popular (Mexico)
Public-private partnerships	A partnership between the government and one or more private insurers to provide affordable insurance to specific populations.	•Can be combined with policy changes to improve regulatory environment	•Development and implementation can be lengthy and complex •Requires strong government capacity	●●●	●●●	●●●	•Philippine Crop Insurance Corporation-CARD Pioneer Partnership

FINANCING RESILIENCE & FINANCIAL INCLUSION: RECOMMENDATIONS

1. DEVELOP DIGITAL SAVINGS GROUPS ADAPTED TO THE NEEDS OF THE YOUTH	
FINANCING RECOMMENDATIONS	
Stakeholders	**Recommendations**
Funders (excl. governments)	• Use grants and impact investing products to seed and grow digital solutions that can connect youth savings groups to formal financial institutions (e.g., traditional grants, returnable grants, forgivable loans, venture philanthropy investments – products that enable innovators to invest and take risks without immediate pressure to repay) or that can give youth access to a fully digital savings group platform
BEYOND FINANCE	
Stakeholders	**Recommendations**
Youth and youth-focused civil society organizations	• Systematically introduce the use of digital tools within the informal savings groups model by seeking out partnerships with formal financial institutions, and support groups with access to devices, data and digital literacy training
Financial institutions	• Develop a digital youth savings groups offering as a potential pathway towards a more comprehensive set of digital financial services, which will enable youth to build a financial history and saving track record
Governments	• Enforce an appropriate regulatory framework for digital savings groups to ensure young people are protected from potentially predatory practices

2. INVEST IN DIGITAL FINANCIAL SERVICES TO REACH AND SERVE UNBANKED YOUTH IN A COST-EFFECTIVE WAY	
FINANCING RECOMMENDATIONS	
Stakeholders	**Recommendations**
Funders (excl. governments)	• Use grant funding and impact investing products (same as above) to seed and grow innovative models that can increase youths' access to basic financial services by reducing transaction costs and/or increasing revenue
BEYOND FINANCE	
Stakeholders	**Recommendations**
Youth and youth-focused civil society organizations	• Partner with financial institutions to develop youth-friendly digital financial products and services
Financial institutions	• Consider the youth as a growth opportunity and innovate or partner to develop viable commercial models to serve this customer segment (i.e., volume-driven models that rely on processing many small transactions rather than fewer large ones)
Governments	• Develop a youth-friendly regulatory framework for financial services, including minimal age restrictions on access to financial products, youth-focused consumer protection policies, and an adequate enabling environment for a broader range of formal and semi-formal financial institutions (fintech, agent banking, savings cooperatives, etc.)

3. PARTNER WITH FINANCIAL INSTITUTIONS TO DELIVER FINANCIAL EDUCATION ALONGSIDE FINANCIAL SERVICES	
FINANCING RECOMMENDATIONS	
Stakeholders	**Recommendations**
Funders (excl. governments)	• Use impact investing products to seed and grow innovative models of financial education delivery with which financial institutions can partner (e.g., traditional grants, returnable grants, forgivable loans, venture philanthropy investments – products that enable innovators to invest and take risks without immediate pressure to repay) • Extend concessional financing and technical assistance to financial institutions with an explicit focus on financial literacy
BEYOND FINANCE	
Stakeholders	**Recommendations**
Financial institutions	• Evaluate the business case of increased financial literacy (e.g., impact of increased financial literacy on transaction frequency, volume of deposits, loan sizes, repayment rates, etc.) and reinvest funds generated by increased revenue to develop financial education resources tailored for young adults, including saving, budgeting and credit basics; these resources may be developed in partnership with specialized youth-focused organizations • Seek out innovative partners to deliver financial education resources more effectively and at scale (e.g., using online platform, mobile app, or a text-based service)
Governments	• Partner with financial institutions to deliver a financial education curriculum within public school and higher education curricula (for instance, governments could pay a nominal fee/student to enable access to online financial education platform and resources; or could fund the development of such resources as a public good)

