

SUB-SAHARAN AFRICA SERIES: IDENTIFICATION, FINANCIAL INCLUSION AND DEVELOPMENT IN SUB-SAHARAN AFRICA

MARCH 2019

AUTHORS

Leora Klapper, Saniya Ansar,
Jake Hess, and Dorothe Singer
Development Research Group
The World Bank

ACKNOWLEDGEMENTS

We are grateful to the Bill & Melinda Gates Foundation for providing financial support making the collection and dissemination of the 2017 Global Findex data possible and to the World Bank Identification For Development (ID4D) team for valuable comments. We thank the Mastercard Foundation and the IFC for their financial support of the The Findex Notes: Sub-Saharan Africa series.



Identification, Financial Inclusion and Development in Sub-Saharan Africa

Throughout Sub-Saharan Africa, innovation is transforming how people conduct financial transactions and live their lives. Mobile phones and the availability of new digital technologies are at the forefront of this change, helping to draw more and more people into the formal economy, potentially mitigating gender and income inequality and stimulating development in areas ranging from farming to education.



The Findex Notes: Sub-Saharan Africa series summarizes data compiled by the Global Findex from nationally representative surveys of more than 150,000 adults in over 140 economies in 2017, including more than 35,000 adults in 35 economies in Sub-Saharan Africa. The Global Findex is the world's most comprehensive data set on how adults save, borrow, make payments, and manage risk.

IN THIS NOTE

We measure access to national, government-issued identification in Sub-Saharan Africa and explore how ID shapes the ways people use financial services such as bank accounts. The data on the share of adults with ID comes from surveys conducted in 97 economies globally by Gallup, Inc. in calendar year 2017.¹ Respondents were asked whether they personally had a specific foundational ID – often referred to as a 'national ID' – using local terminology to the extent possible. The Global Findex data were collected by Gallup, Inc. during the same survey as the ID data.

Formal financial services and identification are key to development. Accounts at a financial institution or through a mobile money service provider help people make investments to escape poverty and manage financial risks such as sudden illness or unemployment. Having a national, government-issued identification document is often a requirement for accessing financial services as well as receiving social benefits, participating in elections, and registering property. People who lack ID risk exclusion from public life and might struggle to participate in the economy. That's why access to identification and financial services are listed as benchmarks in the UN Sustainable Development Goals.

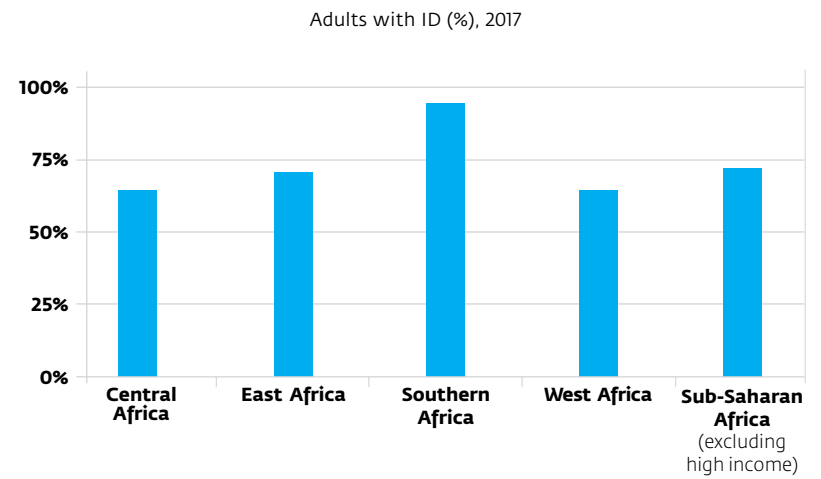
An established and formal identification system can help governments target services to needy citizens. In Pakistan, identification has ensured that social benefits are transferred directly to recipients.ⁱⁱ Identification can also fulfill the Know Your Customer (KYC) requirements at financial institutions. This helps with verification and compliance that can reduce the costs of getting financial services. One estimate found that the introduction of electronic KYC through India's unique ID, Aadhaar, could reduce the average Indian firm's onboarding cost from around \$15-\$23 to between \$0.15 and \$0.50.ⁱⁱⁱ ID can help individuals and financial institutions to build credit histories and maintain accurate credit records, enabling more people to access credit and to do so at lower rates. The introduction of the credit information system has been associated with a decline in the share of non-performing loans as well as a decline in the proportion of loans secured by collateral, enabling more people to access credit.^{iv} Research in Malawi suggests that biometric identification has increased loan repayment rates among borrowers most at risk of default.^v

