HUMANITARIAN ACADEMY · HUMANITAIRES JOBS

Mini MBA Finance and Grants: managing donor money and financial health

Course handout · Week 12 : Financial governance, cash crisis and final project

A programme of exactly 3 months (12 weeks, 144 hours) to manage the finances of a humanitarian organisation and donor funds: NGO accounting and restricted funds, budgets and shared costs, cash and foreign exchange, budget monitoring and forecasts, eligibility rules, the grant cycle, partner funding, audits and fraud, financial health, full cost, reserves and diversification, governance and turnaround. Corrected numerical exercises, three monthly exams with case studies, and a verifiable diploma from the Humanitarian Academy.

https://humanitairejobs.org/en/academy/mini-mba-finance-subventions/semaine-12/

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Week 12 : Financial governance, cash crisis and final project

Objectives

- Organise financial governance: the role of the board, the treasurer, the audit committee and finance management.
- Choose and upgrade financial systems (accounting software, ERP, digital payments) according to the size of the organisation.
- Lead an organisation through a financial crisis, and complete the programme's final project: a financial recovery plan.

Financial governance

Financial governance divides responsibilities so that no one decides alone on the organisation's money:

- **Board**: adopts the annual budget, the reserves policy, the investment policy and the financial statements; appoints the external auditor; sets delegations of authority to management.
- **Treasurer** (board member): follows the financial position between meetings, presents the accounts to the board and the general assembly.
- **Audit and risk committee**: oversees external and internal audit, the risk register and fraud reports. Its members must be independent of management.
- **Executive and finance management**: manage day to day within the limits of their delegations, produce the information, implement the controls.

Signs of weak governance: a board that sees the accounts only once a year, no audit committee, audit recommendations not followed up year after year, a chief executive who is also the sole bank signatory.

Financial information for the board

The board does not need the general ledger; it needs to understand the situation and decide. A useful quarterly pack contains:

- a one-page **dashboard** (the ratios from week 9: reserves, liquidity, dependency, shared cost coverage, old receivables);
- the **income statement**, distinguishing restricted and unrestricted funds, compared with the budget;
- the 6- or 12-month **cash forecast**;
- the status of major **financial risks** and audits;
- the **decisions requested**, clearly worded.

> A good board pack ends with decisions to be taken, not with "for information".

Financial systems and digital transformation

Systems must keep pace with the size and complexity of the organisation:

- **Under 1 million USD, one office**: simple accounting software with cost accounting by project and by donor, online banking with dual approval.
- **1 to 20 million, several offices**: multi-site software, a single chart of accounts, monthly consolidation, a grant management module (budgets, forecasts, reports by donor).
- **Beyond that**: an ERP integrating procurement, inventory, HR and payroll, and finance, with electronic approval workflows.

Digital payments (bank transfers, mobile money for salaries, suppliers and transfers to households) reduce cash-related risks, but create new ones: data protection, bank detail change fraud, dependency on an operator. Any change to a supplier's bank details must be verified by a call to a number already on file, never the one shown in the request email.

System change project. Allow 12 to 18 months, a training budget at least equal to the cost of licences in the first year, a period of parallel running, and migration of opening balances verified by the auditor.

Recognising a financial crisis

An NGO financial crisis almost never strikes all at once. It is heralded by a combination of signals:

- a negative cash forecast within 3 to 6 months;
- major projects ending with no follow-on funding (funding cliff);
- significant costs declared ineligible following an audit;
- a negative unrestricted result several years in a row;
- late payments to suppliers, of taxes or of social contributions;
- use of one donor's advances to pay the expenses of another project (which is prohibited and masks the crisis).

Example. Free cash 150,000 USD. Forecast uncovered net outflows: 60,000 USD a month for 4 months (overhead costs after the end of a large project), then 20,000 a month. Cash in 3 months: 150,000 − 180,000 = −30,000 USD. The crisis is less than three months away: action is needed now, not in month 3.

Leading a recovery

A recovery plan combines quick measures and structural measures:

- **Immediate cash**: chase and escalate receivables from donors, request advances, agree payment schedules with suppliers, postpone non-essential purchases, draw on a credit line if one exists.

