



APPENDIX

ลิขสิทธิ์มหาวิทยาลัยเชียงใหม่

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Appendix A

Money Transfer Mechanism

Migrants from developing countries often send money back to the family in their home country, through both formal channels, such as the banking system and money transfer operators/organizations, and informal channels, such as the *hundi* system and by hand. In Malaysia, the majority of migrants from Myanmar have to rely heavily on the *hundi* system (an informal remittance channel), whether documented or undocumented, since the formal remittance system is not easy to access either for the migrant workers or their households at home. According to the survey data in this study, almost 100 percent of Mon migrants use the *hundi* system to send back money to their family.

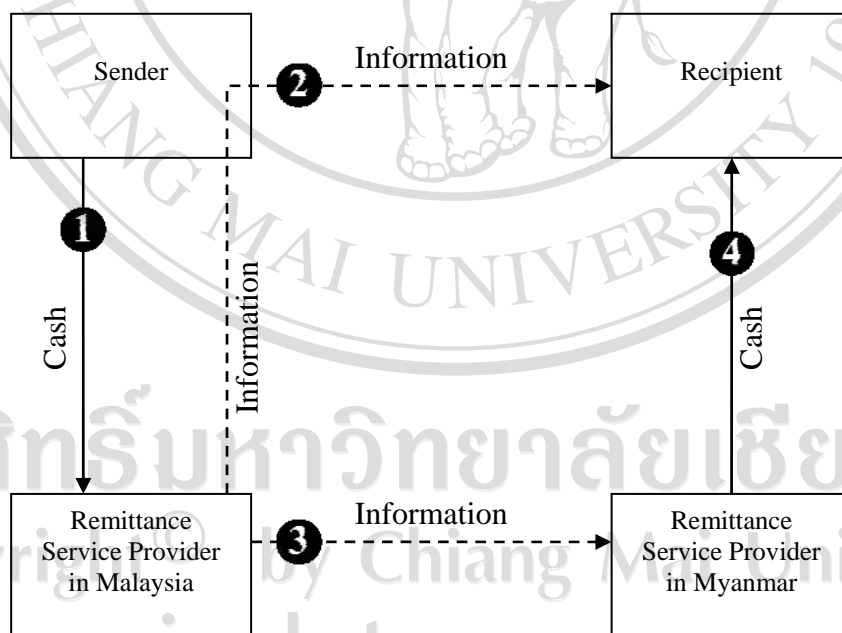
In fact, informal remittance systems provide a fast and cost-effective method, especially for low income people who may be outside the reach of the formal financial sector and who transfer small amounts of money (Gorbunov & Buencamino, 2002). This Chapter attempts to give a general overview of the *hundi* system; how it works, and the key players involved.

(a) The *Hundi* System: From Malaysia to Myanmar

Basically, the *hundi* system involves a sender, a recipient, and a *hundi* dealer, who receives the remittance in Malaysia, and a counterpart in Myanmar who arranges to deliver the money to the recipient. As shown in Figure 1.1, in Malaysia, when a migrant worker works in Malaysia and wants to send back money to his or her

family in Myanmar, they must first of all approach a *hundi* dealer in Malaysia and make a payment in Malaysian Ringgit, to the amount they want to send, plus a service charge. The *hundi* dealer in Malaysia then gives the migrant a money collection code and the place and date of withdrawal, to pass on to the recipient in Myanmar. Then, the dealer in Malaysia gives instructions and forwards this information (the money collection code; the recipient's name and identity card number) to his counterpart in Myanmar. After receiving the information from the dealer in Malaysia, the dealer in Myanmar gives the remittance money to the recipient, by them providing the money collection code and identity card details. When the recipient family of the migrant receives the money, the transaction process is complete.

