YYS-EI-003

Executive Insight™ No. 003

Building Better Organizations™ Series

Funding Does Not Create the Capacity Required to Use It Responsibly

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July 2026

Published by Ying ’N Yang Solution

Funding is often treated as the decisive moment in the life of an enterprise. A business plan is approved, a loan is sanctioned, a grant is awarded or an investor commits capital, and the organization appears to have crossed the barrier between intention and execution. The prevailing assumption is understandable: if insufficient resources were the obstacle, the arrival of money should resolve the problem.

But funding changes what an organization can attempt. It does not automatically change what the organization is capable of governing.

Once resources enter an organization, weaknesses that were previously concealed can begin to affect performance. Unclear authority affects spending decisions. Weak records make expenditure difficult to verify. Inadequate procurement exposes the organization to delay, substitution and loss. Poor working-capital discipline separates reported revenue from available cash. Repayment obligations that do not match the operating cycle can consume the liquidity required to keep the enterprise functioning. Funding may therefore accelerate progress, but it may also accelerate the consequences of weak structure.

This is not an argument against financing. Nor is it a claim that every recipient misuses funds or that every funded business will struggle. Many owners follow approved budgets, maintain records, meet repayment obligations and build viable operations. The executive problem is narrower and more important: approval establishes access to capital; it does not establish the capacity to convert that capital into sustainable performance.

When Approval Is Mistaken for Readiness

The misconception often begins with the business plan. Because the plan contains a budget, projected revenue and a repayment schedule, approval can be interpreted as confirmation that the enterprise is ready. Yet a budget records intended choices. It cannot ensure that those choices will be followed, that quoted costs will remain stable, that purchased inputs will arrive, or that managers will respond appropriately when circumstances change.

Organizational strength must be deliberately built, and planning alone does not establish implementation readiness. Funding introduces the next test: whether the organization can govern, absorb and convert resources after approval.

The World Bank's recent assessment of SME-finance support emphasizes that access to finance is only part of the performance equation. The effectiveness of financing is shaped by firm capabilities and by the quality of the supporting environment (Carvajal & Didier, 2024). Research on financial inclusion similarly finds that efficient working-capital management strengthens SME performance beyond the benefit of access to finance alone (Bhattacharyya, Rahman, & Wright, 2023). Together, these findings challenge a purely supply-side view in which more capital is presumed to produce better performance by itself.

The distinction is between **financial access** and **funding readiness**. Financial access asks whether capital can be obtained. Funding readiness asks whether the recipient has the governance, management systems, operating discipline and contextual resilience required to use it responsibly.

Use-of-proceeds accountability is one of the earliest tests. When money has been approved for identified purposes, the approved budget is not merely a suggestion. It is part of the financing decision. Redirecting funds toward personal expenses, unapproved services or newly preferred business activities changes the risk that the lender, investor or committee agreed to accept.

This obligation remains even when the recipient must repay the money. Repayment responsibility does not convert restricted or approved business capital into unrestricted personal funds. The recipient may own the business, but the organization must still distinguish the owner's resources from the enterprise's resources and maintain a traceable account of how financed activity corresponds with approved purposes.

The IFC's *SME Governance Guidebook* connects business growth with increasingly formal governance, internal controls, financial reporting, and decision structures (International Finance Corporation, 2019). Research on bookkeeping reaches a related conclusion at the operating level: reliable records and owners' accounting skills are associated with stronger SME performance, while weak bookkeeping limits the usefulness of financial information (Adela et al., 2024). These sources do not establish that recipients routinely divert funds. They establish why separation, documentation, and control are necessary if stewardship is to be demonstrated.

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> Across consulting engagements, the first breakdown is not always a lack of money. It may be the absence of a disciplined boundary around the money. Some recipients follow the approved allocation closely. Others begin informally reallocating capital before implementation, treat unused balances as personally available, or cannot produce a complete documentary trail after spending. These observations are not presented as population-wide prevalence. They identify a recurring professional risk: when financial access develops faster than financial stewardship, accountability becomes difficult precisely when the organization is expected to demonstrate readiness for its next drawdown.

Documentation is therefore not an administrative afterthought. Receipts, invoices, bank records, procurement correspondence and asset verification form the chain through which expenditure becomes auditable. When that chain is incomplete, a consultant, lender or committee cannot safely replace missing evidence with inference. A later purchase made from the owner's pocket may help the business, but it does not retrospectively prove how the original disbursement was used. Traceability depends upon the relationship among the approved purpose, the actual payment, the recipient of payment, the item received and the business use of that item.

