

**Towards Part or Full Public Funding of Community Advice Offices:  
Cost-Benefit and a Qualitative Analysis**

***Inception report***

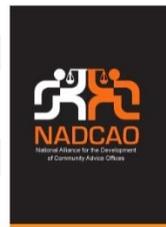
*drafted by*



**The Democracy, Governance and Service Delivery (DGSD) Research Programme  
of the Human Sciences Research Council**

30 April 2014

*Submitted to*



***Mrs Nomboniso Nangu Maqubela Interim Director***  
**National Alliance for the Development of Community Advice Offices (Nadcao)**

502 Premier Centre, 451 Main Road, Observatory, Cape Town, 7925, South Africa |  
Tel: 021 447 6599, Fax: 021 447 6560, Fax to Email: 086 651 8416, Cell: 071 918 1927 |  
Email: [nomboniso@nadcao.org.za](mailto:nomboniso@nadcao.org.za) | Website: [www.nadcao.org.za](http://www.nadcao.org.za)

and



**SHAUN SAMUELS** MANAGING DIRECTOR

**OFFICE** +27 (0)11 656 3462 | **CELL** +27 (0)82 460 6781 | **EMAIL** [shaun.samuel@iafrica.com](mailto:shaun.samuel@iafrica.com) | **WEB** [www.tsdp.org.za](http://www.tsdp.org.za)

**For enquiries and comments contact:**

Dr Yul Derek Davids

[ydavids@hsrc.ac.za](mailto:ydavids@hsrc.ac.za)

Tel: 021 466 7838

Cell: 083 448 4383

Democracy, Governance and Service Delivery Research Programme

[www.hsrc.ac.za](http://www.hsrc.ac.za)

**and**

Mr Len Verwey

[verweylen@gmail.com](mailto:verweylen@gmail.com)

Cell: 084 479 0619

ORIGINAL

**Copyright © 2014 the Human Sciences Research Council**

All rights reserved. No part of this report may be reproduced, stored, transmitted, or disseminated, in any form, or by any means, without prior written permission of the HSRC and TSDP, to whom all requests to reproduce or use should be directed, in writing.

## TABLE OF CONTENTS

Introduction .....	5
Background and purpose of the study.....	6
The Cost-Benefit Approach: The Proposed Approach .....	8
Community Advice Offices Literature Review .....	19
Ethics Application.....	25
Research Methodology .....	26
Work Plan.....	30
Conclusion.....	35
References .....	37

ORIGINAL

## List of Main Contributors to the Report

*Project Leader:*

Dr Yul Derek Davids (HSRC)

*Research Associate:*

*Mr Len Verwey (Consultant)*

*Researchers:*

Jenna-Lee Marco (HSRC)

Dineo Seabe (HSRC)

Jakes Dipholo (HSRC)

*Lay-out:*

Tanya Shanker (HSRC)

ORIGINAL

# **1. Introduction**

## **1.1. Purpose of the report**

The main purpose of this Inception Report is to present the progress made to date by the HSRC in terms of the deliverables, as set out in the proposal and to explain the implementation process of this study.

## **1.2. Service Level Agreement**

The scope of work for this project is outlined in the Service Level Agreement (SLA). The SLA was signed between SGS Consulting, a Project of Technical Support & Dialogue Platform (TSDP) and the HSRC on 24 March 2014. This SLA is an annexure to this report (Annexure B).

## **1.3. Report on work in progress**

This Inception Report is one of a number of deliverables that will be produced by the HSRC. The nature of this report is to provide feedback on progress to SGS Consulting and the National Alliance for the Development of Community Advice Offices (NADCAO). This feedback will ensure that SGS Consulting is up to date with the status of the project. Other progress reports will be provided during the duration of this project (see the Work Plan, Table 2 in section 7).

## **1.4. Structure of the Inception Report**

Section 1 introduces the structure of this report. Section 2 provides a more detailed background on the purpose of the study, and elaborates on the study's main focus, being Community Advice Offices (CAOs), as well as a focus on the most important components to this study. Section 3 concentrates on the specific approach to be used in this study, being the cost-benefit analysis. This approach will be implemented together with a qualitative analysis approach, to provide rigorous and persuasive evidence in support of full or part public funding of South African CAOs affiliated with NADCAO. Section 4 briefly explores the literature, adding value to this study. The preliminary literature review briefly looks at similar applications of the Costs Benefit Analysis (CBA) approach and its implementation in social environments/ offices, such as CAOs. The next section (Section 5) reports on the ethics application and all related documents that accompanied the ethics application. The ethics section is followed by Section 6 which outlines the research methodology. The research methodology explains the selection process of how the target of 20 CAOs will be included in the study. The methodology sections also provide information on the fieldwork as well as the proposed data analysis techniques. In Section 7, the deliverables and outcomes of the research are discussed with specific dates when each deliverable will be completed. The deliverables and outcomes are in accordance with SGS Consulting Terms of Reference as set out in the SLA. Section 8 concludes the report and also highlights the way forward.

## **2. Background and purpose of the study**

The purpose of this research study is to provide an evidence-based economic argument for full or at least partial public funding of community advice offices. That is, to make with greater rigour and a stronger quantitative dimension, the argument that CAOs should be financed partly or entirely through public funding.

The study aims to investigate the economic benefits as well as socio-economic advantages that are derived from the services provided by the CAOs, which are frequently provided in areas where government institutions and departments are not available or are a considerable distance away from citizens.

In doing so the study will provide a fuller qualitative and quantitative picture of the performance, successes and limitations of CAOs, which would need to be addressed in order to ensure that disbursed public funds are used efficiently, effectively and in keeping with principles of good financial governance.

The South African Government, in terms of the Constitution as well as under various international instruments, has an obligation to ensure access to justice for all their citizens, as a basic human right. However, many communities, and particularly rural communities, do not have access to legal aid as a result of cost, ignorance of their existence, a fear of engaging the legal aid system or, more often than not, because of the distances they have to travel to get to Legal Aid Board (LAB) offices. In addition, in poor and/or rural communities served by CAOs, many potential social service beneficiaries are unaware of their eligibility for social benefits, or are daunted by the administrative requirements involved in applying for them. Apart from the provision of justice-related paralegal services, then, CAOs also play a valuable role as providers of service information and facilitators of access to services provided by, amongst others, the Departments of Social Development, Labour, Health and Local Government.

An Interim Report on the State of Community-Based Paralegal Advice Offices in South Africa presented detailed and substantive arguments in support of the vital role played by CAOs, particularly amongst the rural poor. It is within the rural areas of South Africa where many South Africans obtain a range of CAO services such as advice on welfare, legal education and community development, as well as legal aid. Such services are frequently provided in areas where government institutions and departments are not available or are a considerable distance away from citizens.

CAOs are small, non-profit organisations that offer free basic legal and human rights information, advice and services to people who are marginalised through poverty, social circumstances and geographical location. They are non-partisan and non-political in their operation. CAOs deliver their services with limited funding, by pooling community resources and staff labour and time capacity. Furthermore, it is unlikely that current donor funding levels will be sustained, raising the prospect of large-scale CAO closure. Many CAOs already struggle to meet operational requirements and community demand due to financial constraints. Their closing would have a significant impact on the state, which would have to

deal with an increased service demand burden. In addition, time and travel-cost burdens would increase for citizens. Since it can be assumed that a portion of service demand needs would not be addressed; diminished numbers of CAOs or CAO closures and the shift of social responsibility to the government sector would ultimately contribute to reduced social wellbeing.

Since reduced social wellbeing should not be a viable consideration, but rather a point of avoidance, this study argues for the continuation and survival of CAOs and the financial support from government in order to continue servicing communities.

Research has found that there are advantages to having public state services offered in non-profit organisations. Some of the advantages of “transferring” the delivery of public services to non-profit organisations include:

### **2.1. The possibility of greater responsiveness**

An effective administration sector in a non-profit organisation can be more responsive to community service demands than government sectors. It is noted that the effectiveness of an agency ideally depends on having competent and experienced board members, expertise and competence of a director and a good working relationship between the two dynamics.

Financial government support could assist in bringing such factors into CAO offices, and possibly improving the overall effectiveness of the organisation to better service community members.

### **2.2. It reduces unnecessary red tape (which often overwhelms government agencies)**

As non-profit organisations are smaller and simpler in terms of, among other things, personnel structures and strategies, there are shorter chains of commands and hierarchical structures and are thus able to service consumers/ beneficiaries faster than government departments would. Less red tape also insinuates greater responsibility and accountability as well as self-reliance; this can result in increased employee satisfaction and resultantly servicing recipients quicker.

### **2.3. There is the prospect for greater accountability to the community being served**

In non-profit organisations, employees may be accountable to managerial structures, but may not find themselves coiled up in the bureaucracy of impressing ministers and other highly regarded government officials, as would be expected in government agencies; thus allowing them (the former) to perform their jobs more efficiently.

### **2.4. It can also increase and encourage employee morale**

Assuming non-profit agencies are more hospitable than government agencies (or at least those agencies which are well run), the former have a greater likelihood of attracting loyal, competent and committed staff than government agencies (Greene, 2007).

