



The LEI: The Key to Unlocking Financial Inclusion in Developing Economies

Plus: A Spotlight on Africa

How LSEG (London Stock Exchange Group), Zimbabwe's NMB Bank Limited, GLEIF, Cenfri and Cornerstone Advisory Plus are unlocking access to trade finance and boosting economic potential for African businesses.



LEI

GLOBAL
LEGAL
ENTITY
IDENTIFIER
FOUNDATION

Introduction

A 2017 report from the International Finance Corporation (IFC) contends that 65 million firms around the world, including 45 per cent of small to medium sized enterprises (SMEs) in developing countries, have an unmet annual total financing need of \$5.2 trillion.¹ Today's African economies, for example, suffer from a severe trade finance gap currently estimated to be more than US\$81bn.²

The root of the problem, both for banks seeking to expanding trade finance portfolios and international businesses looking for supply chain partnerships, lies in the need for greater transparency among SMEs. Too many do not possess the business credentials needed to support counterparty due diligence processes and their associated risk assessments.

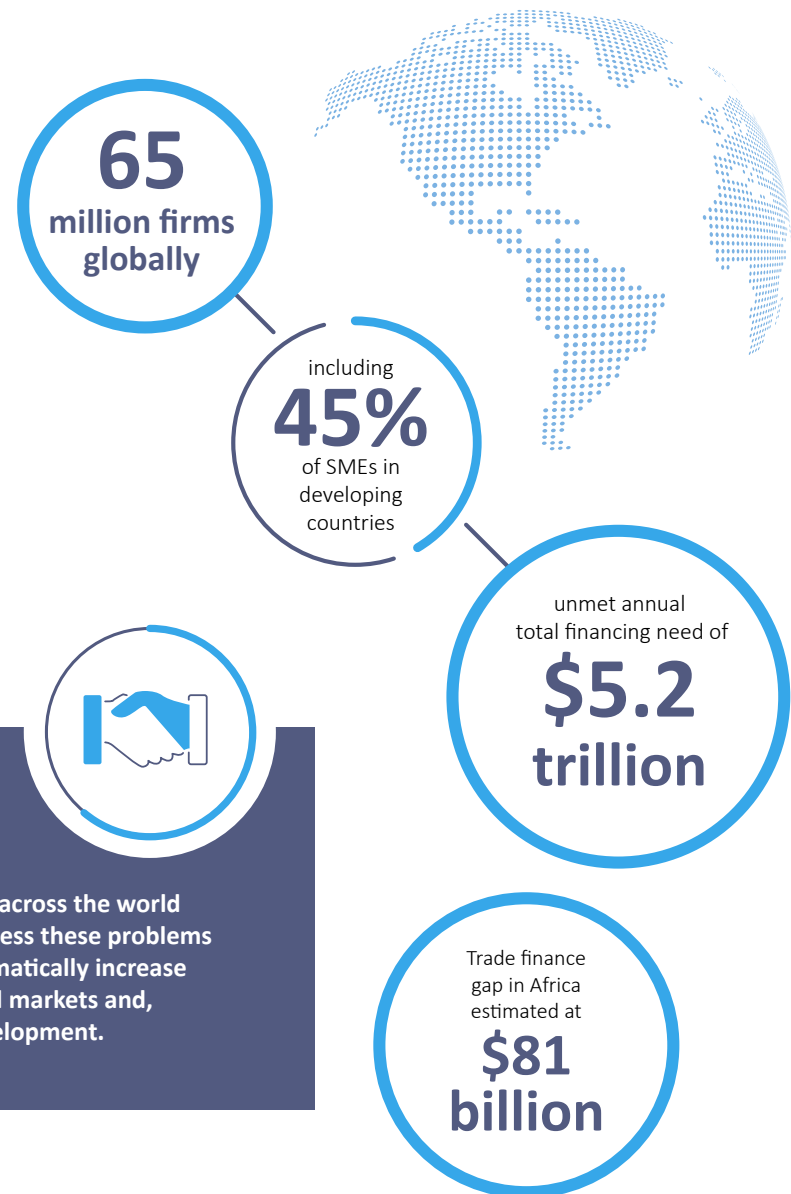
This is a major obstacle impeding global economic growth. It is felt most acutely in developing economies where it prevents capital from flowing into SMEs, through both trade finance and domestic and international partnerships.

