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NOTE 12

Building Resilience, Equity and Opportunity in Myanmar: The Role of Social Protection

Developing scalable and transparent benefit payment systems in Myanmar[1]

Similar to other low-income countries, in Myanmar social protection benefits are usually provided through direct cash or food distribution. With the rapid development of the financial and telecommunications market in the country, there is the potential for a gradual transition to electronic payment systems for current and future social protection transfers, once adequate legal and regulatory frameworks are in place. This will make the delivery of payments cheaper, quicker, safer, and more transparent. In addition, increasing the connectivity of the people of Myanmar, especially the poor and vulnerable, to financial services will not only accelerate poverty reduction but also promote inclusive economic growth.

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1. Introduction

Effective payment systems are an essential component of social protection delivery. They ensure the correct amount of benefits (whether in cash or in kind) is distributed to the right people at the right time and with the right frequency, while minimizing the cost to both the program and beneficiaries (Grosh et al., 2008). While these systems can differ across and within countries taking into account local circumstances, program objectives, and beneficiaries' needs, common principles can be applied to all payment systems to ensure effectiveness (*see* Box 1).

Box 1: General principles of good practice for payment systems

- Ensure reliable, predictable, and regular payments. Beneficiaries can manage their income and expenditure if they know they can rely on a predictable and regular cash flow or in-kind support.
- Maintain accountability. Transactions need to be recorded and distributed to registered beneficiaries. If funds are misappropriated or lost along the way, beneficiaries will receive less and this could affect political support for the program.
- Reduce beneficiary costs. The collection of benefits needs to remain affordable for beneficiaries by minimizing opportunity costs or other transaction costs (such as transport costs or the costs of establishing identity and other documentation).
- Minimize delivery costs. An effective distribution system needs to take into account context-specific factors. While less technologically advanced distribution systems are often less costly in the short term, investing in modern systems may have long-term advantages.
- Ensure transparency. Both beneficiaries and non-beneficiaries should be aware of the transfer amounts and frequency. This creates confidence in the program and can be achieved by providing public information and having grievance and redress systems in place.
- Ensure security. It is important to consider the local security situation and put in place necessary systems to make sure a program will not suffer losses while transporting or distributing benefits.

Source: *Adapted from Grosh et al. (2008).*

With these principles in mind, this Note assesses alternative transfer modalities (cash, vouchers, and food) currently being used for social protection benefit delivery. Considering Myanmar is a cash economy with functioning markets in most places, this Note focuses in more detail on cash payment systems. It provides options for strengthening current systems for direct cash distribution and considerations for a gradual evolution to electronic payments.

2. Assessing alternative transfer modalities

2.1 Criteria for selecting a transfer modality

Social protection programs can use different payment modalities, such as cash, near cash (vouchers), and in kind (usually food), to ensure the best support is provided to poor and vulnerable people at the right time. Appropriateness of transfer modalities cannot be predetermined and needs to consider the following six aspects (adapted from Gentilini, 2007):

- **Objective:** The program objective will inform the transfer modality. For example, if a program seeks to improve food security or address specific nutrition deficiencies, a fortified food transfer could be an appropriate option. Cash, on the other hand, could serve to achieve multi-sectoral outcomes, not limited to food security alone. Given the choice cash benefits provide, cash might be spent on food as well as other urgent needs, such as health and education expenses. In some situations, a combination of cash and food transfers can be mutually enforcing. For example, cash can be provided to increase access to health services or to incentivize nutrition behavioural change and be complemented by a nutritious food transfer to address malnutrition issues. Ethiopia's Productive Safety Net Program aims to reduce food insecurity by providing a mix of cash and food benefits to address the seasonal rise in food prices.

- **Functioning markets:** Where markets can supply the required essential goods and services, cash benefits would provide beneficiaries with the purchasing power to access basic commodities. This provides beneficiaries with choice and enables them to participate as consumers. This in turn can help stimulate local markets. However, in post-disaster situations or in remote areas, where markets may not function effectively, food benefits may provide more stable support.

- **Implementation capacity:** The level of complexity of the payment system needs to be aligned with the level of administrative capacity. Cash may be more challenging in a fragile state context where administrative capacity and financial institutions are absent or highly constrained. Even though cash has been delivered successfully in challenging fragile state contexts, transparent systems need to be in place to enable the secure transfer of cash and to minimize leakage.[2] On the other hand, physically handling food can also have logistical challenges and result in leakage.

- **Cost efficiency and effectiveness:** Food distribution requires different systems to cash in terms of storage and transport. The logistics for delivering the right amount of food to the right people in the right place at the right time is complex. Cost comparisons between food and cash benefits must consider all costs, both program implementers' costs (e.g. procurement, set-up, monitoring, and administrative costs) and beneficiary costs (e.g. transport, opportunity, reselling, and damage costs) to determine the most effective transfer modality. During periods of high inflation, food benefits are more effective, as the value of cash benefits can quickly diminish (unless the benefits are inflation-indexed). The frequency of payments may also influence the choice of modality. For example, while food benefits may be quite simple for one-off and fixed payments, more sophisticated approaches might be required for payments of greater frequency and variability.

