



## Challenges of Financial Management in Nigerian Local Governments

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### Abstract

*Financial management in local government like in other levels of government is challenging in terms of sources and management. The study employed secondary data and thematically analysed and the study found that Nigerian local government are challenge in terms of (a) Budgeting; which involves the process of resource generation, allocation and managements. (b) Accountability aims at honesty and judicious use of public funds, and (c) Control, which provides organizational structures for effective implementation. The study therefore recommended that for the desire of Local government management of financial challenges in Nigeria. the funds meant or allocated to the local government councils from the federation account and state internally generated revenue should properly utilized by financial managers in the local government system within the purview of financial rules and regulations.*

**Keywords:** Accountability, federation, financial management, local government, control

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### 1.0 Introduction

The creation of local government stems from the need to facilitate grassroots development and its ability to generate sense of belongingness, safety and satisfaction among its populace. All forms of governmental regimes or political systems have so far ensured the attainment of this goal Anthony et'al, (2012). Moreover, the concept of Local Government may be seen as "a segment of a constituent state or region of a nation state" established by law to provide public services and regulate public affairs within its area of its jurisdiction and it has the necessary powers to function and control its own finances and personnel (Abutudu, 2011; Ayodele & Anyabe, 2012). As a unit of government below the national, the local government task, function as well as structure of the local government differ

depending on the nation and it is policy toward local government regulation. As right observed by (Izueke et al 2013) that effective performance of assigned functions of local governments depends on effective and prudent management of their financial resources. Globally, government has pursued various form of public financial management reforms to enhance local government performance in areas of accountability, transparency, rules of law compliance and service delivery to the generality of the citizens within the community Adesanya (2020).

In recent time, local governments have always explained away their ineffective and dismal performance of their functions by inadequate funds. However, experience has shown that poor finance management, rather than inadequate finance is the bane of local



governments' inability to achieve substantial development in their domain. In similar study, conducted by Adesanya (2020) belief that, poor financial management approach has contributed to the basic failure and inefficiency of some local government in achieving substantial development of their locality, which in turn led to the lack of trust, faith and confidence in local government administration.

Therefore, is paper is motivated by the spark of inability of the local government in Nigeria to performed its responsibilities assigned to it as a grassroots development of the local populace.

## **2.Literature Review**

### **2.1The Local Government System in Nigeria**

All countries throughout the world have local government systems which, to a greater extent, are designed to identify local concerns and to set local priorities and Local authorities act as a system of administration in subdivisions of the state, usually governed by a council and / or mayor. In most developed countries local authorities have substantial control over their responsibility of the local affairs (Callonan, 2011). Unlike the developing countries where the local government is always been highjack and manipulated to serve as only a unit with no autonomous power to discharge.

The evolution of local government in Nigeria can be briefly divided into three phases: pre-colonial, colonial and postcolonial. In the pre-colonial phase, different traditional systems of government existed which were adequate to satisfy the political needs of the different ethnic groups at that time. These traditional political systems were considered as a form of local government created by ethnic groups – Hausa/Fulani, Ibo, Yoruba, etc, for the

provision of social services to meet the needs of the people within their domains. The second phase was the Native Authority system which was created by the colonial master charge with the responsibility of collecting taxes, maintenance of law and order, road construction and maintenance and sanitary inspection especially in township areas (Sunday et'al, 2013). The third phase was emerged following the demise of colonialism in 1960 and this phase was characterized by a multi-tiered local government structure in the Eastern and Western regions where both elected and traditional elements were accommodated (Ukiwo, 2006; Sunday et'al, 2013).

### **2.2Local Government Reforms in Nigeria**

Reforms are all about the introduction of new ideas on how best to manage or administer an organisation. Local government reforms therefore has to do with fresh ideas, innovations etc on how best local governments can be administered. The History of local government Administration in Nigeria explained some reforms or changes introduced at the local level of governance from pre-colonial, to colonial period. The major breakthrough in local government administration is however linked with the reform of 1976 (Kyenge, 2013).