The Legal Entity Identifier (LEI) can solve this problem as it enhances transparency in the marketplace and builds greater trust between market participants.

This e-book explores how financial institutions and SMEs in developing economies across the world can use the LEI, a globally recognized and standardized form of business ID, to address these problems head-on. By equipping SMEs with LEIs, developing economies everywhere can dramatically increase financial inclusion, enable broader participation in both domestic and international markets and, ultimately, increase the flow of inbound capital needed to fuel their economic development.

¹The MSME Finance Gap, IFC 2017

²Trade Finance in Africa: Trends Over the Past Decade and Opportunities Ahead - Policy Research Document 3, September 2020



The need for globally recognised business identity

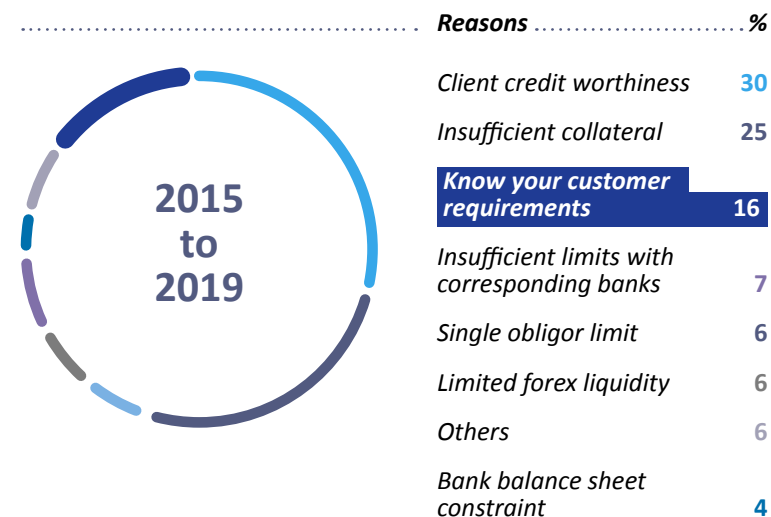
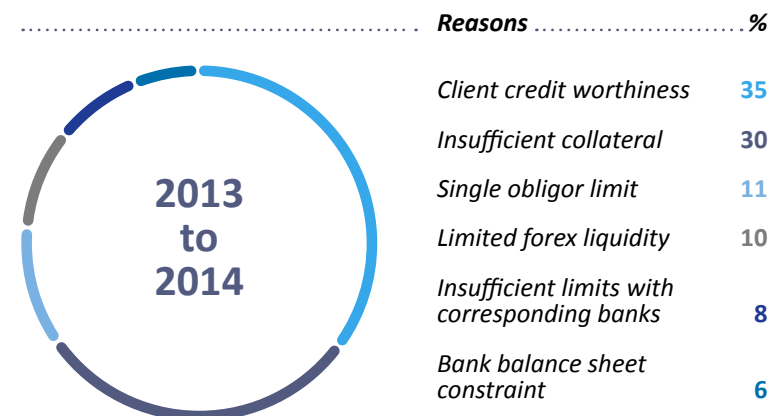
SMEs play a crucial role in the global economy, fostering innovation and financial development and providing two thirds of the world's jobs.³ According to the World Bank, SMEs represent around 90 per cent of businesses worldwide.⁴

Yet, despite the critical role they play, many SMEs in developing economies lack robust business credentials and, as a result, face significant barriers to growth: their access to finance, particularly to trade finance, is either severely limited or denied altogether, and their capacity to establish contractual domestic and international trading partnerships is constrained. Even gaining access to payment services is a challenge.

Know your customer (KYC) and anti-money laundering (AML) requirements, in particular, have emerged as a new and growing challenge for SMEs. 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. This shows that stringent KYC/AML regulations are having two unintended consequences on the trade finance sector. They are:

- 1 *Increasing the cost of processing finance applications and transactions from SMEs. Banks operating in the region are now reluctant to spend time and effort performing the required KYC checks for a new SME client.*
- 2 *Reducing the number of international banks participating in trade finance across the region, for the same reason.*

Reasons for African banks rejecting SME trade finance applications⁵



³Setting up small and medium-size enterprises for restart and recovery' McKinsey, June 2020

⁴Small and Medium Sized Enterprise Finance section, World Bank website

⁵African Development Bank's Report Trade Finance in Africa: Trends Over the Past Decade and Opportunities Ahead

The LEI and financial inclusion

A crucial step to increasing financial inclusion in developing economies is to encourage broad SME adoption of a trusted, globally recognized system for business identity.

