



United Nations Secretary-General's
Special Advocate for Inclusive Finance for Development

UNSGSA

Briefing on Digital Identity

By the UNSGSA's Fintech Sub-Group on Digital Identity

Who lacks official identification and what are the implications?

An estimated 1.1 billion people do not have proof of official identity—one in every seven individuals. The majority live in Africa and Asia, and more than a third are under the age of 18. Without official identification, people can struggle to get access to:

- Financial services, such as a bank account or credit.
- Social benefits, including food vouchers, pensions, or cash transfers.
- Healthcare, education, political and legal rights (including related to gender and migration).

Why does ID matter for financial inclusion?

Identification enables financial inclusion by addressing the following three financial sector needs:

1. Meeting KYC requirements for account opening and servicing in order to address AML/CFT norms.

Twenty percent of financially excluded adults (340 million) are unable to access financial services because they lack the documents required to prove their identity (Global Findex, 2018).

2. Tackling fraud in social safety net programs.

The government of India has already saved over \$9 billion by eliminating fraud in beneficiary lists across multiple programs according to Nandan Nilekani, former UIDAI chair. In some programs, e.g. the National Rural Employment Guarantee Scheme, a reduction in leakages of more than 40% from 31 to 20% has occurred (K. Muralidharan et al., 2016).

3. Enabling development of reliable credit histories.

The growth of robust national identification systems in many developed and developing countries (e.g., Kenya) has aided the creation of reliable credit reference bureaus.

In India, before the Aadhaar unique ID system was implemented, the average cost for a bank to open a new account was about 1,500 rupees, around \$23. With the increased queriability, digitization, and interoperability of the Aadhaar system, some estimates indicate that onboarding costs for new clients could plummet to as little as 15 rupees, or \$0.22 (ID4D, World Bank, 2018). In addition, by utilizing the Aadhaar authentication capabilities, the government was able to open 138 million new bank accounts, under the Jan Dhan Yojana “banking for all” scheme, within a period of about two years (State of Aadhaar Report 2017-18, IDInsight, 2018).

What kind of ID is needed for financial inclusion?

Identification systems should 1.) constitute a legal form (to adhere to AML/CFT norms), 2.) provide unique identity (to weed out ghost beneficiaries and fraud, reliably done through biometrics), 3.) be digital with e-KYC enabled, and 4.) be low cost, preferably as a public good, to serve all populations sustainably.

While digital identification is essential, it alone will not suffice for financial inclusion to thrive. Several other elements are needed such as a robust payment infrastructure.

What are the various types of ID systems?

Foundational vs. Functional: Historically, ID systems have largely been created to support specific functions or programs within a sector (also known as “functional” identity systems, e.g. for elections, banking, food ration delivery, vaccination, refugees, etc.). Recently, more countries (India, Peru, Pakistan, Estonia) have developed national “foundational” identity systems, which can be used for multiple purposes.

Government vs. Private: While in some developed, data-rich environments, we have seen private sector-led identity platforms, in much of the developing world, foundational identity will likely need to be provided by governments as a public good.

While the next-generation ID systems will be offered by governments, the private sector will have many key roles to play, including but not limited to 1.) operating national ID systems, 2.) providing sector-specific inputs into the design of the system, and 3.) utilizing ID and authentication services to serve consumers.

What can governments do to promote digital ID?

Governments need to prioritize the development of next-generation digital ID systems as national public goods, and in doing so ensure that:

- The system is inclusive and doesn’t leave anyone behind.
- The design of the system follows best practices (e.g., the World Bank’s principles on identification for sustainable development).
- Appropriate legal and governance mechanisms are in place.
- Both private- and public-sector service providers are engaged in the design of the system and are encouraged to use the system for efficient and inclusive service delivery.
- Incentives exist for consumers to adopt and utilize the system.

As governments in emerging markets decide to put in place foundational ID systems, they should consider:

- Learning from the experiences of other emerging countries that have rolled out such systems successfully.
- Adopting established international and open standards, and global best principles for design of such systems.
- Seeking technical assistance for the design of such systems (e.g., ID4D at the World Bank).

Annex: Resources

Programs

Selected jurisdictions with successful digital ID systems.

- Estonia
- India
- Pakistan
- Peru

Organizations involved in technical assistance, research, and/or funding of relevant activities

- Bill and Melinda Gates Foundation
- Centre for Global Development
- Omidyar Network
- World Bank

Selected Experts

- Joseph Attick, ID4Africa
- Vyjayanti Desai, ID4D, World Bank
- Alan Gelb, Center for Global Development
- C V Madhukar, Omidyar Network
- Himanshu Nagpal, Bill & Melinda Gates Foundation
- Nandan Nilekani, EkStep and Infosys Technologies Ltd.
- Carolina Trivelli, Instituto de Estudios Peruanos

Recommended Readings

World Bank. 2017. *Principles on Identification for Sustainable Development: Toward the Digital Age*. Washington, DC: World Bank.

World Bank. 2018. *Public Sector Savings and Revenue from Identification Systems: Opportunities and Constraints*. Washington, DC: World Bank.

World Bank. 2018. *Private Sector Economic Impacts from Identification Systems*. Washington, DC: World Bank.



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