PATTERNS OF GOVERNMENT FUNDING TO THIRD SECTOR ORGANIZATIONS AS REFLECTING A DE FACTO POLICY AND THEIR IMPLICATIONS ON THE STRUCTURE OF THE SECTOR IN ISRAEL

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ABSTRACT

The treatment of the Third Sector and its organizations by governments in Israel has been characterized by a lack of a declared, knowledge-based and centrally planned policy. It takes a haphazard form of politically driven bargains, personally attained benefits, and reactive crisis intervention solutions. Paradoxically, the lack of planning and coordination in policymaking in issues involving the Third Sector is accompanied with an elaborate system of public funding to Third Sector organizations, a system that has developed incrementally over the years. These funding patterns have accumulated to a persistent de-facto policy towards that set of organizations.

Findings on public funding to Third Sector organizations from two major research projects—the Johns Hopkins Comparative Nonprofit Sector Project and the Israeli Third...
Sector Database—served to analyze that de-facto policy towards the Third Sector in Israel.

The large-scale funding of Third Sector organizations and specifically service providing organizations in the fields of "Education" and "Health", alongside with the meager support of other types of organizations imply a conception of the Third Sector as a complementary organ of government. The statist ideology this funding pattern reveals results in a non-deliberate yet unmistakable policy. It is geared towards utilizing the Third Sector to replace and complement the public sector in providing different essential services, and at the same time minimizing or ignoring other roles of the sector altogether (advocacy, innovation, development of civil society).

This policy has concrete consequences. Since government funding is the major funding source of the Third Sector in Israel, these preferences influence the nature and the composition of the sector. It strengthened the service provision tendency and increased the major role religion plays in the sector on the one hand. On the other hand it undermines the development of foundations as a significant alternative to public funding and the development of civil society.

The findings point out to some of the social origins of the Israeli Third Sector. Among these we discuss the major role these organizations played in the pre-state era, the centrality of religion in the Jewish State, the centralist and statist ideologies of the first Israeli governments and some political arrangements which still are in effect after decades. Our data show that despite the structural changes that the Israeli society and polity underwent since the 1970s, the economic structure of the sector and its public funding patterns have basically stayed the same. That is in spite of the drastic growth and diversification the sector underwent since the 1980s. Third Sector policy too still carries a strong statist flavor, as it completely ignores the rising element of civil society.

The clear consequences of that unplanned de-facto policy raise various questions regarding the roles of the Third Sector in Israel, the necessity of a systematic public debate on these roles and the desired government policy towards the sector in light of these roles.
INTRODUCTION

When one reviews the issue of government policy vis-a-vis the Third Sector in Israel, one immediately encounters a major paradox. While significant areas of public life are handled by Third Sector organizations, and very significant public funding is allocated to them, there is no clear or stated policy towards these organizations as a distinct category, nor has the government established to date a public body to develop such policy.

The Sector's current status has evolved over the years more as an outcome of responses to historical processes, constraints and pressures of various kinds than as the result of a comprehensive and well-developed concept of the role of the sector. One can identify laws, ordinances, regulations and procedures governing the activities of Third Sector organizations, delineating through those the relationships between Third Sector organizations and governmental authorities. However, it is practically impossible to identify any documents that provide the basis for these laws and regulations.

Yet, the fact that very significant governmental funds are allocated to Third Sector organizations, a trend that did not develop overnight, is obviously an indication for a de facto policy; furthermore, this policy is dynamic—it develops and changes. But such changes over the years have generally resulted from action taken by a specific governmental authority or by Supreme Court intervention in response to a concrete situation requiring attention. These usually pertain to a specific area of practice (higher education, health), a particular set of organizations (Yeshivas—Torah institutes) or even a specific organization. In all those cases, these changes were not based on comprehensive discussion in the government or the Knesset regarding policy toward the Sector as a whole, and extended only to the specific situation at hand.

The lack of any official documents regarding government policy vis-a-vis the Third Sector, makes it impossible to find an official rationale for developing a formal relationship with these organizations. What exist are the data on the very significant amounts of government funding, which are transferred to Third Sector organizations. Thus, the patterns of such funding—forms as well as amounts—can serve as an indicator of that de facto policy and an alternative tool to analyze it. As will be shown, such analysis can give us a variety of clues as to the overall dynamics involved. It may also hint at the forces behind that vague and indeterminate policy and the possible reasons for them to leave it as such.

In the first two parts of this article we will present the background for this situation as well as the major mechanisms that are used by the
government to allocate funds to the Third Sector. These can give a fairly good indication on the kinds of relationships developed between government and the Third Sector.

In the third part we will use data from the Israeli Third Sector Database to show how this relationship is expressed in actual allocations of government funds to Third Sector organizations.

In the fourth part, we will analyze those data to demonstrate the impact of government practices on the structure of the Sector.

Based on these data and on the social origins theory, we will discuss the sources and the possible outcomes of these policies.

BACKGROUND FACTORS

In light of the substantial amounts allocated to the Third Sector in Israel, what can explain the fact that there is a vague, indeterminate attitude by the government to the Sector and no uniform and well-established policy regarding it? Various publications addressing this subject offer a number of answers.

