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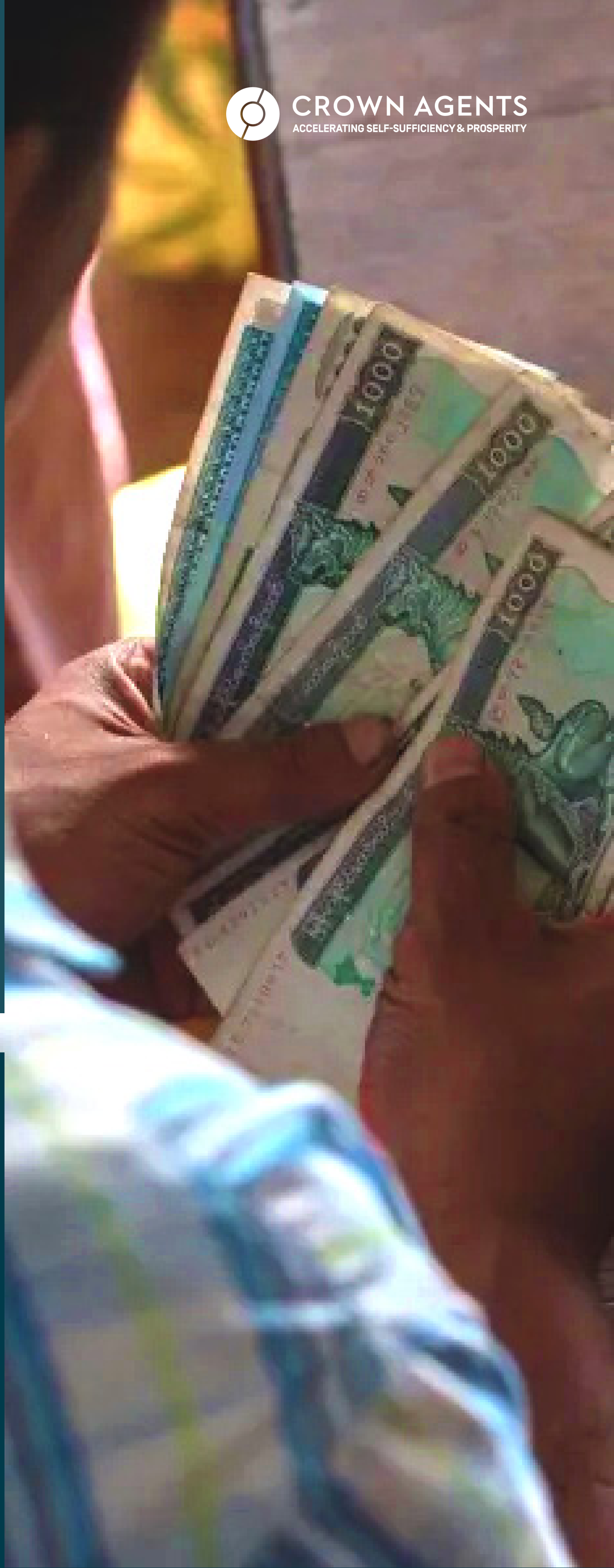

AID ACTOR USE OF FINANCIAL MODALITIES IN MYANMAR

REVIEW

An independent review commissioned by the HARP Facility

Authored by:

Center for Operational Analysis and Research

April 2022

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UKaid

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COAR
CENTER FOR OPERATIONAL ANALYSIS AND RESEARCH

COAR is a research and analytical unit that provides contextual and operational analysis in support of humanitarian interventions in Myanmar. This report was commissioned by HARP-F, and funded by UK aid.

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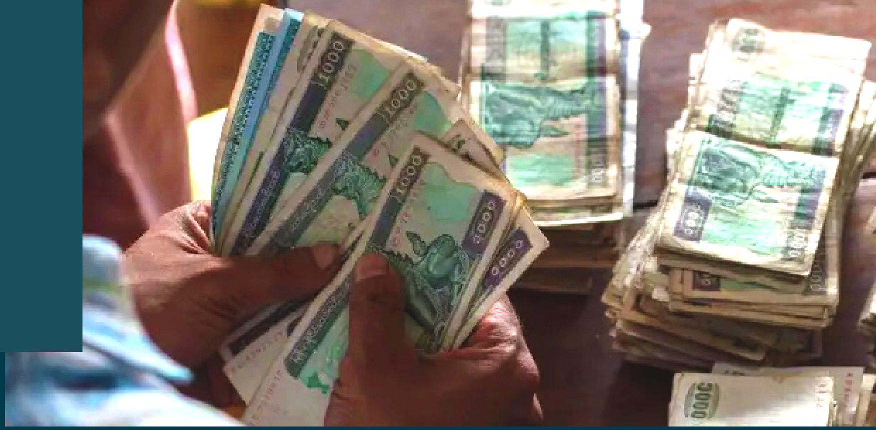


Counting money. Image courtesy of Asia Times

Executive Summary

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.

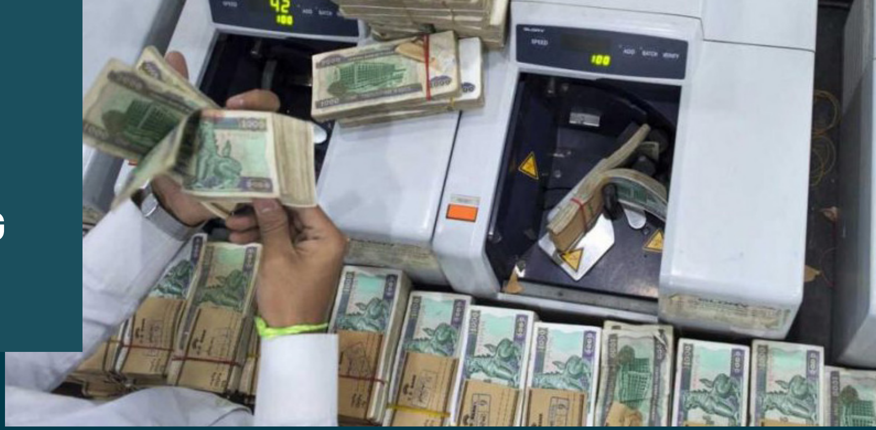
HUMANITARIAN/DEVELOPMENT ORGANISATIONS are international or local organisations providing humanitarian or development assistance in Myanmar.

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.

SECTION 1

THE CHANGED FINANCIAL CONTEXT: SOURCING, MOVING AND DISTRIBUTING CASH



Counting money. Image courtesy of Frontier

Overview

Over the past year international and local humanitarian/development actors have increased their reliance on money transfer modalities beyond the banking system. This is due to the economic breakdown and restrictions on the formal financial sector imposed by the Myanmar Central Bank, which have led to a loss of confidence in the formal financial sector by the Myanmar population, combined with rising inflation and decreasing value of the Myanmar Kyat. Sanctions have had limited impact on the ability to transfer funds into Myanmar, with domestic restrictions posing the greatest challenge. However, international banks do have more scrutiny over transactions to Myanmar which can mean that the transfers take more time and require more documentation.

The oversight of the formal banking sector is a mechanism of control by the SAC, and restriction on the flow of funds can be seen as a form of access restriction around humanitarian/development activities. Even many of the humanitarian/development actors that continue to utilise formal financial modalities, often rely on physical cash to reach last-mile recipients, such as partners, suppliers/vendors or beneficiaries.

Informal money transfer modalities, sometimes referred to as hundi, have received significant coverage, with many equating them – albeit with significant differences - to the Hawala networks used in the Middle East and North Africa. The increasing use of a cash economy means that agents are playing an intermediary role in a new cash economy – directing cash between those who have it and those who need it. As businesses and individuals exist in the new cash economy, rather than putting their money in the bank, this has become an alternate economy.

Formal money providers, including B2B cash transfer companies, Ongo, and True Money, are formally registered by the Myanmar authorities to transfer and distribute cash, and can receive funds both domestically and regionally. Myanmar currently regulates financial service providers, and this is a very limited list. There are different types of regulations for different entities, including banks (Ongo), mobile money providers, and micro-finance institutions (MFIs). Therefore, the use of agents who are not formally registered as financial service providers is not legal. However, many areas where humanitarian/development actors work are not fully under the control of the SAC, and no legal options are readily available.

The authors of this paper spoke with international and local humanitarian/development actors to understand how they sourced, moved and distributed cash.

SOURCING CASH is when an organisation is receiving physical cash, either due to a transfer from another party or by using formal or informal modalities to convert cash held in a bank account into physical cash.

MOVING CASH is when an organisation already has physical cash, but uses a formal or informal modality to transfer it to another location

DISTRIBUTING CASH is when an organisation uses a formal or informal modality to distribute cash to another party, either a partner, beneficiary or vendor.

Types of Money Movement

The entry point for cash to enter the system is usually through a donor. Donors can transfer funds in a variety of ways, including:

- into a domestic or international bank account
- physical cash transfer
- using a third-party cash transfer modality (including FX spot transactions and hundi arrangements).

Once the organisation receives the cash, they may need to convert it to physical cash, move it to another location, or distribute it to a third-party as described below.

