

DISCUSSION PAPER No. 391

Market Creation Platform: Investing in young businesses in Africa

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The Market Creation Platform of the Investing in Young Businesses in Africa (MCP-IYBA) is a pioneering initiative designed to advance EU development cooperation and the Global Gateway strategy. By tackling one of the most pressing barriers in frontier markets — the lack of investable projects — the platform plays a catalytic role in market creation, fostering conditions for sustainable public and private sector investment. Its ambition to work as a collaborative model, bringing together European development finance institutions (DFIs), donors, implementing agencies and private investors, has the potential to offer a scalable and replicable framework for aligning financial and policy objectives and contribute to the scale-up of the Global Gateway strategy.

This paper looks at several areas for improvement. First, donor engagement needs to be more structured to align priorities and strengthen fundraising. Second, mechanisms to incentivise European DFIs and prevent free-riding should be reinforced to ensure co-financing. Third, stronger involvement of the European private sector as both implementers and investors would increase programme attractiveness and mobilise additional capital. Fourth, closer collaboration with implementing agencies could enhance ecosystem development and pipeline origination. Finally, a review of the financial model, including the integration of financial instruments and revolving approaches, is necessary to ensure long-term sustainability.

The MCP-IYBA is well-positioned to become a cornerstone of the Global Gateway strategy, bridging technical assistance with investment, and enabling Team Europe to scale up high-impact, sustainable investments in strategic sectors.

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Acronyms

ARIA	African Resilience Accelerator
COM	European Commission
DFCD	Dutch Fund for Climate and Development
DFIs	Development Finance Institutions
DGGF	Dutch Good Growth Fund
EDFI	European Development Finance Institutions association
EFSD	European Fund for Sustainable Development
EFSD+	European Fund for Sustainable Development Plus
EIB	European Investment Bank
ESG	Environmental, Social and Governance
GG	Global Gateway
IYBA	Investing in Young Businesses in Africa

LICs	Low Income Countries
MCP	Market Creation Platform
MCP-IYBA	Market Creation Platform – Investing in Young Businesses in Africa
MSMEs	Micro, Small, and Medium-sized Enterprises
PN	Practitioners Network
RVO	Netherlands Enterprise Agency
SCBD	Seed Capital & Business Development
SDGs	Sustainable Development Goals
TA	Technical assistance
TEI	Team Europe Initiative

Executive summary

The Market Creation Platform of the Investing in Young Businesses in Africa (MCP-IYBA) represents an innovative and strategically relevant EU initiative with strong potential to advance both development cooperation goals and the scale up and geostrategic objectives of the Global Gateway. By addressing the critical bottleneck of scarce investable opportunities in frontier markets, it provides a catalytic platform for mobilising sustainable investments, strengthening market ecosystems, and aligning financial flows with EU geopolitical priorities. Its DFI-led governance structure ensures credibility and can be conducive to enhancing collaboration between European institutions, while its market creation focus directly supports the EU's ambition to scale up impactful, private-sector-led growth.

The platform's added value lies in three dimensions. Politically, it strengthens EU visibility and influence in partner countries. Economically, it creates pathways for private sector mobilisation alongside public funding, responding to both donor priorities and domestic pressures to demonstrate the benefits of development cooperation. Operationally, it aims to foster stronger collaboration between DFIs, implementing agencies, and private investors, thereby bridging upstream market creation with downstream investment.

To fully realise this potential, several improvements are recommended. First, enhanced donor engagement—through structured consultations, participation in steering committees, and clearer processes—would strengthen alignment and resource mobilisation. Second, providing stronger incentives for European DFIs to co-finance interventions and ensuring coordination with EFSD+ programmes would help secure their long-term commitment. Third, deepening collaboration with the European private sector would increase leverage and impact. Fourth, closer coordination with implementing agencies could optimise resources, improve pipeline development, and align interventions with DFI investment-readiness. Finally, revisiting the financial model to integrate revolving mechanisms and catalytic capital would improve sustainability and scale.

Looking forward, the MCP-IYBA is well positioned to act as a cornerstone of the Global Gateway, extending beyond financial inclusion into other strategic sectors such as digital, climate, energy, transport, health, and education. Its replicable model could support the EU's transition from piloting to scaling investments in critical geographies. With targeted improvements, the MCP-IYBA can evolve into a flagship initiative that bridges technical assistance and investment, reinforces Team Europe's collective impact, and contributes decisively to the success of the Global Gateway strategy.

1. Towards a Stronger Pipeline of Bankable Projects: Advancing Market Creation under the EU Global Gateway

The EU Global Gateway (GG) signals a strategic evolution—placing sustainable investment at the centre of the EU’s external action. With an ambition to mobilise up to EUR 300 billion in public and private resources between 2021 and 2027, the GG is operationalised through a coordinated Team Europe approach.

A critical enabler of this ambition is the development of strong pipelines of bankable projects aligned with GG objectives. Yet, building such pipelines remains a structural challenge, particularly in contexts where markets are nascent, fragmented, or limited in scale—conditions that render traditional investment models insufficient. This is especially true in many low-income countries (LICs) and in emerging sectors such as venture capital. Venture capital, in particular, plays a pivotal role in driving innovation, job creation, and inclusive growth, and sits at the heart of the Investing in Young Businesses in Africa (IYBA) Team Europe Initiative (TEI). It is also central to the 360-degree approach promoted by the GG, which aims to unlock private capital and generate sustainable impact.

Addressing this gap requires a shift from conventional investment models towards a market systems approach. While development finance institutions (DFIs) often focus on supply and demand, investing in LICs and/or sectors like venture capital demands a broader perspective—one that includes enabling infrastructure, regulatory frameworks, local norms, and institutional capacity. In such contexts, market creation—the process of turning unbankable opportunities into bankable ones—is essential to unlocking sustainable investment.

The Market Creation Platform (MCP), supported by the Netherlands Ministry of Foreign Affairs under its MASSIF fund, started in 2023, and the programme runs for 12 years until December 2036. It aims to pioneer a market systems approach by targeting high-impact sectors with limited market entry. Through targeted pilots, MCP works to create commercially viable investment environments. Its expansion under the Investing in the IYBA initiative and with the support of the European Commission (COM), positions it to support broader European efforts, including those of the GG.

This study examines the MCP-IYBA (to be implemented between 2025 and 2031) to assess its current functioning and explore how it can more effectively engage European partners and contribute to GG objectives. It provides recommendations to further strengthen the role and activities of the MCP-IYBA, which should help shape future endeavours addressing the lack of pipeline of bankable projects, including those going beyond IYBA sectors (and yet relevant for other GG sectors).

2. Origins and state of play of the Market Creation Platform

Market creation, or the generation of a pipeline of bankable and impactful opportunities has been a key priority for the Netherlands Ministry of Foreign affairs and FMO since the early 2020s. Aware that the scarcity of bankable projects could affect the deployment of the European Fund for Sustainable Development Plus (EFSD+) and the need for DFIs to step up their efforts in closing the sustainable development goals (SDGs) financing gap, the Netherlands had put forward the idea of a platform for DFI pipeline development. With the aim to resolve this challenge through an innovative approach, the Netherlands' Ministry of Foreign Affairs went ahead and provided a EUR 22 million grant to FMO, to develop, host, pilot and manage the so-called MASSIF-MCP.

Importantly, whilst initiated and hosted by Dutch institutions, the MASSIF-MCP was from the start intended to help develop pipelines of projects for the wider DFIs ecosystem and tackle the issue of market creation, particularly at the European level. This seemed even more relevant given the deployment of the EFSD+ and the introduction of GG, which relies largely on a development finance type of approach to mobilise public and private investments at scale.

