

# Unlocking High- Growth Potential:

The Case for Redirecting  
Capital to the Missing Middle



# Contents

Introduction	3
The case for investing in the missing middle	5
Why Young Entrepreneurs in the Missing Middle Offer Better Returns	6
Redefining the Missing Middle: Who Is Being Overlooked?	8
Identifying High-Growth Potential Beyond Financial Track Record	10
Why These Alternative Indicators Matter	13
A Clear Call to Action	20

# Introduction

Across the globe, young entrepreneurs aspire to build businesses that generate income, serve local markets, and create jobs.

Due to a lack of appropriate and available finance, many of these businesses are unable to scale and reach the impact they aspire to. A large proportion of these businesses are not the microenterprises that have access to microfinance, nor are they venture-backed start-ups that are seeking rapid exits. Instead, they sit in the “missing middle” as early-growth businesses with proven demand and ambition but stuck within a system that denies them the right kind of capital or support to move to the next business stage.

This financing gap is not a marginal issue. It reflects structural shortcomings in how investment decisions are made and how growth potential is defined and denied, particularly for youth-led and underserved enterprises. For example, young entrepreneurs often lack the banking history, collateral, and business expertise that financial institutions require in their lending. As a result, capital systematically bypasses entrepreneurs who are constrained by context rather than capability, including women, young founders, refugees, rural entrepreneurs, and those operating in traditional sectors.



Youth Business International (YBI) supports young entrepreneurs (18-35) across diverse markets and ecosystems and sees this gap first-hand. It has found that when capital is paired with investment readiness support, these businesses grow, hire, and strengthen local economies. This paper makes the case for redirecting investment toward the missing middle – not as a matter of charity, but as a high-impact, cost-effective strategy for inclusive growth, job creation, and long-term economic resilience.

Providing well-targeted capital to underserved young entrepreneurs in the missing middle represents one of the highest-leverage opportunities for inclusive economic growth. By adopting a more multidimensional approach to growth potential, investors and support providers can better target capital toward businesses that are poised to scale.

This paper lays out strategies that can target underserved entrepreneurs with investment readiness support and well-designed capital. With these changes, funders and policymakers can unlock growth where it is currently constrained, transforming the 'missing middle' of ambitious young entrepreneurs into a powerful driver of inclusive economic growth and job creation.



YBI members at the High Flyers Community of Practice in-person meeting 2024

# The case for investing in the missing middle

Globally, SMEs, including youth-led businesses, face persistent finance gaps that reflect structural deficiencies in how capital is allocated.

According to the latest IFC–World Bank MSME Finance Gap Report, the SME finance gap is estimated at about US \$5.7 trillion across 119 emerging and developing economies, equivalent to roughly 19% of GDP and 20% of total private sector credit. Roughly 40% of formal MSMEs are credit-constrained, including many that are poised for growth but lack access to appropriate investment vehicles. Women-owned enterprises alone account for about US \$1.9 trillion of unmet demand, a powerful indicator of how traditional finance models overlook underserved segments.

Capital markets reflect this mismatch. On one end of the spectrum, microfinance provides survival-level liquidity but is structured for very small loans unsuited to finance meaningful growth. On the other, venture capital and private equity have increasingly concentrated on a narrow set of high-risk, high-return technology or innovation-heavy ventures,

often requiring significant market potential or early-stage performance before investment. This “pioneer gap”, particularly acute at early-to-middle stages where typical investment needs range from tens to hundreds of thousands of dollars, is poorly served by both microcredit and traditional VC, leaving the missing middle in a persistent funding vacuum.

This gap has real macroeconomic consequences. SMEs, which encompass many youth-led enterprises, account for around 90 per cent of worldwide businesses and more than half of global employment, according to the World Bank, yet struggle to scale without tailored capital. Access to finance is consistently cited as one of the most severe constraints on growth among SMEs, particularly in contexts where informal markets, infrastructure gaps, and transaction costs exacerbate the challenge.



SMEs account for around **90%** of worldwide businesses



and more than **50%** of global employment.

