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Myanmar remittances



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ABSTRACT

The report provides an overview of what is known about remittances to Myanmar based on the most recent data and research available. While there are considerable data gaps, the remittance behavior of Myanmar's international migrants has been changing in the post-reform period. Today, remittances to Myanmar are substantial both in absolute terms as well as relative to the country's GDP. Drawing on lessons from countries in the region, the report examines potential policy options for the Myanmar government in order to improve remittance behavior – which includes improving the regularity of remittance flows, the size and the uses of remittances, the movement from informal to formal channels and a shift in its use from consumption to investment. Such changes in remittance behavior will allow for better leveraging of these resources for Myanmar's economic development.

EXECUTIVE SUMMARY

This report examines the state of knowledge regarding the remittance behavior of Myanmar nationals residing outside of Myanmar. In the context of the economic reform process now underway and changes in financial regulations in 2012, there is renewed interest in remittance flows from both long-established migrants abroad as well as from more recent migrants abroad. What steps can be undertaken to improve the remittance-sending behaviors of Myanmar immigrants abroad?

Remittances are potentially an important source of development financing for emerging economies. While foreign direct investment (FDI) is the largest flow of funds to developing countries, remittance flows are a close second. However, they are more resilient and less affected by international shocks. Remittances can play a critical role in alleviating poverty, which is crucial in Myanmar where 26 percent of the population live below the poverty line. Poverty in rural areas, that experience a higher rate of migration, is 1.5 times that of urban areas (World Bank 2017).

Review of Existing Research on Myanmar Migrants

Based on existing data there are approximately 3.1 million Myanmar citizens officially living abroad and in 2015 they remitted approximately \$3.5 billion to Myanmar amounting to almost 5% of Myanmar's GDP. Including unofficial migrants, remittances are likely to be substantially more significant – perhaps as much as \$8 billion or 13% of GDP. Data based on household surveys indicate a majority of Myanmar migrants still use informal methods to send remittances and recipient households in Myanmar use the funds from remittances in flows largely for basic necessities.

While there is some research on the topic of remittance-sending behavior of Myanmar migrants, there remain significant questions and concerns. Issues of access (both for the remittance sending and receiving households), remittance costs and trust in the formal banking system, continue to limit the ability to leverage the large volume of remittances for Myanmar's development.

Policy Recommendations for Increasing Remittance Sending

- Establish a cross-ministry committee/working group with the mandate to collate information for the purpose of strengthening migration and remittance measurement and analysis. There are many data sources already within the government that can be drawn on to support better measurement, analysis and policymaking - e.g. national accounts data, telecoms data, cross-border movements.
- Decrease the attractiveness (and profitability) of informal (black market) systems for sending remittances by reducing tariffs and quotas in trade and adopting a fully floated exchange rate and thereby reducing arbitrage opportunities in currency and goods markets.
- Develop mobile financial services regulations to allow for loans and savings products and for cross-border transactions. Ensure the regulator can maintain compliance and build trust in the financial system.

- Facilitate connections for potential migrants with overseas employment opportunities through regulated intermediaries. Increasing the information and potential employment matches for migrants will improve the labor market success abroad and generally lead to improved remittance-sending behavior.
- Provide pre-departure training for migrants covering financial knowledge, practical information on destination countries, and worker's rights.
- Create a government-supported lending facility for migrants and facilitate bank account registration. This will minimize the role of predatory lending and encourage formal remittances.
- Develop new financial products that reduce transaction costs and are controlled by overseas migrants themselves. Innovative products that have been developed elsewhere include dual-currency accounts, matched investments and migration insurance.

INTRODUCTION

This report examines the state of knowledge regarding the remittance behavior of Myanmar nationals residing outside of Myanmar. In the context of the economic reform process now underway and changes in financial regulations in 2012, there is renewed interest in remittance flows from both long-established migrants abroad as well as from more recent migrants abroad.

The report provides an overview of what is known about remittances to Myanmar based on the most recent data and research available. In cataloging the existing data, research and analysis we find considerable gaps in knowledge as compared to other lower middle-income countries. We examine these gaps and discuss options for gathering the missing information to provide better data inputs for policy making.

We discuss several potential methods that could be deployed to collect this missing data on migrants' remittances. Subsequently, we examine potential policy implications and options for the Myanmar government in order to improve remittance behavior—in particular, to move a greater fraction from informal to formal channels—and better leverage these resources for Myanmar's economic development. There are lessons from nearby countries that Myanmar could emulate. In the final section, we discuss how these programs and policies could be applied in the Myanmar context.

Remittances are potentially an important source of development financing for emerging economies. While foreign direct investment (FDI) is the largest flow of funds to developing countries, remittance flows are a close second internationally. However, they are less volatile and more resilient to international shocks. The traditional source of financial inflows to low-income countries —foreign aid—is today just a fraction of remittance flows. In recent World Bank publication, the authors note that, “in 2015, worldwide remittance flows are estimated to have exceeded \$601 billion. Of that amount, developing countries are estimated to receive about \$441 billion, nearly three times the amount of official development assistance,” (World Bank, 2016). For a country such as Myanmar, there are large opportunities to increase the size of remittance flows. Additionally, the use of formal financial channels allows for the expansion of the monetary base for the country.

Remittances can also play a critical role in alleviating poverty, which is crucial in Myanmar where 26 percent of the population live below the poverty line. Poverty in rural areas, that experience a higher rate of migration, is 1.5 times that of urban areas (World Bank 2017).

