

Press release

## Global Digital Business Identity Initiative Launches to Boost Financial Inclusion for African Businesses

*LSEG (London Stock Exchange Group), Zimbabwe's NMB Bank Limited, GLEIF, Cenfri and Cornerstone Advisory Plus unlock access to trade finance and boost economic potential for SMEs*

**10 August 2021** - Basel - An international flagship project designed to expand financial inclusion among small to medium sized enterprises (SMEs) especially on the African continent has launched today. The project has been financed with the support of the German Federal Government through the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

The collaborative initiative is designed to equip SMEs across Africa with globally recognized business identities, in the form of Legal Entity Identifiers (LEIs). The initiative was launched in Zimbabwe with NMB Bank Limited, which is working to equip local SMEs with LEIs. This project has the potential to be scaled across other countries within Africa. The LEI is comparable to an international company ID card; it contains good quality business card and ownership structure information about a legal entity which can be verified quickly and efficiently by anyone, anywhere, enabling organizations to know precisely with whom they are doing business. The verifiable company data results in transparency in the marketplace and builds greater trust between market participants.

Supplying LEIs to African SMEs aims to strengthen financial inclusion in the region by enabling them to apply for trade finance and establish contractual, regulated agreements with banks, payment networks and trading partners, leading to broader access to financial services and greater participation in both domestic and international markets. Ultimately, the intention of the initiative is to strengthen Africa's SME base and increase the flow of inbound capital needed to fuel the continent's economic development.

Today, Africa's heterogeneous economies suffer from a severe trade finance gap, which is currently estimated to be more than US\$81bn.<sup>1</sup> The limited availability of transparent key reference information for African businesses, together with the perceived risk of trading with them, is a major challenge both to banks seeking to expanding trade finance portfolios on the continent and to international business partners seeking to engage this underutilized, but nascent sector.

By working with African banks to enable them to issue LEIs, the initiative not only addresses this challenge, but also aims to reduce the compliance burden associated with stringent anti-money laundering (AML) and know your customer (KYC) regulations. Today, this overhead routinely prevents banks from lending to new African SMEs due, in large part, to ID validation and verification difficulties. Over the 2013-14 period, less than one per cent of African banks cited regulatory compliance as the primary reason for rejecting trade finance applications. Between 2015 and 2019, however, as compliance requirements have increased, this figure has grown to circa 16 per cent.<sup>2</sup>

Using the LEI for identifying legal entities in cross-border trade could also enable banks to significantly reduce both cost and effort in data reconciliation.

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<sup>1</sup> [African Development Bank's Report Trade Finance in Africa: Trends Over the Past Decade and Opportunities Ahead](#)

<sup>2</sup> As above.

## Who is involved?

The LEI initiative is a collaborative effort between:

- The Global Legal Entity Identifier Foundation (GLEIF), a not-for-profit founded by the G20 and Financial Stability Board which manages the global network of LEI issuing organizations and supports the availability of the Global LEI System;
- LSEG (London Stock Exchange Group), which is the initiative's LEI issuing organization;
- Zimbabwe's NMB Bank Limited, which is equipping local SME customers with LEIs;
- The Centre for Financial Regulation and Inclusion (Cenfri), an independent, not-for-profit think tank which works on African financial sector development;
- Cornerstone Advisory Plus, which specializes in financial sector advisory and training services.

## Scope of opportunity

To gain insights into the accessibility and potential benefits of introducing LEIs in African markets, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH conducted a survey between April and June 2020.<sup>3</sup> The survey showed that LEIs are attractive for companies of all sizes and types in the region and led to the development of the initiative. "By acting as a reliable, proof of existence to business partners in their value chain, the LEI can support companies in engaging in trading activities for cross-border commerce. Given the global nature of the LEI, the greatest benefit may appear in cross-border transactions. [...] LEIs may improve companies' access to financial services by enabling previously un(der)served clients such as SMEs to make their ownership structure and credible identity accessible to banks,"<sup>4</sup> the authors concluded.

## The Validation Agent (VA): A new operating model for LEI issuance / NMB Bank Limited first VA in Africa

This global digital business identity initiative has been made possible thanks to the introduction of a new LEI operating model for banks known as the Validation Agent.<sup>5</sup> NMB Bank Limited serves as the first Validation Agent in Africa.

By leveraging their KYC, AML and other regulated 'business-as-usual' onboarding processes, NMB bank can now obtain LEIs for its customers when verifying their identity during initial onboarding. This enables the bank to improve its customer experience, facilitate digital transformation and reduce

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<sup>3</sup> Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH: [More Transparency for Better Business – the Potential of Legal Entity Identifiers for African Economies 2020](#).

<sup>4</sup> Extract taken from Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH: [More Transparency for Better Business – the Potential of Legal Entity Identifiers for African Economies 2020](#).

<sup>5</sup> The [Validation Agent Framework](#) is a new operational model in the Global LEI System, which allows financial institutions to obtain and maintain LEIs for their clients in cooperation with accredited LEI Issuer Organizations.

client lifecycle management costs, while opening the door to the development of new identity-based services.

