



The Code of Corporate Governance for Not-for-Profit Organizations in Nigeria - Challenges, Opportunities, and Implementation Imperatives

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The Code of Corporate Governance for Not-for-Profit Organizations in Nigeria - Challenges, Opportunities, and Implementation Imperatives

The Corporate Governance Code for Not-for-Profit Organizations (NPOs) in Nigeria aims to boost transparency and accountability through twelve key principles. However, implementing it faces challenges like resistance to change and resource constraints. Overcoming these hurdles requires tailored strategies, government support, and comprehensive training. Successful implementation hinges on collaboration among stakeholders and a commitment to adapting governance practices to meet the unique needs of NPOs in Nigeria.

In recent years, there has been a significant increase in the number and formal organization of not-for-profit organizations (NPOs) in Nigeria, accentuating their growing economic significance through substantial funds management. Transitioning from individual charitable acts to structured, donor-based entities, the not-for-profit sector in Nigeria has progressively matured.

A central feature in this evolution is the

establishment of a corporate governance code, crafted to outline effective management and operational frameworks for NPOs. This code is instrumental in guiding boards and management teams to better understand their responsibilities, thereby fostering effective governance practices aligned with the desired community impacts and enhancing overall organizational influence.

Primarily, the Code addresses crucial governance aspects within the not-for-profit sector, focusing on heightened demands for transparency and accountability in overseeing NPO activities across Nigeria. The Not-for-Profit Governance Code in Nigeria (NFPGC or the Code) equips organizations with robust guidelines to enhance mandate fulfillment, ensures board management transparency, and promotes efficient and ethical operations. This fosters a trust culture among a diverse stakeholder group, augmenting organizational sustainability and commitment to high resource stewardship standards.

Understanding the Code

The Code outlines processes and frameworks that guide the strategic direction and

management of an NPO's operations, focusing on ethical responsibilities and resource management. It introduces twelve foundational principles that assume compliance with relevant legal and regulatory standards across different organizational forms and sectors.

Applicability of the Code's provisions varies based on an organization's size and status, from micro-organizations with no more than 10 million NGN in average annual gross receipts or total expenditures over the past two years to large organizations exceeding 1 billion NGN in the same financial metrics.

The Key Principles of the Code include the following:

- 1. Vision, Mission, and Objectives:** This principle emphasizes the importance of clarity in an organization's purpose and offerings. It advocates for well-defined visions, missions, and objectives to guide board and leadership actions towards effective and sustainable achievement of organizational goals.

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2. **Adherence to Laws:** Organizations must comply with their governing instruments and all relevant legal and regulatory frameworks. This compliance underpins the additional governance principles developed within the Code.

3. **Effective Governing Bodies:** Successful governance requires an effective Board that strategically leads according to the organization's aims and values, leveraging diverse skills, experiences, and backgrounds to make informed decisions.

4. **Diversity, Equality, and Non-Discrimination:** The Board should foster an environment that values diversity across various dimensions, such as gender, age, cultural background, and more, ensuring decisions are well-rounded and inclusive.

5. **Disclosures and Transparency:** **Transparency** and accountability should be the hallmarks of an organization's operations, providing stakeholders with clear, accurate information about its structure, activities, and financial health.

6. **Stakeholder Engagement:** Engaging stakeholders inclusively and transparently is essential, recognizing their impact and interests in relation to the organization's activities.

7. **Ethics, Integrity & Conflict of Interests:** High ethical standards and integrity are crucial, with clear policies to prevent and address conflicts of interest, thereby maintaining public trust and reflecting the organization's values in decision-making.

8. **Sustainability:** Organizations should balance financial, organizational, and practical goals to secure their mission's long-term viability and maintain stakeholder and funder trust.

9. **Fundraising and Reserve Management:** Fundraising activities must be conducted ethically with transparency, and financial reserves should be managed prudently.

