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# LAYERING CASH INTO MARKET SYSTEMS PROGRAMS

## CATALYZING MARKET-DRIVEN RECOVERY IN NIGERIA

MAY 2023

This is one of a series of Learning Briefs produced by Mercy Corps to capture learning on Markets in Crisis approaches. The series focuses on operational lessons; evidence of market-based coping and adaptation; and pathways to resilient market systems change.

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***Disclaimer:***

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# Acronyms

ADP	Agricultural Development Programmes
AOR	USAID Agreement Officer's Representative
BAY-G	Borno, Adamawa, Yola and Gombe
BDSP	Business Development Service Provider
BSLA	Building Sustainable Livelihoods in Nigeria Activity
COP	Chief of Party
DCOP	Deputy Chief of Party
FCMB	First City Monument Bank
FTF	Feed the Future
IFPRI	International Food Policy Research Institute
MSD	Market Systems Development
MSME	Micro, Small, and Medium Enterprises
NASSP	National Social Safety Net Program
NCN	North Central Nigeria
NEN	North Eastern Nigeria
NGO	Non-Governmental Organization
PDM	Post-Distribution Monitoring
POS	Point-of-Sale
RRA	Feed the Future Nigeria Rural Resilience Activity
UCT	unconditional cash transfer
USAID	United States Agency for International Development
USD	United States Dollar
VSLA	Village Savings and Loans Association

# 1. Executive Summary

COVID-19 was a catastrophic global shock whose ripple effects suspended livelihoods, shut down markets, and overwhelmed safety nets. The pandemic continues to have protracted impacts on households, communities, and systems. In that context, a widespread, short-term humanitarian response in Nigeria to quickly infuse cash into households and enterprises was appropriate to speed up recovery. At the same time, COVID-19 occurred in a context of increasing and more impactful shocks, and the need for short-term assistance to help affected households cope with these shocks and avoid backsliding continues. It is urgent and critical to understand which responses are appropriate, when, and by whom to inform future market-driven crisis responses.

This paper examines the case of the Nigeria Rural Resilience Activity (RRA), a five-year, US\$49 million Activity funded by the United States Agency for International Development (USAID) Feed the Future portfolio within the states of Borno, Adamawa, Yobe and Gombe (BAY-G) in North Eastern Nigeria (NEN) and implemented by a consortium led by Mercy Corps, in partnership with Save the Children International and the International Fertilizer Development Center. The Activity aims to sustainably move people out of chronic vulnerability and poverty in conflict-affected areas by expanding economic opportunities and strengthening resilience capacities throughout local systems, at household, community, and market levels. As a long-term market systems development (MSD) program that launched a humanitarian response to COVID-19 led by unconditional cash transfers (UCTs) to 47,387 farmers, 5,560 local MSMEs, and 85 key intermediary actors, RRA offers a rare opportunity to examine the impact UCTs can have on MSD programming, in particular whether UCTs are an appropriate modality for an MSD program to pivot from market facilitation to direct implementation, what the impact was on the existing programming aims and operations, and whether the cash transfer activity distorted the markets the program was supporting. RRA also offers valuable learning for development programs considering how to best help households respond to shocks in ways that support - rather than undermine - the resilience of local market systems. As the COVID-19 response activity was implemented in collaboration with nine other programs, six of which were FTF Activities, this case also illustrates the impact of cross-program and cross-organizational collaboration.

**RRA offers a rare opportunity to examine the impact UCTs can have on MSD programming, in particular whether UCTs are an appropriate modality for an MSD program to pivot from market facilitation to direct implementation**

Through interviews with a wide-range of stakeholders involved in RRA's COVID-19 response, the resounding conclusion was that the economic impact of the pandemic was so catastrophic that it was entirely appropriate for an MSD program to adapt to and implement a UCT-driven response - not only to help individual households avoid sliding deeper into poverty but, and equally important, to jumpstart a devastated local economy and prevent the collapse of the micro-, small-, and medium- enterprises (MSMEs) that are the backbone of the food system.

However, direct, NGO branded UCTs do not align with the lower visibility, facilitation-based interventions of MSD and this response was not without cost to the RRA team's focus and, in some cases, led to partner and community confusion. It was also widely acknowledged that development programs must work on the longer-term solutions that build the resilience of vulnerable households and MSMEs to natural and human-caused shocks and reduce their dependency on welfare or humanitarian response. Making large-scale cash transfer responses a regular part of an MSD program could take away from efforts to create long-term systemic change and is not ideal. Therefore, in the context of recurring shocks and stresses, it is even more

crucial for the humanitarian and development communities to push the boundaries of collaboration across programs and organizations so that MSD programs can anticipate shocks and include market system resilience into their response models, recognizing that the skills and tactics of market facilitation are still needed in a crisis response, while humanitarian and social welfare programs can address immediate needs and protect the progress of development gains.

As the humanitarian and development community continues to evolve and improve how it operationalizes its range of approaches, it needs to maintain programmatic flexibility and avoid technical rigidity to respond in the most appropriate manner to the unique characteristics of each context. UCTs have a valuable place in crisis response for the flexible choice they provide recipients to spend and invest as their needs require, as well as their ability to spur market multiplier effects. UCTs can be more powerful when layered with complementary long-term programming that aims to strengthen markets and their supporting systems, instead of aid actors taking on economic roles. With careful sequencing and layering of approaches, UCTs can spark deeper connections between a range of market actors as well as marginalized populations and lead to greater access to key financial services and market linkages.