2. Leakage refers to the losses arising as a result of payments to ineligible recipients or theft or corruption by parties involved in the process.

- **Beneficiary preferences:** International evidence suggests cash is usually the preference of recipients as it provides greater individual choice. However, in some circumstances, beneficiaries prefer food transfers based on distance from markets, seasonality, and gender of the recipient. It is also worth noting that beneficiaries frequently express a preference for the existing form of benefit, perhaps for fear that it might be removed from them.
- **Political environment:** Public or political perceptions of what is acceptable in a certain context, as well as of corruption and patronage systems, can influence the choice between different forms of transfer.

Cash and food transfers can be equally effective to support beneficiaries when programs are adequately designed. A review of several impact evaluations of food versus cash benefits impacts on food security demonstrated that the difference in the effectiveness of cash and food transfers was not statistically significant in most cases (Gentilini, 2014). In some cases cash was more effective in enhancing food consumption, whereas food seemed to increase household caloric intake. Capacity of local markets, program objective and design, and the beneficiary baseline (e.g. the level of food insecurity) all affected evaluation results. More rigorous cost-effectiveness analyses as part of the program design process were recommended. While studies show delivering cash transfers (CTs) tends to be twice as efficient as food-based benefits, set-up and food procurement costs are often not taken into account: economies of scale from procuring large quantities of commodities at producer level can make food benefits more effective (ibid.).

Alternative transfer modalities are vouchers, which are effective if the program seeks to influence the purchases households make. Commodity vouchers can be used to purchase goods from a menu of predetermined foods and/or goods, whereas cash vouchers allow households to make purchases from participating shops against the value of the voucher. Vouchers are easily transportable; however, they can be expensive as a result of printing and distribution costs as well as possible arrangements with merchants for redemption.

2.2 Assessing transfer modalities in Myanmar

The government of Myanmar has some experience in delivering food, vouchers, and CTs (cash is discussed in more detail in Section 4)**.** For instance, food is provided as part of the mother and child nutrition program managed by the Ministry of Health (MOH) with support from the World Food Programme (WFP). The program provides food and micronutrient supplements for pregnant and lactating mothers and complementary fortified food for children up to age two. The food transfers are provided once a month at set distribution points and households receive a fixed ration, combined with nutrition and mother and child health information sessions.

Development partners (DPs) have implemented food transfers to support vulnerable populations in particular geographic areas and in conflict settings. Food transfers include mid-morning snacks to children in geographically targeted preschools and primary schools to increase school attendance and retention; food for work schemes; and unconditional food transfers as part of humanitarian assistance.

A review of social protection programs in Myanmar indicates that cash-based assistance appears feasible in most contexts.[3] Myanmar is predominantly a cash economy, and managing cash is part of households' routine activities. Poor households seem to follow well-known patterns of increased food consumption when given cash. WFP monitoring shows that 70 percent of CTs is used for purchasing food. Therefore, objectives on food security can be pursued, at least partially, through cash assistance. Perceptions on inappropriate use of cash (which may not be any different from in other countries where cash assistance is commonly provided) could be mitigated by providing cash more systematically to women since most women already manage the household budget and through complementary behavioral interventions. Although market analysis could be strengthened, current information shows conditions on functional (food) markets and low inflationary risk have been met in most contexts where cash assistance has been provided.

In most locations visited, beneficiaries preferred cash benefits as they provide greater choice. Women did not consider cash management an additional burden since they already do this. With the exception of those in a few isolated villages, most beneficiaries in the Dry Zone preferred cash over food assistance and could easily access food markets. Local program implementers also prefer cash to food as it is easier to handle and distribute.[4]

DPs have also explored the possibility of replacing food with cash assistance in Kachin and introducing cash-based programs in Rakhine, finding functioning and accessible markets in both locations. Cash assessments in internally displaced person (IDP) camps in Kachin and in Cyclone Giri-affected communities in Rakhine examined the feasibility of providing cash benefits (SC, 2013; WFP, 2014). In Rakhine, markets had been resilient to recent shocks; in Kachin, primary (township-level) and secondary (village-level) markets were accessible and used by beneficiaries. In Rakhine, it was noted that, at the village level, trade could not be extended much beyond current levels owing to limited storage space and liquidity. This would be a constraining factor only if beneficiaries were reliant on village traders.

While the economies of scale of food procurement can enhance the cost effectiveness of food transfers, the effectiveness of food transfers also depends on dietary preferences. In the IDP camps, beneficiaries were receiving a food basket composed of rice, pulses, oil, and salt that was procured from other parts of the country. These commodities did not always align with beneficiary preferences. For example, the pulses provided are chickpeas, which are not part of the traditional Kachin diet. The cost of procuring local varieties was relatively higher, even without transportation costs, and local traders were unable to compete successfully in the open tendering process through which WFP selects its suppliers. Considering dietary preferences, and where accessible, functional markets exist, cash benefits would perhaps be more appropriate in camps that are open to these instead of food benefits (which was the case in three out of seven camps investigated).