FINANCING RESILIENCE & FINANCIAL INCLUSION: PROMISING PRODUCT

Product #11: Digital Youth Savings Groups

The challenge

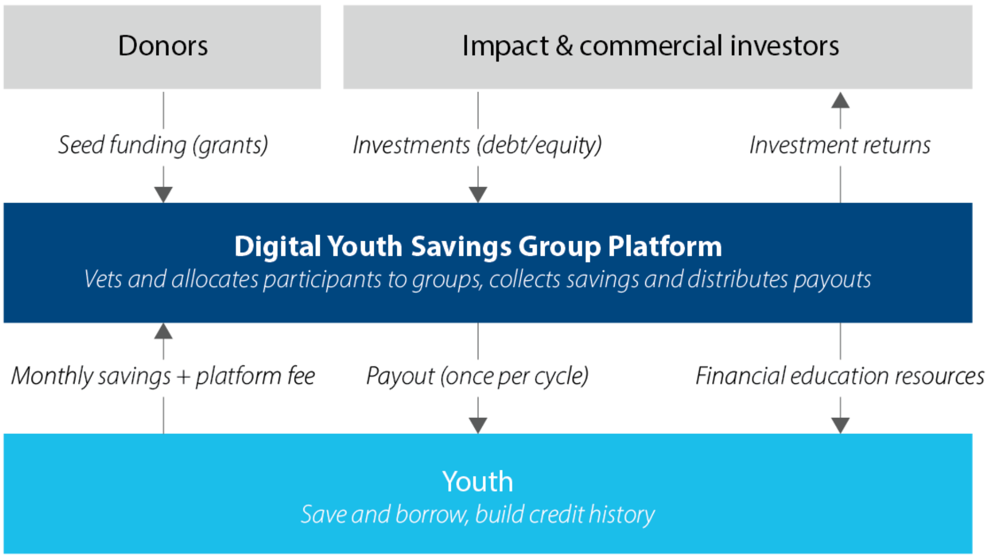
Traditional in-person savings groups do not work well for the youth, who are often mobile in their early adulthood.

The solution

A digital version of traditional savings groups to provide unbanked youth with a simple way to save.

Scalability	Effectiveness	Sustainability	Ease of implementation
●●●	●●●	●●●	●

Structure



Design parameters

Scale: multiple thousands of users, no upper limit

Initial capital requirement: US$1m for initial development and setup costs, additional investment required to support scaling and growth

Type of capital: grant funding + investment capital (debt/equity)

Design features:

- User-friendly platform designed to enable young adults to save and borrow small amounts of money
- Platform allocates users to virtual savings groups based on their budget and borrowing needs
- Platform uses alternative risk assessment tools (e.g., AI-based screening of social media, contacts, etc.) to vet and assess user creditworthiness; users can improve their credit rating over time through timely repayments
- Users save monthly on the platform and receive one payout by cycle
- Platform fees are based on their place in the cycle (earlier payouts come with higher fees); platform operating costs are covered by these user fees
- Grant funding can be used to provide a first-loss guarantee for investors

Inclusion considerations:

- Platform should consider the needs of different groups of youth to ensure it is as accessible as possible (e.g., youth without access to a smartphone, unbanked youth, undocumented youth, etc.)

Key success factors

- Prevalence of informal savings groups in the economy (i.e., cultural fit for the product)
- Pre-existing mobile money/mobile banking services

• Ability to vet applicants with basic information (e.g., ID, address) and alternative credit assessment tools • Minimum digital literacy rate in the population • Supportive regulatory framework (including platform ability to vet members based on ID, address and references, privacy & security laws to protect users' data and funds)
Value proposition
• More flexible than traditional savings groups (access to a much larger network, no need to know other group members) • Supportive of youth's mobility (group members do not need to share the same location) • Ability to request a loan at any time in a saving cycle • Youth build a digital financial history and repayment track record, which can be used to unlock other financial services • Access to online financial education resources
Expected impact
• Increased youth financial inclusion • Increased youth financial literacy
Inspiring example
• **Oraan** (Pakistan, women-focused) – 10,000+ users across 170+ cities

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

Youth unemployment and underemployment is a complex, multi-faceted and persistent issue. There is no single solution that can solve it permanently and at scale; instead, a combination of tools and approaches that accounts for the variety of young people's needs is required to achieve significant impact. Many models have been tried over the years, often unsuccessfully[189]. Yet, as illustrated by the collection of case studies and the promising products highlighted in this report, there is an increasing number of scalable solutions and approaches that have demonstrated their effectiveness for youth employment and entrepreneurship. Governments, philanthropic funders and impact investors can, and should, use their resources strategically to push these solutions forward.