This is what is offered by the Global LEI System. It gives banks, financial institutions, potential business partners and other regulated institutions easy access to an SME's key legal reference data. Once registered, an SME can be recognized universally, since its data is openly available electronically, free of charge, to anyone, anywhere.



In this way, any SME holding an LEI can demonstrate the level of transparency needed for it to establish a trusted relationship with any third-party organization at home or across borders.

Put simply, it is the key that enables any business to unlock access to both finance and trade.

For financial institutions and regulators, the LEI improves risk management by enhancing assessments of micro and macro prudential risk. In this way, it also promotes market integrity while containing market abuse and combating financial fraud.

What is the LEI?

The Legal Entity Identifier (LEI) is an alpha-numeric code that links to a system in which the identity of a legally registered organization, or 'legal entity', can be verified quickly and efficiently by anyone, anywhere. It can be thought of as a kind of digital international company ID card; each LEI 'record' contains high quality business card information.

There are currently 1.87 million LEIs in circulation, each one containing information about an entity's ownership structure, enabling questions of identity ('who is who') and ownership ('who owns whom') to be answered unambiguously.

The LEI is already widely mandated by regulators for use in capital markets and has been embraced in over 200 jurisdictions around the world.

Adoption of this proven system is now expanding to overcome a range of new identity-related challenges facing organizations across different market sectors as they engage in global digital commerce.

The Global LEI System is the perfect solution to help bridge trade finance gaps and promote financial inclusion across the globe. It is the only system in existence that is open, commercially neutral, standardized and carries the endorsement of financial regulators.

This makes it the only system capable of establishing digitized trust between all legal entities, everywhere.



The positive impact of the LEI:

Benefits for SMEs

1

***Business ID:
Credible digital
identity leads to
trustworthy business***



SMEs can both prove who they are and know precisely who they are doing business with, globally, saving time and money, enabling new opportunities for domestic and cross-border trade, and combatting financial fraud and market abuse. The Global LEI System is fast, efficient and the data is free to use. All LEI data is verified and validated by LEI issuing organizations and accredited by GLEIF.

2

***More trade
finance,
less red tape***



The LEI can improve an SME's risk profile in the eyes of lenders and investors, increasing its chances of accessing finance and securing more attractive rates. By creating the foundational step of identity, the LEI also has the potential to dramatically reduce the compliance burden and costs associated with stringent AML and KYC regulations.

3

***Fast-track support
for national business
digital ID schemes***



As countries look to advance their own business digital identity schemes, the LEI can ease the implementation and integration burden on SMEs. In a globalized digital economy, verifying the identity of legal entities such as customers, partners and suppliers is becoming an increasingly complex and costly challenge. Only by establishing trust between legal counterparties can the true benefits of a digitally enabled world be realized. The LEI is uniquely powerful in its ability to enable digital transformation in a way that is truly interoperable for everyone.

The positive impact of the LEI: Benefits for SMEs continued...

4

Trust and transparency in supply chain partnerships

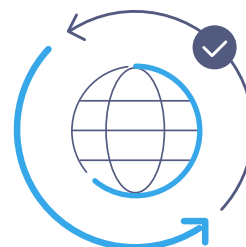
The SME digitalization journey has accelerated dramatically during the COVID-19 crisis. Their successful transition to e-commerce and online business is now crucial. This is the area where the LEI shines by enabling accurate and fast digital identification in supply chains, building both transparency and trust into commercial partnerships.



5

Enhanced cross-border trade

The LEI creates more transparent and efficient cross-border exchanges of goods and data. Particularly in free trade areas, such as the African Continental Free Trade Area (AfCTA) or the Association of Southeast Asian Nations Free Trade Area (AFTA), the LEI can help to simplify customs procedures, accelerating the flow of goods.



“

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 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.

”



Barry Cooper,
Technical Director
at Cenfri

Spotlight on Africa: How the LEI is boosting financial inclusion for SMEs



An international flagship project is now underway in Africa, designed to help SMEs use the LEI to unlock access to trade finance and create new domestic and international trading opportunities.