I. WHAT DO WE KNOW ABOUT MIGRATION AND REMITTANCES IN MYANMAR

There are just a few studies that investigate various aspects of remittance-sending behaviors of Myanmar migrants. Most of these studies rely on their own data collection

efforts which either focus on Myanmar migrants abroad (primarily in Thailand) or Myanmar households with migrants. Most of these studies were conducted prior to the 2011 political changes and subsequent economic changes in 2012. However, several studies were conducted while these political and economic reforms in Myanmar were unfolding. We have found only one study that can be safely described as occurring after the political and economic reforms. In the next three sections we discuss the findings on overseas remittances from Myanmar migrants from the pre-reform research, the contemporaneous reform period, and the post-reform study.

Pre-Reform Research on Myanmar Migrants and Remittances

Turnell et al (2008) have one of the earliest publications focusing on the remittance behavior of Myanmar migrants. Their study is based on a relatively old survey conducted in 2002-2003 where they interviewed approximately 1000 Myanmar migrants residing in Thailand. In their study, they find that on average migrants send home about \$575 US per year. The vast majority of the intended use of remittances are for basic necessities (94%)

Box 1. Informal Value Transfer Systems (IVTS)

Despite the growth of formal money transfer mechanisms, substantial amounts of remittances in many countries continue to flow through informal (and sometimes underground) channels, outside the purview of government supervision and regulation. These transfer mechanisms go back centuries, particularly in Asia. Examples include hawala and hundi (South Asia), fei ch'ien (China), Phoe kuan (Thailand), Hui (Vietnam), casa de cambio (South America). IVTS systems flourish in countries with economic controls, political instability, and low levels of financial development.

Using rudimentary low cost technologies, they rely more on trust than violence, riding on the social capital of ethnic groups. These systems transfer tens of billions of dollars globally, offering speed, easy access, low costs and anonymity. Basically the sender gives money to an IVTS agent (usually in an ethnic neighborhood) who sends instructions to his counterpart in the region where the money is to be sent. The counterpart makes the payment within a few hours. Settlements are made either with a transfer in the opposite direction and/or periodic wire transfers or through over (under) invoicing of cross-border trade.

These services transfer funds derived from both legitimate and illegitimate activities, ranging from corruption to tax evasion, to smuggled goods such as drugs or gold. Attempts to regulate IVTS activities have arisen in the context of anti- money-laundering measures and terrorist financing.

Source: Devesh Kapur, "Remittances: The New Development Mantra", G-24 Discussion Paper No. 29, 2004.

and the rest for investment or other purposes. Almost half of remittances were sent via Hundi (44%), family accounted for 22% and merchants or carriers accounted for 22%. The remainder – less than 6% of remittances – were sent via Myanmar banks. In related research, Jampaklay and Kittisuksathi (2007) surveyed 356 migrants from three source countries (Myanmar, Laos and Cambodia) who were living in Thailand. The study was conducted in 2007. The study found that Myanmar migrants sent on average 34,534 Thai baht or \$968 US annually – more than two-thirds more than the amount estimated in the earlier study.¹ However, this study corroborated the findings of the earlier study in that the vast majority (approximately 88%) of the intended use of Myanmar remittances were for daily expenses for their families in Myanmar and the money was largely sent via informal channels – over 92% of remittances were reported as sent via informal methods and less than 2% in this sample were sent through formal banks.

Another survey conducted by Lin (2009) examines the remittance behavior of 216 Myanmar migrants residing in Malaysia. The survey also randomly sampled 147 Myanmar households that were located in the same regions that the 216 migrants were drawn from. However, these were not the migrants' households. The findings indicated that Myanmar migrants in Malaysia sent more remittances home on average – almost \$1800 US annually – than those living in Thailand (presumably this was because average incomes in Malaysia are considerably higher than in Thailand). The study did not report the methods of sending remittance or their intended uses. However, the paper provided a useful analysis which highlighted the migrant characteristics associated with remittance sending behavior. The analysis found that education and the level of connection to Myanmar (indicated by the number of telephone calls) was positively related to the probability of sending remittances to Myanmar.

Sandar (2010) interviewed 453 Myanmar households in Myanmar in 2010 regarding the uses and frequency of remittances from migrants. The dominant method of receiving remittances was the informal hundi method where 17% of funds were delivered directly to a household's door, 53% were delivered to village-level hundi dealers, 6% were delivered to hundi dealers in cities and less than 5% was transferred through banks. The data in this paper indicated that the average amount sent to Myanmar households (from a variety of migrant destinations such as Thailand, Malaysia, Singapore, Korea, USA, Dubai and Japan) was about \$2606 US.

Contemporaneous Reform Research on Myanmar Migrants and Remittances

The largest survey of Myanmar migrants was conducted in 2010-2011 by the International Organization for Migration (IOM) and the Asian Research Centre for Migration (2013). The study interviewed 5027 Myanmar migrants across a large number of Thai provinces. However, since the goal of the survey was to understand the effects that these workers were having on the Thai economy, there is little information in this study on the amount or frequency of remittances. The study did focus on the potential factors that

¹ Assuming an exchange rate of 35 Thai Baht to 1 US Dollar for 2007.

would influence the return migration decisions of Myanmar migrants. It found that almost 64% of the migrants would require an equivalent level of income or more to induce them to return to Myanmar.

Linn (2011) conducted a survey of 120 Myanmar households in order to understand the characteristics of migrant-sending households. The survey also collected data on the frequency of remittances, their size and method of remitting. The survey found that 90% of the households received remittances through the hundi system and less than 10% via banks for money-transfers. The average amount remitted was approximately \$2047 US.²

Another survey by Sandar (2011), focusing on Myanmar migrants residing in Thailand, investigated a similar set of questions as Linn (2011) with regard to remittances. This survey found that the average annual amount remitted was \$676 US – considerably less than reported in the surveys cited above.³ Once again, remittances were most frequently reported being used for basic consumption needs. The author also interviewed the respondents and found widespread distrust of formal banking institutions.