While in non-conflict areas security risks were assessed as being relatively low, transporting cash benefits carries more risk than transferring food. However, obtaining cash-in-transit insurance can effectively mitigate the impact of any security incident resulting in the loss of cash. In terms of personal security, community members in both locations do not have any concerns re-

3. *See* Notes on 'The experience of public works programs in Myanmar' and 'The experience of cash transfers in Myanmar'.

4. *See* Notes on 'The experience of public works programs in Myanmar' and 'The experience of cash transfers in Myanmar'.

garding the risk of transporting cash back to their homes. In Kachin, beneficiaries indicated that cash benefits would have to be provided on a weekly or fortnightly basis if they were to better manage household expenditure, and that the transfers should be made directly to them to avoid corruption. Women were not concerned about anti-social use of cash or an increase in domestic violence (WFP, 2014).

While there was no issue with cash benefits in principle, local government and local organizations had some concerns, mostly because of the limited experience with cash benefits. In Kachin, local organizations and government officials, in contrast with community members, had concerns about a deteriorated social environment. Cash benefits could potentially increase spending on alcohol and drug use, resulting in increased violence. This can be mitigated by providing cash benefits to women. Local organizations also mentioned that a cash benefit could exacerbate the vulnerability of individuals with reduced mobility and no family. In Rakhine, local government officials were supportive but did not appear to be very familiar with cash benefits (SC, 2013).

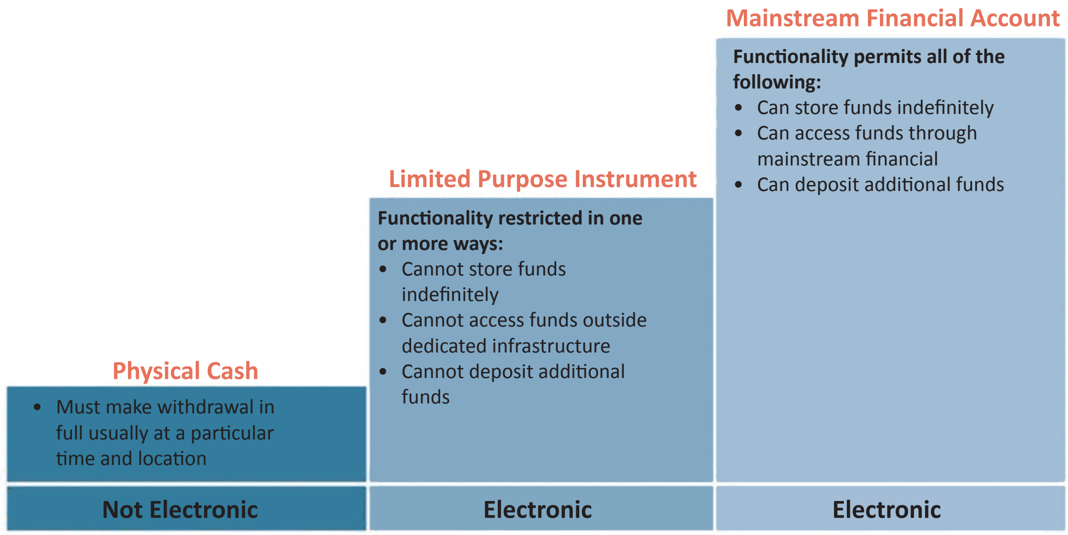
In summary, the experience of social protection program implementation in Myanmar suggests cash-based support is feasible in most contexts in the country. There are some circumstances where food-based benefits are more appropriate, such as in remote areas or areas with insecurity and/or social tensions. It is important that in the short to medium term new programs assess local contexts to determine which transfer modality is the most appropriate.

3. Cash payment systems

Effective cash payment mechanisms are critical in social protection programs to ensure beneficiaries receive regular and predictable benefits on time. Payment mech anisms need to be integrated within other program processes such as identification, outreach and grievances. A form of identification is necessary to verify the beneficiary's transfer eligibility;community outreach enables beneficiaries to understand the payment processes and the amount and timing of payments, while grievance processes are important in case beneficiaries receive incomplete or delayed payments (del Ninno et al., 2013). Social protection benefit delivery can also help facilitate the financial inclusion of poor and vulnerable people, who are the hardest to reach in such initiatives. Other countries have important lessons for Myanmar here.

In recent years, program implementers, financial institutions, and the information technology sector have developed a wide range of options for delivering transfers effectively. These range from direct cash distribution to electronic payment systems. These can take many forms, including the use of limited purpose instruments (such as pre-loaded debit cards, smart cards, or mobile phones) or mainstream financial accounts (*see* Figure 1). These are discussed in turn below.

Figure 1: Payment systems and level of financial inclusion



Source: *Bold et al. (2012).*

3.1 Direct cash distribution

Direct cash distribution to beneficiaries is the most common payment mechanism in social protection programs in low- and middle-income countries. For example, in Cambodia, the government scholarship program distributes cash directly through schools, but is considering adopting an electronic payment system after successful DP trials using a microfinance institution (MFI) to deliver cash to beneficiaries through mobile banking. Vietnam also relies on direct cash distribution for its stipend program and other social assistance programs.

