



FINANCIAL MANAGEMENT CHALLENGES AND LOCAL GOVERNMENT DEVELOPMENT IN BAYELSA STATE

Confidence Joel, IHENYEN PhD¹, Banigo Gilbert, MACAULEY²,
Esther EBIWARE³

^{1,2&3}Department of Accounting, Faculty of Management Sciences, Niger Delta University,
Wilberforce Island, P.M.B 071, Bayelsa State.

-----ABSTRACT-----

The study examines the influence financial management challenges on the development of local government in Bayelsa State, Nigeria; specifically, it investigates the effect of inadequate funding, weak financial management systems, corruption, and mismanagement of funds on local government development. The population of the study comprises all eight local government areas in Bayelsa State, and a multi-stage sampling procedure is utilized. Data is collected through structured questionnaires, and inferential statistics was employed for analysis. The study finds a moderately high positive relationship (Pearson's $r = 0.543$) among inadequate funding and local government development. This suggests that increased funding is associated with enhanced development prospects. Similarly, a weak financial system exhibits a substantial negative correlation (Pearson's $r = -0.251$) with development. Corruption demonstrates a robust negative correlation (Pearson's $r = -0.683$) with development, highlighting the detrimental impact of corruption on progress. Conversely, a positive relationship (Pearson's $r = 0.316$) exists among mismanagement reduction and local government development, indicating that improved financial management can lead to enhanced development outcomes. In line with the findings, several recommendations are proposed. Firstly, allocating adequate financial resources to local governments is advised, as it positively affects development. Secondly, strengthening financial systems through effective practices and transparency measures is recommended. Thirdly, combating corruption is crucial, necessitating the implementation of anti-corruption measures and transparency enhancement. Lastly, enhancing financial management practices, including internal controls and accountability mechanisms, can mitigate the negative consequences of fund mismanagement.

KEYWORD: development, financial, government local, management -----

1. INTRODUCTION

Local government, positioned as the closest level of governance to the people, holds a pivotal role in the development of any nation. Within the Nigerian context, local governments constitute the essential third tier of government, entrusted with the provision of fundamental services such as healthcare, education, transportation, and sanitation to their respective communities. However, the effective pursuit of developmental objectives by local governments is frequently obstructed by a range of challenges, with financial management issues emerging as a prominent and inhibiting factor.

Financial management challenges have become pervasive within local government administration in Nigeria. The landscape is marked by instances of fund mismanagement, insufficient budgetary allocations, and corrupt practices, as highlighted in the work of Akintaro et al. (2019). This financial quagmire culminates in a dearth of resources available for the execution of vital developmental projects and programs, thereby undermining the overall advancement of local governments.

Bayelsa State, nestled in Nigeria's Niger Delta region, boasts considerable oil resources and accommodates a population exceeding two million people according to the National Population Commission (2019). The state is



partitioned into eight distinct local government areas, each grappling with its distinctive challenges in financial management. Notably, Bayelsa State's status as a low-ranking entity concerning internally generated revenue (IGR), as noted by Agbi (2019), casts a shadow over the financial prowess of local governments in the execution of developmental endeavors.

The reverberating repercussions of financial management challenges on local government development within Bayelsa State has assumed a position of paramount importance. The efficient distribution and utilization of funds underscore the bedrock of societal progress, with local governments holding the key to effective implementation. This compels a comprehensive assessment of the impacts of financial management challenges on local government development in Bayelsa State, thereby illuminating pathways towards the resolution of pertinent challenges afflicting the state's local governance.

Emanating from the intricate fabric of local governance in Nigeria, financial management challenges present a formidable obstacle to the developmental trajectory of local governments. Endowed with the responsibility of providing basic services to grassroots communities—ranging from healthcare and education to water supply and sanitation—local governments encounter a troubling inability to judiciously manage their finances. This lapse in financial stewardship translates into a deterioration in the quality of services furnished, consequently plunging the standard of living for citizens to lower levels.

Extensive scholarship has spotlighted the array of financial management challenges that besiege local governments in Nigeria. Olowu and Wunsch (2004) elucidated the gamut of hurdles local governments face, encompassing inadequate funding, fragile financial management systems, corruption, and fiscal mismanagement. Echoing this, Ajayi (2014) contended that local governments' grappling with financial management woes stem from a lack of accountability, fragile financial reporting frameworks, and the intrusion of political influences.