# Why Young Entrepreneurs in the Missing Middle Offer Better Returns

Redirecting investment toward underserved young entrepreneurs in the missing middle is not only equitable, but also economically sound.

However, many financial institutions are hesitant to invest in this segment not because the businesses are inherently riskier or less profitable, but because banks often lack the systems, data visibility, and tailored assessment tools needed to evaluate their track records and growth potential effectively. Limited access to reliable financial information makes smaller enterprises harder to assess using traditional credit models, leading lenders to perceive them as riskier than they actually are.

What is needed now is a wider spectrum of investment offering patient, appropriately sized capital from a range of actors, including impact investors, development finance institutions, blended finance vehicles, local banks, and VCs willing to widen their net beyond high-growth tech. Here's why:



**Acquila Kadzo Mwangeka, 30**

Mama Lucy Salon, Kenya

Supported by CAP YEI



## 1 Lower Risk – Businesses Already Generate Revenue

Unlike early start-ups that may still be experimenting with product-market fit, many missing-middle enterprises already generate revenue and have demonstrated operational viability. This existing traction can indicate lower downside risk when combined with the right supportive capital. However, in many emerging markets, financing is often concentrated in urban centres and directed toward larger, established firms, property, or businesses with tangible assets. Young entrepreneurs, even those with revenue, may lack the formal track record, collateral, or sector alignment that traditional banks require. As a result, viable businesses remain underserved by credit markets.

While equity investors may be more willing to absorb risk, debt financing systems in many contexts are not structured to assess or support these entrepreneurs effectively. Addressing these structural barriers is key to unlocking the full potential of missing-middle businesses.



## 2 Higher Impact – Job Creation and Economic Multipliers

SMEs, including many youth-led businesses, are core engines of employment and economic activity worldwide. The World Bank estimates that SMEs account for more than half of global employment and approximately 90 % of all businesses, making them critical to inclusive growth and labour market stability.

Recent analysis by the McKinsey Global Institute reinforces this: across 16 advanced and emerging economies examined, MSMEs account for around half of value added and between two-thirds and four-fifths of business employment, depending on the country context. Expanding access to growth-stage finance enables these businesses to invest, expand, and hire, unlocking productivity gains and reinforcing economic resilience at the local and national level.



**Zainab Abdallah Lugogo, 31**

Zenus Beauty Parlour

Kenya, Supported by CAP YEI

# Redefining the Missing Middle: Who Is Being Overlooked?

The missing middle is often treated as a single, homogeneous group, masking the distinct cohorts of young entrepreneurs whose growth potential is systematically underestimated and underfunded.

Women, youth, minorities, refugees, and entrepreneurs in rural or traditional sectors are less likely to access equity or bank credit and more likely to face structural deterrents to investment. These barriers are often compounded by intersectionality. For example, a young rural woman or a refugee entrepreneur may face overlapping constraints related to gender, age, geography, legal status, and network access, further narrowing their pathways to finance.



1

## Women-led enterprises

Women continue to face disproportionate barriers in accessing finance and growth capital due to systemic bias and structural barriers in financial markets. [OECD analysis](#)

indicates that women entrepreneurs are considerably less likely than male business owners to obtain bank loans or external financing, partly because financial products and lending processes are often poorly aligned with the needs of women-led enterprises. Standard loan amounts may be excessive, repayment periods too short, and investor preferences often skewed toward sectors less commonly pursued by women. In addition, lending frameworks frequently place disproportionate emphasis on collateral and guarantees. Even when women secure financing, they typically receive smaller amounts and face stricter conditions. Globally, women receive only around 2 per cent of total venture capital funding and, on average, secure about 70 per cent of the funding awarded to male-led businesses, according to an [OECD report](#).



2

## Entrepreneurs with disabilities

Entrepreneurs with disabilities face persistent structural barriers in accessing finance and business support. [Small Business Britain's Disability and Small Business Report](#) found that 55 per cent of 500 UK-based entrepreneurs with disabilities surveyed had received no financial support, while the [Disability Policy Centre's Access 2 Funding report](#) revealed that 84 per cent believe they do not have equal access to the same opportunities and resources as non-disabled entrepreneurs. This systemic exclusion not only constrains individual business growth but also represents a significant loss of economic potential at scale.



