



INSTITUTIONAL WEAKNESSES, POLITICAL INTERFERENCE, AND REGULATORY EFFECTIVENESS IN NIGERIAN BANKING SUPERVISION

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ABSTRACT

The Central Bank of Nigeria (CBN) is the main agency charged with the supervision and monitoring of banks and other related financial institutions in Nigeria. Despite the existence of several institutional frameworks, the Nigerian banking sector was affected by monumental challenges which almost eroded consumers' confidence in the sector. It is in this regard that the article examined the institutional weaknesses, political interference, and regulatory effectiveness in Nigerian banking supervision using the secondary methods of data analysis. Findings from the study showed that there is the existence of regulatory capture in the Nigerian banking sector; further findings showed that regulatory capture is commonly caused by the concentration or centralization of regulatory and supervisory oversight on a single regulatory agency; also, it was observed in the study that the liberalization of the Nigerian banking sector contributed in no small measures to financial instability of the banking sector in Nigeria, and so on. Several recommendations were proposed in the article, such as the appointment of the position of central bank governors should be depoliticized and should not be based on quota system, rather, professional associations, such as the Chartered Institute of Bankers of Nigeria and Institute of Chartered Accountants of Nigeria, and other relevant bodies should be assigned the responsibility of nominating three names of candidates for the position of CBN governor to the president, who would in turn upon his consideration forward such names to the legislature for confirmation after prior investigation about the ethical fitness of such candidates by the Department of State Services (DSS) among others.

Keywords: Institutional weaknesses, political interference, Nigerian banking sector, regulatory agencies, political patronage.

Introduction

It was observed in Uganda that the achievement of enduring financial stability and soundness is due to effective regulation of the banking sector. The reports of the studies carried out by Coopers and Lybrand found that the two biggest banks in Uganda, which are the Uganda Commercial Bank and Cooperative Bank were practically insolvent, a trend which endangers the financial ecosystem, indicating the ineffective supervisory functions of Bank of Uganda (BoU). No less than two of the banks have been subjected to political influence (Hickey & Matsiko, 2023). The challenges facing the banking sector in Uganda have been attributed to the lack of capacity and restricted authority to carry out its regulatory and supervisory functions (Nile Post, 2019, cited in Hickey & Matsiko, 2023). Further development in the banking sector of Uganda led to the revision of Bank of Uganda Act in 2000 which increases BoU's authority with respect to the control of financial institutions (BoU 2002). Similarly, the 2004 Financial Institutions Act enabled BoU imbibe international best practices in its operations in line with



the Basel core principles. The sustainability of these achievements in the Uganda banking sector led to closure of two banks - the National Bank of Commerce (NBC) and Global Trust Bank (GTB) in 2012 and 2014 by BoU, due to being undercapitalised, engrossed with persistent losses and exhibition of corporate governance weaknesses. However, many observers were of the view that the imposed sanctions on the above stated two banks by BoU were based on political interference as against economic consideration and rationality claimed by the regulatory bank the BoU (Hickey & Matsiko, 2023).

In Nigeria, highly recognized regulatory document in the banking sector is the Banking and Other Financial Institution Act (BOFIA) of 2020, which is one of the most recent legislation on banking regulation in Nigeria, instituted on 17th November, 2020. Several previous versions of the regulatory document exist, such as its 1991 and 2004 versions (Alley, 2023). Banking regulation and supervision is of vital necessity to economic advancement and development (Agenor, Gambacorta & da Silva, 2018; Basel Committee on Bank Supervision (BCBS), 2012; de Serres, Kobayakawa, Slok & Vartia, 2006; Beck, Levine, & Loayza, 2000), of any developing countries, such as Nigeria (Jalilian, Kirkpatrick & Parker, 2007). The banking sector which is one of the main financial sectors in any country, in addition to the capital markets and securities, insurance, is of utmost significance to economic growth and development of Nigeria, hence, the necessity to ensure its optimal functionality through legislative enactments, effective monitoring and supervision. This, therefore, led to the need for regulation of the financial sector, especially the banking sector to guarantee the economic sustainability of the society.

Regulation in this context implies the laws, policies, guidelines and institutions which are designed to safeguard the financial system of a society and achieve economic stability (Olanipekun, 2016). Regulation ordinarily refers to laws, rules and principles underlying the various activities and services associated with financial institutions. The publicly enacted laws which comprises some aspects of regulation create organizations which exercise oversight functions on agencies in the financial sector to ensure their compliance to lay down standards and procedure with the aim of achieving protection of investors and consumers from fraudulent and exploitative practices, as well as, promoting financial stability (Schmidt, Stapleton & Courage, 2023). Banking regulations are not restricted to Third World countries, the banking sectors in developed countries, such as UK, US, France and Canada are also associated with several regulations and supervisory procedures due to the implications of the banking sector to economic stability and development (Gogoski, 2012; Rambure & Nacamuli, 2008; Blommestein & Summers, 1994).