Definition/Intended Purpose	Examples
Sourcing Cash: ■ Getting access to cash which can be used for operational needs (organisation gets ownership of the physical cash from a third-party) ■ Once the organisation has cash they may either move it to another location - or distribute it to another party as described below	■ Money is cashed out from a bank or mobile money agent ■ Donor provides cash to an organisation ■ Informal cash transfer modalities provide cash in exchange for a transfer to their bank account
■ Moving Cash: Moving cash from one location to another (organisation retains ownership of the cash at both ends of the transaction)	■ Cash can be transferred via bank transfers ■ Cash can physically be moved by an organisation or third-party security company ■ Informal cash transfer modalities can take receipt of physical cash in one location from an organisation - and provide cash to the same organisation in another location
■ Distributing Cash: Organisation transfers cash to another party (vendor, partner, beneficiary). This can be either physical cash - or money in the formal financial sector.	■ Transfer via formal financial service providers ■ Transfer via informal cash transfer modalities ■ Organisation distributes physical cash themselve

While the experience of each agency is different – and it is clear that humanitarian/development actors have taken different approaches to meeting their needs based on their own unique needs and relationships with formal and informal financial service providers – there are some clear takeaways:

- While many actors relied exclusively on informal modalities right after the coup, over the past few months that has significantly decreased as many have begun utilising formal modalities again as they have introduced more flexibility in regards to withdrawal limits, and there is increased liquidity within the formal banking sector. Local organisations and those with cross-border modalities are much less likely to utilise formal options. All agencies, whether utilising formal or informal options, are addressing increased security, fraud and compliance risks by ensuring that they do not keep cash on hand, and that cash is pushed out to recipients soon after receipt in bank accounts or in-hand. Over the past few months, there has been increased scrutiny by the authorities, particularly the new instructions from SAC about financial transactions of UN/INGO. This is likely to continue to change and grow over the coming months.
- Liquidity is no longer a real challenge, with both the formal and informal modalities able to meet operational cash needs of humanitarian/development actors. Fees have dropped from between 10 and 15 percent at the start of the crisis to around 3 to 4 percent currently, indicating the increased competition and liquidity. Fees still vary, and are higher in more remote areas and areas with higher conflict levels, as well as for transactions that include a deposit to an international bank account.
- All modalities continue to carry risk, but this risk level is different for different organisations and their unique needs and operations. While the use of formal options carries less risk from a compliance and fraud/theft perspective, it carries increased risk through data security, scrutiny and oversight of transactions and perceived support of the SAC
- All humanitarian/development actors need to use a variety of different formal and informal modalities to meet their operational needs, and need to have agreements in place to ensure they can easily transition between different modalities based on the type of transaction, recipient, and location.

Considerations

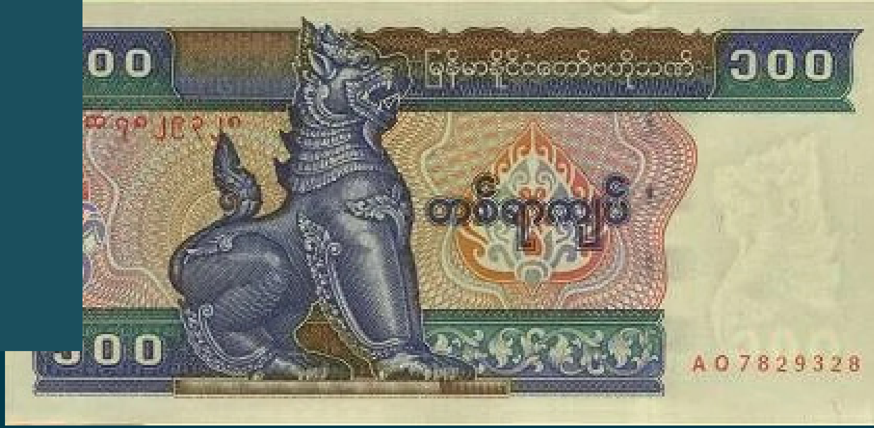
Many humanitarian/development actors will continue to utilise more formal options as their preferred modality, followed by more informal options, such as hundis – and lastly by physically moving cash themselves or through a third-party security company (such as Exera). This triaging approach is based on a risk and operational analysis that assesses operational capacity to reach the intended recipients, the security risks for those recipients in engaging with the modality, timeliness of the transfer, and cost.

For those who are able to safely receive funds from formal financial service providers, this remains the preferred option due to the available documentation and reduced safety and fraud risks. However, it is important to understand the myriad of reasons why local organisations and beneficiaries may be uncomfortable with engagement with formal financial service providers, due to the oversight and required data-sharing, with many preferring to operate outside of this scrutiny for very legitimate security reasons.

Some local and international organisations may have strong political, ethical and moral reasons for wanting to avoid any systems that operate under the control of the Myanmar Central Bank, and therefore with the tacit oversight of the SAC. Finally, for many cross-border actors and those in non-government-controlled areas, formal financial service providers are not able to reach them, and it is more operationally efficient to bring funds via regional hundis.

SECTION 2

OVERVIEW OF FINANCIAL MODALITIES (FORMAL AND INFORMAL)



100 Kyat note. Image courtesy of Currency Wiki

This section provides an overview of both formal and informal financial modalities that can be used by organisations to meet their operational needs - as described in the previous section. It also supports organisations with key questions to consider and ask when selecting a type of modality to use for each transaction in order to minimise risk.

1. Overview of Informal Cash Transfer Modalities

a) Intermediary Informal Cash Transfer Agents / Hundi Networks

In their previous paper on hundi networks, COAR defined them as, "more accurately... an activity, rather than a type of business; any business or individual that uses its transnational linkages and has access to capital to informally facilitate money transfers across borders does, or could, serve a hundi function."[2]

These are often transnational businesses or business networks. Traditionally, they have been used, for example, for remittances, enabling the broad diaspora of Myanmar workers across southeast Asia to send money home. They have also been used for illicit means, including the jade and drug trade. Unlike Hawalas, these are family/business networks for whom money transfer is not their primary business, but a supplementary activity that enables them to make a profit from their operational reality of having bank accounts and cash in multiple locations. Cash is accepted in one location and paid out in another – although remuneration within the network is rarely with physical cash transfers and more often through creative accounting, such as inflated prices for subsequent business dealings. Due to their decentralised nature, comprehensive mapping is impossible. Most local organisations have affiliations with specific hundis, based on family or geographic ties or experience.

Prior to 2015, hundi networks were used by humanitarian/development actors to meet their operational cash needs in-country, and make payments to partners. This was due to limited, formal financial options in Myanmar for humanitarian/development actors – and the prominence of the cross-border response which has operated, and continues to operate, in areas outside of control by the Myanmar authorities. As the response moved inside of Myanmar and began to operate within the bureaucratic controls of the Myanmar government, the use of informal options significantly reduced.

2 CASS. 2021. *Hundi-networks transferring into post-coup Myanmar.* https://cass-mm.org/hundi-networks-transferring-into-post-coup-myanmar/

In working with cross-border actors, donors and international organisations often transfer to partners in the region – most frequently Thailand. This can be an organisational bank account, or the bank account of an individual affiliated with the organisation. The sending agency needs to be aware of Thai financial controls and to ensure they have documentation for the purpose of the transaction. Once the funds are transferred, they can be used either to procure supplies in Thailand to be moved into areas across the border, or converted into physical cash. To move the cash into border areas, partners sometimes withdraw and move the cash themselves while others rely on hundis to move the funds into operational areas. Money transfer agents continue to operate on both sides of the border for Thai Baht to Myanmar Kyat conversions.

While older hundi agents/networks still play a large role, particularly for local actors, the informal cash economy has greatly expanded since the coup to include more domestic businesses engaged in hundi arrangements (or informal cash transfers), and the introduction of a new economic actor – intermediary agents to connect businesses interested in hundi arrangements with those in need of cash. Small businesses are now primarily operating in a cash economy. In the past, these businesses would have deposited the cash in their bank accounts, but due to the changing context, as well as the opportunity to make additional funds through fees, they are now willing to provide this cash directly to a third-party, in exchange for a transfer into their bank account.

Many new, domestic, intermediary agents have sprung up to connect those with cash to those who need cash, i.e., humanitarian actors – essentially facilitating informal cash transfers. These agents operate with a very low profile. While some are new to this business, others are money transfer agents who previously or currently work for mobile money providers including Wave and KBZ Pay, who have seen their liquidity collapse as a result of the financial crisis, and have therefore taken on an intermediary agent role. This is a natural extension of their work with mobile money and other financial service actors, whereby they regularly received and distributed large amounts of cash. **The use of these new informal cash actors – outside of traditional hundi networks – also spreads the economic impact and lessens the risk of overloading existing networks.**

The increase in liquidity within this cash economy, flowing through hundis or intermediary agents, has grown substantially since early 2021. Initially, fees for cash were on average 12.5 percent, but are now closer to 3 to 4 percent, indicating increased liquidity and market stabilisation. In some areas, the rates are higher than others due to the banking situation and liquidity in that area; for example, in February 2022, Bhamo and Sittwe reported higher fees than other areas of Myanmar. For hundis operating regionally, the costs vary, and sometimes fees are not charged but accounted by through exchange rate gain. This is possible due to the large variation in official and informal exchange rates.