Finally, Chantavanich and Vungsiriphisal (2012) surveyed 204 Myanmar migrants in 2012 in Thailand and found that the average remittance amount was just about \$180 US per year with 77% of the remittances sent used by the receiving households for daily consumption and basic needs. However, there was some evidence in this survey that the method of sending remittances was slowly shifting towards more formal methods. This survey found that 20% of remittances were sent via bank accounts, a greater fraction than observed in any previous study. The informal method still dominated, but the use of banks appeared to be increasing. The authors note that registered migrants abroad were the most likely to use formal methods to send remittances to Myanmar; they attribute this to the fact that these immigrants were the ones most likely to already have a working bank account where they would be paid by their Thai employers. Therefore, the registration and legalization of work for Myanmar immigrants abroad in all likelihood facilitated the opening of bank accounts and the use of more formal channels for remitting.

Post-Reform Research on Myanmar Migrants and Remittances

There has been only one published research article examining the experiences of Myanmar migrants in the post-reform era. Kubo (2015) conducted a survey of 154 Myanmar migrants in Thailand in 2014 in order investigate potential changes to the methods of remitting funds between Thailand and Myanmar. The author found that the average annual amount remitted was \$1492 US.⁴ The analysis indicated that migrants were more likely to use banks as a mechanism for sending remittances if there were bank branches near their families' homes in Myanmar. This finding pointed to the importance of more accessible locations and physical proximity to bank branches for determining

² Assuming an exchange rate of 1282 Myanmar Kyat to 1 US Dollar for 2012.

³ Assuming an exchange rate of 35 Thai Baht to 1 US Dollar for 2010.

⁴ Assuming an exchange rate of 35 Thai Baht to 1 US Dollar for 2014.

whether Myanmar migrants would use formal banking channels to send remittances.

Summary of the research findings

In understanding the remittance behavior of Myanmar migrants, it is important to recognize that the reasons people leave a country also affect their behavior towards the country when abroad. The large Myanmar migration occurred in a context where the country's economy stagnated relative to the boom in neighboring ASEAN states and China. The stagnation was in part due to a system of pervasive controls on many aspects of the economy and weak macro-economic management. Three demonetizations between 1964 and 1987, high inflation and extensive controls on foreign exchange and trade that left the foreign exchange market segmented between the formal (largely public) and informal private sectors left little faith in the kyat. The economy was largely cash-based and considerably dollarized with a severely underdeveloped banking system. These circumstances contributed to both why people left the country as well as their distrust of official institutions. Hence it is not surprising that the studies we have examined find that most remittances were sent through unofficial channels and whatever came was spent by households on consumption, either because of their low incomes or the lack of viable investment options.

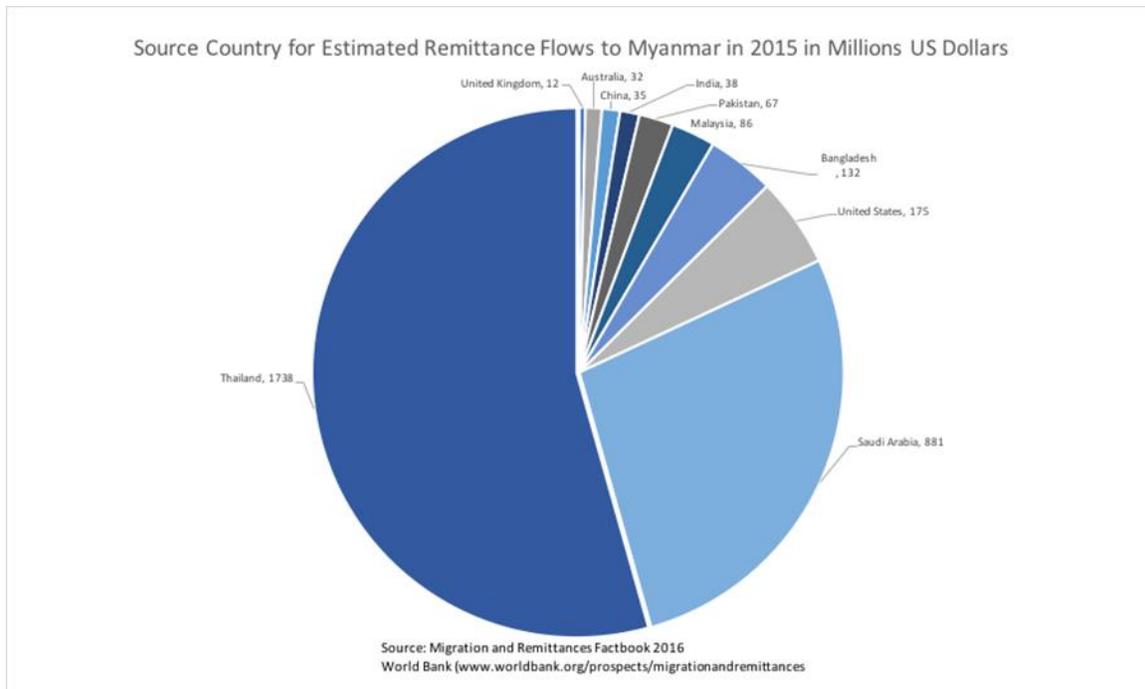
Since the historic political and economic reforms of 2011-12, there have been dramatic changes on the economic front. The economy has been growing at an average rate of 7.5 percent and inflation has been in single digits (IMF, 2017). The country has moved from a fixed to floating exchange rate (a managed float), the gap between the official and parallel market exchange rates has narrowed considerably, and the banking system is gradually getting re-built with 13 new foreign banks allowed limited entry in the last two years. Now after more than half a century Myanmar is growing more rapidly than the countries that are the principal destinations for its migrants. In the future if wages rise domestically, then one might expect new migration to fall and return migration to rise. However, there are countervailing effects which continue to push migrants abroad with a renewed escalation of violence at home and the persistently large wage gains to be earned abroad.