However, despite the burgeoning body of literature dissecting financial management challenges within Nigerian local governments, a noticeable void exists in empirical studies that delve into the repercussions of these challenges on local government development. It is within this chasm that this study assumes significance, striving to meticulously examine the far-reaching consequences of financial management challenges on local government development within Nigeria.

2. MATERIAL AND METHOD

One of the key challenges facing local government financial management in Nigeria is inadequate revenue generation. Many local governments in Nigeria rely heavily on federal and state allocations, which are often insufficient to meet their financial obligations. This is due to the low level of internally generated revenue (IGR) in many local governments in Nigeria. According to a report by the National Bureau of Statistics (NBS) (2020), the IGR of local governments in Nigeria in 2019 was only 0.92% of the country's GDP.

To improve revenue generation in local governments, the government has taken various measures, such as the establishment of the Joint Tax Board (JTB) and the Tax Appeal Tribunal (TAT) to enhance tax collection and enforcement. The government has also encouraged local governments to diversify their revenue sources by exploring non-tax revenue options such as fees, fines, and charges. However, in spite of all these measures put in place to ease the generation of fund for local government, there are obvious challenges which still hamper development at the local level. These challenges include; inadequate funding, weak financial management system, corruption, and mismanagement of funds.

Inadequate Funding: Inadequate funding is a situation where local governments lack sufficient financial resources to meet their budgetary requirements and deliver essential services to citizens. According to Nekhwevha and Mavundla (2017), inadequate funding occurs when the amount of financial resources available to local governments is insufficient to meet their budgetary obligations. Local governments require adequate funding to provide essential services such as water supply, sanitation, health care, education, and road infrastructure. When these services are not adequately funded, they may not be delivered efficiently, which can negatively impact the quality of life of citizens.



Weak Financial Management System: Another critical challenge in local government financial management is the presence of weak financial management systems. Abdullahi (2019) explains that weak financial management systems encompass inadequate financial management practices and procedures within local governments. This includes poor budgeting, weak internal controls, insufficient financial reporting, and inadequate monitoring of financial transactions. Such practices can result in financial mismanagement, fraud, and corruption, leading to significant revenue losses, decreased accountability, and a decline in the quality of services provided to citizens (Abdullahi, 2019).

Corruption: Corruption poses a significant threat to the financial management of local governments. Transparency International (2022) delineates corruption as the misuse of public authority and resources for personal gain. In the context of financial management, corruption can manifest in various forms, including embezzlement, bribery, nepotism, and favoritism. When corruption infiltrates local government financial management, it can lead to substantial revenue losses, inadequate service delivery, and a lack of accountability (Transparency International, 2022).

Mismanagement of Funds: The mismanagement of funds is a critical challenge that local governments face. Effective management of funds involves the proper allocation and utilization of financial resources to meet the needs of citizens. This process includes budgeting, accounting, and financial reporting. Transparent, accountable, and prudent financial management practices are crucial for the efficient management of funds. Failure to implement such practices can result in undesirable consequences, including financial mismanagement and a decline in service quality (Abdullahi, 2019).

Public Choice Theory

Public choice theory is a framework for analyzing the behavior of individuals and groups in the political process. This theory posits that individuals act in their own self-interest, and that this behavior is rational and predictable. Public choice theory has been used to analyze a wide range of public policy issues, including financial management challenges and local government development.

In the context of financial management challenges, public choice theory proposes that government officials could behave more in their individual personal gain than what is best for the public. For example, government officials may be more concerned with maximizing their own budgets or advancing their own careers than with making sound financial decisions for the public. This can lead to a lack of transparency and accountability in financial management, as well as to inefficiencies and waste.

Public choice theory can also be used to analyze the relationship between financial management challenges and local government development. In particular, public choice theory suggests that government officials may prioritize short-term gains over long-term development, as this behavior may be more politically expedient. For example, government officials may prioritize spending on visible infrastructure projects that will generate positive publicity in the short term, rather than investing in long-term development projects that may not yield immediate benefits (Shah, 2007).

Empirical Review

Adeniran and Adebayo (2018) conducted a comprehensive study on financial management challenges faced by local governments in Nigeria. They highlighted the importance of effective financial management in local government development and identified various challenges such as inadequate funding, poor revenue collection, lack of transparency and accountability, corruption, and limited capacity of local government staff. While this study provides valuable insights into the overall financial management challenges in Nigeria, it does not specifically focus on the context of Bayelsa State, which limits its applicability to the specific objectives of this research.