The collaborative, multi-stakeholder initiative has been realized with the support of the German Federal Government through the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

Between April and June 2020, GIZ conducted a survey⁶ revealing that LEIs are attractive for companies of all sizes and types in the region, which led to the development of the initiative.⁷

Impetus

SMEs across Africa contribute significantly to job creation and economic growth, yet their financial inclusion rates remain low.

According to the Reserve Bank of Zimbabwe, Zimbabwean SMEs contribute more than 60 per cent of the country's GDP, yet only 3.8 per cent of the banking sector's loans and advances are extended to these businesses.⁸

The same is true of international finance; global banks are also hesitant to provide credit. These conditions revealed a strong opportunity for the LEI to make a significant impact, in Zimbabwe specifically and across the broader region.

What is happening?

NMB Bank Limited, Zimbabwe, is undertaking a flagship initiative to equip its SME client base with LEIs.

NMB was selected on grounds of its well aligned principles to the project:

- **A focus on enabling and deepening its SME client base.**
- **Capacity to conduct this initiative within the given timeframe.**
- **An interest in innovating on SME identification.**
- **A financial inclusion mandate.**

Participating SMEs are already beginning to realize the benefits of LEI adoption. Businesses in possession of an LEI can access greater international trade, escrow and guarantee facilities which bolster their ability to negotiate and trade in larger volumes, more frequently, and with less cost. NMB has also noted that the LEI holds the potential to reduce compliance bottlenecks SMEs experience when executing international transactions.



“
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.
”

Second Muguyo,
Finance and Admin Manager
at Copperwares

COPPERWARES
ESTABLISHED 1960

Zimbabwean copper and silver giftware manufacturer, participating in the LEI initiative.



⁶More Transparency for Better Business – The Potential of Legal Entity Identifiers for African Economies, GIZ, 2020

⁷Promoting the Legal Entity Identifier to foster transparency and trade in African markets, January, 2021

⁸Re-igniting SME Development in Zimbabwe – Learning from Global Experiences, Governor, Reserve Bank of Zimbabwe, 2017

Spotlight on Africa: continued...

Who is involved?

The flagship initiative is a collaborative effort between:

- **The Global Legal Entity Identifier Foundation (GLEIF)**, the not-for-profit founded by the G20 and the Financial Stability Board to manage the global network of LEI issuing organizations and support the availability of the Global LEI System.
- **LSEG (The London Stock Exchange Group)**, which is the initiative's LEI issuing organization.
- **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
- Zimbabwe's **NMB Bank Limited**, which is equipping local SME customers with LEIs.



Harare,
Zimbabwe

“

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.

”

Alberta Abbey,
LEI Analyst,
Data & Analytics, LSEG



Spotlight on Africa: continued...

“

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.

”



Sarah Weiss,
Financial Sector Development Advisor,
Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH



Hugues Kamewe Tsafack,
Financial Sector Advisor,
Making Finance Work



Yann Desclercs,
Managing Director at
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.

”

NMB Bank Limited:

The first Validation Agent in Africa

The LEI initiative has been made possible thanks to the introduction of a new LEI operating model for banks, called the **Validation Agent**. After working closely with GLEIF and project partners to complete the required qualification process, NMB Bank Limited is now serving as the first Validation Agent in Africa.

By leveraging its KYC, AML and other regulated 'business-as-usual' onboarding processes, NMB Bank Limited can now obtain LEIs for its customers when verifying their identity during initial onboarding. This new capability creates a significant range of strategic and operational benefits for the bank itself, as well as for its SME clients. It enables the bank to:

- **Streamline client onboarding.**
- **Improve its customer experience.**
- **Facilitate digital transformation.**
- **Reduce client lifecycle management costs.**
- **Open the door to the development of new identity-based services.**
- **Contribute to the fulfilment of broader financial inclusion goals of the country.**

Within just three months, NMB Bank Limited has been onboarded and trained as the first Validation Agent in Africa and has begun to issue LEIs to its SME clients. **NMB Bank also has obtained an LEI for itself which will allow it to establish its identity with other correspondent banks quickly and seamlessly.**

Although the full benefits of the LEI are fully realized in the long-term, NMB Bank Limited has already begun to note initial benefits for its day-to-day business operations, establishing itself as the 'first mover' in the region, and taking advantage of its ability to fully onboard clients to the LEI platform.