“‘Sectorial’ Third Sector organizations, representing distinct ideological groups and economic interests, have developed in Israel before the state was established. This system of ‘sectorial’ services was set up to meet the needs of Jewish immigrants coming to Mandatory Palestine in the frameworks of different ideological movements. It was developed around distinct population groups distinguished mostly on an ideological/class basis. The most important ones being the Labor movement (working class), the ‘Civil’ movement (middle class) and the Religious movement, all of which also developed specific political apparatuses, and later—political parties. Each of those developed a separate system of comprehensive services, covering all aspects of their members’ needs: educational, welfare, health, etc. Being related to ideological movements with political goals, the service systems were often seen as an instrument to achieve political objectives, primarily attracting new members to their ‘sector.’ In the absence of other service frameworks in the country at the time, these ‘sectorial’ systems laid the foundations for the statutory service provision infrastructure developed after 1948 in the fields of education, culture, welfare, health, etc.

After the establishment of Israel, a “Statist” approach replaced the “sectorial” one. It was based on the premise that the state should assume responsibility for a substantial portion of the functions previously filled by “sectorial” organizations. Accordingly, the “sectors” and the organizations related to them were regarded as a threat to national cohesion and to the
process of creating a unified society. This philosophy led certain Third Sector organizations (e.g. those in primary and secondary education), to cease their independent existence and integrate into the public sector; whereas many others became “executive arms of the government.”(9) Yet, a certain number of Third Sector organizations in various fields maintained their independence and continued to operate.

The government’s ability to influence the status of the Third Sector(10) was due to the considerable strength of the central government, ideological political parties with a national agenda and the centralist public administration structure. This “Statist” approach, which was personified by the first Prime Minister David Ben Gurion, undoubtedly contributed to the marginal importance the government attached to Third Sector organizations and the lack of clear policy in this area. They were seen primarily as instruments to serve national and/or political considerations and priorities. This was further emphasized by the fact that organizationally, the demarcation lines between the governmental/public organizations and Third Sector organizations were blurred. the latter, not considered a distinct entity, but rather an extension of the former. Ralph Kramer studying voluntary organizations in Israel in the early 1970s writes on this issue:

“Given the primacy of the government, what is unusual... is the degree of interpenetration of the various institutional sectors and the blurring of divisions between government, “public” and voluntary enterprises.”(11)

He goes on to quote a government official, who discusses the structure of budgets for voluntary organizations serving the handicapped, and expresses that very notion:

“There is no real difference at all between the Ministry of Sa’ad (i.e. Welfare) funds and those of Akim or Ilan (i.e. organizations serving handicapped children)—they all come from the Jewish people.”(12)

The “Statist” approach has continued to influence the status of the sector and policy regarding it through the 1960s and into the 1970s.(13) However, significant national events during the 1970s (the Yom Kippur War, the Black Panthers demonstrations), as well as other processes affecting the society (introduction of television, rise in the standard of living, demographic changes) brought about the erosion of confidence in the central leadership and the emergence of new local and sectorial centers of power.(14) This weakened the “Statist” approach and led to the evolution of an alternative, more positive view of Third Sector organizations. This new approach was signaled by an increase in government financial allocations to organizations in the Third Sector, encouragement for the establishment of new associations and transfer of responsibility for provision of statutory services to Third Sector organizations.
However, most of these developments reflected a purely instrumental approach, as they have not influenced the status of Third Sector organizations—these were expected to continue implementing national policies decided by government. Nor have they been accompanied by any new administrative procedures marking a more open and exposed system of relationships between the government and the Sector. Discussing the motivation for such policy, Telias, Katan & Gidron\(^{15}\) note that government support for Third Sector organizations is largely motivated by pragmatic reasons or interests of government ministries and affiliated political entities, not by a principled state policy that views these organizations as a vital factor worthy of support and development.

This pattern is displayed also by Aharoni\(^{16}\) in his analysis of the political economy of Israel: Governments in Israel never operated on the basis of long term planning, and the policymaking process took an ad-hoc political and improvisational nature. Subsequently, government priorities are set by government ministers on a personal basis, and are therefore prone for changes according to the changing political circumstances.

**MAJOR FORMS OF PUBLIC FUNDING OF THIRD SECTOR ORGANIZATIONS**

The current system of public funding for Third Sector organizations echoes in many respects the traditional roles Third Sector organizations played thus far in the Israeli society, and reflects their traditional status. On the one hand they serve as the “executive arm” of government’s welfare policy, complementing services not provided by the State. On the other, they are also seen as representing specific political interests with strong links to political parties.

As in other countries, in Israel too, the funding of Third Sector organizations from the public purse, takes two major forms: Direct funding through contracts and grants, and indirect funding through a variety of benefits to the organizations and their donors. It involves many public institutions on the national and local levels and takes many forms. As detailed data on all such forms of support and amounts are incomplete or altogether unavailable, we will focus in our discussion on the four major forms and present empirical data on their distribution only. While these data obviously do not present the entire picture, they give a very clear indication on the trends involved and the de facto policy emanating from those.