The Central Bank of Nigeria (CBN) is the main agency charged with the supervision and monitoring of banks and other related financial institutions in Nigeria. Despite the existence of several institutional frameworks, the Nigerian banking sector in time past was affected by monumental challenges which almost eroded consumers' confidence in the sector. In this regard, the CBN has in different occasions carry out rescue operations on several distressed banks in the country, withdrawal of licenses of failed banks and promoting recapitalization of certain distressed banks whose capital base got depleted through issuance of bad loans (Didigu et al., 2022). The inability of regulation to address failure in the banking sector within and



outside Nigeria has led to the conclusion that attempts aimed at regulating the sector is unnecessary since it has not shown meaningful effectiveness over time, a trend that has led to an increase in the inflationary trend of the country and retrogression of investments (Investobia, 2025). Nevertheless, banking regulation and supervision assist in achieving an effective competition, promoting integrity in the activities of financial institutions, enhance consumers protection (Paseda, 2012; Kroszner & Strahan, 2001), in order to realize financial stability and economic growth (Barth & Caprio, 2018).

The relationship between the impact of political interference and institutional fragility on banking regulatory agencies has been separately investigated by studies, such as (International Monetary Fund, n.d; Kayode & Oluwole, 2023; Alley, 2023; García Osma, Mora & Porcuna, 2019; Lin et al., 2018; Echekeba, 2017; Mitchener, 2004; Haber, 2003; Shleifer & Vishny, 1998). But none of the studies reviewed examined the combined impacts of political interference and institutional deficit on banking regulatory agencies in Nigeria. This, therefore, constitute the gap which this study was designed to fill. It is in this regard that the study examined Institutional weaknesses, political interference, and regulatory effectiveness in Nigerian banking supervision. The study was divided into ten sections to facilitate the achievement of this objective. These include the introduction, overview of the banking sector in Nigeria, institutional and regulatory framework in the Nigerian banking sector, political interference, institutional deficit and regulatory effectiveness in the Nigerian banking sector, theoretical framework, methodology, discussion of findings, conclusion, and recommendations.

Overview of the Banking Sector in Nigerian

The origin of banking system in Nigeria can be traced to the enactment of the Banking Ordinance of 1952 which was based on the recommendations of G.D. Paton commission of enquiry into banking services in the country, and which was aimed at establishing frameworks for regulating banking services, and it reposed supervisory oversight on the Financial Secretary of the colonial government. The Ordinance further promoted creation of commercial banks in the country and also checkmated the activities of unregulated banking (Ajayi & Sosan, 2013). Also, there was the emergence of several specialised banks, such as the community banks, development banks, merchant banks, and so on. The banks that fall in these categories are the Nigerian Industrial Development Bank, Nigerian Bank for Commerce, Nigerian Agricultural and Credit Bank among others (Ajayi & Sosan, 2013).

The regulatory and supervisory powers over banking activities in Nigeria, which was hitherto vested in the Financial Secretary through the Banking Ordinance was subsequently bestowed on the CBN through the formulation of the CBN Act of 1959, which was aimed at issuing legal tender in the country, ensuring the safeguard of the value of the nation's currency both within local and foreign markets, guaranteeing financial stability, and promoting a viable economic system, playing advisory role to the government on financial policies, and it acts as the bank of last resort to domestic banks operating within the country (Central Bank of Nigeria (CBN), 2007). Also, the Nigeria Deposit Insurance Corporation (NDIC) came into existence in 1988 through the enactment of the Nigeria Deposit Insurance Corporation Act, and it complemented the CBN in handling issues related with financial policies formulation and implementation,



supervising and monitoring banks to ensure the safety of banking services, to pay the customers of failed insured banks who have become bankrupt (Nigeria Deposit Insurance Corporation, 2025a). There are other agencies charged with the regulation of financial institutions to ensure the prevalence of safe practices in the sector, such agencies include the Securities and Exchange Commission, The Financial Reporting Council of Nigeria, Corporate Affairs Commission, Asset Management Corporation of Nigeria, and so on (Financial Reporting Council of Nigeria Act 2011).