10. **Financial Management:** Strong financial oversight is necessary, with rigorous policies and procedures to safeguard and manage the organization's assets and finances effectively.

11. **Assurance:** Adequate and effective assurance mechanisms should be in place to enhance asset security and organizational capability in meeting set objectives.

12. **Leading people:** Providing clear leadership and valuing volunteers, employees, and contractors as key resources are essential for fostering a responsible organizational culture.

The primary goal of the new Code is to enhance transparency and accountability in NPO operations across Nigeria, enabling organizations to achieve their intended outcomes effectively and provide better services to their communities and stakeholders. The National Framework for Good Corporate Governance (NFPGC) anticipates that the new Code will improve overall mandates fulfillment, facilitate effective and ethical operations, build trust between organizations and stakeholders, and enhance organizational sustainability.

Previously, in 2016, the Financial Reporting Council mandated that not-for-profit organizations, including religious institutions like churches and

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mosques, comply with a corporate governance code applicable to both private and public companies. This initiative faced significant resistance from almost all stakeholders in the nonprofit sector. Continuing controversies and differing opinions led to the suspension of the implementation of this code, in adherence to the provisions of Section 11c and 51c. Previously, in 2016, the Financial Reporting Council mandated that not-for-profit organizations, including religious institutions like churches and mosques, comply with a corporate governance code applicable to both private and public companies. This initiative faced significant resistance from almost all stakeholders in the nonprofit sector. Continuing controversies and differing opinions led to the suspension of the implementation of this code, in adherence to the provisions of Section 11c and 51c.

The appointment of Dr. Rabiun Olowo by President Bola Ahmed Tinubu, as part of his transformation agenda for the Council, has sparked renewed interest in corporate governance regulations. This shift anticipates the complexities of modern NPOs which now encounter risks parallel to

those faced by profit-oriented entities. Dr. Olowo announced that a specific Governance Code for Not-for-Profit Organizations and a Public Sector Governance Code are set to be unveiled in Q1 2024.

Different from the 2016 Code which primarily established a generic structure for NPO boards focusing on roles, responsibilities, and operational procedures, the newly proposed draft in December 2023 delineates 12 Principles, providing nuanced implementation guidance tailored to the status and size of the NPO. This approach significantly alleviates the compliance burden on micro and small organizations by exempting them from aspects of the Code that are irrelevant to their operations and stakeholder interactions.

Opportunities Offered by the Code

Given the increasing economic significance of not-for-profit organizations and the substantial funds they manage, the intricacies of contemporary humanitarian and civil activities, spanning from jointly funded to jointly implemented projects, necessitate

more than the mere existence of an article and memorandum of association. In Nigeria, prudent management practices are crucial for the sustained success of not-for-profit organizations.

The establishment of a unified code of governance will play a pivotal role in shaping the decision-making processes, procedures, and attitudes of not-for-profit organizations in several key ways.

Firstly, enhanced transparency and accountability in NPO operations can be achieved through a harmonious Code of Governance. This facilitates meaningful accountability for the performance, intentions, and activities of a not-for-profit organization. Compliance with the Code enhances trust among stakeholders and lends credibility to the reports and actions of these organizations. Mandatory adherence to a well-defined Code can significantly improve transparency in an organization's activities, prompting owners to significantly improve transparency in an organization's activities, prompting owners and managers to exhibit a higher level of compliance and transparency in their operations.

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Secondly, the presence and enforceability of the Code will subject the actions of not-for-profits to scrutiny by stakeholders, aligning governance needs with organizational activities. This alignment reduces the likelihood of errors, loss of focus, or compromised objectivity. By justifying their activities clearly and focusing on stakeholder-centered projects, organizations can better understand their roles and responsibilities, leading to more effective management and governance practices that enhance impact, support, and service delivery, thereby strengthening stakeholder trust and engagement.