2.1. From the MASSIF – MCP...

a. Introducing an innovative and ambitious concept

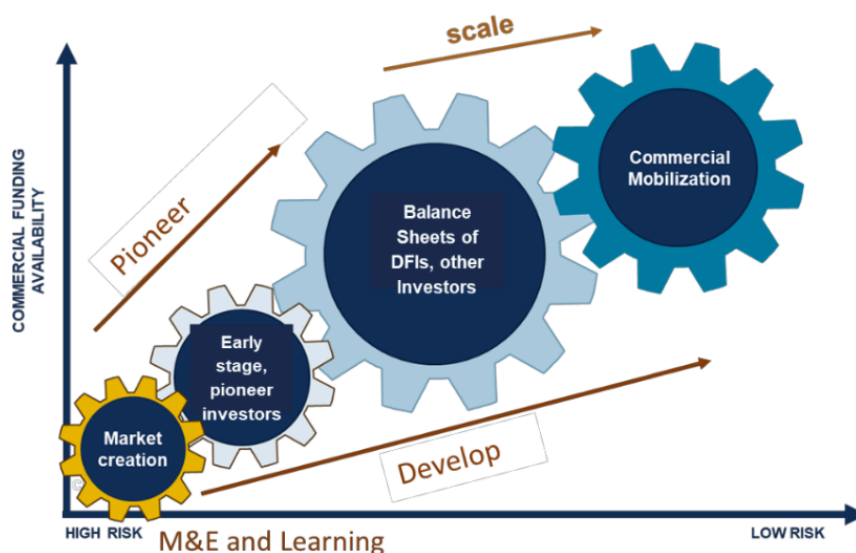
FMO's market creation approach (MASSIF-MCP) aims to reimagine how business development and ecosystem development interventions are designed and deployed. It seeks to transform these traditionally fragmented efforts into a more programmatic, adaptive, and purpose-driven strategy. At its core, market creation aims to tackle the systemic barriers that prevent development finance institutions (DFIs) and other investors from generating high-quality, investable opportunities in frontier markets.

These systemic challenges include underdeveloped local ecosystems, the absence of fit-for-purpose financial instruments, and evolving investor requirements related to financial sustainability, impact measurement, compliance, EU regulations, and Environmental, Social and Governance (ESG) standards. In response, the MASSIF-MCP not only addresses the constraints preventing investment but also facilitates the progression—or “graduation”—of nascent opportunities into fully bankable ventures.

The MASSIF-MCP funding is positioned as additional and complementary to other capital sources—whether revolving funds, equity-based instruments, or market-based risk/return capital. It is specifically intended to unlock investment in high-impact yet traditionally underserved segments, including fragile and conflict-affected states, rural areas, vulnerable populations (such as women, youth, and refugees), and complex or underperforming supply chains. Adding the MCP mandate under the existing Massif Government Fund hosted by FMO was highly strategic in terms of creating a pipeline of high impact opportunities that are able to progress to receiving DFI funding.

The MASSIF-MCP delivers an essential public good, by targeting markets that are impactful yet not commercial (and hence where return on investment will by definition not cover transaction costs). The purpose is instead to de-risk and progress currently non-commercially and impactful opportunities into direct pipeline. Doing so also puts a clear framework in terms of what approaches, instruments and business models are most fit to deliver MASSIF-MCP interventions. Through the grant support of MASSIF-MCP, the Netherlands Ministry of Foreign Affairs enabled piloting the MCP to kick-start an investor steered approach to support private sector development in frontier markets.

Figure 1: Progression process from market creation to investment pipelines



Source: From FMO 2025¹

¹ From a confidential document.

MASSIF-MCP supports FMO's market Creation strategy which rests on two primary pillars, that are accompanied by monitoring, evaluation and learning activities:

- **Business Development (3–5 years):** By providing catalytic grants and/or TA to financial intermediaries (funds, funds of funds) that target young and growing businesses, this pillar focuses on resolving medium-term constraints identified by FMO and other DFIs' investment teams, with the goal of de-risking and advancing high-impact but currently non-bankable opportunities into viable investment pipelines. This pillar is expected to receive the majority of financial resources.
- **Ecosystem Development (5–10 years):** This longer-term pillar addresses structural market failures aligned with DFIs' development priorities. It aims to build durable models and strategic partnerships that can generate sustained, system-wide improvements and future investable opportunities in frontier markets.

All of these interventions are provided in the form of grants or repayable grants.

Box 1: Casa+Programme, an early example of MASSIF-MCP comprehensive support

The objective of the CASA+ Programme is to increase agriculture sector competitiveness, trade and investment in low- and middle-income countries and more specifically for Market Creation, to mobilize additional investment in business by both DFIs and other investors of the Casa+ programme. The MASSIF-MCP contribution of \$1 million goes towards the \$1.5 million market creation component of the project, which is implemented by TechnoServe and has a 2-year pilot approach, running until March 2026.

The Market creation component focuses on two countries, Nigeria and Tanzania. After a consultation round, these countries were selected as high potential markets for agri-investments for FMO, BII and other investors. After country selection, Technoserve conducted a deep dive analysis of the local agribusiness sectors in these countries, specially focused on small holder value chains. From this analysis, a long list of interventions was compiled and ultimately, three interventions were selected.

Intervention	Summary	Progress update H1 2025
Intervention 1: Early-stage impact investors/ fund managers support (Tanzania & Kenya)	Support a set of early-stage impact investors (e.g., ARAF, Acumen, Sahel Capital, CFC, etc.) throughout the investment lifecycle, from pipelining, to screening, pre-investment technical assistance (TA) (including due diligence), post investment TA. This includes a couple of cross cutting topics/issues that early-stage investors face more broadly (e.g., solutions to FX, having the right TA facilities, etc.).	- Design and implementation of 4 value chain studies requested by (multiple fund managers): i) Local food systems (poultry, potato), ii) Agtech, iii) Cashew, IV) Fisheries/Aquaculture - Fund-level support (TA capacity at both fund and prospect level) - Design and implementation of 3 Studies: Access to i) working capital for agri SMEs; ii) FX lending challenges and; iii) performance-based financing)
Intervention 2: Support to Financial institutions in Tanzania to growth Agri-lending portfolio's (Tanzania)	Focus direct support on one FI (NMB) to help them grow their agribusiness portfolio, thereby creating access to finance for agri SMEs. The intervention is twofold, providing direct capacity building to the loan officers in the bank, as well as providing direct capacity building to the agribusinesses (subset) that will be able to obtain a credit line. Aceli Africa and a local consultant will be implementing partners of this intervention.	Kicked off diagnostics - Gathering data on NMB, expected to provide insights on opportunities in late July - Kick-off development of capacity—building roadmap for NMB foundation Scoping TA delivery to agribusinesses: - refining approach, budget and training curriculum based on shortlisted businesses

Intervention 3: Provide pre-investment TA to Tech enabled aggregators (Nigeria)	Support two Tier 2 tech-enabled aggregators to grow their business to enter DFI pipeline down the line (3-5y), including engaging local investors (i.e., Sahel Capital, ARAF, Acumen) and connecting them to the businesses.	- Completed support on vetting of business model and growth plans and establishing understanding the investment climate: including building pitch decks and a broader local network building as well as linkages with suppliers/processors and offtakers. - Aligned on continuous light-touch support until March '26 and formalised feedback
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Source: FMO 2025²

In turn, these interventions – financed in the form of non-reimbursable grants³ – help develop a pipeline of bankable projects, in which FMO can invest, often in collaboration with other European DFIs. The co-financing modality is of prime importance to help spread and mitigate risks.