Relatively few steps and documentation are required for beneficiaries to receive their benefits through direct cash distribution, but direct cash distribution can be prone to leakage and theft of benefits. The only requirements for direct cash distribution are a beneficiary list, a form of beneficiary identification (typically relying on local functionaries), and a passbook for recording the transactions. These payments can take place at the work site or at central local distribution points. Security systems are necessary to safely transport and distribute the cash as well as systems for the identification of the beneficiary (Grosh et al., 2008). Program ID cards, for example, can be distributed to assist in payments processes.

Direct cash benefits are often delivered by the program implementer, although many countries are starting to use third party agencies for cash delivery. The implicit costs of cash payments by program implementers include the extra workload created for staff and potential accountability gaps with officials fulfilling multiple roles. It is useful to separate program delivery roles (i.e. beneficiary enrolment, benefit payments, and program management and monitoring) to ensure greater accountability. In this context, several countries are turning to third parties – typically banks or post offices or a local agent network – to distribute cash benefits. Both institutions already have systems in place for transporting, controlling, and accounting for cash. In particular, post offices can have wide geographical coverage. For example, Vietnam is now using the postal network for its social security payments. It will also pilot the same system for social assistance payments in 2015, instead of local commune officials and schools. India relies on its vast postal network to deliver payments to beneficiaries of CTs and public works programs (PWPs).

3.2 Electronic payments

Cash can also be delivered electronically, which can offer a number of advantages over direct cash distribution. First, electronic payments can reduce leakage and fraud. For each transfer, the recipient's identity needs to be validated. For electronic financial transactions, secure forms of authentication exist, such as biometrics (e.g. fingerprints) or PIN codes (less secure as PIN codes could be shared with others). With cash distribution, the risk of leakage through theft of money or fee charges is higher. Electronic payments can also reduce transaction costs for beneficiaries because withdrawals can take place at a time and place convenient to them. Travel time and costs as well as the opportunity cost of going to the cash distribution point can be high for beneficiaries. Finally, electronic payments have the potential to provide full financial inclusion to the poor and unbanked. Financial inclusion provides people with the freedom and opportunity to manage their money, using the different means open to them (Samson et al., 2011). This access to financial services can further increase people's social and economic resilience (*see* Figure 1). The Philippines has used several payment systems for the PantawidPamilyang Pilipino Program conditional cash transfer (CCT) (*see* Box 2), based on network coverage and operational feasibility.

However, a widespread network of financial service providers and agents, basic electricity, and internet and telecommunication connectivity as well as adequate regulatory frameworks are prerequisites for electronic payment systems to enable and guide safe electronic payment systems. Other constraints of electronic payments are the limited education and exposure of beneficiaries to banking, which may impede their understanding of and trust in the payment mechanisms in the beginning. Financial literacy training will need to be part of the rollout. Technological failures can also occur with processes that require electricity, particularly in remote areas.

Box 2: Philippines Pantawid Pamilya CCT through ATMs or over the counter

Pantawid Pamilya in the Philippines is a government-run, donor-supported CCT program targeting poor households with a pregnant mother and/or children between 0 and 14 years old. The primary payment service provider is the Land Bank of the Philippines (LBP), the largest of three government-owned banks in the country, providing a cash card with which recipients can withdraw from LBP and partner ATMs. Forty percent of the 3.9 million recipients use this cash card; the remaining payments are made over the counter by several other contracted payment service providers.

Source: *Zimmerman et al. (2014).*

Both mainstream bank accounts and limited purpose instruments have been used in different country and program contexts. These are discussed below.

***Beneficiary bank accounts* can be used to transfer benefit payments, while also promoting financial inclusion.** Beneficiaries can use their bank card to withdraw the transfers, and it provides them with greater flexibility in terms of when and how much they withdraw. Beneficiaries might also have options to use additional financial services, such as depositing cash, saving money, and taking out loans. General and financial literacy of beneficiaries is crucial, though, to build trust among beneficiaries of the (more anonymous) banking system and to ensure electronic benefit transfers can work effectively. Good national coverage of the post offices, banking network, or local agents is necessary to enable electronic transfers and physical withdrawals in rural areas. In Kenya, the Hunger and Safety Net Program (HSNP) delivers cash benefits through electronic bank transfers (*see* Box 3).

Box 3: Kenya's Hunger and Safety Net Program – electronic bank transfers

Delivery of cash in Kenya's HSNP2 is through fully operational bank accounts with an ATM MasterCard. The HSNP CT value for July 2014 to June 2015 KES 4,900 paid every two months. Cash is deposited into a household's bank account on the fifth of the first month of a payment cycle. To access cash, a beneficiary can a) use the ATM card at the bank's payment agents within their sub-location; b) access funds through an ATM machine; or c) use their card to withdraw over the counter of their local bank branch.

Source: *www.hsnp.or.ke/index.php/our-work/delivery-of-cash-trasnfers*

***Pre-paid debit cards* can be used to withdraw cash through ATMs.** Pre-paid debit cards are preloaded and the amount is debited from a central account, not individual accounts. These cards are therefore operationally cheaper and easier to administer than normal debit cards. With any debit card, security is enhanced because there is no intermediary and beneficiaries need a PIN code to withdraw cash. Financial literacy training is necessary to reduce the risk that PIN codes are shared or forgotten.