The instability of the banking sector has been attributed to inflation and fluctuations in exchange rate, poor capital development, absence of transparent corporate governance, and existence of non-performing loans of monumental proportion. This occurrence led to the closure of 53 Deposit Money Banks by the CBN as a result of the revocation of their operating licenses between 1994 and 2018, and 51 other banks are also facing the threat of revocation of their licenses with NDIC assigned as their liquidator (Nigeria Deposit Insurance Corporation, 2025b). Regulation in the banking sector is basically carried out by the CBN through its several committees such as the Monetary Policy Forum, Monetary Policy Committee, among others, which assist in the achievement of a stable economic conditions in the country (CBN, 2015). In the light of the above, financial institutions, such as banks, are of paramount importance to economic growth of every nation (Mbatabbey, 2019). They assist their customers to save their excess funds which are in turn made available to others in the form of borrowing to facilitate savings and investments through financial exchanges (Ikpesu & Oke, 2022).

Institutional and Regulatory Framework in the Nigerian Banking Sector

The enactment of BOFIA 2020 was premised on the reinforcement of regulatory and supervisory oversight of the Nigerian banking sector, with respect to the rescue of distressed banks from bankruptcy. The Act made several provisions for diverse options for the CBN aimed at rescuing banks from failure (Mustafa, 2021). Banking regulation emerged from the concern of central banks to ensure financial stability. Globally, the central bank is the agency saddled with the responsibility of exercising regulatory and supervisory oversight on banks, while, some countries have established separate agencies for such purposes. Banking supervisor's carryout both off-site inspection of banks' operational documents and on-site investigation of banking activities and operations, they usually carryout intervention in situations of a bank becoming distressed, or fail to meet the stipulated standards of operation, so as to ensure safety of the financial system and sustain the confidence of stakeholders. In some cases, supervisors are permitted by law to take over ownership rights of failed banks (International Monetary Fund, n.d.).

Despite the importance of banks to economic growth and development, they are subjected to strict regulation by the bank of a country because of the risk inherent in the sector and to ensure the existence of mutual trust and confidence between banks and the general public. At the international level, there exist international laws which govern banking operations. A case worth mentioning is the Basel Committee of Banking Supervision (BCBS) established the Basel I Accord in 1987 to ensure uniformity in standards of capital in the global banking industry and to regulate credit risk in member nations. Similarly, there was the introduction of Basel II in 2004, for the purpose of regulating banking capital and to check market and other



operational risks, while the year 2010, witnessed the establishment of Basel III to guarantee the quality and enhance transparency of the capital base of banks in member nations (Obadimu & Oboh, 2024; Mehta & Bhavani, 2017).

In Nigeria, the CBN Act 2007 grants regulatory authority the apex bank to regulate and supervise the activities and operations of the Nigerian banking sector. The Act mandates the CBN to come up with guidelines and rules aimed at control and supervisory oversight of Nigerian banks (Mbatabbey, 2019). The Act authorizes the CBN to formulate policies with respect to deposit money banks (DMBs) aimed at assisting banks to achieve financial stability, security from certain uncertainties, and to retain public trust and confidence. The policies are also geared towards minimizing business risks and guarantee the availability of minimal funds to assist in provision of liquidity demands of customers. The CBN mandates the DMBs to ensure the availability of a level of capital adequacy, lower-level non-performing loans, and restrict the level of customers' loans in line with their total deposits (Disalvo & Johnston, 2017). In 2013, the CBN issued a regulation that stipulates that DMBs are to maintain a capital adequacy ratio (CAR) of 10% for regional/national banks and 15% for banks which are licensed to carry out businesses at the international level and to maintain a minimum loan-to-deposit ratio (LDR) of 65% and retain a maximum of 5% non-performing loan ratio, which are meant to encourage small and medium scale enterprises (SMEs) and improve lending (Thi, 2020; Obioma & Charles, 2018).

Several studies revealed that the regulation of banking sector capitalization has significant improvement on effective and efficient performance of banks, as well as, ensuring overall development of the banking sector (Alley, 2023; Barth, Caprio & Levine, 2013; Chortareas, Girardone & Ventouri, 2012; Beck, Levine & Loayza, 2000). BOFIA 2020 described the main feature of banks as receiving deposits from the public and issuance of financial instruments with respect to deposit repayment (Alley, 2023). According to Section 36 of BOFIA 2020, the agencies that deal with financial matters, such as the Federal Ministry of Finance, Budget and National Planning (FMFBNP), the NDIC, the Corporate Affairs Commission (CAC), Federal Inland Revenue Services (FIRS) are to work with the Central Bank of Nigeria (CBN) to resolve issues bothering on banking in the country (Alley, 2023). In addition, BOFIA 2020's recommendation for speedy liquidation of failed banks with revoked licenses is aimed at preventing abuse of the liquidation process due to some failed bank operators lobbying supervisory authorities to delay liquidation process. So, the prompt liquidation of failed banks reinforces public confidence in the banking sector, and it also, guarantees financial stability in the country. The idea of making bank directors and shareholders bear the brunt of bank failures would strengthen internal control system and prevent violations of bank regulations and overall reduction in the prevalence of malpractices in the Nigerian banking sector (Alley, 2023).