The present study will be a follow-up on a previous study conducted in 2006 which investigated the 'State of Community-Based Paralegal Advice Offices in South Africa'. The objectives of the previous study were highlighted in the proposal but it is again provided here to give some context to the current proposed study:

- a. Understanding the challenges facing community-based paralegal advice offices (CBPAO)
- b. Compiling data to supplement and update the existing knowledge base of advice offices, including the following:
  - Nature of services offered
  - Whether such services adequately address the problems faced by communities
  - Which offices are operational and which have closed
  - Extent and nature of funding
  - Human, material and financial resources available
  - Attitudes of paralegals with regard to their status, profession and professional training in a transformed legal profession
  - State of governance of advice offices
- c. Ascertaining the extent of cooperation between advice offices, on the one hand, and other legal service providers and government departments, on the other
- d. Ascertaining the viewpoint of paralegals on their role in a transformed legal profession
- e. Exploring various models for networking, cooperation, back-up legal services and funding
- f. Making a case to government about the continued relevance of advice offices in a contemporary South Africa.

### **3. The Cost-Benefit Approach: The Proposed Approach**

#### **3.1. Introduction**

The aim of the study's Cost-Benefit Analysis (CBA)<sup>1</sup> is to support the argument for public funding of community advice offices (CAOs) by determining firstly whether the net present value of such a project is positive, and secondly, if indeed it is positive, by comparing the net benefit thus obtained with the benefit associated with a 'business as usual' or 'no public funding' approach. We follow, in other words, a standard CBA project evaluation methodology where the evidence requirement is two-fold: a positive NPV firstly and a NPV in excess of the alternative secondly.

The aim of this section of the inception report is to articulate as clearly as possible the CBA model we intend to use and the assumptions underlying our approach, and to note some of the challenges and limitations of the model. Any cost-benefit analysis requires certain contestable assumptions to be made, and we believe it is essential to the credibility of the analysis, and to its contribution to what is ultimately a political and democratic process of

---

<sup>1</sup> We are of course concerned with aggregated social benefits and costs rather than private benefits and costs, but use the term cost-benefit analysis rather than the more cumbersome social cost-benefit analysis.

decision-making around public resource use, that these assumptions be set out transparently.

Although there are in excess of 200 CAOs in South Africa, and the study proposes to sample approximately 20 of these, it is important to note that the 'project' to which the CBA is applied is in a sense a single idealised, representative CAO. That is, we do not propose to conduct a CBA for each individual sampled CAO, but to aggregate results in order to construct a typical scenario or series of scenarios.

### **3.2. The Typology and Economic Characteristics of CAO Services**

There are approximately 320 CAOs in South Africa and they offer a range of services which can broadly be understood as forms of advice and support (see Annexure A) (<http://nadcao.org.za/overview/our-organisation/>). The scope of services offered by particular CAOs also differs. From a CBA perspective, then, one of the main aspects of the assumed social value added by CAOs, namely their presumed responsiveness to differing user needs and their capacity to act on this, also constitutes a challenge in a quantitative benefit determination. A CAO needs to be understood as a 'project' with a range of possible outputs, rather than only one, and the link between such outputs and monetised outcomes may not necessarily be identical across services.

We discuss benefit determination in detail below. Here it suffices to address one particular possible solution to this challenge, which would be to simply ascertain the "willingness to pay" of users for the CAO in its entirety, on the assumption that users have a reasonable sense of what the CAO offers, and that their willingness to pay to keep it in operation would be a useable proxy for the benefits they believe it provides. Certainly such an approach has the merit of comparative simplicity and the monetised benefits would be usable up to a point in a CBA.

However, we have elected to follow a slightly more complex approach, which establishes, for an idealised CAO, a suite of 3-5 services and seeks to determine benefits for each of these services. The reasons for this approach are as follows: Firstly, we are interested in aggregate social benefits, which includes potential benefits to the state in the form of cost-savings as a result of CAO-offered services. It would be difficult to provide credible state cost-savings values if we were not able to compare particular services within the CAO with equivalent particular state provided services. Secondly, it is only by a more disaggregated approach that we are able to 'construct' an idealised CAO as the proposed project being evaluated. Thirdly, we believe a more disaggregated approach to CAO services will be very useful in the more qualitative dimensions of the study.

Given these considerations, then, the CBA will treat CAOs as offering some or all of the following stylized suite of services:

- Assistance
- Search and
- Dispute Resolution

It is important to note that the CAOs offer a range of services. The services that CAOs provide are summarized in Annexure A. We would like to work with SGS Consulting in grouping the range of services according to the above three categories: 1) assistance, 2) search and 3) dispute resolution.

These services do not possess pure public good characteristics: they are characterised by both excludability and rivalry in consumption. Consequently, private provision is technically possible, since it is possible to confer individual ownership rights on the basis of payment and to exclude non-payers from the benefit of such ownership. However, the consumption of such services is likely to be characterised by non-negligible *social* benefits, or positive externalities. Private, non-altruistic provision is likely to generate a Pareto-inefficient amount of service provision, (less than the social optimum will be produced and consumed as individuals will not internalise social benefits in their consumption decisions and private producers will not be able to capture such benefits in their pricing).

It may then be useful to refer to CAO services as 'merit services', since one understanding of this phrase is specifically aimed at a set of goods and services with positive externalities and resultant under-provision through the market mechanism, and this does seem of prima facie applicability to the CAO context. But the other dimension often associated with merit services, namely a failure of individuals to know what is best for them, and in particular the undervaluation of future benefits in present decision-making (such as saving for retirement) seems less applicable to CAOs. Most if not all CAO contexts are low income and low employment ones, and in such contexts individual myopia is a less pressing and relevant factor than a lack of effective demand, that is of ability to pay.

It is of course precisely for these kinds of reasons that 'social services' are generally provided through the budget process *as well as* through private provision (for those who are able to pay for it), as is the case in South Africa for health, education and security services, amongst others. In addition to such services, in South Africa public resources are allocated to comparable services to those offered by CAOs, such as legal dispute resolution, assistance with documentation, and initiatives aimed at enhancing the efficiency of the labour market by linking job seekers and job offers.

In other words, a prima facie case for public CAOs would appear to exist, in the sense that operational and well-managed CAOs are likely to enhance both efficiency and equity given the nature of what they provide and the income characteristics of typical users. Such a prima facie argument is unlikely to be contested, but the more important issue, which the CBA addresses, is to provide the quantitative information needed to compare the likely net benefit from their funding with the alternative scenario, that is where such funding is not provided.

### **3.3. The 'Project' vs. 'No-project' Dimension**

The aim of a CBA is to select from possible projects on the basis of their NPV, or to assess completed projects to determine whether they were worth the use of resources allocated to them. This CBA is an instance of the former case. The purpose is fundamentally evaluative, in

that it seeks not to assess what has happened to date, but to make an argument for a different form and scope of financing over the next five years, than has been the case.

However, since CAOs are currently in existence (though some may not be fully operational), the study is able to make use of credible, field work based data on costs as well as benefits stemming from existing operations, by interviewing service beneficiaries, CAO staff and CAO Provincial Fora in sampled CAOs and by examining on-site financial and related records. In other words, given the actual existence of CAOs, it is not necessary to generate entirely hypothetical estimates of future costs and benefits as would be the case for a new proposed project. Historical costs, adjusted to reflect differences between financial costs and opportunity costs and the like, can be plausibly extrapolated to provide a more detailed and credible picture than if one was to simply estimate based on assumptions of what a hypothetical, fully operational CAO might look like and might cost.

The same argument can be made with regard to the treatment of benefits. In this case users interviewed will already be familiar with what a CAO does, for example, and their expressions of willingness to pay are likely to be less prone to under- or over-valuation. This does not entirely rule out basic challenges in stated preference revelation, namely under-valuation emanating from 'free rider' strategic thinking, or over-valuation emanating from a lack of 'seriousness' on the part of interviewees who are not compelled to impose real resource constraints on their preferences. But the fact that interviewees will be asked to derive benefit estimates on the basis of existing services can go some way to correcting such distortions.

As a basic principle of project selection, the operational CAO needs to be compared with the business as usual scenario on a NPV basis. The business as usual scenario is not identical to the 'no project' scenario, because CAOs are, to differing degrees, already operational and servicing communities. The relevant comparator then is not a 'no project' one as such, but a business as usual one, that is a case of operations continuing with the current mix and level of financing and credible indications of costs and benefits over the next five years. We assume, at the outset of this study, that this business as usual scenario is not a rosy one, and indeed is characterised pre-eminently by a funding crisis as donors withdraw their support. On the basis of discussions with donors, NADCAO and other stakeholders we present a likely trajectory of altruistic CAO funding for the five years 2015-2019, as well as considering trends in the period 2009-2014 in such funding.

The dwindling of CAO presence and ability to serve communities not only has implications for community and individual wellbeing, but also has implications for congestion-related increases in unit average costs for state-provided alternatives. It is the task of the CBA, then, to not only establish a credible NPV for an idealised CAO 'project', but to also establish a credible NPV for this alternative business as usual scenario.

### **3.4. Treatment of Benefits**

In any CBA three basic questions need to be dealt with when it comes to the treatment of benefits: who is assumed to benefit, how / why they benefit, and how such benefits are to be monetised.