If the coverage of existing post offices, banks, or the ATM distribution network is insufficient, new financial service points can be built, for example through mobile technology or smart cards.

***Smart cards* are one of the safest and most convenient ways to transfer benefits.** They contain an electronic chip that can hold large amounts of information. Individual bank accounts are therefore not required and the point of sale (POS) machine, located at a local agent, does not necessarily need to be connected to a bank or the internet.[5] While the transaction costs for using a smart card are lower than for debit cards, the disadvantage is the higher cost of the production of the smart card itself and the purchase of POS devices. The use of smart cards through POS machines that can verify identity through biometrics (e.g. fingerprints) is the most secure option of all the options discussed.

***Mobile phones* can also be effective in delivering cash benefits.** Mobile phones contain a smart card that records all transactions and that can be easily connected over the network of branchless

5. Smart cards can also be used for recording transactions for social protection programs that provide commodities or services instead of cash, for example health insurance or food distribution programs that entitle beneficiaries to a package of health services or food supplies, respectively.

banks, other telephones, or POS remote services. Beneficiaries are immediately aware of the arrival of the payment through SMS and can then visit an agent to withdraw cash at a time convenient to them. They also have the option to deposit cash. A constraint of mobile banking is that rules and regulations can restrict the amount of money mobile phones are allowed to carry. Beneficiaries also need to possess a mobile phone; implementation will be expensive if phones need to be provided as part of the program.

Box 4: Mobile transfers through M-Pesa in Kenya

The M-Pesa mobile phone money transfer system illustrates the potential of technology in making payments. M-Pesa is a service that allows e-money to be transferred by mobile phone. Users must register at an authorised M-Pesa agent by providing their mobile number and their national identification card. Once registered, they can buy electronic funds at any agent and send them by SMS to any other mobile phone user in Kenya. Funds can then be redeemed for cash at M-Pesa agents or used to pay bills. An M-Pesa-registered mobile can hold funds up to USD 500. Just two years after its introduction, M-Pesa had over 7 million registered users and 13,000 agents, reflecting the faith consumers place in the safety and convenience of the product. Enabling factors for the widespread use of mobile payments (almost half of all money transfers) are the broad ownership of mobile phones among the unbanked population, the low cost of transfers relative to the formal banking sector, and the convenience, which includes the ability to transfer money more safely and securely.

Source: *RHVP (2010).*

Box 5: Pakistan's path towards financially inclusive electronic cash transfers

Over the past few years, Pakistan has been working on digitizing a large share of its government transfers to people. Public and private institutions have worked together to move the country towards a digital financially inclusive system. Government and public actors have created the enabling environment and provided seed funding, while private actors have developed the infrastructure and services and a long-term business case.

Social cash transfer programs constitute about 11 percent of total government payments. Among social cash transfers, the Benazir Income Support Programme (BISP) represents the largest in terms of number of beneficiaries and volume of payments. When the program started in 2008, payments were delivered in person and in cash by Pakistan Post. Since early 2010, BISP has experimented with new payment instruments: first with smart cards (the Benazir Smart Card) and later with mobile phones. In 2012, BISP transitioned to a new payment mechanism using magnetic strip debit cards, the Benazir Debit Card.

Cash transfers in Pakistan went from physical cash distribution to limited purpose instruments to finally a mainstream financial tool integrating the poor into the financial system through the debit card. This progress has been possible because of the strong enabling environment put in place by the State Bank of Pakistan. BISP has created a sensible operating environment for participating banks by paying them a 3 percent fee under a two-year contract, which reflects global standards of such fees. The banks also clearly see G2P as a key opportunity to grow their branchless banking business.

Source*: http://www.cgap.org/blog/pakistan-g2p-laboratory*

Cash distribution through mobile or smart card technology requires a network of local agents. This often includes small rural stores that can provide cash deposit and withdrawal services. The agent receives a fee for this service from the service provider. The service provider monitors complaints and prevent agents from overcharging or requiring recipients to buy goods before they can receive cash. While these risks need to be managed, its benefits for cash transfers are great because the cost of these branchless banks is significantly cheaper than that of setting up a bank branch or ATM (Samson et al., 2011).

Rollout of electronic payment systems, ideally linked with other financial services (such as a mainstream financial account as per Figure 1), can be phased over time and at different speeds. This depends on the accessibility and growth in coverage of financial infrastructure and services, which can vary in different parts of a country (e.g. rural vs. urban settings). The design of payment systems can build on infrastructure already in place, such as a branchless banking network, a system of agents, or a robust authentication system. The next step could be to integrate with other payment systems, which will most likely reduce costs and improve efficiency (Rotman, 2012).