## 2. Introduction

In the midst of an unprecedented catastrophe that impacted every aspect of the local food system, the United States Agency for International Development (USAID) Feed the Future Initiative (FTF) and the Rural Resilience Activity (RRA) collaborated in North Eastern and North Central Nigeria (NCN), the Middlebelt and in one state in the Southeast to utilize a common humanitarian tool, cash transfers, for an uncommon purpose – to jumpstart local economies that were devastated by the ripple effects of COVID-19 and other overlapping shocks. The tool was also used to prevent the collapse of the micro-, small-, and medium-enterprises (MSMEs) that are the backbone of Nigeria’s economy. RRA was otherwise focused on using a Market Systems Development (MSD)<sup>1</sup> approach to strengthen recovery, economic opportunity and food security amidst poor households in areas affected by protracted conflict but pivoted to distribute Unconditional Cash Transfers (UCT) to over 53,000 recipients using a targeting criteria that combined an individual vulnerability assessment with an analysis of the importance of specific types of market actors on local economic recovery.<sup>2</sup> As a result, transfers were given to 47,387 farmers, 5,560 local MSMEs, 40 cowpea processors, and 45 key intermediary actors (“lead firms and food processors”) in the food system.

One of the unusual aspects of this UCT intervention was that it was implemented by a long-term development program and directly supported the participants of a number of other ongoing development programs, many of whom had already participated in activities focused on improved agricultural practices, savings and lending strategies, financial inclusion, and/or business investment management. This approach raised a number of questions on:

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<sup>1</sup> The Market Systems Development approach works via partnerships rather than direct delivery of assistance, leveraging the incentives and capacities of private and public sector actors to bring about lasting changes in rules, norms, and supporting functions within markets that support sustainable impact at scale for specific poor and marginalized groups. The approach requires a clear vision of how things could work better for large numbers of people without continued future external intervention. MSD program tactics are thus geared to facilitate long-term changes. They consciously try to avoid activities that merely create temporary shifts in incentives or behaviors. For more information, see [Marketlinks](#) and [the BEAM Exchange](#).

<sup>2</sup> Unconditional Cash Transfers (UCT) and Multi-Purpose Cash Assistance (MPCA) are two different terms for cash transfers that are given to recipients without any requirements for how they spend the funds. UCTs allow program participants to choose which purchases are most critical to them and where and when to spend the funds. In this form, UCTs play the same role as cash stimulus payments that were a common government response to the COVID-19 pandemic. More information on cash and voucher assistance (CVA) can be found in Mercy Corps’ [Cash Transfer Programming Toolkit](#).

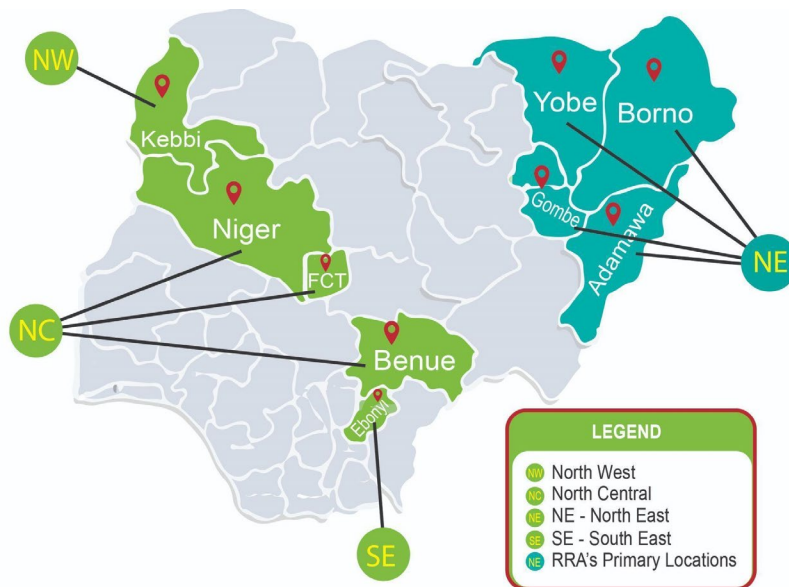
- Whether the cash transfers were an appropriate modality for an MSD program to directly implement,
- What the impact was on the existing long-run programming aims and operations,
- Whether the cash transfer activity distorted the markets the programs were supporting.



*Drawing from interviews with 39 individuals representing the RRA team and program partners, including the private sector, other collaborating programs, and the donor, this paper offers qualitative insights to outline early lessons on the impact of cash on market recovery and reflections on the lessons from layering direct cash assistance into market systems development programming.*

### 3. Project Background and Context

RRA is a five-year, US \$49 million Activity funded by USAID FTF within the BAY-G states in NEN and implemented by a consortium led by Mercy Corps in partnership with Save the Children International and the International Fertilizer Development Center.<sup>3</sup> The Activity aims to sustainably move people out of chronic vulnerability and poverty in conflict-affected areas by expanding economic opportunities and strengthening resilience capacities in local systems at household, community, and market levels. Within agricultural market systems, RRA uses an evidence-based and adaptive approach to stimulate economic opportunities that contribute to inclusive and resilient growth and improved nutrition. Interventions combine market-actor partnerships (pull activities, in line with MSD) with targeted capacity building and direct assistance (push activities) for those that struggle most in NEN's agricultural economy. In July 2021, the Activity received a US\$15 million extension to support 45,000 smallholder farmers and small ruminant producers, 5,000 microenterprises, 50 agro-input firms, and 40 women cowpea processors to recover from the economic impact of COVID-19 in an expanded area that included the original RRA focus areas as well as other FTF zones of influence in Nigeria (see Figure 1).