FMO's Market Creation strategy prioritises four key sectors: food systems, financial inclusion, forestry, and the responsible energy transition. These areas reflect both high development impact potential and strategic alignment with European and global policy priorities. The Massif-MCP focuses on financial inclusion only.

b. State of play

The MASSIF-MCP implementation is a highly innovative concept, requiring a significant investment to materialise. The support of the Ministry of Foreign Affairs of the Netherlands was of utmost importance, given the needed financial and resources needed to put in place a proper architecture and structure around the MASSIF-MCP. In addition, FMO was able to take on the implementation of this

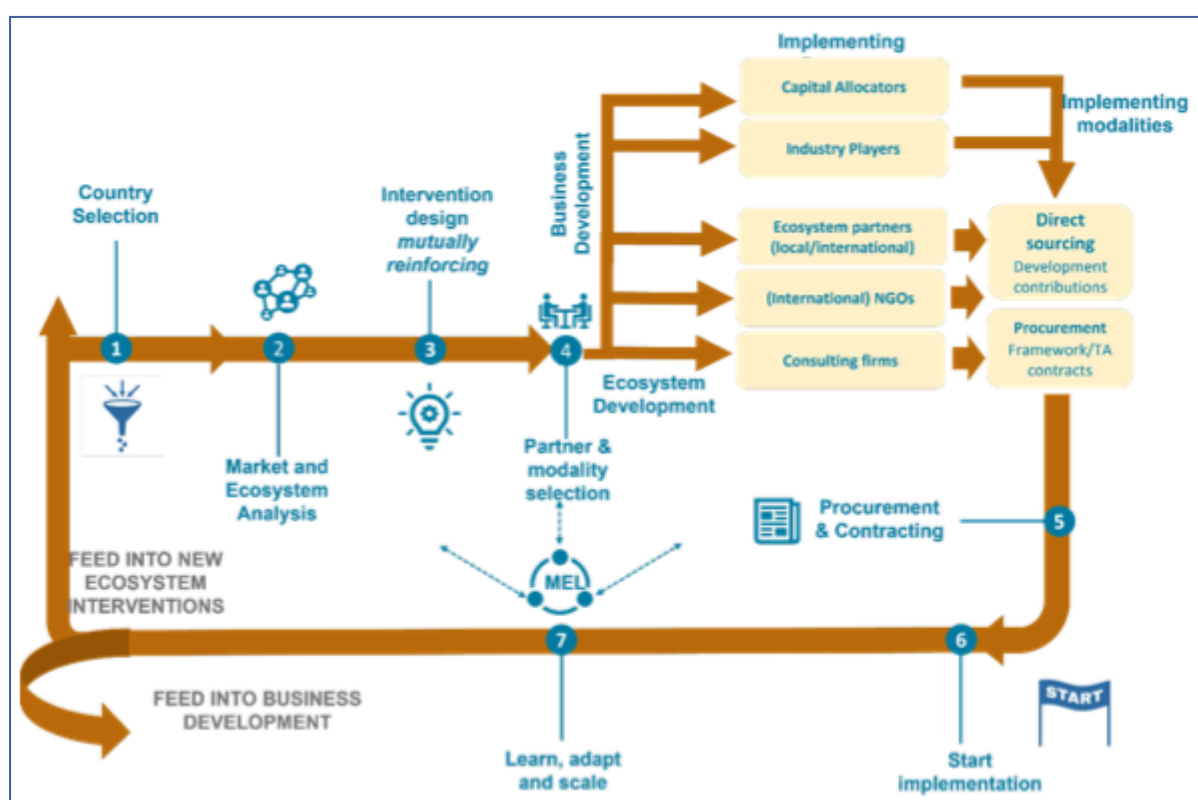
² From a confidential document.

³ Ecosystem and business development interventions could also be financed through reimbursable grants. However, because of operational cost constraints, most of them are delivered as non-reimbursable grants.

innovative concept as it was willing to cover a substantial amount of set-up costs from its own balance sheet.

Its implementation follows a structured process, where each step contributes to building the next ones, as illustrated in Figure 2. Despite MASSIF-MCP being a pilot, FMO managed to ensure a relatively fast implementation of the platform, as described in the table below. To date, FMO has almost finalised all of the steps, meaning that the ecosystem and business development interventions are currently implemented, as well as studies to capture the lessons learnt from its MASSIF-MCP implementation (referred to step 7 in Figure 2). This should translate into a pipeline of bankable projects in the current sector (financial inclusion) targeted.

Figure 2: Implementation process of MASSIF-MCP



Source: From FMO 2025⁴

c. Early lessons learnt

Even though MASSIF-MCP was only recently launched, a few lessons already deserve to be highlighted:

⁴ From a confidential document.

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- **Synergies with other initiatives:** MASSIF-MCP does not happen in a vacuum, but builds synergies with other programmes in order to maximise resources and be more efficient and effective. Whether it is the Dutch Good Growth Fund, the Netherlands Enterprise Agency RVO Orange Corners Programme and Orange Corners Innovation Fund, and others, FMO is trying to build synergies between different programmes to maximise their impacts.
 - **Mobilisation of DFIs' resources and investments:** some business development interventions like the Market Building Program (Casa+) or the African Resilience Accelerator (ARIA) have been co-financed by other DFIs like Proparco and BII. Some of the investment opportunities under ARIA, have been financed by Proparco as lead-financier. In the case of some of these facilities, priorities for investing in the pipeline of projects generated was given to those DFIs providing co-financing of the business development interventions. This helped avoid free-riding risks (where a DFI would only co-finance investments without contributing to technical assistance (TA) related interventions), and strengthened the business case of DFIs like BII and Proparco to better coordinate and work together with FMO.

Box 2: Examples of synergies between MASSIF-MCP and ARIA

Massif-MCP is supporting ARIA with a total contribution of €1.5M under M-MCP supporting both ecosystem and business development interventions. Launched in 2021, ARIA drives development impact in the most underserved frontier markets (in sectors including Financial Inclusion, Agriculture, and Energy among others) in Africa by developing a pipeline of potential investments for +15 DFIs and private investors, sharing investment best practices, coordinating investment-focused country trips tailored to their needs and even collaborating in the delivery of TA. Through this work, DFIs' transactions that might otherwise not happen are identified and advanced. ARIA's Country Managers provide an on-the-ground presence in the programme's focus countries of Sierra Leone, Liberia, Benin, Ethiopia and DRC, with near term future expansion to Togo and Guinea planned in 2025. Alongside investor collaboration, ARIA engages with other stakeholders advancing private sector development (Foreign, Commonwealth & Development Office, U.S. Agency for International Development and others), which helps us to bring the worlds of Development Finance and Donor-driven Private Sector Development closer together.

The Massif-MCP support to the ARIA program has contributed to the following results:

- 29 companies have improved their business practices as a result of ARIA TA. 148 companies, with a total ticket size of above \$3 Bn have been referred to DFIs and 13 DFIs had sourced opportunities from ARIA.
- Benchmarking of FIs in Ethiopia is now leading to a next phase of work to provide capacity building and dedicated TA. In Sierra Leone an innovative financing facility is being scoped and strategy to influence policy/regulations developed.
- Partnerships have contributed towards pipeline development, coordinating country investment trips, and the development and the financing of TA (both at the company and ecosystem level).
- Outcomes from country trips have informed ecosystem initiatives currently underway in Ethiopia (adoption of ESG practices in financial institutions) and Sierra Leone (improving the financial regulatory landscape).