Nearly 7 in 10 adults in Sub-Saharan Africa have ID

Across Sub-Saharan Africa,^{vi} 69 percent of adults have ID. The share is highest in Southern Africa, at 91 percent, and lowest in Central Africa and West Africa where it is at 62 percent (Figure 1).

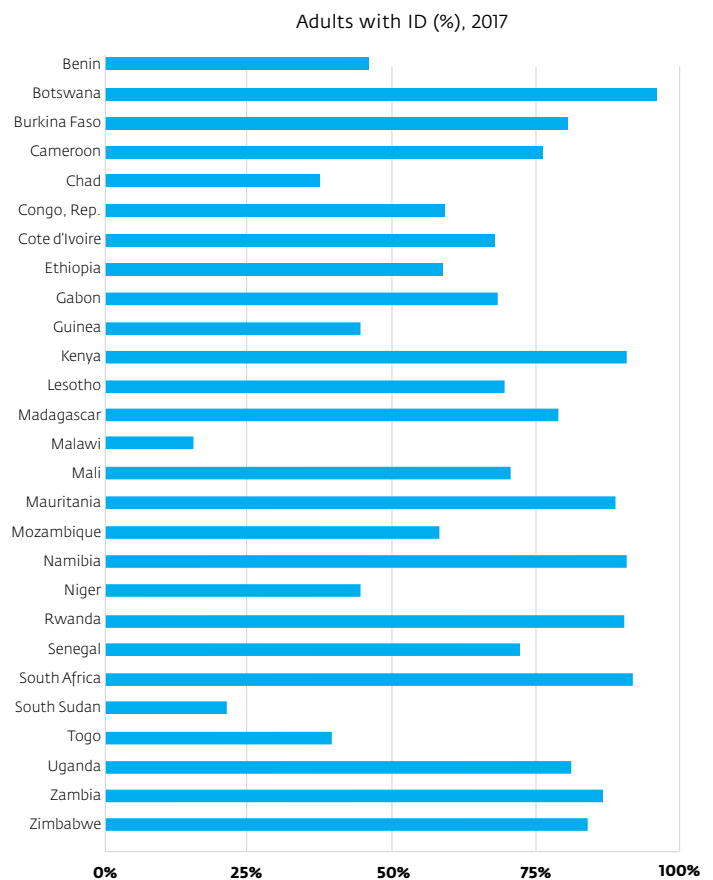
ID ownership varies widely among the economies of Sub-Saharan Africa. At 21 percent, South Sudan has the region's lowest rate of ID ownership. On the higher end, 90 percent of adults or more have ID in economies such as Botswana, Kenya, Namibia, Rwanda, and South Africa (Figure 2).

Figure 1: ID ownership varies across Sub-Saharan African regions



Source: ID4D data, available at <https://globalfindex.worldbank.org>

Figure 2: Within Sub-Saharan Africa, ID ownership ranges from 21 percent to more than 90 percent