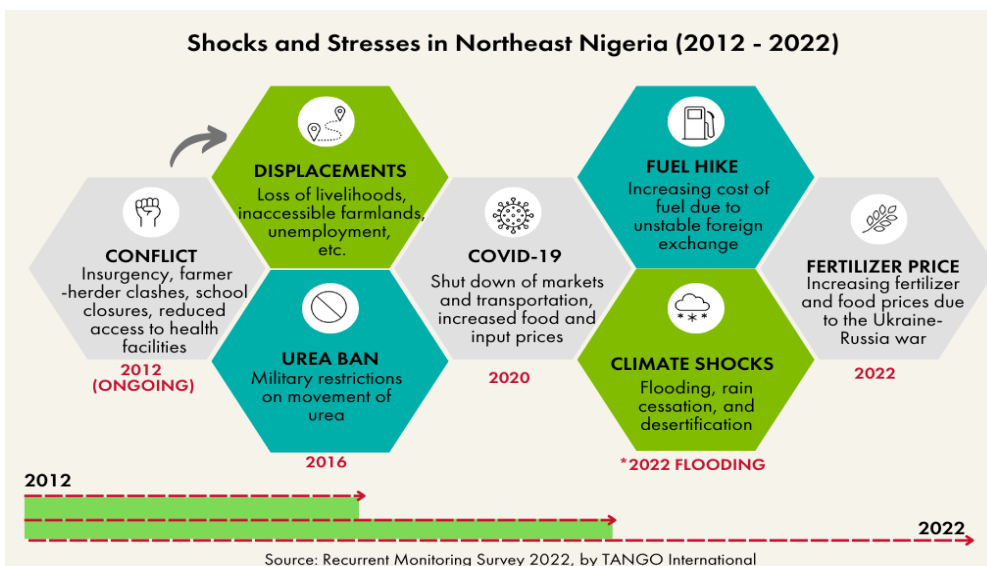


*Figure 1: Implementation footprint of the Rural Resilience Activity*

The impact of the COVID-19 pandemic on RRA's target population was dire, due in large part to the movement restrictions and subsequent local economic impacts. A 2020 study conducted by the International Food Policy Research Institute (IFPRI) in Nigeria estimated that incomes fell by 23-41%, and the national

<sup>3</sup> RRA's original budget was USD 30 million. It received a COVID-19 response expansion activity totaling USD 15 million in July 2021 and an additional USD 4 million cost modification in November 2022 to respond to the impacts of the Ukraine crisis and extreme local flooding, bringing the total budget to USD 49 million. With the additional interventions, RRA aims to reach 590,000 individual participants by October 2024.

poverty rate increased by 15%.<sup>4</sup> RRA's July 2020 Rapid Assessment of COVID-19 impacts in NEN found that in this region, which already faced higher poverty rates than most of the country, weekly household income decreased by 55%, expenditures decreased by 22%, and debt increased by 26% from the start of the pandemic three months earlier.<sup>5</sup> As 70% of households in the area engage in farm work, the reduced mobility significantly hindered household livelihoods - farmers could not reach their lands as often as needed, productivity decreased, and farmers could not get crops to markets. In addition, the traditional system of buyers acting as cash-flow intermediaries in the agriculture supply chain broke down during COVID-19 as buyers and processors had limited liquidity to advance cash and/or inputs to farmers. As a result, supplies of agriculture and livestock inputs fell and prices rose and there was limited labor available for seasonal farm work. This then led to farmers reducing or changing crop production and using lesser quality inputs, further reducing the food supply of staple crops.



The COVID-19 shock accompanied other recurring shocks, including the long-running conflict in NEN and price spikes, and pushed some farmers into crisis. For example, in Benue State, farmers described temporarily abandoning their fields because of conflicts between farmers and herders. After COVID-19 hit, many farmers delayed any decisions on returning to farming.<sup>6</sup> Compounding

Figure 2: Shocks and stresses recorded in Northeast Nigeria between 2021 and 2023

shocks also exacerbated existing food insecurity, particularly in heavily conflict-affected areas. 2021 studies showed that more than half (58%) of households experienced severe food insecurity during the COVID-19 pandemic due to reduced economic opportunities and food production and increased food prices.<sup>7</sup> Global research continues to show that the impacts of COVID-19 linger. As the State of Food Security and Nutrition in the World 2022 report states:



*“The increase in global hunger in 2021 reflects exacerbated inequalities across and within countries due to an unequal pattern of economic recovery among countries and unrecovered income losses among those most affected by the COVID-19 pandemic.”<sup>8</sup>*

4 Andam, Kwaw S.; Edeh, Hyacinth; Oboh, Victor; Pauw, Karl; and Thurlow, James. 2020. Impacts of COVID-19 on food systems and poverty in Nigeria. In *Advances in Food Security and Sustainability* Volume 5, ed. Marc J. Cohen. Chapter 4, Pp. 145-173. <https://doi.org/10.1016/bs.af2s.2020.09.002>.

5 The full assessment report can be found at *The Market Impacts of COVID on Northeast Nigeria*

6 Ibid.

7 Ibukun, C. O., & Adebayo, A. A. (2021). Household food security and the COVID-19 pandemic in Nigeria. *Afr Dev Rev*, 33, S75– S87. <https://doi.org/10.1111/1467-8268.12515>

<sup>8</sup> FAO, IFAD, UNICEF, WFP and WHO. 2022. *The State of Food Security and Nutrition in the World 2022. Repurposing food and agricultural policies to make healthy diets more affordable*. Rome, FAO. page xiv. <https://doi.org/10.4060/cc0639en>



To address these impacts, many governments expanded social welfare programs, which successfully blunted the impact on vulnerable populations and demonstrated the efficacy of UCTs to address short-term coping needs.<sup>9</sup> However, Nigeria's National Social Safety Net Program (NASSP) remains small, and its coverage did not extend to many RRA program participants.