### **Stakeholder quotes**

#### **Alberta Abbey, LEI Analyst, Data & Analytics, LSEG:**

“LSEG joined this initiative to facilitate wider LEI adoption across Africa. By demonstrating the uses and benefits of Legal Entity Identifiers, our aim is that this project will encourage more entities across Africa to obtain LEIs. We started the project with a partnership approach, which we intend to continue beyond the pilot.”

#### **Stephan Wolf, CEO, GLEIF:**

“The LEI has the potential to create a more transparent, efficient cross-border exchange of goods and data under the African Continental Free Trade Area. This is the first step toward greater financial inclusion and overcoming the challenges associated with access to trade finance in Africa. Considering the high pace of digitization and regulatory development across the African continent, the LEI is a great natural fit. It is a compelling, ready-to-go cross-border solution for entity identification that is open, reliable and easily integrated into regulatory frameworks.”

#### **Second Muguyo, Finance and Admin Manager at Copperwares, a Zimbabwean copper and silver giftware manufacturer, participating in this initiative:**

“We face trade financing challenges not only because we are a small company, but because we are unknown from Zimbabwe. While we are not directly excluded from trade finance, we often receive unfavourable repayment terms which result in indirect exclusion. The LEI, as a globally recognized form of business ID, will give us greater credibility when we apply for finance, engage in international trade and establish new supplier relationships for our manufacturing process.”

#### **Viola Pamela Ndlovu, Head of Compliance, NMB Bank Limited:**

“In view of the emergence of a digital era and the rapid increase in demand for greater transparency by all organisations including regulators across the World, securing a LEI has become a powerful tool that organisations can rely on in fulfilment of know your customer/business principles.”

#### **Barry Cooper, Technical Director, Cenfri:**

“The LEI is one of the few initiatives with real potential to meaningfully address the challenges of de-risking in developing markets. The high costs of institutional due diligence and information asymmetries is a core element of the exclusion of small and medium enterprises, and even some corporates, from regional and international markets. A robust global enterprise identity opens up an under-represented large base of SMEs and women-owned businesses to trade across Africa as well as across the global markets. Cenfri looks forward to the deepening of LEI usage across Africa and the inclusion of SME and women-owned enterprises in the global economy.”

#### **Yann Desclercs, Managing Director, Cornerstone Advisory Plus:**

“The increasingly stringent customer due diligence requirements of the evolving international regulatory environment has, over the past years, contributed to an increase in SME trade finance rejections by banks. This is an important limitation to the growth potential and global outreach of

African SMEs. The LEI can significantly contribute to reversing this trend by decreasing the cost of compliance and reshaping international trade and growth for African SMEs.”

**Sarah Weiss, Financial Sector Development Advisor, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, and Hugues Kamewe Tsafack, Financial Sector Advisor, Making Finance Work for Africa:**

“Having more African-based LEI issuers would contribute to promoting the LEI concept and facilitate LEI applications for Africa-based entities. Forging strategic partnerships could also bolster awareness raising efforts among African FIs, real sector companies, national supervisory and regulatory authorities about the LEI, its potential benefits and the application process. Finally, it is worthwhile to explore the potential synergies between African initiatives that facilitate client due diligence and promote market transparency.”<sup>6</sup>

GLEIF welcomes dialogue with governments, NGOs, banks and other stakeholders interested in either expanding the LEI initiative in Africa or in replicating the model in other developing economies. Please email [info@gleif.org](mailto:info@gleif.org) for more information.

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**Full resolution images and logos can be downloaded via this link**

<https://www.gleif.org/en/newsroom/gleif-graphics-images>

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#### **Relevant link**

<https://www.gleif.org/en>

#### **Glossary of terms**

##### **Legal Entity Identifier (LEI)**

The Legal Entity Identifier (LEI) is a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The LEI connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. Each LEI contains information about an entity’s ownership structure, answering the questions of ‘who is who’ and ‘who owns whom’. It provides a universally recognized identifier paired with essential entity data, rigorous verification processes and high data quality.

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<sup>6</sup> Quoted from: [Promoting the Legal Entity Identifier to foster transparency and trade in African markets](#)

### **About the Global Legal Entity Identifier Foundation (GLEIF)**

Established by the Financial Stability Board in June 2014, the Global Legal Entity Identifier Foundation (GLEIF) is a not-for-profit organization created to support the implementation and use of the Legal Entity Identifier (LEI). GLEIF is headquartered in Basel, Switzerland.

GLEIF services ensure the operational integrity of the Global LEI System. GLEIF also makes available the technical infrastructure to provide, via an open data license, access to the full global LEI repository free of charge to users. GLEIF is overseen by the LEI Regulatory Oversight Committee, which is made up of representatives of public authorities from across the globe. For more information, visit the GLEIF website at <https://www.gleif.org/en>.

#### **Source:**

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