Interested to find out more about the Validation Agent framework and its benefits for financial institutions?

[Download GLEIF's e-book here.](#)



Interested in obtaining an LEI for your business?

Validation Agents are just one source. LEI Issuing Organizations also support this process for businesses around the world. On the African continent, there are three LEI issuers in operation, with a list of global providers available [here](#).



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



Viola Pamela Ndlovu,
Head of Compliance,
NMB Bank Limited



The LEI and financial inclusion: Looking to the future

While the LEI cannot claim 'silver bullet' status, it remains a uniquely powerful proposition for enabling financial inclusion in developing economies. The advent of the Validation Agent role for financial institutions is building significant momentum toward the realization of this goal and, at the same time, delivering myriad benefits to both participating banks and their business clients.

As LEI issuance increases in developing regions, so does the world's confidence to trade with the businesses that collectively drive their economies. Success here will, in turn, increase the flows of international, inbound capital that enable faster economic development.

“

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.

”

Stephan Wolf,
CEO, GLEIF.



GLEIF continues to seek 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 for more information.



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) worldwide.

GLEIF enables smarter, less costly and more reliable decisions about who to do business with. Its services ensure the operational integrity of the Global LEI System, providing free access to the full global LEI repository. GLEIF is overseen by the LEI Regulatory Oversight Committee, a group of public authorities and observers from more than 50 countries around the world. It is headquartered in Basel, Switzerland.

For more information visit:
www.gleif.org



Cenfri is an independent not for profit economic impact agency based in Cape Town, South Africa. Cenfri works on financial integrity and has extensive experience in conducting research; training and capacity building; development of guidelines and modules, targeted engagement and advice on Corresponding banking relations, AML-CFT implementation, Risk Based Approach, Risk Based Supervision and Financial Inclusion, among others. Cenfri mostly assists government ministries, regulators, financial service providers (banks, insurance, among others), designated non-financial businesses and professions (DNFBPs) and other stakeholders at national and regional and global levels (including ESAAMLG, GIABA, Alliance for Financial Inclusion countries).

For more information visit:
www.cenfri.org



Cornerstone Advisory Plus is an advisory firm based in Cote d'Ivoire- West Africa with an office in Dakar Senegal as well. The firm is specialized in advisory and training services towards the private institutions as well as the public sector including regulators and financial sector supervisors. The areas of expertise of the firm are Compliance AML (Anti Money Laundering), terrorist financing, enterprise wide AML/TF (Anti money laundering/Terrorist financing risk assessments, (Know your customer), Correspondent banking issues including the global problematic of De-risking. Cornerstone Advisory Plus was founded by a specialist in the financial sector with 20 years experience in the financial sector in West Africa and in the context of multinational institutions.

For more information visit:
www.cornerstoneadvisoryplus.com



NMB Bank Limited is a registered commercial bank in Zimbabwe (formerly National Merchant Bank of Zimbabwe Limited) which was established in October 1992. The Bank's vision is to be the leading financial services group in its chosen market and its mission is to provide financial services to high net worth individuals, businesses and uniquely branded technology enabled products to SMEs and the broader market. The Bank's strategy is firmly focused on the enhancement of its digital offerings to ensure seamless service delivery to the Bank's existing and future clients via its exciting and refreshing digital touch points. NMB Bank Limited also continues with its financial inclusion drive and has intensified the adoption of different technologies to improve on-boarding experience to the Bank's future customers.

For more information visit:
www.nmbz.co.zw



GLEIF Blog

Source:

Global Legal Entity Identifier Foundation,
St. Alban-Vorstadt 5, 4052 Basel, Switzerland
Chairman of the Board: Steven Joachim, CEO: Stephan Wolf
Commercial-Register-No.: CHE-200.595.965,
VAT-No.: CHE-200.595.965MWST
LEI: 506700GE1G29325QX363

The content of this e-book is the property of GLEIF. Reproduction and/or sharing of this content is encouraged and must be accompanied by a clear attribution to GLEIF.



LEI

GLOBAL
LEGAL
ENTITY
IDENTIFIER
FOUNDATION