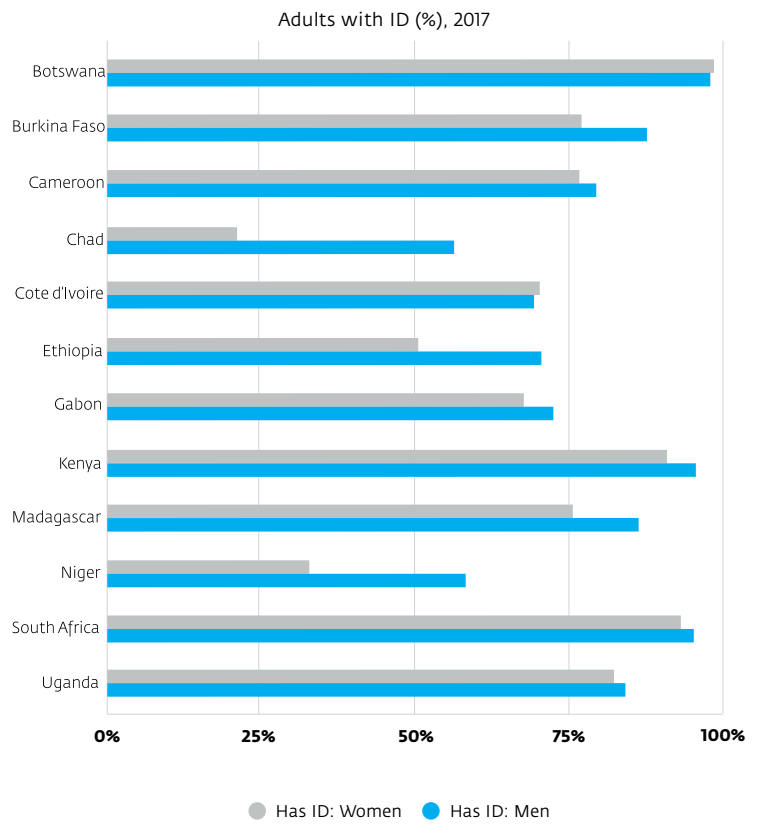
Source: ID4D data, available at <https://globalfindex.worldbank.org>

ID ownership is higher among men and the wealthy

Men are more likely than women to have ID. Overall in Sub-Saharan Africa, 74 percent of men have ID, compared with 65 percent of women – a gender gap of 9 percentage points. Similar gaps are found in Central, East, and West Africa, while there is no gender gap on average in Southern Africa. The magnitude of gender gaps vary by economy. In Chad, men are more than twice as likely as women to have ID, and gender gaps are 20 percentage points or more in Ethiopia and Niger (Figure 3). Gender gaps are small or non-existent in economies such as Cameroon, Cote d'Ivoire, South Africa, and Uganda.

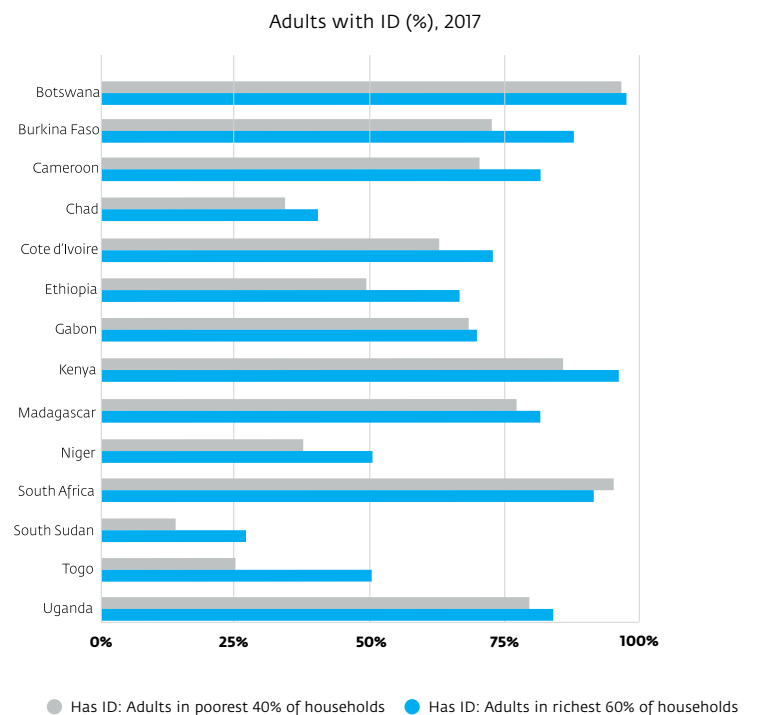
There is a similar pattern with income gaps in ID ownership. On average in Sub-Saharan Africa, 73 percent of adults in the richest 60 percent of households have ID, compared with 64 percent of those in the poorest 40 percent of households – an income gap of 9 percentage points. The income gaps are similar in every region within Sub-Saharan Africa, except for Southern Africa, which does not have an income gap on average. In South Sudan and Togo, ID ownership is twice as high among wealthier adults than poorer adults (Figure 4), while there is virtually no such gap in economies like Botswana, Gabon, and South Africa.