3

### Refugee and displaced entrepreneurs

Refugee entrepreneurs often demonstrate resilience and innovation, yet access to formal financial services remains limited. According to a 2023 UNHCR survey of 132 countries, only 62 countries recognised UNHCR or government-issued IDs as valid for opening bank accounts without significant restrictions, while 37 imposed restrictions and 21 offered no recognition. Those numbers were similar for mobile money accounts. Globally, refugees face additional barriers beyond legal recognition. The Migration Policy Institute (MPI) notes that even where refugees have the right to open accounts, financial institutions may be unwilling or unable to serve them, due to compliance burdens, limited documentation, or risk perceptions. These constraints restrict refugees' ability to build credit histories, access loans, and scale their businesses, despite their demonstrated entrepreneurial potential.



4

### Rural and peri-urban entrepreneurs

Geographic barriers compound financial exclusion. Data shows that global SME financing gaps can be exceptionally large in certain regions, e.g., an estimated US \$331 billion in sub-Saharan Africa alone, where many youth-led enterprises operate outside major capital hubs and lack access to both formal capital markets and investor networks.



5

### Entrepreneurs in traditional sectors

Finally, many young founders operate in traditional sectors that are often deemed lower growth by conventional investors. Yet these sectors represent vital links in local value chains and employment ecosystems. The failure to recognise their growth potential, whether due to reliance on narrow criteria such as revenue thresholds or a bias toward

technology or high-innovation labels, means that many promising ventures never reach their early scaling stage.

All these groups share a common experience: they are constrained, not unproven. Their challenges are not indicators of failure or lack of potential but reflections of structural barriers in existing finance and investment systems. Redefining the missing middle to explicitly account for the diversity of these underserved entrepreneurs is both an economic imperative and a first step toward unlocking inclusive, sustainable growth.



Redirecting capital toward these groups doesn't simply fill a finance gap, it mobilises talent that would otherwise lie dormant, unlocking local value chains, expanding employment, and spreading economic opportunity more broadly.

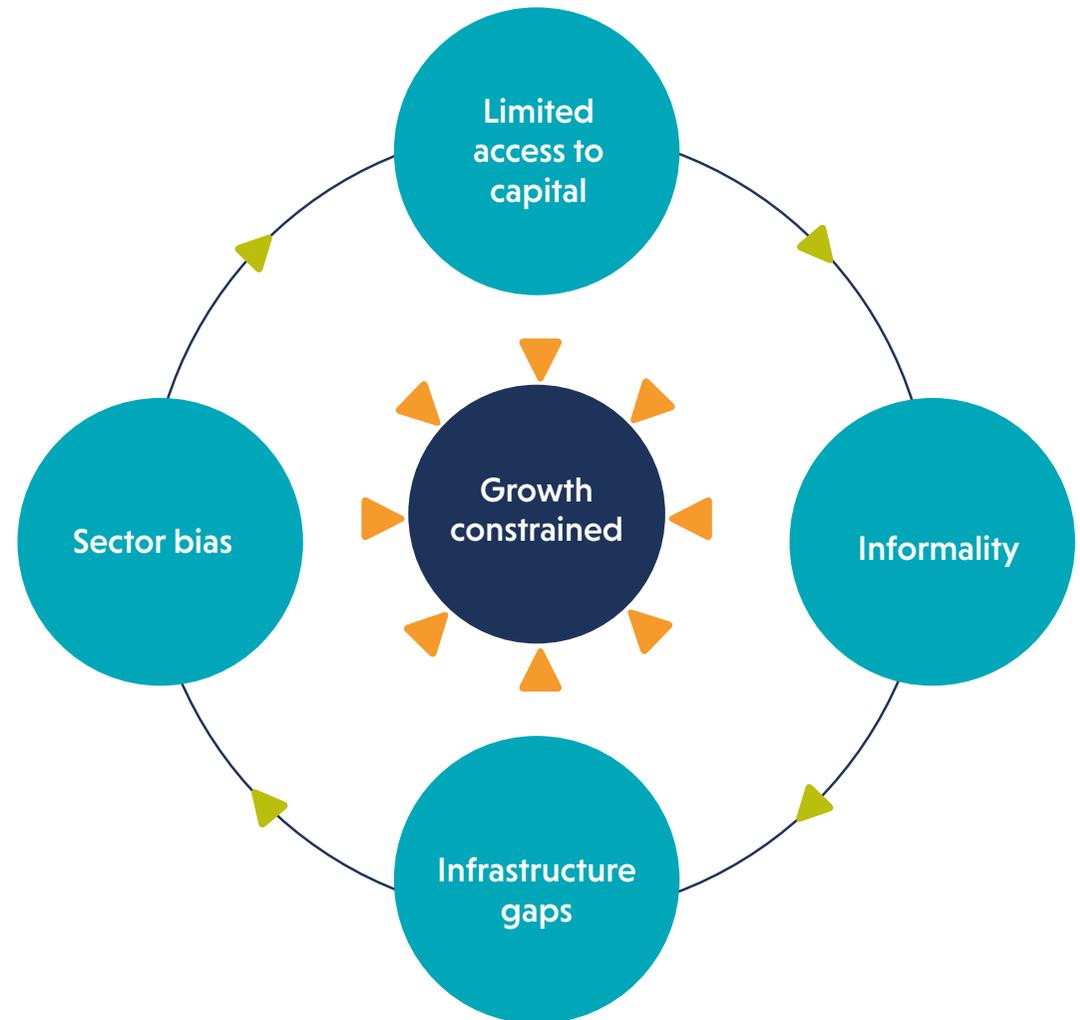
# Identifying High-Growth Potential Beyond Financial Track Record