## 4. COVID-19 Activities

Within the context of ongoing complex crises exacerbated by the COVID-19 pandemic, RRA launched an expansion activity intended to deliver unconditional cash transfers and capital support on a scale large enough to prevent further backsliding and economic devastation. To ensure the cash transfers would be utilized to help farmers and MSMEs improve their livelihood prospects in addition to meeting basic needs, the transfers were accompanied by guidance on how the assistance should be used. USAID requested that RRA expand the geographic footprint of these activities beyond the RRA target areas in the BAY-G states to include additional FTF Zones of Influence and Activities.<sup>10</sup>

Over nine months, RRA identified, vetted, and then disbursed cash to 53,032 recipients, 56% of whom were women. RRA identified recipients from a range of sources including the Activity's own lists of participants; other FTF Activities;<sup>11</sup> other relevant programs within Mercy Corps; other organizations managing relevant programs in the target areas, including CARE and GIZ; and the State Government's Agriculture Development Programmes (ADP) and membership lists of relevant associations, such as livestock feed sellers and shea butter producers.

Farmers and microentrepreneurs received a cash transfer of NGN78,000.00 (USD191).<sup>12</sup> Each of the 45 selected lead firms received a subaward capital support grant of NGN1,000,000.00 (USD2,624.67) split into two payments of NGN800,000.00 and NGN200,000.00. Transfer values were calculated using a mixture of food security needs (e.g., the cost of a monthly food basket), the cost of inputs, and/or a company's financial and liquidity needs.

Cash transfers were disbursed directly by Mercy Corps into individual recipients' bank accounts using a standard bank transfer mechanism.<sup>13</sup> This was feasible as Nigerian law allows individuals to maintain a basic bank account that requires only a phone number and third-party identification to open. Still, many eligible recipients did not have their own bank account or had one in an outdated name, so RRA partnered

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9 Gentilini,Ugo; Almenfi,Mohamed Bubaker Alsafi; Okamura,Yuko; Downes,John Austin; Dale,Pamela; Weber,Michael; Newhouse,David Locke; Rodriguez Alas,Claudia P; Kamran,Mareeha; Mujica Canas,Ingrid Veronica; Fontenez,Maria Belen; Asieduah,Sandra; Mahboobani Martinez,Vikesh Ramesh; Reyes Hartley,Gonzalo Javier; Demarco,Gustavo C.; Abels,Miglana; Zafar,Usama; Urteaga,Emilio Raul; Valleriani,Giorgia; Muhindo,Jimmy Vulembera; Aziz,Sheraz; Tirumala Madabushi Matam I,Hrshikesh. Social Protection and Jobs Responses to COVID-19 : A Real-Time Review of Country Measures (English). COVID-19 Living Paper Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/110221643895832724/Social-Protection-and-Jobs-Responses-to-COVID-19-A-Real-Time-Review-of-Country-Measures>

10 This includes local government areas (LGAs) in Borno, Yobe, Adamawa, Gombe, Kebbi, Niger, Benue, and Ebonyi States and the Federal Capital Territory (FCT).

11 These included the Nigeria Agribusiness Investment Activity (AgInvest) implemented by Cultivating New Frontiers In Agriculture (CNFA), the Nigeria Agricultural Extension & Advisory Services Activity (AgExtension) implemented by WinRock International, the Building Sustainable Livelihoods in Nigeria Activity (BSLA) implemented by Nuru Nigeria, and the Integrated Agriculture Activity implemented by the International Institute for Tropical Agriculture (IITA).

12 Selection criteria for farmer and MSME owners included female- and youth-headed households and households with annual income lower than NGN 50,000, with more than seven members, containing Persons Living with Disability (PLWD), without land (who rent farmland), and with more than one dependant (either infants or aged).

13 This methodology saved the expense of paying participating banks or money transfer agents fees to manage the transfer process and submit records to Mercy Corps. The savings of USD 496,602 enabled RRA to reach 2,137 additional UCT recipients.

with several commercial banks to quickly facilitate opening new accounts for those recipients who needed it. In the end, 19,602 new bank accounts were opened during the activity period (see page 11 for longer term results in financial inclusion).

Use of money	Percentage of respondents
Food for my household	63%
School fees for dependents	33%
Farm assets (inputs, rent land)	32%
Livestock for my business	28%
Capital to start an off-farm business <sup>14</sup>	25%
Other <sup>15</sup>	18%
Saving money and not using it yet	2%

*Table 1: Breakdown of UCT usage by percentage of respondents*

However, there is widespread anecdotal evidence from all programs that recipients used the funds to purchase assets for supplemental non-farm business activities or to pay off their input suppliers and then store their crops to sell at a higher price later. Several programs, particularly Building Sustainable Livelihoods in Nigeria Activity (BSLA) and the Nigeria Agricultural Extension & Advisory Services Activity (AgExtension), directly encouraged their farmers to use UCT funds for business investments.

**In Yola, one woman used about 60% of her UCT to buy a manual plow. In addition to plowing her family's fields, she also rented it to her neighbors. She was able to recoup her investment within two weeks and she then purchased four more plows to rent out.**

A Post-Distribution Monitoring (PDM) assessment of household-level recipients conducted 1-3 months<sup>16</sup> after the cash transfers showed the breakdown of UCT usage (see Table 1).

There were concerns the timing of the first UCTs would lead to greater expenditure on non-productive activities, as delays in program approval pushed the transfers back from the planting to the harvest season, when households traditionally have the most cash on hand.<sup>17</sup>

Women took particular advantage of the cash they received. Global evidence shows that women are more likely to spend cash on nutritious foods; in this case anecdotal/qualitative findings show that women also saw a higher return on their business investments than their male counterparts. Coincidentally, RRA's two rounds of cash transfers occurred as inflation was beginning to rise in Nigeria, especially for farm inputs. Cash recipients who purchased business assets would have spent significantly more money for the same inputs and assets a few months later.