We assume that benefits are distributed amongst three sets of stakeholders:

- Government
- Individuals (Service Users)
- The Community

#### Treatment of Benefits to Government

Benefit to government is understood in terms of the tangible cost saving through less congestion in state service entities which some CAO users would utilise in the absence of a CAO, as well as the more intangible benefit of a strengthened 'social contract' associated with relevant communities seeing a clear link between a valued service (the CAO) and public funding. We regard the strengthened social contract as a potentially important benefit, but are concerned that it may be too difficult to quantify. If this benefit is not monetised and formally incorporated into the CBA it will nonetheless be discussed in the narrative component of the study.

The benefit to government of CAOs as it relates to congestion is only relevant if:

- 1) There is not excess capacity in government service centres providing equivalent services and
- 2) It is assumed that some (though not necessarily all) CAO users would take their need to the government equivalent if the CAO did not exist

Where excess capacity exists, additional users can by definition be accommodated without altering total costs; marginal costs are zero and average costs per user would decrease. Where such excess capacity exists, then, the cost savings benefit of CAO offices to government is zero.

The suggested questions for monetising the cost-saving benefit, to be answered by centre officials, are the following:

- 1) How many clients does your centre service in a typical day?
- 2) What is the annual budget of your centre?
- 3) How much more money (if any) would your centre need in order to maintain current service quality if user numbers increased by:
  - 10%
  - 25%
  - 50%
  - 100%

We assume, as noted in the proposal, that responses will be obtainable from appropriate officials at the service centre level. If this is not the case, or providing a more nuanced account, we will also enter into correspondence with the National Treasury to get their views in this regard.

We assume, further, that some current CAO users would not take their need to the government-provided equivalent, for reasons such as greater time / travel costs, perceptions

that their need won't be met etc. In other words, we assign state cost savings *only* for current CAO users who indicate that they would take their need to the government equivalent rather than simply abandon it. In the case of abandoning an issue, the loss of utility falls on the individual and the community, and is captured there. Put differently, cost savings benefits would only come into play where the percentage of CAO users who indicate they would take their need to a government office exceeds the excess capacity of that government office.

#### Treatment of Service User Benefits

The benefits received by service beneficiaries are non-monetised: they are either offered free at the point of use or a token fee is levied which is less than an efficient market equivalent price might be. In other words, shadow prices which reflect true benefits need to be obtained. To obtain these values the study uses a stated preference contingent valuation aimed at assessing service user willingness to pay for a hypothesised adequate service as well as user cost of time savings as a result of CAO proximity compared to an alternative service provider. We also include one question, discussed below, which takes a 'willingness to accept' approach within a contingent valuation framework.

It is important, in assessing benefit, to distinguish between adequate service provision and inadequate service provision in the eyes of beneficiaries: clearly, beneficiaries will value the former higher than the latter. Since the aim of the CBA is a future project where, it is assumed, service quality will be adequate, the questions seek to distinguish responses accordingly and make adjustments where needed. We do not seek to rigorously conceptualise 'adequate' service, however, since this is a matter of subjective perception on the part of service beneficiaries which in turn determines to some degree their willingness to pay.

In some instances, CAO services provide more scope for non-stated preference valuations than in others. This is because some CAO services may be more directly linked to increased future income than others. For example, job seeking advice may be linked to greater chances of getting a job, and the value of such future income may be understood as the present value of future income multiplied by the greater probability of getting a job. Given the mix of services offered by CAOs, though, and the paucity of strong data on relevant variables such as employment rates and the like in local contexts, we prefer to adopt a stated preference approach for all services, on the assumption that, at least implicitly, beneficiaries will have incorporated such calculations and they will be reflected in willingness to pay values.

In the treatment of individual benefits, it is difficult to escape the issue of income distribution, particularly in high inequality contexts such as that of South Africa. Welfare economics has traditionally evaded comparisons of inter-personal utility and has struggled to provide any strong foundation for the intuitively plausible notion of declining marginal utility of income. This creates particular problems for a CBA applied to a context which can fairly be described as a low income and low employment one. Indeed, CBAs have often been referred to as 'distributionally insensitive'. Willingness to pay as expressed by respondents is necessarily constrained by household income, but household income varies markedly. Taking a simple money-metric approach to benefit, then, risks overstating benefits for the rich and

understating benefits to the poor. Put bluntly: there is intuitive merit to the proposition that a rich individual who says he'll pay R 200 per year to keep a CAO going may derive less benefit from it than a poor individual who declares the same willingness to pay. A further potential problem presents itself: where costs are valued at equivalent market rates, but benefits use a willingness to pay approach as evinced by households whose income is significantly under the mean, the NPV may be distorted against the project's feasibility.

“both costs and benefits that accrue to lower-income groups may be underestimated in the cost-benefit procedure. While economists usually seek to avoid interpersonal comparisons of welfare, cost-benefit analysis aggregates, across individuals, costs and benefits that are measured in money terms. This approach could be taken to imply that the marginal utility of income is equal for all persons, that is, that an extra dollar of income has the same value for a rich person as a poor person. It is unlikely that many people would accept this assumption” (Commonwealth of Australia. p. 82).

In essence, then, these considerations require a study focused on project valuation in a low income context to somehow broaden the strict CBA approach on allocative efficiency by incorporating an equity dimension. Various 'distributional weight' approaches have been proposed in the literature as a means of introducing equity considerations (or interpersonal utility comparisons) into CBA. Essentially such approaches seek to counter the distribution of income neutrality assumption by explicitly assigning weights to different income groups which, in principle, correspond to different utility values of money. A problem with a distributional weighting approach is that it may be particularly vulnerable to accusations of subjective bias, since any such weighting may be contestable. It is suggested that this study include questions which will provide necessary household income and related data to apply a series of distributional weights, and that the result of such a weighted CBA be presented together with the results of a CBA where the utility of money is assumed to be constant across income groups.

The following questions are proposed:

- 1) Which word (from list of services) best describes the service you received today?
- 2) Were you happy with the service you received?
- 3) If NO: If you were asked to pay for the service you received today, and if not paying meant you didn't get any help, how much would you be willing to pay?
- 4) How much more would you be willing to pay for the same service if it made you happy?
- 5) If YES: If you were asked to pay for the service you received today, and if not paying meant you didn't get any help, how much would you be willing to pay?
- 6) If you were asked to make one payment at the beginning of the year which meant you could use all the CAO services available here for the whole year, how much would you be willing to pay?
- 7) If the CAO did not exist, would you go to a government office to get help?
- 8) If this CAO closed tomorrow, but an equally good CAO was opened in X (where the government services are located), how much would you be willing to pay at the

beginning of the year if it meant you could use all the CAO services for the whole year?

- 9) If government were to propose closing this CAO, how much would government have to pay you in one payment, with no payment after that, for you to be happy with not having a CAO in your community?

Questions 1 to 5 seek to derive benefits through establishing willingness to pay. We include both a particular service series of questions (1 to 4) and questions aimed at willingness to pay for the entire range of CAO services for a year.

Question 6 is included in order to generate information for the government cost-savings dimension discussed in the preceding section. Question 7 seeks to establish the time and travel cost benefit of CAO proximity. We assume that the difference between answers to 5) and 7) represents time and travel cost savings in the perceptions of service users. We prefer this more indirect approach to a simpler question such as: "How much would it cost you to get to X?" since phrasing the question in this way is likely to include only the narrow transport cost rather than the cost of time and intangible 'inconvenience'. We present the alternative as another CAO (located where the government service is), since we are interested here in isolating time and travel savings rather than these plus perceptions of superior or inferior service quality.

The questionnaire will contain an introductory comment which emphasises that the purpose of the questions is NOT to generate information to be used in actual fee-setting for the CAO. This seeks to address the free rider problem, understood as the understatement of preferences by some respondents because they may believe their answers will contribute to actual fee-setting decisions. Of course, to the extent that such understatement does still occur, it is not entirely undesirable: a positive stream of benefits where there is preference undervaluation bias will be more robust than a positive stream of benefits where preference over-valuation is suspected. We do not believe that over-valuation, on the other hand, is likely: as discussed in the literature over-valuation is typically found in instances where a vague connection exists between outcome and cost on the part of respondents, leading to a kind of well-meaning 'non-seriousness' where respondents do not value preferences as if the costs thus implied might become binding on them personally.

Question 8 seeks to provide an alternative valuation based on willingness to accept rather than willingness to pay. It is a generally recognised problem in determining shadow prices that many respondents require higher compensation to accept a negative outcome than they would be willing to pay to produce a positive outcome, though strict economic rationality would assume identical valuations. Our emphasis remains with willingness to pay, which, as with the free rider aspect discussed above, would tend to generate a smaller estimate of benefits and thus a more robust result. We do also propose, however, to provide results using data generated by question 8 where willingness to accept is used. We assume that divergences in responses in this regard, quite apart from providing more nuance to the CBA, might also be of more general research interest on valuation approaches in a South African community context.

### Treatment of Community Benefits

Social benefit will be conceptually regarded as the externality (non-individual) benefits accruing to the community served by the CAO that would not have prevailed had the CAO not existed.