KEY TAKEAWAYS

Four overall takeaways came out of this research:

1) **Understanding the underlying causes of youth unemployment in a community is key**

As illustrated in the analytical framework of the report, youth unemployment can be caused by issues on the supply side (lack of skills), issues on the demand side (lack of jobs), or skills-jobs matching issues. Each of these issues calls for different types of solutions: adding more skills into an economy that is not creating enough jobs, for instance, is unlikely to have a significant impact. By matching issues to solutions, this report provides a detailed roadmap for stakeholders seeking to identify the most promising intervention opportunities for their local context.

2) **How funding is used matters as much as how much funding is available**

It is easy to assume that the size of the total funding available for youth employment and entrepreneurship interventions is the main issue: find more money, expand existing programs, get more youths into jobs. However, this presumes that all interventions are effective at matching the youth to economic opportunities. In fact, there is often a lack of evidence to support the actual impact of youth employment and entrepreneurship programs, or worse, evidence of a lack of impact. While this situation suggests a large waste of public resources, it also represents a significant opportunity: improving the impact of existing funds may be easier than finding new sources of capital, and financing tools can help drive up program effectiveness by introducing different incentives for the stakeholders involved.

3) **Financing mechanisms and tools requires expertise to be used effectively – but are not necessarily complex to implement**

Just as managing government funds requires a different skillset than grant-making, deploying investment capital effectively requires having the right expertise to do so. This includes having a team with the right skills to assess, structure and manage investments, setting up appropriate internal risk-management processes, and above all, developing a willingness to take risks (the only certainty in investing being that some investments *will* fail). For some institutions, this can represent a significant organizational and mindset shift, a shift that should not be undertaken lightly. Rather than starting from scratch, such institutions may find it preferable to work through intermediaries, such as impact funds, that have the right expertise and on-the-ground networks and can aggregate capital from a variety of sources, thus enabling larger investments in the most effective interventions. This need for expertise does not imply that these financing mechanisms are necessarily complex to implement – only that they require the right setup and mindset to do so effectively.

4) **Cross-sector collaboration is critical for effectiveness and sustainability at scale**

While managing different sets of stakeholders with different priorities can be complex, successful models at scale always involve a close collaboration with both the

[189] Kluve et al., *Do Youth Employment Programs Improve Labor Market Outcomes? A Systematic Review*, 2016

public and the private sector. The scale that government programs can reach is usually unmatched by private programs, and while changing government policies and practices can be slow, it also has the potential to yield significant impact. And yet, the private sector is where the majority of jobs and economic opportunities for young people are being created: it is therefore essential that programs are designed to meet the needs of these stakeholders.

With these takeaways in mind, the table below summarizes the key recommendations in each of the four issue areas identified in the report, along with the most promising products for each area.

Tab. 18: FinYouth – Summary of recommendations

ISSUE AREA	RECOMMENDATIONS	PROMISING PRODUCTS
1. Financing skills *Programs and products on the supply side*	1.1. Develop & invest in scalable results-based financing models to fund skilling programs 1.2. Use career bonds to fund high-impact skilling programs 1.3. Develop public-private financing models for work-based learning	1. Career Financing 2. Workforce Development Outcomes Fund 3. Government Incentive Fund 4. Apprenticeship/Internship Fund 5. Public-Private Skills Centers
2. Financing jobs & entrepreneurship *Programs and products on the demand side*	2.1. Develop & invest in large-scale livelihoods funds adapted to the needs of youth entrepreneurs 2.2. Invest in youth-employing SMEs through specialized impact funds 2.3. Develop partnerships and online delivery models to increase access to business development services	6. Livelihoods Fund 7. Youth Impact Fund 8. Project Finance for Youth Employment
3. Financing connections *Programs and products to match supply and demand*	3.1. Use grants and concessional capital to make catalytic investments in job-matching platforms tailored to the needs of the youth 3.2. Use results-based financing models to demonstrate the value and effectiveness of job search assistance programs (including mentorship) 3.3. Reallocate funds allocated to youth wage-subsidy programs towards more effective interventions	9. Youth Connect Innovation Fund 10. Formal Work Fund
4. Financing resilience & financial inclusion *Programs and products to build financial security*	4.1. Develop digital savings groups adapted to the needs of the youth 4.2. Invest in digital financial services to reach and serve unbanked youth in a cost-effective way 4.3. Partner with financial institutions to deliver financial education alongside financial services	11. Digital Youth Savings Groups