One major contribution of BOFIA 2020 to the Nigerian banking sector is its capacity to shift liabilities of bank failure or distress from tax payers, depositors and other bank customers to shareholders and other direct beneficiaries of banks' profits. This positive development is premised on two vital regulations, the use of bail in certificates and constitution of resolution fund and resolution tools. BOFIA 2020 aims to entrench stability in the banking system by encouraging banks to imbibe the culture of regulatory compliance. And with its promotion of



financial and nonfinancial disclosure in the sector, alongside the ‘bail-in’ arrangement for bank distress resolution, it is therefore, incumbent on BOFIA 2020, to ensure market discipline, reduce moral hazards and enhance corporate governance (Alley, 2023).

The regulation of banking activities arises from public reaction and dissatisfaction to market volatility of private banking industry due to the blatant information asymmetry existing between informed bankers and stakeholders who are not too informed (Freixas & Santomero, 2003). Should bankers be left unregulated, they would exploit existing information asymmetry to achieve their self-interests to the detriment of safety of depositors and stakeholders, as well as causing general instability in the financial system. This would lead to depletion of shareholders’ economic fortune, drastic reduction in household savings, erosion of customers’ confidence and eventual distortion of the financial system (Paseda, 2012). It should be noted that the essence of banking regulations is to address economic volatility and financial instability (Paseda, 2012; Barth, Caprio & Levine, 2006), safeguard the interests of consumers and investors, as well as, ensuring the sustainability of the financial sector (Paseda, 2012; Kroszner & Strahan, 2001), and promote financial system stability, with spill-over effects for macroeconomic performance (Kroszner & Strahan, 2001). Banking regulation refers to patterns of rules and policy directives that guide the conduct and activities of banks’ Federal Reserve System (2016). The regulations and guidelines of the CBN, though, were of good intention, have caused restriction on the profit-making potential of DMBs (Abba, Okwa, Soje, & Aikpitanyi, 2018).

The essence of regulation is to coordinate the business and behavioural patterns of service providers in line with the public interest rather than private gains which are detrimental to the general interest of the citizens (Kroszner & Strahan, 2001). It should be noted that the banking sector is among the most regulated sector across the globe (Barth, Lin, Ma, Seade & Song, 2010). Bank monitoring is aimed at achieving the compliance of banks to stipulated rules and regulation, and this is what constitutes bank supervision (Iyade, 2006). Nevertheless, increasing the supervisory authority of banks oversight agencies translate to bank efficiency, reduction in financial distress, and adoption of responsible market approaches (Chortareas, Girardone & Ventouri, 2012; Barth, Lin, Ma, Seade & Song, 2010). However, the lack of meaningful restriction to banking activities and operation has been observed to be responsible for banking crises in most countries (Čihák, Dermirgüç-Kunt, Peria & Mohseni-Cheraghloo, 2012).

Regulatory and supervisory agencies expect banks to disclose information about their activities and operation both publicly and non-publicly. Public disclosure of information and statements about the operation of banks require the verification and certification of facts contained in the statements by regulatory agencies’ officials and auditors. This approach of banks’ disclosure of the nature of their activities is based on the need to satisfy stakeholders and win their cooperation, as well as, averting sanctions and other punitive measures which may be due to non-performance (Alley, 2023). On the other hand, non-public disclosure is centered on sending returns of essential financial information regarding banking operations to regulatory agencies to assist in achievement of effective regulatory and supervisory oversight. While, off-



site surveillance refers to assessment of financial data submitted by banks to regulatory agencies, such as CBN and NDIC without physical verification of those data (Alley, 2023).

Political Interference, Institutional Deficit and Regulatory Effectiveness in The Nigerian Banking Sector

Political Patronage, Regulatory and Supervisory Oversight in the Banking Sector of Nigeria

Political interference in banking sector regulation has been observed to have worsened financial crises in that sector, especially in regions, such as East Asia, Russia, Turkey, and Latin America. Political pressures have adverse effects on financial regulation, and obstruct supervisors and regulators who carry out detailed implementation of regulation from imposing punitive measures on banks who failed to conform to stated regulations. Such act invariably led to financial instability, obfuscate the severity of the challenges, slowed required intervention, and transfer the burden of the crises to taxpayers. Financial crises across the globe in recent times have been associated with, political interference on banking regulation, which often end up with disastrous consequences. It is now been established that political meddling in banking regulation worsen financial instability in banking operations. The former Venezuelan central bank president, Ruth de Krivoy observed that the Venezuelan banking crisis of 1994, was caused by ineffective regulation, weak supervisory oversight, and political interference. Similarly, In East Asia, between the periods 1997-98, political interference in the regulatory and supervisory oversight of banks shrouded the recognition of the dangerous dimension of the crisis, leading to delayed intervention, and eventually worsening the crisis (International Monetary Fund, n.d.).