- **Cost reduction**: freeze recruitment of overhead posts, renegotiate rents, merge offices, reduce staff in an orderly and lawful way (notice, indemnities, consultation).
- **Income**: emergency appeal to private donors, foundations, proposals at full cost, revision of indirect cost rates.
- **Governance**: inform the board without delay, monitor cash weekly, appoint a lead for the plan.
- **Communication**: inform donors transparently; many will help an organisation that anticipates, few an organisation that hides.

What is prohibited, even in a crisis: using one donor's restricted funds for another purpose, withholding staff taxes and contributions without paying them over, presenting inaccurate financial reports. These practices turn a financial crisis into a legal and reputational crisis.

Final project: financial recovery plan

The final project of the Mini MBA Finance and Grants consists of writing, for a real (anonymised) or fictitious but realistic organisation, a **financial recovery plan** of 6 to 10 pages, structured as follows:

- **1. Diagnosis**: summary financial statements, key ratios (liquidity, months of reserves, HHI, shared cost coverage), three-year trends.
- **2. Cash forecast** over 12 months, with a base scenario and a downside scenario.
- **3. Full cost analysis**: allocation keys, true indirect cost rate, shortfall by donor.
- **4. Measures**, quick and structural, costed, with owners and dates.
- **5. Internal control and compliance**: weaknesses identified, action plan, preparation for the next audits.
- **6. Proposed reserves policy** and replenishment trajectory.
- **7. Message to the board and donors**: one page.

Assessment criteria: accuracy of calculations, consistency between diagnosis and measures, realism (timeframes, amounts, donor rules), respect of what is prohibited, clarity of communication. The project is part of the third month's exam.

Exercise: a finance director's first 90 days

Situation. You take over as finance director of an NGO with 8 million USD a year. Findings: free cash 90,000 USD; uncovered net outflows of 45,000 USD a month for the next 6 months; receivables from donors over 90 days: 380,000 USD; two project audits flagged 65,000 USD of ineligible costs not yet repaid; the board has not met for 7 months; a regional office used 120,000 USD of one donor's advance to pay the salaries of another project.

Tasks. 1) How long until free cash runs out? 2) Rank the problems by severity. 3) Propose the actions for the first 30, 60 and 90 days.

Answer. 1) 90,000 / 45,000 = 2 months, even before repaying the 65,000 USD of ineligible costs. 2) The most serious is the use of 120,000 USD of one donor's advance for another project: it is an unauthorised use of restricted funds, which must be regularised and reported; then cash (exhausted in 2 months); then the ineligible costs; then the lack of governance (board not meeting). 3) 30 days: convene the board urgently and present the situation; set up a weekly cash forecast; escalate the 380,000 USD of receivables (collecting half covers 4 months of deficit); freeze non-essential overhead spending; document the cross-use of funds and prepare its regularisation and notification of the donor concerned. 60 days: negotiate a repayment schedule for the ineligible costs with donors; launch a full cost analysis and revise the budgets of pending proposals; overhead cost reduction plan. 90 days: reserves policy and replenishment plan adopted; audit committee set up; audit action plan monitored by the board; strict rules on separating funds by donor in all offices.

Key takeaways

- The board adopts the budget, reserves, investments and accounts; the audit committee oversees audits, risks and fraud.
- A board financial pack ends with decisions to be taken.
- Any change to a supplier's bank details is verified by a call to a number already on file.
- A financial crisis gives warning: negative cash forecast, funding cliff, ineligible costs, late payments.
- Even in a crisis: never cross-use restricted funds, never fail to pay over withholdings, never submit inaccurate reports.

Quiz

1. Who adopts an NGO's reserves policy?
   A. The board
   B. The accountant
   C. The main donor
   D. The external auditor

2. Free cash 200,000 USD, uncovered net outflows of 50,000 USD a month. Cash runs out in:
   A. 2 months
   B. 10 months
   C. 5 months
   D. 4 months

3. A supplier asks by email to change its bank details. You:
   A. Change them immediately
   B. Reply to the email to confirm
   C. Verify by calling a number already on file
   D. Pay in cash

4. In the middle of a crisis, using one donor's advance to pay the salaries of another project is:
   A. Acceptable if temporary
   B. An unauthorised use of restricted funds
   C. Good cash management
   D. A reallocation

5. For a change of accounting software, the realistic timeframe is often:
   A. 12 to 18 months
   B. 2 weeks
   C. 5 years
   D. A weekend

Quiz answers : 1. A · 2. D · 3. C · 4. B · 5. A