Figure 1: Basic *Hundi* Operation System: From Malaysia to Mon State (Myanmar)



In most cases, during the process of remitting the money, there is no real-time fund transfer between the dealers in Malaysia and Myanmar; the *hundi* dealer in Malaysia owes his counterpart in Myanmar the balance of the amount given to the

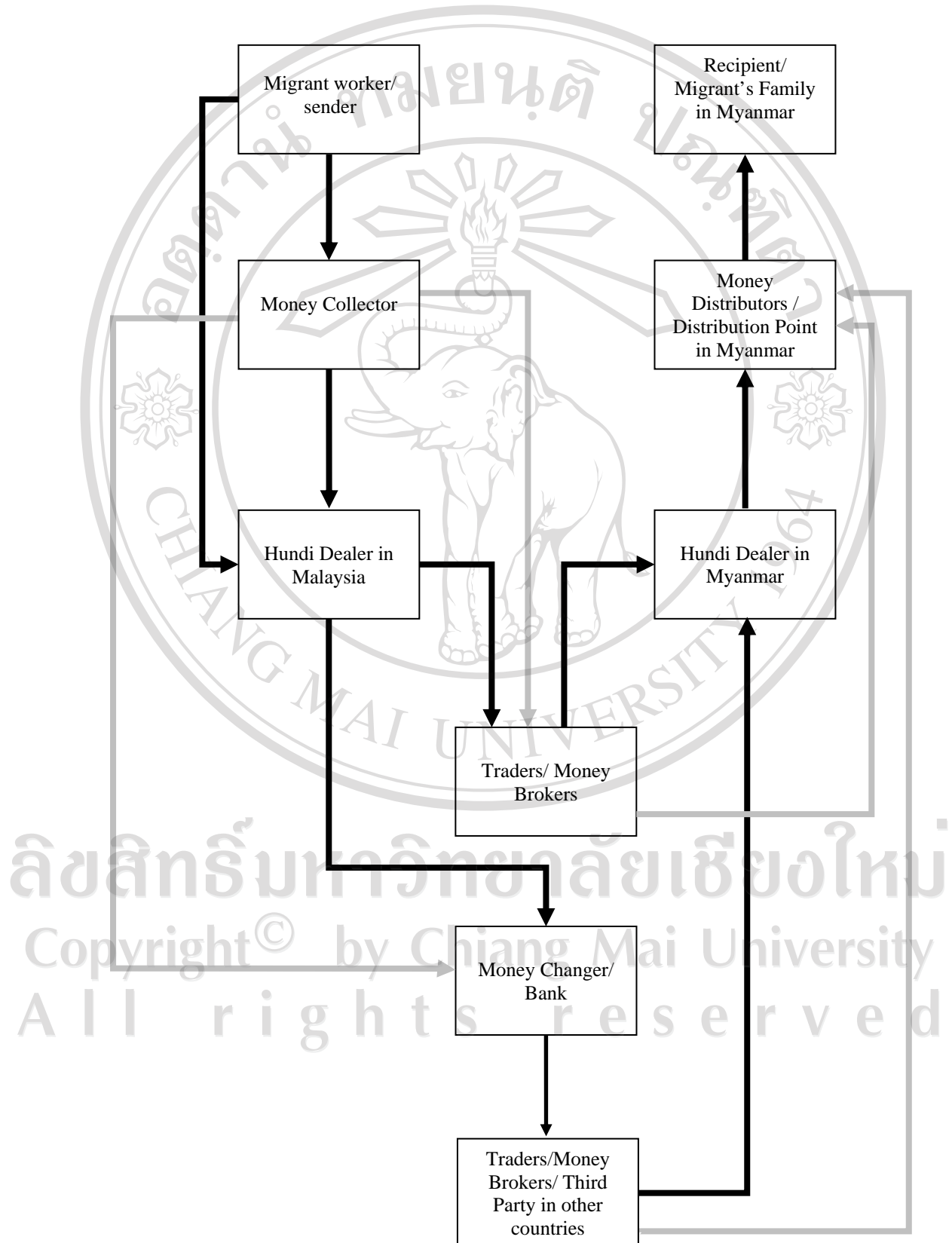
migrant's family, since the *hundi* dealer gives the transfer money to the migrant's family, from his own funds. The debt of the *hundi* dealer in Malaysia is then recorded in a balance book, and the debt is later cleared after Malaysian Ringgit is transferred into Myanmar Kyat. In reality, the procedure will be much complex than explained above, due to internal arrangements between the *hundi* dealers in Malaysia and in Myanmar.

