



Local Contribution Accounting Model (LoCA)

Purpose: Transformation of accounting system for reckoning local contribution in humanitarian sector

Synopsis: Local Contribution Accounting (LoCA) model enables systemic inclusion of locally contributed costs in the accounting and financial reporting system by computation of financial values therein. Counting the local contributions and the external contribution with equal standing and reporting accordingly would create scope to amplify voices of local humanitarian actors to lobby for changes in the financial accounting and reporting system.

Rationale: In the humanitarian sector, by heritage the first responders are from the community, the neighbours of the affected people and the local organizations. Gradually the external supports come from the national and international actors. But the ongoing accounting system counts mostly the external funding from national and international sources, that represent a fraction of actual costs. Contributions from local actors and communities are seldom calculated and included in the accounting and reported system.

LoCA mechanism development process: The LoCA mechanism is developed though undertaking study of various types of natural disaster scenario and the humanitarian actions thereby. To start with, the factors of not counting and designing the accounting and reporting mechanism were looked into. During the study mapping was done of diverse types and sources of local contributions, defined the cost centres and articulated the rationale and validation formula of expenses incurred from local sources. In the accounting mechanism designing stage, the cost calculation tools and process were developed, field tested and validated the appropriateness of those as per standard accounting system. During the field-testing phase besides orientation of the functionaries, on-site supports have been provided to practice the process of accounting various forms of local contributions.

The LoCA model: LoCA model has four parts: (a) Documentation of the local contribution items, (b) Cost calculation and Billing process, (c) Accounting Process, and (d) Financial Reporting. For application of the Local Contribution Accounting model, it is recommended for appropriate updating or modification of concerned clauses of relevant policies and manuals of the organization. Brief illustrations are given below.

Local contribution items in-kind shall be grouped under categories like material supply to include stationery items, construction material, food items, household supplies, healthcare items, etc. Accommodation like office space, training venue used, Staff and Volunteers time given and Fixed assets lent shall also be included as local contribution items. The cash contribution from local sources shall be recorded by official money receipts of the organization.

Cost calculation of each item received from local sources should be made objectively so that the process can be verified and the rate determined are comparable with the local market price during the billing process.

The standard accounting process of the organization would be followed for the local sources of income and expenses by using appropriate code of accounts. Once the accounting system become inclusive of counting all local sources of income and expenses and its disclosure are made under separate heads or subheads, the standard financial reporting of the organization would automatically generate report separately showing local contributions and external funding.

To validate allowability of the costs there should be an institutional audit check covering following points: (a) Whether the expense is specifically for the project of which the billing is made? (b) Whether the expense was necessary for operation of the project? (c) Whether the valuation of the billed expense was made objectively? (d) Whether the cost pricing is justifiable comparing to local market value? and (e) Whether the expenses billed is verifiable?

The LoCA model is developed by NAHAB - National Alliance of Humanitarian Actors Bangladesh www.nahab.net with technical support from Insights <https://www.insightsbd.com/> and contribution from Global Fund for Community Foundations <https://globalfundcommunityfoundations.org/>