Thirdly, a well-structured Code ensures that organizations can effectively implement strategies and utilize resources efficiently to achieve their objectives. This instills confidence and trust in donors, showcasing ethical compliance and a compelling value proposition for resource deployment. By providing a standardized framework for assessing performance, the Code increases the competitiveness of Nigerian not-for-profit organizations when seeking grants and support from both local and international donors.

Moreover, to adapt to evolving conditions and emerging challenges in today's dynamic social and economic landscape, organizations must enhance their understanding of roles and responsibilities and develop efficient governance practices through collaborative learning. The Code facilitates capacity-building partnerships, training programs, and knowledge-sharing initiatives with leading not-for-profit organizations worldwide.

Lastly, governance in not-for-profit organizations has transcended a mere stewardship relationship to encompass broader concerns such as accountability, transparency, and social justice. The Code, among other provisions, enhances the governance approach in NPOs by requiring the preparation of Annual Governance Statements. These statements underscore the organization's commitment to adhering to the principles and guidelines of the Code, tailored to their size and nature.

Challenges and Implementation Imperatives

Implementing corporate governance codes in

the private sector poses significant challenges for many entities, including those in Nigeria. Full compliance with the Corporate Governance Code principles remains elusive for private entities in Nigeria, highlighting ongoing challenges. Similarly, when extending these codes to Nonprofit Organizations (NPOs), new hurdles emerge. Implementing corporate governance codes in the private sector poses significant challenges for many entities, including those in Nigeria. Full compliance with the Corporate Governance Code principles remains elusive for private entities in Nigeria, highlighting ongoing challenges. Similarly, when extending these codes to Nonprofit Organizations (NPOs), new hurdles emerge.

One notable challenge is the resistance to change and adaptation within NPOs. Governance frameworks tailored to their operations often face resistance due to the perceived costs, time requirements, and cultural shifts associated with adopting new governance codes.

Resource constraints present another obstacle. NPOs are expected to review their strategies

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regularly, stay informed about laws and regulations, and possess technical expertise to implement the Code. However, limited financial, human, and technological resources hinder compliance efforts, making it difficult to recruit skilled board members or invest in technology.

Moreover, a lack of awareness or understanding among NPO management and staff poses a significant barrier to effective implementation. Strong governance practices depend on the knowledge and attitude of an organization's leadership towards enforcing compliance but can be hindered by a lack of awareness among key individuals.

Conflicts with existing organizational cultures and practices further complicate implementation efforts. Governance codes often clash with established organizational cultures, which may have been optimized for current circumstances and may be more effective than the prescribed Code.

In light of these challenges, implementing a robust Corporate Governance Code for NPOs

requires careful consideration. To facilitate successful implementation, organizations should develop tailored implementation strategies, engage government and regulatory bodies for support, provide comprehensive training for leaders and stakeholders, leverage technology for compliance, and establish a monitoring and evaluation framework to ensure ongoing adherence to the Code's provisions in Nigeria.

Conclusion

The corporate governance code is essential in providing the necessary structures and guidance for managing organizations effectively. These principles aim to reinforce an organization's commitment to its stakeholders and enhance credibility in addressing service and social issues. However, implementing such codes may face challenges like resistance and resource limitations.

Therefore, developing a robust, practical, and adaptable implementation plan that involves all stakeholders is critical for the Code's success in Nigeria. The potential for a Corporate Governance Code tailored for the not-for-profit sector in Nigeria hinges on the understanding

and acceptance of NPOs. Collaborating with international donor organizations may be beneficial to ensure that only NPOs complying ethically with the Code are considered for project awards, grants, and donations.

Effective governance practices require a comprehensive and incremental approach. All stakeholders should be viewed as relevant, with their interests and needs incorporated at every stage of implementing the Code. In a broader sense, the Code should promote the widespread impact of services provided by NPOs and offer valuable insights to those involved in advancing good governance practices to help organizations achieve their objectives.

For further details and implementation guides, please contact us at:

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