The largest and the most important form of direct governmental support to Third Sector organizations are through contractual arrange-
ments, whereby the organization is usually contracted to provide a service which is fully or partially paid by the government. These contractual arrangements are divided into two forms: *Legislated Support* and *Disbursements for Services*.

*Legislated Support* refers to budgeted, long-term contracts, mandated by law and based on a "basket of services" principle—a certain minimum level of services, which the government is committed to provide to its citizenry. These contracts are made with organizations that replace or supplement government activity in providing specific services. Such arrangements exist in the area of primary health care, higher education, certain primary and secondary education, boarding schools, nursing care for the elderly, research, culture, etc.

*Disbursements for Services* are short-term contracts for services that government ministries occasionally buy from Third Sector organizations. These could be for providing a variety of services to new immigrants, training courses for the unemployed or summer camps for children with disabilities.

In both those cases financing by government ministries means that government sets the criteria and conditions for eligibility of recipients for services and the price paid by recipients for the service (if any); the ministry also supervises the activity.

*Support Grants*, as the name suggests, are grants, not contracts, allocated to organizations by government ministries. Their intention is for the grantees "to promote the policies of the (particular) ministry." These allocations follow an established procedure, which is the same across all ministries and is supposed to ensure equal opportunity for every applying organization to win support. Such procedure was developed because previously, these were funds termed "particular funds") that were used by the ministers to distribute at his or her discretion, mostly to their own politically-based Third Sector organizations. The procedure calls for each ministry to set specific criteria for these allocations. These criteria must be approved by the Attorney General and then publicized. The procedures also require each ministry to hold a discussion about the applications in its own Support Grants Committee. Those complex procedures have been developed in order to curb the previous practice, which was often misused and abused by government ministries (and ministers) and led to inequitable favoring of some organizations. Albeit, they are still often by-passed.\(^{17}\)

Grants from the *Bequests Fund* constitute another component of the funding for the Third Sector. These are funds accrued from estates that have been transferred to the State and are administered by the Administrator General in the Justice Ministry. These grants are allocated according to a
procedure based on decisions made by a public committee headed by a judge. The committee meets periodically to select the funding goals and areas to which bequests should be allocated, in accordance with the government’s view of national priorities. An application for support from the Bequests Fund is first sent to the government ministry relevant for that issue, which decides whether to recommend support, the amount, and the reasons. This recommendation is sent to the Bequests Fund Committee for further discussion and decision. Decisions to award a grant are then reported to the office of the Administrator General, which transfers the amounts to the relevant ministries that finally allocate the grant. Thus, this mechanism, which has the appearance of an impartial one, being guided by a judge, involves a de facto ministerial and thus political control of the allocation procedure.

Additional sources of direct public financial support for Third Sector organizations are: (1) grants by the National Insurance Institute (for projects involving the disabled) and disbursements by the National Insurance Institute for burial services provided by religious organizations, (2) grants by The Jewish Agency, through various mechanisms, (3) grants by local authorities, through their own “support committees” (4) grants by the two national lotteries, one of which supports sports, and recently (5) grants from a special fund set up by the Speaker of the Knesset.

In addition to those direct sources, there is a system of indirect support to Third Sector organizations. These include tax benefits for donors to “public institutions”—Third Sector organizations that have received that status on the basis of a specific service they provide or functions they fill. The Minister of Finance grants such a status, which needs to be approved by the Finance Committee of the Knesset. Indirect support also includes exemptions from real-estate property tax and capital gains tax for certain organizations (approved in the same procedure), a reduced VAT and insurance to volunteers injured during the course of their voluntary work. Specific laws and ordinances cover all these.

In addition, there are other indirect benefits that Third Sector organizations may enjoy. These are allocations of land or use of buildings, allocations of personnel (National Service volunteers) and exemption from local taxes, benefits that are left to the discretion of the relevant authority, as no law or ordinance covers those.

While the wide array of forms to support Third Sector organizations described above may give the impression of a developed, well thought out system to encourage and promote such organizations, in reality the opposite is true. All those forms of support are in fact an indication of a fragmented system, without an ideational, philosophical “spinal cord,” representing arrangements that different segments of society were able to obtain for their
constituent Third Sector organizations. Once institutionalized, some of these arrangements, after being tested in court for equality, were generalized to other types of organizations.

When reviewing those diverse forms of support to Third Sector organizations in Israel, several points clearly stand out:

1. In many instances those forms of support are not targeted specifically for Third Sector organizations only. In the case of contracts, the same policy procedures usually cover for-profit organizations, as in the case of nursing services for the elderly. In the case of grants, the same procedures apply for public agencies, as in the case of grants from the Bequests Fund, which are also allocated to organizations in the public sector (national or local). This lack of distinction between the different forms of organizations receiving public support reflects the blurring of the boundaries between the sectors discussed above, and the lack of a concrete policy regarding the Third Sector.

2. The system of contracts, especially within the legislated support framework, is based on a sound basis, namely one that ensures that the grantee provides a certain level of service for the funds disbursed, with appropriate public supervision and scrutiny. Yet in reality, for historical and political reasons, those contracts are signed with a relatively small number of large organizations in the different fields, with very little room for additional new (and innovative) “players”. These include the six universities (and recently a number of colleges) in higher education, the four sick funds in health, the three large women’s organizations in daycare, the major national theaters and orchestras, the major research institutes, etc. Neither is it the interest of current grantees to expand those lists, which will mean sharing the same amounts among more actors. While this current policy creates stability among grantees, it does not encourage innovation and development, for which other sources of funding are needed.

