

Unity Bank Digest

September 6th, 2017



THE HIGHLIGHTS

Nigeria records first quarter of positive growth since 2015

In line with analyst expectations, the economy expanded by 0.55% in the second quarter of 2017 (year-on-year). This is 1.46% higher than the -0.99% growth recorded in Q1, and 2.04% higher than the growth rate of the corresponding quarter of 2016. Growth was primarily driven by increased activity in the oil sector, which grew by 1.64% y-o-y. Biggest gainers were Electricity (35.50%), Financial institutions (11.78%) and Oil refining (11.28%); Real estate (-3.53%), Telecommunications (-1.92%), were the biggest losers. We expect the economy to post positive growth in the last two quarters of 2017, bringing the full year growth to 0.8-1.0%.

Manufacturing PMI reverses trend - CBN

The CBN's Manufacturing Purchasing Managers' Index (PMI) recorded an unexpected decline by 0.5 points to 53.6 in August. This is the first decline in 5 months, and is reflective of the threat the current high interest rate environment poses for inventory levels and carry-over costs. On the contrary, FBN PMI jumped 2.2 points to 58.5, driven by increased manufacturing gains from import substitution. Nevertheless, both numbers remain in the expansion territory, implying an improvement in the overall health of the manufacturing sector. PMI is a coincidental indicator, thus a positive trend confirms that the economy is on a slow but steady recovery path.

Inflation slows for the sixth consecutive month

Nigeria's inflation rate slowed in July to 16.05% from 16.10% in June. Pressure on food prices continued into July as the food inflation price index showed a spike in inflation, up from 19.91% in June to 20.28% in July, the biggest year on year increase in eight years. We expect the upcoming harvest season to reverse the current trend in

food inflation. Food prices are expected to ease, reinforcing a decline in the headline rate.

FAAC July revenue drops to N467.85bn

FAAC allocation shared to the federal, state, and local governments for August declined to N467.85bn from July's N652.8b. This is 28% less than the amount shared in July. The decline can be attributed to the drastic fall in CIT collection, following the expiration of the deadline for filing tax returns. We expect FAAC levels to remain above N450bn in the coming months, primarily because of higher oil prices above \$50pb and stable production.

Nigeria's oil production cost per barrel falls to \$23pb

The Nigerian National Petroleum Corporation (NNPC) said it has reduced the cost of crude oil production to \$23 per barrel from \$29 in 2016. This represents a 20.7% fall in production costs. Accordingly, the cost saving initiative saved the country \$3bn in the upstream sector. The government aims to bring the cost of onshore production down to \$17 and \$19 for offshore production. This is positive as it implies an increase in Nigeria's yield per barrel.

CBN sells \$9.96bn to the forex market

Since it began its aggressive supply interventions in February, the Central Bank of Nigeria (CBN) has pumped \$9.96bn into the forex market. This accounts for sales to the interbank market for invisibles, SMEs, and wholesale forwards, from February to August 21st. FX monthly sales hit a high of \$2.1bn in May, before settling at around \$1.6bn in June & July. The central bank sold a total of \$1.0bn in August. We expect the steady decline in the CBN's market interventions to persist, as the apex bank allows the market to find its equilibrium.

Power output recovers from year low (Review Period: August 13th – 30th)

On-grid power output increased by 5.54% to 3,411 MWh/h, compared to 3,232MWh/h on August 13th. The sector lost approximately N26.26bn during the review period.

Generation was largely hampered by high frequency constraints and increased gas constraints at four (out of the 17) power stations.

Kenya imposes ban on plastic bag

The Kenyan government has placed a ban on the use of plastic carrier bags, making them illegal for use. Kenyan supermarkets alone give out an estimated 100 million plastic bags per annum. These bags are harmful because they do not decompose and can block sewers. Anyone caught manufacturing, selling or using plastic bags will be penalized with up to \$38,000 in fines, or a 4-year jail time. The ban could lead to a loss of jobs as nylon-making firms shut down. It will however, encourage innovation, recycling initiatives or bio-degradable alternatives.

Lagos, the second worst city to live in – Global Liveability Report

Lagos is ranked the second least most livable city, bettering only Syria's war torn Damascus. In 2015, Lagos scored an overall rating of 39.7, which marginally dropped to 36 in 2016 and remained constant at 36 in 2017. This report poses a threat to the big city's reputation as a major commercial and financial hub in Africa

Nigerians spend N42 trillion in e-payments in six months

A report by the National Bureau of Statistics (NBS) disclosed that Nigerians made N42trn in 631.7bn electronic payment transactions in the first half of 2017. The report showed that the value of e-payments transactions dropped by 10% in the second quarter to N20trn from N22trn in the first quarter, while the volume of transactions rose marginally to 327.4bn from 304.3bn. There is an ongoing revolution in the retail space, as consumers become more sophisticated, and shift from cash transactions to cashless payments and transfers. We expect this trend to continue, supported primarily by the budding middleclass, rising urbanization and financial inclusion initiatives.

