

**LOCAL GOVERNMENT FINANCE AND RURAL DEVELOPMENT: A CASE OF  
UMUAHIA NORTH LOCAL GOVERNMENT AREA OF ABIA STATE**

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**ABSTRACT:** *Several challenges have emerged over the years to impede the performance of local government councils in the discharge of their constitutionally assigned responsibilities. One of such challenges is the dwindling revenue base of the local government which has remained an impediment to national development. This paper focuses on how local government can identify revenue sources available to them and ensure effective management of their finances to enhance rural development. A 5 point Likert scale is used to rate hypotheses. It is found that effective utilization of local government finance have significant effect on rural development and a solid financial base have significant effect on the enhancement of rural development. It is recommended that there should be efficient management and utilization of available fund; and also accountable leadership.*

**KEYWORDS:** Local Government, Finance, Revenue, Rural Development.

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## **INTRODUCTION**

This academic discourse attempts to examine the prospects of local government finance towards rural development in Nigeria; a case of Umuahia North Local Government. Nigeria has 774 local governments and 36 states; as such this should have enhanced the extent of rural development attainable within the polity. The finance factor has been a central issue in the determination of the effectiveness and ineffectiveness of governance. As such the performance of any local government administration is subject to the availability of adequate funds which it can use to finance its ever increasing responsibilities, faced with the challenges of managing available local government finance. Finance remains vital in the realization of the developmental road map of every government in a polity (Ugwu, 2000).

Local government finance is described to deal with the income and expenditure of local government in relation to planning the income, financial record keeping and budgeting for economic, social and political development (Njoku, 2009). It entails budgeting for the general growth and development of the local government. Thus an effective management of local government finance will enhance rural development thereby ensuring progressive socio-political development. Since 1976, the role of local government as a necessary instrument to ensure rapid

development of the rural area has taken a central theme without necessary corresponding access to prerequisite financial resources to meet their expectation. Interestingly the sources of fund for this tier of government have continued to dwindle over the years with the ascendancy of both the federal and state governments as the key actors in Nigeria political economy (Adamelokun, 1983). Orena and Adewuimi (1992), clearly made this situation evident by observing that the federal structure of Nigeria constraint local government ability to mobilize and use revenue to meet their obligation in a sustainable manner. He opines that one of the recurrent problems of the three tier system in the country is the dwindling revenue generation as characterized by annual deficits and insufficient fund for meaningful growth and viable project development. Local governments are the nearest government to the people at the grassroots in Nigeria and as such if the meager financial resource could be properly and effectively harnessed it would enable the local government implement their constitutionally assigned functions and responsibilities. Local government has performed below expectation as a result of poor management; this has remained obvious with the continuous poor administration noticeable. Undoubtedly finance and its prudent management are the bedrock of the effective functioning of the local government.

Furthermore Njoku (2009) noted that one of the cardinal aims of the local government system is to make appropriate service and development activities and response to local demands and needs through effective representation. The citizens expect the council to excel in developmental activities, while the council administration complains of inadequate finance to meet up with their numerous responsibilities yearning for attention. The quagmire confronting local government system in Nigeria is that of paucity of fund and ineffective utilization of available fund. Without the availability of revenue a local government council will not only be incapable of serving the people but will undoubtedly crumble (Ofoeze, 2011). It therefore follows that the local government to discharge its statutory functions effectively in order to attain great developmental strides, it should not only be adequately funded but such fund should be efficiently applied.

### **Statement of Problem**

The local governments exist to ensure sustained development of the rural areas thereby bringing governance closer to the rural populace. As such the availability of adequate funds which it can use to finance its ever increasing responsibilities, faced with the challenges of managing available local government finance has remained constraints limiting the attainment of enhanced and sustainable rural development.

### **Objectives of the Study**

The central focus of the study is to critically analyze the prospects of local government finance towards rural development with particular reference to Umuahia North local government. The following objectives will be analyzed thoroughly:

- a. To find out whether effective utilization of local government finance has significant effect on rural development.
- b. To find out whether a solid financial base would enhance rural development.

### **Hypotheses**

Ho<sub>1</sub>: Effective utilization of local government finance has no significant effect on rural development.

