

India's identity scheme

The magic number

A huge identity scheme promises to help India's poor—and to serve as a model for other countries

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INDIA'S economy might be thriving, but many of its people are not. This week Manmohan Singh, the prime minister, said his compatriots should be ashamed that over two-fifths of their children are underfed. They should be outraged, too, at the infant mortality, illiteracy, lack of clean drinking water and countless other curses that afflict the poor.



Poverty has many causes, and no simple cure. But one massive problem in India is that few poor people can prove who they are. They have no passport, no driving licence, no proof of address. They live in villages where multitudes share the same name. Their lack of an identity excludes them from the modern economy. They cannot open bank accounts, and no one would be so foolish as to lend them money.

The government offers them all kinds of welfare, but because they lack an identity, they struggle to lay hands on what they have been promised. The state spends a fortune on subsidised grain for the hungry, but an estimated two-thirds of it is stolen or adulterated by middlemen. The government pays for an \$8 billion-a-year make-work scheme for the poor, but much of the cash ends up in the capacious pockets of officials who invent imaginary "ghost workers".

Suppose those thieving middlemen were obliged to deliver grain, not to poor people in

but to named individuals who could confirm receipt by scanning their fingerprints? And suppose those ghost workers had to undergo an iris scan before being paid? If poor Indians each had an identity number tied to unique biometric markers, it would be much harder for the powerful to rob them. Sceptics will scoff that the Indian government is far too incompetent to implement such a scheme. But the sceptics are wrong.

ID-ing the benefits

This month India's unique identity (UID) scheme will enroll its 200 millionth member, had almost none only a year ago (see [article \(http://www.economist.com/node/21542](http://www.economist.com/node/21542)). By the end of this year, says Nandan Nilekani, a former software mogul who runs the scheme, the tally could stand at 400m, a third of all Indians. The scheme is voluntary, but the government is visibly enthusiastic about it. Long lines wait patiently in the heat to have their fingerprints and irises scanned and entered into what has swiftly become the world's largest biometric database.

For the poor, having a secure online identity alters their relationship with the modern world. No more queueing for hours in a distant town and bribing officials with money you don't have to obtain paperwork that won't be recognised if you move to another state looking for a pilot project just begun in Jharkhand, an eastern state, will link the new identities to individuals' bank accounts. Those to whom the government owes money will soon be able to receive it electronically, either at a bank or at a village shop. Ghost labourers staffing welfare works schemes, and any among India's 20m government employees, should turn into honest workers. The middlemen who steal billions should more easily be bypassed or caught.

That is just the start. Armed with the system, India will be able to rethink the nature of the welfare state, cutting back on benefits in kind and market-distorting subsidies, and turning cash transfers paid directly into the bank accounts of the neediest. Hundreds of millions of poor must open bank accounts, which is all to the good, because it will bind them into the modern economy. Care must be taken so mothers rather than feckless fathers control the money for their children. But most poor people, including anyone who wants to move around, will be better off with cash welfare paid in full. Vouchers for medical or education spending can follow.

Companies—and their customers—stand to gain from the system too. Mr Nilekani talks of India stealing a march on other countries if firms have an easy, secure way of identifying their customers. Banks will be more likely to lend money to people they can trace. Mobile-phone firms will extend credit. Insurers will offer lower rates, because they will know more about each person they are covering. Medical records will become portable, as will school records. Ordinary Indians will find it easier to buy and sell things online, as ordinary Chinese already do. Just as America's Global Positioning System, designed for aiming missiles, is now used by everyone for civilian navigation and online maps, so might UID become the infrastructure for India's commercial services.

They've got your number

India's scheme holds three lessons for other countries. One is that designing such a scheme

a platform for government services, not security, keeps the costs down and boosts the benefits. Another is to use the private sector. From the start, Mr Nilekani harnessed the genius of Indians abroad, including a man who helped the New York Stock Exchange count numbers and one of the brains behind WebMD, an American health IT firm. Both public and private actors (mostly tech firms that enroll participants and process data) are paid for their results. The cost of enrolling each person is a little over 100 rupees (\$2). Many other countries could afford that.

And the third is that, alas, even a brilliant idea has enemies. India's stubborn home minister P. Chidambaram, is now blocking a cabinet decision to extend the UID's mandate, which was needed for the roll-out to continue. Parliamentarians and activists have raised worries about India's lack of strong privacy and data-protection laws; they also complain about the weak legal basis for the scheme.

These complaints have some validity, but not enough to derail the scheme. For instance, India plainly needs better data-protection laws, but even if the existing rules remained unchanged, the threat to liberty would be dwarfed by the gains to welfare: to people who live ten to a room, concerns about privacy sound outlandish. Some of the resistance is principled, but much comes from the people who do well out of today's filthy system. Indian politics hinge on patronage—the doling out of opportunities to rob one's countrymen. UID would make that harder. That is why it faces such fierce opposition, and why it could transform India.

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