Senate passes the 'Not too young to run' bill

- After an electronic vote, the Senate voted by 86 to 10 to pass a bill nicknamed 'Not too young to run' designed to lower the age limits for those contesting elections in Nigeria. The bill stipulates that 25 year olds can now hold office in national and state assemblies nationwide; it also reduces the age eligibility for presidential candidates from 40 to 35 years, and 35 to 30 years for governorship positions. Population dynamics are shifting; half of the global population is under 30. Nigeria has a median age of 18, which makes this vote particularly important for the nation.
- The Senate also voted to nullify the need for political parties, allowing independent candidates to run for office. To take effect the 'Not too young to run' bill and all its addenda still requires endorsement by 24 of Nigeria's 36 state assemblies along with the President's assent.



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Note that all transactions are subject to Central Bank of Nigeria (CBN) guidelines.



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SOCIAL CORNER

British Airways cabin crew to pause strike action for talks – union

- In a bid to resolve the conflict over pay gaps, Unite, Britain's largest union paused strike action among the airline's recently hired mixed fleet and regular cabin crew. The union claims that regular cabin crews earn less than other British Airways staff.
- The Unite Union members have been on strike since the beginning of July; the strike is expected to end August 30th. British Airways entered into a wet-leasing arrangement to borrow planes and staff during the strike period to ensure that all passengers reach their destinations.
- The union has not issued any further notice for a strike action to enable their teams to secure a mutually accepted resolution to the dispute and restore peace.
- The strike had an impact on flights to Nigeria's capital, Abuja. Three out of the first five daily round trips from Heathrow to Abuja in July were cancelled.



Jailed Samsung heir appeals against conviction

- Lee Jae-Yong, the de-facto head of Samsung Group was found guilty of bribing South Korea's ousted president, Park Geun-Hye and sentenced to 5 years in prison. His lawyer Kim Jon-Hoon filed for an appeal and a fierce legal battle has been predicted by experts. However, prosecutors feel disfranchised by Samsung and plan to appeal for a harsher punishment for Lee Jae-Yong.



- Lee Jae-Yong testified that he had no idea of the happenings in Samsung and had limited authority over the business. Notwithstanding, the judge, Kim Jin-dong stated that there was enough evidence suggesting the alliance between Samsung and the South Korean government.
- However, Samsung's dominance as the No.1 brand in South Korea may make it difficult to keep its top executive in prison as the masses do not believe that the verdict is good for the country.
- Despite these, Samsung's profit is expected to surge due to positive reviews on its latest mobile phone and an increase in its semi-conductor business. Profit has grown to \$12b/yr and sales rose by 18% in the second quarter of this year.
- *Samsung leads the African smart phone market with a 27% market share. Nigeria is currently its largest African market with an impressive increase in sale of its Samsung Galaxy A, Galaxy J and S7.*

Macy's snags eBay executive, cuts 100 jobs amid management shake-up

- Macy's has appointed former vice president of North America - eBay Inc, Hal Lawton as president effective September 8th. The change in management and restructuring of its merchandising operations (which could result in 100 job cuts) was done to reignite falling sales across its department store chain.
- The department store is trying to increase its online efforts by strengthening its customer insight and data analytics capabilities to include inventory replenishment and pricing capabilities. This will ensure that better decisions are made faster.
- The company will incur one-time costs of about \$20mn-\$25mn in Q3'17 for the restructuring and save about \$30mn per year. Some money saved will be reinvested in the business.
- Macy's and other department stores are currently struggling to compete with e-commerce companies such as Amazon Inc and cope with reduced customer traffic that has been pressuring its profit margins.



- *Nigeria's e-commerce industry is currently about 3% of the total retail market due to the traditional behaviour of majority of Nigerians. The pace of adoption and acceptance by Nigerians is slow despite the huge progress recorded in the Nigerian e-commerce landscape.*

Wal-Mart has an idea for a floating warehouse that could make deliveries via drones