Furthermore, with a relatively stable currency and better banking, as well as more political trust in the government, flows through official channels are likely to increase. Robust growth should drive growth of incomes, and hence we might expect less need for using remittances solely for consumption and greater use for savings and investment. But it is also likely that distrust of ordinary people of the banking system will ebb only gradually, and the reliance on cash will continue. Hence there will continue to be a strong need to create mechanisms and incentives for remittances to flow through official banking channels.

Research Article or Report	Year	Size	Survey Lo	From
Turnell, S., A. Vicary, and W. Bradford (2008), 'Migrant-worker remittances and Burma: an economic analysis of survey results.' In Skidmore, M. and T. Wilson (eds.) <i>Dictatorship, Disorder and Decline in Myanmar</i> . Canberra: ANU E Press. pp. 63-86.	2002-2003	1000 Burmese migrants	Thailand	Myanmar
Jampaklay, A. and S. Kittisuksathi (2009), Migrant workers' remittances: Cambodia, Lao PDR and Myanmar. ILO/Japan Project on Managing Cross-border Movement of Labour in Southeast Asia. Bangkok: ILO Regional Office for Asia and the Pacific.	2007	356 migrants	Thailand	Myanmar, Laos and Cambodia
Lin, Min Zar Ni. 2009. "Remittance Behavior of Mon Migrants Working in Malaysia." Chiang Mai University Journal of Economics. Volume 13, No.2.	2009	216 Burmese migrants; 147 Burmese families	Malaysia; Myanmar	Myanmar
Sandar, Tun Min. "Myanmar Migrant Workers and Their Remittances." Unpublished Manuscript.	2010	435 Burmese households	Myanmar	
IOM (International Organization for Migration) and ARCM (Asian Research Centre for Migration) (2013), <i>Assessing Potential Changes in the Migration Patterns of Myanmar Migrants and Their Impacts on Thailand</i> . Bangkok: International Organization for Migration.	2010-2011	5027 Burmese migrants	Thailand	Myanmar
Linn, Soe Nandar. 2011. "A Pilot Study on the Characteristics of Migrant-Sending Households in Southern Mon State of Myanmar." CDCE.	2011	120 Burmese households	Myanmar	Myanmar
Sandar, Tun Min. 2011. "A Study of Factors Influencing Remittances of Myanmar Migrants (Case Study in Samut Sakhon, Thailand)." Vahu Development Institute.	2011	100 Burmese migrants	Thailand	Myanmar
Chantavanich, S. and Vungsiriphisal, P., 2012. "Myanmar Migrants to Thailand: Economic Analysis and Implications to Myanmar Development." <i>In</i> Economic Reforms in Myanmar: Pathways and Prospects, edited by Hank Lim and Yasuhiro Yamada, BRC Research Report No.10, Bangkok Research Center, IDE-JETRO, Bangkok, Thailand.	2012	204 Burmese migrants	Thailand	Myanmar
Kubo, K. 2015. "Evolving Informal Remittance Methods of Myanmar Migrant Workers in Thailand" Economic Research Institute for ASEAN and East Asia, Discussion Paper Series, No. 45.	2014	154 Burmese migrants	Thailand	Myanmar

Estimates of Remittance Flows to Myanmar

The existing flow of remittances to Myanmar from overseas migrants is difficult to estimate given that a large proportion of the flows may be sent via informal channels. Nevertheless, the World Bank (2016) estimates that there 3.1 million official Myanmar migrants abroad. These migrants are estimated to send approximately \$3.5 billion of remittances into Myanmar in 2015, accounting for approximately 5.5% of Myanmar's GDP that year. The Ministry of Labour, Employment and Social Security (MOLES) estimated total remittances at \$ 8 billion, or 13% of GDP. The large discrepancy between these figures is accounted for by the inclusion of unofficial as well as official migrants, accounting for a large proportion of the total Myanmar migrant population (Myanmar Times 2015). As such, Myanmar has emerged as one of the world's top 10 countries for receiving remittances as a percent of GDP. The remittance figures below have been estimated from a number of sources such as country censuses, World Bank Development Indicators and Surveys of Central Banks.



Thailand is the most common destination for Myanmar migrants, accounting for \$1.7 billion in remittances according to the World Bank data. This estimate is consistent with the results of the microeconomic research based on survey data. Survey estimates suggest a range of average annual remittances from Thailand of between \$196-\$1,632 annually per person. According to the Thai Ministry of Labour there are approximately 1.4 million documented migrants from Myanmar. Therefore, the estimated total remittance flows from officially recorded Thailand migrants range from between \$830 million - \$2.2 billion per year (see Annex 1). The highest value estimate is the most credible as it is based on the most recent survey data. It's important to note this is also likely the lower bound estimate for total migrant remittances from Thailand as the Ministry of Labour records only capture official migrants. Therefore, assuming that there are 3 million total official and unofficial Myanmar migrants in Thailand, as estimated by the IOM, a robust estimate for total remittances from Thailand alone is \$4.7 billion. Although we are unable to extrapolate from this to estimate total global remittance flows to Myanmar due to a lack of micro-survey data, it's clear that the \$8 billion estimate from MOLES above is likely accurate within a reasonable degree of confidence.

Overall, these numbers are substantial both in absolute terms as well as relative to Myanmar GDP and represent an important flow of resources for Myanmar households, especially lower income households. Consequently, there is greater need to design policies and programs that could increase or improve remittance behavior of Myanmar migrants and leverage these flows for the country's economic development.