Summary	Quick way to receive physical cash for operational needs, or to make payments to vendors, partners, or beneficiaries. Best modality when operating in sensitive areas or with sensitive recipients who cannot engage with formal modalities.

Fees	2 to 6 percent – although may be higher depending on the geographic area.
Data shared / data security	Very limited information on final recipient is shared with the agent.
Geographic coverage	Widespread.
Timeframe	Often takes 1 to 3 days to receive the cash.
Compliance / documentation available	Can be difficult to meet compliance requirements. Alternative documentation and Note To Files may be required.
Summary of risks	▪ Physical safety and fraud risks in handling physical cash. ▪ Unclear source of funds – may lead to reputation issues. ▪ In SAC controlled areas, transactions are not legal. ▪ Can meet compliance and documentation requirements – but sometimes hard to get all needed documentation.

b] Foreign Exchange Spot Transaction

In addition, foreign exchange spot transactions have become increasingly common. These are often one-off, and involve international companies who have large amounts of cash in Myanmar that they do not want to deposit into the formal financial system, or who want to liquidate their accounts in Myanmar due to the depreciating Myanmar Kyat. This could also be individuals trying to get money out of Myanmar. While initially these were often bilateral relationships between companies and recipients, more recently, intermediary brokers are playing a larger role in matching companies with recipients, and overseeing the process through to delivery of the cash. Each party has to conduct their own compliance and vetting checks into the other, with the process often overseen by the intermediary broker. Once the contract has been signed, and the exchange rate agreed, the supplier of funds delivers physical cash to a location in Yangon in exchange for a payment into their bank account. This is primarily outside Myanmar, although in some cases the bank account is inside Myanmar. The fee is often small – around 3 to 4 percent. The fees are sometimes accounted for as a foreign exchange transaction, or sometimes as a separate fee.

As with all modalities, there are pros and cons to this approach. Different agencies report different experiences with these transactions. For some, they have been very useful in receiving cash in-country, when they are no longer able to receive international transfers either from their headquarters or their donors. Once the relationship has been established and the compliance checks done, funds can be received in a week. Other agencies, particularly those with more bureaucratic approval processes, have found the process onerous and not useful for regular infusions of cash. From a compliance standpoint, the source of funds is more transparent than in the use of informal cash agents, and the documentation and vetting is available for auditors. However, under Myanmar law, there are questions around the legality of this transaction. Finally, most of these transactions are done with sources of cash in Yangon, requiring the use of either cash couriers or agents to transfer the funds to operational areas and final recipients.

Summary	Good for organisations to receive physical cash in Myanmar Kyat to their Yangon offices, which can then be distributed or used for operational needs. This can also be used by donors to transfer to accounts outside Myanmar – and grantees (local or international) to receive cash inside Myanmar. Not to be used for payments to beneficiaries or vendors – the recipient will need to be vetted and the payment is distributed in large lump-sums.
Fees	3 to 4 percent. Higher, if it involves an international transaction.
Data shared / data security	Both the source of funds and the receiving organisation will need to vet each other. No other information on the usage of the funds or final recipients beyond the organisation is shared.
Geographic coverage	Cash is often only available to be delivered to offices/bank accounts in Yangon.
Timeframe	Varies – can take a month or two to initiate – but if an existing relationship, funds can be received within a week of the request.
Compliance / documentation available	■ Signed contract and invoice. ■ Vetting documented.
Summary of risks	■ Unclear legality. ■ Risks associated with receipt and movement/ distribution of physical cash.

2. Overview of Formal Cash Transfer Modalities

a) Formal Financial Service Providers

Formal cash transfer agents or financial service providers have also continued to exist in post-coup Myanmar. Mobile money providers were gaining significant market share prior to the economic collapse – including M-Pitesan, Wave Money, KBZ Pay, and True Money. Some of these have ceased to operate, and others continue – but outside of urban areas, albeit face significant liquidity gaps, and are no longer a widely-used modality. KBZ Pay is still operational in some urban areas – and requires a registered account with a KBZ-registered phone number. Wave Money is also operational in some urban areas, primarily Yangon. However recent information suggests that Wave Money and M-Pitesan are operational again, with some UN agencies piloting the use of them to transfer funds to beneficiaries. In order to use both of these companies, recipients need to provide an NRC card (while this is officially true, in practice, this may not be required). This excludes many recipients who do not have an NRC card, and other recipients who do not feel comfortable sharing identifying information to receive funds. The changing regulations and increasing oversight by the Myanmar authorities raises many questions around data security.

Other legal money transfer agents have become more regularly used by humanitarian/development actors over the past year, including B2B cash transfer services, Ongo, and True Money. These are legally registered agents that comply with all fiduciary compliance under Myanmar law. With these agents, a long-term framework agreement is signed, and individual purchase orders are requested. The organisation makes a transfer to their account, either in Myanmar or regionally, and then cash is delivered to an office, or can be picked up through agents. There is no limit to the amount that can be transferred, as long as liquidity is available. Different organisations have relationships with different actors, and have had different experiences with timeliness and reliability – perhaps indicating preferential treatment of some organisations due to liquidity issues. Reported fees also vary between agencies, with legal agents slightly more expensive than informal options (on average between 1.5-5 percent of fees depending on how the account is funded and where).

These companies often have their own source of liquidity that they use to ensure distributions are possible – or that their agents have enough liquidity to meet the demand. For example, Ongo says that it has 7,500 Ongo agents across 88 percent of all townships across Myanmar (n=287/325), although some organisations have not found this to be fully operational. They require that you indicate the pick-up location, and then there's a 3–4 day window required for them to ensure the agent in that location has liquidity. True Money is part of a larger business conglomerate operating in Myanmar that has access to cash through its business operations. While most of these companies are also limited to urban areas, some humanitarian actors cited flexibility in identifying someone who could provide fund transfer services even in areas where they did not have existing branches.

Depending on the agent or company used – and the end recipient of funds – different information is required to be shared. Some organisations reported having to share their MoU and overview of activities. For individual recipients – including for salaries or payments to beneficiaries – the level of individual identifying information varies, from name and phone number for some companies, to an NRC card for others.

Summary	Accountable, legal, and a quick way to move money and make payments. Should be used in more urban areas – and for less sensitive payments where there are less concerns around data security.
Fees	Limited fees, depending on the provider for mobile money. For bank-to-bank transfer services – can be up to 5 to 6 percent but can be lower
Data shared / data security	Identifying information, including name and telephone number – and likely an NRC card – to be shared. Unclear regulations on whom this is shared within the Myanmar authorities.
Geographic coverage	Mainly urban areas. Actual liquidity and availability of agents varies in reality.
Timeframe	Immediate – if liquidity is available.
Compliance / documentation available	Very strong accountability. Transaction and receipt of funds can be documented.
Summary of risks	■ Agents may not be operational, or not have liquidity. ■ Data security.

b] Formal Banking System

While the formal banking system is currently beset by significant restrictions and an economic collapse, some humanitarian/development actors are still able to use it as their primary source of operational cash. Banks seem to have less of a liquidity crunch in early 2022 compared with the first half of 2021. Many INGOs are still able to receive regular monthly transfers from their headquarters to their dollar and Myanmar Kyat accounts, although there is increasing scrutiny around this by the Myanmar authorities, particularly due to the likely new NGO law and lapsed registration of many humanitarian/development actors. Very few, if any, local organisations can receive international wire transfers at the moment.

Some INGOs continue to pay their partners solely through bank transfers, putting the onus on the partners to identify withdrawal options through a special account, or negotiation with a bank manager – or to do a secondary transfer to an agent in exchange for physical cash. Some local organisations interviewed for this paper still used their bank accounts for domestic transfers. All INGOs interviewed stated that this was only done in agreement with partners who felt comfortable continuing to use formal banking, and once there had been agreement around risk responsibility, documentation, and coverage of fees. **For cross-border actors and smaller partners, transfers using the formal financial system are likely not a viable option.**

In the immediate period after the coup, many agencies faced issues around switching to internet or electronic banking, as they had relied on cheques for payments and transfers, in line with internal controls. Banks have been slow to allow internet banking for new customers – often taking up to six months to process applications – as well as to register a new user. Users are required to be in Myanmar in order to receive secondary and tertiary confirmations of identity.

As a result of withdrawal limit restrictions by the Central Bank of Myanmar, many banks have now introduced special or flexi accounts which do not have these restrictions. While different organisations have had different experiences opening these with various banks, they do seem to be widely used by both international and local partners at the time of writing. These accounts need to be opened in each field-office location of agencies to facilitate withdrawals.

The special accounts operate essentially as a lockbox – with organisations depositing Myanmar Kyat into them, which they can withdraw at any time. This cannot be funds which they had in their bank accounts prior to the coup or the opening of the special account. Some organisations said they had been able to transfer funds from abroad into their dollar account and then transfer it to their special account using the bank's exchange rate (which is higher than market rate) – whereas other organisations said it was only possible with direct deposit of Myanmar Kyat into the account from within the country. At some points, the Central Bank has not offered a USD-MMK exchange rate, therefore rendering foreign exchange impossible, due to rapid devaluation of the Myanmar Kyat.