- Wal-Mart is set to expand its e-commerce business as it has applied for a US patent for a warehouse in the sky, which could make deliveries via drones. The patent fully describes the implementation of a gas-filled aircraft and the methods to be used in dispersing unmanned aircraft systems in delivering products.
- The machine would fly as high as 1,000 feet, contain multiple launching bays and be operated autonomously or remotely by a human pilot. This would cut costs of fulfilling online orders and improve customer service and convenience.
- Wal-Mart saw its Q2'17 digital sales up by 60% and with the floating warehouse, the department store would be able to serve a wider distribution area than its current real estate which translates into greater revenue.
- Amazon and Wal-Mart have been at logger heads for retail dominance. Wal-Mart has surpassed Amazon's intellectual property over the years. Amazon was granted a similar patent last year and has strengthened its real estate portfolio through its acquisition of grocery chain, Whole Foods. In October 2016, Wal-Mart filed a patent for a web-based system which can effortlessly reorder household goods and gather shopper data, similar to Amazon's Dash buttons.
- Other e-commerce companies are aggressively trying to improve and strengthen their sales volume. Recently, Target announced plans to acquire a technology transportation company, Grand Junction, to speed up its same-day delivery service.
- *The biggest online stores in Nigeria, Jumia and Konga are grappling with online sales. They have downsized several times to return value to its shareholders. Jumia's losses have piled up over the years and Konga is far away from profitability even with deep cuts in its marketing costs, workforce and change in its business model.*



Fujitsu to sell mobile phone operations

- Fujitsu, the Japanese IT company, has been struggling, in recent years, to compete with global rivals in the highly lucrative mobile phone market and as such plans to offload its mobile operations to private equity companies or industry rivals.
- The Tokyo based company spun off its mobile phone operations into a separate company in February 2016 to focus on its core business operations and is looking for potential buyers. First round bidding is expected to start in September and interested parties include Tokyo's based Polaris Capital, CVC Capital Partners, China's Lenovo Group and Taiwan's Foxconn. The bidding is expected to bring offers of hundreds of millions of dollars.
- Fujitsu would cease developing and manufacturing mobile phones. However, it would still retain a minority stake in the business and keep its mobile brand alive



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TOP STORIES

Nigeria records first quarter of positive growth

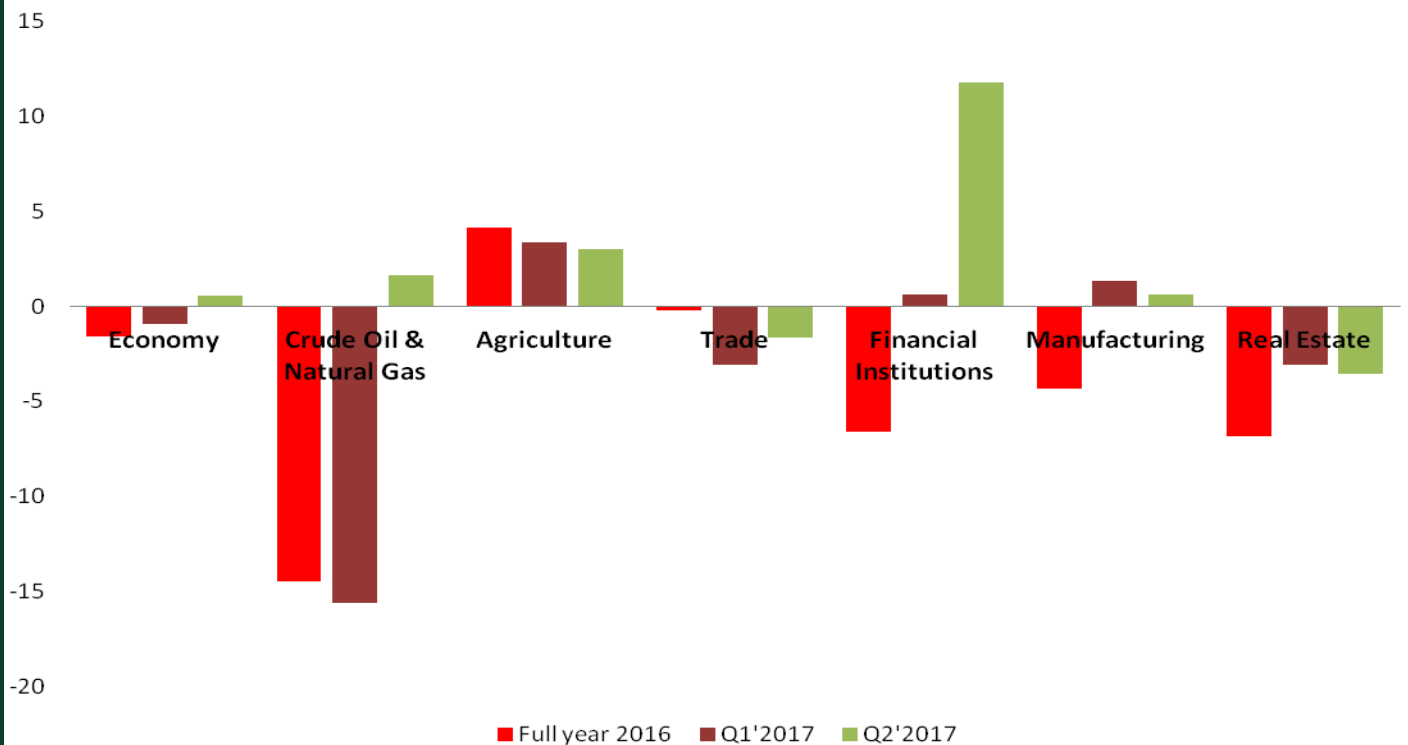
- According to the National Bureau of Statistics, the economy expanded by 0.55% in the second quarter of 2017 (year-on-year). This growth rate, which is in line with analyst expectations, is 1.46% higher than the -0.99% growth recorded in Q1, and 2.04% higher than the growth rate of the corresponding quarter of 2016 (i.e. -1.49% in Q2'16).
- This growth was primarily driven by increased activity in the oil sector, which contributed 8.89% to the economy in Q2. The crude petroleum and natural gas sector grew by 1.64% y-o-y, as average oil production inched up 8.87% to 1.84mbppd, from 1.69mbpd in Q1.
- The fastest growing sectors were Financial institutions (11.78%), Oil refining (11.28%), Insurance (3.79%) and Agriculture (3.01%). The slowest growing sectors include Real estate (-3.53%), Telecommunications (-1.92%), and Trade (-1.62%).
- Real growth in the manufacturing sector slowed down to 0.64% in Q2, from 1.36% in Q1. This is despite the uptick in PMI recorded during the second quarter. The CBN PMI gained 1.7 points in Q2'17, to close to at 52.8.