Unlike a typical humanitarian cash distribution in which the primary goal is to help the most vulnerable individuals survive and therefore the most important element of recipient selection is need, in this case, the cash transfers had the dual aims of helping vulnerable households meet their basic needs and begin reinvesting in economic activities, while also sustaining and jumpstarting the local economy on which they rely. Thus, it was vital to provide cash not just to farmers and microentrepreneurs but also to the key

<sup>14</sup> Typical businesses supported included food and animal product processing, petty trading (such as repacking and selling smaller quantities of food staples, and services (such as tailoring).

<sup>15</sup> This included purchasing equipment and supplies for an ongoing business, covering costs related to crop harvest, increasing business capital, paying hospital bills, maintaining vehicles and houses, repaying debts, and helping family or friends.

<sup>16</sup> The PDM took place in all locations except Ebonyi. Cash transfers in Ebonyi started late due to security issues that occurred between November and December 2021.

<sup>17</sup> UCTs were originally intended to be disbursed in advance of the wet-season planting, which occurs in May and June. Due to program approval delays, the initial round of cash transfers was completed in September-November 2021, coinciding with the wet-season harvest. Later another round of transfers to additional recipients was completed in February-April 2022, which did coincide with wet season preparation.

intermediary actors, such as input suppliers, buyers, and service providers. Intermediary firms spent the cash they received to increase their storage capacity and business infrastructure, expand the number of hectares of land under cultivation, add to the number of farmers in their outgrower schemes, and pay for business supplies to increase marketing and promotion activities. The cash was accompanied by complementary support from RRA to help market actors adapt business activities to the current context. Support included business management and financial literacy training for microentrepreneurs and technical assistance for intermediary firms to adjust business plans.

# 5. Findings

## Were UCTs an appropriate response for an MSD program and did the cash transfers distort markets?

The universal response of stakeholders who were interviewed for this brief was that, yes, UCTs were appropriate. And while any time cash is injected into an economy it distorts markets to some extent, interviewees agreed that in this case, the UCTs served a protective and temporary function in the local economy. The reasons why UCTs were deemed appropriate are nuanced and inextricably linked to the nature of the COVID-19 crisis and its secondary impacts in the Nigerian context.

### 5.1 Market Impacts of Cash Transfers

#### > Cash transfers can stimulate individual spending and wider business investments

The primary justification for widespread UCT in this circumstance lies in the scale of impact of the COVID-19 movement restrictions. As one FTF Chief of Party (CoP) said, “COVID crippled the entire system... No one had seen that level of destruction in recent history.”<sup>18</sup> Within this context, the intent of the rapid infusion of large amounts of cash into the agri-food market system in NEN and NCN was to “basically shock the market to start breathing again,” according to RRA’s DCoP, who likened COVID-19-affected markets to a heart attack patient. From the 53,032 rural recipients who received cash, households suddenly had money to purchase agriculture input supplies and livestock and MSMEs could restock and add new business lines, which in turn gave upstream suppliers the ability to buy and sell. Even the health care, and food were facing significant. Although longer term, have supported market recovery, the speed and scale of impact of cash at a moment of crisis was a key benefit of the UCTs. Since each household or MSME only received a one-time UCT, the intervention helped recipients make key purchases without adding to longer term inflation, market distortions, or dependency.



*“Sometimes all you need is disruption.”*  
— DCoP, RRA

expenditures on school supplies, went into local businesses that drops in cash flow and income. targeted interventions also could

#### > Careful targeting is vital to create ripple effects

The key in targeting businesses was identifying eligible UCT recipients who also played important roles in market functionality. RRA selected 45 input sellers and grain buyers to receive support. One of them was GreenPal, a seed supplier in NEN that also manages contract farming schemes.

<sup>18</sup> Olumide Ojo, AgInvest Chief of Party.

GreenPal had already been working with 200 farmers under RRA. With the COVID-19 movement restrictions, they could not sell their seed and, meanwhile, other input prices rose. GreenPal received N1million (USD2,405) under the COVID-19 activity, which they spent on pallets to better store seed and advertising to inform retailers and wholesalers of the benefits of improved seeds.<sup>19</sup>

They also used the funds to purchase a milling machine, which they used to grind the unsold rice and maize seed and sell it locally for household consumption. This ongoing revenue enabled them to keep their staff and, once movement restrictions were eased, to move their sales points out of Gombe town into their farm communities to make it easier and cheaper for farmers to purchase seed. The increased marketing also led to an expansion in their network of sales agents from 25 to 40, adding 15 new jobs with a larger geographic footprint. As a result, in the 2022 growing season, GreenPal added 110 hectares and 50 farmers (to reach a total of 250) to their contract farming operations. Due to careful targeting based on RRA's market understanding, the one-off cash injection not only sustained GreenPal's market role but also delivered a greater return for rural farmers and households than a less informed targeting approach would have done.

### › **The key to minimizing distortion is unpredictability**

The UCTs were completely unexpected by the community, from individual households to intermediary businesses to the development programs themselves. This was an unplanned program adaptation by USAID and RRA to respond to an unprecedented crisis. As a result, the infusion of liquidity into markets was a positive shock after a series of negative ones. Importantly, local suppliers did not have the time or awareness to anticipate the cash release and adjust prices or business lines. Additionally, since the UCT was delivered only once, there was no incentive to adjust their longer-run business plans after the distribution.