What Funding Readiness Requires

Viewed through VITALS™, funding readiness depends upon more than financial access. It requires viable governance structures, implementation capacity, strategic alignment, context-sensitive logistics and the financial discipline required for sustainability. The framework remains useful here because the issue is not purely financial. It concerns whether the organization is structured to hold, operate, adapt and grow responsibly.

Authority, controls and accountability should be defined before money moves. Who may authorize a change? Which expenditures require supporting documentation? How are personal and business transactions separated? What happens when a proposed purchase exceeds its line-item budget? Without these decisions, control becomes reactive and dependent upon individual judgment. The people involved must also possess the procurement skill, bookkeeping capability, inventory controls and management discipline required to reconcile actual spending against the plan. Funding increases activity; it also increases the volume and consequence of decisions.

Capital can accelerate a system faster than that system can mature. Growth introduces reporting obligations, larger commitments and more complex operating relationships. An enterprise that manages a small cash operation informally may not be able to manage financed expansion through the same practices. The approved use of funds must also remain aligned with the business model. A recipient who decides after approval to offer a different service may alter equipment requirements, revenue assumptions, staffing, market demand and repayment capacity. Where approval was granted by an investment committee or board, material reallocation must return through the appropriate authority.

Context can disrupt even responsible implementation. In The Bahamas and other archipelagic or Small Island Developing State environments, shipping time, vendor concentration, import costs, geographic access, and supply-chain dependence materially affect execution. OECD research confirms that supply-chain disruption can affect the availability, timing, and cost of critical inputs (OECD, 2025). The Central Bank of The Bahamas has also identified imported-cost and supply-chain pressures within the domestic economic environment (Central Bank of The Bahamas, 2025). A variance caused by a delayed shipment or unavailable product is different from an unauthorized diversion, even though both alter the approved plan.

Ultimately, financial discipline must extend beyond acquisition. The enterprise must retain sufficient working capital to operate, absorb delay, collect revenue, meet debt obligations and reinvest. Lenders, suppliers, advisers, logistics providers and governance bodies can either strengthen or interrupt that movement from funding to performance. The relevant question is therefore not whether the organization received resources, but whether its underlying vitals allow those resources to move responsibly through the system.

From Funding to Sustainable Performance

A credible accountability system must distinguish between misconduct, weak management and legitimate change. Budgets are estimates made under stated assumptions. Prices may rise between approval and disbursement. A vendor may discontinue an item. Equipment may be short-shipped. A distributor may accept payment but deliver late or incompletely. None of these events alone establishes irresponsibility.

The management question is how the variance is handled.

Formal variance management requires the organization to identify the difference, document its cause, assess its effect on the remaining budget, and seek approval where the change is material. Established cost-estimating guidance emphasizes credible estimates, risk analysis, appropriately designed contingency, and continuous comparison between projected and actual costs (U.S. Government Accountability Office, 2020). Although developed for public-sector acquisition, the underlying discipline is transferable: contingency should respond to defined uncertainty rather than function as an unrestricted reserve for avoidable overspending.

Tight budgets make the distinction more urgent. If every line item is essential to activation, overspending early in the process removes capacity from a later stage. Haste may secure one input quickly while leaving the enterprise unable to acquire another. The financial consequence is cumulative: shortchanging one stage can prevent the next stage from functioning.

Contingency design should therefore be linked to identifiable risks such as price movement, freight, customs, substitution and delivery delay. It should also have decision rules. When contingency is insufficient, the appropriate response may be additional owner contribution, approved reallocation, revised scope or a return to the funding authority. Quietly transferring funds between purposes conceals the operational effect rather than managing it.

Working-capital research provides one of the strongest bodies of support for the article's central argument. Studies of SMEs show that the relationship between working-capital management and performance depends upon the timing and management of cash flows. Recent empirical work also reinforces that receivables, inventory, and payables affect financial performance (Afrifa & Tingbani, 2018; Bhattacharyya et al., 2023; Huynh, Nguyen, & Nguyen, 2025). These findings matter because an enterprise can be operating, selling, and recording revenue while remaining unable to meet obligations when they fall due.

This is why revenue must not be treated as cash realization. A sale made on credit creates revenue before it creates usable cash. Inventory absorbs funds before it generates a return. Delayed inputs postpone activation while loan obligations may continue according to schedule. If repayment begins before the financed assets can generate adequate cash, a nominally successful approval can place the enterprise under immediate pressure.