Analysis & Outlook

Nigeria's economy is growing slower than its population. This implies a decline in GDP per capita and purchasing power.

We expect the economy to post positive growth in the last two quarters of 2017, bringing the full year growth to 0.8-1.0%.

Real GDP Growth (%)



Manufacturing PMI reverses trend after five consecutive months of increase- CBN

- The CBN's Manufacturing Purchasing Managers' Index (PMI) recorded an unexpected decline by 0.5 points to 53.6 in August. This is reflective of the threat the current high interest rate environment poses for inventory levels and carry-over costs. 4 of the 16 sub-sectors covered – transportation equipment, primary metal, petroleum & coal products and fabricated metal products – recorded negative growth.
- On the other hand, First Bank Nigeria's (FBN) PMI rose to 58.5 in August from 56.3 in July. According to FBN, this uptick was driven by gains from import substitution, as manufacturers (especially in the food and beverages segment) boosted utilization of local products for production inputs.

Analysis & Outlook

The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A reading above 50 is indicative of an expansion in the manufacturing sector, while a reading below 50 shows a contraction in activity. Nevertheless, both numbers remain in the expansion territory, implying improvements in the overall health of the manufacturing sector. PMI is a

coincidental indicator, thus a positive trend confirms that the economy is on a slow but steady recovery path. The manufacturing sector grew by 0.64% in Q2'2017, compared to 1.36% in Q1'17.

Inflation slows for the sixth consecutive month

- Nigeria's inflation rate slowed in July to 16.05% from 16.10% in June. Pressure on food prices continued into July as the food inflation price index showed a spike in inflation, up from 19.91% in June to 20.28% in July, the biggest year on year increase in eight years.
- The rise in the food index was driven by the increase in the prices of bread and cereals, meat, fish, oils and fats, coffee, tea and cocoa, potatoes, yam and other tubers and vegetables. It however stated that the food sub-index increased by 1.52% in July, down by 0.47% points from 1.99% recorded in June on a month-on-month basis.

Analysis & Outlook

We expect the upcoming harvest season to reverse the current trend in food inflation. This is expected to lead to an ease in food prices, reinforcing a decline in the headline rate. The base year effect is now completely removed and will have no effect on inflation dynamics in the coming months.

Nigerians spend N42 trillion in e-payments in six months

- A report by the National Bureau of Statistics (NBS) disclosed that Nigerians made N42trn in 631.7bn electronic payment transactions in the first half of 2017. A breakdown of the transactions comprise: 150.5bn NIP transactions (NIBSS Instant Payment) worth N26.5trn; 366.7bn ATM transactions worth N3.04trn; 59.4bn point of sale (PoS) transactions worth N610bn; 11.4bn Internet (web) transactions worth N84bn; 24.2bn mobile payments worth N556bn; and 14bn NEFT (NIBSS electronic funds transfer) worth N8.2trn.
- In the second quarter, the volume of internet transactions rose by 7.3% to 5.9bn but the value dropped by 21% to N37bn; the volume of mobile payment transaction dropped by 7.9% to 11.6bn but the value rose by 13% to N295bn. The volume of

NEFT transactions dropped by 29% to 5.8bn while the value also dropped by 45% to N2.9trn.

- The report showed that the value of e-payments transactions dropped by 10% in the second quarter to N20trn from N22trn in the first quarter, while the volume of transactions rose marginally to 327.4bn from 304.3bn. Additionally, lending to the private sector by banks in the first half of 2017 declined by N405bn to N15.7trn compared to N16.1trn at the end of December 2016.