Once the money is in the special account, it can only be transferred to other special accounts or withdrawn. This means that it cannot be used for salary payments as most individuals have not opened these accounts. Some organisations have encouraged their local partners to open special accounts so that they can receive payments into them. Many organisations reported little or no documentation requirements from the banks regarding the transfers, as foreign currency is not involved.

Organisations that do not have special accounts continue to face substantial restrictions in accessing funds from their bank accounts. Each organisation interviewed for this paper reported a different set of restrictions provided by their bank – reflective of the individual relationship with different bank managers. Organisations should continue to push for higher limits and more flexibility in all their dealings with their banks. Withdrawal limits are inconsistent, and vary between bank, geographic location, and relationship with the bank manager. They typically vary between 900,000 to 9 million Myanmar Kyat, although one bank is now said to have a 30 million Myanmar Kyat per week limit, if the funds have been in the bank for longer than a month.

Another organisation interviewed for this paper had been able to negotiate with their bank manager for 100,000 USD per week in withdrawals. While not guaranteed, this has been regular for them over the past few months. Regular accounts also have increased scrutiny over their transactions relative to special accounts, particularly for transfers to local organisations, with many humanitarian/development actors reporting increased documentation on both the local organisation and the intended usage of the funds needed.

Summary	Formal banking system is a legal, documented way for organisations to move money to offices, staff and vendors – if they have physical currency in-country, and a special/flexible account. Increasing oversight by Myanmar authorities means likely further restrictions on this modality – and more organisations will be unwilling/unable to use it due to the required engagement with the Myanmar authorities.
Fees	Standard minimal bank transfer fees. Often the foreign exchange rate from the Central Bank will be higher than the actual exchange rate.
Data shared / data security	Varies – but information on how the money will be used will likely need to be shared. Less if using flexible/special accounts.
Geographic coverage	Urban areas with bank locations.
Timeframe	Immediate, if liquidity exists.
Compliance / documentation available	Yes – fully compliant and documented.
Summary of risks	■ Allows all transactions to be under the oversight of Myanmar authorities. ■ Activities and recipients in remote and sensitive areas cannot utilise. ■ Still significant restrictions on withdrawals if the user doesn't have physical currency to deposit and a special/flexible account.

c) Bank Courier Services

In addition, some banks have begun to offer specialised bank transfer services. Physical cash is brought to a bank location in Yangon, and then picked up within the hour at a location in another geographic area. A bank account is not always needed. This has not been widely used, and seems to depend on the organisations' relationship with the Bank Manager. Organisations should ask banks with offices in Yangon and the intended location if this is an option and what documentation would be required. In practice, this is likely only possible for registered organisations. **If possible, this is the safest way to move cash between field offices.**

3. Considerations for Choosing a Financial Modality

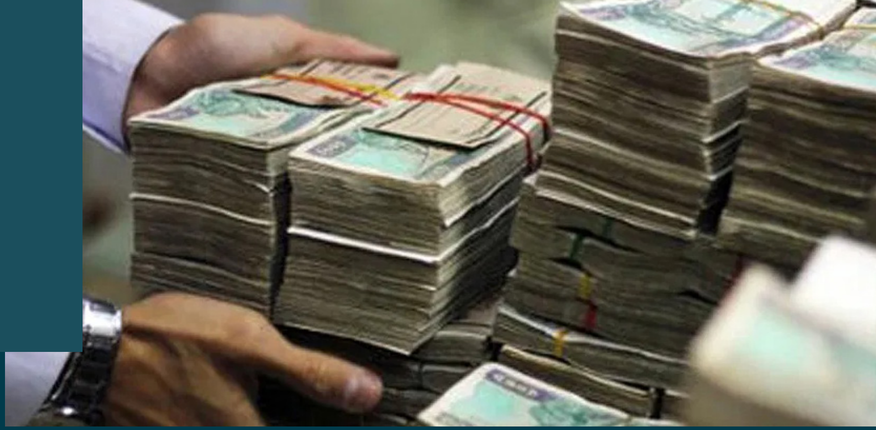
Whether an organisation is sourcing, moving or distributing cash as described above - they will need to choose a modality for this action - with the different types of modalities described below. Different transactions will need different modalities - and organisations and donors should have a strong understanding of the pros and cons of each type of modality. <u>Below are key questions that should be asked for each transaction - to ensure the selected modality meets operational needs, and is responsive to the specific contextual risks.</u>

Stakeholders (from source to final recipient): Who are the stakeholders involved at each stage of the process – including local partners, businesses, and beneficiaries? Depending on the activity involved – and the final recipients – the information may be less sensitive, and easier to get approved using formal modalities (for example, salary payments are easily documented)	■ This includes both the final recipients of funds, as well as intermediaries (for example, transfer to a local partner who then transfers to beneficiaries where the local partner would be the intermediary) ■ If the stakeholders are a business or organisation that is not registered with the SAC, then banking options are not possible ■ Do the recipients have NRC cards? If not, then they cannot use any formal modalities ■ Are the recipients involved in politically sensitive activities – or likely to be on some sort of list from the Myanmar authorities. If so, formal options should not be considered.
How are you receiving cash from donors? Is it an international, regional or local transfer? Are you receiving physical cash or via a bank transfer?	■ Do you have an active bank account in Myanmar and can it receive transfers from abroad? If not, you will need to look at alternative options either a) receiving cash through informal modalities from a payment received abroad or b) receiving physical cash in-country ■ Do you have a special or flexible bank account? If so, you should request payments in physical Myanmar Kyat in Myanmar as a best option so that you can move and withdraw funds without significant restrictions.
Compliance and documentation: What are the compliance and documentation needs at each stage of the process?	■ Who is the donor? Depending on which country they originate, you will need to vet agents against specific sanctions databases. ■ Do you have prior approval from the donor for eligibility of costs? If not, they may not cover either the associated transfer fees or the full cost of funds transferred. ■ Does the donor have any special requirements for establishing an audit trail? ■ Where can you charge the costs for transfer fees in the budget?

Personal data: What information would need to be shared about the recipients at each stage?	▪ If using mobile money, it is likely you would need to provide the NRC card. This may mean many beneficiaries and other recipients cannot receive money via this means.
Geographic areas: What geographic areas are you operating in, and what modalities are operational and have liquidity in that area?	▪ Formal modalities are more available in urban areas. ▪ More remote areas have less formal options available, and may have more sensitivities around using formal modalities.
Preferences/concerns of final recipients: What are the preferences of the final recipients around how they would prefer to receive the cash?	▪ Do the recipients have any concerns about a) sharing their personal identifying information; b) carrying physical cash; c) carrying documentation around a cash transfer. ▪ Formal modalities require sharing personal information and should be avoided if there are concerns. ▪ The number of tranches, location of pick-up, and documentation requirements should take into consideration re safety concerns.
Timeframe: What is the timeframe that the cash is needed by?	▪ If money is needed within a 2-3 day window, you should a) withdraw from a special/flexible account or b) use informal agents to source cash. ▪ Other modalities often require up to a week or two to ensure liquidity.
Amount: What is the amount needed to transfer?	▪ Some modalities have limits (for example many mobile money providers limit to 2.5 million Myanmar Kyat per month) ▪ If using physical cash, then you need to follow your organisation's established safe limits.

SECTION 3

OPERATIONAL OVERVIEW



Cash transfer. Image courtesy of Investvine

In many instances, organisations may need to deviate from existing compliance procedures when working with informal financial modalities, due to security or access concerns. This section provides best practices that can be used to ensure that compliance requirements continue to be met - even when derogations are needed.

Summary:

Many of the formal financial modalities discussed above, including the banking sector and other regulated services, have built-in documentation at each stage of the process that will satisfy compliance and audit requirements. If organisations choose to utilise informal modalities – aware that they are not regulated and legal, but that they may be the most efficient and safest way to reach end recipients - then they will need to ensure that they continue to meet compliance standards at each step of the process. Where possible, organisations should continue to use their existing policies and procedures when procuring either formal or informal agents. However this may not be possible for a variety of reasons including security and the low-profile nature of many financial actors in Myanmar. <u>Experience in Myanmar and many other contexts has demonstrated the need for alternative documentation to be accepted in exceptional circumstances where it is not possible due to safety or access concerns. This section does not prescribe rigid requirements; flexibility and alternative operating procedures should be allowed, as required.</u>

Other risks and mitigating measures are described in the next section.