The Indonesia banking sector witnessed several challenges in banking operations due to poor implementation of banking regulation and supervisors and regulators reluctance to sanction banks who violated financial regulations simply because such banks are politically well-connected, with some of such banks linked to the Suharto family. During the banking crises, due process for dispensing liquidity support to distressed banks were set aside, while banking operation in those periods were based on direct instructions of the president. This trend of politicization of banking regulations persists even after Suharto's fall. In the same vein, the prolonged banking sector problems in Japan has been observed to be due to absence of independence of financial supervisors in country's ministry of finance, and political pressure mounted on the ministry to permit the identified weak banks to continue their operation. Since the decision to close a bank tilting towards bankruptcy is mostly unpopular, politicians who wants to thread on the path of least resistance approach by disassociating themselves from bank closure in the process pressure bank regulators to make provision for bailout or on the alternative exempt the distressed banks from regulatory requirements to the detriment of increased financial insatiability (International Monetary Fund, n.d.).

Regulatory capture implies empowering supervisors in a system characterized by institutional fragility thereby leading to institutional abuse and corruption occasioned by the pursuit of private gains by the supervisors rather than public goods (Shleifer & Vishny, 1998), through allocation of societal values and resources to their cronies and political affiliates to the



detriment of overall benefits of the society (Haber, 2003). Regulatory capture implies that banks often interfere politically with banks regulators to influence and pressure regulators to come up with regulations that suit their interests, but which are often detrimental to national financial stability. Regulatory capture is commonly caused by the concentration of supervisory powers and oversight on a single regulatory agency (Beck, Demirguc-Kunt & Levine, 2005), rather than spreading supervisory oversight on different agencies to check the occurrence of regulatory capture by certain bank executives. The failure in the banking sector has also been attributed to the trend where bank supervisory agency is solely granted the authority to liquidate banks without adequate statutory provision for banks to seek redress in the law court if they are not satisfied with the terms of liquidation of their banks (Mitchener, 2004).

In addition, the centralization of banks' supervisory oversight on a single regulatory agency, and de-emphasis of roles of safety-net participants in bank supervision may translate to regulatory capture, which could render the entire financial system unstable (Alley, 2023). Regulatory agencies have been confronted with several challenges. As observed by the Nobel Prize-winning economist George J. Stigler in his seminal article in 1971, that regulatory agencies are programmed to respond to the demands of the most formidable interest groups. When regulators are not under political pressure to change the rules of the game in favour of the clients, the risk of "regulatory capture" still persist this time by other groups, such as, the industry they are supposed to regulate (International Monetary Fund, n.d.).

Big banks may leverage on the political power acquired from their large size, resources and other attributes of influence to obstruct healthy competition from their rivals and influence regulatory policies for their benefits (Alley, 2023). The techniques adopted in regulatory policies vary from public disclosures, non-public disclosure, on-site examination and off-site surveillance (Iyade, 2006). Politicians do not only interfere in the standard setting process; they also directly interfere in accounting practices of organisations through appropriating ownership stake in a business firm or attempting to control implementers' actions. It has been observed that firms that are of high political influence often give a lower earnings quality report and are also facing crises of transparency (Bona-Sánchez, Pérez-Alemán & Santana-Martín, 2014). There is also evidence in the EU of Governments interfering in the accounting practices of financial entities by controlling National enforcers (García Osma, Mora & Porcuna, 2019). It should be noted that political influence of agencies determines enforcement attitudes, since the agencies are less involved in enforcement actions (Lin et al., 2018).