Loan affordability must therefore be assessed against realistic operating cash flow, not only projected profit. The size, timing, and frequency of payments should reflect the enterprise's activation period, revenue cycle, seasonality, and working-capital needs. High debt-service burdens make borrowers more vulnerable to shocks and repayment difficulty (Committee on the Global Financial System, 2022). At enterprise level, a payment may be technically possible yet economically damaging if it consumes the liquidity required for payroll, inventory, utilities, or maintenance.

The executive question is not simply, "Can the borrower make this payment?" It is, "Can the borrower make this payment while preserving a viable operation capable of making the next one?"

Financial distress does not always prove that the underlying business is unviable. A viable enterprise may be destabilized by a mismatched repayment schedule, delayed activation, supplier failure, or a temporary working-capital deficit.

Research on informal SME restructuring shows that successful turnaround depends upon timely action, credible management responses, and changes that address the underlying operational and financial causes of distress (Mayr & Lixl, 2019). Restructuring restores viability when it creates a realistic alignment among cash generation, debt service, and operating requirements. It may extend maturities, revise payment timing, reorganize obligations, or create space for operational recovery. But restructuring postpones failure when it merely delays recognition of a business model that cannot generate sufficient cash, when governance and recordkeeping remain unchanged, or when additional funding is used to cover recurring losses without correcting their source.

The distinction is diagnostic. A temporary liquidity problem can sometimes be restructured. Persistent economic unviability cannot be solved by rescheduling alone. Before restructuring, decision-makers should be able to explain what caused the shortfall, what has changed, why future cash flow will differ and which controls will prevent recurrence.

The Funding Conversion Pathway™

The analysis produces a new diagnostic contribution to the Ying 'N Yang Solution Knowledge & Evidence Repository™: the **Funding Conversion Pathway**™.

Approval → Disbursement → Allocation & Deployment → Acquisition & Receipt → Operational Activation → Revenue Generation → Cash Realization → Obligation Fulfilment & Reinvestment → Sustainability

The pathway is a funding-specific application of the established Activation Pathway™. It traces whether approved capital moves through the organization and becomes sustainable performance. Each transition asks a different accountability question. Was approved funding actually disbursed? Was it deployed for the authorized purpose? Were the paid-for inputs received? Did those inputs activate operations? Did operations generate revenue? Was revenue converted into available cash? Could the organization fulfil its financing obligations while retaining sufficient resources for continuity and reinvestment? Depending upon the funding instrument, those obligations may include loan repayment and covenants, grant reporting and approved-use requirements, or commitments made to investors.

This sequence matters because expenditure alone is not evidence of successful deployment. Capital is successfully deployed when expenditure produces usable inputs, operating capacity, realized cash flow, fulfilment of the relevant obligations and continuing viability. The pathway also shows where responsibility is shared. Conversion may break down because of unauthorized spending or poor records; a supplier may fail to deliver; financing obligations may be poorly aligned; or an external shock may interrupt logistics. Accountability requires identifying the actual break rather than assuming that every shortfall has the same cause.

Funding amplifies organizational capability; it rarely creates it. The availability of capital expands what an organization can do, but the strength of its underlying vitals determines whether resources can be governed, absorbed, converted and sustained.

For boards, lenders, investment committees and policymakers, the implication is that financing decisions should not end with approval. Funding readiness should be assessed alongside financial eligibility. Monitoring should follow the conversion of capital rather than merely confirming that money was spent. Material variance should trigger documented review. Repayment should be aligned with the cash-generation cycle. Restructuring should be tied to a credible restoration of viability.

For business owners and organizational leaders, the lesson is equally direct. Borrowed or invested money is not personal discretionary income, even when repayment is personally guaranteed. An approved budget establishes a stewardship obligation. Records protect both the funder and the recipient. Contingency must be governed. Cash must be managed beyond the point of sale. Responsible use of funding is therefore not a single decision made at disbursement; it is a chain of connected organizational capabilities.

The enduring proposition is this:

> **Funding performance depends upon the integrity of the entire conversion pathway rather than merely the approval or availability of capital.**

Where the pathway is strong, funding can accelerate implementation and sustainable growth. Where it is weak, additional money may increase activity without increasing viability. The executive responsibility is to know the difference before the consequences become visible.

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About the Author

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About Ying ’N Yang Solution

Ying ’N Yang Solution is a strategic advisory and organizational development firm supporting businesses, nonprofits, public institutions, and leaders in strengthening governance, strategy, systems, implementation, and sustainable impact.

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