3. While the system of contracts, especially within the legislated support framework, involves relatively few political considerations and is managed at the administrative and professional levels, this is not the case in the system of grants. Here, political considerations are apparent and clear. This is the case of the Support Grants, where the various attempts to create an equitable and uniform system have resulted in creative ways to circumvent them. This is true for both the national, ministerial level as well as the local
level. The Bequest Fund is another mechanism where the relevant ministry has a say in the final decisions made regarding the organizations winning the grants.

Such politically motivated system, a remnant of the times when service organizations were promoting sectorial political goals, is obviously prone to both political and economic abuse and misuse, which has been the case in many instances in the past decade.

4. Decisions about the various forms of indirect support, similarly to the decisions regarding grants, are made by politicians and very often involve political considerations. This is the case for the procedure granting an organization the status of “public institution” with significant tax benefits for its donors, which has to be approved by a Minister and a Knesset committee. It is also the case for organizations receiving in-kind support from the public purse, namely real estate usage, personnel, exemption from local taxes, on which no policy exist and these benefits are left to the discretion of the local mayor or other public official.

5. The entire system of allocations from public sources to Third Sector organizations, its various forms and its overall size, direct many of these organizations to gear their activities in order to become eligible to get funded from one or more of these sources. Sometimes, as in the case of the National Insurance Fund, this is even a condition—an organization becomes eligible to be funded from that source only if (!) it is already funded from (an)other public source(s). The existing system then, creates expectations in organizations; expectations that are not unrealistic, as an estimated 38% (out of approximately 10,000 active) Third sector organizations receive funding from one or more of the four major public sources listed above. If other sources were included, their rate will undoubtedly rise significantly. Furthermore, the Registrar of Amutot has recently disclosed that some 7500 Amutot have requested a certification of “appropriate management,” needed to be eligible for funding from one of the public sources.

Such expectations seem to be based on the political tradition of dependence on the center, which apparently is still prevalent in the realm of the Third Sector. They are also based on the fact that there is a lack of alternative funding sources, which thus far the government may not have been interested to develop.
FUNDING THE ISRAELI THIRD SECTOR—EMPIRICAL FINDINGS

Public Funding—The Key Source

The lack of a clear and planned government policy towards the Third Sector is paradoxically accompanied by a large and complex system of public funding to Third Sector organizations. Since the early 1980s, public funding consistently constitutes more than one half of all funding to the Third Sector in Israel. This is shown in different studies. In the findings from the Israeli component of the Johns Hopkins Comparative Nonprofit Sector Project the public sector share of the Third Sector's funding in 1995 rises to almost two thirds of the total (63.5%).

The government’s central role in funding the sector is also apparent in the large share of the sector’s organizations receiving governmental funding: 38% of all active organizations in the sector in 1998 received funding from one or more of the four major public sources discussed above. As was already stated above, some 75% of all active organizations in 1998 were interested in receiving public funding. Thus public funding is not only the largest source in comparison to other funding sources of the Sector as a whole, but also the most common funding source of Third Sector organizations and very possibly the most accessible.

What Does the Government Fund?

Public funds are primarily allocated to organizations in two fields of practice: “Health” (53% of the total) and “Education & research” (37%). Thus, organizations in these two categories combined, received 9 out of every NIS 10 allocated from the public purse to Third Sector organizations in 1995. “Culture and recreation” is next on this list, at a substantially lower rate, receiving only 4% of the total public funding (Table 1).

Government funding constitutes the major share of the total revenues in those fields—75% in “Health,” 64% in “Education & research” and 44% in “Culture & recreation.” Interestingly, government funding is a significant source in other fields as well, even fields that get a very small share of the total public funding, that source often covers 25% or more of their funding. “Professional associations & unions” is the only group of organizations that is significantly below that level, as membership fees account for a considerable share of this group's revenues.
Table 1. Public Funding of Third Sector Organizations by Field of Practice, 1995

<table>
<thead>
<tr>
<th>Field of Practice</th>
<th>% of Total Public Funding to Sector</th>
<th>% of Total Funding in Field</th>
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</thead>
<tbody>
<tr>
<td>Culture &amp; Recreation</td>
<td>4.4</td>
<td>43.6</td>
</tr>
<tr>
<td>Education &amp; Research</td>
<td>36.6</td>
<td>63.9</td>
</tr>
<tr>
<td>Health</td>
<td>53.1</td>
<td>75.1</td>
</tr>
<tr>
<td>Social Services</td>
<td>2.4</td>
<td>52.8</td>
</tr>
<tr>
<td>Environment</td>
<td>0.3</td>
<td>31.5</td>
</tr>
<tr>
<td>Housing &amp; Development</td>
<td>0.3</td>
<td>31.7</td>
</tr>
<tr>
<td>Civic &amp; Advocacy</td>
<td>0.1</td>
<td>24.8</td>
</tr>
<tr>
<td>Philanthropic Intermediaries</td>
<td>1.7</td>
<td>30.9</td>
</tr>
<tr>
<td>International Activity</td>
<td>0.0</td>
<td>23.2</td>
</tr>
<tr>
<td>Religion</td>
<td>0.7</td>
<td>32.1</td>
</tr>
<tr>
<td>Unions &amp; Professional</td>
<td>0.2</td>
<td>14.1</td>
</tr>
<tr>
<td>Others</td>
<td>0.0</td>
<td>31.9</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>63.5</td>
</tr>
</tbody>
</table>

