How Digital Identity Can Help End the Financial Exclusion of Refugees
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In the most recent World Bank reporting, 1.7 billion adults around the world remain unbanked[1]. This means that nearly <u>one-third of all adults globally</u> do not have an account at a financial institution or via mobile money. For those who have been forcibly displaced from their homes, finding access to financial services is even more challenging.

According to the United Nations High Commissioner on Refugees (UNHCR) and the Alliance for Financial Inclusion (AFI), the majority of the nearly 70 million people displaced worldwide are excluded from formal financial services, which means they lack "a safe place to save and receive money, affordable ways to make payments, and access to loans to invest in a business activity or to smooth their consumption needs[2]. Restrictive local regulations add to the challenging environment, as refugees commonly are not allowed to open a bank account in their host countries, and even when allowed, they often lack the requisite documentation[3].

For refugees who have already left so much behind, being financially excluded prevents them from establishing long-term savings, accessing basic credit facilities, paying for higher education, and often even accessing basic medical services. It is incredibly difficult to improve the life of your family or community when operating in this type of cash-only environment. Humanitarian assistance is vital for addressing many basic needs for displaced populations, but any long-term solution requires inclusive infrastructure to enable sustainable economic opportunities and livelihoods for refugees.

Access to finance is an important part of the solution, but most financial institutions are unwilling to serve refugees. Refugees have a high perceived risk profile, largely due to flight concerns and the lack of verifiable identity in their host country. Over the past four years, Kiva has facilitated over $13M in loans to refugees around the world in an effort to provide a pathway to financial inclusion and better livelihoods for refugees, their families, and their communities. Repayment rates are 96% for refugees, on par with non-refugee unbanked borrowers globally and directly counter to the to the common misperception of refugees as "too risky".

Having established the creditworthiness of unbanked refugees, Kiva is now looking beyond the individual- and community-level lending to directly address the systemic barriers that block refugees from achieving sustainable financial inclusion. Namely, Kiva is working to bring verifiable identity and credit reporting to the unbanked world, providing a pathway for unbanked adults globally to build a financial future and establish true livelihoods in their communities.

Opening a bank account or taking a loan requires documented, verifiable identity. Regulated financial institutions must comply with Know Your Customer (KYC) and Anti-Money Laundering (AML) requirements, which cannot be solved without such verifiable identity. These are important systems that facilitate trust -- i.e., they are how a customer trusts that their savings account is not being used to fund terrorist activities or launder money. However, for refugees

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[1] World Bank Global Findex, 2017
[2] AFI Global, 2018
[3] FinDevGateway, 2017

who are inherently stateless, there is no access to this type of necessary state-sponsored identification.

Imagine for a minute living as a refugee. When fleeing your home, you may have left behind, lost, or intentionally destroyed your state-issued identification. You now have no fallback for rebuilding your "formal" identity when you arrive in a refugee camp, like a birth certificate you might be able to access in your home country. UNHCR may issue you an ID card, which identity is usable for your day-to-day within the refugee camp, but this ID does not meet your host country's financial ID requirements, so you are blocked from access until you can obtain the required ID.

So, how are we going to break this cycle and provide the necessary identity to bring financial inclusion not only to refugees, but to all1.7 billion unbanked adults worldwide?

Kiva has partnered with the United Nations Capital Development Fund (UNCDF) and the United Nations Development Programme (UNDP) to implement a bold, new technology initiative alongside the government of Sierra Leone called Kiva Protocol. At its core, this technology enables individuals to maintain verifiable identity, and use this identity to seamlessly manage their personal and financial information in a way that is compatible with the requisite KYC and AML requirements of the formal financial sector. Bringing this KYC identity all the way to the bottom of the economic pyramid is hugely impactful — it provides a way to formalize the community-level financial activity in the unbanked world so that it can provide a pathway to true financial inclusion.

Refugees, who have fled their home countries, are by definition unable to bring government-issued KYC identity to their host countries. As a decentralized identity platform, Kiva Protocol provides a solution to this, as any person or institution can issue identity to anyone else. What is important is that the identity held by the user can be independently verified with the issuer, and the verifier is able to choose which issuers to "trust" in terms of issuing identity. This might sound abstract, but let's play it out with an example:

> Farah is a refugee who fled her home country and landed in a UNHCR camp in a neighboring host country. She left her home so quickly that she took almost nothing with her, not even having time to gather her personal documents, such as her state-issued ID. One of the first things that UNHCR does when bringing Farah into the camp is provide her with a unique UNHCR identification number, issued by UNHCR. Farah uses this for her day-to-day interactions within the camp. Additionally, Farah might interact with a patchwork of MFIs or other financial service providers, who also issue her independent identification numbers. Kiva Protocol as a platform allows all of these independently-issued identifiers that Farah holds to be cryptographically proven to be the same person.
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> Why is this important? Hopefully at some point, Farah is able to resettle outside of the UNHCR camp, possibly as a permanent resident of her host country. This comes with a state-issued form of identification that can be used for KYC verifications, and thus for financial inclusion. If this identifier is put into Kiva Protocol, then all of the activity that Farah did using her "informal" identities while in the camp are by design included in the

KYC process. Farah joins her host country with a history of identity and financial activity — two hugely powerful tools to helping her successfully integrate and find a path to sustainable livelihood.

This important paradigm shift — from needing a single source of identity to being able to link together multiple independently-issued identities — is hugely impactful. Imagine if Farah had this type of digital history before fleeing her home country. In that case, her first day in a refugee camp would have started with the entire history of her identity and financial history, giving her much greater economic and social mobility within the camp and then within the host country.

If self-sovereign identities, like the ones used within Kiva Protocol, become prevalent over the next decade, it is possible that every person on the planet will have some form of digital identity. Kiva's mission to end systemic financial exclusion is one major initiative that will greatly benefit from this future. But even more importantly, self-sovereign identity for all will enable democratized access to a range of services that require verifiable identity. Everything from economic livelihoods to medical services to education and employment history — anything that requires a verifiable identity — will become systemically accessible to even the world's most vulnerable populations.

Identity is a basic human right. For the world's most vulnerable — and especially refugees — it is imperative that the organizations that interact with them provide a pathway to interoperable identity systems to enable this future of equal access and opportunity. Kiva Protocol is one such effort, and it will take a global partnership of organizations to bring this to reality by 2030. The ability of refugees to establish livelihoods and provide sustainable conditions for themselves, their families, and their communities hinges on our collective ability to solve this foundational challenge.