Investment decisions typically draw on a range of financial indicators to assess viability and risk.

For debt providers, repayment capacity and cash flow stability are central considerations. Equity investors may place greater emphasis on profitability potential, market size, competitive positioning, and the strength of the team. Across both models, risk calculations combine historical performance with forward-looking projections to determine growth potential.

In underserved contexts, however, these indicators can be shaped as much by structural constraints as by entrepreneurial capability. Limited access to capital, informality, infrastructure gaps, and sector bias may suppress profitability, restrict cash flow visibility, or weaken formal financial track records, even where underlying demand and business fundamentals are strong. As a result, conventional risk metrics may underestimate the true growth trajectory of youth-led enterprises operating in constrained environments.

Recognising how context influences financial indicators is critical to identifying high-growth potential more accurately and ensuring that viable businesses are not overlooked due to structural limitations rather than intrinsic risk.



## Alternative Indicators of High-Growth Potential

Emerging research and ecosystem experience increasingly point to alternative, forward-looking indicators that more accurately signal a young entrepreneur's capacity to scale once constraints are eased.

These indicators capture abilities, intentions, and conditions that precede and ultimately enable revenue growth and profitability:



### Entrepreneurial Ambition, Behaviour, and Growth

Entrepreneurial ambition and behaviour are key predictors of business scaling and long-term success. A strong growth orientation, reflected in intentions to expand markets, hire employees, or increase impact, enhances entrepreneurs' ability to identify opportunities, adapt to change, and pursue development even when early financial returns are modest. Research consistently highlights the role of cognitive and motivational drivers, such as opportunity recognition, resilience, risk

tolerance, and proactive problem-solving, in enabling entrepreneurs to explore growth avenues beyond immediate gains. Together, these traits and ambitions form the foundation for sustainable expansion and innovation-driven development.



### Innovation and Value Creation

Innovation is not limited to technology start-ups, it can reflect novel business models, processes, or market outreach strategies that enable competitive positioning. Businesses that innovate in product, service, or delivery often unlock new customer segments and efficiencies, driving growth even before traditional revenue thresholds are met.



### Market Opportunity and Execution Capability

A clear understanding of market demand, unmet needs, and a founder's capability to execute against identified opportunities can signal strong potential for growth. These

qualitative dimensions, including strategic planning, network utilisation, and operational competence, are likely to correlate with performance once capital constraints are lifted.