Analysis & Outlook

There is an ongoing revolution in the retail space, as consumers become more sophisticated, and shift from cash transactions to cashless payments and transfers. We expect this trend to continue, supported primarily by the budding middleclass, rising urbanization and financial inclusion initiatives.

Lagos, the second worst city to live in - Global Liveability Report

- Lagos is ranked the second least most livable city, bettering only Syria's war torn Damascus. The report states that continued threat from groups, such as Boko Haram, acts as a constraint to improving stability in Nigeria's largest city. Its stability score was 10 out of 100. Crime, civil insurgency, and terrorism played a strong role in the low ranking of Lagos. In 2015, Lagos scored an overall rating of 39.7, which marginally dropped to 36 in 2016 and remained constant at 36 in 2017.
- *The Economist's* Global Liveability Report for 2017 ranks 140 cities across the world based on their standard of living. It considers 30 factors related to stability (25% of total weight), healthcare (20% of total weight), culture and environment (25% of total weight), education (10% of total weight), and infrastructure (20% of total weight). The report describes an overall marginal improvement for the first time in a decade. This is attributable to an improvement in just a dozen cities over the past year.
- Melbourne. Australia is the most livable urban center for the seventh consecutive year among the 140 cities surveyed. It is followed closely by Vienna, Austria's capital. Canada's Vancouver, Toronto, and Calgary complete the top five respectively. Notable absentees were megacities with high population density such as New York, London, Tokyo and Paris because of public commute issues and higher levels of crime, which were deemed uncomfortable. Rankings were also affected by the continuous spread of worldwide terrorism, leading to increased levels of civil unrest.

Analysis & Outlook

The city's scores in the stability was one of the major reasons for its poor performance. The factors defining stability have an adverse effect on other categories. For instance, conflict causes disruption, which can damage infrastructure, overburden hospitals and undermine the availability of goods and services.

This report is somewhat damaging to Lagos' reputation as a major commercial and financial hub in Africa. However, it is important to note that the research only covers the largest cities in world. Additionally

FAAC July revenue drops to N467.85b

- FAAC allocation shared to the federal, state, and local governments for August declined to N467.85bn from July's N652.8b. This is 28% less than the amount shared in July. The allocation comprised Value Added Tax (VAT), Company Income Tax (CIT), and Petroleum Profit Tax (PPT).
- Mr. Mahmoud Isa Dutse, the Permanent Secretary in the Ministry of Finance, attributed the decline in revenue to drastic fall in CIT collection due to the expiration of the deadline for filling tax returns. He, however, noted that oil revenues strengthened due to significant rise in export volume, which resulted in increased revenue from export sales for the federation by \$62 million.
- The federal government received N193.04bn, state governments were allocated N130.69bn and local governments N98.01bn. N31.59bn was also given to the nine oil producing states as their 13% derivation. The permanent secretary confirmed the balance in the excess crude account, ECA at \$2.3bn.

Analysis & Outlook

The funds will have a positive impact on government spending, boosting activity at the local, state and federal level. With the price of oil above \$50 and production approaching 1.8 mbpd, we expect FAAC levels to remain above N450bn.

UNITY BANK BOOSTS RURAL ECONOMY WITH NIRSAL FARMERS SAVINGS ACCOUNT

In its bid to strongly drive its strategic business focus on rural economy, Unity Bank Plc has developed a product called NIRSAL Farmers Savings Account specifically designed as a platform to execute a key aspect of the service level agreement for the NIRSAL UNITY BANK channel partnership to bank farmers in rural areas.

NIRSAL, (Nigerian Incentive Based Risk Sharing System for Agricultural Lending) is borne out of the efforts of the Central Bank of Nigeria to increase the disbursement of the Anchor Borrower funds to more farmers at the grassroots level and the product was conceived to expand and capture more states of the federation to benefit from the scheme.

Commenting on the Farmer's product, the Head, Agribusiness, Unity Bank Plc, Mr. Olugbenga Emmanuel Adelana, said, "a total of 7 states - Kebbi, Jigawa, Zamfara, Adamawa, Kaduna, Kano and Bauchi and over 9000 small holder farmers have signed on to the scheme when the pilot of the Channel Partnership Agreement (CPA) first came on stream.

The success and the need to grow the number of Farmers benefiting from the scheme in other states of the federation have therefore given rise to the development of NIRSAL Farmers Savings Account".

There is no gainsaying that the creation of several intervention schemes by the Central Bank of Nigeria will boost economic diversification and reduce over dependency on Crude oil. CBN is thus funding the Anchor Borrowers Scheme in which it has set aside a whopping N500Billion for the creation of rural employment and assurance of food security.

As a sequel, A Memorandum of Understanding and Service Level Agreement on the implementation of the Channel partnership has been approved and signed by Unity Bank and NIRSAL.