The 1979 local government reform was a water-shield and revolutionary in the sense that it was the first time a uniform local government was being initiated for the entire country. The reforms were also monumental in the sense that by one stroke, local governments were equipped with political, administrative and fiscal capabilities to provide essential service to rural communities. Local government became a third tier of government with constitutional functions and responsibilities. Following the 1976 Local Government Reforms, 301 local



government areas were listed in the 1979 Constitution to guarantee their perpetual existence and traditional rulers could only serve the councils in advisory capacities (Ukiwo, 2006; Oviasuyi, 2010). The 1976 reforms attempted to democratize the local as a tier of government, Increase its autonomy in terms of functions and financial base, but as suggested that these Innovations did not go uncontested by state governments which saw these innovations as being at their expense Abudutu (2011). In similar studies, (Ajayi, 2000), Believed that, the Babangida military government increased the number of local governments from 301 in 1976 to 453 in 1989, and 589 in 1991. The Abacha regime also increased the number to 774 local government areas Babangida and Abacha regimes may have instrumentalized creation of local government areas as a means of gaining legitimacy and acceptance (Ukiwo, 2006).

### **2.3 Structure/Organization of Local Government in Nigeria**

The Nigerian Local Government has three structures and each one is divided into some importance department with a specific task and function to perform different with the other department but they are related and coordinated to one another for implementation of the local administration exercise. These structures are:

(a) The Policy Making Body, which is composed of:

- The Executive Chairman

- The Vice Chairman
- Supervisory Councillors
- Councillors.

(b) The Executive Body, which is composed of:

- The Secretary – Chief executive
- . Heads of Departments, and
- Subordinate Staff

(c) The Departments in the Local Government Council:

- General and Administration Department – Headed by the Deputy Secretary
- Treasury Department – Headed by the Treasurer
- Works Department – Headed by the Civil Engineer/ Technical Officer
- Health Department – Headed by the Principal Health Superintendent
- The Maternity Division of the Medical Department – Headed by the Senior Midwifery Sister
- The Dispensary Division of the Medical Department – Headed by the Higher Pharmacy Officer:
- The newly introduced Farm Division to be headed by the Farm Manager