Figure 3: Gender inequality in ID ownership found in some but not all economies



Source: ID4D data, available at <https://globalfindex.worldbank.org>

Figure 4: ID ownership is higher among wealthier adults than poorer adults



Source: ID4D data, available at <https://globalfindex.worldbank.org>. Note: Data for the poorest 40 percent and richest 60 percent of households are based on household income quintiles within economies.

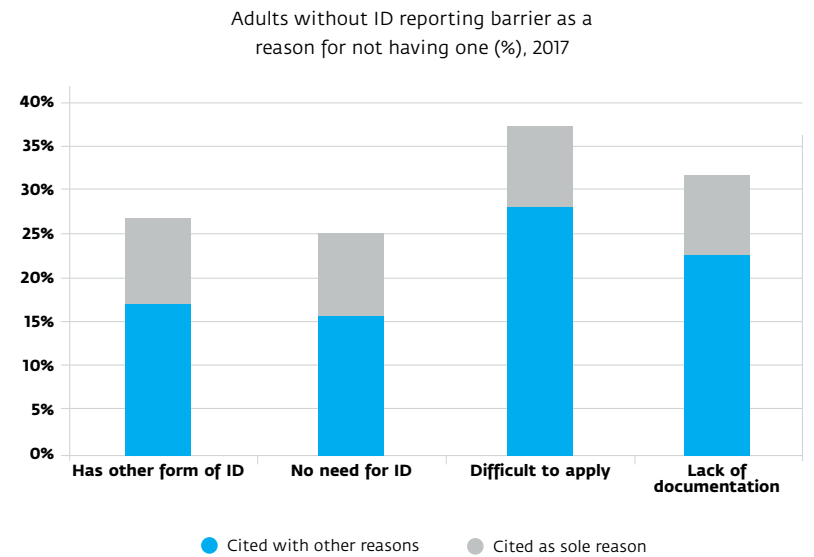
Documentation requirements are among the barriers to attaining ID

Overall in Sub-Saharan Africa, 31 percent of adults have no ID. The survey asked these adults why they go without national identification. Respondents could give more than one reason out of four options, but most gave only one. On average, 38 percent said it is too difficult to get ID. Thirty-one percent of those surveyed said they lack the documentation necessary to acquire ID, a quarter said they have other forms of ID that they can use instead of a national, government-issued ID, and another quarter said they had no need for ID (Figure 5).

Difficulty is more frequently cited in fragile and conflict-affected economies; half of adults in these countries without ID cite it as a barrier. In Mali, Togo, and South Sudan, roughly half or more adults without ID mention difficulty as a barrier, as do two-thirds of such adults in Chad. West Africa is also a difficult place to get ID. In Benin, Burkina Faso, Guinea, Mali, Niger, and Senegal, half of all adults with no ID mention difficulty (Figure 6).

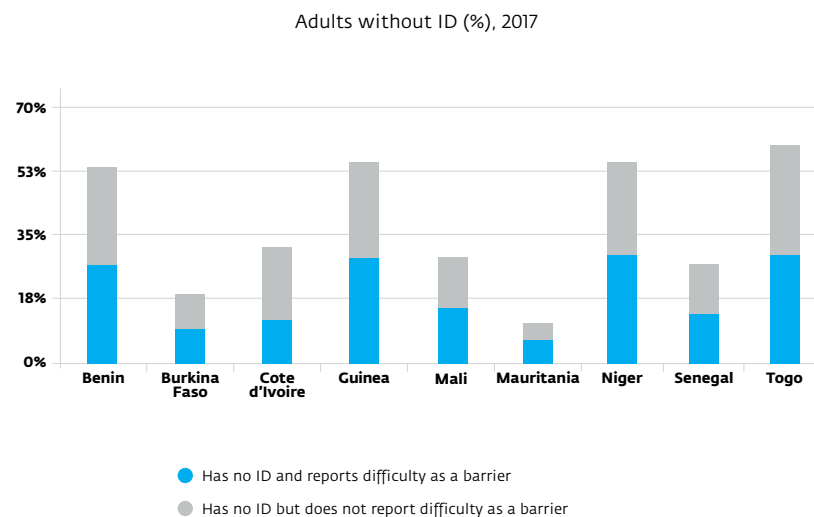
While the survey does not ask respondents to detail the difficulties they face in getting ID, in West Africa, one difficulty is likely documentation. Many West African economies require birth certificates to get ID—but since many births in the region go unregistered, significant shares of adults cannot meet this requirement. On average in West Africa, 40 percent of adults without ID mention documentation as a barrier, compared with 35 percent in Southern Africa and about 30 percent each in East Africa and Central Africa. Another potential problem is that some economies do not have enough registration centers. An example is Guinea, where there is only one registration center for every 250,000 adults. Prohibitive costs might put ID out of reach in economies such as Togo, where roughly half the population lives in extreme poverty and the national ID card costs about \$8.^{vii}

