

# Guidance Note

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## HUNDI NETWORKS: MITIGATING RISKS OF INFORMAL VALUE TRANSFER SYSTEMS IN MYANMAR

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### Background

Since the February 2021 coup in Myanmar, it has grown increasingly difficult for donors and responders to rely on the country's formal banking system to carry out humanitarian interventions. As the State Administration Council (SAC) arbitrarily intensified its crackdown on civil society, it carried out mass arrests and arbitrarily seized accounts and assets situated throughout Myanmar's financial institutions. To protect their teams and beneficiaries, response actors adopted strategies of zero visibility. Within this evolving crisis, engagement with the Myanmar banking system grew far more dangerous. To navigate these new risks, donors and responders began to rely on informal value transfer systems, particularly the Hundi network, to support humanitarian interventions in Myanmar. Over time, especially as the SAC has faced more numerous and expansive sanctions from the West, international reliance on the Hundi network has grown considerably. With the Bank of Singapore poised to cease its function as an intermediary bank for the Myanmar financial system at the end of August 2023, formal international financial transactions with Myanmar are expected to become virtually impossible. As a result, international actors are likely to need to rely nearly entirely on informal value transfer systems to send financial support into Myanmar.

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# Risks

The risks associated with use of informal value transfer systems are different, but not necessarily greater, than reliance on formal banking systems – particularly in countries, like Myanmar, that are deeply affected by conflict, crises, political instability and western sanctions. Among other risks, use of informal value transfer systems presents distinct challenges in terms of transparency and accountability for donors and response actors. While stakeholders have been adjusting operations to navigate these better over time, the end of Singapore’s run as a financial proxy for Myanmar is likely to trigger a sudden uptick in reliance on informal value transfer systems as informal systems become all but impossible to utilize. In turn, this expansion in use by international donors and response actors is likely to raise questions about risks among new users and cast the management of known risks into stark relief for those already relying on hundi networks to deliver funds and programs throughout Myanmar. In light of these trends, it is an opportune moment to identify risks and explore risk mitigation associated with use of informal value transfer systems.

Risks related to any financial transaction tend to fall into several categories, including:

1. Delayed arrival of funds (due to legal, administrative, bureaucratic, and logistical reasons)
2. Disappearance of funds (including third party seizure, theft)
3. High, unforeseen and/or extortionate transfer fees (imposed by banks, intermediaries, agents)
4. Illicit use of funds (financial crimes, embezzlement, abuse by recipient, intermediaries, and/or third parties)
5. Currency fluctuations, shifts in exchange rates mid-transaction (financial losses in transfer)
6. Insufficient documentation of secure delivery of funds to intended recipient (audit challenges)

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## Mitigation Measures

Overall, the pathway for international actors to rely safely on informal value transfer systems is the same as the route through which they can deliver more efficient and effective programming in Myanmar: localisation. International actors are new to Hundi networks; those equipped with the most experience have been relying on Hundis for a few years, or in rare cases, a few decades — since the early 1990s cross-border response was launched from Thailand. In contrast, Myanmar actors have been relying on Hundi networks for generations. For leaders and veterans of the Myanmar response, Hundi networks have moved funds from abroad into Myanmar, delivered them from one area of the country to another far more cheaply and far more securely than any military-linked banking system ever has. These networks have sustained their families, facilitated their civil society work, and provided the financial means necessary to continue their activism over a lifetime. In consequence, these leaders are best placed to guide international actors into safe reliance on Hundi networks.

With respect to each risk enumerated above, **engagement of trusted local partners equipped with extensive experience navigating Hundi networks can drastically reduce the risks of international reliance on informal value transfer systems.** This is the case simply because Hundi networks operate on the basis of trust; if funds are not delivered as and when promised, the network breaks. For the network to continue operating, individuals must trust that it works; for individuals to maintain trust over time, the network must deliver as expected. In a climate as chaotic and crisis-affected as the Myanmar response, fraud and financial malfeasance pose serious risks. However, these can be avoided by engaging with Hundi networks through individuals who already know the networks; experienced users will conduct transactions through the same individuals they know and trust, while international actors would be unlikely to be able to discern trustworthy intermediaries from fraudsters seeking to capitalize on the new influx of donor funds in motion across informal networks. By vetting Hundi agents through trusted local actors, and only relying on those known to their implementing partners, international donors and responders can minimize the likelihood of risks 1 – 5 above.

If relying on trusted, experienced Hundi agents who are known to their partners, donors and responders can avoid an increased likelihood of each of the following:

1. Delayed arrival of funds (due to legal, administrative, bureaucratic, and logistical reasons)
2. Disappearance of funds (including third party seizure, theft)
3. High, unforeseen and/or extortionate transfer fees (imposed by banks, intermediaries, agents)
4. Illicit use of funds (financial crimes, embezzlement, abuse by recipient, intermediaries, and/or third parties)
5. Currency fluctuations, shifts in exchange rates mid-transaction (financial losses in transfer)

Simply put, if Hundi agents are relying upon and experienced in carrying out regular transfers, it is not in their interest to delay funds, abscond with funds, impose high fees, misappropriate funds, or change exchange rates mid-transaction. Those reliant on Hundi networks are invested in the continuity and survival of the network; in working with them, international actors are likely to face few surprises.

The only outstanding risk identified above is linked particularly to the reporting requirements western governments impose upon the expenditure of public funds. Clear documentation of the use of funds, the delivery of programs, and the impact of international support upon communities cannot be done through routine means when the paper trails of formal financial transactions are not available as records. To protect users, there is a lack of transparency and visibility built into informal value transfer systems. While this opacity tends to shield traditional Hundi network users from various risks, including those of public exposure, criminal investigation and tax liability, it fails to meet the basic requirements of financial accountability for the expenditure of donor funds. Donors, their implementing partners, and the intermediaries they select to complete value transfers will need to devise means of recordkeeping to generate a level of transparency beyond that traditionally provided by Hundi networks.

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## Final Recommendations

1. Carefully select local partners equipped with expertise in safely navigating crises in Myanmar and utilising zero visibility response tools, including informal value transfer systems.
2. Defer to experienced local actors in the selection of intermediaries, fund delivery mechanisms, and other aspects of transfers to ensure the maximum protection of partners and beneficiaries.
3. Coordinate closely with partners to devise safe, feasible and mutually acceptable means to document informal value transfers and ensure the generation of an adequate record of expenditures, activities and impact in relation to each program undertaken.

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## Guidance Note

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**Contact:** [analyst.myanmar2020@gmail.com](mailto:analyst.myanmar2020@gmail.com)