Source: FMO 2025⁵

- **Connection with the private sector:** several interventions are implemented by the implementing partners or investors such as TechnoServe, Crossboundary and VilCap – a European impact-focused investment manager. There was no private co-financing of the interventions (which is not surprising given the limited market).
- **Connection with implementing agencies:** So far, RVO was the only implementing agency involved in co-financing an intervention supported under MASSIF-MCP, whilst others like GIZ and SIDA helped implement some of the interventions. This shows the potential to work with implementing agencies and their programmes in a complementary manner, including on interventions focusing on financial inclusion.

Box 3: Examples of synergies between MASSIF-MCP and RVO

In 2024, MASSIF-MCP supported project partner Vilcap (€1 million) to manage the Market Development: Africa Catalytic Investment Facility. This facility partners with local Entrepreneurship support organisations in Nigeria, Ghana and Tanzania to drive capital to entrepreneurs developing solutions that

⁵ From a confidential document.

enhance economic and climate resilience, with the overarching goal of strengthening the regional entrepreneurship ecosystem. The project is carried out in partnership with RVO and further leverages their work under the Orange Corners Programme and Orange Corners Innovation Fund to support youth entrepreneurs in the target countries. This illustrates how under the M-MCP further synergies between Dutch initiatives and organisations are sought. As the project was contracted in December 2024, no project results are included in this report.

Source: FMO 2025⁶

- **Evolving market creation platform:** there is a recognition that, as it stands, the value proposition, business model and the capacity of the MCP to attract financing at the level of the platform needs to be refined (in line with the objectives of the below described MCP-IYBA endeavour).

2.2 ...To the MCP-IYBA

Market creation and the development of a pipeline of strategic/high-impact opportunities is a key issue, not only for the Netherlands but also for the EU and its development and geostrategic (GG) policy objectives. The EU recognises that current approaches are not innovative enough, and as importantly, too fragmented and small to address fundamentally and in a systemic manner the market creation challenge. In particular, traditional private sector development programmes have been insufficiently able to contribute to this objective, given the absence of an investor lens in program design and implementation, hindering the progression of supported businesses to receiving DFI finance to further scale. Instead of trying to reinvent the wheel, the decision was made to be more efficient and move fast on this issue, by joining forces with the Netherlands, in a Team Europe spirit, and building on one of the most promising endeavours in this field, the MASSIF-MCP. In practice, this pilot was further expanded by a EUR 24.7 grant from the EC, which further spurred collaboration with the EU member states supporting the IYBA team Europe initiative. In doing so, COM's contribution gave by definition a European angle and perspective on the MCP, and supported its progression from pilot towards a more mature investor steered approach to support private sector development in frontier markets.

⁶ From a confidential document.

While the EU contributed to the further development of MCP through IYBA, it is only fair to say that the development of a pipeline of bankable projects is not only an issue within the financial (inclusion) sector. It affects all sectors of the GG, and hence, the learnings from the MCP-IYBA would be highly valuable for European broader endeavours – noting though that different sectors require different ways and approaches to build pipelines.

a. Maturing and upscaling the MASSIF-MCP at the European level

To date, coordinated efforts among DFIs and especially between DFIs and implementing agencies' private sector development programmes have been limited leading to duplication, increased costs, and inefficiencies in delivering support to both capital providers and ecosystem partners. Building on the MASSIF-MCP infrastructure, the MCP-IYBA seeks to address this gap by acting as a pipeline creation engine focused on financial inclusion (the focus sector of MASSIF-MCP). It supports young and growing African businesses in becoming investment-ready by enhancing their financial performance, strengthening compliance with ESG and impact standards, and improving access to markets.

In doing so, the objective is to bring in additional European actors, following a Team Europe approach. Through improved coordination among public funding partners, DFIs, private investors, and actors within Africa's entrepreneurial ecosystem, IYBA-MCP aims to reduce fragmentation, foster synergies, and mobilise broader participation in financing and developing small and growing businesses. The programme focuses on two specific objectives:

- Business development interventions providing catalytic grants and/or TA to financial intermediaries (funds, funds of funds) that support young and growing enterprises, thus promoting financial inclusion, and enabling them to develop into inclusive, resilient, and financially sustainable businesses ready for DFI and investor engagement (this pillar is expected to attract 85% of the resources under the COM's grant).
- Eco system interventions aiming to address structural types of issues, including by convening DFIs and other investors around the pipeline, fostering shared learning and encouraging joint investment efforts.

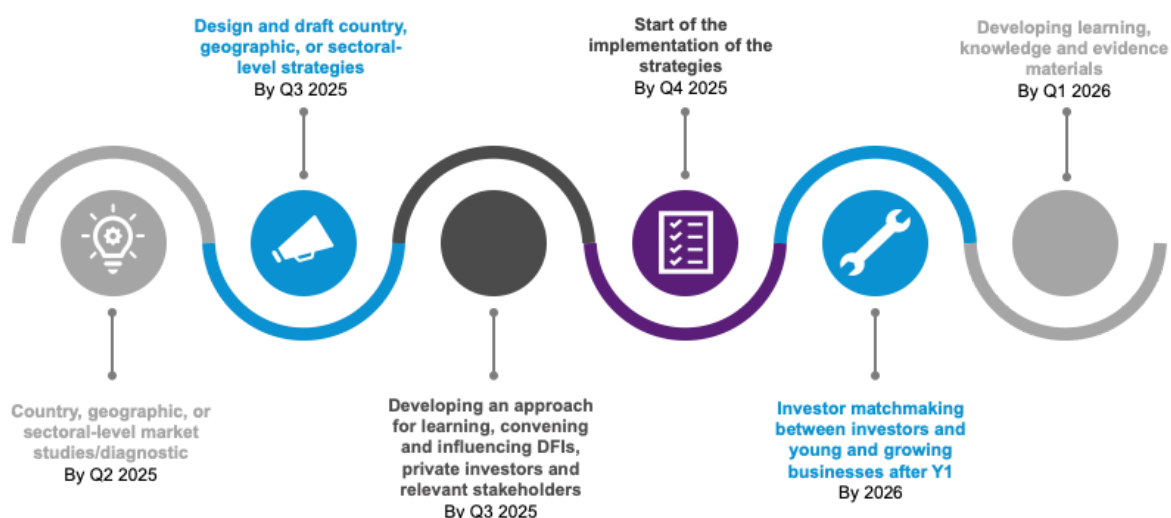
This coordinated approach is essential to unlock scalable financial inclusion and build more coherent and effective development finance ecosystems.

b. State of play

The implementation of the MCP-IYBA is currently ongoing (Table 1), with regular discussions between COM, FMO and the Netherlands' Ministry of Foreign Affairs.

Given its innovative nature, the recent implementation of yet to be finalised of the MASSIF-MCP, and its increasing complexity (given the objective of attracting additional actors), challenges are to be expected.

Figure 3: State of play of the implementation of the MCP-IYBA



Source: ECDPM

The challenge identified above – to refine the value proposition, business model and the capacity of the MCP to attract financing – is a key concern for all parties involved, as the purpose is to scale this initiative and further strengthen and expand collaboration with European partners. The next section dives more specifically into some of the key challenges.

c. Governance

At the time of writing, the governance of the Market Creation Platform has been launched and defined. It is composed of a:

- **Donor forum:** the donor forum is currently constituted by the Netherlands Ministry of Foreign Affairs, DG INTPA and chaired by FMO and provides the strategic/political steering, ensuring that priorities stated in the contractual agreements with the MASSIF-MCP and IYBA-MCP are aligned with the platform's activities. In particular, it seeks alignment between existing (and future) donors on prioritisation of impact objectives / themes and steers how the platform can further increase its effectiveness and efficiency, for instance by reviewing what type of funding instruments are best suited to support this type of work going forward. There is only limited space for the donor forum to influence the actual decisions of the MCP-IYBA; the programme's own governance structure is set-up to steer decision making on a program level (see below).