Majority of Nigerian banks operators are people with high political connections most of whom contribute huge amount of money to the campaign funds of various political gladiators in the country. Similarly, many banks in Nigeria have also been identified to have colluded with some members of the political class to perpetuate acts of money laundering. Furthermore, it has been observed that in Nigeria, issuance of banking licenses was based on political affiliations, a trend that has led to institutional weaknesses and regulatory ineffectiveness in the nation's banking supervision (Echekoba, 2017). Nigeria has series of well-intended regulatory frameworks, which require effective leadership skills to enhance their functional capacity in line with global best practices (Odeh & Unufe, 2019). Despite the establishment of several anti-corruption agencies in Nigeria, such as the Independent Corrupt Practices and other related offences Commission (ICPC), corrupt practices in both public and private sectors of the country still remain daunting and unabated. On a contrary view, Davis and Obasi (2009) argued



that Central Banks show possibility of been immune from political patronage and other similar extraneous interference in banks supervisory oversight. The authors noted that the agencies are also likely to be insulated from regulatory capture by the institutions they are mandated to supervise, a trend that is common to third world countries. The opinion of Davis and Obasi (2009) appears to be based on global experience of central banks, and not specifically, the central bank of Nigeria due to several literatures, such as (Kayode & Oluwole, 2023; Echekeba, 2017), which has alluded to the fact that regulatory inconsistencies abound in Nigeria.

Institutional Infrastructural Deficit and Regulatory Effectiveness in the Nigerian Banking Sector

Fowowe (2010) examined the impact of liberalization on the Nigerian banking sector between the periods 1980 to 2002, and observed that the liberalization of the Nigerian banking sector contributed in no small measures to financial instability of the banking sector during the period under investigation. Despite the fact that the Nigerian banking sector has been adjudged to be one of the best in African continent (Enebeli-Uzor & Ifelumini, 2021), findings from a study conducted by (Kayode & Oluwole, 2023) indicates that the Nigerian banking sector is still to a very large extent characterized by fragility.

In Nigeria, the office of CBN Governor is based on political appointment by the President; who sends the nomination to the legislators for the purpose of screening and confirmation. As a result of Nigeria's ethnic pluralism, political appointments to such positions are done on zoning basis; that is, allocated in line with the various ethnic zones to ensure representativeness in governance. This approach is inappropriate since it often gives preference to a less qualified candidate and denies candidates with requisite expertise opportunity for appointment on the basis of political consideration. This methodology of bureaucratic appointment makes it difficult for a CBN Governor to be truly independent and discharge his or her assigned responsibilities effectively. The prevalence of weak corporate governance in Nigerian banks has been identified as a contributing factor to failure of banks in the country. As earlier stated, most banking licensees in Nigeria are issued to people affiliated to top government functionaries, so such occurrences undermined the adherence of banks executives to corporate governance standards. It is a truism that decision making with respect to upholding effective banking practices in Nigeria are usually based on social and political considerations as against the best interest of the institution and the general public (Echekeba, 2017). Moreover, the Independent Corrupt Practices and other related offences Commission has not been effective in its mandate to eradicate corrupt practices in Nigeria's public space (Odeh & Odigie, 2021).

Several occurrences that led to financial crisis in Nigeria have been identified in recent times. Examples included certain unwholesome practices exhibited by some bank management in making provision for Special Purpose Vehicles designed to direct money to themselves for the manipulation of stock prices and purchase of real estate within and outside the country. It was reported that a particular bank that was in a state of distress borrowed money to buy jets which were registered in the CEO's son's name who was the Chief Operating Officer of the bank at the time. In a similar development, the management of another Nigerian bank established 100 fake companies to enable them perpetuate fraudulent acts. The CBN is equipped with corporate governance codes and strategy, but these lack effective implementation (Echekeba, 2017).



The ineffective supervisory oversight also led to massive given out of loans by Nigerian banks without due consideration of the customers' capacity to repay them, many of such loans were simply granted across many banks as order from above to friends and companions of the directors and owners of the affected banks. In addition, majority of the loans were given out with highly overvalued and in some cases non-existent assets as collateral security for the loans, a trend that threatens the safety of depositors' funds and undermine their confidence on the nation's banking system. Another major challenge that resulted from the ineffective supervisory oversight of the Nigerian banking sector is the issue of some banks' swaying the banking public with selective disclosure of certain aspects of their balance sheets given assurances of their accrued multi-billion-naira profits, which in the true sense are non-existent. This occurrence misinforms the general public and unwary investors who are ignorantly drawn to the banking stocks in the capital market (Echekoba, 2017).

A major institutional challenge of regulatory and supervisory oversight in Nigerian banking sector is the fact that the lack of capacity on the part of CBN to ascertain the procedural practices by some banks is due to inadequate skilled personnel in its workforce. The liberalization of the banking sector in the late 1980's led to astronomical increase in the numbers of banks in the country, and this subsequently led to poor supervisory oversight on the part of the CBN. And so these banks went through the accounting year with the absence of on-site assessment of banking operations by CBN supervisors, also, the assessment period that ought to be done annually was carried out at intervals of two to three years. Also, the proliferation of banks in Nigeria was accompanied by advance information technology which enable some banks to easily manipulated data to facilitate window dressing of their balance sheets. The overall consequences of this approach are poor banking oversight and late discovery of banking challenges a trend that has in no small measure adversely affected bank depositors and stakeholders. Nevertheless, the CBN created an electronic rendition system (Financial Analysis and Surveillance System) to arrest this occurrence through the banking reform agenda in 2004. However, the intended consequences of this recent application are yet to be desired as the menace of data falsification was observed in the banking crisis of 2008 (Echekoba, 2017).