(b) Key Players in the Hundi System and their Roles

This study identified five key players in the *hundi* system: 1) money collectors, 2) *hundi* dealers, 3) money brokers/trust intermediaries, 4) banks and money changers, and 5) money distributors. Figure 1.2 shows how the key players operate and participate in the flow of remittances between Malaysia and the Mon migrants' home villages.

Figure 2: Informal Money Transfer System from Malaysia to Mon State (Myanmar)

and its key players



(c) Money Collectors

In the case of remittance flows from Malaysia to Mawlamyine (Mon State), the money collectors play an important role in the process, in terms of the convenience and speed of the flow of remittance. Thus, money collectors have become popular among the migrant workers. Generally, the money collectors in Malaysia who collect money from the Mon migrant workers, are those who have a Myanmar passport, a permit to stay in Malaysia, and have good knowledge about the location in which they collect the money, acquired through speaking languages such as English, Malay or Chinese, from a basic to an advance level. It is important to know the location, to acquire a language and to have good social skills. In some cases, money collectors also provide services regarding health and social issues to the workers. For example, a money collector might take the migrant worker to the clinic, if he or she is sick. Furthermore, when the migrant worker is arrested by the local police or immigration, or has a problem with a legal document, the money collectors can assist the migrant, and some of them have a good relationship with the Myanmar Embassy in Malaysia, as well as the authorities in their local area, such as the police and immigration. In Malaysia, it is not easy for undocumented workers to buy mobile phone SIM cards, because they have to show their passport or work permit to the SIM card seller at the time they buy. In these cases, the money collectors use their passport or documents, instead of the migrant's, in order to help them buy a SIM card. Also, money collectors provide telephone services to the migrants, as most of them do not have a mobile phone to communicate with their families and friends in Myanmar. In this case, money collectors sometimes allow the migrants to use their phone, either free of charge, or for a fee. The money collectors in Malaysia are also in contact

directly or indirectly with the money distributors in Myanmar. The money collectors differ according to their senders' residential location. For example, in this study, the money collectors, those who received remittances from Mon migrant workers whose families lived in Taung Paw village, were not the same as for those migrants whose families lived in Yay Paw village. However, most of the money collectors stay in touch with each other. Since the informal remittance system is based on honesty and trust between people, most of the Mon migrant workers choose a distributor from their respective village and town. Mobile phones are the main communication tool used between the migrants and money collector for remitting money. Thus, money collectors usually hold more than one mobile phone, and their number is also important for the Mon migrants who wish to send back money to their family. Normally, money collectors collect the money at the migrants' residence or work site, when they also obtain the relevant information regarding the remittance. Also, the money collectors usually inquire about the sender at their place of work or home, especially the time and date of the payment. In addition, the money collectors in Malaysia also have business and/or social relations with other brokers.

After receiving the remittance, the money collector instantly, or within one or two days, contacts the money distributor in Myanmar (a money distributor in the nearest village or town to the sender's family), in order to give the information needed to withdraw the money for the family. Then, in order to be able to withdraw in Myanmar currency, the money collectors resell the collected money to a *hundi* dealer in Malaysia, or another country, by themselves, or using a bank transfer. In a normal case, and in order to prevent an unstable rate of exchange (especially the currency exchange rate between the Myanmar Kyat and the Malaysian Ringgit), money