Research and Data Gaps

The existing data and research provides a general sense of the nature of remittance use, remittance amounts and methods. Existing research also provides insight into the types of migrant-sending households. In a few cases, there are estimates of annual aggregate remittance amounts which estimate the magnitude of currency flows into Myanmar. However, these studies are few and some are outdated as they were conducted in the pre-financial and political reform era. The following are some of the most pressing data gaps that are crucial in understanding the remitting behavior of Myanmar migrants.

The fundamental question of what deters migrants from using the formal banking system to send remittances back to Myanmar has not been adequately answered. There are three potential obstacles that have been briefly addressed in existing research. The first is the general perception by both the migrants themselves and the migrant-sending households towards the formal banking systems. There is little research examining the apparent low levels of trust among migrants of the Myanmar banking system; Sandar (2011) surveyed Myanmar migrants residing in Thailand and found that they had a distrust of the system. However, we do not have information for migrant-sending households nor do we have more recent information post-reforms on the public perceptions of the formal banking system and importantly, the reasons behind the low levels of trust.

A second potential obstacle that deters the use of the formal banking system is the lack of accessibility. Further research should identify how important the lack of accessible banks is to deterring use of formal banking channels for remittances. This potential obstacle could exist on both ends of the remittance behavior – for the sender and for the receiver. We detail some of the existing research on this topic for other countries in Section 4 to follow.

A third obstacle is the perceived costs of remitting via the formal system. How different are the spreads in the remittance costs between the informal and formal systems? Are the differences in costs sufficiently large enough to discourage the use of formal channels? Is it the case that migrants look more at “menu costs”, which in this case is the financial costs of sending the remittances rather than hidden costs, such as the foreign exchange conversion rate? Additionally, how important is the speed of money delivery relative to remittance costs in shaping the choice of the remittance channel? Research from other countries (discussed further in Section 4) has found that reducing costs helped to improve the amounts and frequency of remittances sent home.

Overall, these questions should be asked of both migrant-sending households as well as the migrants themselves. These types of concerns should be asked in combination which would allow respondents to identify the most important obstacles to using the formal banking channels in rank order. This would be an important step in formulating policy and solutions that encourage the use of the formal banking channels for remittance sending. There are numerous national and sub-national surveys carried out by the Government of Myanmar, often alongside international partner agencies. The government should encourage questions on remittance behavior to be included in these surveys where possible.

Assessing the magnitude of the overall remittance flow is an equally important

research endeavor that deserves further efforts. Existing research has been based upon relatively small migrant surveys and then aggregated upwards. Other estimates from the World Bank (2016) used various censuses and surveys of central banks. A more comprehensive approach would include both the use of national-level administrative data (where it exists) from various remittance-sending countries to Myanmar as well as information from migrants themselves with regard to the use of informal flows. Examples of such data include national account data on financial flows, passport data (which provides precise demographic and locational data), the size and flow of immigrants (from border control exit and entry points) and cell phone on origin and destination of calls. The benefit of this integrated approach is that researchers would be able to assess the validity of remittance reporting (via the formal flows at least) with the destination country administrative data. This verification could be used to gauge the accuracy of the migrant self-reporting of remittance flows in general. Given the varied forms of data required, a committee/working group tasked with a mandate of collating information for the purpose of migration and remittance measurements should be formed. The focal point for this taskforce could be the Ministry of Labour Employment and Social Security and include representatives from other relevant departments such as the Central Statistics Office, the Department of Planning, Border Control, and the Central Bank. Finally, with the support of international research organizations the committee/taskforce should leverage the data to carry out in depth analysis to feed into policymaking.

Another important issue is the uses of remittances and how these have been changing as Myanmar liberalizes with robust economic growth (averaging around 6.5% over the last five years). It is likely that as migrant households become less poor there are shifts at the margin, from consumption to savings and investment (such as housing or children's education). Better data on the changing uses of remittances, should allow for new policy initiatives, for instance matching funds from the government for education savings accounts for children of migrants, to incentivize investment in human capital for the next generation.

Data on return migration is a third area where there are large gaps that need to be addressed. Data on who comes back, from where and why, and what do they do after they come back, would help the government better integrate returnees into Myanmar labor markets by creating matching programs linking returnees to employers, as well design programs that could support entrepreneurship among them. It would also help in location decisions of financial institutions to serve this group better.

II. POLICY RECOMMENDATIONS

An important policy goal is to increase the flow of remittances to Myanmar via the formal banking system and leverage for financial deepening in the country. In this section, we detail several policy recommendations that aim to change the system of incentives such that the formal banking system becomes increasingly more attractive for sending remittances.

1. Macro-economic policies

For an informal black-market system to flourish there needs to be significant arbitrage opportunities in the currency and goods markets. If there are high tariffs on consumer goods or overvalued exchange rates, then there exists a strong incentive for migrants residing abroad to seek out other informal systems that bypass the official channels. Smuggling of goods and currency across borders ensures that the system endures.

An important reason why informal methods for sending remittances tends to dominate formal banking channels is that the home country tends to have an overvalued exchange rate. The gap between the official and (black) market exchange rates, makes it attractive to financial intermediaries in the informal sector to provide a black market for exchanging funds at higher rates than on the official exchange rate market. Moving from a fixed to a floating exchange-rate regime (whether a “managed” float, “dirty” float or “free” float) will tend to remedy this issue (Kubo, 2014). The Myanmar government has made several laudable movements in this direction, thereby reducing the wedge between the official and informal market exchange rate, and thereby an important incentive to use informal channels.