This benefit needs to be understood along two lines: firstly as a greater degree of social cohesion within the community as a result of CAO para-legal and related interventions, and secondly as improved household outcomes emanating from greater access to social grants and other state services. Whilst we assume that individual benefits are obtainable through willingness to pay evaluations, the determination of externality benefits through this approach is more problematic.

Two possible approaches could be used in this regard. Firstly, a literature review would provide some estimates of the relative individual and social benefits of services in relevant contexts. This could be used to extrapolate from the stated individual preference valuation which will have been determined. An alternative, or additional approach, would be to pose a second question to respondents, phrased along the following lines: "How much would you pay per year to keep this office open and free for all the members of the community?" It can plausibly be assumed that the difference in responses to the two questions represents a set of valuations of the social benefits of the CAO, which could then be aggregated.

### **3.5. Treatment of Costs**

We have noted that the study contains a field work dimension with the aim of establishing, through interviews with CAO staff and considering available financial records, the financial costs associated with CAO operations in different locations. Such costs are assumed to consist mainly of:

- Salaries
- ICT and related costs
- Office rental or related costs
- Stipend Payments and the like (volunteers)

As noted in the proposal document, the relevant cost to be considered in a CBA is not financial cost but economic or opportunity cost, that is the cost of resources understood in relation to their next-best use, or in terms of what has to be given up to make them available in their proposed use. We assume that CAO costs depart from such costs for a number of reasons, and that such costs would have to be covered in the proposed publicly funded scenario. Thus, the treatment of costs is aimed at using existing financial costs to construct a typical CAO and estimate economic costs for it.

### 3.6. NPV and Discount Rate

Net Present Value (NPV) is simply the determination of net benefits (benefits minus costs) over a project's life, discounted to the present (where decision-making needs to occur), to reflect the fact that future benefits are worth less than present benefits. Future net benefits need to be discounted because of the opportunity cost of foregoing present consumption. Thus, for example, where the return on savings is 10%, if one wanted R 10 000 in two years one would apply the formula:

$$\text{Present Value} = \text{Future Value} / (1+r)^t$$

$$\text{Present Value} = 10\,000 / (1.1)^2 = R\,8\,264$$

The present value of R 10 000 in two years' time, then, is R 8 264.

The general NPV formula can then be expressed as follows:

$$\text{NPV} = \sum (B_t - C_t) / (1+r)^t$$

This study proposed to conduct a project CBA for costs and benefits for the next five years, (2015 – 2019). In our view, five years is an appropriate horizon for the project evaluation, not because CAOs are assumed to close their doors at this point, but because extending estimates of costs and benefits beyond a five year horizon would risk the credibility of the study as we would have to make too many assumptions with too tenuous links to data available in the present.

Two issues need to be considered carefully in any CBA, namely the manner in which future costs and benefits are estimated, and the actual discount rate ( $r$ ) to be employed. Regarding the estimation of future costs and benefits, as discussed above, this study seeks to derive plausible inferences about two potential scenarios: the public funding scenario and the 'business as usual' scenario. In essence, then, what is required is the estimation of both cost and benefit 'trajectories' for a five year period, using interviews, existing cost structures and use rates and the like.

For the purpose of this inception report, we note a few assumptions that the field work will seek to corroborate, refine, or adjust, and then to monetise accordingly:

- That the business as usual scenario (BaU) will see dwindling donor funding to CAOs, resulting in a small minority being effectively operational by 2019
- That the BaU will consequently impose increased costs on state equivalent service centres, as well as on CAO users, which will rise and then plateau over the five year period
- That the public funding (PF) alternative will see individual benefits as well as community benefits increase over the period
- That PF costs will be comparable to current economic costs for operational CAOs

Regarding choice of discount rate, this area remains fairly contentious in many CBA debates. Broadly speaking, a tension exists between approaches that derive the discount rate through a cost of capital approach, and approaches which try to establish the social rate of time preference. Under perfect capital markets, these rates would be equalised at the margin. In the actual world this is not the case. The choice of discount rate clearly has implications for the viability of projects: if the rate is too high, that is above the 'correct' rate, viable projects will be excluded. If on the other hand the rate is too low, projects will be implemented that are inefficient, that is, in a CBA context, their NPV would be negative if a correct rate had been used. It is therefore important to select a best estimate discount rate; however, any CBA sensitivity analysis includes adjusting results to evaluate conclusions under different discount rates. Our initial suggestion is to use the real (that is inflation adjusted) Treasury Long term Bond Rate as the appropriate discount rate for a project aimed at eliciting public funding. Such a project should take cognisance of the public cost of funds in a context characterised by budget deficits over the medium-term.

### **3.7. Sensitivity Analysis**

Sensitivity analysis entails adjusting key assumptions within a CBA more optimistically and pessimistically in order to establish how rigorous the results are. Fundamentally, then, sensitivity analysis entails pessimistic adjustments of benefits (i.e. downward adjustments) and costs (i.e. upward adjustments) as well as the application of a higher discount rate than the one chosen for the main CBA, as well as the converse, that is upward adjustment of benefit, downward adjustment of cost and the use of a lower discount rate. In addition to presenting such a standard sensitivity analysis, we may also elect to provide a more disaggregated sensitivity analysis where cost and benefit are kept constant and various discount rates are applied, as well as the estimate of different costs and benefits for a constant discount rate. The actual parameters of adjustment, that is for example the percentage adjustment of benefit estimations and the like, will be determined in consultation with project partners and in particular the steering committee.

As we noted in the introduction, a CBA is a tool which can help policy makers come to an informed decision about project viability: by its nature a CBA can and should be plausible and transparent regarding its methods and assumptions, but it can never be quantitatively conclusive, that is it cannot be finally isolated from a broader public decision-making process. The sensitivity analysis, however, is an essential part of a CBA contribution to this process, since it provides a more formal sense of the extent to which project uncertainties may or may not influence the impact of the project if it is implemented.

### **3.8. Efficiency and Responsiveness Gains Associated with the Public Funding / NGO Service Delivery Model**

This final sub-section comments on a potential dimension of the CBA which may or may not be realisable in practice, namely the theoretical recognition that NGOs and CBOs may be more efficient than state equivalents in a local service delivery context. The reasons given in

the literature are varied, and in some ways reflect similar arguments that have been made for fiscal decentralisation as a more efficient mode of service prioritisation and delivery.

They potentially include:

- A greater degree of local embedded-ness and thus potentially more responsiveness to needs in a particular local context
- Less cumbersome management systems and processes
- A general culture of making do with less which minimises waste

In principle, then, there may be benefits in excess of state and individual cost savings gains associated with a publically funded, CBO-delivered model for CAO offices. These would be benefits that emanate from 'better' services, and may be gauged through a question which requires some form of comparison of perceptions of CAO offices compared to state equivalents.

In addition to including a question which probes perceptions of differing service qualities, the non-CBA component of the study will also explore, in narrative form, some of the more intangible desirable features of a public funding – CBO delivery model.

#### **4. Community Advice Offices Literature Review**

The proposed approach outlined in the previous section is informed by a preliminary review of the literature that focussed on CBA as well as studies which examined various aspects of CAOs as well as Non-governmental organisations (NGOs). This section therefore presents a preliminary review of the literature by the HSRC. NGOs such as Community Advice Offices exist because they provide an alternative to government provision of public goods and services. They meet the needs of the population unmet by government and other official development programs. However, most organisations encounter challenges in raising the funds required to meet the objectives of their respective programs. This is because the organisations rely on donor funds that are increasingly difficult to access due to numerous factors such as the global economic crisis and competition from other organisations. Securing funds is thus a challenging task for CAOs, as well as all other organisations that must raise their own funds to implement their respective mandates. Consequently, organisations have adopted various accounting practices, in order to demonstrate sustainability as well as accountability, good governance and transparency. Through increased accountability of service deliverables and the use of funds, NGOs are able to make a case for enhanced funding opportunities.

The purpose of this review is to survey the literature related to accountability in the NGO sector. It further aims to understand the dynamics involved in the application of Cost Benefit Analysis (CBA) in non-profit sectors and to its services. Non-profit organisations have been

known to take on services associated with state responsibilities and such an initiative serves to be beneficial not only for the state in instances of limited resources, but also the communities to whom services are being rendered. The following sections will examine the various debates in NGO accountability and provide a framework where NGO services can be monetarily evaluated for both donors and beneficiaries. To start, it is important to examine the theoretical frameworks, which provide the backbone for corporatized NGO accountability.

*Performance Evaluation in NGOs*—a Brazilian study, which evaluates the models and applications of accountability in Brazilian NGOs, suggests key methods to evaluating cost and benefit. The article suggests the rising need for performance evaluation in the NGO sector in order to enhance credibility. Importantly, this impetus for monitoring and evaluation (M&E) have polarised the academic field especially in studies of the third sector I.E. non-profit organisations. NGO M&E rests on the positivist tradition (results fit specific and objective criteria) while a secondary method of evaluation is more subjective through an array of constructivist methods. The quantitative and qualitative aspects are by no means mutually exclusive; however, numbers remain a central facet to M&E. Evaluation is, at times, conducted either internally or externally and characterised by three main facets: literature review (before the project), intermediary evaluation (during the project), and a post-project report which serves to re-evaluate and make appropriate changes to the implementations. Many types of evaluations exist; consumer/user centred evaluation, which is primarily summative; specialist-based evaluation (which centres on the application of technical-professional knowledge); antagonist evaluation strategies, which are based on opposing opinions; and lastly, participant evaluation, which places emphasis on the beneficiaries (Campos et al., 2010).