### Job Creation Potential and Employment Intent

Indicators such as plans to create jobs, willingness to enter new geographic markets, and readiness to delegate or build teams are strong proxies for scaling potential. Focusing solely on short-term performance metrics can miss these employment-linked growth paths, especially where entrepreneurs are already contributing to local labour markets.



# Why These Alternative Indicators Matter

**Shifting focus to these dynamic growth indicators aligns with recent ecosystem insights where patterns of resilience, ambition, and innovation frequently precede and eventually drive measurable expansion once systemic growth barriers are removed.**

By adopting a more multidimensional approach to growth potential, investors and support providers can better target capital toward businesses that are not just surviving but are poised to scale.

## How to Redirect Investment Effectively

Redirecting capital toward underserved young entrepreneurs in the missing middle is not a question of inventing entirely new systems, it requires recalibrating existing investment models to better match the realities, risk profiles, and growth pathways of early-stage SMEs. Evidence from development finance, inclusive entrepreneurship support, and SME

finance shows that capital is most effective when it is designed intentionally, paired with capability, and targeted explicitly.

## Redesign Capital for the Missing Middle

Redesigning capital effectively requires a strong foundation of data, customer insight, and institutional readiness. Evidence from the Argidius-supported INVEST approach highlights that banks must first understand the size and composition of their SME customer base, segment it meaningfully, and build the internal systems, diagnostics, and performance tracking required to serve these segments effectively. Without robust market research, gender- and sector-disaggregated data, appropriate credit assessment tools, and aligned incentives, financial institutions struggle to design and deliver products that genuinely meet the needs of missing middle entrepreneurs.

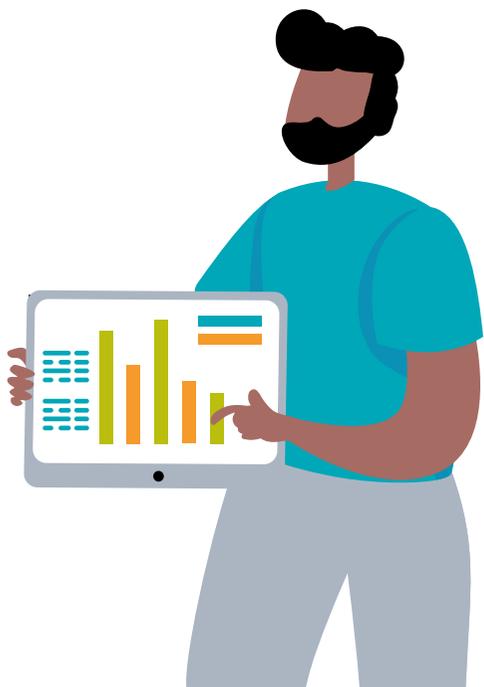
Traditional financial products often fail missing middle entrepreneurs because they rely on rigid repayment schedules, collateral requirements, or short-term horizons that do not reflect early growth dynamics. Recent evidence highlights the importance of flexible, patient, and appropriately sized capital.

SMEs, particularly youth-led businesses, benefit most from financing instruments that allow time for reinvestment, experimentation, and gradual scaling, rather than immediate returns. These include longer grace periods, revenue-linked repayments, and hybrid debt-equity instruments. YBI member Cordaid Uganda, working in agri-food markets with entrepreneurs with disabilities, has been able to introduce young people to financial institutions, resulting in financial products and services that meet these entrepreneurs' needs.

Blended finance plays a critical role in making these approaches viable at scale. By combining concessional or catalytic capital

with commercial investment, blended finance can reduce perceived risk, crowd in private investors, and extend financing to enterprises that would otherwise be excluded.

Equally important is moving beyond traditional collateral requirements. Many young entrepreneurs, especially women, refugees, and rural founders, lack fixed assets despite running viable businesses. Alternative approaches, such as cash-flow-based lending, character-based underwriting, or portfolio guarantees, have been shown to expand access without increasing default risk.