Ayodele (2019) evaluated the financial management practices of local governments in Nigeria and highlighted challenges such as inadequate funding, poor revenue collection, lack of transparency and accountability, corruption, and limited financial expertise among staff. While this research delivers substantial insights into the overall financial management practices in Nigeria, it does not specifically focus on Bayelsa State, limiting its relevance to the specific objectives of this research.



Dike and Onodugo (2017) examined the financial management challenges facing local governments in Anambra State, Nigeria, and their impact on local government development. The study identified challenges such as inadequate funding, poor revenue collection, lack of transparency and accountability, corruption, and limited financial expertise among staff. Although this study provides insights into financial management challenges in Nigeria, it does not specifically address the effect of these challenges on local government development in Bayelsa State.

Eze and Okoye (2019) focused on the relationship between financial management and local government development in Enugu State, Nigeria. They identified challenges such as inadequate funding, poor revenue collection, lack of transparency and accountability, corruption, and limited financial expertise among staff. While this study provides valuable insights into financial management challenges in Nigeria, it does not specifically examine the effect of these challenges on local government development in Bayelsa State.

Ibenegbu and Ukaegbu (2019) analyzed the financial management practices of some local governments in Imo State, Nigeria. The study identified challenges such as inadequate funding, poor revenue collection, lack of transparency and accountability, corruption, and limited financial expertise among staff. Although this study provides relevant insights into financial management practices, it does not specifically address the effect of these challenges on local government development in Bayelsa State.

Ibietan and Amah (2018) focused on the relationship between financial management practices and local government development in Nigeria, using selected local government areas in Rivers State as case studies. They identified challenges such as inadequate funding, poor revenue collection, lack of transparency and accountability, and limited financial expertise among staff. While this study provides valuable insights into financial management practices, it does not specifically examine the effect of these challenges on local government development in Bayelsa State.

Iwuoha and Emenyonu (2018) examined the challenges faced by local governments in Nigeria in managing their finances and how these challenges affect local government development. They identified challenges such as inadequate funding, poor revenue collection, lack of transparency and accountability, and weak financial management systems. While this study provides insights into financial management challenges in Nigeria, it does not specifically focus on the effect of these challenges on local government development in Bayelsa State.

After critically examining the aforementioned empirical studies, there is obviously a research deficit regarding the effect of financial management challenges on local government development in Bayelsa State, Nigeria. While these studies provide valuable insights into the overall financial management challenges in Nigeria, they do not specifically address the context of Bayelsa State. Therefore, there is a need for further research that specifically focuses on the financial management challenges in Bayelsa State and their impact on local government development. The study is guided with the following null Hypotheses;

Ho1 Inadequate funding does not have a substantial effect on local government development in Bayelsa state, Nigeria

Ho2 Weak financial management system does not have a substantial effect on local government development in Bayelsa state, Nigeria

Ho3 Corruption does not have a substantial effect on local government development in Bayelsa state, Nigeria

Ho4 Mismanagement of funds does not have a substantial effect on local government development in Bayelsa state, Nigeria

3. METHODOLOGY

The research utilized a cross-sectional design. This approach helped to collect numerical data that are statistically used to analyzed the extent of the problem. Furthermore, survey was employed as it allows for the gathering of data at a single point in time from different local government areas in Bayelsa state, Nigeria. This design help to determine the current status of financial management challenges in the various local government areas and their impact on development. Inferential statistics such as correlation and regression analyses were used. The model equation for the study can be represented as follows:



$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

Where:

Y = Local government development in Bayelsa state, Nigeria

X1 = Inadequate funding

X2 = Weak financial management system

X3 = Corruption

X4 = Mismanagement of funds

β_0 = Constant

β_1-4 = Coefficients for the independent variables

ϵ = Error term

4. RESULTS AND DISCUSSIONS

The correlation coefficient (Pearson's r) between local government development (LoGvtDv) and inadequate funding (IndFd) is 0.543. This positive association suggests that there is a moderately strong association among inadequate funding and local government development. As inadequate funding increases, there is a tendency for local government development to increase as well. Conversely, when inadequate funding decreases, local government development may also decrease. The p-value of 0.000 implies the link is significant.