NAVIGATING PRODUCT RECOMMENDATIONS

The eleven product recommendations included in the report will appeal to different types of funders, depending on their areas of interest, institutional profile, type of capital available, risk appetite and return expectations.

To get started, funders should first seek to define their investment/funding targets and constraints, including:

- **Issue areas**, e.g., skilling, job creation, skills-jobs matching, financial resilience and inclusion (and any specific sub-issues within these broad areas)
- **Geographic priorities** and the associated local labor market dynamics (high growth v. low-growth, skilled v. low-skilled workers, capital intensive v. labor intensive industries, etc.)
- **Impact desired**, e.g., in terms of scale, depth and long-term sustainability
- Investment/funding parameters, including:
    - Type of capital available (e.g., grants, debt, equity)
    - Target returns (if any) and level of risk
    - Duration of funding/investment
    - Size of funding/investment
    - Team capacity for oversight and portfolio management
    - Interest in doing something directly v. investing in others (e.g., investment fund)
- **Type of partners desired**, such as commercial banks, DFIs, governments, or other investors

With these parameters in hand, funders can then refer to the table on the next page, which maps each promising product to its impact area and highlights key requirements, capital required and high-level assessment of scalability, effectiveness, sustainability and ease of implementation.

Different lenses can be used to read this table and help funders identify the products most appropriate for them:

- Funders that want to target a specific problem in their labor market should refer to the two first columns to narrow down the list of products based on the solutions they offer.
- Funders that are primarily concerned about scale, effectiveness, sustainability or ease of implementation can use the product characteristics columns to identify the products that best match their priorities.
- Funders that are restricted to a particular type of capital (e.g., grant funding or impact investments) should refer to the last four columns to identify suitable products for this type of capital.

These product recommendations should be seen as models that will need to be customized to the local context. As such, they are meant to inspire and encourage further exploration by interested stakeholders.

CONCLUSION

Achieving sustainable, significant impact at scale on youth unemployment is possible. As this report has demonstrated, a broad range of solutions exist to fund youth employment and entrepreneurship interventions beyond traditional grants and government budgets. Critically, a lack of funds is rarely the sole issue. In many cases, there is enough funding available to support effective interventions, but funds may be used inefficiently or fragmented over multiple small-scale solutions. Bringing more attention to how existing funding is used and shifting incentives towards desired outcomes would have a transformative impact on youth employment ecosystems globally. This would be a critical step forward for the millions of talented young people worldwide that aspire to work, grow and contribute productively to their communities.