However, an article evaluating the state of South African NGOs suggests that NGOs are increasingly challenged to demonstrate accountability and relevance, with reporting, monitoring and evaluation and have thus, become development activities in their own right. This article argues that counting is critical to receiving funding; NGOs who do not count are deemed irrelevant and disqualified from funding. Furthermore, donors prefer numbers and graphs and thus, relevance is determined by how services can be quantified (Mueller-Hirth, 2012). NGOs are thus, understood as middlemen type organisations which deploy discourses and practices surrounding development. M&E in the NGO sector, due to funds being in constant contention, has become a development activity in itself. This article finds that NGOs which receive the least amount of funds often carry-out the most intensive processes of M&E. M&E, through the advent of neoliberal-led development, supersedes service-delivery as the ability to offer services is contingent on donor support. Furthermore, accountability as a key concern for growth-led development constrains NGO mobility; that is to say, only activities that are able to be monitored and accounted for are funded. Other activities which cannot be attached to monetary value are often dropped from project proposals as NGOs are unable to quantify these contributions (Mueller-Hirth, 2012). Thus, the study of auditing techniques in NGOs is a central aspect of NGO work and binds the agency of activities, structure, knowledge production and service delivery to wider civil society.

A study, conducted by Awio, Northcott & Stewart, of a Ugandan-based HIV/AIDS NGO accommodates both realms of M&E and service delivery. Social Capital (SC) is the structure of relations between and among actors, and, like other forms of capital, is productive as it generates outcomes that would not be otherwise possible. The World Bank describes SC as the institutions, norms, and relationships that shape the quality and quantity of social interactions. Thus, trust between an NGO and beneficiaries is an expectation in order to build greater SC. The field of NGO accountability is complex because NGOs differ in size, and also exhibit a variety of functions, views, standards, ethics, moralities, and strategies. NGOs are thus, accountable not only to their beneficiaries but also to their donors. Through increased corporatization in the NGO sector, NGOs have, at times, foregone beneficiary evaluation in order to make a quantifiable case to their donors. The NGO presented in this study suggests that NGOs must not only show their expenditures but also value the outputs achieved. The outcomes of implementations can be ambiguous and thus, participant/beneficiary evaluation—through the interview process—becomes essential in monitoring performance and building a stronger case for funding (Awio, Northcott & Stewart, 2011). This type of evaluation is able to account for donor requirements as well as providing an impact assessment to the beneficiaries. A result of this study will be savings (in real terms) for both the state and the beneficiaries. This is thus a useful process for the purposes of our proposed study.

According to Merida et al (2006) to compete effectively in the non-profit market, managers of NGOs need to know the costs of producing services; the attitudes of clients toward proposed price changes and characteristics of competing providers, including the market advantages and disadvantages of each. Therefore, evidence on costs, willingness to pay (WTP) and characteristics of other providers allows NGOs to develop strategies to exploit their comparative advantages and competitiveness. The costs accounted for may include labour, capital, materials, technical assistance, and opportunity costs to government, NGOs, donors, or clients.

A study by Waters et al (2001) applies activity-based costing (ABC) to calculate the unit costs of the services for a health care provider in Peru. The essential goal of activity-based costing (ABC) is to define the principal activities of the individuals who work within the organization, then trace costs first to these activities and then from the activities to products and services. Human and financial resources are traced to activities, which are in turn traced to products and services. The methodology used in the study is broken into three phases. Phase one included a review of the accounting system to ascertain the availability of cost and other related data and to determine additional data that may be required. In phase two the principal activities of staff are defined and the distribution of time among the different activities. The activities are classified into primary and secondary activities and value added and non-value added activities. The steps followed in phase three included determining the cost categories (human resources, administrative supplies, etc.), assigning the cost to different activities and calculating the unit costs by dividing the total costs by corresponding production figures.

In Alam & Shakil's (2010) case study of a primary health care facility in Bangladesh, an 'ingredient approach' is employed to determine the costs of running a health facility from

the providers' perspective. The 'ingredient approach' is "standard costing methodology where the researchers observe the delivery of health services and list all the resources or inputs used in the service delivery process. The method quantifies all the inputs used in the service delivery process, irrespective of who provided the input or how the inputs were paid" (p. 3). The methodology calculates the costs incurred by the provider of patient services and not those incurred by the patients. The survey team collected detailed information on resources and inputs (fixed and variable) using structured questionnaires administered to the staff members of the health facility. Other data collection involved extraction from facility records, and observation on the use of space, equipment, machinery and supplies for particular services.

In the investigation by Merida and colleagues (2006), two case studies examine service production costs for three Bolivian NGOs. In the first case study the research team calculated unit costs for the services provided by the organisation. Unit cost being the sum of all costs incurred to produce one unit of output. The study distinguishes between financial (actual financial expenditures) and economic costs (full resource requirements of the program, regardless of who bears the cost i.e. volunteer labour). The study followed a four-step process to calculate the economic costs 1) Define outputs of the program (in this case, clinical consultations of different types); 2) Identify all resources used to produce outputs; 3) Measure the amount of each resource that is used to produce one unit of output; and, 4) assign a value to each resource.

To achieve the aim of collecting willingness to pay data (WTP), the second case study included client exit interviews. The sampled participants were chosen from the group of clients who entered the facility to obtain one of the rendered services. The interviews were conducted after the client had received the service from the facility. The questions asked in the questionnaire included questions on the amount paid for the service received, as well as whether the respondent would pay a moderate increase for that service. If the answer was "yes" to the latter question, the client was asked about WTP a higher price. If the answer was "no", the client was asked her WTP a lower price. Regardless of which price was accepted, all respondents were asked the highest price they were willing to pay for the service.

Cost benefit analysis occupies a crucial role in the provision of non-profit services by CAOs. Differentiations exist on cost benefit analysis which may be provided by government and this is termed social cost benefit analysis. In Pollock's investigation a more quantitative approach is adopted on the efficiency and the operations of CBA and the models which may be adopted in such an instance. From the proposal it was raised that the government of South Africa is obliged by the Constitution and international law to provide services to the people, primarily those from poverty stricken areas and these services include legal aid services by CAOs. Such a category may fall under the premise of social cost-benefit analysis because focus here is placed on cases where the project has broad impact across society and as such is usually carried out by government (Pollock). This therefore serves the main objective of the study which is the provision of rigorous and persuasive evidence in support of full or part time funding of CAOs in the country through a CBA and qualitative analysis.

According to Pollock, benefits and costs may vary according to different groups of people. In addition, amongst other complexities identified by Pollock, benefits and costs may occur at different points in time which would require a comparison of the value of outcomes in such an instance. For effective cost-benefit analysis to occur, such aspects need to be taken into consideration if ever support for full or part public funding of South African CAOs is to become a reality.

A great deal of input, effort and work goes into funding, non-profit and non-governmental organisations with the hope of reaping the benefits of a fully functional organisation or institution that would meet the needs and social well-being of those it intends to serve and agreed upon output of those who fund it. By simply injecting money into a project without considering many other possibilities, obstacles that may occur could prove to be disastrous. In '1996 the Roberts Enterprise Development Fund (REDF) a private charitable foundation with a mission to help people move out of poverty in the United States, published a retrospective cost benefit analysis of the social purpose enterprises run by one non-profit agency in the San Francisco Bay Area' (Emerson and Twersky, 1996). The above is highlighted in Cynthia Gair's article published in 2002 and also highlighted the initiative driven by REDF to test return of investment within a project where funds, resources, labour and other inputs are placed into varying non-profit organisations, with the mandate of eventually alleviating poverty through training and job opportunities. With the funding and resource-supply aspect of the initiative being operational, challenges occurred when raised expectations did not quite meet the supposed demands and requirements. What began as a straight-forward cost-benefit analysis exercise took on more depth and difficulty because what was being intended in terms of achievement was no longer as simple (Gair, 2002).

Argued in Gair's article is that social return on investment is not only visible through monetary form, but also the social well-being of varying improvements for the people who receive the services. With the REDF's intention of bettering the lives of people away from poverty through means such as training and job opportunities, return may take the form of a wide range of changes which include non-monetary changes such as the distinct effects on individuals and communities, increased housing stability, better family coordination and cooperation, improved self-esteem and renewed mechanism and approach towards obstacles and challenges (Gair, 2002). Whereas the more common monetary returns may include community tax savings, decreased social service costs, and individuals' increased income (Gair, 2002). In the article titled *A Cost-Benefit Analysis of Practical Action's* by Dr Dirk Willenbockel published in 2011, one gets a clear view and indication of an effective and operational cost benefit analysis of a community-based disaster risk management project led by Practical Action Nepal. It was in January 2006, where Practical Action Nepal was awarded a grant of £1.9 million from the Department for International Development (DfID) Conflict and Humanitarian Fund to implement the five year project *Mainstreaming Livelihood-Centred Approaches to Disaster Management* in selected countries of South Asia, Africa and Latin America' (Willenbockel, 2011). The project focused on the roles and linkages between vulnerable communities, district and national level government institutions and humanitarian agencies with regard to disaster preparedness and mitigation and it also examined how agencies can be made more responsive to the needs of poor people through the adoption of a livelihood centred approach to disaster management. The main purpose

was to make national and local development and disaster plans more responsive and effective in enabling poor communities to reduce disaster risks that threaten their livelihoods (Willenbockel, 2011).