Overview of the Process

This section is laid out through each stage of the operational process of utilising informal financial modalities - from identification of the agent/company to receipt of the cash. Across this process, the key operational controls are:

- Approval & authorisation at each stage of the process
- Vetting process
- Service agreement
- Restricted amounts per transfer
- Simultaneous transfer of funds to agent and receipt of cash, preferably through a bank transfer
- Financial reconciliation in line with organisations' accounting procedures

The below infographic summarises the operational process from beginning to end:

Internal Guidance + Procedures Developed

Donor Guidelines Checked + Approval for Eligibility of Cost Sought
(If donor is international organisation – ensure subgrant specifies oversight of process if done by local organisation)

↓

Identify Agent

↓

Vet Agent

↓

Document Transaction via Contract/Service Agreement + Invoice

↓

Exchange Funds Between Agent + Recipient

Step 1

Organisations should start by developing their own internal guidance and procedures for the use of formal and informal cash transfer modalities, and ensure they are in line with donor requirements for eligible costs. In discussions with their leadership (and headquarters in the case of international organisations), as well as with donors, each organisation will need to develop their own guidelines and procedures for using cash transfer agents. These should be accompanied by a clear understanding of the problem, risks and mitigations to the organisation's senior managers, who need to acknowledge responsibility.

Policies and procedures should include:

- Procurement procedures, including what needs to be included in the invoice and contract.
- Derogations for sole sourcing, and what is required to demonstrate that fees are in line with market rates.
- Vetting procedures for the agent/company.
- Requirements for downstream partners, and the role of the lead organisation in oversight of these requirements (for example, do they need to review documentation, sign-off on individual transactions or vetting, be involved in the vetting process, etc.). These should be documented and annexed to any sub-agreement.
- Limits to the size and number of transactions that can be done specified by time period and location.
- Safe limits per location.
- Cash handling policies developed, and relevant staff trained on these policies.

This guidance should also be informed by donor requirements and limitations.

It is required that all humanitarian actors discuss with each of their donors whether the use of cash agents is an eligible cost, and what is required for compliance – and receive written approval of eligibility of costs. All donors should accept the minimum standards described below – in terms of vetting and audit trail. However, some may deem costs ineligible because they are working with non-legal actors or have other specific requirements – and it is up to each organisation to discuss with their donors.

Organisational Policies

Each organisation should have their own policies and procedures to inform their internal controls around fraud. Each donor will also have their own regulations. In many cases, donors will defer to an organisation's own policies and procedures. However, when donor regulations are stricter than an organisation's internal policies, they must defer to the donor to ensure eligibility of costs under that specific donor-funded project.

Procurement policies are an essential aspect of internal control. It establishes thresholds based on the amount of a procurement, and the level of approvals and other actions needed at each threshold level to ensure the process is documented and competitive. **In any transaction with a cash transfer agent, organisations must receive the appropriate internal approvals based on the amount of the transaction.** The policy will also require documentation to prove that the selected vendor was the best value for money. This is normally done through quotes, but when not possible, must be established through alternative documentation.

Notes to File are used to provide justification when there needs to be a derogation from approved policy. This includes when the documentation required by the organisations' internal policy is not possible. The Note To File should explain why the derogation is needed – including as much detail as possible. It should then describe what alternative procedure was followed, and/or what documentation is available, and how this fulfils audit trail requirements. For example, a message sent via messaging app (for example, Signal) from the agent confirming the fee instead of a signed invoice. The alternative documentation should be annexed to the Note To File. The Note To File should be signed by the Country Director and retained as part of the audit record.

Cash transfer and cash movement policies ensure that a) the organisation has set limits on the amount of physical cash that can be held in an office or by an individual at any given time, and b) there is clearly documented ownership of the cash at any time, whether it is being held in a safe or is in transit.

Local organisation use of informal cash transfer agents.

<u>International organisations who are working with local organisations should have clear, written guidance on the level of oversight of the use of informal financial modalities by any downstream partners - including whether they want to approve or vet any agents/businesses or specific transactions.</u>

Ultimately, whichever organisation signs the grant with the donor is responsible for ensuring costs are eligible and there is an audit trail. Different organisations will have different risk tolerances for how much oversight they want over downstream partners to ensure they meet compliance standards – and that is an internal decision for each organisation to make. Oversight steps can include:

- Review and sign-off on the vetting of the agent.
- Require approval for each transaction.
- Require justification of the selection of the agent and the rate charged, in line with procurement policies.

Donors looking to transfer funds directly to a local partner inside Myanmar should proactively engage with partners to determine the most suitable modality of transfer. Most local organisations can no longer receive international transfers into their local bank account. As informal money movement is highly reliant on trust and networks, both donors and partners are likely to have relationships with alternative providers, and all parties should discuss how to ensure any transfer arrangements balance the relevant compliance requirements and risk mitigation strategies.

If the organisation or donor does not have an established way of transferring funds through an international, informal cash transfer modality, it may be possible for the partner to identify a third-party who can receive funds into Myanmar and sign an agreement with them to receive funds on their behalf.

Step 2

The second step is the identification of the agent. This can be either a formal financial service provider or an informal cash transfer modality. These are described in detail in the previous section. The identification of the agent should follow standard procurement guidelines, where possible. However, in many cases in Myanmar, this will not be possible due to sensitivities around using informal cash transfer modalities.

As described in Section 1, organisations should determine which modality is the best for their needs.

For legal financial service providers, organisations can engage directly with them as vendors through a standard procurement process.

For informal cash transfer modalities:

- It is unlikely that organisations will be able to meet the requirements as laid out in their procurement policies, as it is often not practical or safe to do so. The operations of both informal cash transfer agents/hundis and foreign exchange spot transaction providers are sensitive and not public, and therefore it is impossible to publicly tender. Informal quotations may be possible, but they will likely not be provided as written bids.
- When organisations are not able to meet the requirements of their own procurement policies, they should document

  a) what derogation from the procurement policy is needed;

  b) justifying the selection of the business/agent including how they were identified, what selection criteria was used, and justify that the rate charged was reasonable.
- If a derogation is needed, it should be summarised in a Note To File for each procurement and signed off by the Country Director.

<u>It's important to note that as most agents are low profile in their operations, many will not be comfortable signing any documentation including a contract or invoice. Many organisations noted that it is only agents with whom they've developed trust that would be willing to do this – which often are ones with whom they may have an existing relationship or conflict of interest. This must be reflected in the Note To File, that willingness to sign documentation was a factor in determining the selected agent.</u>

Fees: Based on current market rates, the organisation should have a maximum service fee that can be charged in their internal guidance. This is currently recommended to be 4-6 percent, to be reviewed quarterly. **Any fees over this amount should require the approval of the Country Director.**

Documentation for Records

- Procurement documentation
- If a derogation from standard procurement policies is needed, a Note to File including

  a) what derogation from the procurement policy is needed; and

  b) justifying the selection of the business/agent including how they were identified, what selection criteria was used, and justify that the rate charged was reasonable.

Step 3

The third step in the process is vetting the selected agents. Best practice is for the agent to be vetted against sanctions lists as well as for any affiliations with military entities**.** Vetting includes sanction lists from the US Government, European Union, Australian Government, UK Government, World Bank, United Nations, etc. based on the source of funding held. Vetting should also ensure that support is not being provided to the de facto Government of Myanmar, the military, military-controlled organisations or entities, or any other organisations related to the military. Each agency uses a different vetting system, examples include LexisNexis Bridger Insight, SAM, FinScan, Justice for Myanmar/UN military owned/associated enterprises lists. The database used depends on which one is used globally by each organisation – the standard is merely that it includes the relevant sanctions lists named above.

In addition, informal vetting should be done through local staff or partners, based on the agent's reputation within the community and experience of delivering funds – and should be documented. An example of an informal vetting template is included as Annex 2. Additional considerations should also include:

Who Should Be Vetted?

- Agents are often not the source of funds, but an intermediary between the source and the recipient. Given the sensitivity, agents will not disclose the source of funds. **The agent's name should match the name on the bank account that funds are transferred to.** While the best practice would be to get a copy of the agent's NRC card, this is not always possible. As a minimum, the agent's full name should be sourced.
- For international transfers using a FX Spot Transaction, the company receiving the international transfer and the company distributing funds in Myanmar may be different – but both companies should be vetted.
- For legal financial service providers, the vetting should include all key personnel of the company.

Documentation for Records

- Copy of agent's ID, or all key personnel of the business or financial service provider. If this is not possible, a Note To File that includes name and phone number of agent, and why they would not share their ID attached to the vetting.
- Print out of vetting through required donor sanction lists
- Informal Vetting Record (if done)

Any use of a formal or informal financial modality where a fee is charged to the donor needs to follow the vetting procedures described in this section. Some local organisations may be reluctant to share this information if they are working directly with the agent/hundi, and it is up to the donor or INGO whether they will allow for flexibility on this point. If a justification around security and sensitivity is made, it should be documented.

Step 4

The fourth step in the process is documentation of the transaction through a contract or service agreement and invoice. The best practice is to have a service contract that is signed by both parties, and an invoice that includes the service fee that is signed by the agent or business.

However, that is not possible in many cases for informal transfer agents/hundis due to reluctance from the agent and safety concerns for staff in carrying the paperwork. Therefore, alternative documentation should be accepted, including screenshots of text messages. The alternative documentation should include:

- agreement to provide cash including location and time of distribution
- amount to be provided in Myanmar Kyat
- agreement on order of receipt of funds into the agent bank account, and distribution of funds to the organisation
- the total service fee to be provided
- confirmation of receipt of funds, and receipt of service fee.