UCTs become distortionary and create dependence if they are routine and thus predictable - as they are in many prolonged crises where they are a crucial coping tool for affected populations. In those prolonged responses, local actors make business decisions based on the expectation of future cash infusions, such as retailers prioritizing selling items included in restricted cash transfer baskets, which then orientates markets to external aid flows rather than local demand. Cash and other short-term aid can assist early recovery, but “when it becomes persistent, it can become toxic [to markets].”<sup>20</sup>

### › **Deeper engagement, especially driven by the private sector, is vital for longer term impact**

While cash can be a spark to restart market activity, it can only drive longer-term business improvements if it is followed by further investment and private sector partnership. This is vital at all levels, from intermediaries supporting microentrepreneurs to expand their businesses, to larger firms investing in local market expansion. Prior to, and in parallel with, the COVID-19 response activity, RRA and other programs in NEN and NCN had been working to persuade larger, Lagos-based agri-food companies to expand to the conflict-affected areas to diversify services and improve market linkages. Previously, many companies were reluctant due to fear of conflict and uncertainty about the scale of the local economy. The level of buying activity unleashed by the cash transfers “really

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<sup>19</sup> Currency conversions in the paper use a rate of N 415 to USD 1, which was the average official exchange rate during the life of the COVID-19 expansion activity.

<sup>20</sup> Olumide Ojo, AgInvest CoP

helped suppliers to begin to see the opportunity.”<sup>21</sup> For example, after discussions with RRA, Golden Agri Inputs (GAIL), a subsidiary of Flour Mills of Nigeria, launched direct sales of inputs and fertilizers to NEN smallholders. Prior to the COVID-19 activity, they were only selling to farmers in their contract farming schemes and to intermediary retailers across NEN. Similarly, Unilever saw that other national and multinational actors were now active in the NEN marketplace and decided to expand their SHAKTI door-to-door sales model to the region in partnership with RRA.

## 5.2 Using UCT as a Springboard to Financial Inclusion

### › UCTs can enhance longer-term financial inclusion with conducive timing and conditions

One sector where the UCTs had significant impact was financial services, particularly because financial inclusion was a core component of several of the programs, including RRA, AgInvest, AgExtension, and BSLA. UCT implementation required the active participation of banks, as all transfers went into individual accounts, and many qualified recipients did not have an appropriate account.<sup>22</sup> In order to register these new accounts needed, partner banks hired more rural agents, moved mobile verification machines into remote areas, and set up one-stop shops. First City Monument Bank (FCMB) alone opened more than 10,000 new accounts in just a few weeks. This activity not only resulted in many new accounts, but also expanded agent banking networks to



*“Farmers got a sense of what a bank account can do.”*

— FCMB

remote areas - with their Point-of-Sale (POS) devices and ability to facilitate cashless payments, electronic transfers, and remittances - and raised awareness among the local population of who those agents are and the services they provide.

Because participants needed an account to be able to receive cash, the UCT offered a tangible demonstration of one benefit of having a bank account. While a one-time transfer is not enough to achieve financial inclusion, the timing coincided with a COVID-19-induced sea change in local banking practices. The COVID-19 movement restrictions meant people could not travel to make payments and VSLAs could not meet. One result of this and the economic retraction was a lower

cash volume in rural communities. Suddenly nontraditional payment mechanisms, such as banking agents and electronic platforms, and commensurate technological proficiency, became more



*“When I received the money, I used a part to pay for my children’s fees since I have separated from their father, and I am now responsible for their needs. I also used the money to purchase a second-hand sewing machine. [In the MSME training] I have learned how to strategically position and publicize my business so it can grow. For example, for tailoring, you advertize where demand for women’s and children’s outfits is high. In that way, you get more customers.”*

— UCT recipient in Kebbi State

<sup>21</sup> RRA DCoP.

<sup>22</sup> Opening a personal bank account that can accept larger deposits (Tier 2 or 3 accounts) requires biometric verification and a resulting unique Bank Verification Number (BVN), as well as a National Identity Number (NIN). Six banks completed this process for UCT recipients.

necessary. As the AgInvest DCOP said, “We see so many cash points now, even in rural areas... COVID-19 in a way is a myth buster.”

Already, there are positive signs of increased bank usage beyond the cash transfers, particularly in RRA target areas. Based on a sample assessment of bank accounts held by UCT recipients in three participating banks (FCMB, Sterling Bank, Fidelity Bank), between 75% and 87.5% of bank accounts in the RRA target area were still active as of November 2022, compared with 46.3% in the non-RRA



**Between 75% and 87.5% of bank accounts in the RRA target area were still active as of November 2022, compared with 46.3% in the non-RRA area**

area.<sup>23</sup> This is an indicator that the UCT may have been a large-scale push activity that came at the right moment to catalyze ongoing pull activities with financial institutions.

At the same time, the large number of bank accounts opened under the UCT activity, the volume of cash transferred, and the demonstration of local market activity increased banks’ interest in partnering with RRA and other programs. Other collaborating programs reported that banks relaxed their requirements to reactivate dormant accounts and processed account applications much faster than before the COVID-19 activity. One local partner microfinance bank sped up the rollout of its electronic processing system to be able to capitalize on the activity.

### › **Incentivizing productive relationships between the right financial partners and target populations can lead to longer term impact**

A vital element in supporting longer term impact was the partnerships that RRA and other programs built with FSPs prior to the UCTs, and that they then scaled up after the crisis. In NEN, many banks lost assets when they were forced to close operations in the area over a decade ago due to insecurity. In 2021, RRA publicly sought out banks willing to return to remote areas and offer agriculture and MSME loans. The banks that signed MOUs to return and/or expand to NEN had a stated interest in farm and MSME loans and existing products that could be utilized and adapted, including a loan product designed by the Mastercard Foundation called SWAY AgFin. RRA helped the banks increase outreach and lower operational costs by linking them to local “lead” firms to act as loan intermediaries and consolidators. At the same time, RRA strengthened the client base by assisting these lead firms to conduct financial literacy training, organize and structure groups, and support business planning.