The distribution of government funds has a clear service provision orientation: In 1998, 93% of the total funding from the four major sources of government went to service provision organizations. Funding organizations (primarily foundations) received approximately 3% of the total, whereas advocacy organizations received 1%.

Different Forms of Funding—Different Beneficiaries

The data in Table 2 present the variability across the system of different public funding source to Third Sector organizations in Israel. Legislated support, the largest form of government funding, totaling in 1998 NIS 21 Billion, clearly impacts the pattern discussed above: 90% of the funding goes to organizations in “Education & research” and “Health.” The rest goes to organizations in “Social welfare,” “Culture & recreation” and “Religion.”

The second contractual funding form, Disbursement for services (totaling in 1998 NIS 1.2 Billion) shows a different pattern. This form of funding is more widely distributed across different Third Sector fields of practice. Organizations in “Education & research” receive the largest share—40% of the total. Organizations in “Social welfare” get 31%; organizations in “Philanthropy” (foundations), “Housing & development” and “Professional associations & unions” also receive significant portions of that form of funding (9.7%, 5.4% and 4% respectively). “Health” organizations get only 4% of all disbursements.
Table 2. Direct and Indirect Public Funding of the Israeli Third Sector

<table>
<thead>
<tr>
<th>Category</th>
<th>Direct Funding</th>
<th>Contracts</th>
<th>Direct Funding - Grants</th>
<th>Indirect Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NIS Millions</td>
<td>% of Sector Total</td>
<td>NIS Millions</td>
<td>% of Sector Total</td>
</tr>
<tr>
<td>Culture &amp; Recreation</td>
<td>731</td>
<td>3.4</td>
<td>24.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Education &amp; Research</td>
<td>9,738</td>
<td>45.4</td>
<td>471.1</td>
<td>39.8</td>
</tr>
<tr>
<td>Health</td>
<td>9,400</td>
<td>43.9</td>
<td>47.5</td>
<td>4.0</td>
</tr>
<tr>
<td>Social services</td>
<td>586</td>
<td>2.7</td>
<td>366.7</td>
<td>31.0</td>
</tr>
<tr>
<td>Environment</td>
<td>4.5</td>
<td>0.1</td>
<td>26.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Housing &amp; Development</td>
<td>64.3</td>
<td>3.4</td>
<td>42.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Civic &amp; Advocacy</td>
<td>10.2</td>
<td>0.5</td>
<td>9.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Philanthropic intermediaries</td>
<td>115.3</td>
<td>5.2</td>
<td>157.9</td>
<td>6.1</td>
</tr>
<tr>
<td>International activity</td>
<td>222</td>
<td>1.0</td>
<td>2.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Religion</td>
<td>498</td>
<td>2.3</td>
<td>32.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Unions &amp; Professional</td>
<td>46.0</td>
<td>2.2</td>
<td>70.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Others</td>
<td>473</td>
<td>2.2</td>
<td>16.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Total</td>
<td>21,426</td>
<td>100</td>
<td>1,185</td>
<td>100</td>
</tr>
</tbody>
</table>
Most of the Support Grants funding (totaling in 1998 nearly NIS 2.6 Billion) is distributed to organizations in “Education & Research” (54%). It is directed almost entirely to ultra-orthodox Jewish religious educational institutions (Yeshiva, Talmud Torah, Kolel, etc.). Organizations in “Religion,” almost all of them Jewish, receive another 13% of this budget. Organizations in “Culture & Recreation” get over 16% of that budget, and the rest is distributed between organizations in “Philanthropy” and “Social welfare” (6% and 4% respectively).

The pattern for the Bequests fund grants’ distribution (totaling NIS 72 Million in 1998) is again different: 55% of that budget goes to organizations in “Social welfare,” and 14% to organizations in “Philanthropy.” Organizations in four additional fields get between 4-7% of Bequests fund’s total allocations: “Education & research,” “Professional Associations & Unions,” “Housing & Development” and “Culture & Recreation.” Organizations in “Health” get 3% of that budget.

The distribution of organizations receiving the status of “public institutions,” whose donors consequently receive tax benefits, shows a different pattern still. The list consists of organizations in “Education & Research” (24%) “Religion” (19%), “Social Welfare” and “Philanthropy” (almost 15% each), “Culture & Recreation” and “Others”—mostly memorial organizations (9% each).