Figure 5: The biggest barriers to ID ownership are difficulty getting an ID and lack of documentation



Source: ID4D data, available at <https://globalindex.worldbank.org>; Note: Respondents could choose more than one reason.

Figure 6: In West Africa, widespread difficulty in getting ID



Source: ID4D data, available at <https://globalindex.worldbank.org>

The correlation between ID ownership and account ownership

Although there is no evidence of a causal relationship between ID ownership and financial inclusion, the two are loosely correlated, since opening an account generally requires identification. Financial inclusion—as measured by the share of adults who have an account—tends to increase as ID ownership rises (Figure 7). But the relationship is modest. There are economies where half or less of the adult population have an account even though ID ownership is about 90 percent—including Botswana, Mauritania, Rwanda, and Zambia. These findings underscore the fact that ID access is only one component of financial inclusion, as the next section discusses in greater detail.

Boosting financial inclusion by harnessing ID ownership among the unbanked

Having ID is almost always a requirement for opening an account. Within Sub-Saharan Africa, 83 percent of commercial banks require government-issued ID to open an account,^{viii} and regionally, a quarter of adults who have no account at a financial institution say a lack of documentation is one reason why they are unbanked. Half of the unbanked in Madagascar and Zimbabwe cite documentation as a barrier, as do about a third or more in economies such as Guinea, Lesotho, Niger, and Zambia. Widespread ID ownership can also provide a foundation for successful financial inclusion strategies. In India, the government equipped a billion residents with biometric identification and then used that ID to increase financial inclusion, causing account ownership to go from 35 percent in 2011 to 80 percent in 2017, according to the Global Findex. India’s experiment was far from perfect—but it did show that ID access and financial inclusion are related.

Sometimes, having ID is insufficient for meeting documentation requirements necessary for opening an account. Among ID holders in Sub-Saharan Africa, 1 in 5 report that they still cannot get an account due to documentation requirements. The share is about 40 percent in Benin, Togo, and Zimbabwe, and nearly 50 percent in Madagascar. Know Your Customer requirements in these economies might also demand other types of identification—such as a utility bill with a local address—which can be hard to acquire.

Sub-Saharan Africa has opportunities to increase account ownership by drawing on ID. Across the region, 56 percent of unbanked adults—about 180 million unbanked adults—have ID. With the right combination of regulatory reforms, these unbanked adults could potentially use their national ID to get an