Evidence shows that blended finance can deliver results at scale. For example, USAID's East Africa Trade and Investment Hub used approximately \$4 million in catalytic funding to help attract more than \$100 million in commercial investment into East African markets, a leverage factor of almost 25:1. This commercial investment supported 17 specific investments in sectors such as agribusiness, mobile technology, and apparel, areas where investors often perceive high risk, particularly in frontier markets like Kenya and Ethiopia. As part of this approach, the Hub provided transaction support including investment sourcing, due diligence guidance, and tailored risk-reducing instruments so that private capital would flow where it otherwise might not have.



**John Mwakupha Kadongo, 34**

Umoja Ni Nguvu Jokado Enterprise  
Kenya, Supported by CAP YEI



**Euniece Acen, 34**

Golden Poultry Farm, Uganda,  
Supported by Cordaid Uganda

## Pair Capital with Investment Readiness for Better Outcomes

Access to finance alone is often insufficient to unlock growth. YBI's High Flyers programme, funded by Argidius, focused on investment readiness, with almost 90 per cent of supported businesses that were actively seeking finance successfully accessing appropriate funding. A growing body of evidence shows that capital paired with tailored business support leads to significantly stronger and more sustainable outcomes. Businesses receiving both finance and capacity building, such as financial management training, mentoring, or market access support, typically demonstrate higher survival rates, stronger revenue growth, and increased employment compared to businesses receiving finance alone. This integrated approach ensures that capital is not only deployed but deployed effectively.

## Target the Underserved Explicitly

Perhaps the most critical shift required is intentional targeting. Without explicit criteria, existing biases and structural barriers will continue to exclude the same groups, even

when new products are introduced. Inclusive finance outcomes improve when programmes explicitly prioritise youth, women, and other underrepresented entrepreneurs, rather than assuming benefits will trickle down. This includes setting participation targets, adapting selection criteria, and embedding alternative indicators of growth potential into investment decisions. Using non-revenue indicators, such as entrepreneurial ambition, execution capability, market opportunity, and job creation intent, allows investors to identify high-potential businesses earlier, before traditional metrics would capture their value.

Finally, partnerships with local ecosystem actors are essential. Local enterprise support organisations, intermediaries, and networks are often best placed to identify underserved, high-potential young entrepreneurs and provide contextualised support.

## Why This Matters

By redesigning capital, pairing finance with capability, and targeting underserved entrepreneurs explicitly, funders and policymakers can unlock growth where it is currently constrained, transforming the missing middle into a powerful driver of inclusive economic growth and job creation.

## The Impact this Unlocks

Redirecting well-targeted capital to underserved young entrepreneurs in the missing middle represents one of the highest-leverage opportunities for inclusive economic growth. The impact is powerful precisely because it focuses on businesses that already exist, already serve markets, and are already close to scaling but remain constrained by gaps in finance and support.

## Unlocking Jobs, Growth, and Economic Resilience

The transition from micro or early-stage enterprise to early SME scale is one of the most employment-intensive phases of business growth, yet it is also the stage most

constrained by lack of appropriate capital. The OECD's SME and Entrepreneurship Outlook 2023 shows that employment gains are strongest at this threshold, as businesses formalise hiring, upgrade productivity, and integrate more deeply into value chains. They are blocked by capital and market access rather than lack of demand or capability.

When these constraints are lifted, the effects compound. Access to flexible growth-stage capital enables these businesses to invest in equipment, inventory, and skills, increasing output and productivity and allowing businesses to move from owner-managed operations to employer ventures. SME expansion has the potential to be one of the most effective mechanisms for absorbing young people into productive employment, particularly where larger firms and the public sector cannot meet labour market demand.

Beyond direct job creation, scaling youth-led SMEs strengthens economic resilience. SMEs play a stabilising role during economic shocks because they are embedded in local markets, diversify income sources, and are more likely to maintain employment when larger firms

retrench. As youth-led enterprises scale, they contribute not only to short-term employment, but to more diversified, shock-resilient local economies.



YBI members Somo (Kenya) and Work Together Foundation (South Korea) at the High Flyers Community of Practice in-person meeting 2024

## High Returns with Catalytic Investment

Crucially, unlocking this impact does not require outsized investment but catalytic or patient capital where markets currently perceive SME segments as too risky or insufficiently profitable. Missing middle enterprises already operate close to their growth thresholds, meaning that injections of well-designed capital can unlock disproportionate gains in hiring, productivity, and market reach. In some cases, targeted support or blended structures are needed to demonstrate viability and shift risk perceptions before purely commercial capital can scale.