Political Funding of Third Sector Organizations—Support Grants

As can be seen in Figure 1, the amounts of Support Grants are not static over the years. The data show an overall increase in Support Grants, both in current and real terms, more than doubling the real amount of grants in 8 years, from a little over NIS 600 Million in 1991 to almost NIS 2.6 Billion in 1998 (reflecting over NIS 1.3 Billion in 1991 terms). However, this increase was not a linear one. Between 1991 and 1993 the total was almost doubled in real terms. The growth of that source continued in 1994, with an increase of 8% from 1993. Albeit, the amount of Support Grants decreased substantially both in current and real terms in 1995, during the Labor government under Prime Minister Rabin. Support Grants declined in 1995 to a low in real terms, below the level of 1993 grants. In the following years these funds showed a more or less stable growth rate, yet it has returned to the levels of the early 1990s only during the Netanyahu government in 1998.

A closer observation at the patterns of Support Grants in the 1990s demonstrates some more refined dynamics, demonstrating the shifts in the distribution of that form of funding. The allocations to organizations in
“Environment” as a share of the total Support Grants budget rose during the Labor government (1995) when compared to the governments preceding and following it. It multiplied 9 times in real terms to 2.3% of the total of Support Grants in 1995, compared to 0.4% in 1991 and 1.0% in 1998. This is an increase in real terms from NIS 2.6 Millions in 1991 to NIS 24 Millions in 1995, and a decline to NIS 17 Million in 1998 (Table 3). Similarly we witness a rise in allocations to “Health” organizations in 1995 (NIS 30 Million which are 2.8% in 1995 compared to 1.0% near and 0.7% in the “Likud” governments, which are approximately NIS 6 Millions and NIS 11 Millions respectively).

Two more interesting dynamics in the allocations of Support Grants can be seen in organizations in “Religion” and “Professional Associations & Unions.” The former benefited substantially from a rise in the share of Support Grants allocations to them in 1998 as compared to 1995: from almost NIS 38 Millions (in 1991 terms) constituting 3.5% of the total of grants that year, to NIS 220 Millions (in 1991 terms) in 1998 amounting to 13% of that year’s total. Conversely, allocations to “Professional Associations & Unions” rose in 1995 and declined again in 1998 (1991—NIS 25 Millions: 4.1%, 1995—NIS 66 Millions: 6.2% and 1998—NIS 46 Millions: 2.7%). These patterns then clearly reflect different priorities by different political actors.
### Table 3: Support Grants to Third Sector Organizations by Field of Practice, 1991, 1995, 1998

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</tr>
</thead>
<tbody>
<tr>
<td>Culture &amp; Recreation</td>
<td>128.2</td>
<td>21.2</td>
<td>291.1</td>
<td>17.7</td>
<td>424.8</td>
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<tr>
<td>Education &amp; Research</td>
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<td>57.6</td>
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<td>55.1</td>
<td>1,392.7</td>
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<td>46.0</td>
<td>2.8</td>
<td>16.9</td>
<td>11.0</td>
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<tr>
<td>Social services</td>
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<td>3.2</td>
<td>98.1</td>
<td>63.9</td>
<td>4.3</td>
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<td>2.3</td>
<td>26.1</td>
<td>17.0</td>
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<tr>
<td>Housing &amp; Development</td>
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<td>0.4</td>
<td>14.3</td>
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<td>27.7</td>
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<tr>
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<td>0.9</td>
<td>9.8</td>
<td>6.4</td>
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<td>50.6</td>
<td>3.1</td>
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<td>10.2</td>
<td>3.6</td>
</tr>
<tr>
<td>International activity</td>
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<td>10.2</td>
<td>0.6</td>
<td>2.6</td>
<td>1.7</td>
<td>0.4</td>
</tr>
<tr>
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<td>3.5</td>
<td>337.6</td>
<td>21.9</td>
<td>5.8</td>
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<tr>
<td>Unions &amp; Professional</td>
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<td>4.1</td>
<td>161.7</td>
<td>6.2</td>
<td>70.5</td>
<td>45.9</td>
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<td>Others</td>
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<td>3.6</td>
<td>60.7</td>
<td>3.7</td>
<td>16.3</td>
<td>10.6</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
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<td><strong>100</strong></td>
<td><strong>1,642.9</strong></td>
<td><strong>100</strong></td>
<td><strong>2,595.8</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
IMPLICATIONS OF THE PATTERNS OF PUBLIC FUNDING ON THE CHARACTER OF THE THIRD SECTOR IN ISRAEL

The exiting government funding patterns has significant impact both on the Third Sector as a whole and on its organizations. They affect the rates of active organizations in specific fields, the roles of the sector and how it goes about fulfilling these roles. It is undoubtedly not the only factor influencing the Third Sector and its organizations, but it is nevertheless an important one.

The bias that government funding currently expresses is towards Third Sector service provision organizations, fostering that role by the sector, mostly in the context of the Welfare State. We saw already the major impact that government funding has on the economic size of different fields of service within the Sector. But does it also have an impact at the organizational level, namely the numbers of organizations registered and active around specific fields?

Table 4 presents the relation between government funding\(^\text{(24)}\) in specific fields of practice and the rate of active organizations\(^\text{(25)}\) in that field. The figures demonstrate that in a field where there are more government-funded organizations there is a higher rate of active organizations.