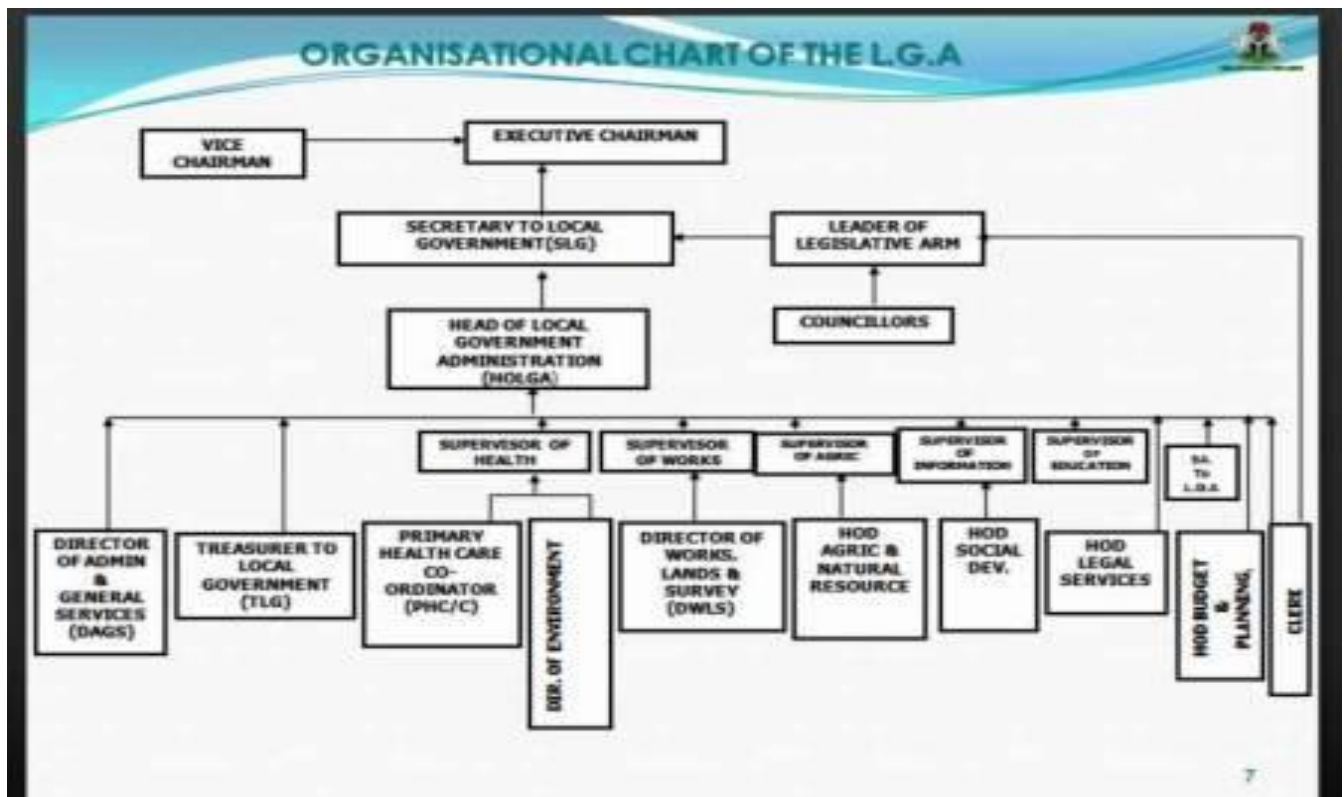


Figure 1: Organizational Chart Structure of the Local Governments in Nigeria

Source: <http://www.Ownwest.ed.gov.ng>

## 2.4 Roles and Functions of Local Governments in Nigeria

In terms of functions, there is uniformity of function and responsibilities for all the local governments throughout the federation. These functions and responsibilities were later enshrined in the 1979 and 1999 Constitutions of the Federal Republic of Nigeria. Local governments in Nigeria have enormous responsibilities to perform. These include the mobilization of local resources, promoting social and economic improvement and development as well as national integration. In addition, they are expected to carry out regional policies with respect to agriculture and selected industries, thereby helping to ameliorate unemployment, local governments work also to revolve around revenue generation, budgeting, development planning, provision

of services and community mobilization (Eboh, 2010; Oviasuyi et al, 2010; Ayodele & Anyabe, 2012).

- Construction and maintenance of roads, streets, street lightings, drains and other public highways, parks, gardens, open spaces, or such public facilities as may be prescribed from time to time by the House of Assembly of a State.
- Licensing of bicycles, trucks (other than mechanically propelled trucks), canoes, wheel barrows and carts.
- Naming of roads and streets and numbering of houses.
- Collection of rates, radio and television licences.
- Establishment and maintenance of cemeteries, burial grounds and homes for the destitute or infirm.



- Assessment of privately owned houses or tenements for the purpose of levying such rates as may be prescribes by the Houses of Assembly of a state
- Provision and maintenance of public conveniences, sewage and refuse disposal.
- Registration of all births, deaths and marriages.
- Registration of all births, deaths and marriages.
- The provision and maintenance of primary, adult and vocational education.
- The provision and maintenance of health services amongst others.
- Formulation of economic planning and development schemes for the local government area.

### **3.Methodology**

To get the required data and information in this paper content analysis was employed to gather the relevant data and information from the secondary source data of published materials from the journals, books, reports and other related materials were used. Similarly, authors experience with the happenings in Nigeria in relation to financial management of local governments has been utilized in the study.

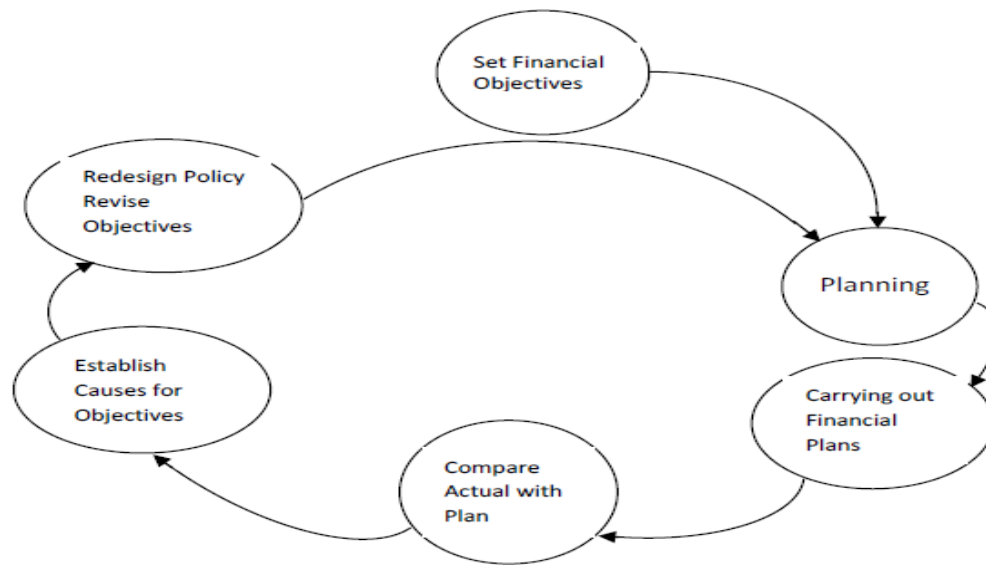
### **4.Results and Discussion**

#### **4.1Financial Management of Local Governments**

Financial management according to Agbani & Ugwoke (2014) is that managerial activity which is concerned with planning and controlling of financial resources of an entity or establishment and it also is seen as