Under the partnership, NIRSAL aims to disburse up to N100Billion out of the N500Billion earmarked by CBN for the Anchor Borrower Scheme, using Unity Bank as “channel partner”.

The scheme will leverage Unity Bank’s extensive rural branch network, e-channels and technology to reach several thousands of un-banked smallholder farmers in rural Nigeria, with access to finance for staple crops and livestock production, under Central Bank of Nigeria funded Anchor Borrowers Scheme.

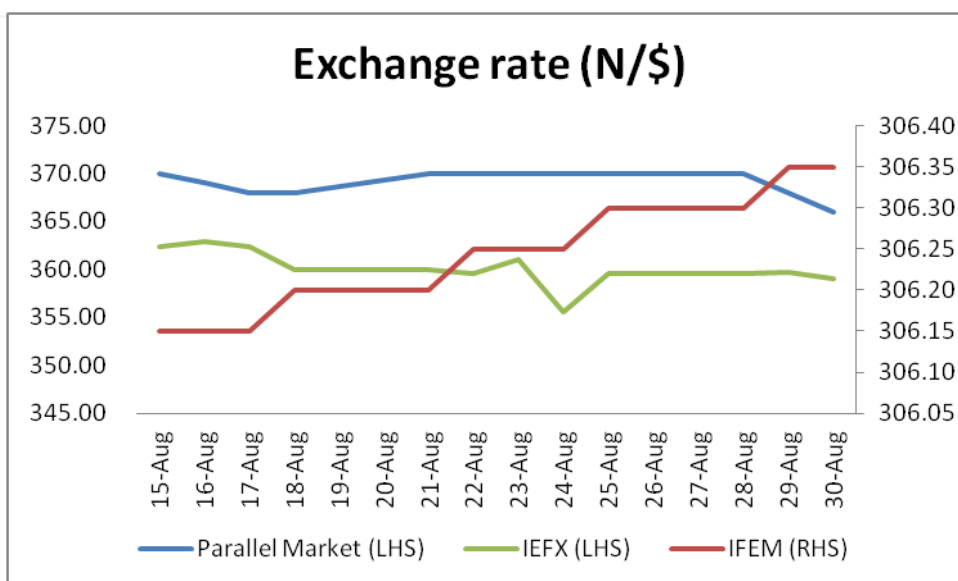
“Unity Bank Plc, being a niche player in Agricultural financing in Nigeria, with active participation in most government intervention schemes and support for key policy initiatives to drive growth and transformation of Nigeria’s Agricultural economy, has provided this platform to execute a key aspect of the service level agreement for the NIRSAL UNITY BANK channel partnership”, says Olugbenga .. The Bank’s Head of Agric Desk.

NIRSAL is expected to channel about N2Billion in loans for dry-season farming to small holder farmers across 7 states already sign on to the scheme.

BUSINESS UPDATE (Review Period: August 15th - September 6th 2017)

The Forex Market

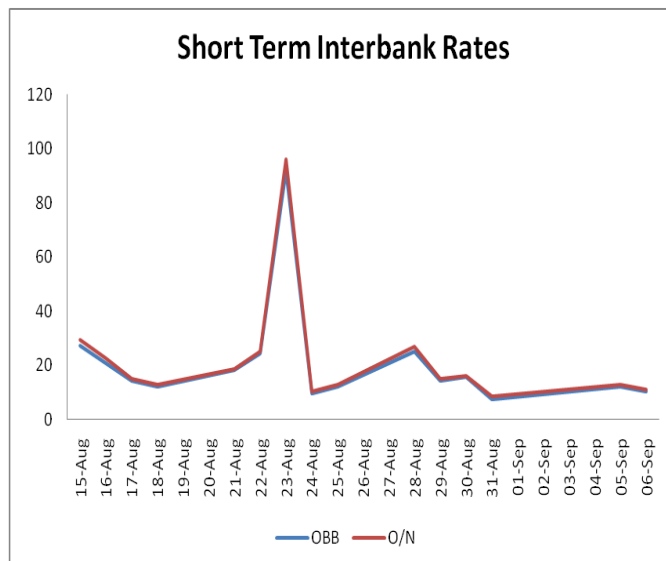
- At the parallel market, the naira:
 - Appreciated by 1.35% during the review period to close at ₦ 365/\$ on September 6th, compared to ₦370/\$ on August 15th.
- Appreciated by 1.26% against the pound to close at ₦470/£ on September 6th, from ₦476/£ on August 15th.
- At the interbank market, the naira depreciated marginally by 0.08% to close at ₦306.40/\$ on September 6th, from ₦306.15/\$ on August 15th.
 - The central bank sold a total of \$1bn in the month of August, compared to the \$1.64bn sold in July
- The IEFX rate appreciated by 0.84% to ₦359.33/\$ within the review period.
 - Turnover for the month of August (1st - 30th) totaled \$3.58bn.
- External reserves gained 1.89% during the period, to close at \$31.81bn on August 29th.
 - The import cover rose to 8.78 months from 6.99 months on August 1st.
 - We expect the reserves level to continue to record marginal gains as oil prices stay above \$50pb and the CBN reduces its supply intervention in the forex market.