<table>
<thead>
<tr>
<th>Table 4. Public Funding and Activity Rates</th>
</tr>
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<tbody>
<tr>
<td>Registered Organizations</td>
</tr>
<tr>
<td>---------------------------</td>
</tr>
<tr>
<td>Culture &amp; Recreation</td>
</tr>
<tr>
<td>Education &amp; Research</td>
</tr>
<tr>
<td>Health</td>
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<tr>
<td>Social services</td>
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<tr>
<td>Environment</td>
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<tr>
<td>Housing &amp; Development</td>
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<td>Civic &amp; Advocacy</td>
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<tr>
<td>Philanthropic intermediaries</td>
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<tr>
<td>International activity</td>
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<tr>
<td>Religion</td>
</tr>
<tr>
<td>Unions &amp; Professional</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
E.g., “Education & research” – 53% funded and 51% active; “Social welfare”—42% funded and 39% active. Testing for statistical significance confirms that. Calculation of the Pearson correlation between the rates of active organizations and the rate of government-funded organizations results in a high and significant coefficient: \( r = 0.63 \) (p < 0.05). Evidently, when analyzed by fields of practice, there is a significant positive correlation between government funding and the rate of active organizations in the Third Sector.

Besides the significant relation between government funding and activity rates there is also presumably a positive relation between public funding and the rate of registration in specific fields of practice. It is often claimed that in fields where funding is available and stable (especially where government funding exists), we can find organizational initiatives, as entrepreneurs see that as an opportunity to make a difference. Table 4 shows a certain relationship between the rate of government funding in a specific field of practice and the number of registered organizations in that field. E.g., in “Education” with over 5200 organizations where 53% of the active organizations are funded, and “Social Welfare” where 42% of the active among the 3800 registered organizations in that group are funded. The Pearson correlation between size of field of practice and funding rate is relatively high (\( r = 0.51 \)), although not statistically significant. It is hard to determine which causes which—the existence of government funding causes increased registration or vice versa, but apparently there is a relationship, which should be inspected more closely.

A look at one specific subgroup of the categories discussed above—ultra-orthodox Jewish religious educational institutions—may confirm the existence of such relationship. In this group the rate of funded organizations was around 50% of the active organizations most of the 1990s, and only in 1997 was lower than 40%. It also showed a steady and markedly high rate of new registrations: between 8.5% and 12.3% of all annual registrations in the 1990s are in that field of practice alone.

Analysis of public funding to Third Sector organizations by their size demonstrates another effect of public funding on the Third Sector in Israel. The trend shown in figure 2 is one of a clear relationship between the size of the organization (as indicated by the number of its employees) and the likelihood of it receiving governmental funding. While 77% of the organizations with 50 paid employees or more receive government funding, only 28% in organizations without paid employment receive such support. Furthermore, based on that table one can clearly say that the larger the organization, the more likely it is to be funded by government. Government funding then is more likely to go to large, established organizations, rather than to small, young ones.
DISCUSSION: THE SOCIAL ORIGINS OF A DE FACTO POLICY AND THE CHARACTER OF THE THIRD SECTOR IN ISRAEL

The lack of a centrally planned and knowledge-based policy towards the Third Sector and its organizations is not surprising once looking at policy studies in the last decade. The work by Telias, Katan & Gidron\(^{(29)}\) clearly depicts the ad-hoc, improvisational and personal form that such policymaking has taken throughout the years. It is mostly geared towards current political interests, conforming to transient political demands and serving narrow interests of specific groups or individuals. According to their findings it is clearly in the interest of both government officials as well as politicians to maintain the current ambiguity. It allows for a continued use of Third Sector organizations and their funding for accumulating political power and practicing it.

Aharoni arrives at similar conclusions, in regard to both the Third as well as the business sectors.\(^{(30)}\) He suggests three major reasons for that situation.

1. The \textit{coalition structure of government} prevents overall planning, as each minister sees his ministry as the realm of his party, and utilizes it to pursue party interests. Hence it is the ministers and not the government that determine government priorities, and they go about it in an uncoordinated fashion. The result was that in Israel there was never an overall economic and social planning in general, let alone in regard to the Third Sector. A coalition government operates more as a coordinating committee between varied interests composing it, rather than a central body for multidimensional and general planning.\(^{(31)}\) Moreover, the coalition structure of Israeli government "coerces on the government a strategy of conservatism, pragmatic decisions and last minute improvisations... (which) was essential in (order) to avoid as much as possible taking decision in controversial issues...."\(^{(32)}\)

2. Action without planning and without setting clear criteria amplifies the government’s \textit{political control}. It creates strong dependence of any economic or social entity on the goodwill of government ministers and politically appointed officials. It also diminishes the share of government expenses that is submitted to the parliament’s approval and scrutiny, thus enhancing government power in respect to the parliament as well.

3. This pattern coincides with \textit{statist ideology}, preferring government decision making to that of all other actors. This ideology was
prevalent in the early years of the state of Israel, but it is clearly still strong and influential in Israeli governments in the 1990s.