a family of rules and regulations guiding financial arrangements of an institution, agency and mechanism whereby they relate to each other. And

Financial management in local government like other levels of government generally consist of (a) Budgeting; which involves the process of resource generation, allocation and managements. (b) Accountability aims at honesty and judicious use of public funds, and (c) Control, which provides organizational structures for effective implementation.” From the above discussions, it is very clear that the desired rural development and transformation of the economy can only be achieved if funds meant or allocated to the local government councils from the federation account and state internally generated revenue are properly utilized by financial managers in the local government system Agbani and Ugwoke, (2014). Ojo (2009) added that the funds of local government councils are managed by the key officers of respective councils. Financial management has to do with the efficient use of funds. It is a method of showing and ascertaining the financial position of government or business over a period of time. According to him financial management can be perceived to consist of a cycle of activities as shown in Figure 1 below. The aim of this cycle of activities is to ensure that resources are allocated and monitored in such a manner that they have the greatest beneficial impact on the overall service objectives.



Adapted from Ojo, (2009)

In order to perform finance functions efficiently, the financial managers of the local government have to:

- Set the financial objectives of the local government.
- Prepare plans of action and select policies for achieving the objective.
- Develop financial plans and incorporate these into the overall plans of the local government.
- Check the achievement of the objectives and evaluate deviations from the plan.
- Establish causes for deviations.
- Take corrective action and/or redesign policy or revise the objectives to start a new cycle as illustrated in the above diagram, Ojo, (2009).

#### 4.2 Local Government Sources of Fund/Revenue in Nigeria

Abdullah and Yahaya, (2012) Opined that local government in Nigeria is the weakest among the three tiers of government due to inconsistent policy on the part of federal government to reduce the power of local government and resources which render them ineffective. Moreover, history has

shown that local government over the years particularly during the civilian government 1999 to date had suffered from inadequate funding, mis-management of public funds and inappropriate size of their area, executive control from the state government, over staffing, inappropriate organizational framework and lack of futurism in investment potentials which resulted in the administrative ineffectiveness, poor performance and low productivity.

#### 4.3 External Sources of Local Governments Revenue/Finance:

- a. Statutory allocation from federation account in accordance with section 162(3) of the 1999 constitution of the Federal Republic of Nigeria.
- b. Statutory allocation from State Government to the local governments in its area of jurisdiction.
- c. Federal grants
- d. State grants
- e. Borrowing from State Government and financial institutions.
- f. Local government share of value added tax (VAT).

#### **4.4 Internal Sources of Local Governments Revenue/Finance:**

- Local rates and commission paid to Local Government for assisting in the collection of some taxes or dues on behalf of the state government.
- Market rates and levies excluding any market where state finance is involved.
- Bicycle, truck, canoe, wheel-barrow and cart fees, other than mechanically propelled truck.
- Permits and fines charged by customary courts;
- Local Government business investment
- Tenement rates, fees from schools established by the local government.
- Right of occupancy fees on lands in the rural areas, excluding those collected by the federal and state governments.
- Cattle tax payable by cattle farmer only, domestic and license fees
- Signboard and advertisement permit fees.
- Vehicle radio license fees (to be imposed by the local government).
- Radio and television license fees (other than radio and television transmitter)
- Fees collected from amusement centre established and operated by the local authorities and that of tourist centre and tourist attraction.
- Rents, fees on private institutions, Motor Park levies (Abdullahi & Yahay, 2012; Uhumwuangho & Aibieyi, 2013)

#### **4.5 Challenges of Local Governments in Nigeria**

The challenges of local government in Nigeria are many and for the purpose of this paper I will only focus of the main challenge and if these can be address the others can be manage and improve the local government activities.