Tab. 19: FinYouth – Promising Products

				Product characteristics				Type of capital required			
Issue targeted	**Impact sought**	**Product**	**Key requirements *(non-exhaustive)***	**Scalability**	**Effectiveness**	**Sustainability**	**Ease of implementation**	**Government funding**	**Grant funding**	**Impact investing**	**Commercial financing**
Supply gap (skills gap) in the labor market: there are enough job openings for unemployed youth, but young people do not have the right skills, experience or support to access these jobs.	Increasing access to skilling programs	**1. Career Financing**	• Growing economy with high demand for technical skills • Ability to track income & collect payments	●●●	●●●	●●●	●●		✓	✓	✓
	Increasing placement and retention rates of skilling programs	**2. Workforce Development Outcomes Fund**	• Growing economy with high demand for vocational skills • High-quality, high-capacity skilling providers with evidence of high placement/retention rates	●●●	●●●	●●	●●	✓	✓	✓	
		3. Government Incentive Fund	• Growing economy with high demand for vocational skills • High-quality, high-capacity skilling providers with evidence of high placement/retention rates	●●●	●●●	●●●	●●	✓	✓		
	Increasing work-based learning opportunities	**4. Apprenticeship/ Internship Fund**	• Growing sector with high demand for specific technical skills requiring practical experience supported by classroom education • Pre-existing coordination mechanism between employers (or willingness to build one)	●●●	●●●	●●	●●●	✓	✓		
	Increasing the capacity of the skilling ecosystem	**5. Public-Private Skills Centers**	• Employers with an unmet need for skilled employees • Existing coordination mechanism for employers	●●	●●●	●●	●		✓		
Demand gap (jobs gap) in the labor market: the economy is not creating enough new jobs to absorb unemployed youth and youth entering the labor market.	Increasing access to finance for youth entrepreneurs	**6. Livelihoods Fund**	• Strong partnerships with local organizations that have existing connections to aspiring entrepreneurs and resources to manage grants/investments • Strong partnerships with providers of business development services and entrepreneurship support programs	●●●	●●●	●●	●●		✓	✓	
	Increasing access to finance for youth-employing businesses	**7. Youth Impact Fund**	• Experienced fund manager with solid on-the-ground presence • Small ticket sizes and mix of investment products (debt/equity) to best meet the needs of MSMEs	●●	●●●	●●●	●●●		✓	✓	✓
	Creating market links and developing value chains	**8. Project Finance for Youth Employment**	• Significant foreign investments into infrastructure (or other targeted sector) • Enough local youth, with the appropriate skills, to meet projects' hiring needs • Verification and enforcement mechanism	●●●	●●●	●●●	●			✓	

				Product characteristics				Type of capital required			
Issue targeted	**Impact sought**	**Product**	**Key requirements *(non-exhaustive)***	**Scalability**	**Effectiveness**	**Sustainability**	**Ease of implementation**	**Government funding**	**Grant funding**	**Impact investing**	**Commercial financing**
Matching issue between the supply and demand of labor: the economy is growing and creating jobs and the youth have the skills and experience that employers are looking for, yet many of these youth remain unemployed.	Connecting young jobseekers to employers	**9. Youth Connect Innovation Fund**	• Rigorous selection process • Pre-commitment of partner impact investors to provide follow-on capital • Well-designed accelerator program with demonstrated ability to take businesses from the ideation to growth stage	●●	●●●	●●	●●●		✓		
	Decreasing hiring and employment costs for formal work	**10. Formal Work Fund**	• Sufficient formal entry-level work opportunities • Robust government capacity • Available data on informal/formal wage differential	●●●	●●●	●●	●●	✓	✓		
Low levels of financial resilience: young people remain financially vulnerable despite access to economic opportunities.	Enabling youth to save	**11. Digital Youth Savings Groups**	• Prevalence of informal savings groups in the economy • Pre-existing mobile money/mobile banking services • Ability to vet applicants with basic information (e.g., ID, address) • Minimum digital literacy rate	●●●	●●●	●●●	●		✓	✓	✓

ANNEX: KEY CONCEPTS & DEFINITIONS

GENERAL DEFINITIONS

- **Employment:** in the context of this report, we use the term "employment" as an umbrella term including any type of productive income-generating activity, including formal wage employment, informal wage employment and self-employment/entrepreneurship.
- **Job:** similarly, in the context of this report, we use the term "job" in a broad sense, including formal wage employment, informal wage employment and self-employment/entrepreneurship.
- **Youth:** young people aged 15-29 (note: some countries have a broader definition of youth, such as Kenya or Senegal, which categorize young people aged 15-35 as youth).
- **Opportunity Youth:** youth aged 15-29 who are out of school, unemployed or underemployed.