SOURCE: FDC Think Tank, CBN, FMDQ

The Money Market

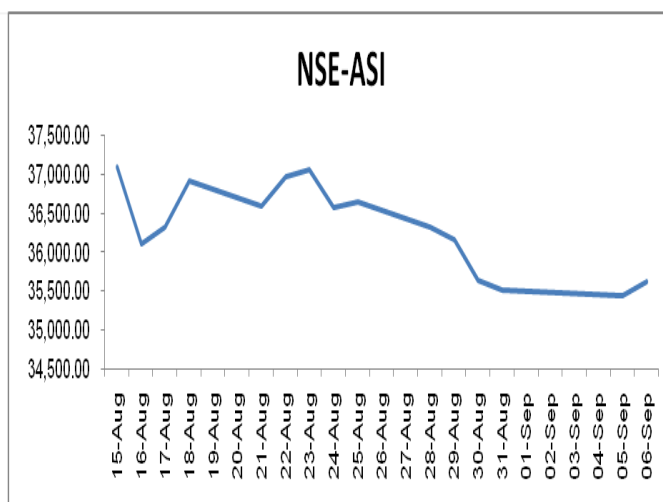
- Short term interbank interest rates OBB and ON declined sharply by 1700bps and 1825bps respectively, to close the period at
 - OBB: 10.33%
 - O/N: 16.08%
 - Period high:96.67% Period low:7.33%
- Yields on T-bills investments in the primary market declined during the period.



SOURCE: CBN, FDC Think Tank, FMDC

The Stock Market

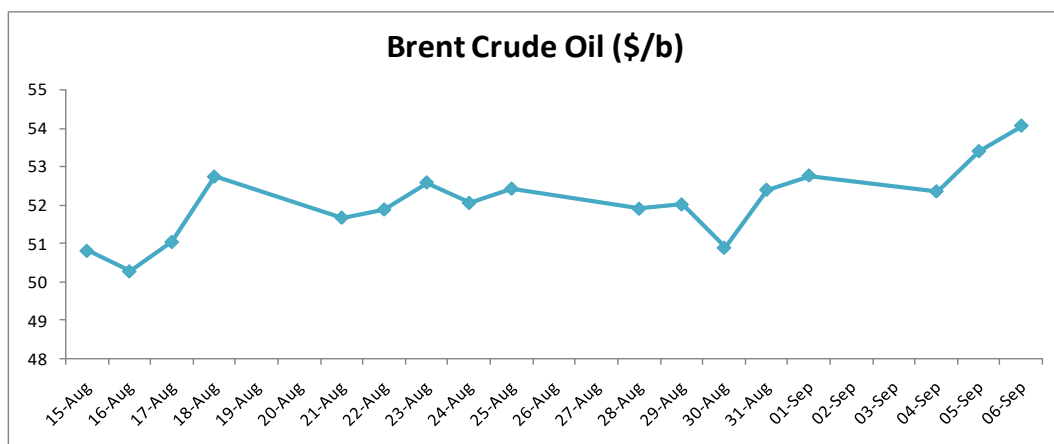
- The Nigerian Stock Exchange All Share Index (NSE ASI) market lost 4.01% to reach 35,609.07pts on September 6th compared to 37,096.60 pts on August 15th.
- Market index reached a peak of 38,198 on August 11th- the highest since October 2014. This is indicative of rising investor confidence.
- Recent decline can be attributed to technical resistance as the index approaches 40,000.
- Total market capitalization closed at N12.27trn on September 6th, 3.99% lower than N12.78trn on August 15th.



SOURCE: NSE

The Commodities Market

- Brent crude price gained 6% to \$54.04pb on September 5th, from \$50.8pb on August 15th.
 - Oil prices up as Hurricane Harvey recovery commences
 - Resumption of operations in key refineries in the U.S. bolstered prices
- Natural gas gained 2% to close at \$3.007/mmbtu from \$2.94/mmbtu on August 15th.
 - Prices gained as damage from Tropical Storm Harvey halted production and pipeline operations.
- Wheat prices down 2% to \$165.46/tonne from \$168.89/tonne.
 - Robust supply due to booming exports from the Black sea region.
- Corn prices dipped 2% to \$144.2/tonne from \$147.4/tonne.
 - Driven by high stockpiles in the U.S
- Sugar prices up 8% to \$0.1418/pound from \$0.1313/pound in the review period.
 - Increased demand as the festive period approaches bolstered prices.
- Cocoa prices rose by 2% to \$1,908/mt from \$1,865/mt in the review period.
 - Increased demand due to discoveries of new health benefits of cocoa responsible for the higher prices.