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- **Advisory Board:** The advisory board is charged with providing strategic advice and feedback on the focus of the business and ecosystem interventions' focus. It has no decision-making power, and can involve implementing agencies, EUDs, DFIs and local actors. DFIs are well presented in the advisory board, to ensure that the MC platform delivers investor steered market building activities.

FMO is in charge of managing each individual donor funded MCP program, and takes decisions on the implementation of business and ecosystem interventions with the guidance of the donor forum, the advisory board and the programme steering committee. For instance, for IYBA-MCP, a steering committee will be constituted by INTPA as chair and FMO as implementer. The steering committee will meet twice a year, and its role will be to:

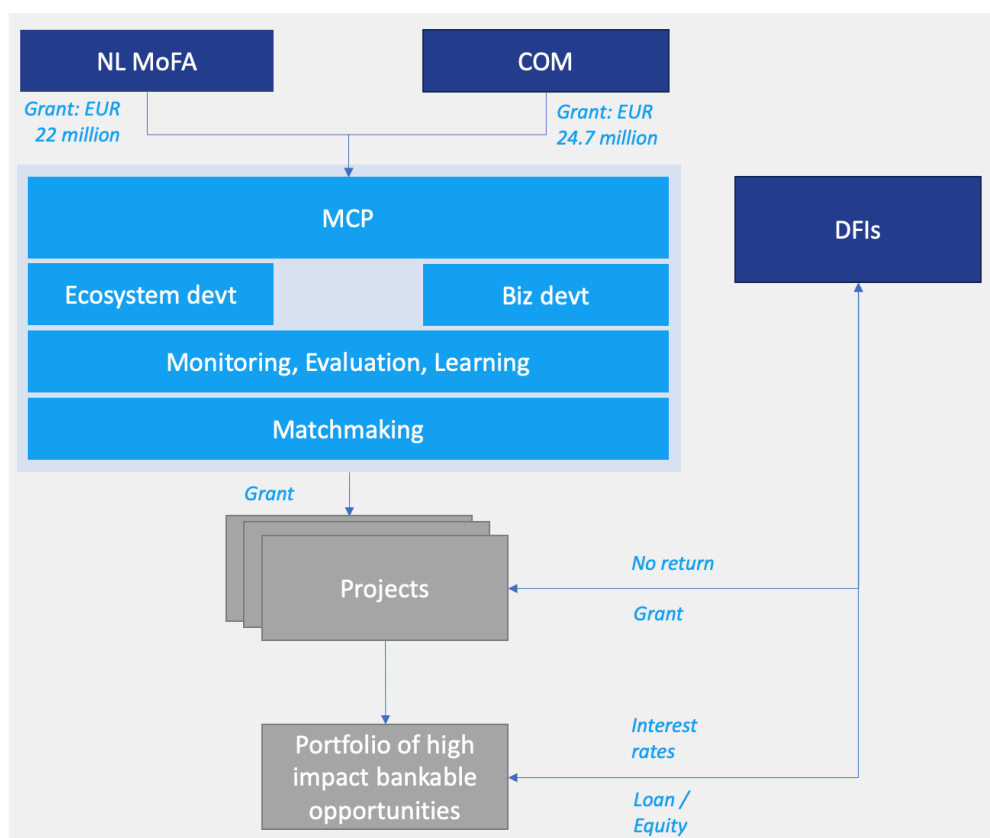
- Provide strategic guidance consistent with the action's objectives and priorities.
- Endorse annual work plans and review reporting.
- Provide guidance with the coordination of communication and visibility of the action.
- At the first steering committee of each year, the committee will endorse annual work plans and review reporting.

3. Key challenges

3.1 Europeanising the MCP-IYBA

The functioning of the MCP, illustrated and simplified in Figure 4, is important to understand and assess the extent to which the concept will be attractive or not to other European actors, including DFIs, to support their mandate and objectives.

Figure 4: Simplified overview of the functioning of the MCP



Source: ECDPM

The Market Creation Programme under the Investing in Young Businesses in Africa (MCP-IYBA) operates primarily following a non-revolving model based on grants and repayable grants. Donor contributions fund catalytic capital support and TA activities – ranging from ecosystem strengthening to business development – with the objective of generating investment-ready opportunities for DFIs. This has two main consequences: i) the type of grants do not allow for any income sources – i.e. none of the grants, in practice, are reimbursable; and ii) once these grants are exhausted, the MCP-IYBA cannot finance any further ecosystem or business development interventions anymore. While there is potential to enhance sustainability by using grants to co-invest on a pari-passu basis alongside other actors, such measures alone are unlikely to secure the programme’s long-term viability.

Currently, the only indirect revenue stems from the profits DFIs earn when investing in MCP-supported projects—through loans or equity instruments. Yet these profits accrue to the DFIs, not to the MCP-IYBA itself. Moreover, DFIs cannot directly compensate the MCP for pipeline development, as the programme is not structured to receive or reinvest returns. Consequently, MCP-IYBA will remain reliant on continued fundraising from European (and potentially non-European)

public and foundation sources beyond 2031. Relying on donors and foundations support is logical given the nature itself of the MCP-IYBA, which is to deliver a public good yet DFI driven approach, aiming to support private sector development in frontier markets. Importantly, donors could consider more innovative instruments than grants to make incoming funding to the MC platform partly revolving, thereby increasing the impact realized per euro spent.

This financial model also affects programme incentives and partnership

dynamics. Because MCP-IYBA does not fully cover its operational costs, it operates at a loss, limiting opportunities to scale up market creation activities. Although most downstream investments in MCP-IYBA supported projects are co-financed to mitigate risk, the nature of the targeted pipeline—typically small and higher-risk investments—further constrains the potential for return. Addressing these issues will provide further incentives and impetus for FMO, as manager of the MCP-IYBA, to provide a stronger pipeline of investments for all DFIs.

These structural challenges help explain the difficulties in fully upscaling the MCP-IYBA by bringing in additional DFIs.

A distinction is made between three levels: at the level of the MCP-IYBA fund; at the intervention/programmatic level; and at the investment level.

- Attracting European DFIs at the level of the MCP-IYBA: DFIs faces several challenges, would they be interested in the MCP-IYBA: i) some of them have legal constraints, and cannot re-channel grants towards external initiatives; ii) DFIs have limited grant funding and cannot (and/or are not incentivised by their shareholders to) commit to multi-year funding specially in a non-revolving fund; and iii) DFIs do not have necessarily the incentives, as working through the MCP-IYBA would not bring definite certainty as to how much of the pipeline of investments they will get. Chances of having DFIs contributing directly to the fund are hence slim.
- Attracting European DFIs at the level of the programmes: DFIs see a value in ecosystem level interventions, as this facilitates their entry into new (frontier) markets as well as investments downstream (rather than interventions focusing on business development). These interventions are usually quite challenging, requiring in-house capacities and networks that DFIs do not necessarily have. Working with and through the MCP-IYBA becomes therefore of interest – which in practice may mean co-financing ecosystem related interventions. Yet, DFIs would only do so if there are direct/certain investment opportunities for them to leverage – hence this type of collaboration will remain on an ad-hoc basis, unless current other DFI mandates change to be more development (high impact / frontier markets) focused.

Box 4: Connecting EFSD+ (and TA line to DFIs) with the MCP-IYBA

The connection between EFSD+ guarantees (especially those labelled IYBA – which pipeline partly contribute to the TEI's endeavours) and the MCP-IYBA can happen:

- At the level of the programmes: Very often, EFSD+ guarantees are accompanied by TA funding, to facilitate and accelerate their deployment. By building synergies between EFSD+ related TA and the one provided by the MCP-IYBA through the ecosystem and business development interventions, DFIs can maximise the efficiency of scarce TA resources, and leverage one another to facilitate downstream investments.
- At the level of the investments: The EFSD+ provides in some cases sufficient risk coverage for DFIs to invest in bankable yet risky opportunities, including those emerging from the support provided by the MCP-IYBA activities.