Figure 7: Modest correlation between ID ownership and financial inclusion

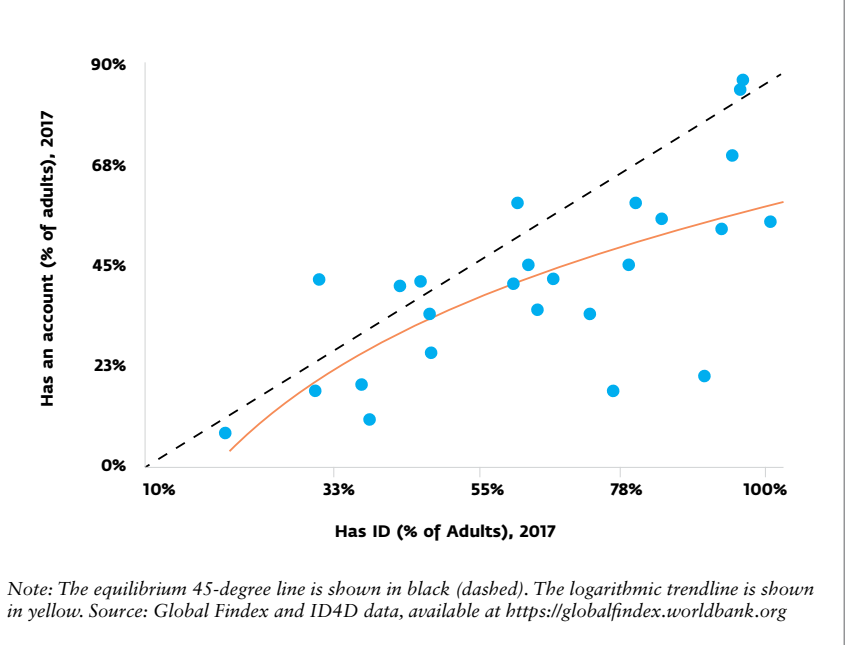
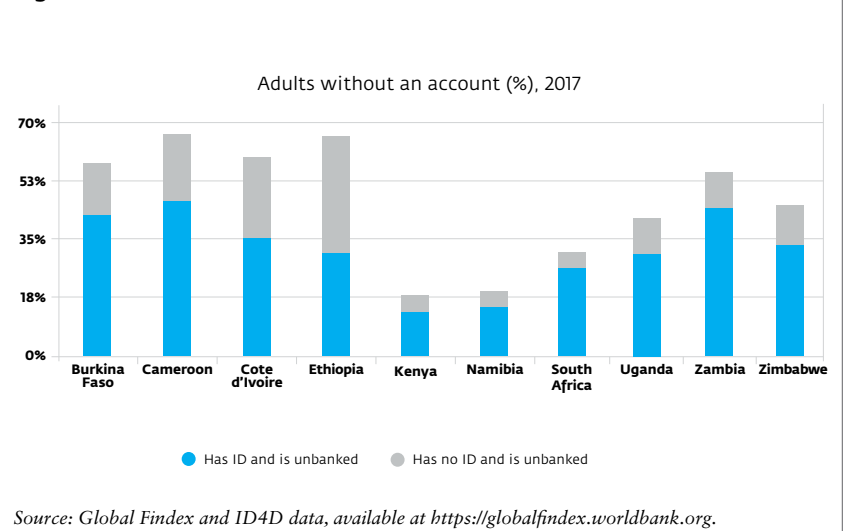


Figure 8: Most unbanked adults have ID



account and enjoy better economic prospects as a result. Consider the so-called “last mile” economies, where account ownership is high and relatively few adults are unbanked. It can be difficult to serve these unbanked adults because they tend to be poor and have low educational attainment and weak workforce participation. Kenya, Namibia, and South Africa have small unbanked populations, and the vast majority of unbanked adults in these economies have ID (Figure 8). Universal financial inclusion could be within reach if governments overhauled Know Your Customer requirements and banks offered simplified accounts to adults who have national, government-issued ID but lack other types of documentation. There are also opportunities in economies where there are more unbanked adults. In Ethiopia, half of unbanked adults have ID, as do two-thirds in Burkina Faso, Uganda, and Zimbabwe, and 85 percent in Rwanda.

ID ownership is only one aspect of financial inclusion. The Global Findex database shows that even if adults have national identification, they can still face multiple barriers to getting an account—including costs, distance to financial institutions, lack of trust in banks, and religious concerns. Policymakers must address all these barriers if they want to boost financial inclusion.