collectors resell the money within one to three days. Furthermore, the money collectors always keep in contact with the *hundi* dealer in Malaysia, in order to know the updated currency exchange rate and to prevent them from losing money. Regarding the profits of the money collectors, there is a small percentage difference between the actual currency exchange rate and the commission charged by the *hundi* dealers. For example, a money collector might buy one Ringgit at a rate of 350 Myanmar Kyat from the migrant worker, and resell to the *hundi* dealer at a rate of 355 Kyat. At this rate of buying and selling, the money collector gains a profit of five Myanmar Kyat on each one Malaysian Ringgit. Money collectors who have good business knowledge and skills and an effective contacts system, can turn themselves into *hundi* dealers. They resell Ringgit, either to those who need Ringgit in Malaysia, or to a third country, by using a money changer without going through the *hundi* dealers in Malaysia.

(d) Hundi Dealers

The *hundi* dealers play the most important functional role and are involved at the top level of the remittance mechanism system. In Malaysia, the Government only allows remittance services to be carried out by licensed remittance service companies. If service providers carry on a remittance business without a license, they are charged by the Malaysia Government, according to the law. However, no licensed remittance companies operate transfer services to Myanmar through the formal channels, since there are no established and formal financial links between the two countries. Thus, only unlicensed remittance providers are involved in the process of transferring money to Myanmar directly. However, some licensed remittance

companies and financial institution are involved behind the scenes in terms of providing remittance services to Myanmar.

Therefore in Malaysia, most of the *hundi* dealers run, not only their remittance service business, but also other types of licensed services (some of which are informal businesses), those which are licensed by the Malaysian Government. Most of these businesses target people from Myanmar, and carry out related work such as import/export services between Myanmar and Malaysia, employment services for Myanmar migrants, air ticketing services, restaurants and stores.

Within the remittance mechanism from Malaysia to Myanmar, the most important factor is the currency exchange rate between the Malaysian Ringgit and the Myanmar Kyat. As explained in Chapter 1, in the real market, the official Myanmar currency exchange does not function; therefore, *hundi* dealers in Malaysia set up the currency exchange rate by individual or group. This means that the currency exchange rate might differ between one *hundi* dealer and another. However normally, the exchange rates are approximately the same between *hundi* dealers; the difference is not high.

In practice, *hundi* dealers set up the currency exchange rate based on the Singapore Dollar/Myanmar Kyat currency rate in Singapore, the US Dollar/Myanmar Kyat unofficial black market rate in Myanmar, and the exchange currency rate between the Malaysian Ringgit and the US Dollar or Singapore Dollar, according to the foreign exchange market rates. In addition, the political situation in Myanmar is a factor when considering the currency exchange rate between the Malaysian Ringgit and the Myanmar Kyat. Generally, *hundi* dealers in Malaysia buy Malaysian Ringgit from Myanmar migrants directly, or from money collectors indirectly, and the main

responsibility of the corresponding *hundi* dealer in Myanmar, is to distribute the remittance money in Myanmar Kyat to the migrants' families, or to agents of the money distributors in Myanmar. Since there is no official linkage between the formal banks or financial institutions in Myanmar and other countries, with regard migrant to remittance flows, the foreign currency does not enter the country's official banking system. Also, since Malaysia does not have a border with Myanmar, it is not possible to cross borders carrying the money. Thus, *hundi* dealers use many different ways to transform the migrants' remittance money from Malaysian Ringgit to Myanmar Kyat, and for delivery to the migrant families. Basically, the main stages used for exchanging the money from Ringgit into Kyat are as follows: (i) buy goods in Malaysia or other countries and export them to Myanmar, (ii) sell the imported goods in Myanmar, (iii) sell the foreign currency to a third party; one who would like to use foreign currency in overseas, such as a trade importer or a student studying abroad, then, (iv) the *hundi* dealer receives the equivalent amount of foreign currency, in Myanmar Kyat.