A quantitative approach was taken during the project cycle as economic costs and benefits associated with the community-based project activities were applied to the established analytical framework of economic and cost-benefit analysis (Willenbockel, 2011). What's impressive in terms of this model is that effectiveness is not only measured solely through the delivery of the project objectives during the intended project cycle, but also after the project is completed. A solution towards the interpretation of current and future expected returns on the project is done by discounting back to the starting point of the project in 2007, with the main intention, to make national and local development and disaster plans more responsive and effective in allowing poor communities the means to reduce disaster risks that threaten their livelihoods (Willenbockel, 2011).

Although much of the project intentions were to allow affected parties to deal more constructively through provided solutions when confronting situations where disaster threatens to hamper their livelihoods and ways of daily survival, its overall success would prove to be a motivator for government to also contemplate adoption. Effective ways and methods devised to ensure the success of this initiative might prove as a helpful guide when attempts are also made in the National Alliance for the Development of Community Advice Offices (NADCAO) project, to increase support of full or part public funding of South African CAOs which would tremendously benefit a number of communities. With Practical Action Nepal leading the initiative, the aim and belief was that if the approach proved cost-effective and efficient, governing bodies at varying levels from district to national would be impressed enough to also incorporate the same initiative as an alternative method in disaster management and development planning (Willenbockel, 2011). The well-planned and coordinated efforts of the above approach would prove to deliver value for money to the funders, as well as the communities that were being catered to. The livelihood-centred approach towards disaster risk reduction adopted in the project resulted in a significant net contribution to the economic welfare of the target communities, culminating in a good return on investment (Willenbockel, 2011).

There remain a number of critics on the use and implementation of a cost-benefit analysis. According to Frank (2000) critics often object to the CBA model's use of monetary value in placing the advantages and disadvantages of an action on a common platform, because when air pollution occurs as a result of a power plant, gains obtained from cheap power cannot be viewed in the same comparison, to the environment which is being sacrificed and destroyed. Despite focus in the article identifying faults by critics of a number of shortfalls inherent in the CBA framework, there is a common understanding that the CBA method could be effectively utilised when implemented sufficiently towards its purposes.

Community Advice Offices (CAO) are pivotal because of the roles they carry out on a wide scale across the country. They are responsible for the provision of free basic legal and human rights information to poor communities across peri-urban areas, rural villages, urban townships and informal settlements with the purpose of forming a central hub for economic

development as well as improved social welfare to these communities (Dugard and Drage, 2013). In the article by Dugard and Drage (2013) one gets a clear sense of the work and contribution that CAOs deliver as well as the challenges they confront. The work of NADCAO as an affiliation agency is also highlighted as the body which is aligned with a number of CAOs across the country that seeks to facilitate the operations of 230 of these CAOs which have joined its alliance. From the article it's evident that NADCAO has an important operational and central role in terms of coordination and access to many CAOs with whom it is affiliated.. CAO's which are affiliated with NADCAO as the sister body are better off as a result of the opportunities and resources which such an affiliation brings. Dugard and Drage (2013) highlight how NADCAO affiliated CAOs are more accessible as well as reachable in comparison to those which are not affiliated. Those not affiliated suffer from challenges such as non-existent internet or telecommunications access; this increases inaccessibility and thus hampers outside support such as funding.

A need certainly exists for CAOs to continue carrying out necessary tasks towards the social well-being of the communities they serve. A burden is relieved from government by the country's approximately 350 CAOs which are normally small non-profit organisations which have paralegals and administrative coordinators working together to address and find solutions towards the social ills created by apartheid (Dugard and Drage, 2013). However the many challenges that CAOs face such as inadequate resources, office space, funding and donor support amongst others, could threaten and limit the contributions they could make towards the communities they serve. One other challenge which serves as an obstacle towards CAOs has nothing to do with limited resources but more to do with regulation. According to Dugard and Drage (2013) 'CAOs currently run without formal regulation, and there are no prescribed minimum standards of operation or regulatory authority to ensure compliance' (p. 17). This could lead to maladministration of CAOs and in other instances corruption and misuse of funds, as no formal structural regulation are in place to ensure operational compliance towards day to day CAO operations. As a solution to counter this, NADCAO is in the process of establishing minimum operating criteria for any CAO which intends to join its alliance (Erasmus, 2011).

## **5. Ethics Application**

Before the study can be implemented the HSRC must obtain ethics clearance from the HSRC Research Ethics Committee. It important to note that the Ethics Application was submitted on the 5<sup>th</sup> of April and that the Research Ethics Committee is meeting in the last week of April. The ethics approval is an important requirement because the research detailed in this report will involve human subjects, which means ethical protocols need to be followed to ensure participants in the study do not experience undue harm because of participating in this research. In other words, ethical clearance is required to certify that measures are in place to reduce any potential risks to participants. As consequence, an ethics application for the research has been submitted to the HSRC Research ethics committee to receive this certification (Annexure C).

Additionally, in line with ethical guidelines, informed consent will be requested from all participating individuals. The Letters of Informed Consent are therefore also attached to this report (Annexure D).

Note, that the Focus Group schedules as well as the Service Beneficiary Survey which will be used for data collection are attached as annexures (see Annexures E – G, respectively). In addition, it must be clarified, that annexures E-G as well as the ethics application (annexure C) was submitted for review by the HSRC ethics committee. There have since been adjustments made to the research instruments, and these amended research instruments will be forwarded to SGS Consulting in the first week of May for review at the project inception meeting.

## **6. Research Methodology**

Given the objective and approach followed in this study, the methods employed consist of a literature review as well as quantitative and qualitative methods to address the different but integrated parts of the cost and benefits of CAO offices. Consequently, it will involve three components. The first component will be a literature review. The second component will be a qualitative inquiry, which will include focus groups with staff from the community advice offices as well as with representatives of the provincial forums. The interviews with CAO staff aims to uncover information that could not be gathered from CAO documents. The third and last component consists of a quantitative survey of selected customers that make use of the services of the community advice offices.

We have three reasons for employing different methods. Firstly, the reason is triangulation, which is the use of different methods to reach convergence of findings. For example, conducting focus group discussions with staff from the provincial forums will allow us to corroborate the information provided by CAO staff. The second purpose is complementarity; the use of different methods to investigate overlapping and different facets of a phenomenon in order to obtain a more meaningful understanding of the phenomenon. The third and last purpose of employing the different methods is Development, which is the use of one method to guide the second in terms of decisions made about sampling, measurement and implementation. An example of this in this study is the use of information gathered during focus group discussions with provincial fora to derive a representative sample of CAOs.

### **6.1. The Literature review will include:**

It is important to note that the HSRC already conducted a preliminary review of the literature. However, the literature review is an ongoing process. It is therefore envisaged that the HSRC will continue the review process to provide further background and context to the study. The review will also assist in the conceptualisation and development of the CBA

analytical model. As such the review will assist in developing a model, which is in keeping with best practice but which is also customised and refined to the particular context in which it will be used. The literature reviewed will therefore consist primarily of relevant theory. For example, literature on Cost- benefits Analysis, and other literature relevant to the evaluation of Non-profit organisations such as CAO. It will also include a review of similar studies already available. A review of literature on the respective CAO context will be conducted to provide some estimates of the relative individual and social benefits of services in relevant contexts, and will potentially be used to extrapolate from the stated individual preference valuation, which will have been determined.

The review will also consist of a document analysis of available CAO financial records as well as donor records of disbursed funds. The aim of the document analysis is to gather information to get a sense of both the financial and opportunity costs of operating and maintaining CAOs. As consequence, the information we aim to gather from CAO documents will include:

- i. Salaries
- ii. ICT and related costs
- iii. Office rental or related costs
- iv. Stipend Payments and the like (volunteers)

Furthermore, document analysis of Government Departmental budgets, strategic plans, and annual performance plans and annual reports, if available, will be conducted. This will be done in order to determine the unit costs of government services comparable to those provided by CAOs.

#### **6.2. The Qualitative component will consist of:**

- Interviews with CAO staff and; to establish current average financial costs and economic costs.
- Focus groups with staff as well as representatives from the relevant Provincial CAO Forums will also be included. The purpose of conducting focus group discussions with CAO staff is to estimate the costs of CAO services. This will include both financial and economic costs. As such, is to complement the information gathered in the interviews with staff. Furthermore, the aim is to gather information to estimate economic cost that will be divided into particular services based on the estimates of staff. For example, how much time they devote relatively to each kind of service from initial enquiry to completion.

In effect both interviews and focus group discussions will be employed to gather information not extractable from the CAO database. Consequently, the information gathered during the two processes will include:

- Number of paid/unpaid/volunteer staff.
- How long each office has been open?