Another identified regulatory lapse in the banking sector was the absence of co-ordination between Financial Sector regulators, the CBN and Stock Exchange Commission (SEC) which made them not able to ascertain unlawful un-procedural approach adopted by many banks to invest in the stock market. Both institutions do not exchange banking assessment reports to ensure an effective supervisory oversight of the nation's financial sector considering the utmost significance of both the banking sector and capital market to economic growth and national development. Also, an identified institutional deficit in the financial sector of Nigeria is that the Financial Services Regulation Coordinating Committee (FSRCC) which consist of representatives of the CBN, SEC, Nigeria Insurance Commission, Ministry of Finance and Corporate Affairs Commission did not meet in the two years before the subprime crisis induced failure in nation's financial sector (Echekoba, 2017), a trend that might have been averted if the institution was proactive and effective.



Theoretical Framework

The Ecological Theory of Administrative Weakness

The Ecological Theory of Administrative Weakness was formulated by F. W. Riggs, and it argues that the ineffective performance of government agencies poor administration of public bureaucracies is caused by the interaction of traditionalism and modernity (Anazodo, Ezenwile, Chidolue & Umetiti, 2014, cited in Odeh & Nwosu, 2024). The origin of the concept “ecology” can be traced to biology where it is applied to the interdependence between animal species and their environments (Sharma, Sadana & Kaur, 2013, cited in Odeh & Nwosu, 2024; Elliot-Graves, 2024). Sociologists have used ecology in reference to the interaction between man and his urban environmental variables. John Gaus was responsible for its introduction to public administration in 1945. Gaus posited that government activities should be carried out in consonant with the social environmental variables, such as individuals, groups, cultural elements, economy, technology, and among other. The positive impact of a public bureaucracy is premised on the effect of its interaction with its immediate environment (Sharma et al., 2013, cited in Odeh & Nwosu, 2024; Adewale, 2024).

Fundamentally, ecological theorists view public bureaucracies of Third World countries, like Nigeria as ineffective in their service delivery due to the impact of their environment. They noted that the negative environmental influence in the less developed countries, such as corruption, ethnicity, nepotism adversely affect bureaucratic agencies from optimal service delivery as compared to the bureaucratic organizations in developed countries. The ecology of Public Administration has been classified into political, social, economic and cultural. The above classification of ecology implies that Public Administration is in constant interaction and relationship with its immediate environment ((Emeh, 2012; Sharma et al., 2013, cited in Odeh & Nwosu, 2024; UK Essays, 2017).

The application of the Ecological Theory of Administrative Weakness to this study is based on the fact that the Nigerian environment in contrast to those of the developed countries is characterized with various negative `social, political and administrative issues, such as bribery and corruption, poor remuneration, lack of merit in public service recruitment and selection processes, insecurity, absolute poverty, religious and ethnicity as determinants of public policies and so on (Agbonifoh & Osifo, 2017). These factors have also, negatively influenced the agencies charged with regulatory and supervisory oversight of the Nigerian banking sector, hence, their ineffectiveness in curbing the excesses and lack of adherence to due process by most banks in the country.

Methodology

The secondary method of data collection was applied in the study, which relies on the utilization of text books, government circulars and documents, academic journal articles, other academic materials that are internet based, and so on. The data analysis of the study was centered on textual analysis techniques to facilitate the achievement of the objectives of the study.



Discussion of Findings

Findings in the study revealed the existence of regulatory capture in the Nigerian banking sector, a trend which refers to the political interference of banks with banks regulators to influence and pressure them to come up with regulations that suit their interests, but which are often detrimental to national financial stability. Further findings showed that regulatory capture is commonly caused by the concentration or centralization of regulatory and supervisory oversight on a single regulatory agency (Beck, Demirguc-Kunt & Levine, 2005).

Another finding in the study implies that the failure in the Nigerian banking sector has also been attributed to the trend where bank supervisory agency is solely granted the authority to liquidate banks without adequate statutory provision for banks to seek redress in the law court if they are not satisfied with the terms of liquidation of their banks (Mitchener, 2004).

