

AID ACTORS USE OF FINANCIAL MODALITIES IN MYANMAR

REVIEW



Counting money. Image courtesy of Asia Times

Executive Summary

Authored by Center for Operational Analysis and Research. April 2022

Since the military coup in Myanmar on 1 February 2021, the operational challenges around the delivery of humanitarian assistance have evolved significantly in response to new areas of conflict and displacement, access and security constraints, and the limitations of the formal financial sector. At the same time, rising conflict and displacement, surging poverty levels, and a destruction of livelihoods has led to over 14.4 million people in need according to the UN's 2022 Humanitarian Needs Overview.¹ While prior to the coup humanitarian actors in Myanmar had focused on longer-term structural and market assistance, the year since has seen a staggering rise in the need for basic needs and emergency assistance, including cash and voucher-based assistance.

These concurrent shifts have forced humanitarian actors, both local and national, to expand the modalities they use to meet their operational cash needs – including paying salaries, vendors, partners, and last-mile distributions to beneficiaries. While formal (for example, mobile money providers, microfinance institutions, and bank to bank services) and informal cash transfer modalities (those who move or provide cash, regionally or domestically, without regulation and formal approval from the Myanmar authorities) have been operational for decades in Myanmar – and were widely used as part of the cross-border response and initial post-Nargis response, use of the formal financial system has been dominant for the last decade due to operational ease, reduced risks, and built-in compliance and documentation.

Following the coup, the Myanmar government instituted draconian measures to limit both humanitarian agencies and individuals from accessing bank-held funds. This, coupled with the increasing security and political reasons for not engaging or being able to access formal financial institutions (including banks, mobile money providers, and payroll services), has meant reduced reliance on formal financial systems, although increased flexibility by these institutions in the past few months has meant they continue to be used by primarily international organisations to meet some of their operational cash needs. It is unknown, but likely, there will be increased scrutiny on these transactions in the near future – and there are still large concerns around data protection.

New modalities – including formal financial service providers and informal cash transfer modalities – are used to meet operational cash needs in a variety of ways, including: moving cash between offices; providing/ sourcing physical cash to agencies they can use for payments; agents to source cash liquidity for bank held funds; or payments to third-parties, including vendors, partners, and beneficiaries. **This paper aims to provide an overview of the different options for sourcing and transferring operational cash – including how they work, challenges, and risks.**

1. OCHA. 2021. *Myanmar Humanitarian Needs Overview 2022*. Relief Web. <https://reliefweb.int/report/myanmar/myanmar-humanitarian-needs-overview-2022-december-2021>

Given the plurality of options, and the decentralised nature of the informal financial sector, it is critical there are established best-practices that provide humanitarian actors with flexibility, while ensuring that basic compliance and risk management practices are followed. In order to remain relevant and fit for the future in the protracted crisis environment, donors need to have clear risk-appetites and clarity of purpose around continued humanitarian activities. The priority should be ensuring that aid continues to flow in line with the humanitarian imperative, and that donors' risk-threshold reflects both the need for accountability and flexibility. Policies should focus on mitigating the misuse of funding by ensuring the principles of compliance are followed, and there is clear documentation of the money flow.

This paper draws from the experience of the UN, INGOs and local actors, in Myanmar and other comparable contexts, to develop an operational guide – from identification to the final receipt of funds – to guide humanitarian actors through the process. The aim is to establish clear minimum standards which can be used across the humanitarian sector, and which can be adapted by both operational partners and donors. The guidance included in this document ensures that humanitarian actors are operating within accepted compliance regulations, in line with precedent previously established in the Myanmar context as well as other fluid operating environments. Given the plurality of contexts and localised challenges, and the humanitarian imperative to reach the most vulnerable, flexibility and alternative documentation may be needed – but compliance requirements, including audit trail and vetting, will still be met..

Key Recommendations

1. Donors should have a clear risk threshold that reflects the protracted nature of the conflict and the need to ensure flow of aid in an accountable manner. Donors should support humanitarian organisations to use a wide variety of modalities to meet their operational needs, recognising the benefits, challenges and risks of each modality and why they should be used in different contexts. Using a toolbox of approaches is the only way to ensure that assistance continues to flow to the most vulnerable, in line with the humanitarian imperative, while reducing the risk of harm to humanitarian workers and beneficiaries.
2. Donors and NGOs should understand the risks of using both formal and informal modalities. The continued use of formal financial systems, where operational and liquid, has many benefits from a compliance and fraud perspective – although determining legality raises questions around legitimacy and ability to regulate in a given area. However, given the ongoing conflict and scrutiny on humanitarian actors, the oversight of the formal financial system by the Central Bank of Myanmar and the SAC raises significant concerns around regulation, oversight, restriction of aid flows limiting certain partners or geographic areas, data security, and physical security in some areas, which can justify the use of informal modalities.
3. Donors and NGOs should ensure accountability, and that there is clear documentation of the money flow. This can be done with both formal and informal cash transfer modalities, as long as organisations' existing policies and procedures are followed, and the principles of compliance are met with alternative documentation when a derogation from these policies is needed.
4. Donors should support organisations to strengthen their internal controls and procedures if needed, particularly for local organisations.

Definitions

INFORMAL CASH TRANSFER MODALITIES / HUNDI ARRANGEMENTS is broad terminology to include any sourcing, moving, or distributing of cash done through agents or businesses that are not legally registered to provide those services by the Myanmar authorities.

INTERMEDIARY INFORMAL CASH TRANSFER AGENT: An informal cash transfer agent is an intermediary service provider who provides cash to organisations in exchange for a bank transfer and/or mobile banking transfer, and takes a percentage fee (ranging from 3 to 12 percent of the principal amount) for providing this service. They are not the source of the cash in most cases, but connect businesses or individuals with physical cash to those who need it.

TRADITIONAL HUNDI ACTORS can be an individual, or a small business registered in a sector unrelated to money transfer – such as an electronics shop. They receive cash in one location, and distribute in another – often facilitating across countries. They do not hold formal business registration to undertake such activities. In some cases, they will take a fee to facilitate this and in others, they will be compensated through an exchange rate gain.

FOREIGN EXCHANGE SPOT TRANSACTIONS are transactions between a company which has cash in Myanmar, and who will provide it to another actor – in exchange for a transfer into an account outside Myanmar. These are not traditional hundi actors, and involve more documentation and vetting between the company and the recipient organisation.

FORMAL CASH TRANSFER MODALITIES include banks and formal financial service providers.

FORMAL FINANCIAL SERVICE PROVIDERS are registered with the Myanmar authorities to provide cash transfer services. There are different types of regulation – banking regulation (including Bank to Bank transfer services), micro-finance institutions, and mobile money providers. The Myanmar authorities also regulate, and have a small list of approved businesses who can legally remit funds into Myanmar for a fee.

FORMAL BANKING SYSTEM includes all banks registered with the Myanmar Central Bank. **HUMANITARIAN/DEVELOPMENT ORGANISATIONS** are international or local organisations providing humanitarian or development assistance in Myanmar.

MYANMAR STATE ADMINISTRATION COUNCIL (SAC) is the military junta currently governing Myanmar. They remain in control of state institutions, including the Central Bank. Some humanitarian assistance is provided in areas that are fully under the control of the SAC.

NATIONAL UNITY GOVERNMENT OF MYANMAR (NUG) is the government-in-exile of Myanmar. Some humanitarian assistance is provided in areas that are under the control of the NUG, or NUG-aligned, ethnic groups. They do not currently have any legal regulation around financial transactions.



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