- What services the CAOs provide?
- What are the primary/secondary functions?
- How many clients each office serves?
- Budgets of the CAOs.
- Which offices are active and which are not?
- Provincial forum discussions will also be included as a form of methodological ‘triangulation’ which will complement and enhance the rigour of information obtained from staff. It is also assumed that Provincial Forum discussions will provide broader and more strategically useful insights into CAO challenges and performance. The Focus Group discussions, then, will strive to provide a fuller picture of challenges and successes, of how they are perceived in their communities and of their likely sustainability in the absence of funding injections, etc.

### **6.3. Quantitative survey:**

- The quantitative customer / user survey will be administered to CAO beneficiaries and customers. The aim of conducting the beneficiary survey is to establish the individual and social benefits derived from CAO services. This includes household and individual benefits with regard to travel-cost and timesaving’s. Also included are the positive externalities accruing to the communities where respective CAO offices are located.

All draft instruments to be used for data collection are attached. It should be noted that the HSRC is in the process of revising the instruments. These revised instruments will be submitted to SGS Consulting in the first week of May for a discussion in mid-May. Thereafter all instruments will be finalized for the training and fieldwork.

## **6.4. Sample and data collection**

### ***Sample***

For the study, 20 CAO offices from five provinces will be selected. The provinces will be the Western Cape, Gauteng, Free State, Eastern Cape and Limpopo.

- CAO Categorization in the CBA Analysis  
The expectation is that the cost- benefit circumstances of CAOs will differ because of the differences in size and scope as well as the context in which each office is located. As such we expect both the aggregate and unit costs to differ by CAO. Additionally, we also expect the suite of services provided and the level of demand for them (that is the social benefit of their work) to differ by CAO, as well as, the individual and social valuation of benefits. We also expect these differences to be influenced by the quality and proximity of state service providers of equivalent services (see Annexure A for list of services provided by NADCAO).

Given these expected differences, it is suggested that three inter-related CBAs be conducted. Firstly, an aggregated CBA for all twenty CAOs will present a generally

representative picture of costs and benefits. To this, we propose adding separate CBAs for rural and urban CAOs.

- CAO sampling criteria

Offices will be selected based on the following criteria<sup>2</sup>

- i. Location (province, urban and rural divide)
- ii. Whether the office has a permanent or temporary location
- iii. Number of paid/unpaid/volunteer staff at each office
- iv. How long each office has been open
- v. Type of services the CAO provides
- vi. Estimate of the Population served by the CAO
- vii. Which offices are active and which are not

### **Data Collection**

The data collection in the various provinces will take place around the same period; however, data collection processes will take place in different phases. It will also take place after the sampling process has been completed. The first phase of data collection will consist of focus group discussions with CAO Forums in the respective provinces. This phase will take place one to two weeks before the visits to CAO offices. This is so because the information gathered during this phase will assist in development of the staff focus group and interviews and survey phases of the research. As such, it will inform the selection of the representative sample of CAO.

The following phase will be focus group discussions with CAO staff in the respective provinces conducted by one of the specialists assigned to the project, since it will require a combination of questionnaire-led and probing question approaches. The last phase will consist of 16 service-beneficiary interviews conducted at each CAO a day after focus group discussions have been completed. The aim is to have two research assistants complete these interviews within the time frame of two working days. Research assistants will be used from HSRC branch offices to minimise costs. Table 1 below provides a summary of the nature and purpose of CAO visits and the activities related to data collection described above.

---

<sup>2</sup> The criteria will be adjusted accordingly if required. Additionally, It is important to note that the NADCAO database lacks this relevant information. This information will therefore be gathered during the project inception phase.

**Table 1: Nature and Purpose of CAO Visits**

Province	Collecting, Collating and Evaluation of Existing Financial and Related Records	Focus Group Discussion with staff from the selected CAOs	Focus Group Discussion with representatives from the Provincial Forums	Service-Beneficiary Interviews
Western Cape	4 Offices (2 rural and 2 urban)	4 Focus Groups (1 Focus group per office)	1 Focus group per province	64 interviews per province (16 interviews per office – 2 fieldworkers will conduct 4 interview per day over 2 days)
Gauteng	4 Offices (2 rural and 2 urban)	4 Focus Groups (1 Focus group per office)	1 Focus group per province	64 interviews per province (16 interviews per office – 2 fieldworkers will conduct 4 interview per day over 2 days)
Eastern Cape	4 Offices (2 rural and 2 urban)	4 Focus Groups (1 Focus group per office)	1 Focus group per province	64 interviews per province (16 interviews per office – 2 fieldworkers will conduct 4 interview per day over 2 days)
Limpopo	4 Offices (2 rural and 2 urban)	4 Focus Groups (1 Focus group per office)	1 Focus group per province	64 interviews per province (16 interviews per office – 2 fieldworkers will conduct 4 interview per day over 2 days)
Free State	4 Offices (2 rural and 2 urban)	4 Focus Groups (1 Focus group per office)	1 Focus group per province	64 interviews per province (16 interviews per office – 2 fieldworkers will conduct 4 interview per day over 2 days)
<b>Total</b>	<b>20 Offices</b>	<b>20 Focus Groups</b>	<b>5 Focus Groups</b>	<b>320 interviews</b>

## 7. Work Plan

This section briefly summarizes the work plan of the research. The work plan is divided into six phases for overall project management purposes. The first phase indicates the planned project meetings; followed by the fieldwork; data capture; data analysis and report writing phases; following this will be the review of the first draft report phase; and the final phase highlights the finalization of the Final Formatted Report.

The first phase indicates the key upcoming project dates for 1) project meetings, 2) progress reports, 3) formation of steering committee, 4) and workshops for sample selection, 5) upcoming steering committee meetings, and 6) fieldwork instrument meetings. The planned meetings and progress updates outlined in phase 1 is to ensure that the HSRC maintain good

communication between SGS Consulting and other key stakeholders. Regular communication will be essential for the successful implementation of the project.

In phase 2 the fieldwork schedule is explained in detailed. Before the fieldwork can start the HSRC must obtain ethics clearance through the HSRC Ethics Committee. The HSRC have already submitted an application on the 5<sup>th</sup> of April to the HSRC Ethics Committee that is scheduled to meet in the last week of April. Also prior to the fieldwork, the HSRC team will finalize the literature review on CBA of CAOs and studies examining the work of CAOs. A Training Manual will be constructed that will form the basis of the fieldwork training. The fieldwork training will be conducted on the 2<sup>nd</sup> to 3<sup>rd</sup> of June and will immediately be followed by the fieldwork in the Western Cape. The fieldwork team will thereafter move from province to province until all target provinces are completed. The fieldwork is scheduled from 17 June to 16 July.

Data capturing is summarized in phase 3. As indicated in the methodology section of this Inception Report the present study will make use of three research instruments. The Focus Groups will be conducted with both staff of the CAOs and representatives of the provincial forums. In other words, we will use a specific Focus Group discussion schedule with staff from the CAOs and a separate Focus Group discussion schedule with staff of the provincial forums. The data from the focus groups will be captured according to the conceptual areas (indicators) as it appears on the focus group schedules. More specifically, the responses of the participants of the focus groups will be recorded verbatim. Digital recordings will also be made of each focus group discussion and analysed in conjunction with the verbatim responses of the participants. Data capturing for the Service-beneficiary Survey will need a data template. A data template will therefore be constructed in MS Excel and converted to SPSS for analysis.

In phase 4 we will focus on the analysis of the focus group data as well as the Service-beneficiary Survey data. The focus group discussions will be analysed by means of content analysis and constant comparative analysis methods (CCM) using ATLAS ti and NVIVO software. CCM involves making systematic comparison across units of data (for example, interviews, statements or themes) to develop conceptualizations of the possible relations between various pieces of data. The idea behind the use of these qualitative data analysis methods is to identify the key themes emerging from the data and to be able to draw out the key issues. Our analysis of the Service-beneficiary Survey will be done using both SPSS and MS Excel. However, the more qualitative questions will entail content analysis and constant comparative analysis method (CCM) using ATLAS ti and NVIVO software. Phase 4 will also include report writing in presentation of a first report draft for review. This first draft report will be produced for the review by the internal stakeholders (SGS Consulting and NADCAO). Once we have received initial feedback from the internal stakeholders, the report will be finalized. A Final First Draft will thereafter be forwarded to SGS Consulting.

Phase 5 of the project will be coordinated by SGS Consulting. Once the HSRC has forwarded the Final First Draft to SGS Consulting they must forward it to key stakeholders for review. Feedback from the stakeholders will be incorporated into one merged document and submitted to the HSRC for finalization.

In phase 6 the HSRC will once again review feedback from all the stakeholders and finalize the report for presentation to SGS Consulting. The feedback from SGS Consulting on the Final Revised Draft will be incorporated into a Final Formatted Report.

