

National Alliance of Humanitarian Actors Bangladesh Localization Lab: Investment for Emergencies

Local Contribution Accounting Model

1. Background and Rationale

The Localization Roadmap of NAHAB – National Alliance of Humanitarian Actors Bangladesh – focuses on local actors’ led humanitarian actions, shared responsibility and accountability to the affected community. Appreciating lessons from the past for the present to make the future, the theory of change in NAHAB works to build a resilient community holding power to withheld challenges through reviving the heritage of community philanthropy, promoting voluntarism and generating resource pool at various levels with active contributions from all concerned. To that end, besides emergency responses, NAHAB advocates for investments in the humanitarian services of anticipatory actions and immediate recovery. The Localization Lab design also gave priority to three strategic components of humanitarian actions: coordination, capacity, and funding.

In the humanitarian ecosphere of Bangladesh, like many other parts of the world, heritage the first responders after the crises come from the community, the neighbours of the affected people and the local organizations. Gradually, the external supports come from the national and international actors. However, the traditional accounting system of humanitarian services counts, in most cases, the external funding from national and international sources, representing a fraction of actual costs. Contributions from local actors and communities are seldom formally accounted for in the system.

From the above perspectives, as one of the key deliverables of the Localization Lab, NAHAB felt the significance of developing a systemic accounting process to recognize the financial values of local contributions. The Local Contribution Accounting (LoCA) Model has been designed to systematically include locally contributed costs in the accounting and financial reporting system by computation of monetary values. Counting the local and external contributions with equal standing and reporting would create scope to amplify the voices of local humanitarian actors to lobby for changes in the financial accounting and reporting system of humanitarian actions across the globe, both nationally and internationally.

NAHAB develops the LoCA model - National Alliance of Humanitarian Actors Bangladesh www.nahab.net with active support from selected member organizations and with technical backing from inSights <https://www.insightsbd.com/> a Bangladeshi research organization and with some financial contribution from Global Fund for Community Foundations <https://globalfundcommunityfoundations.org/>.

To develop the model, the field study and consultation have been facilitated in three Localization Lab districts in Bangladesh – Barguna, Kurigram, and Sirajganj – often affected by natural disasters like cyclone floods and river erosion. The LoCA model is piloted in these three districts, plus another cyclone-prone island district – Bhola—the local NGOs, namely AFAD DUS. Jago Nari, MJSKS, MMS, NDP and Sangram, based on their experience, remain engaged in the process of developing the LoCA model.

2. Documentation of the Local Contribution Items

2.1. Documentation of the Local Contribution Items

2.1.1 Listing of in-kind contributed items

For each project, a separate register/ledger is to be maintained, listing the items category-wise that are contributed from local sources. These items may be grouped under some categories, as shown below:

- *Material Supply*: This may be sub-grouped into (a) stationery items, such as books, Pencils, toys, and any other materials relevant to disaster response; (b) construction materials, such as wood and bamboo, Bricks, Cement, and materials that require for household repair, rebuild and reconstruction. (c) Food items – Rice, Lentils, Potato and food supplements; (d) Household supplies - Utensils, Essential home stuff, etc.; (e) Healthcare items – Medicine, Napkins, Masks, etc.
- *Accommodation or Space Rent* (office rent, venue rent, store space, garage etc.)
- *Human resource* (Staff and Volunteers time)
- *Fixed assets* (Supply and maintenance of vehicle, furniture, etc.)
- Other Items (to be explicitly mentioned)

2.1.2 Cash contribution from local sources:

For any cash contribution from local sources, official money receipts from the organization must be issued so that the fund becomes part of the accounting system. The preferred option for collecting cash would be to deposit the funds into a respective bank account. In emergencies or if the fund cannot be deposited to the bank, a statement of total collected local funds should be prepared, verified and signed by a designated management official and accounts official. A journal voucher should be prepared to debit Local Contribution and credit this fund as Cash in Hand (Heads of Accounts)

2.2. Cost Calculation and Billing Process

Cost calculation of each item received from local sources should objectively be made so that the process can be verified by the project person or assigned by the management and the rates determined are comparable with the local market price. The following are a few principles and examples of processes that need to be perused.