The alternative documentation should be summarised, and included in a Note To File and signed by the Country Director per transaction.

Step 5

The final step is the exchange of funds between the agent and the recipient.

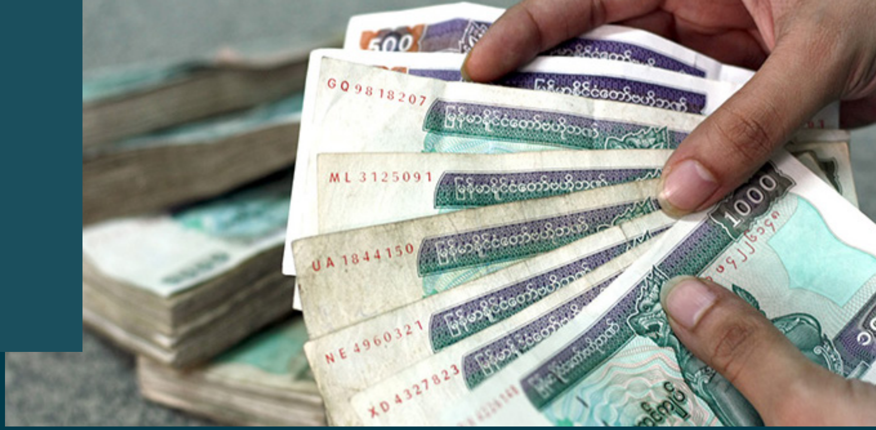
- The organisation should follow their own internal guidance to reduce fraud and diversion. This should include:
  - a limit per transaction – recommended to be between 20 and 50 million Myanmar Kyat for domestic transfers, to be reviewed quarterly based on currency fluctuation
  - safe limits per office
  - cash handling and cash movement policy.
- If the receipt of funds is by an organisation in their office, it is recommended that the agent comes to the office with the funds. Once there, the e-banking transaction can be done, and the physical exchange of funds can occur. If this is not possible, the receipt of physical cash should occur as soon as possible after the transfer of funds to the agent's bank account. **This should be agreed before the exchange of funds occurs, and be reflected in the contract or alternative documentation (for example, Signal messages).**
- The receipt of funds should occur before the organisation undertakes any other transactions with the agent/company.

Documentation for Records

- Records of bank transfers to the agent/company must be retained.
- If transferring to a partner, vendor or beneficiary, the organisation should have clear guidance on the documentation required to confirm receipt of funds, including signatures by the recipient.
- Proof of receipt of funds by organisation focal point, and onward movement of cash (either to safe or paid to a recipient) in line with cash procedures.
- Proof of transfer to agent's bank account.

SECTION 4

RISK FRAMEWORK AND MITIGATION MEASURES



Counting 1,000 kyat notes. Image courtesy of Thura Swiss

This section provides an overview of the different types of risks that can be faced, in order to better enable more robust decision-making by organisations, and for donors to further understand the risks and limitations faced by organisations.

Summary:

In line with the humanitarian imperative, humanitarian actors are compelled to provide assistance to the most vulnerable populations, while mitigating the risk as much as possible. Many of the most vulnerable are in areas where formal financial systems are no longer operational, or the restrictions and data protection concerns put recipients at further risk. Like any financial modality, there are risks. Formal financial systems have been less risky in the past, but those risks have increased as oversight by SAC has increased, as well as the capacity of the authorities to conduct investigations into transactions.

In assessing which financial modality to use, organisations should have a comprehensive understanding of the risk to themselves, and to the beneficiaries and partners they are engaging with. The risk is different for each transaction depending on the geographic area and stakeholders involved – and therefore the aim should be to take a do no harm approach to risk analysis.

International organisations should work closely with local civil society to understand how the risks differ for them, as well as come to an understanding of how they can work together to mitigate those risks. Each organisation needs to make their own decision, based on their own internal guidelines, risk tolerance and donor appetite – but the level of risk sharing should be shared with local partners, and inform decision-making. Ways in which international organisations can share the risk with local partners include:

- Determine potential financial risks due to diversion and theft – and how those would be addressed including protocols for investigation and dealing with the loss of funds. (In other words, would the international organisation cover ineligible expenditure or lost funds?)
- Ensure that partner budgets include lines for exchange loss and banking fees (formal and informal).
- Develop clear standard operating procedures for authorisation, documentation and vetting of formal and informal cash transfer modalities, and ensure that they are annexed to any sub-agreements.
- Regular and transparent dialogue between international and local organisations about the risk environment.
- Ensure there is a clear feedback mechanism on fraud issues.
- Procedures developed for remote monitoring and verification of documentation.
- Clear understanding and technical review of local partner cash handling procedures, and discussion/training for them on mitigating risks related to cash handling and movement.

Risk Overview and Mitigation Measures

The overview of key risks outlined below aims to provide an overview of the risks faced by organisations when utilising both formal and informal financial modalities, and the measures that they can take to mitigate those risks. It is not possible to remove all risk from any financial transaction in Myanmar at the time of writing, but in deciding which modality to use, organisations can try and maximise the mitigation of risk to both themselves and the recipients.

1. New Risks of Utilising Formal Financial Systems Since the Coup

The continued use of formal financial systems, where operational and liquid, has many benefits from a compliance and fraud perspective. Funds can be tracked, and there is consistent documentation to confirm that they have reached the intended recipient. However, given the ongoing conflict and scrutiny on humanitarian/development actors, the oversight of the formal financial system by the Central Bank of Myanmar and the SAC raises significant concerns. These are not possible to mitigate, but should be considered – and used to justify any use of informal financial modalities. The impact of these risks - particularly around beneficiary and staff security - is substantial, and should be carefully considered before any authorisation of the use of formal financial systems.

These include:

- **Legitimisation/perception risk:** Many local CSOs are either using hundis or are already de-facto illegal entities. By enforcing only 'legal' aid channels, this is effectively accepting the SAC as legitimate, and increasing knock-on reputational and internal (i.e. moral) risks.
- **Loss of access risk:** Government control over the banking sector leads to de-facto access controls (i.e. fund transfers not approved without SAC oversight/acceptance)
- **Beneficiary security risk:** Government ability to access transfer records (risk to both sender and recipient beneficiary). There is also a risk that documents shared with banks could be used as evidence to detain people. Beneficiaries, partner staff or vendors on the SAC banned list – as well as those without an NRC card – will not be able to receive transfers from formal financial service providers.
- **Human risk:** Most vulnerable people remain underserved; informal mechanisms are more effective than the banking system in many parts of Myanmar; risk of greater human suffering due to adherence to less effective but 'formal' transfer mechanisms.

2. Overview of Risks and Mitigation Measures for Formal and Informal Financial Modalities

Operational, Security and Diversion Risks

Risks	Mitigation Measures
Diversion of funds – at any stage of the sourcing/transfer process – to sanctioned entities or armed actors through theft. Theft of funds.	■ Limit the amount of physical cash that can be sourced each month. ■ Limit the amount that can be kept in a safe at any one time. ■ Cash handling procedures are developed or reviewed to ensure they are robust. ■ Any staff involved in the cash handling, movement or disbursement process sign a non-disclosure agreement. ■ Cash counts and ad hoc spot checks are incorporated into the process.

Risks	Mitigation Measures
	■ Cash in Transit standard operating procedures – contextualised by area – to reflect nuances in risk landscape and address existing interlinkages (cash -conflict, cash - reputation, cash – crime, etc.), including 'actions on' (crime, conflict, seizure by security forces etc.) ■ Limit the amount of physical cash carried by staff or partners. Use multiple tranches if physically carrying the cash. Ensure there is clear documentation and risk analysis done for any movement of cash. ■ Use third-party actors to transport cash, where possible – including banks, security companies and agents. ■ Source cash as geographically close to the final recipient as possible. ■ Clear planning. Reduce the amount of time that physical cash is held by organisations. Source cash as close as possible to the date of transfer to beneficiaries, vendors or partners. If possible, ask vendors or partners to come to the office when an agent hands over cash, so that it is not in the organisation's safe. ■ Coordinate with partners to ensure that they receive cash in smaller tranches, and close to when they will utilise it.
Physical safety and/or risk of detainment for staff by having large amounts of cash and/or paperwork detailing a cash transaction.	■ In areas of ongoing conflict – or where staff will need to travel outside the office to meet an agent – alternative documentation procedures should be followed. These include the use of screenshots of text messages to confirm information necessary for service agreement and invoice, which can be deleted from phones before going through checkpoints. ■ Maintain clear documentation on recipients of funds and transfers.
Staff perceived as funding the civil defence movement (CDM) or other opposition entities.	■ In areas of ongoing conflict – or where staff will need to travel outside the office to meet an agent – alternative documentation procedures should be followed. These include the use of screenshots of text messages to confirm information necessary for service agreement and invoice, which can be deleted from phones before going through checkpoints ■ Maintain clear documentation on recipients of funds and transfers
Organisations using the same small pool of agents can lead to operational impact if the agents are shut down or have limited liquidity.	■ Organisations should balance working with trusted agents, whilst also identifying new potential agents in their communities. ■ Where operationally possible and safe, prioritising the use of formal financial service providers who are operating under regulations.
Risk of asset seizure/freeze in the Myanmar banking system if acting counter to SAC directives.	■ Do not use formal bank accounts for funding activities/ partners that are outside of the organisational MoU