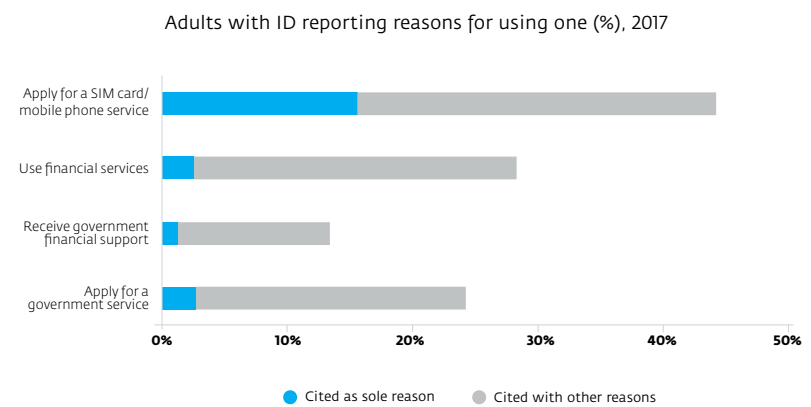
IDs improve access to mobile phones, financial services, and government services

It’s important to improve ID ownership even though doing so might be insufficient — by itself — to ramp up financial inclusion. Having an ID makes it easier for people to access important public and private services, such as financial tools, mobile phones and mobile services, and government and social programs. It is often illegal to provide such services to people without identification, which is why improving ID ownership is part of the global development agenda. The survey asks ID holders how they use their IDs. Respondents can give more than one answer. In Sub-Saharan Africa, the most popular use for ID is buying a SIM card or mobile phone service—such as a mobile money account. The next most common uses are for financial services, to apply for a government service, and to receive government financial support (Figure 9).

In Kenya, the global mobile money leader, 84 percent of adults—or 92 percent of ID holders—use their identification for SIM cards or a mobile phone service. The proportion is similar in Botswana, and it is also high in economies such as Burkina Faso, Chad, Cote d’Ivoire, and Niger. Use of ID for mobile phones is relatively less common in Ethiopia and Madagascar (Figure 10).

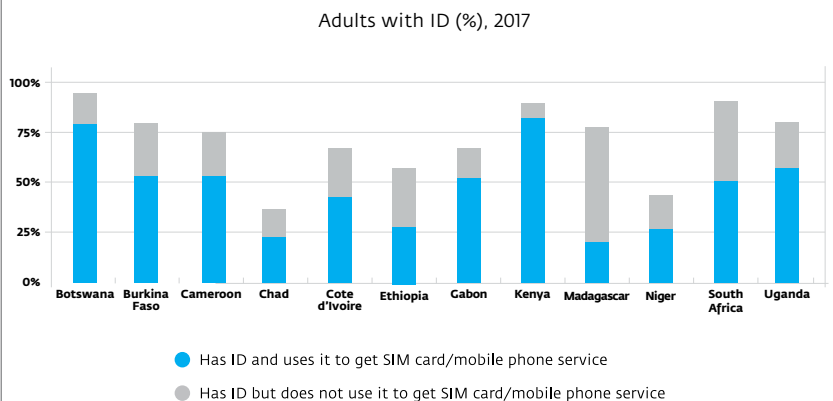
Regionally, most adults who report using ID to get mobile phones also say that they do have their own mobile phone—suggesting that ID might help boost access to this crucial technology.

Figure 9: Most ID holders use their ID to get a SIM card or mobile phone service



Source: ID4D data, available at <https://globalfindex.worldbank.org>
 Note: The length of the bar is the percent of adults who use their ID to get the given service or support. Respondents could choose more than one reason.

Figure 10: ID frequently used to get a SIM card or mobile phone service



Source: ID4D data, available at <https://globalfindex.worldbank.org>

Another important use of ID is to establish eligibility for financial services and government social benefits payments. In Kenya, where about 15 percent of adults receive public pension payments or government safety net benefits, more than two-thirds of adults use their ID for those purposes. In Namibia, nearly a quarter of adults receive government payments, and two-thirds of adults use ID to do so. The share is also high in South Africa, where 1 in 3 adults receive such payments, and more than half of all adults use their ID for that reason.