3.3 Macro environment

It is important for a government to understand the country situation to be able to design the right payment system. A review of regulatory frameworks is necessary, which includes regulations related to banking, microfinance, and telecommunications, but also regulations on the security of personal data and financial assets. Financial infrastructure reviews help assess the geographical coverage and efficiency of public and private banking systems and the costs of setting up and maintaining bank accounts. The communications sector also needs to be understood to ensure the availability and reliability of electricity, telephone and internet connectivity, and mobile phone coverage as well as the cost of using them. Capability of local retail stores needs to be reviewed in terms of their capacity of handling payments (Grosh et al., 2008).

Finally, the political economy will also influence which payment system is most appropriate and acceptable. There might be resistance to new technologies, which might be seen as complex and which require larger up front investments. Involvement of the private sector could assist in this regard, though the high up front costs of an electronic payment mechanism set-up relative to the operating costs also means the private sector is more likely to engage with government social protection programs if they are long term and scalable rather than short-term pilots (RHVP, 2010).

4. Cash payment systems in Myanmar

The government of Myanmar has relatively little experience in delivering cash to social protection program beneficiaries at scale. The government has recently initiated pilots using CTs and vouchers. These are still small but will be scaled up if successful. MOH uses vouchers in its maternal and child health voucher scheme (MCHVS), whereas cash is used in the Ministry of Education's (MOE's) stipends program and Myanmar's social security schemes and by DPs as part of cash for work (CFW), CT programs, and humanitarian relief.[6]

4.1 Payments through vouchers

Vouchers are a relatively new concept in Myanmar and people and agencies have limited experience with them in a country that remains a cash-based economy. The option of commodity vouchers has been investigated and market actors such as wholesalers and retailers have highlighted the difficulty of fixing commodity prices, in particular rice, in a competitive and volatile market environment (WFP, 2014). Community members are also concerned traders will not be able to supply sufficient quantities of commodities (SC, 2013). However, vouchers can also be used to promote access to services. A feasibility study of the MCHVS (MOH et al., 2010) did not consider the appropriateness and acceptability of vouchers in Myanmar, but it did draw on international experience. It highlighted that vouchers can be exchanged for specific services, ensuring the incentive is used for the right purpose. It also indicated that transaction costs are higher than with cash, but that overall vouchers could work well for predictable and simple service packages.

Vouchers have been used as part of the MCHVS since 2013, which seeks to reduce the financial barriers to accessing child and maternal health services and enhance uptake of public health services. Midwives and trained voucher distributors provide vouchers for mothers to cover transport costs to MOH health facilities for antenatal care, delivery assisted by skilled birth attendants, and immunization of their children. After they have accessed the services mothers are reimbursed by voucher distributors or midwives: they need to cover some of the costs upfront.[7] For reimbursement, health care providers give the vouchers and service forms to the management agency in MOH for reimbursement on a monthly basis. The management agency disburses the expenditure to the voucher distributors and healthcare providers within two weeks. Midwives need to collect funds at the health facilities (MOH et al., 2014).

The administrative processes for reimbursement have increased the work burden of midwives and health care providers without compensating them for the extra work. A mid-term review suggests 'one factor which may help manage the financial aspects of the scheme run more smoothly is the recruitment of a full-time management officer' (MOH et al., 2014: 18). A detailed fiscal analysis would be required to understand the implications. Alternative delivery mechanisms could also be considered.

6. *See* the Note on 'The experience of cash transfers in Myanmar'.

7. *See* the Note on 'The experience of cash transfers in Myanmar'.

4.2 Cash payment systems

In Myanmar, most social assistance programs disburse cash benefits directly to beneficiaries. While electronic or mobile transfers to beneficiaries could be explored in the future, direct cash payments are currently the most viable option in poor and remote areas, given the underdeveloped financial and mobile payment sector in the country.

The school stipends program pilot provides stipends to the poorest children in school through direct cash distribution at school. School heads collect the funds at the Township Education Office together with regular funds for teacher salaries and pay the stipends to parents on a monthly basis. School committees verify the payment process and records. Payment records are kept in paper form at township, school, and beneficiary levels. The township education officer (TEO) keeps records of all expenditure, which is audited by the Township Auditor's Office. The following findings about the payment process emerge from an assessment of the stipends program pilot (SC, 2015):

- **In some cases, predictable and regular payments could not be made.** Payments were delayed and paid in lump sums as school heads were unable to travel to the township on time or the TEOs had not prepared the stipend cash allocation.
- **The implicit delivery costs of the stipends program are quite high in some cases.** The stipend payment process is an additional (unfunded) function for school heads and they incur transport costs when collecting the funds. Beneficiary costs are low as payments are made at the local school.

Box 6: Development partner example of direct cash distribution – WFP's cash for work payment system

In WFP's CFW program, the cooperating partner (CP) pays the cash directly to beneficiaries in the presence of the Project Management Committee (PMC). Regardless of the CP's payment frequency, WFP transfers funds to the CP on a monthly basis. The CP provides monthly cash request letters along with the attendance and distribution record, a cash/bank reconciliation report, and the cash distribution plan for the subsequent month. WFP transfers the required cash to CPs either through cheque or bank transfers. Beneficiaries receive a distribution card, which includes the participant's identification details. On the scheduled distribution dates, implementing agencies and PMC members check the Myanmar National Registration Card (or any other document proving the beneficiary's identity) and compare with the distribution card details and disburse the funds to each registered participant who has a distribution card, according to work attendance sheets. The maximum amount of cash to be carried to distribution sites and disbursed in any one day should not exceed USD 5,000 equivalent in MMK based on the capacity of local banks as well as on the capacity of the CP's staff to handle cash. Disbursement is done at a site and time agreed with the community. At least two CP staff members should be present during distributions. The CP is responsible for the security of its staff and project participants at the cash distribution site and takes the necessary security measures to ensure the safe delivery of cash.