In practice, this happens to some extent already under MASSIF-MCP, notably with FMO EFSD guarantees, where the MASSIF-MCP worked in synergy with the European fund for sustainable development (EFSD) guarantees' related TA to facilitate downstream investments. Beyond FMO, these synergies happen on an ad-hoc basis, and less on a systemic basis, and if the MCP-IYBA is to scale up, such synergies should be built with other European DFIs' than only FMO. This is precisely where the MCP IYBA can play a role and facilitate some of these synergies in a more systemic manner.

Source: ECDPM

- Attracting European DFIs at the level of the investments: As mentioned earlier, by nature, European DFIs mostly co-finance investments in MCP-IYBA supported projects, would it be only to spread the risks. In this context, a fair amount of co-financing, including with different leads, is expected to take place.

Alternatively, it is less DFIs but donors (especially those that are part of the TEI IYBA) that could contribute to the MCP-IYBA especially if i) they cannot directly work with their own DFIs to support eco-system and business development type of approach (i.e. some DFIs' TA teams are too small to deploy grants from their own

governments at scale) and/or ii) they cannot work with their implementing agencies because of lack of skills, and connection to pipeline building; and/or iii) they want to find an indirect manner to foster synergies between their national DFIs and implementing agencies (For example, MASSIF-MCP allowed national DFIs and implementing agencies to work better together, though based on an ad-hoc type of approach). Yet, most donors are more financially constrained than ever, following the effective and/or planned official development assistance cuts across EU member states. The value proposition for donors that can provide grants to their own DFI to work on ecosystem and business development interventions is unclear.

In addition, hosting the MCP-IYBA within FMO may also impact its

attractiveness to donors, according to some policy-makers. While the fact that the initiative is led by a DFI is positively perceived, it may be perceived more as a Dutch than a European initiative. Such an issue could have been mitigated by hosting the fund within the European development finance institutions association (EDFI) Management Company or alternatively the EIB Global (though the public good dimension and loss-making business model of the MCP-IYBA would act as a disincentive for them to engage). This is an issue for donors, as some of them have the choice between choosing the FMO-managed MCP IYBA or channelling their funds through their own DFIs or implementing agencies, ensuring bilateral visibility as well – even though this will come at expense of efficiency/effectiveness.

Besides DFIs and donors, there is also a rationale for implementing agencies and their TA related activities to work better and more closely with DFIs.

This is already done under the MASSIF-MCP with RVO (and in a deeper manner in the case of Invest for Impact in Nepal⁷), and by extending this coordination with other European implementing agencies, the IYBA-MCP could explore synergies between its ecosystem and business development interventions and those of implementing agencies, with a view to influence the latter's programmes. Members of the Practitioners Network (PN) have expressed their interest and ambition to work better with DFIs and better link their interventions. While this avenue may not provide additional funding, it would further strengthen the value of the MCP-IYBA, including for donors.

⁷ Invest for Impact Nepal was established in February 2021 by BII, FMO and the Swiss Agency for Development and Cooperation (SDC). The initiative is a TA and market-shaping platform which seeks to tackle investor-specific barriers constraining the scaleup of DFI operations and similar impact-orientated investment in Nepal. See more information here: https://www.dev-practitioners.eu/media/documents/Donors_implementing_agencies_and_DFI_PDB_cooperation_The_case_of_the_UK-BII_and_FCDO_.pdf

3.2 Positioning the MCP-IYBA within the Global Gateway framework

The TEI IYBA predates the launch of the GG and was initially shaped by development cooperation priorities. Its objectives focus on: (i) increasing the creation and growth of micro, small, and medium-sized enterprises (MSMEs) in African partner countries; (ii) expanding the volume and quality of early-stage public and private investment in these enterprises; and (iii) fostering decent job creation, particularly for women and youth, including in fragile contexts.

Implementation is led by development actors, primarily DFIs and implementing agencies. Their mandates centre on private sector development in partner countries. This aligns with elements of the GG's inclusive growth agenda, particularly its 360-degree approach, as investments facilitated at the upstream level by the MCP-IYBA can: i) help improve the business environment (ecosystem interventions) thus potentially facilitating European companies' investments; ii) foster the development of value chains relevant to GG flagship projects (for example, supporting access to finance in the coffee value chain in a country like cote d'Ivoire, which has one of its main flagship project focusing on the development of sustainable coffee) and/or GG priority sectors (energy and climate, digital, transport, education and research and health); and iii) help contribute to increased exports to Europe, enhanced supply chain resilience, and investment opportunities that may eventually appeal to European private investors. However, these links have yet to be strategically developed.

To date, MCP-IYBA's contributions to GG objectives remain largely indirect – and its activities do not seem connected strategically to the GG agenda. Enhancing the alignment between MCP-IYBA and European private sector interests would strengthen its relevance to the GG. For the EU, this would reinforce strategic economic partnerships; for member states, it could offer tangible opportunities to national investors and firms. Greater effort is needed to connect European investors to MCP-IYBA activities—particularly downstream, at the investment stage. The experience of the Dutch Fund for Climate and Development (DFCD), which successfully engages Dutch and European businesses, may serve as a useful model for deepening this engagement. For example, the DFCD pipeline development led to investments from FMO, but also Triodos Bank (a Dutch private bank and investor), Climate Fund Managers and its equity funds Climate Investor One and Climate Investor Two. In addition, it targets sectors where Dutch businesses have a competitive advantage – thus facilitating opportunities of the latter to invest⁸ (Box 5).

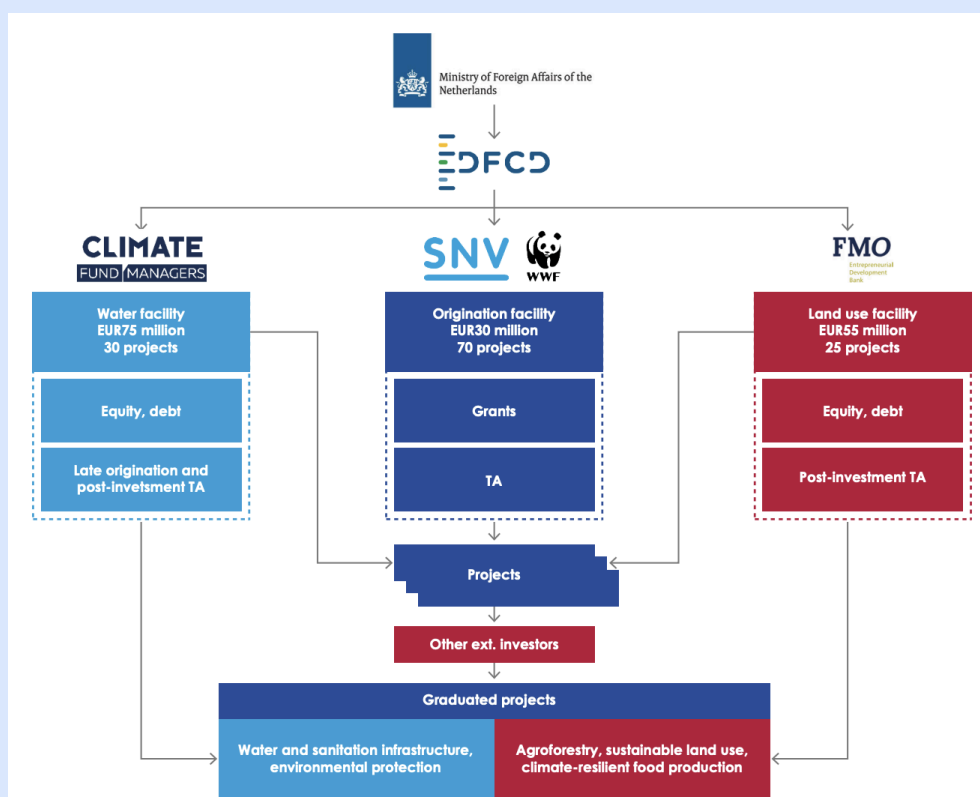
⁸ See more information here: External evaluation of the Dutch Fund for Climate and Development at: <https://www.government.nl/binaries/government/documenten/reports/2024/01/31/external-evaluation-of-the-dutch-fund-for-climate-and-development-dfcd/External+evaluation+of+the+Dutch+Fund+for+Climate+and+Development+DFCD.pdf>

Box 5: DFCD market creation approach, through an investment fund

The **Dutch Fund for Climate and Development (DFCD)** operates through three interlinked facilities.