SOURCE: Bloomberg

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SCAN TO OPEN



LIFESTYLE

The High Cost of Red Tape in Nigeria- Culled from www.economist.com¹

The regulatory racket means businesses stay small and in the shadows

MANY Nigerians may see building a hotel as an easy way to launder money. For legitimate entrepreneurs, however, running a hotel is far from cheap or simple. In Abuja, the capital, it is rather like erecting a sign that says: "Tax me". In fact, erecting such a sign would result in city and local taxes of about 80,000 naira (\$221) a year.



One Abuja hotelier recorded no fewer than 20 bills for various annual fees, taxes and licences. They range from a 5m-naira charge from the city council for having a car park, to demands from two different agencies for putting a logo on a company car. The hotelier has also been issued with bills for four different types of property tax and a bicycle/cart licence, despite having neither a bicycle nor a cart. Although he is challenging some of the notices in court, it is often safer to pay up and avoid facing the policemen that bureaucrats send to enforce payment on the spot. "It's a racket ...like in the mafia movies," he says.

Trying to play by the rules can be a laborious, opaque process. Companies that want to renew product licences with Nigeria's food and drug agency, NAFDAC, have to run the same laboratory tests as they did when they first registered their products, says Affiong Williams, the founder of ReelFruit, a snack company. She was forced to employ an external consultant after a staff member spent one day a week over the course of two months trying to renew the licences (which has to be done every two years). The company was also fined \$150 by NAFDAC for not collecting product-

¹ This article appeared in the Middle East and Africa section of the print edition of the Economist, under the headline "Of mandarins and men"; Also available online at : <https://www.economist.com/news/middle-east-and-africa/21727119-regulatory-racket-means-businesses-stay-small-and-shadows-high-cost?fsrc=scn/tw/te/bl/ed/thehighcostofredtapeinnigeria>

registration certificates, but only after it spent almost a year trying to do so and being told they were not ready.

It is possible for the well-connected to pay bribes rather than taxes, says the Abuja hotelier. But those who do, risk being presented with a backlog of bills if an election puts a new set of officials in charge. Even those who try to pay the taxman have to beware. Until the introduction of a single bank account for the federal government in 2012, taxpayers could not be sure that they were not simply fattening the personal accounts of mandarins.



Economist.com

There are a number of reasons for Nigeria's impenetrable thicket of red tape. The first is the low price of oil, which once accounted for as much as 90% of government revenues. When less money is being doled out to state and local administrations, bureaucrats invent new charges.

The main reason, however, is Nigeria's political system. The "patronage economy" encourages legislators to create ever more government agencies which they can use to provide jobs to pals, says Cheta Nwanze of SBM Intelligence, a research firm. Many simply duplicate work that other agencies are already doing. One local newspaper found that the national parliament was in the process of creating 25 new federal agencies. Among them was a National Council for Research and Development, a National Research and Innovation Foundation, a National Research and Innovation Council and Federal Entrepreneurship Centres across the country. As if that were not enough, it is also creating a Chartered Institute for Entrepreneurs. Many will no doubt start issuing licences and permits to any firm in sight.

Ms Williams knows only too well what happens when firms grow large enough to be noticed. As hers expanded, it was told to register its products with the Standards Organisation of Nigeria, using a near-identical process to NAFDAC's. Knowing what to comply with (and how) is almost impossible, she says.

The result of all this regulation is that businesses stay small and, where possible, in the shadows. In 2013 the National Bureau of Statistics found that Nigeria has nearly 37m firms employing fewer than ten people (most of them unregistered sole traders). Just 4,670 employed 50-199 staff. No wonder: senior managers at big companies have to spend around 18% of their time dealing with government demands, while bosses at the smallest firms devote just 7%, according to a survey in 2014 by the International Finance Corporation, the World Bank's private-sector investment arm.

Reformers are trying to snip away at the tangle. Yemi Osinbajo, the vice-president, issued a series of executive orders in May in an effort to move Nigeria up a few notches on the World Bank's ease of doing business index. It currently ranks 169th out of 190, putting it behind countries such as Iraq and Sudan.

Among his many edicts, Mr Osinbajo has ordered immigration officials to process visas for investors more quickly. He has also forced agencies to publish their regulations online and insisted that officials at ports and airports should be fired if caught asking for bribes.

Yet there is a gulf between promises in the corridors of power and what happens in the depths of the bureaucracy. It is, for instance, possible in theory to renew passports online. But in reality officials still drag their heels, taking months to issue them. In 2011 a report commissioned by the then-president, Goodluck Jonathan, recommended cutting the number of federal agencies from 263 to 161. Since then, however, the number has kept growing.

CONTACT INFORMATION

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