It should be emphasized that for the hundi system to flourish the settlements are often made in goods markets via international trade. Hence, reforming Myanmar’s trade policies to conform to standard trade practices and reducing tariffs and quotas will reduce the incentives to use the informal sector for the transmission of remittances. For instance, tariff rates have decreased after Myanmar joined ASEAN in 1997 and the more they converge to ASEAN levels the less cross-border smuggling will occur. The sharp reduction in international sanctions prohibiting foreign direct investment in recent years will also help in this regard (World Bank, 2014).

In addition to foreign exchange liberalization, there has been a movement to standardize laws and regulations for the banking system; there are new laws encouraging Foreign Direct Investment, Central Bank reforms and Securities markets (Nehru, 2015). While deficiencies in Myanmar's Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime have been under international scrutiny (by the Financial Action Task Force (FATF)), it appears to have made considerable progress in addressing the deficiencies earlier identified by the FATF. As a result, Myanmar is no longer subject to the FATF’s monitoring under its on-going compliance process and is continuing to work with the Asia/Pacific Group on Money Laundering to further strengthen its AML/CFT regime.⁵ There is no doubt that the stricter scrutiny of financial inflows will tend to increase transaction costs and tend to deter conventional formal channels but it makes for an even stronger case to move to mobile based digital remittance channels. Ongoing reforms have focused on improving interbank clearance systems and developing a strong foreign

⁵ See, “Outcomes of the Plenary meeting of the FATF, Busan Korea, 22–24 June 2016,” <http://www.fatf-gafi.org/countries/a-c/austria/documents/plenary-outcomes-june-2016.html#myanmar>

exchange market (Nehru, 2015). The government needs to pay greater attention to increasing interest rates on savings, since these have tended to lag inflation, reducing the incentives to park remittances in savings accounts in banks.

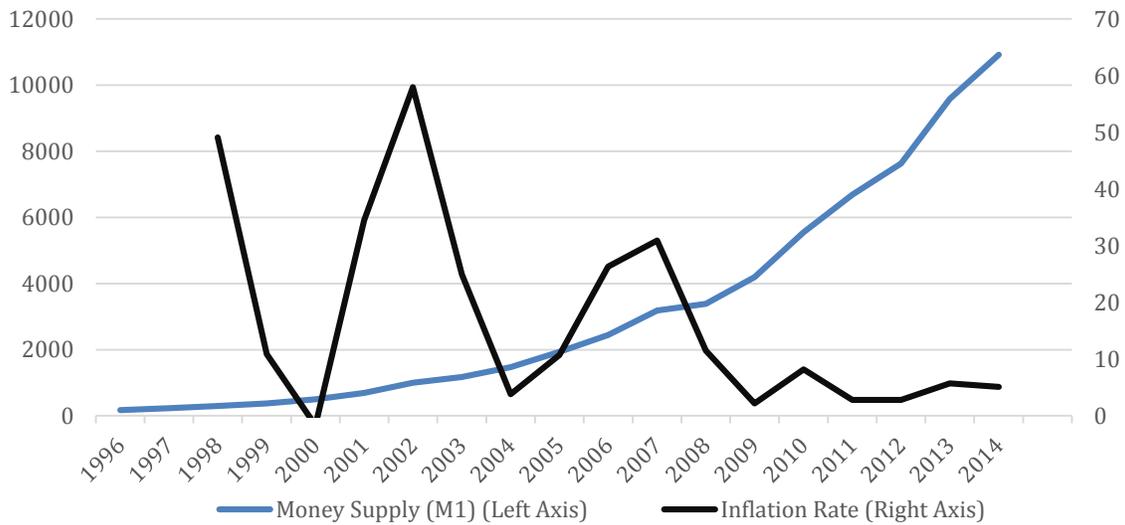
An additional macroeconomic concern is whether remittances contribute to inflation. As remittances become a higher proportion of GDP it should lead to more liquidity and contribute to greater demand. Ball et. al. (2013) show that the effects depend on the exchange rate regime. Under a fixed exchange rate regime remittances should temporarily increase inflation, GDP, the domestic money supply and appreciate the RER, but temporarily decrease inflation, increase GDP, appreciate the RER and generate no change in the money supply under a flexible regime.

Have remittances contributed to increased inflation in Myanmar? At first glance there might be a connection. While the inflation rate in Myanmar averaged 6.7 percent from 2010 until 2016, in 2015-16 it averaged double digits. In the same period recorded remittances skyrocketed from \$127 and \$275 million in 2011 and 2012 respectively to \$1.6 billion in 2013, \$3.1 billion in 2014 and \$3.5 billion in 2015. Meanwhile M1 more than doubled from end-2007 to end-2011 and a further two-thirds from end-2011 to end-2014.⁶

Is it possible that the sharp increase in remittances drove an increase in money supply and/or increased demand, which spilled over to inflation? Given the relatively large share of official remittances (about 5.4 percent of Myanmar's GDP in 2015), this seems plausible -- to some extent at least. However, an important reason that official remittances have shot up in recent years is because more of these transactions are being recorded, rather than an actual increase. Second, Myanmar's economy has also been growing rapidly, which means that the money supply relative to GDP has grown less rapidly than it first appears. In the figure below, the growth rate of the money supply increases while in fact the rate of inflation has stabilized in recent years, although inflationary pressures have increased recently. Massive floods during July–September 2015 and weaker demand for Myanmar's exports contributed to an increased fiscal and external current account deficit. Deficit financing by the Central Bank of Myanmar (bond markets in Myanmar are still quite underdeveloped) have been much more important in expanding the money supply and contributing to inflation than remittances.