***Source**: WFP (2013).*

- **Security risks also exist related to the transport as well as the storage of cash at both the township and the school level.** Schools and TEOs often store cash in a small metal box with key.
- **While processes are in place to ensure accountability and transparency of the payment system, accessing beneficiary level records at township level is quite difficult without a systematic electronic database.** Beneficiary payment records are currently kept at schools. A simple beneficiary database will be introduced at township level in 2015, which will help with accountability and transparency issues.

Transparency can also be increased by separating the payment distribution role from the school heads implementation role. In the medium to long term, electronic stipend transfer options could be explored, for example starting in urban areas that are more connected and slowly expanding to rural areas as financial services become more widely available and accessible.

Social security contributions are collected in cash from employers and cash benefits are paid to workers at the Township Social Security Office. The Social Security Board has implemented a new computerized information system that comprises the main management functions, including contribution collection and claims. The system works with a program ID card, which contains workers' personal information, photo, and fingerprint as well as a unique social security number. In the medium to long term, the smart card could be improved by storing information on the card itself and eventually letting it be used for a range of services, including receiving social security payments.

The only electronic cash payments are made by the civil service pension program. Pension payments are transferred into individuals' bank accounts through the Myanmar Economic Bank (MEB). Pensioners receive an electronic card that is linked to the MEB database and is used to record regular pension payments. MEB, being a state-owned enterprise, does not currently receive a service fee for providing this payment service. The government will need to consider future budget allocations for payment services to cover the implicit costs associated with this service. This will also make the business case more attractive for private sector participation in government-to-person payments. It will be important to assess the effectiveness of delivering cash benefits via MEB in social assistance programs, given MSWRR's plans for a social pension piloting this payment mechanism in the near future (Ramkissoon, 2015).

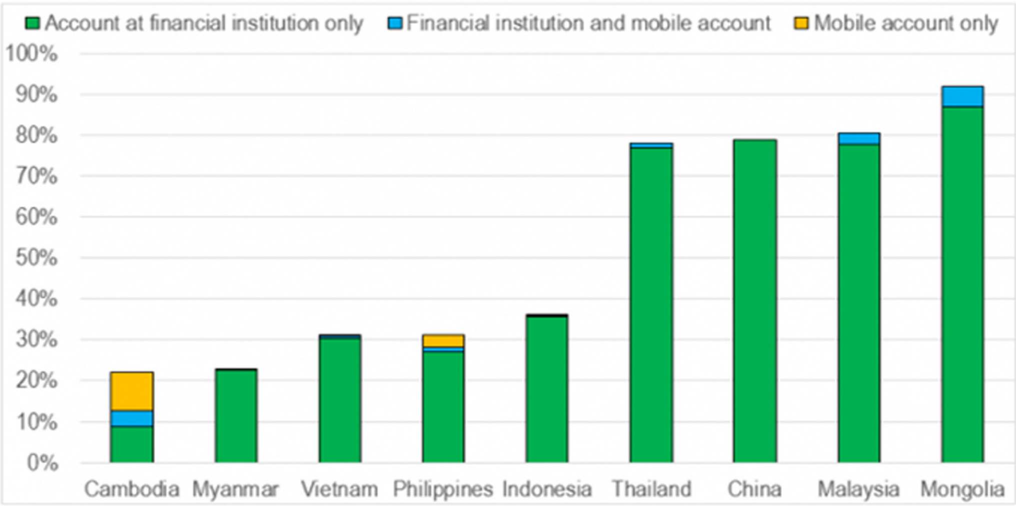
5. Opportunities for electronic payments in Myanmar

Myanmar is largely a cash economy. Of the 24 percent of adults who had a wage in 2014, 0 percent of them received it electronically. Only 1 percent of the population received government payments and these were made in cash. All the school fees and the utility fees paid in 2014 are also reported to be in cash.[8] Banking and financial services in Myanmar are still premature and too underdeveloped to enable cash transfers at scale. While informal payment systems, such as

8. http://datatopics.worldbank.org/financial inclusion/

the *hundi* system,[9] are widely used (including for sending remittances), there is no regulation or control. Meanwhile, actual functioning of bank and other financial services can be unpredictable: ATMs are often out of order, banks have long queues with limited banking staff capacity, and POS devices have a 90 percent down time (Cenfri, 2014).

Figure 2:Financial inclusion – total percentage of adults with a formal account



Source: *http://datatopics.worldbank.org/financial inclusion/*

There are low levels of financial inclusion in Myanmar. In 2014, only 23 percent of adults declared having an account at a formal institution (69 percent of adults in the East Asia and Pacific region as a whole have formal accounts). Women and the poor are less included: only 17 percent of women and 16 percent of the poorest people have an account (Duflos, 2015). The majority of citizens rely on unregulated providers, often at substantially higher prices than those offered by regulated providers, or family and friends to meet their need for financial services (Cenfri, 2014).