RRA negotiated with one partner, Sterling Bank, to modify its loan terms to enable more farmers to access loans through the Activity’s lead firms. These concessions included waiving the standard requirement that loan applicants save for six months to help the bank ascertain their financial capacity, instead substituting a 25% upfront equity deposit to be placed on lien. The bank also reduced the loan processing time from a routine three months to 48 hours after receiving all loan documentation. As a result, in 2022 Sterling Bank disbursed over 1,000 loans to RRA participant farmers and MSMEs totaling N103,498,145 (approximately USD 246,424) using its own loan capital. RRA is now expanding its existing partnerships and developing new ones with additional banks to bring on more agents, facilitate new loan products, and add insurance products.

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<sup>23</sup> Accounts are considered dormant if they have no inflows or outflows in the previous six months.

### › UCTs can be a spark but what comes after is crucial

Ideally, the financial sector partnerships would have been in place long before the UCT so that cash recipients could seamlessly move into deeper financial inclusion interventions. In this case, the COVID-19 timing in relation to program implementation meant that much of the financial inclusion work was still being developed as the UCTs were released. As mentioned above, there are already positive signs of increased bank usage. As RRA continues to work with a range of financial institutions and expand its financial inclusion interventions, further research in 2023 will test deeper cash-to-financial-inclusion hypotheses and longer term impact.

## 5.3 UCT Impact on MSD Operational Effectiveness

### › UCT creates challenges for low-profile, facilitative interventions but can also generate community interest

The UCT put stress on RRA's operationalization of an MSD approach, which typically uses low profile interventions to avoid negatively affecting the incentives and relationships of local businesses, institutions, and target group members. The RRA team found that the visibility of UCTs created expectations of further handouts, especially in post-conflict areas where communities are used to



*“People get confused that a paper slip [with community accountability reporting information] is a ticket for more support.”*

— RRA Intervention Officer

humanitarian programs offering regular handouts or payments for training. RRA team members noted it was already a challenge to explain the RRA partnership-driven approach to program participants in these areas prior to the UCT and the

challenge only increased once cash rollout began. While RRA team members confirmed the UCT was necessary given the crisis and helped both households and market systems recover, they would have preferred Mercy Corps was not the delivering entity. As several team members said, “it was a disruption for the market systems approach.”<sup>24</sup> However, while the cash transfers increased the communication burden on the RRA teams, they said the problem was manageable. For a while, community-level training and informational activities attracted larger crowds hoping for handouts but the RRA team helped the lead firms clarify the one-time cash transfer and reiterate the value of their business models. When interviews were held five months after the last transfer, the team felt the confusion had lessened.

At the same time, the UCT activity helped several collaborating programs with their community acceptance. These programs were focused on activities such as community mobilization, along with more facilitative activities, like market linkages and strengthening financial system supporting functions, at a time when even formerly active participants were struggling to feed their families and there was limited community interest or capacity to engage in program activities. When the collaborating programs provided participant names for the UCT lists, the communities recognized that programs were trying to help them cope with the crisis, even if not everyone received a transfer. This created goodwill and greater interest in other program activities.

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<sup>24</sup> Several RRA Intervention Officers.

Beyond generating community interest, collaborating programs were able to leverage the cash transfers to increase the impact of their other activities, such as financial literacy, business investment, or conflict resolution. Programs reported the UCTs enabled some participants to utilize training and business planning during the COVID-19 crisis in ways they could not have otherwise. In Benue, AgInvest had been working with farmers' groups and provided training that was supposed to be linked to bank loans that could not proceed because of COVID-19. The UCTs provided the funds needed to enable the farmers to move forward with their plans while waiting for longer-term loans. Another program, AgExtension is facilitating MSMEs to provide embedded extension services to farmers that result in increased use of improved seed and fertilizer and improved crops. The MSMEs were struggling to bring in participants in some communities. The cash transfers acted as a “catalyst,” since AgExtension gave RRA lists of all farmers who participated in the training to be



*“This has translated to changing behavior in the lives of farmers.”*

— AgExtension DCOP

considered for the UCTs and the partner MSMEs then followed up with the active farmers clustered near them. The UCTs acted as a push factor to increase adoption of the improved practices.

### › **Cash injections can create pain points in specific market functions**

The visibility of the UCT activity led to challenges not just for the RRA team but also for program partners in some subsectors. Lead firms who aimed to facilitate access to commercial loans or introduce sustainable service fees expressed dissatisfaction with the direct, branded RRA role in delivering UCTs. A Business Development Service Provider (BDSP) said the farmers they were working with complained, “If Mercy Corps is giving out cash why are you asking us to complete business plans. You are just giving us training...[It] casts a shadow on [the BDSP’s] credibility.”<sup>25</sup> The lead firms that struggled most with the ripple effects of the UCTs were the ones setting up Village Savings and Loans Associations (VSLAs) and partnering with banks to facilitate loans as the contrast between the handouts and the loan terms led to complaints that some people had to pay for benefits others got for free.

Additionally, RRA partners supporting VSLAs and group businesses found that, in groups where trust was already low, transfers to a few members of the group had a negative impact on overall group dynamics. However, groups with strong trust were able to overcome the imbalance and even pool some or all of the UCTs to use as collateral on a business loan or to purchase equipment for the group business.

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<sup>25</sup>Edna Ishaya, Managing Director, Centre for Microenterprise Development (CMD).