FINANCIAL PRODUCTS

Government policies & spending

These are financial tools used by national governments and public bodies to support youth employment and entrepreneurship. They include the following:

- **Tax instruments**, which includes all the tools that governments use to raise revenue and can be used to promote and fund specific policy objectives (for instance, tax credits for youth-employing, levies to fund skilling programs);
- **Public subsidies**, defined as cash payments to individuals or firms (for instance, subsidies paid to companies to cover the wages of young workers); and
- **Public youth employment programs**, such as public sector jobs reserved for the youth, usually as fixed-term contracts and designed to help them gain professional experience (such as public summer employment programs) and/or apprenticeship programs sponsored by the government.

The funding for such instruments may come either from government revenue (i.e. taxation) or, for some countries, Overseas Development Assistance (ODA) provided by bilateral donors or multilateral organizations as direct budget support. These financial products do not generate a financial return.

Grant-based products

Grants are lump sums given to individuals or organizations for a specific purpose. In the context of youth employment, for example, an organization might receive a grant to run a skilling program or a youth entrepreneur might receive one to start a new business. Under a traditional grant structure, funders do not receive any capital back from the grantee. For the purposes of this report, we have distinguished four types of grant-based products:

- **Program-related grants** are funds given to an organization for the purpose of delivering specific services, e.g., a skilling or job search assistance program.
- **Cash transfers** are a direct transfer payment of money to an eligible individual. Cash transfers can be conditional (e.g., only awarded to people who meet certain criteria, such as enrolling children into school), or unconditional.
- **Scholarships** are grants given to students for the purpose of financing an education program, usually awarded on the basis of academic achievement or financial need.
- **Vouchers** are a type of grant with specific conditions set on how the funds can be used. For instance, a government might issue vouchers to young people to cover the costs of vocational training at a set of pre-selected institutions. In such a case, students would

present the vouchers to the training institutions, who would then ask the government for repayment.

- **Seed grants** are small grants given to entrepreneurs to enable them to develop their business idea up to the point where they can attract external sources of funding (e.g., loan from a bank).

Impact investing

Impact investing covers a broad range of financial products that are used to produce both social and financial returns. There is no universally agreed definition of what can be considered impact investing, and financial return expectations associated with these products can go from capital preservation (0% return) to market-rate returns. In the context of this research, we have included the following products under the impact investing umbrella:

- **Recoverable grants:** these are grants that are partly or fully repaid by the recipient if they reach a predetermined success threshold[190] (e.g., getting a job, earning above a set income level, etc.).

- **Returnable grants:** similar to recoverable grants, these are grants that are repaid by the recipient when they feel they are in a position to do so (unlike a recoverable grant, the obligation to repay is moral rather than contractual).

- **Convertible grants:** these are grants to early start-up businesses that are converted into an equity stake if the business is successful (as defined by set indicators in the funding agreement).

- **Forgivable loans:** these are loans that are converted into grants in cases of success. Unlike recoverable and convertible grants under which the funder bears the risk of failure, a forgivable loan places the risk with the grantee, thus creating an incentive for them to reach their impact targets.

- **Mission- and program-related investments (MRIs and PRIs):** investments made by philanthropic organizations that further their impact objectives. While the primary purpose of PRIs is to achieve the social impact goals of the organization with limited expectations around financial returns, MRIs constitute a foundation's endowment and tend to seek market-rate returns.[191]

- **Venture philanthropy**: impact investments that replicate the approach and tools of traditional venture capital (VC) financing, such as very active investor engagement. Venture philanthropy is typically used to invest in social enterprises at the startup or growth stage and focus on rapidly bringing highly impactful models to scale.

- **Catalytic investments (concessional finance)**: investments made with below market return expectations and specific impact goals. Catalytic investments are product-agnostic and can be executed as debt, quasi-equity or equity transactions. They can be offered as standalone products (e.g., concessional loans) or be used to mobilize additional private investment capital as part of a blended finance structure.