Correlation between local government development and Inadequate funding

		LoGvtDv	IndFd
LoGvtDv	Pearson Correlation	1	.543**
	Sig. (2-tailed)		.000
	N	222	222
IndFd	Pearson Correlation	.543**	1
	Sig. (2-tailed)	.000	
	N	222	222
	N	222	222

Source: SPSS 23

The correlation analysis below reveals a weak negative relationship between local government development (LoGvtDv) and the presence of a weak financial system (WkFSym) in the context of the study. The correlation coefficient (Pearson's r) of -0.251 indicates a substantial association between these two variables. As the quality and effectiveness of the financial system within the local government weakens, there is a tendency for local government development to decrease.

Correlation Between Local Government Development and Weak Financial System

		LoGvtDv	WkFSym
LoGvtDv	Pearson Correlation	1	-.251**
	Sig. (2-tailed)		.000
	N	222	222
WkFSym	Pearson Correlation	-.251**	1
	Sig. (2-tailed)	.000	
	N	222	222
	N	222	222

Source: SPSS 23

The correlation analysis below indicates a strong negative relationship between local government development (LoGvtDv) and the presence of corruption (Corrp) in the context of the study. The correlation coefficient (Pearson's r) of -0.683 signifies a significant and robust association among these two variables. This outcome implies that as the level of corruption increases in the local government, there is a tendency for local government development to also



decrease. Conversely, as efforts to combat corruption and promote transparency intensify, there may be an increase in local government development.

Correlation Between Local Government Development and Corruption

		LoGvtDv	Corrp
LoGvtDv	Pearson Correlation	1	-.683**
	Sig. (2-tailed)		.000
	N	222	222
Corrpt	Pearson Correlation	-.683**	1
	Sig. (2-tailed)	.000	
	N	222	222
	N	222	222

Source: SPSS 23

The correlation test below indicates a strong positive association among local government development (LoGvtDv) and the occurrence of mismanagement (MisMgt) in the context of the study. The correlation coefficient (Pearson's r) of -0.316 reveals a substantial association among these two variables. This result implies that as the extent of mismanagement of resources reduces within the local government, there is a tendency for local government development to increase.

Correlation Between Local Government Development and Mismanagement

		LoGvtDv	Corrp
LoGvtDv	Pearson Correlation	1	-.316**
	Sig. (2-tailed)		.000
	N	222	222
MisMgt	Pearson Correlation	-.316**	1
	Sig. (2-tailed)	.000	
	N	222	222
	N	222	222

Source: SPSS 23

Model Summary of Financial Management Challenges on Local Government Development

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				Durbin-Watson	
					R Square Change	F Change	df1	df2		Sig. F Change
1	.759 ^a	.719	.715	5.12292	.719	223.003	5	94	.012	.747

a. Predictors: (Constant), IndFd, WkFSym, Corrpt, MisMgt

b. Dependent Variable: LoGvtDv

The regression analysis examines the effect of financial management challenges on local government development in Bayelsa State, Nigeria. The model summary provides several statistical indicators to assess the relationship between the predictors (IndFd, WkFSym, Corrpt, MisMgt) and the dependent variable (LoGvtDv). The R-squared value is 0.719, indicating that approximately 71.9% of the variance in the dependent variable can be explained by the predictors included in the model. This suggests a moderately strong relationship between financial management challenges and local government development.

With its adj. R² value of 0.715, the model takes into account the total number of predictors and gives a more precise estimate of the percentage of variance explained. The adjusted R-squared is slightly lower than the R-squared,



suggesting that the predictors might not be fully capturing the complexity of the relationship. The calculated standard error of the estimate, amounting to 5.12292, serves as a representation of the average discrepancy between the anticipated values and the actual values of the dependent variable. A smaller value in this regard signifies a more favourable alignment of the model with the data. The change statistics, in turn, provide insight into the collective contribution of the predictors towards the accurate prediction of local government development. Specifically, the F change value of 223.003, accompanied by a p-value of 0.012, indicates that the overall regression equation of the model holds statistical significance.

Furthermore, the Durbin-Watson statistic, standing at 0.747, serves as a measure of the presence of autocorrelation within the residuals. A value in close proximity to 2 signifies the absence of any noteworthy autocorrelation. In this case, the value suggests the possibility of positive autocorrelation in the residuals, which might impact the reliability of the model. Overall, the regression analysis suggests that financial management challenges have a significant impact on local government development in Bayelsa State. However, further analysis and consideration of potential autocorrelation issues are recommended to ensure the robustness of the findings.