⁶ Source ADB: https://www.quandl.com/data/ADB/MBMSUPP_MMR-Money-and-Banking-Money-Supply-Myanmar)

Money Supply (M1) In Billions of Kyats and Inflation Rate for Myanmar



Source: Asian Development Bank for Money Supply:
https://www.quandl.com/data/ADB/MBMSUPP_MMR-Money-and-Banking-Money-Supply-Myanmar;
 International Monetary fund for Inflation Rate:
<http://www.imf.org/external/datamapper/PCPIPCH@WEO/MMR>

If remittances are treated as any other form of financial inflows, then the central bank has two policy instruments to address it. It can allow the exchange rate to appreciate or sterilize inflows by open market operations. The former would be inadvisable for Myanmar. Given its higher inflation rate (relative to its trading partners), there are already upward pressures on Myanmar’s real exchange rate, and allowing its nominal exchange rate to appreciate would further impair its already high trade imbalances (running at around 10% of GDP). The goal of sterilization operations is to reduce the domestic component of the monetary base (bank reserves plus currency) to offset the reserve inflow (at least temporarily). While this can be (partially) achieved by encouraging private investment overseas, or allowing foreigners to borrow from the local market, the principal mechanism is the use of open market operations in which the central bank sells Treasury bills to reduce the domestic component of the monetary base. In reality this is harder than it appears since it requires a reasonably well developed financial system and requires a functioning domestic bond market for Government Securities. Other supplementary measures that could be adopted include wider-band exchange rate policies, foreign exchange swaps and indirect capital controls that impose taxes on shorter duration capital inflows. In September 2016, the central bank launched the first auction for long-term government bonds indicating a policy shift from fixed to market-determined rates. As the bond market deepens, the central bank should consider using sterilization operations to check the inflationary consequences of large remittance inflows.

2. Financial sector reform

An important first step is the reform of the financial and banking sector. Significant changes to this sector will improve the incentives for immigrants to use the formal banking sector. The Hundi system exists where formal banking systems are weak. The formal system is either too costly or does not provide appropriate geographic coverage for large groups of potential clients. As a result, informal methods of remitting (such as with the Hundi system) continue to be attractive for remittance transfers for many migrants.

Consequently, extending banking access in different parts of Myanmar will also facilitate the use of more formal methods of remitting money. Myanmar can leapfrog and leverage the revolution in fintech (short for “financial technology”, and referring here to internet-based banking and investment), most notably in three areas: mobile payments, online lending and online investments. However, for this to occur would require a strong foundation of digital infrastructure and rapid diffusion and use of smartphones. Recent data suggests that smartphones have already proliferated to a large extent in Myanmar and neighbouring countries (the principal destination countries for Myanmar migrants). However, there are persistent obstacles and legislative constraints in Myanmar to an expanded role for digital and mobile financing as compared to other countries in the region (Asian Development Bank, 2017). There remains a lack of trust in the formal financial system and a weak regulatory capacity, which could be exacerbated if fintech operators do not closely comply with customer protection regulations. The regulatory foundations for credit provision through fintech has yet to be established and lending conditions for bank loans still limit access to credit for most people. Finally, cross border transactions through fintech are not permitted, limiting formal remittance options to traditional banking.

Myanmar can learn from China which is the world’s leader by about any measure of size. However, other lower middle-income countries have also forged ahead successfully in the expansion of low-cost mobile banking by cellular phones (Indonesia, Kenya and India, parts of W. Africa). Given the increased use and prevalence of cellular phones, this increased connectivity allows for the expansion of banking services at relatively low costs. The use of this new technology can potentially rival the reach and efficiency of the informal methods. The key aspects are that mobile banking must be able to provide competitive exchange rates and have transactions that are secure and conducted relatively quickly. These innovations will increase the incentive for migrants residing abroad to use the formal banking system. Currently, we know of no mobile money transfers from outside of a country; it is not clear how this would function in the face of anti-money laundering laws and rules.

3. Focus on Labor Market Intermediaries and Develop Overseas Agencies

Labor market intermediaries are crucial in connecting potential migrants with job opportunities abroad. They provide information, serve as screening and sorting mechanisms and often alleviate credit constraints to overcome the initial fixed costs of getting official paper-work, travel, etc.

Myanmar currently requires all migrant intermediaries to register with government agencies and has created penalties for not doing so. Effective enforcement of these registration programs will be important for improving the availability of data on migration flows abroad. This system of accreditation has been well developed in countries such as the Philippines. These firms often pay a small fixed amount for placing a worker abroad and the government would encourage the migrants by providing them with a bank account, advance them credit in the form of a loan (so that they don't have to get in hock with money-lenders) as well as a smart phone, with the loan and costs of the smart phone to be reimbursed by the migrant over a period of time. This would also sharply improve existing data collection efforts.

Several countries which have large overseas migrant populations have created governmental offices to assist in the recruitment of and connectivity with migrants. The country that has made the most efforts in this regard is the Philippines. The Philippines Overseas Employment Administration (POEA) regulates recruitment activities for potential emigrants and also enforces worker protections. The experience of the Philippines has been that positive incentives rather than proscriptions are more effective in persuading migrants to use official migration channels.⁷ These incentives should be designed such that it is clear to migrants that by migrating officially, they will receive several government-funded benefits. These could include pre-migration training on social and work conditions abroad, life insurance and pension plans, medical insurance and tuition assistance for the migrant and his or her family, and eligibility for pre-departure and emergency loans. However, registration for these benefits should be made compulsory with program costs funded by a combination of recruitment agency and the government.