- **Credit enhancement tools:** financial products that improve the credit worthiness of an investment opportunity to make it attractive to private investors seeking market returns. These include first-loss capital, guarantees and risk-sharing facilities.[192]

- **Directed lending**: loans extended to financial institutions (e.g., banks), typically by Development Finance Institutions (DFIs), to be used for on-lending to an underserved market segment, such as women, the youth, or small and medium enterprises (SMEs).[193]

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[190] Recoverable grants may also be structured as loans that must be paid back only upon reaching the predetermined success threshold.
[191] Mission Investors Exchange, *An introduction to Mission-Related Investments*, accessed September 2022
[192] Global Impact Investing Network, Catalytic First-Loss Capital, 2013
[193] CDC Group, Directed Lending: Current Practices and Challenges, 2021

- **Loan crowdfunding (impact-driven):** loans facilitated by an internet platform and funded by many small individual investors (the "crowd") seeking to use their capital for social impact.[194] These loans can be easier to secure for borrowers underserved by traditional financial institutions.

- **Microfinance:** small loans provided to low-income individuals underserved by traditional financial institutions. Microfinance sits at the frontier between impact investing and commercial financing. While it provides capital to individuals who would otherwise be unable to access capital (therefore increasing financial inclusion) and loans are often complemented by non-financial services (such as financial literacy classes), some microfinance institutions (MFIs) are for-profit organizations and lending rates can be higher than those offered by commercial banks. **Microinsurance**, which offers insurance products targeted to the needs of low-income populations (with affordable premiums and simplified terms), can be considered a form of microfinance.

Finally, while much more informal than the financial products presented above, many community **savings groups** allow their members to borrow at low interest rates to invest in an income-generating activity. Because this is akin to an informal microfinance product, we have categorized it under the impact investing category.

Blended finance is not a financial product in itself but a type of investment structure that combines grants and/or impact investments (concessional capital) with private investments at market rates. The concessional capital in a blended finance structure is used to attract private investors by decreasing their overall risk and/or increasing their expected returns and increase the overall amount of capital invested.[195]

Commercial financing

Commercial financing refers to the range of financial products that provide capital to support business growth or individual consumption. It includes the broad asset classes of **debt** (including consumer and corporate lending, supply chain financing and receivables financing) and **equity** (including angel investments, venture capital and private equity), as well as quasi-equity instruments. While some of these products may take into consideration some social outcome indicators (e.g., "**socially responsible investments**") to select investment opportunities, these products are financial transactions that are primarily driven by financial return objectives.

Peer-to-peer lending is a form of commercial financing where loans are facilitated by an internet platform that connects borrowers directly to individual "peer" lenders, cutting out traditional financial intermediaries such as banks.

Results-based financing

Results-based financing (RBF) covers all financial structures in which all or part of the funding is tied to the achievement of specific outcomes by the organization or company receiving the funding (such as young people placed into jobs), rather than to the delivery of outputs and activities (such as a skilling program). This type of structure incentivizes service providers to focus on results and to continuously learn and improve their approaches while ensuring value for money for funders.

RBF overlaps with the four previously defined categories: indeed, depending on the funding structure, the terms of the funding and the nature of the funding organization, an RBF model can be considered a government expenditure, a philanthropic grant, an impact investment or a commercial investment. This is a field that has been evolving rapidly in recent years. RBF models include the following:

- **Outcomes-based contracts** (also referred to as performance-based contracts): funding

[194] Note that not all crowdfunding platforms are impact-driven. For instance, some focus on raising funds from individuals with shared artistic tastes or hobbies and can be invested to develop products of interest to such individuals (e.g., musical recording).
[195] More information here.

agreements under which service providers are paid upon the achievement of specific outcomes.

- **Social impact bonds (SIBs)**: a funding structure where one or more investors provides upfront capital to a service provider to deliver specific activities and is repaid at a premium by a government body (the "outcome payer") upon the achievement of specific outcomes.
- **Development Impact Bonds (DIBs)**: a SIB where the outcome payer is a philanthropic or development organization/agency (or a consortium of such organizations).
- **Social Impact Guarantees (SIGs)**: a funding structure where the government contracts a service provider and one or more investors commit to paying back the government if specific outcomes are not achieved by the service provider.
- **Social Impact Incentives (SIINCs)**: a funding structure that rewards social businesses for achieving specific impact outcomes with returns paid back to the initial investors in the business.
- **Impact-linked loans**: a loan with an interest rate that decreases if the loan recipient achieves pre-agreed impact objectives.
- **Outcomes Funds:** a fund that pools funding from governments and/or philanthropic and development organizations/agencies to finance a set of standardized SIBs or DIBs.