Fraud and Compliance Risks

Risks	Mitigation Measures
Costs are deemed ineligible as there is no documentation to support an audit trail.	■ Clear procedures and internal controls should be in place, following the best practices outlined above, to document the procurement process, service contract, and invoice (including fees charged). ■ Ensure that documentation of vetting is maintained. ■ Ensure that proof of funds transfer to agents is kept, along with proof of receipt of funds by the final recipient. ■ Humanitarian agencies should have a written agreement from their donors on what is required for eligibility of costs. Fees should be budgeted within project budgets.
Improper cash handling leads to high potential for fraud.	■ Limit the amount of physical cash that can be sourced each month. ■ Limit the amount that can be kept in a safe at any one time. ■ Cash handling procedures are developed or reviewed to ensure they are robust. ■ Any staff involved in the cash handling, movement or disbursement process sign a non-disclosure agreement. ■ Cash counts and ad hoc spot checks are incorporated into the process. ■ Staff and partners involved in the process undergo fraud awareness training (modules available, to be contextualised/translated).
Risk to value-for-money if organisations are not financially savvy.	■ Require documentation to justify reasonableness of service rates charged. ■ Follow internal controls.
Agent requests that funds be transferred to their bank account before they deliver funds to the organisation.	■ Request that the transfer happen simultaneously as best practice. ■ Ensure informally that the agent has a track record of delivering the cash. ■ For initial transactions with an agent, keep the amount low (below 900,000 Myanmar Kyat).

Risk of Engagement with Sanctioned or Military-Aligned Entities

Risks	Mitigation Measures
The informal or legal cash transfer agent is a sanctioned entity, or affiliated with a military-aligned company.	■ Agents identifying information is provided. Ideally this should be an NRC card, but if not, at least their first and last name. ■ Agents are vetted against all sanction databases, and available databases of military-aligned entities. ■ Informal vetting is conducted by local staff/partners of the reputation of the agent, their perceived affiliations, and their experience in providing funds. Any 'red flags' to be raised prior to authorisation of the transaction. ■ Agencies maintain a list of vetted and trusted agents. ■ **It is not currently possible to determine the ultimate source of funds, but organisations should work with their staff and local partners who often know the reputation of the agent and if they are known to be affiliated with illicit businesses.**
Bank transfer fees are used to fund the SAC. Transfer fees paid to banks may be reaching the SAC through taxes paid by banks.	■ Humanitarian/development actors and donors need to be aware of the reputational risk of using formal financial systems – and that the use of them legitimises the SAC's oversight of the Central Bank which de-legitimises agents operating in ethnic-controlled areas. ■ Donors and humanitarian/development actors need to be clear with their messaging – and to ensure that they support modalities which enable them to provide assistance to the most vulnerable, while mitigating diversion and fraud. ■ By deeming ineligible costs related to the use of informal agents, donors are legitimating the SAC-controlled financial system.

Legal Risks

Organisations who work with informal cash transfer agents, or engage in foreign exchange transactions with unregistered companies, need to understand that it is not currently legal under Myanmar law. There are a number of regulations under the law which reference them, and state that they are not legal to operate. The risk is fairly minimal, and particularly as the law proscribes penalties primarily for the providers of the services rather than the user of the services. There may be penalties for organisations, but penalties are clearer for the providers of these services than the users of the services.

- Myanmar law focuses more on those operating as hundis / those serving as cash transfer agents, than it does on the user of those services.
- There are clear penalties attributed to the providers of the services, but not for the users of the services. There are no specific legal rules that state that users of services have to confirm that a business has a licence to operate as a cash transfer agent.
- Businesses do not have the legal right to enter into bilateral contracts to conduct foreign exchange transactions unless they have the proper licences to remit funds from abroad. There are businesses

which do have a legal licence to engage in remitting funds from abroad, with oversight of the Central Bank.

- At the time of writing, the SAC has not engaged in a large-scale effort to arrest or limit the use of informal cash transfer agents.
- The SAC's primary concern is that cash received through informal means is used to finance the CDM or opposition movements. Organisations should endeavour to have clear documentation on the recipients and movement of funds.

Legal Framework in Regional Countries

Specific, enabling, regulatory frameworks are in place for hundi-type transfers in most of Myanmar's neighbours, including Nepal, Pakistan, the Philippines, Indonesia and China. No such framework exists, however, in India, Thailand, Cambodia and Bangladesh. Hundi transactions in these countries have a high risk of being illegal. Further, all neighboring countries have some type of 'Anti-Money Laundering and Counter-Terrorist Financing' (AML/CTF) regime in place, which will govern the sending and receiving of funds domestically and internationally.

- To the extent possible, payments originating or terminating in regional countries should use a formal bank, recognised financial institution, or regulated entity to avoid violation of local banking and AML/CTF regulation.
- Rely on local partners, including governmental organisations, when engaging in banking relating to hundis in regional countries. Benefits of these partnerships include: ensuring legal compliance with sometimes-shifting banking laws; minimising the risk of conflict with regional authorities; and identifying specific financial institutions to use or avoid.
- Keep thorough documentation, including the other mitigation methods described in this chapter, and a running log establishing the purpose of the funds. This should be maintained for any and all transactions. This requirement is heightened in countries where there is no remittance regulatory framework in place.

Other Risks

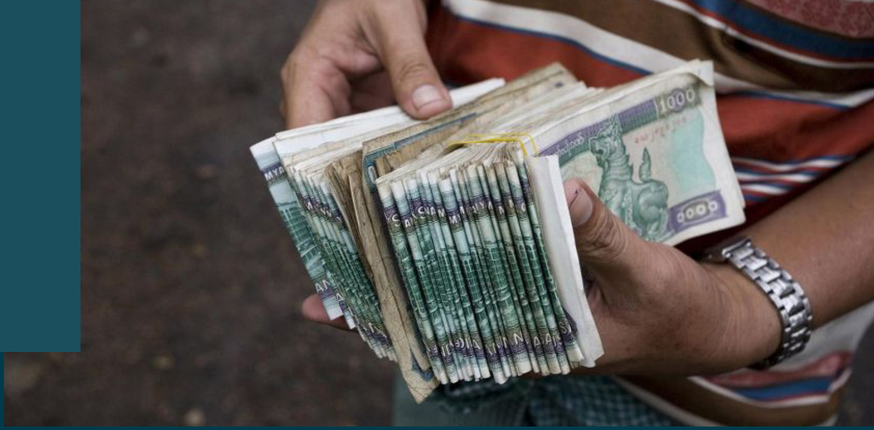
As the number of informal transfer agents increases – and more stakeholders enter the cash economy – there is greater concern around a) ensuring that the agents/source of funds is not illicit, and b) reducing potential for fraud and diversion by agents. While these are legitimate concerns, the best way to mitigate these risks is through clear procedures for vetting and organisational procedures for cash transfer and handling (as detailed above), rather than through a more centralised coordination or oversight of these transactions by a third-party coordination mechanism. This would raise the profile of these agents and the use of this modality – leading to many of them no longer engaging with humanitarian/development actors due to increased risk to themselves, higher transaction fees, less willingness to provide identity or documentation – and potentially increase the risk to staff who engage with the agents due to higher visibility.

Another key concern is around the impact on the market and liquidity of these agents as a result of the increased use by humanitarian/development actors. While this was initially an issue, the large number of new economic actors who have entered this economy over the past year has seen a significant increase in the available liquidity. This is seen in the significant drop in fees – from close to 12 to 15 percent immediately after the coup, to current levels of 3 to 4 percent. None of the organisations interviewed for this paper had seen a liquidity crunch in the past six months, and most felt that the amount of funds moved through informal agents by humanitarian/development actors was a small percentage of the total amount. This is due to the significant shift to the cash economy by most individuals and businesses in Myanmar – with funds being recycled through communities using informal cash transfer systems – rather than being put into the formal bank system. This is also seen in the number of new informal cash agents who have entered the market, expanding well beyond the previously existing hundi networks. While the low-profile nature of these agents means that open and transparent procurement procedures are often not possible, the number of agents operating means there is no overreliance on one agent or hundi.

The growth in the cash economy and use of informal cash agents by businesses and individuals in Myanmar also potentially mitigates the risk that the funds available through these agents are from illicit sources. Humanitarian/development actors do not currently have the capacity to vet the source of funds beyond the intermediary agent – which limits the quantifiable information available. However, the large increase in cash and liquidity available through these agents, and anecdotal information from businesses, local organisations and staff in communities, indicates that the majority of funds circulating are from local businesses and individuals, and are being recycled through these agents. Illicit actors are moving much larger amounts of funds and have established ways of laundering and moving these funds that were established prior to the coup, and therefore do not explain the significant increased liquidity flowing through the cash economy during the past year.