Ho<sub>2</sub>: A solid financial base has no significant effect on the enhancement of rural development

### **Conceptual / Theoretical Framework**

The organic theory as envisaged by Herbert Spencer in his detailed analogy in which the society has three systems corresponding to the sustaining of the whole analytically explains the importance of finance and its effective management to ensure rural development. The organic theory compares the society to an organism and as such describes it as a living structure composed of parts different in kind. These parts are complementary to one another and function to sustain the work. (Appadorai, 2004) Spencer emphasize that the idea of society is something more than an aggregate of systems without a unifying link as each system is dependent upon another. This therefore provides a gateway towards understanding the prospects of local government finance towards a functional local government administration, which would enhance rural development.

### **LITERATURE REVIEW**

It is notable that across all effort towards grassroot governance, the paramount factor remains development. As such the local government entails a separate authority set aside considering the extent of policies, attention, care, management and general development inconsistencies in the local area (Sharma and Aggrawal, 1984). The concept of development does not only entail economic, social and political changes but lay hold on a broad and all-embracing transformation of the rural area. It portrays a totality of societal improvement which of course is necessary in the local areas. It entails structuring of society in such a way that will improve the quality of lives as well as the satisfaction of the psychological needs of members of any given rural area (Ugwu, 2000). As such it involves the mobilization of resources, which will facilitate rural development. The concept of rural development has been traced by some writers to have started in the traditional societies through self-help projects. Okunola (1974) stipulated that self-help mechanism needed for rural development had existed in the traditional societies.

### **Role of Local Government**

Local government in Nigeria has enormous responsibilities which should ensure rapid rural development which also on the long run will enhance national development. These include the mobilization of local resources, promoting social and economic improvement and development. The local government is expected to carry out policies with respect to agriculture, thereby helping to reduce unemployment. Local government at work revolves round the issues of revenue generation, budgeting, development planning, provision of services and community mobilization (Hill, 1974). The local government remains an instrument to ensure grassroot development if adequately funded under a corrupt free system.

### **Sources of Revenue to Local Government**

Adedeji and Rowland (1972) are of the view that if a break through should occur in terms of effective local government administration, it would be achieved through finance more than anything. The point of emphasis here is on the importance of revenue generation and the economic independence of the local government, which is within the limits of the resources available. It is necessary to mention the types of revenue sources which are as follows;

a. **Internal Revenue Sources:**

The internal revenue sources available to the Local government would consist the following:

- i. Property taxation such as tenement rate
- ii. Licenses, examples of which are license on liquor, television and bicycle.
- iii. Fees and fines
- iv. Markets, shops, kiosks, motor parks and towing operation.
- v. Outdoor advertisement
- vi. Restaurant and laundries
- vii. Revenue from commercial undertakings such as mass transit.
- viii. Identification certificate
- ix. Rent on local government property.

b. **External Revenue Sources**

The following are the basic external sources of revenue of local government.

- i. Statutory Allocation
- ii. Grants in Aid
- iii. Loans and overdraft

### **Local Government and Fiscal Federalism**

In a Federal State there is to an extent some division of functions and financial powers between the center and the state. Nwizu (2002) adds that there is always the problem of equitable distribution of income between the federal government and the component state and local bodies. Nigeria's fiscal federalism structure across the years has revolved around the allocation of expenditure and tax-raising powers among the three tiers of government. More fundamentally, it deals with the system of transfers or grants. Ugwu (2000) commenting on issue of fiscal federalism emphasized that almost every constitution making process has sought information on what principles to utilize for the distribution of the national income since the period of colonial administration.

### **Financial Management in Local Government Administration**

The fund of local government councils is managed by key officers of respective councils. Hence, there is need for efficient and effective use of funds. This consist of a cycle of activities; financial objectives are set, plans made, financial plans are implemented, actual plans are compared, ways for realization of objectives are established, redesign of policy and revise of objectives which would eventually go back to the planning stage. This would ensure that resources are allocated and monitored to ensure realization of objectives.

### **Challenges of Managing Local Government Finance**

From the foregoing it has become an easy task to identify some of the challenges of managing local government finance in Nigeria. These problems can be summarized as follows;

- a. Local government in Nigeria lack requisite financial autonomy.
- b. Lack of qualified staff and Misplacement of objectives.
- c. Problems of accountability and transparency.
- d. Domineering attitude of State Governors and leadership of House of Assemblies.