Income- and revenue-share agreements

Income- and revenue-share agreements are debt instruments which repayment terms are linked to the borrower's income (for an individual) or revenue (for a business):

- **Income-share agreements (ISAs) and outcomes-based loans (OBLs), including career impact bonds (CIBs)**: a contract under which an individual receives funding for a specific activity (e.g., skilling program), which is only repaid if a specific outcome is achieved (e.g., finding a job above a set income threshold). With an ISA, individuals pay out a predetermined share of their income for a fixed period of time. With an OBL, individuals repay the funding as a loan with pre-agreed terms. CIBs are ISAs and OBLs used for the purpose of financing the cost of skilling programs for students. CIBs often include non-financial support services for students, such as job preparedness training.
- **Revenue-share agreements and revenue-based financing**: funding agreements under which a business repays investors with a share of its revenue for a fixed period after reaching a specific revenue threshold.

SOURCES OF CAPITAL

Governments

Employment, and especially youth employment, is one of the top priorities for most governments. The public sector is a primary source of funding for youth employment and entrepreneurship initiatives deployed either through government programs and fiscal measures (e.g., levies and tax credits) or through grants to service providers (e.g., skilling institutions). Governments can also set up national development banks to invest in the private sector (e.g., Small Industries Development Bank of India). Government-funded programs tend to have a broad reach and the potential to deliver impact at scale.

Philanthropic institutions

Philanthropic institutions are nongovernmental, nonprofit organizations funded by private donors that deploy capital to address select social issues, such as youth unemployment. Historically, philanthropic institutions have primarily operated through grant-making, but many are now exploring impact investing and results-based financing as new funding instruments to achieve their goals.

International Financial Institutions

International financial institutions (IFIs) invest public capital to foster economic development and achieve social impact, including through job creation. They can be set up as multilateral organizations (pooling funds from multiple countries[196]) or bilateral organizations (funded by one donor country only[197]). Within the umbrella of IFIs, development banks work primarily through loans to the public sector, while development finance institutions (DFIs) use a broader set of instruments to invest in the private sector.

Commercial banks

Banks support youth employment and entrepreneurship by providing access to capital to youth-led and youth-employing businesses and funding for skilling programs (through student loans). Some banks also support financial inclusion initiatives that enable the youth to access these more formal financial services.

Non-Bank Financial Institutions

Non-bank financial institutions (NBFIs) are financial institutions that provide bank-like services (such as loans) but do not have a full banking license and cannot accept deposits from the public. NBFIs include fintech companies (companies that provide financial services with an innovative technology component), MFIs, some of which now have banking licenses, and savings and credit cooperative organizations (SACCOs).

Investment funds

Investment funds pool investment capital from multiple parties, which may include IFIs, banks, corporates and individuals), providing expertise and lowering overall investment costs for each investor. Investment funds tend to specialize by asset class (e.g., debt, equity, quasi-equity), sector (e.g., infrastructure, financial sector) and/or type of capital provided (e.g., venture capital, growth capital).

Impact funds are investment funds that explicitly pursue impact objectives alongside their financial return objectives.

Corporates

Private sector companies can support youth employment and entrepreneurship initiatives as part of their core business strategy (e.g., employing the youth or working with youth-led or youth-employing suppliers), as well as by funding programs as part of their corporate social responsibility activities (e.g., mentorship or skilling program).

Individuals

Finally, individuals can also be a source of funding for youth employment and entrepreneurship programs. HNWI, or people who have liquid assets valued at US$ 1 million or more, can use their funds for philanthropic purposes or invest them with a social impact lens (for example as “angel investors” in startups and early-stage businesses). At a smaller scale, online crowdfunding and peer-to-peer lending platforms enable a much broader range of individuals to invest in and support specific impact objectives.

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[196] E.g., World Bank or Inter-American Development Bank.
[197] E.g., US Development Finance Corporation or British International Investment.

FINYOUTH WORKING GROUP

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