Many early-growth SMEs are excluded from finance not because of weak fundamentals, but because traditional lending criteria, such as collateral and credit history, misrepresent their actual risk. When these structural constraints are addressed through appropriate underwriting, cash-flow-based assessments, or partial risk-sharing mechanisms, lenders can maintain robust repayment behaviour and controlled loss rates across their SME portfolios, while generating attractive risk-adjusted returns over time.

From an investment perspective, missing middle enterprises typically require smaller ticket sizes than venture-backed start-ups while already demonstrating operating traction. This enables funders and investors to diversify across more firms, sectors, and geographies, spreading risk while increasing the likelihood that capital reaches businesses able to convert it into sustained growth.



**Saverino Mugarura, 32**  
Blessed Shoe Centre, Uganda,  
Supported by Enterprise Uganda

Blended finance further strengthens the case. Modest amounts of catalytic or concessional capital can significantly improve risk–return profiles in SME finance by absorbing early losses or extending tenors, crowding in private investment that would otherwise remain sidelined.

Returns are amplified further when capital is paired with capability support. Enterprises receiving both finance and tailored business development support are more likely to survive, grow revenues, and create jobs than those receiving finance alone, reducing capital loss while increasing development impact.

In sum, investing in the missing middle is not about accepting lower returns for higher impact. It is about correcting a market inefficiency. In some contexts, catalytic investment is required to unlock the opportunity, in others, better data, segmentation, and product design can reveal profitability that is already present but under-recognised, the opportunity is not speculative, it already exists. What is missing is investment criteria and capital flows designed to recognise and unlock it.





## Case Study: Small-Ticket Finance Unlocking Growth – Hamza Ali, 28, Hamza Skin, Greece

Hamza Ali's revenue-generating small business Hamza Skin had proven market demand but was unable to access traditional bank finance due to limited credit history and rigid collateral requirements. Despite presenting a viable business model, Hamza was declined by multiple banks.

A small-ticket loan from YBI member Action Finance Initiative (AFI) enabled Hamza to purchase essential equipment and secure working capital to stabilise daily operations. With improved cash flow and stronger service delivery, he was able to take on additional clients and operate more efficiently.

Beyond financial barriers, Hamza also required structured guidance to further strengthen his business foundations. AFI provided practical, tailored support, informed by YBI's High Flyers Guidelines funded by Argidius, including hands-on training in refining his business plan and

preparing a feasibility assessment for his business idea.

The injection of appropriately sized capital, combined with targeted business development support, unlocked growth in an already functioning business.

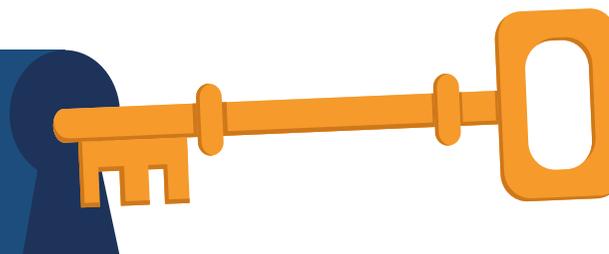
Hamza now plans to access a larger loan or small business credit line to invest in further expansion and hiring. However, conventional lending criteria continue to pose barriers.

His experience demonstrates how relatively modest, well-designed loans, paired with tailored non-financial support, can help missing-middle entrepreneurs move from constrained operations to sustainable growth and how access to the next tier of finance remains critical for job creation and scaling.



# A Clear Call to Action

Unlocking this impact will not happen by default.



It requires intentional choices by funders, policymakers, and ecosystem leaders to redesign how capital is allocated and how growth potential is defined.

Youth Business International (YBI) calls on funders, development finance institutions, and policymakers to:

## 1 Commit targeted capital to the missing middle

Allocate dedicated funding envelopes, public, private, or blended, for youth-led SMEs that have moved beyond survival but lack access to growth-stage finance. Effectively targeted commitments can unlock disproportionate returns.