### Brief History of Umuahia North Local Government

The present day Umuahia North local government could be said to have come into existence in 1996. The local government area is one of the 17 local government areas of Abia State and is both a metropolitan and municipal local government. The local government has twelve electoral wards as well as thirty-five autonomous communities headed by traditional rulers. The electoral wards are the following: Urban Ward I, Urban Ward II, Urban Ward III, Ibeku East Ward I, Ibeku East Ward II, Ndume Ward, Ibeku West Ward, Nkwoachara Ward, Nkwoegwu Ward, Afugiri Ward, Umuhu Ward and Isingwu Ward. The population of Umuahia North Local Government is 223,143 people consisting of 112,595 males and 110,539 females according to the 2006 census figure. The land area is approximately 432,290 square kilometers.

### METHODOLOGY

The data collected by the researcher as contained in the questionnaires were analyzed using a Likert 5 point scale. As such the following response; Strongly Agree, Agree, Undecided, Disagree and Strongly Disagree were rated and analyzed. The cut off point mean score of 2.50 was used in the analysis.

$$\begin{aligned} &\text{Calculated Mean Score of attribute} \\ &= \frac{\sum x}{\sum f} \end{aligned}$$

Thus, any attribute with a mean score of 2.50 and below is rejected while the attributes with score above 2.50 are accepted. This entails 2.50 and below we disagree, while above 2.50 we agree. The population of the study covered 650 people working in the Umuahia North Local Government Council with sample size of 120 people.

### Presentation and Analysis

**Research Question:** Do you agree that effective utilization of local government finance have significant effect on rural development?

Table 1: Responses of the staff

Response	Frequency	%	X	%
Strongly Agree	40	33.3	200	50.6
Agree	25	20.8	100	25.3
Undecided	5	4.2	15	3.8
Disagree	30	25	60	15.2
Strongly Disagree	20	16.7	20	5.1
Total	120	100	395	100

Source: Field work

Cut-off-Point Mean Score = 2.50

Calculated mean score for attribute

$$\frac{\sum x}{\sum f} \text{ i.e. } \frac{395}{120} = 3.29$$

From the above illustration in which a 5 point Likert Scale was used, it was covered that majority of the respondents agreed that effective utilization of local government finance have significant effect on rural development. Since the calculated mean for the attribute is 3.29, which is greater than the Cut-off-Point Mean Score 2.50. We agree that effective utilization of local government finance have significant effect on rural development.

**Research Question:** Do you agree that a solid financial base have significant effect on the enhancement of rural development?

Table 2: Responses of the staff

Response	Frequency	%	X	%
Strongly Agree	50	41.7	250	59.5
Agree	20	16.7	80	19.0
Undecided	5	4.2	15	3.6
Disagree	25	20.8	50	11.9
Strongly Disagree	25		25	6.0
Total	120	100	420	100

Source: Field work

Cut-off-Point Mean Score = 2.50

Calculated mean score for attribute

$\frac{\sum X}{\sum f}$  i.e.  $\frac{420}{120}$

= 3.5

H<sub>01</sub>: Effective utilization of local government finance has no significant effect on rural development.

H<sub>02</sub>: A solid financial base has no significant effect on the enhancement of rural development.

Therefore, since the calculated mean score for attribute in Table 1 which is 3.29 is greater than the cut-off-point of mean score for the 5 point Likert scale distribution which is 2.5. We accept the alternative hypothesis and reject the null hypothesis. Thus, this indicates that effective utilization of local government finance have significant effect on rural development.

In hypothesis 2, since the calculated mean score for attribute in table 5 which is 3.5 is greater than the cut-off-point mean score which is 2.5. We accept the alternative hypothesis and reject the null hypothesis. Thus, this indicates that a solid financial base have significant effect on the enhancement of rural development.

## CONCLUSION AND RECOMMENDATION

Finance is very important in the running of government. Local government has a number of functions to carry out which are dependent on the availability of finance. Consequently, their finances need to be efficiently managed and judiciously utilized. An efficient financial management is necessary in the local government for the execution of projects and delivery of quality services at local level. This would entail self-discipline on the part of every strata of local government administration.

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