ORIGINAL

**Table 2: Project Work Plan**

	2014							Deliverables
Project management	Apr	May	Jun	Jul	Aug	Sep	Oct	
Overall Management								
Progress Reports		30		31		30		
Project Inception Meeting	23							<i>Inception Report</i>
Steering Committee formation	23							
Steering Committee meetings		30		31		30		<i>Progress Reports to discussed at Steering Committee meetings</i>
Research Instrument Finalization Meeting		13						
Selection of Community Advice Offices		13						<i>Fieldwork Logistics Plan (Work Plan)</i>
Fieldwork progress meeting			26					
Preliminary Results Workshop					14			<b>Summary of results codebook</b>
Fieldwork								Deliverables
Ethics Application	4							<i>Submitted Ethics Application</i>
Literature review		1 to 31						<i>Data File with articles</i>
Fieldwork training			2 to 3					<i>Fieldwork Manual</i>
Fieldwork Logistics Plan								<i>Logistics plan use to make fieldwork arrangements</i>
Fieldwork Arrangements			2 to 11					Fieldwork arrangements done by SGS Consulting
Fieldwork			17 June - 16 July					
Fieldwork supervision			17 June - 16 July					<i>Fieldwork Progress Report</i>

	Apr	May	Jun	Jul	Aug	Sep	Oct	Deliverables
<b>Data Capture</b>								
Data Template			2 to 11					<i>Excel Data Template</i>
Data entry				1 to 31				
Validation and verification of data					3 to 8			
Production of final clean data sets					14			<i>Excel and SPSS Data sets; MS Word Focus Group Transcripts</i>
								<b>Deliverables</b>
<b>Data Analysis and Report writing</b>					1 to 31			
Data analysis								
First Final Draft Report						12		<i>First Final Draft Report</i>
Presentation of First Final Draft Report						15		
<b>Review of First Draft Report by Stakeholders</b>						16 - 30		
<b>Finalization of Final Report</b>								<b>Deliverables</b>
Summary of feedback from stakeholders							10	<i>Stakeholder feedback report</i>
Incorporate feedback and finalization of final draft							13 to 24	<i>Final Draft Report</i>
Presentation of final Report							27	
Incorporate final feedback from SGS							28 - 30	
Submit final report							31	<i>Final Formatted Report</i>

## 8. Conclusion

The main purpose of this report is to present the HSRC's progress in terms of the deliverables as per the proposal and to explain the implementation of the research. This feedback will ensure that SGS Consulting is updated on the status of the project and understand their role, as the HSRC implement the study.

The HSRC would like to propose that the Inception Report form the basis for our discussions to help revise the research instruments, guide the sample selection process, and provide possible names for the formation of the steering committee and other related issues to ensure a smooth implementation of the project. The HSRC is therefore suggesting the week of the 12<sup>th</sup> – 16<sup>th</sup> May for a meeting, giving SGS consultants approximately two weeks to review the report.

In summary, the inception report has provided you with additional detail about the research approach taken and which is supported by a brief review of the literature. Note that this preliminary literature review will be an ongoing process to identify more literature for the final report. The preliminary literature review is also very important because it informs the construction of the research instruments. Although the research instruments were submitted to our Ethics Committee, it was felt that we need to also include questions based on the additional literature reviews. The revised instruments will be submitted to SGS Consulting at end of the first week in May.

This Inception Report also provided information on the work plan. The work plan outlines how the study will be implemented, dates of progress meetings, selection of the CAOs, the fieldwork schedule and the processes of data capturing and analysis, report writing and dissemination of results.

In addition to the proposed meeting between 12<sup>th</sup> – 16<sup>th</sup> May, the HSRC would also like to propose a series of working sessions between SGS Consulting, NADCAO and HSRC to identify and select possible CAOs for the proposed study. These working sessions will take place within the first weeks of May. The selected CAOs will be presented to the HSRC, SGS and NADCAO for approval at a meeting suggested at the end of May.

It is anticipated that the Inception Report meeting will assist the HSRC to make the necessary adjustments to the research instruments and sample as well as work plan. This will ensure that we implement the project smoothly and with the necessary input and support from NADCAO and SGS Consulting.

A few comments raised from HSRC include:

- Clarifying the issue on **services**. Having been provided with a list of services provided by CAOs per province, it was decided that more clarity is needed on the specific services offered at each CAO per province. This will be useful for our intended visits to specific CAOs. For us, being aware of the general services provided in CAOs as well as the specific services inquired about by beneficiaries will provide us with rich, workable data that can be valued.

- We would like to focus more attention on community benefits, apart from the immediate benefits of service beneficiaries of CAOs. We would like to determine benefits on a wider scale, to add value to our argument. A dialogue on this matter and suggestions on how this could be approached would be useful.
- In addition, more focus needs to be put on the benefits of CAOs over government service provision that exceeds basic concepts of cost, time and accessibility. While this makes a good argument for the purpose of this study, addressing more entrenched community benefits would enhance the argument further.

ORIGINAL

## 9. References

- Alam, K. & Shakil, A. (2010). Cost Recovery of NGO Primary Health Care Facilities: A case Study in Bangladesh. *Alam and Ahmed Cost Effectiveness and Resource Allocation*, 8(12):1-12
- Awio, G., Northcott, D. & Stewart, L. (2011). Social Capital and Accountability in grass-roots NGOs. *Accounting, Auditing & Accountability*, 63-92.
- Campos, L., Andion, C., Serva, M., Rosetto, A., & Assumpcao, J. *Performance Evaluation in Non-Governmental Organizations*.
- Commonwealth of Australia. *Handbook of Cost Benefit Analysis*. January 2006
- Dugard, J. and Drage, K. (2013). *To Whom Do The People Take Their Issues? The Contribution of Community-Based Paralegals to Access to Justice in South Africa*. Justice and Development. Working Paper Series 21/2013.
- Emerson, J. and Twersky, F. (1996). *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-Profit Enterprise Creation*. The Roberts Foundation, San Francisco.
- Frank, R. (2000). Why Is Cost-Benefit Analysis so Controversial? *The Journal of Legal Studies*, Vol. (29) S2
- Gair, C. (2002). A report from the good ship SROI. *San Francisco: The Roberts Foundation*,
- Greene, I. (2007). The potential for government privatization to the nonprofit sector. *The Innovation Journal: The Public Sector Innovation Journal*, 12(3), 1-11.
- Greg Erasmus (former National Coordinator of NADCAO) in Johannesburg on January 25, 2011.
- Merida, M., Arce, J., Moscoso, D., Ramirez, C., Riveros, P. & Bratt, J. (2006). *Operations Research to Improve Financial Sustainability in Three Bolivian NGOs*. Frontiers in Reproductive Health Program Population Council and Family Health International
- Mueller-Hirth, N. (2012). "If You Don't Count, You Don't Count: Monitoring and Evaluation in South African NGOs." *Development and Change*, 649-670.
- Practical Action (2005) Project Proposal to DFID CHF.
- Pollock, R. (Social) Cost-Benefit Analysis in a Nutshell. Emmanuel College, University of Cambridge
- Waters, H., Abdallah, H & Santillan, D ( 2001) Application of activity-based costing (ABC) for a Peruvian NGO Healthcare Provider. *International Journal of Health Planning and Management*, 16:3-18
- Willenbockel, D. (2011). *A Cost-Benefit Analysis of Practical Action's Livelihood-Centred Disaster Risk Reduction Project in Nepal*. Institute of Development Studies at the University of Sussex, Brighton: UK.

## **Annexures:**

Annexure A is below while annexures B to G are attachments to this report.

### **Annexure A: SPECIFIC SERVICES OFFERED BY ADVICE OFFICES**

#### Eastern Cape

- HIV
- Farm worker issues
- Social grants

#### Free State

- Domestic Violence
- Labour Issues – unfair dismissals and labour practices
- Consumer problems/violation of consumer rights

#### Gauteng

- Labour matters
- Domestic violence and family related matters
- Home affairs
- Administration of deceased estates
- Housing

#### Kwazulu-Natal

- Labour issues
- Domestic violence
- Ukuthwala
- Social services issues
- Child abuse issues
- Legal advice matters
- Evictions
- Farm labour issues
- Consumer rights
- Human trafficking
- Land issues
- HIV/AIDS

#### Limpopo

- Farm workers/ migrant workers
- Refugee issues
- Domestic violence
- Consumer rights issues

#### Mpumalanga

- Consumer rights issues
- Refugee issues
- Labour issues

#### Northern Cape

- Domestic violence
- Labour issues – unfair dismissals, unfair labour practices
- Eviction
- Social services issues
- Home affairs and identity documents
- Consumer problems/ violation of consumer rights

#### North West

- Labour problems and high rate of unemployment
- Farm dweller eviction on farms
- Access to social grants and pensions
- Poor service delivery
- HIV/AIDS and related health matters
- Violence against women and children
- Mediation and conciliation
- Unprotected workers
- Rhino poaching
- Poverty alleviation projects and ensuring sustainable livelihoods

#### Western Cape

- Access to ID documents, birth and death certificates
- Access to social grants and pensions
- Private pensions and provident funds
- Labour law – unfair dismissals, mediation and conciliation
- Violence against women and children
- Farm dweller evictions on farms/ESTA
- Children rights, poverty-alleviation and sustainable livelihood projects
- HIV/AIDS and related health matters
- Farm and domestic workers
- Family law – wills and late estates
- Housing and related rights
- Consumer rights and education
- Alcohol and drug abuse

Annexure A:

Annexure B: Service Level Agreement

Annexure C: HSRC Research Ethics application

Annexure D: Participant consent forms (Focus groups and Service beneficiary survey)

Annexure E: Focus group schedule (CAO staff)

Annexure F: Focus group schedule (Provincial Forum)

Annexure G: Service Beneficiary Survey

ORIGINAL