## 2 Redesign investment criteria to recognise growth beyond financial track record

Incorporate alternative indicators of high-growth potential, including entrepreneurial ambition, execution capability, market opportunity, and job creation intent, into investment decision-making.

## 3 Back patient and blended capital models

Support flexible, patient financing instruments that reflect early growth realities, including longer tenors, grace periods, and blended finance structures that reduce perceived risk while crowding in private capital.

## 4 Pair capital with capability as standard practice

Ensure that finance is complemented by investment readiness support, mentoring, and market access services. Evidence consistently shows that capital alone is not enough but capital plus capability delivers stronger, more sustainable outcomes.

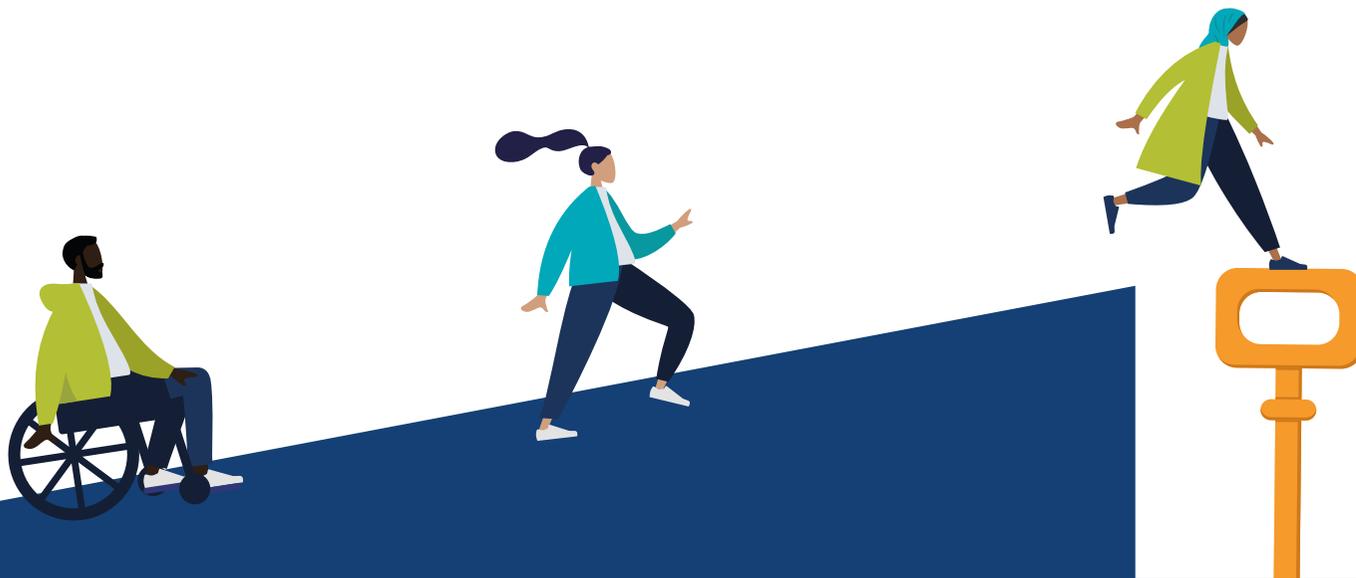
## 5 Target underserved young entrepreneurs explicitly

Set clear inclusion objectives for youth, women, entrepreneurs with disabilities, refugees, and rural founders. Partner with local institutions and organisations that already identify, support, and de-risk high-potential entrepreneurs who are currently overlooked.

## The Opportunity

Supporting the missing middle is not charity, it is smart, efficient investment in inclusive economic growth. Without intentional action, current investment patterns will continue to exclude the very entrepreneurs most likely to drive stable job creation, local value chains, and long-term prosperity.

With the right capital, criteria, and partnerships in place, young entrepreneurs in the missing middle can move from constrained potential to catalysts of growth, powering economies that work for more people, in more places.





**in f**  [www.youthbusiness.org](http://www.youthbusiness.org)