Regression Coefficient of Financial Management Challenges on Local Government Development Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-3.070	1.429		-2.148	.034		
IndFd	7.233	1.005	.523	7.200	.000	.163	6.117
WkFSym	1.112	1.628	-.006	-.069	.045	.132	7.587
Corrpt	4.034	1.389	.279	2.904	.005	.094	10.666
MisMgt	-4.425	1.927	-.192	-2.296	.024	.124	8.075

a. Dependent Variable: LoGvtDv

The tabular representation furnishes pertinent details pertaining to the coefficients, standard errors, standardised coefficients, t-values, and significance levels associated with each independent variable. The collinearity statistics, tolerance, and variance inflation factor (VIF) are also included.

Constant: The regression equation is characterised by a constant term, denoted as the intercept, which in this case is -3.070. It signifies the anticipated magnitude of the dependent variable (local government development) in the scenario where all independent variables assume a value of zero.

Inadequate funding (IndFd): The numerical value assigned to the factor of insufficient financial resources is precisely 7.233. This implies that a marginal increment of one unit in insufficient financial resources is anticipated to result in a corresponding augmentation of 7.233 units in the progress of local government development. The coefficient of standardisation (beta) with a value of 0.523 indicates that insufficient financial resources exert a moderately robust and favourable influence on the progress of local governance. The obtained t-value of 7.200 exhibits statistical significance at the 0.05 level ($p < 0.05$), thereby suggesting that insufficient financial resources exert a substantial impact on the progress of local governmental initiatives.

Weak financial system (WkFSym): The coefficient for weak financial system is 1.112. This implies that a one-unit increase in weak financial system is related with a 1.112 unit rise in local government development. However, the standardized coefficient (beta) of -0.006 indicates that weak financial system has a very weak negative impact on local government development. The t-value of -0.069 is not statistically significant at the 0.05 level ($p > 0.05$), suggesting that weak financial system may not have a significant effect on local government development.

Corruption (Corrpt): The coefficient for corruption is 4.034. This means that a one-unit increase in corruption is associated with a 4.034 unit increase in local government development. The standardized coefficient (beta) of 0.279 indicates that corruption has a moderate positive impact on local government development. The t-value of 2.904 is



statistically substantial at the 0.05 level ($p < 0.05$), suggesting that corruption has a substantial effect on local government development.

Mismanagement of funds (MisMgt): The coefficient for mismanagement of funds is -4.425. This suggests that a one-unit rise in mismanagement of funds leads to a decrease of 4.425 units in local government development. The standardized coefficient (beta) of -0.192 indicates that mismanagement of funds has a moderate negative impact on local government development. The t-value of -2.296 is substantial at the 0.05 level ($p < 0.05$), suggesting that mismanagement of funds has a substantial effect on local government development.

The collinearity statistics, namely tolerance and VIF, offer valuable insights into the existence of multicollinearity within the set of independent variables. Generally, lower tolerance values and higher VIF values indicate higher levels of multicollinearity. In this case, the tolerance values range from 0.094 to 0.163, suggesting that there is a moderate degree of multicollinearity among the independent variables. The VIF values range from 6.117 to 10.666, which also indicates the presence of multicollinearity.

5. RECOMMENDATION

Based on the findings of the research on the effect of financial management challenges on local government development in Bayelsa State, Nigeria, the following recommendations are made;

- i. **Increase Funding:** Given the positive impact of adequate funding on local government development, it is recommended to allocate sufficient financial resources to local government institutions. This can be achieved through budgetary allocations, grants, and other financial mechanisms to ensure that local governments have the necessary resources to carry out their functions effectively.
- ii. **Strengthen Financial Systems:** Although the weak financial system did not show a substantial impact in this study, it is still vital to strengthen the financial systems within local government institutions. This can be achieved by implementing sound financial management practices, enhancing financial transparency, and establishing effective mechanisms for budgeting, accounting, and financial reporting.
- iii. **Combat Corruption:** Considering the significant positive effect of corruption on local government development, it is crucial to combat corruption at all levels. This can be achieved through the implementation and enforcement of robust anti-corruption measures, such as establishing strong legal frameworks, promoting transparency and accountability, conducting regular audits, and encouraging citizen participation in oversight processes.
- iv. **Improve Financial Management:** To mitigate the negative impact of mismanagement of funds, it is recommended to enhance financial management practices within local government institutions. This includes implementing effective internal controls, training personnel on financial management principles, establishing clear guidelines for procurement and expenditure, and ensuring accountability in financial decision-making processes.

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