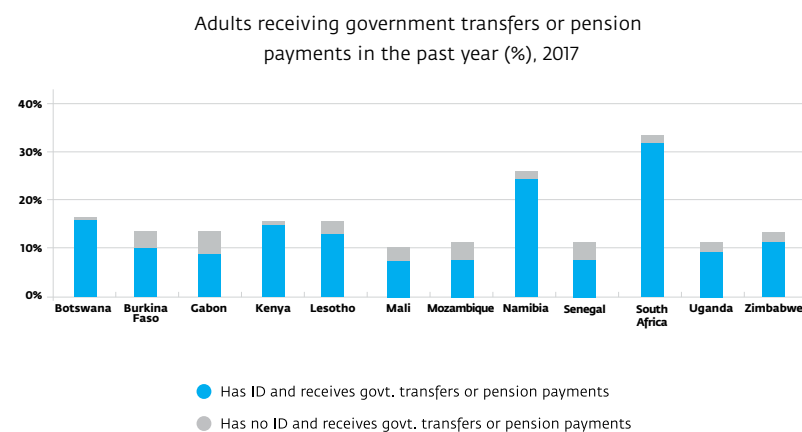
Most adults who receive public safety net payments or pension payments have ID (Figure 11). In Botswana, Kenya, Namibia, and South Africa, more than 90 percent of adults in this category have ID. About two-thirds of recipients have ID in Gabon, Mozambique, and Senegal, as do roughly three-quarters in Burkina Faso and Mali. These numbers suggest that official identification can be at least somewhat effective in verifying eligibility for social benefits. The fact that ID ownership is not universal among government payment beneficiaries might indicate that certain programs accept alternative identification methods to verify eligibility.

Ensuring that all adults have national, government-issued ID—instead of relying on fragmented and non-interoperable systems to deliver different services—could help lower costs and improve governance. Across Sub-Saharan Africa, 9 million adults receive payments for government social benefits or pensions despite having no ID. Equipping these adults with ID could open opportunities to receive government payments digitally into an account or through a mobile phone. Research in Niger found that the overall travel and wait time for disbursing mobile transfers was only a quarter as large as that of cash transfers. The same study found that mobile transfers of government safety net payments reduced administrative costs by a fifth compared to cash distribution. In Mexico, the government has reduced administrative costs by more than 3 percent annually since shifting to digital payments in 1997. Demands for bribes fell and the number of fake benefits recipients dropped in India when social security pension payments were made through smart cards instead of being handed out in cash.^{ix}

Developing a national ID system is not easy. For example, many countries struggle to register births and therefore lack civil records that can be used as a foundation of a national ID program. Others keep their records on paper and have yet to adopt digital data management. ID systems also create opportunities for misuse of data and raise privacy concerns. Roughly half of developing economies have data privacy laws that meet international standards—and these rules are not always enforced even when they do exist.^x

But having an ID makes it easier for people to participate in the economy and public life. For governments, identification can increase the transparency and effectiveness of public policies. Making IDs more accessible is a worthy goal for policymakers who want to improve financial inclusion and development more broadly.

Figure 11: ID ownership high among pension and safety net beneficiaries



Source: Global Findex and ID4D data, available at <https://globalfindex.worldbank.org>

END NOTES

- i The complete dataset and local terminology are available at <https://globalfindex.worldbank.org>. Methodology can be accessed at <http://id4d.worldbank.org/global-dataset>.
- ii Malik, Tariq. 2014. "Technology in the Service of Development: The NADRA Story." Washington, DC: Center for Global Development.
- iii World Bank. 2018. "Public Sector Savings and Revenue from Identification Systems: Opportunities and Constraints." Washington, DC: World Bank.
- iv Gelb, Alan, and Anna Diofasi Metz. 2018. "Identification Revolution: Can Digital ID Be Harnessed for Development?" Washington, DC: Center for Global Development.
- v Gine, Xavier, Jessica Goldberg, and Dean Yang. "Access to credit and the Scale-Up of Biometric Technology in Malawi." New Haven, CT: Innovations for Poverty Action.
- vi See Figure 2 for the complete list of included countries.
- vii See "The State of Identification Systems in Africa," Washington, DC: World Bank, 2017.
- viii World Bank. 2017. Global Financial Inclusion and Consumer Protection (FICP) Survey. Data available at: <http://www.worldbank.org/en/topic/financialinclusion/brief/ficpsurvey>
- ix See Demircuc-Kunt, Asli, Leora Klapper, and Dorothe Singer, "Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence," World Bank Policy Research Working Paper No. 8040, April 2017.
- x Gelb, Alan, and Anna Diofasi Metz. 2018. "Identification Revolution: Can Digital ID Be Harnessed for Development?" Washington, DC: Center for Global Development.