While financial services are not yet widely available, the government has identified financial services as an important tool for achieving its goal to reduce poverty to 16 percent by 2015. The financial sector in Myanmar has been growing rapidly since the introduction of financial sector reforms in 2008. This includes rapid expansion of infrastructure by regulated financial services providers. As the baseline was very low, regulated financial services are not yet widely available (Cenfri, 2014). The recent rapid growth in telecommunications coverage is laying important foundations that can support benefit payments to the people of Myanmar, including the poor and unbanked. New financial and mobile providers are exploring options for mobile money transfers in the country. This could include over-the-counter cash withdrawals and deposits through agents by mobile phone.

9. The *hundi* system is an informal exchange in which paying someone in one location allows a payment to be made by an agent in a distant location.

The legal framework as well as the financial infrastructure of the banking sector lags behind international standards. Until recently, only banks had clear regulatory space to provide mobile financial services. The main challenges for the banking sector are the management of reforms and their pace as well as the development of bank staff capacity. Additional challenges will come after Myanmar joins the single market of the Association of South-East Asian Nations Economic Community and new foreign banks enter the market from 2016 onwards (GIZ, 2013).An October 2014 Ministry of Finance Directive allowed MFIs to provide mobile payments (Shrader and Htun, 2015). Myanmar Central Bank is currently developing regulations for mobile money, which will provide guarantees in relation to security of transfers and liability for fraud, more than currently exist for the banking sector. This would make mobile payments more secure than bank payments (Ooredoo, 2014). However, until the regulations are finalized, operators cannot be licensed.

For the next few years, network coverage as well as the lack of an agent network will remain key constraints in Myanmar to enabling electronic transfers at scale through the mobile network. Mobile money services would be launched first in urban areas, and expanded in line with the expansion of the mobile network coverage. It is expected that 85 percent of the population will be able to be reached within the next five years, although isolated and remote areas, often also the poorest, will lag behind owing to logistical challenges (Ooredoo, 2014).

6. Considerations for benefit payment systems in Myanmar

The expansion of financial services will bring an opportunity to expand the range of options for social protection benefits payment systems as well as to promote the financial inclusion of the poor. Given the constraints of Myanmar's present banking system, including low coverage of bank branches in remote areas, and rapid improvements in the quality and coverage of telecoms infrastructure, mobile network operators may be able to expedite electronic delivery of the benefits of social protection programs. This could also provide an opportunity to reach the poor and vulnerable through financial services and facilitate their financial inclusion through mobile money accounts (Shrader and Htun, 2015). However, corresponding legal and regulatory frameworks would need to be put in place to ensure safe, efficient, and transparent benefit payments to the beneficiaries of social protection programs in Myanmar.

In the meantime, programs can strengthen direct cash distribution mechanisms. Current direct CT systems are relatively small in scale. To enable large-scale cash assistance, Myanmar needs to further develop its capacity to deliver CTs and expand coverage of its national ID system. Programs could deliver payments at scale through a decentralized process; however, systems have to be in place to ensure accountability, transparency, and security of funds. Designs should examine the most effective way to transfer the funds to the distributor as well as the beneficiary, minimizing the number of intermediaries involved. Separating roles for program implementation and payment distribution and improving beneficiary payment records would also help improve accountability and transparency.

Beneficiaries require identification when receiving or withdrawing cash benefits to ensure benefits are paid to the right person. Current systems for identifying individuals rely on local functionaries, given gaps in the coverage of national ID cards particularly among the rural population (69.3% of the Myanmar population over the age of 10 currently possesses and ID card (GoM 2015)). Program ID cards can be used instead to help with the identification and verification of beneficiaries at payment distribution points. Using a unique personal identifier (such as an ID card number) for program registration and payments can enable the tracking of beneficiaries across programs. In the long term, program beneficiary databases and payment systems can be integrated, which will most likely reduce costs and improve efficiency.

In the medium to long term,Myanmar can work towards a gradual evolution towards electronic payments linked to the broader financial inclusion agenda. Social protection programs can function as a stepping-stone in the move from cash to electronic and on to fully inclusive formal financial services (Rotman, 2012).

As a first step, with the liberalization of the financial and mobile market in Myanmar, new programs would need to determine which payment system is most appropriate, feasible, and in line with the six principles outlined in the introduction. A country financial and telecommunications infrastructure review would be needed to check coverage and the costs and efficiency of financial and mobile systems. The adequacy of the local agent network also needs to be reviewed.

The growth of the financial infrastructure and opportunities for banks and telecommunications companies to increase their presence and networks has opened up the potential for their participation in government-to-person CTs. However, this is possible only if the government continues to create an enabling environment for payments systems to develop through the banking system as well as the telecommunications sector to increase people's access, including the poor, to CTs and financial services. This will further accelerate poverty reduction and stimulate economic growth in Myanmar.

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