*After participating in RRA’s Farmer Field School training, Hajia Fatima Isa, a local women’s leader, set up three women’s groups in Bui, with a total of 90 members. These women participate in several different group businesses, including poultry raising, groundnut farming and processing, and rice farming. Many of the members received UCT. With Fatima’s guidance, they pooled 40% of their UCT funds to improve the group businesses, for example by purchasing a groundnut processing machine or paying off input loans and storing their crop until they could earn a higher price.*

Photo Ayodele Adesanmi / Mercy Corps 2022

### › **Program collaboration can lead to greater benefit to participants and programs**

The UCT activity led to greater collaboration between development programs and linked participants to new opportunities. RRA gathered recipient lists from other programs operating in their area and then ensured UCT recipients were informed of longer term interventions available to them. This included linking participants of direct, “push” activities to market facilitation, “pull” interventions. For example, a group of groundnut processors had been provided processing equipment by another program but had no cash for installation or supplies. The group was able to use a portion of the cash transfers received by some members for their working capital needs and the whole group was connected to one of RRA’s lead firms for fee-based business support. Since the COVID-19 activity, FTF programs have collaborated more practically, for example, RRA has benefited from the strong connections one program has with local government and the private sector in Adamawa State to expand its activities.

Cross-program collaboration was always the intention of USAID and the original Feed the Future objective, especially in NEN, but external challenges made this difficult. As the USAID Agreement Officer’s Representative (AOR) said, “by adding this component it heightened the level of communication and collaboration, even with [participants].” USAID is now using the lessons learned to guide the next FTF program strategy, focusing on how to design new activities that overlap and truly connect with each other.

## 6. Conclusion

COVID-19 was a catastrophic global shock whose ripple effects halted livelihoods, shut down markets and overwhelmed safety nets. In that context, a widespread, short-term humanitarian response to quickly infuse

**According to GreenPal, the 2022 farming season has been worse than 2021 for some crops: “In the last season, like maize, we had very low purchases” because maize needs a lot of fertilizer, so farmers switched to other crops. In [2021] we sold almost 5,000 tons of maize. In 2022 it reduced to about 4,000 tons while millet has increased.”**

cash into households and enterprises was appropriate to jumpstart local markets and speed up recovery. At the same time, COVID-19 occurred in the context of increasing and more impactful shocks and was just one of a series of overlapping shocks

that continue to affect the agrifood system. For example, in 2022 Nigeria experienced the worst flooding in over a decade.

This situation will continue to create conflicting needs and response priorities: social assistance or humanitarian aid for affected populations will be needed to protect gains at the same time that development programs must proactively work on sustainable mitigation and adaptation strategies. As the USAID AOR said, there is “a fine line between giving handouts and developing dependency and between giving someone something and transforming their life.” Cash transfers should not become a crutch that hinders developing proactive market-based approaches and market system resilience or working with governments to improve social protection programs. And humanitarian cash transfers should not be used so widely or routinely that they distract the private sector from their core customer base.

At the same time, these two activities should not be completely divorced. In the fragile contexts where many MSD programs operate, teams must proactively anticipate regular shocks and then support systems and program participants to adapt. Otherwise, programs risk undoing all of the progress previously made. This requires understanding the nature of the shock affecting the market system and developing a response with the appropriate time frame, scale, and intervention point. Short-term UCTs may be necessary to avoid backsliding and development programs have a critical role to play in safeguarding local systems, leveraging partnerships, and layering in complementary activities to ensure longer-run impact. As one FTF CoP pointed out, programs cannot promote agriculture if farmers cannot afford to farm.

Operationally, implementing large-scale UCT activities requires a significant amount of work in a very short time and must adhere to the strong standards developed by the humanitarian Cash and Voucher Assistance (CVA) Community. Moreover, UCT implementation and systems facilitation require different skill sets. For example, UCT requires rigorously utilizing standardized tools across large populations and geographies



*“How do we preach two gospels at the same time to the same people?”*

— RRA Intervention Lead

while facilitation requires flexibility and gradual adaptation to partner needs and opportunities over time. As RRA implemented UCT within its own program, it had to hire a specialized manager who developed systems and trained the team.

Ideally, both interventions would be managed by specialized teams or programs working in close collaboration with each other to appropriately sequence and layer interventions without undermining or delaying existing program deliverables and confusing program participants. Coordination can happen within implementing organizations if they create a culture of cross-team collaboration and maintain deployable teams with the full range of required skill sets. But, at a large scale, effectively sequencing and layering activities to stabilize communities in the short term and prepare for future shocks in the long term requires organizations to work more effectively together. “It is time for us to think about more multifaceted approaches...more collaboration across NGOs.”<sup>26</sup> The humanitarian community has made significant progress in collaborating within emergency responses. However, development and humanitarian actors, and the donors that fund them, still struggle to coordinate with each other and to practically sequence and layer

<sup>26</sup> Amy Gaman, Building Sustainable Livelihoods Activity (BSLA) Chief of Party

activities across organizations and time scales. Constraints around program timelines, budget restrictions, and detailed deliverables can reduce teams' flexibility to adapt interventions to shifting contexts or collaborate across program activities. There are also limited incentives at both donor and implementer levels to look beyond narrow program or department mandates and proactively build coalitions to address larger, multifaceted issues.

Despite the challenges of effectively sequencing and layering humanitarian and development interventions at scale, RRA's use of UCTs to respond to the catastrophic market effects of COVID-19 demonstrates the benefits of a targeted cash and economic recovery stimulus based on analysis that identifies vulnerabilities and opportunities among marginalized groups and the markets that support them. When UCTs are implemented rapidly for a short duration and surrounded by longer-term facilitative interventions and market actor partnerships, they can be an effective tool in protecting vulnerable individuals from backsliding further and stimulating local economic activity. It is crucial to continue investing in unconventional models that push boundaries of collaboration, while also evolving and improving how implementers operationalize them, to ensure program impact in these increasingly complex contexts.



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### About Mercy Corps

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.



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