First impediment is related to the financial matter of the local government in Nigeria since, Local governments as a service provider to the local communities throughout the world have been confounded with a serious challenges facing it is conduct of it is activities. In Nigeria local government system faces a lot of problems and these impediments have invading its performance and functions. These challenges are enormous, scholars capitalising that fund is the heart of every local government activities as we can see from (Asiama, 2006); Oji 2009) local government require finance to perform their statutory provisions of services and bringing about development in their demarcated areas. In recent time, lack of funds has often been attributed as the major problem which had hindered effective and successful execution and completion of many public projects at the local government level (Oji 2009). As such these challenges rendered local government as just like mere agent of state government and justifying it is ability and purpose of it is establishment become a question by many people, (Abdullahi & Yahaya 2012; John, 2013; Mbayeta'l (2014

The provisions of the 1999 constitution on State/joint local Government Account System and its financial management lowered and undermined the powers of the local government councils to enhance rural developments Agbani & Ugwoke (2014). This lack of full autonomy of Local Government make them totally independent, they are managed by the federal and state governments who dominate over the local government administration through the state government offices of local government affairs, the ministry of local government, and the local government service commission. All these government agencies



are denying the autonomy of self-dependent administration of Local Government in Nigeria. The Inter-governmental relations between the three tiers of government as provided in Section 162 (5, 6, 7, 8) that “Each State shall maintain a special account to be called “State Joint Local Government Account”, into which shall be paid all allocations to the local government councils of the State from the Federation Account and beside placed local at disadvantage position (Bolatito & Bilal 2012; Mbaya et al 2014).

Secondly is an unskilled worker, Local government in Nigeria are faced with the problem of inadequate skilled workers such as engineers, accountants, medical Doctors, town planners, statisticians etc Reasons for this ugly development are that, there is a very low image of local government in the minds of these professionals. Again, there is lack of job satisfaction that can keep them in the local government. Most skilled and qualified personnel and professionals prepare to gamble their luck either in private organisations or establish their own firms rather than stay at the local government where there are no incentives and are wasted away. This have made local governments to be surviving on unskilled labour, some are diploma and certificate holders who cannot defend the certificates they hold. This situations is a great challenge to local government efficiency, people who don't know their left and right in what they does can hardly be productive and effective Kyenge (2013)

Third is related also to corruption and mismanagement of fund. One of the fundamental problems of contemporary Nigeria is corruption and it has been institutionalized to the point of accepting it as part of our system. Corruption is the greatest desolation of local government

administration in Nigeria. Corruption has been major hindrance to good government and also identified as one of the problems confronting effective local government administration in Nigeria, also non-adherence to provisions of the financial memorandum (FM), conspicuous consumption of the part of the local officials, lifestyles that are not commensurate with official sources of income, imposition of leaders on the local government through corrupted political process and low wages of local government officials. The most serious corruption that cripple the effectiveness and function of local government can be include; Inflation of prices of bought items, Over estimation of cost of projects, The ghost worker syndrome, Award of contracts and subsequent abandonment; and Outright payment of huge sums of money to political godfather Uwatobi (2012).

### **5. Conclusion and Recommendations**

In conclusion, local government is the small tier of government assigned with the responsibility in providing essential service to the local community. Moreover, the local government in third world countries and Nigeria in particular have been bedevilled with a lot of challenges and problems in governing it is affair of providing essential service to the local community, since the local government reform of 1979 in Nigeria that re-shaped the local government structure, function and discretion of their activities as well as exercise. These challenges include lack of financial autonomy, unskilled personnel, mismanagement, and corruption, to mention but a few. These challenges cripple the local government activities in Nigeria since the reform of 1979 which transformed the local government system from the traditional





system that was inherited from the colonial masters.

Furthermore, below recommendations can be a possible solution to the local government system in Nigeria and improving them will bring about effectiveness and efficiency of local government activities. These recommendations include;

- Constitutional amendment to restructure the local government laws and give them self-autonomy.
- Given political power to the local governments to formulate and implement socio-economic development programmes within the local communities.
- The State Joint Local Government account should be abolished
- Regular public enlightenment on the benefits of tax payment
- Increasing internal generated revenue to improve taxes and fees system which in turn improve local governments service delivery.
- More qualified revenue personnel should be employed in order to enhance revenue generation in the study area.
- Regular monitoring and supervision of revenue officers should be enhance
- Reduction in wasteful expenditure and corruption
- budget should be properly design as well as implementation of provisions of the budgets.

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