It was observed in the study that politicians do not only interfere in the standard setting process of the banking industry, but also directly interfere in accounting practices of banks through appropriating ownership stake in a bank or attempting to control regulations implementers' actions. It has been observed that firms that are of high political influence often give a lower earnings quality report and are also facing crises of transparency (Bona-Sánchez, Pérez-Alemán & Santana-Martín, 2014). These forms of political interference undermine effective leadership in banking regulatory agencies. It is in this perspective that Akintoye and Odeh (2022, p. 28) noted that "the successful achievement of the goals and achievement of any organization depends on the managerial effectiveness of those organizations".

Findings from the study showed that the liberalization of the Nigerian banking sector contributed in no small measures to financial instability of the banking sector in Nigeria (Fowowe, 2010). And this has led to financial instability in the Nigerian banking sector (Kayode & Oluwole, 2023).

Findings from the study has shown that the politicization in the appointment of CBN Governor has adversely affected banking industry in Nigeria. In Nigeria, the office of CBN Governor is based on political appointment by the President; who sends the nomination to the legislators for the purpose of screening and confirmation. As a result of Nigeria's ethnic pluralism, political appointments to such positions are done on zoning basis; that is, allocated in line with the various ethnic zones to ensure representativeness in governance. This trend often translates to ineffective leadership in the nation's apex banking regulatory agency. This occurrence is replicated in other regulatory agencies in the country.

In addition, it was also found in the study that the prevalence of weak corporate governance in Nigerian banks has been identified as a contributing factor to failure of banks in the country. Most banking licensees in Nigeria are issued to people affiliated to top government functionaries, so such occurrences undermined the adherence of banks executives to corporate governance standards. It is a truism that decision making with respect to upholding effective banking practices in Nigeria are usually based on social and political considerations as against the best interest of the institution and the general public (Ifaka & Odigie, 2021; Echeboba, 2017).



Furthermore, findings in the study showed that a major institutional challenge of regulatory and supervisory oversight in Nigerian banking sector is the fact that the lack of capacity on the part of CBN to ascertain the procedural practices by some banks is due to inadequate skilled personnel in its workforce (Echekoba, 2017). Also, the proliferation of banks in Nigeria was accompanied by advance information technology which enable some banks to easily manipulated data to facilitate window dressing of their balance sheets.

Another observed regulatory lapse in the banking sector was the absence of co-ordination between Financial Sector regulators, the CBN and Securities and Exchange Commission (SEC), despite the establishment of a bank regulatory agencies coordinating body, the Financial Services Regulation Coordinating Committee (FSRCC), which made them not able to ascertain unlawful and un-procedural approach adopted by many banks to invest in the stock market (Echekoba, 2017).

Conclusion

The Central Bank of Nigeria (CBN) is the main agency charged with the supervision and monitoring of banks and other related financial institutions in Nigeria. Despite the existence of several institutional frameworks, the Nigerian banking sector in time past was affected by monumental challenges which almost eroded consumers' confidence in the sector. It is in this regard that the article examined the institutional weaknesses, political interference, and regulatory effectiveness in Nigerian banking supervision using the secondary methods of data analysis. And the theoretical framework adopted in the study is the Ecological Theory of Administrative Weakness. Findings from the study showed that there is the existence of regulatory capture in the Nigerian banking sector; further findings showed that regulatory capture is commonly caused by the concentration or centralization of regulatory and supervisory oversight on a single regulatory agency; also, it was observed in the study that the liberalization of the Nigerian banking sector contributed in no small measures to financial instability of the banking sector in Nigeria. Several recommendations were proposed in the article, such as the decentralization of banks' regulatory and supervisory oversight agencies should be reinforced and sustained to avert the occurrence of regulatory capture in the banking industry among others.

Recommendations

1. The decentralization of banks' regulatory and supervisory oversight agencies should be reinforced and sustained to avert the occurrence of regulatory capture in the banking industry.
2. The banks that have been subjected to liquidation by regulatory agencies should be granted adequate statutory provision to seek redress in the law court if they are not satisfied with the terms of liquidation of their banks.
3. The operation of the Nigerian banks should be regulated rather than been liberalized to avert the occurrence of financial instability that usually accompanies liberalization of banks.
4. The appointment of the position of central bank governors should be depoliticized and should not be based on quota system, rather, professional associations, such as the Chartered Institute of Bankers of Nigeria, and Institute of Chartered Accountants of Nigeria, and other related bodies should be assigned the responsibility of nominating three names of candidates for the position of CBN governor to the president, who would



in turn upon his consideration forward such names to the legislature for confirmation after prior investigation about the ethical fitness of such candidates by the Department of State Services (DSS).

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