1. **Project Budget:** Make sure that the local contribution items are included as the budgeted cost of the project. If the items are not included in the project budget, with proper justification, those items should be included in the project budget, and a revised project budget should be prepared accordingly.
2. **Invoice:** An invoice should be issued for each cost item. The invoice must be a verifiable document. The invoice type can vary depending on the item type and supply source. The relevant invoice should be attached with the Accounts Voucher. Invoices include purchase or supply memos, expense statements, price quotations, timesheets, sole source quotations, resolution of local committees, and other relevant bills required to complete the accounting system.

For fixed assets, space rent of own building, fair market price should be considered, and the basis of calculation will have to be documented through an office memo or meeting resolution.

3. **Stock entry:** Ensure that the project receives the goods and adequately enters the stock register, like all other items procured with funds from external sources. A quality assurance certificate should be obtained and preserved with the invoice for relevant cases.
4. **Billing process:** The supporting documents related to the cost calculation and delivery of goods or services should be preserved systematically in the relevant file, and a copy of those papers should be attached to the voucher to ensure the billing process. These documents must be verifiable to prove the claim of the local contribution. Here is a checklist for billing.

- a) Provide a brief description of the in-kind item provided (quantify the number of units)
- b) Specify components and activities where the in-kind item is used for project purposes.
- c) Mention the value and describe the method used to determine the value
- d) Attach tangible supporting documents. For example, for labour payment, the organization requires a Timesheet, Letter of donation, list of items donated, value of items donated, evidence of items used for project purposes and verification that the item was procured with local fund sources.

5. Validating allowability of costs (Internal audit checkpoints)

- Whether the cost specifically for the project for which the billing is made?
- Whether the expense necessary for the operation of the project?
- What was the valuation process for the billed expense?
- Whether the cost pricing justifiable compared to the local market value?
- Whether the expenses billed verifiable?

2.3. Accounting Process

The standard accounting process of the organization would be followed for the local sources of income and expenses by using the appropriate Head of Accounts. Since the cost items will be within the budget heads of the respective project, there should not be any confusion in charging the costs to the relevant head of accounts.

The most important part of the local contribution accounting mechanism is the segregation of the cost values of the locally mobilized resources and services. To ensure that, there would have to be separate sub-heads or coding for the local source items under the relevant main head of accounts. For example, if 463 is the code of supply of food items, there will be two sub-heads: 463.01 for local contribution and 463.02 for external contribution. In preparing vouchers for such

items, a journal voucher will be passed, debiting the expenditure heads (e.g., Food purchase) and crediting the source of funds (e.g., Local Contribution).

2.4. Financial Reporting

Once the accounting system includes counting the local contributions and their disclosure under separate account heads or subheads, the standard financial reporting of the organization will be sufficient for the disclosure of the local contributions along with the external funding. The Receipt-Payment and Income-Expenditure statements will automatically generate contribution figures based on the relevant Head of Accounts data. Depending on the needs of the management, local donors and external donors, separate financial statements can also be generated. The annual audit reports will also show the full picture of financials accordingly.

3. Adoption of the Local Contribution Accounting Model

For adoption of the Local Contribution Accounting model, there would be needs for appropriate updating or modification in relevant sections of a number of policies and manuals in the organization. These include:

- a) Accounts manual to make provision of accounting of local contributions,
- b) Books of Accounts (Cash Book, Ledger, etc.) with sub-heads of accounts,
- c) Chart of accounts with code of accounts on local contributions,
- d) Voucher preparation and approval system,
- e) Accounting Monitoring System,
- f) Audit Report (internal audit and external) preparation,
- g) Project periodic progress and completion Report,
- h) Project Monitoring guidelines, and
- i) Procurement rules make provision for accounting of local contributions.

4. LoCA model development process

The LoCA mechanism is developed by studying various natural disaster scenarios and humanitarian actions. First, the factors of not counting and designing the accounting and reporting mechanism were investigated. The study shows systemic barriers and a lack of consciousness regarding these aspects that need to be addressed.

Towards designing the model, mapping was also done of diverse types and sources of local contributions, defined the cost centres of local contributions, and articulated the rationale and validation formula of expenses from local sources. The cost calculation tools and processes were developed and tested in the field in the accounting mechanism designing stage—the tools, along with the process, validate the appropriateness of those as per the standard accounting system. During the field-testing phase, besides the orientation of the functionaries, on-site support was provided to practice the accounting model for local contributions.

Conceptual plan for developing LoCA model