- **Origination Facility** – Managed by SNV and WWF, this component provides grants and TA to identify, shape, and prepare a pipeline of innovative, climate-relevant projects that are viable for investment.
- **Investment Facilities** – The Water Facility, managed by Climate Fund Managers (CFM), and the Land Use Facility, managed by FMO, act as the fund's investors. They provide tailored financial instruments—such as equity (CFM's primary focus) and loans (FMO's preferred modality)—to advance projects to scale.

Alongside financing, both investment facilities actively identify their own opportunities or develop projects directly, using approaches that differ from the grant-driven project development work of SNV and WWF. This ensures a diverse pipeline and enables DFCD to move from early-stage concept development to full-scale investment, leveraging complementary expertise across its partners.



Source: Karaki and Bilal 2022

4. Recommendations

The MCP-IYBA represents a highly innovative and strategically positioned initiative. Its potential to advance both development cooperation goals and broader GG objectives warrants continued and reinforced support. Given its novelty and rapid expansion at the European level, the operational and strategic challenges it faces are to be expected. This final section outlines a set of practical recommendations to enhance the programme's implementation, strengthen its long-term impact, and ensure its alignment with European priorities moving forward.

4.1 Better respond to donors' interests and needs to attract MCP-IYBA funding

To strengthen its fundraising efforts, the MCP-IYBA should focus on mobilising support from donors—particularly those already engaged in the TEI IYBA—and tailor its value proposition accordingly. This requires structured consultations to better understand donor priorities, constraints, and expectations regarding their potential contribution to the programme. These consultations should clearly identify both the political and technical added value of working through the MCP IYBA, i.e. that i) their support strengthens the European and national visibility and political/economic influence; and ii) leveraging the MCP-IYBA is more efficient and effective than going through bilateral channels.

To improve donor alignment and programme positioning, several options could be considered:

- 4.1.1 Ensure that in the donor forum, donors can steer the focus of interventions (going beyond agreeing on a contractual framework ex-ante) and contribute to the implementation, by identifying and suggesting (not requiring) concrete (business development) interventions related to i.a. potential future DFI pipeline opportunities (including funds and fund-of-funds). This could be most relevant for FMO, as donors (such as the COM, through the Delegations) often have presence on the ground, and can help facilitate market creation program implementation (and its link to GG flagship projects). A clear process, with clear criteria should be agreed ex-ante to ensure that this helps and does not delay programme implementation. To do so, programme specific steering committees should provide donors with the opportunity to know and comment on the specific pipeline and provide no-objection, as well as suggesting where relevant potential opportunities FMO could/should look at in the context of a specific

-
- programme. This could be helpful in better engaging donors, as it will position the platform as a key means to achieve their policy objectives.
- 4.1.2 Given the current focus of GG on engaging the European private sector, and the pressure at the domestic level to show the benefits of development cooperation, further emphasising the link between MCP-IYBA and European private investors who could co-invest alongside DFIs in the pipeline supported by MCP-IYBA interventions. This would enhance the programme's attractiveness by demonstrating a clear pathway from public support to private sector mobilisation.
- 4.1.3 In parallel, strengthen the positioning of the MCP-IYBA as a DFI led initiative, where multiple DFIs and implementing agencies are working closely together in the advisory board of the program to further steer the origination of investor led PSD initiatives. This way donors, by contributing to the MCP-IYBA, indirectly support/push their national implementing agencies and DFIs to collaborate further between them, and with other European players.

4.2 Providing incentives to European DFIs pipeline to co-finance interventions

MCP-IYBA interventions should better connect to existing initiatives and platforms (within and outside FMO management where relevant), as done initially with ARIA and Casa +. Some of these programmes give a preference to DFIs for downstream investments in case they co-financed business or ecosystem interventions. This way, DFIs have greater assurance that co-financing will lead to investments, from which they can benefit from an income stream. Otherwise, they may be reluctant to engage, as free-riding (cases a DFI who did not contribute to TA interventions benefit from investment opportunities) from other DFIs could happen.

The advisory board should help ensure that European DFIs' priorities, operational constraints, and resource allocations are integrated into programme planning. In practice, alignment around key frontier markets and specific investment opportunities will be key to ensuring their active participation. Structured dialogue among DFIs on their forward pipelines could also help the MCP-IYBA refine its focus, increasing the relevance of the TA interventions while boosting the potential for co-investment. This would stimulate DFIs co-financing of ecosystem and business development interventions.

In parallel, the MCP-IYBA should facilitate greater coordination between TA programmes funded through EFSD+ and those embedded within MCP-IYBA

structure. Building on FMO's successful approach of linking TA support under EFSD with the MASSIF-MCP, this model could be scaled to the European level.

Another suggestion could be to enlarge the scope of interventions to be provided by the MCP-IYBA. In particular, MCP-IYBA could reallocate/earmark part of the TA funds (or attract additional funds (preferably in the form of financial instruments) in the form of catalytic/seed capital towards more mature yet risky markets (thus not dealing with market creation only but also early stage/pioneer investors and even DFIs balance sheet, following a clear set of GG and IYBA related criteria). The link between the TA intervention and the investment would be close, allowing investors (not only DFIs but also European and local impact investors) to have a stronger / more certain business case – and hence would reinforce the value proposition of the MCP IYBA. In addition, this would provide a revenue stream for the platform, which could be used to finance its management as well as the TA activities. Modalities to do so could include setting up a special purpose vehicle such as an investment fund and could build on and complement interventions by the Triple Jump DGGF's Seed Capital & Business Development (SCBD) facility (where the said investment fund could provide additional catalytic funding to funds initially supported by the SCBD Facility). Alternatively, sub-delegating funding to third parties such as SCBD and I&P could be an option as this may be more cost effective.

Box 6: The SCBD Facility

Established in 2014 and managed by Triple Jump, the Dutch Good Growth Fund (DGGF) is among the first Fund-of-Funds initiatives to channel investment and TA to financial intermediaries that serve “missing middle” SMEs in emerging markets. The fund prioritises enterprises in sectors and regions aligned with climate action, youth entrepreneurship, gender equality, and operations in fragile states.

Within this framework, the Seed Capital and Business Development (SCBD) facility targets early-stage SME finance initiatives that are too young, small, or high-risk for mainstream development finance. By assuming higher risk, SCBD supports first-time fund managers, innovative financing models, and ventures in fragile markets—demonstrating that these can deliver both financial returns and measurable social impact. The aim is to build the track record and execution capacity of investees, enabling them to attract larger institutional investors, including DFIs. Importantly, over 80% of its resources are dedicated to providing support in the form of financial instruments, hence ensuring a certain degree of financial sustainability of the fund.

