

The day in review

- Equity market lost 0.1%
- Interbank rates ficked downwards
- Bullish activity in bonds market
- Naira appreciated marginally at the NAFEX window

Looking forward

Q3 Earning season - NGX

Daily Insight

Revenue allocation formula restructure: A paradigm shift?

The revenue allocation formula between the tiers of government in Nigeria has remained a source of constant debate on its adequacy in ensuring fairness in distribution. Earlier this year, the Chairman of the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC), Dr Elias Mbam, announced that a review of the allocation formula would happen before the end of 2021. Truly this has commenced, with public hearings across the different geopolitical zones of the country. Earlier in the week, the Northwest geopolitical zone held its own public hearing. At the hearing, they stated that states and local governments should get the biggest percentage of revenue allocation suggesting a 60% and 40% allocation ratio to the two-tiers of the government (states & LGAs) and the federal government respectively.

The current Revenue Allocation Formula which specifies that 52.7%, 26.7% and 20.6% of the revenue be shared to the Federal, State and Local Governments has been in existence since 1992. This sharing formula was agreed upon due to several key responsibilities such as defence and power being placed on the exclusive list, requiring the Federal government to take a greater share of revenue. However, proponents arguing in favour of a review to allocate greater percentage to states and local governments have pointed to the fact that in 1992, Nigeria had 30 states and 589 LGAs, both of which have now increased by 6 states and 189 LGAs. The resulting impact has been a reduction in allocation to each state and LGA, given there are now more "mouths to feed".

On the other hand, state and local governments have been heavily criticized on their lack of innovation to improve Internally Generated Revenues (IGR) evident in their overreliance on FAAC allocations from Federation account. In addition, lack of fiscal responsibility among state governments have also been another argument against allowing states have access to large share of the Federation's income. Either way, we struggle to see how the revenue allocation review will come to fruition. Previous attempts have proved unsuccessful due to several reasons including political unwillingness at the Federal level to implement such drastic reduction. We think this would be more amplified given the uncomfortable fiscal position of the Federal government.

Headline	Level	1 day	YTD
NGX ASI	41,789.6	▼ -0.1%	▲ 3.8%
Mkt. Cap (N'bn)	21,808.5	▼ -0.1%	
Mkt. Cap (\$'mn)	52,541.8	▼ -0.1%	
Value (N'mn)	3,203.0	▼ -42.5%	
Value (\$'mn)	7.7	▼ -42.5%	
Volume	284.6	▼ -19.4%	
Deals	5,036.0		
Market Breadth	1.0x		

T-Bills Yields	Current	Previous	%Δ
3 months	4.22	4.34	▼ -0.12
6 months	5.17	5.17	0.00
12 months	7.16	7.16	0.00

Bonds Yields	Current	Previous	% Δ
3 years	10.44	10.45	▼ -0.01
5 years	11.58	11.59	▼ -0.01
7 years	11.72	11.82	▼ -0.10
10 years	11.94	12.05	▼ -0.11

Currencies	Current	Previous	% Δ
NAFEX	415.07	415.10	▲ 0.0%

Other Key indices	Current	Previous	% Δ
OBB	14.5	14.5	0.00
OVN	15.2	15.3	▼ -0.10
Brent	86.4	86.0	▲ 0.48

	1 day	MTD	YTD	P/E (x)	Div. Yid.
Agriculture	0.0%	11.1%	32.5%	na	na
Banks	0.5%	8.6%	2.5%	3.2	8.5%
Consumer	0.0%	-0.6%	-1.7%	73.1	3.7%
Industrial	0.1%	3.8%	5.6%	18.2	4.3%
Insurance	1.5%	2.7%	-6.2%	11.3	3.1%
Oil & Gas	1.7%	4.0%	68.9%	11.1	3.9%
Mkt. Avg. P/E	11.1	Mkt. Avg. Div. Yid	5.0%		

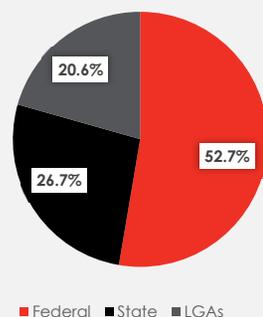
*P/Es are based on the last twelve months trailing earnings
*Dividend yields are based on past year dividend payments



Pan African Market Monitor as at today

Equities	Level	1 day	YTD	P/E (x)	Div. Yid.
BRVM	191.7	▲ 0.8%	31.8%	10.0	5.6%
Egypt	11,256.5	▲ 0.7%	3.8%	9.8	1.4%
Kenya	175.8	▼ -0.5%	15.6%	13.4	3.4%
Mauritius	2,117.9	▲ 0.3%	28.5%	na	1.9%
Morocco	349.6	▲ 0.1%	14.7%	25.9	3.3%
MSCI FM	676.5	▼ -0.3%	18.3%	15.6	2.6%
South Africa	67,615.3	▲ 0.9%	13.8%	12.2	4.4%
Tunisia	6,983.4	▼ -0.3%	1.4%	21.9	2.3%
Zimbabwe	279,052.3	▼ -4.4%	502.3%	2.6	1.1%

Federal government has retained a greater percentage of Federation revenue since 1992
Revenue Allocation Formula



Source: Budget Office of the Federation, United Capital Research

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