Basic training and educational programs can have a substantial impact on the success of international migrants. Chin et al (2010) have found in a randomized control study that providing Mexican immigrants to the US with information on how to obtain identification cards would increase the opening of US savings accounts. Similar types of educational programs could be used to increase awareness of new savings programs for Myanmar banks and programs. Seshan et al (2014) found that financial training programs for Indian workers in Qatar resulted in improved joint-financial decision-making between migrants and spouses residing in India. Finally, Doi et al (2012) find that when Indonesians and their families were given financial training courses prior to their emigration, that this is the most effective way (among the other randomly-assigned treatments) to increase savings among the migrants.

Drawing on the experience of the Philippines, Ruiz (2008) summarizes key policy lessons for migrant-sending country governments in designing an institutional framework to better manage international migration.

1. Regulate private recruitment so that workers are not issued false contracts and

⁷ <http://www.migrationpolicy.org/article/labor-export-government-policy-case-philippines>

- do not pay exorbitant recruitment fees;
2. Hold pre-departure seminars that cover issues ranging from what to expect in the destination country, to how to send remittances and avail savings instruments, to how to plan for their return;
3. Protect migrant workers abroad through a migrant welfare fund, managed by the government;
4. Develop data gathering systems to identify emigrants and better serve their needs.
5. Promote competition in the remittances industry.⁸

4. Develop new financial products aimed at overseas workers

If Myanmar can undertake policies on macroeconomic and financial sector reforms on the lines indicated above, then it should encourage the financial sector to develop products aimed at migrants. These could include loan products to meet the initial costs of migration as discussed above and insurance and savings products. The insurance would be required of all migrants. This would bring them into the formal financial system and also improve the prospects for prospective migrants who are reluctant to migrate due to initially high costs or the risks associated with going abroad.

Development of specific bank accounts for migrants abroad may serve to facilitate remittance behavior. One type of account may be denominated in foreign currency. This type of account would carry the exchange rate risk and would thus provide a lower average interest rate. It would be an attractive asset since it would be denominated in a foreign currency. On the other hand, a second account could be developed for migrants living abroad that was entirely denominated in the Myanmar Kyat. These accounts would convert from the migrant-sending currency into the Kyat and would remain in that currency and would have a relatively higher interest rate as there would be no exchange rate risk for the bank.

A few countries have even begun to offer incentive programs for migrants residing abroad to send money home. In Mexico, Hazan (2013) documents the “Three for One” program which provides a three-fold match of funds for remittances invested in community development programs in Mexico. The program has been helpful in creating local public goods in the communities where the migrants come from. In an experiment, Ambler et al (2015) designed a similar program for El Salvadorian migrants in the US. They offered a 3 to 1 match and a bank account in El Salvador, a 1 to 1 match and a bank account in El Salvador and a third option which was just the bank account in El Salvador. They found that the higher the monetary incentive the larger the amount saved; while there was an increase of 18.5 % in savings with the first treatment and an increase of 6.9% for the second treatment, there was no change for the simple bank accounts. While these programs require matching funds, they do indicate that migrants respond positively to structured financial

⁸ Neil Ruiz, “Managing Migration: Lessons from the Philippines”, World Bank, Migration and Development Brief, 2008.

incentives.

Offering additional products which provide direct control of bank accounts in Myanmar may further increase the savings of migrants living abroad. In a study examining Filipino immigrants living in Rome, savings accounts that were labeled as “Education” created a commitment device that increased funds sent home by 15% (De Arcangelis et al, 2015). For migrants from El Salvador residing in Washington DC having a means of sending money back to El Salvador in a private savings account resulted in increased savings amounts in total (Ashraf et al, 2015). Finally, a reduction in transactions fees for sending money home also resulted in an increase in the frequency of remittances and an overall increase in the total money sent home (Aycinena et al, 2010). Taken together these case studies indicate that there is wide range of programs and products that have been successfully used to improve and increase the flow of funds from migrants residing overseas. By drawing on these multiple experiences, Myanmar could further improve the welfare of its migrants, and in the process, help the country at large.

Annex 1: A range of average annual remittance amounts from Thailand per person

Research Article or Report	Year	Average Remittance Size (Thai Baht)	Average Remittance Size (USD)	Total Remittance Flow (1.4 million migrants in USD)
Turnell, S., A. Vicary, and Bradfrd (2008) 'Migrant-worker remittances and Burma: an economic analysis of survey results.' In Skidmore, M. and T. Wilsn (eds.) <i>Dictionarship, Disorder and Decline in Myanmar</i> . Canberra: ANU E Press. pp.63-86.	2002-2003	19,000 Baht per year	594	831,250,000
Jampaklay, A. and S. Kittisuksati (2009), Migrant workers' remittances: Cambodia, Lao PDR and Myanmar. ILO/Japan Project on Managing Cross-border Movement of Labour in Southeast Asia. Bangkok: ILO Regional Office for Asia and the Pacific.	2007	34,000 Baht per year	1,063	1,487,500,000
Sandar, Tun Min. (2011). "A Study of Factors Influencing Remittances of Myanmar Migrants (Case Study in Samut Sakhon, Thailand)." Vahu Development Institute.	2011	23,686 Baht per year	740	1,036,262,500
Chantavanich, S. and Vungsiriphisal, P., (2012). "Myanmar Mirans to Thailand: Economic Analysis and Implications to Myanmar Development." In <i>Economic Reforms in Myanmar: Pathways and Prospects</i> , edited by Hank Lim and Yasuhiro Yamada, BRC Research Report No.10, Bangkok Research Cener, IDE-JETRO, Bangkok, Thailand.	2012	6,286 Baht per year	196	275,012,500
Kubo, K. (2015). "Evolving Informal Remittance Methods of Myanmar Migrant Workers in Thailand" Economic Research Institute for ASEAN and East Asia, Discussion Paper Series, No.45.	2014	52,225 Baht per year	1,632	2,284,843,750
* 1 USD = 32 Baht				

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