Since inception, SCBD has closed 25 seed capital transactions and, as of December 2023, was holding an active portfolio of 18 fund managers and intermediaries across Asia, Latin America, and Africa, with 36% of committed capital in fragile countries.

Source: ECDPM

4.3 Leverage the European private sector as an implementer and co-financier, in line with broader GG endeavours

To enhance its strategic positioning and align more closely with the objectives of the GG, the MCP-IYBA could more actively engage the European private sector, including investors. Strengthening these linkages would not only reinforce the programme's value proposition but also serve as a catalyst for attracting additional funding.

At the level of the programmes, the European private sector/investors could play a role in implementing some of the ecosystem and business development interventions. So far, Triple Jump is the main European actor playing a role at this level in the MASSIF-MCP, but it could be worth exploring whether other European actors could come in to implement some of the interventions financed through the MCP-IYBA. In addition, working more closely together with corporate social responsibility teams of large European corporates, by building synergies with their programmes (and in doing so facilitating co-financing of e.g. business development opportunities) is another alternative to further engage the European private sector – not as an implementer but co-investor. That said, this is no silver bullet as scale is often limited and approaches often involve pari-passu type of investments where private sector financing also leverages donor funding.

At the level of the investment, European investors could come in and co-invest, including for smaller size tickets. European investors could co-invest alongside DFIs in the beneficiaries (i.e. not the ESBs per se but the financial intermediaries – whether funds, or fund of funds etc.) from the MCP-IYBA interventions. In doing so, they would help mobilise private capital, which is part of the objective of the GG. Such an approach has been tested in the case of the Dutch Climate and Development Fund, managed by FMO. Replicating such an approach within MCP-IYBA would not only strengthen European private sector involvement but also reinforce the EU's strategic and economic interests in partner countries.

4.4 Work more with implementing agencies to influence their programmes

Stronger coordination and synergies should be pursued with implementing agencies, particularly in the area of ecosystem development. While such collaboration may not directly translate into additional financial resources for the MCP-IYBA, it would enable the programme to shape and influence ongoing interventions, aligning them more closely with DFI priorities and investment-readiness objectives.

By leveraging existing interventions led by implementing agencies—especially those already engaged under the broader IYBA initiative—the MCP-IYBA could concentrate its own resources more strategically on business development activities with a clearer link to deal-making. Notably, many implementing agencies are actively seeking deeper collaboration with DFIs. The MCP-IYBA could serve as a practical platform to foster such partnerships, improving alignment between development cooperation efforts and investment-focused approaches at a very early stage. This often requires political push from the shareholders.

To move from this objective to practice, it will be key to ensure that such collaborations are forged at the programme design phase. This would require regular, structured engagement — such as bi-annually coordination meetings — that would allow implementing agencies the opportunity to present upcoming programmes, which FMO (on behalf of the European DFIs involved in the advisory board) could comment and indicate how and where these could help develop the development of a pipeline of high impact projects.

4.5 Review the business model of the MCP-IYBA to optimise financial sustainability

It is important to assess how the MCP-IYBA's financial model could be optimised to enhance its long-term sustainability, even in the absence of a revolving structure. Given that market creation challenges will persist well beyond 2031, establishing a more durable funding approach is essential. This study shows that complementing grant-based funding (which can be too constraining for the scale-up of the MCP-IYBA) with financial instruments will be important – and even more so if the suggested recommendations on adding an investment dimension (catalytic funding) to the MCP-IYBA. Exploratory measures could also include evaluating the feasibility of introducing a cost-sharing model whereby DFIs contribute a service fee when co-financing investment opportunities facilitated by MCP-IYBA-supported interventions, provided that such causality can be proved. Such adjustments would not only help extend the programme's operational

horizon but also reinforce its value proposition as a shared, strategic investment-enabling platform.

The MCP-IYBA represents a highly innovative and strategically relevant initiative, with strong potential to contribute to both development and broader Team Europe and GG objectives. Looking ahead, further progress is both possible and necessary to fully translate this potential into tangible investments and lasting impact, and better position the MCP-IYBA in the European context.

Strengthening the alignment between the MCP-IYBA and the GG will be critical—not only to enhance political visibility and coherence, but also to reinforce the platform’s contribution to Europe’s long-term geopolitical and geoeconomic goals.

At the same time, a review of the programme’s operational model could help optimise its financial sustainability, improve resource efficiency, and scale by attracting greater participation from public donors and private investors. Strategic adjustments along these lines will be essential to ensure the MCP-IYBA continues to evolve as a robust, future-oriented instrument within the EU’s development finance architecture.

5. Conclusion and way forward

The MCP-IYBA stands as a forward-looking, catalytic initiative that addresses one of the EU GG’s core challenges: the scarcity of bankable projects in frontier markets. By pioneering a market systems approach and fostering stronger alignment with European DFIs, private investors, and implementing agencies, the programme enhances the conditions to scale up sustainable investment. As market creation becomes an increasingly vital pillar of EU external action and development finance, the MCP-IYBA offers a replicable and scalable model for unlocking high-impact investments and fostering inclusive economic growth across priority sectors and geographies, in full alignment with the GG’s long-term strategic objectives.

Looking ahead, the MCP-IYBA is well positioned to play a central role in supporting the 360 degrees approach promoted through GG. Even if financial inclusion does not directly relate to the GG priority sectors, it can help support indirectly the implementation and impact of GG flagship projects and play a key role in fostering mutually beneficial partnership (which often happens if the local private sector benefits to some degree of development and geostrategic interventions).

In addition, the MCP-IYBA, through its experience, can support and help operationalise market creation approaches across the five GG priority sectors—digital, climate and energy, transport, health, and education and research.

This type of thinking is reflected in the expansion of the MASSIF-MCP to other sectors, which could be supported by a successful expansion of the MCP-IYBA. The principal constraint facing European financiers is not a lack of capital, but a shortage of investable opportunities. The programme's focus on upstream market creation is therefore both timely and essential, especially given that project origination remains a major bottleneck not only for financiers but also for private sector actors across Europe. Innovative approaches, building on the MCP-IYBA lessons and architecture, could help make a difference in these key sectors and support the move of GG from start-up to scale-up.

Positioning market creation as a foundational component of the GG scale-up would also encourage more effective coordination across the European financial architecture for development. Specifically, market creation should be promoted as a strategic entry point for bridging TA and investment operations—linking implementing partners with DFIs, aligning pipeline development with investment mobilisation, and better connecting European private capital to emerging market opportunities. This alignment would increase operational coherence and efficiency across Team Europe actors.

Further consideration should be put on developing from the start revolving approaches, including if this means diversifying the types of investments made (doing market creation at the core, with additional focus on slightly more mature markets following GG criteria). In the context of shrinking Official Development Assistance budgets and increasingly constrained donor funding, revolving approaches that demonstrate a pathway to financial sustainability over a medium-term horizon (e.g. within four years) will be particularly attractive. Such models are likely to draw continued support not only from donors and foundations but also from European DFIs and private investors seeking scalable and impact-oriented investment opportunities.

Finally, careful consideration should be given to the institutional anchoring of market creation activities, especially in case of the replication of market creation in other GG sectors. Due consideration and careful cost-benefit analysis should be carried out to assess whether hosting them within neutral, pan-European institutions such as the European Investment Bank (EIB) or the EDFI association could be even more effective and efficient on the way forward. While bilateral actors should retain active roles in governance and implementation, housing these initiatives within European platforms would reinforce their perception as emblematic of the Team Europe approach, closely aligned with EU policy priorities and reflective of the collective ambitions of the Union and its member states.

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