(e) Money Broker/ Trust Intermediary

In order to exchange the Malaysian Ringgit into Myanmar Kyat, money brokers play an important role in the remittance mechanism. In Myanmar, because of the inefficient and rigid foreign exchange system, the lack of freedom in trade and the unstable rules and regulations, most of the traders who import goods to Myanmar have to, partly or completely, rely on the Myanmar migrant workers' remittances. Thus, traders communicate direct with the *hundi* dealers, or indirectly via money brokers, in order to obtain foreign currencies. In some cases, if the trader does not have contact with a trusted *hundi* dealer, the money brokers become trusted

intermediaries between the trader and the dealer, since the *hundi* system is based on trust. For example: person/company A in Myanmar contacts a money broker in order to convert foreign hard currency, and in order to make a payment to person/company B. In this case, the money broker communicates with the *hundi* dealer in Malaysia, on behalf of person/company A, in order to buy foreign currency from the *hundi* dealer in Malaysia. Then, the money broker gives a payment to person/company B, on behalf of person/company A. In this process, the money broker may either be an individual or a company in Myanmar, or in another country.

(f) Bank and Money Changer

Under the remittance system, the banks and money changers in Malaysia play a major part in transforming the Malaysian Ringgit into other currencies. *Hundi* dealers use banks and money changers in Malaysia, in order to sell Malaysian Ringgit or other foreign currencies to buy money from other countries, and to give payments (for example, trade balancing payments to suppliers) on behalf of their buyers, especially those from Myanmar.

In Malaysia, many money changers are formal businesses, since they are regulated in their function as foreign currency exchange agents, and some of them are involved in transferring remittances to other countries in the region as part of the service. There are at least 800 licensed money changers carrying out remittance and money changing services in Malaysia (World Bank, 2008). In the case of the Myanmar *hundi* dealers in Malaysia, most of the small- and medium-sized dealers prefer to use money changers rather than the commercial banks to remit their money. Most money changers in Malaysia have a connection with other local money changers and financial institutions, including those in other countries in the region such as

Singapore, Thailand and Indonesia. The main reason for preferring money changers, as opposed to the banks and other institutions, among the *hundi* agents is due to the lower transfer cost, the speed of the service, the convenience, and the fewer documentation procedures needed to transfer money from Malaysia to other countries. In addition, the duration of the transaction is generally less than 24 hours with the money changers, in the case of transferring money from Malaysia to regional countries, especially to Singapore and Thailand.

(g) Money Distributors

The money distributor has a direct connection with the money receiver in Mawlamyine, in Mon State, Myanmar. The main function of the money distributor is to give information on the migrants' remittances to the migrants' families or their agent, and to distribute the remittance money in Myanmar Kyat according to the orders given by the money collectors or *hundi* dealers. In order to function well, the communication system used is very important to them. As a result, they mostly use phones, fax and email, though they also use other methods of communication, such as postal services and bus drivers, in areas without a phone or internet connection.

In Mon State, most of the households do not have access to a phone or the internet, especially in remote areas. Therefore, migrant workers in Malaysia contact their families by using the phone or communication device of the money distributors. That is why migrant workers choose the money distributors nearest to their family's village or town.

Normally, money distributors give information to the receiver regarding the date of the withdrawal and the amount of money, within one or two days after they have received information from the money collectors or *hundi* dealer. In addition, the

money distributors serve as information providers between the migrants and their families, passing on information such as what day they will phone or remit the money, or how they are getting on in the destination country. In the case of issuing the remittance money to the migrants' families, money distributors carefully check the name of the receiver and the number of their national identity card or related document, with the information given by money collectors or *hundi* dealers in Malaysia.

According to my study, the transaction period for remitting money from Malaysia to the migrants' villages in Myanmar takes an average of three days. Generally, the money distributors in the study villages try to make the transaction as fast and smooth as possible by using their own money during the period when they have still not received the currency from the *hundi* dealers in Myanmar. The money distributors' profits come from charging a commission on the remittance transaction, ranging from 0.5 percent to 1.5 percent of the amount of the remittance. The commission is paid in the local currency: the Myanmar Kyat.

Curriculum Vitae

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