SECTION 5

CONCLUSION AND A PATH FORWARD



Counting bundles. Image courtesy of Bloomberg News

Recommendations for Humanitarian/Development Actors

- Institute best practices as described in the sections above.
- Clear and regular dialogue between international and local humanitarian/development actors on the risk environment and available financial modalities.
- Continue to use multiple modalities to meet operational cash needs. Prioritise formal modalities – but only where possible, safe, and in line with 'do-no-harm' principles. For some international and local humanitarian/development actors, formal financial options are no longer possible in any circumstances due to the nature of the work.
- Work with intended recipients – vendors, beneficiaries, partners – to understand their needs, constraints and concerns, before finalising which modality to utilise.

Recommendations for the Cash Working Group

- Regularly track informal agent fees with inputs from partners.
- Facilitate dialogue between humanitarian/development actors and formal financial service providers, and encourage information-sharing on contractual information and fees charged.
- Commission further research into cryptocurrency and how it is being used by humanitarian/development actors in Myanmar.

Recommendations for Donors

- Donors need to have a risk appetite that reflects ensuring that aid flows in an accountable manner, while ensuring the humanitarian imperative in a protracted crisis.
- Ensure a holistic understanding of the inherent risks of both formal and informal financial modalities, including the risks that meeting certain standards can put on partners. Support humanitarian/development actors in choosing modalities that reduce risk to them and the beneficiaries through a 'do-no-harm' approach.
- Accept organisations' internal policies and procedures, if meeting minimum standards around compliance/vetting/risk management. Support a flexible approach and allow for alternative documentation procedures as part of the audit trail.
- Allow for budgeting of transfer fees within budgets, in line with market rates.
- Enable more options for paying grantees locally in Myanmar – in Myanmar Kyat – to enable payments directly into special bank accounts.
- Provide clarity to grantees on eligibility of costs.

ANNEX 1

TEMPLATE OF INFORMAL MONEY TRANSFER AGENT (IMTA) - SOURCING, CONTRACTING AND ADMINISTRATION STANDARD OPERATING PROCEDURE

1. Purpose

The use of the IMTA primarily can be for categories as below.

1. **Standard NGO Operational Expenses:** staff salaries, office operational costs, cash advances.
2. **Programmatic Distributions:** distribution to the participants under cash transfer programming, payment of training allowances etc.
3. **Sub-grantee payments:** partners and sub-award recipients who may also not have access to regular banking services.
4. **Vendor Payments:** particularly local-market vendors who do not have access to banking services in their local venue of operation.

Using IMTA as service providers comes with a set of strengths and weaknesses, with service delivery, geographic reach, liquidity and concerns on compliance raised by some donors. Also, the reliance on IMTA poses a significant operational and reputational risk, as delays in payments and loss of access directly affect not only the forward-facing cash programming activities but affects the NGOs ability to pay partners, vendors and staff.

This Standard Operating Procedure (SOP) outlines the details of sourcing, contracting and administration of the IMTA.

2. Sourcing

In most cases, the IMTA is used as a service provider for repetitive use of the money transfer service; however, there may be instances where the IMTA may be used as a one- time service provider. The procurement process should be followed according to the established procurement policies. If a derogation from these policies is needed, justification should be provided on why the derogation is needed – and to justify the selection of the agent and that the rate charged is reasonable.

If the IMTA is intended to be used repetitively, as a master service provider, the provisions in the procurement for master agreements should be followed to select the service provider.

As part of the process of selecting the IMTA, it is required to have solid evaluation criteria, and guidelines are provided below. Sometimes changes may be needed depending on the context.

Supplier Capacity

1. Geographic Access – possessing a network of agents or capacity to reach recipients in the widest targeted geographic areas (more extensive geographical spread is given advantage).
2. Liquidity – demonstration of average daily liquidity that can be supplied to all clients and to the NGO in particular (more significant demonstration of liquidity is given advantage).
3. Field Capacity – Ability to take responsibility for all logistical and security considerations to ensure the safe delivery of funds, both within their own office location and field settings. The ability to manage disbursements outside of their own office location is given the advantage.

Supplier Experience

1. Number of years of experience (higher number given advantage).
2. Previous INGO experience (higher number of NGO relationships given advantage).
3. Included References (higher number of verified references given advantage).

Other

1. Preference will be given to IMTA prefers to work on reimbursements after distributions have been made.
2. Quoted rate/fee schedule (lower rate is given advantage).
3. Number of days for complete preparation of funds for transfer (shorter lead time for delivery is given advantage).

If needed, other donor requirements for vetting/approval can be introduced during the selection process as a minimum standard.

3. Contracting

The IMTA agreement should include the following:

- The names and positions of the individuals who coordinate the issuance of transfer notices to the IMTA should be included in the agreement.
- Method of issuance of task order and acceptance by IMTA.
- Speed of delivery.
- List of all documents required from the IMTA to get reimbursement.
- Reporting requirements, particularly if the IMTA will provide cash transfers to participants.
- The agreement must also have specimen signatures of the authorised signatories according to the country AAM.

If the IMTA will provide cash transfers to participants, the agreement should also include:

- Conditions related to the distribution point for participants (e.g., waiting times, space requirements, etc.).
- Safeguarding and Community Accountability and Response Mechanism considerations.
- Specifications on how the IMTA will verify the identity of participants (if required).
- Documentation and reporting of all transactions.

If a signed contract is not possible, the above information should be provided in alternative documentation (for example, Signal messages).

4. Invoicing

The IMTA invoice should include the following:

- The total service fee to be provided.
- Confirmation of receipt of funds – and receipt of service fee.

If a signed invoice is not possible, the above information should be provided in alternative documentation (for example, Signal messages).

5. Transfer of Funds and Financial Reconciliation

The transfer of funds, as agreed in the contract, should take place as close as possible to the receipt of funds. The receipt of funds should follow existing policies for cash handling. Once the transaction has taken place, the following should be followed:

- The receipt of funds should occur before the organisation undertakes any other transactions with the agent/company.
- Records of bank transfers to the agent/company must be retained.
- Financial reconciliation in line with accounting policies.

ANNEX 2

INFORMAL MONEY TRANSFER AGENT (IMTA) DUE DILIGENCE ASSESSMENT FORM

Instructions/Notes:

1. This is to be used as supplementary documentation to support the vetting and procurement of an informal money transfer agent/hundi.
2. The selection of an IMTA follows the procurement procedures; this process is a supplement to the procurement procedures.
3. The purpose of this assessment is to gather relevant information in order to evaluate the IMTA capacity, efficiency, reputation, reliability, ineligibility and related matters in delivery of funds to NGO team members, partners and beneficiaries.

Section I - General Information	
1. Name of Company/Agent	
2. Physical Address of Company/Agent	
3. Email address of Company/Agent	
4. Contact Number of Company/Agent	
5. NRC Number of Agent – or Key Personnel of Company	
Section II - Previous Work Experience With INGOs/UN/Donors	
Has the organisation worked with other INGOs, local organisations or businesses? In what capacity? Describe their reputation and if they fulfilled the required transfer. **Include 2 informal references**	
Section III – Formal Vetting	
Which databases are required for vetting under the relevant donor guidelines?	
Confirm vetting has been done for all required vetting databases and there were no matches. Attach proof of vetting	
Section IV – Other Information	
1. Any Other Generic Information not specified above but helpful for decision making process	

Risk Level Assignment (Based on the information above, please select one of the following.)	
☐ **Low Risk**	■ The organisation possesses the capacity to deliver the work needed for IMTA transfers. The likelihood that the organisation will be able to comply with the terms and conditions of the agreement is high. ■ No special tougher contract conditions are generally warranted and the normal IMTA service contract is applicable with the specific SOPs clarification.
☐ **Medium Risk**	■ The organisation shows some deficiencies in its capacity to manage IMTA service contracts. The organisation may lack experience or may have had past performance problems to the level of service required or other INGO or Donor Agencies require. ■ Additional contractual conditions may be warranted to mitigate risks.
☐ **High Risk (NO GO)**	■ The organisation does not possess the capacity to deliver on the IMTA Service even if they have quoted lower IMTA fees. ■ Deficiencies are likely due to either a weak financial infrastructure or inexperience in managing high levels of IMTA services.

Prepared by (name and title):

____

Signed: ______________________________

Date: ______________________________

Reviewed and Approved by (Name and Title):

____

Signed: ______________________________

Date: ______________________________

ANNEX 3

SAMPLE MONEY TRANSFER ORDER FORM

Order Information:		IMTA Information:	
Order Reference		IMTA Company Name	
Request Date		IMTA End-Agent Company Name*	
Expected Delivery Date		End Agent Representative Name*	
Full Name (English)			
Full Address			
ID Number			
Phone Number/s			
Currency			
Transfer Amount			
Exchange Rate (if applicable)			
Fee Rate			
Transfer Fee			
Total (Transfer Amount + Fee)			
Order Initiated by: ______________________ (Printed name) ______________________ (Signature)		Date	
Order Approved by: ______________________ (Printed name) ______________________ (Signature)		Date	
Order Reviewed by: ______________________ (Printed name) ______________________ (Signature)		Date	
Order Accepted by: ______________________ (Printed name) ______________________ (Signature)		Date	