This political and personal nature of policy making is apparent in our findings, especially in the patterns of Support Grants to Third Sector organizations. The dynamics of support grants in the 1990s show the fluctuation of government's funding to the sector and its political nature. The rise in the allocations to organizations involved in the field of "Environment" in 1995 demonstrates the personal influence of the Minister for the Environment at that time—Y. Sarid. Similarly, the increase in allocations to "Health" organizations in 1995 shows the marked influence Minister of Health in that government: H. Ramon. The fact that organizations in "Religion" witnessed a substantial rise in the share of Support Grants allocations in 1998 as compared to 1995 can be attributed to the relatively stronger stance of religious political parties in Netanyahu's government, compared to their more marginal stance in Rabin's government.

Yet, the lack of planning and coordination in policymaking in issues involving the Third Sector does not imply that there is no policy at all. Actually, the funding patterns by central government to Third Sector organizations can give a clear indication about a persistent de facto policy towards that set of organizations.

The ongoing ad-hoc and politically motivated decisions about funding of specific organizations and fields of practice in the sector have accumulated to a pattern that implies a conception of the Third Sector as a complementary organ of government. The large-scale funding of service providing Third Sector organizations, especially in the fields of "Education" and "Health," alongside with the meager support of other types of organizations, is very revealing. It reveals a statist ideology, resulting in an undeliberate yet unmistakable policy, utilizing the Third Sector to replace and complement the public sector in providing different essential services, and at the same time minimizing or altogether ignoring other roles of the sector altogether (advocacy, innovation, development of civil society). It does so by financing primarily welfare service provision organizations. It does so by preferring to fund large labor-intensive organizations over small voluntary ones. And it does so by preference of specific social groups over others (e.g., a clear preference of the ultra-orthodox Jewish religious organizations).

Our findings show that statist and centralist policies persist in the Third Sector, despite the many changes which this sector underwent in the 1980s and the 1990s, and the turbulent dynamics that took place in Israeli politics and public administration since the 1970s.

The implications of such a policy for the sector's structure are paramount: Since government funding is the major funding source of the
Third Sector in Israel, these preferences affect the nature and the composition of the sector. The sector’s service provision bias, the extensive importance of religion in the sector, the limited impact of foundations and the undeveloped civil society apparent in the Israeli Third Sector are clearly influenced by that de-facto policy.

This course of things leads us to frame this discussion in the conceptual framework of the Social Origins theory of the Third Sector.\(^{(23)}\)

The Social Origins theory associates the existence and character of the Third Sector in a specific society with an amalgam of social, economic and political factors. The specific local constellation and history of class structure, nature of the regime, state-society and church-state relations as well as other factors account for the specific structure and roles of the Third Sector in a given country.

The social origins theory of the Third Sector employs a similar logic to the explanation of the social origins of modern regimes, which, according to Barrington Moore Jr.\(^{(34)}\) is dependent on a particular configuration of power and relations between landed elites, the peasantry, an urban middle-class and the state. This is reminiscent of the logic that was employed by Esping-Andersen\(^{(35)}\) in his explanation of the development of different modes of the Welfare State. This framework basically sees the Third Sector as a phenomenon deeply embedded in the social, political and economic structures of society, and its organizations often serve as intermediary bodies “tying the knots” of the social fabric.\(^{(36)}\)

Based on Esping—Andersen, Salamon & Anheier\(^{(37)}\) proposed an analysis that links certain clusters of social factors with a typology of “Third Sector regimes.” For example, a “Liberal” regime will develop a strong urban middle-class that confronts little opposition from traditional landed elites and working class movements. Together with an anti-absolutist ideology and a laissez-faire economy, the outcome is hostility to government involvement, and a preference of voluntary initiatives in welfare provision. Consequently the Third Sector is markedly strong, supported mostly through charitable contributions and foundations, alongside with low governmental social spending. Other such typologies include “Social Democratic,” “Statist” and “Corporatist” nonprofit regimes.\(^{(38)}\)

Because of Israel’s unique history, its Third Sector does not easily lend itself into readymade models. Thus there isn’t one nonprofit regime that fits the Israeli case entirely, and it is more a combination of some of these models. However, the logic of the social origins model applies to Israel very well, as it addresses the embeddedness of the Third Sector in society, asserts the importance of historical processes, and takes into account the complexity of the Third Sector phenomenon.
Although a thorough analysis of the social origins of the Israeli Third Sector is far beyond the scope of this paper, it is possible to discuss some points which are relevant to the data we displayed. The data point out a strikingly strong influence of government on the sector, as it is the major source for sector vitality. The involvement of the state in the Third Sector is rooted in the pre-state era when what we term nowadays Third Sector organizations were the exclusive mechanisms of both the welfare service system and the community’s political and administrative institutions. When the State was established many of these institutions continued their existence, but under a totally different contextual conditions. The centralist and statist ideologies of the first Israeli governments led to the subordination of the Third Sector organizations to the national agenda and institutions. That contributed to the lack of distinction between Third Sector organizations and government, which Kramer (39) detected in the 1970s. Since the mid-1970s Israel experienced again a major structural change in its society and polity, caused, among other reasons, by the decline of the old socialist labor-party elite and the ascent of a new middle-class. (40) What has been the impact of this change on the structure of the Third Sector?

The findings from the analysis of funding patterns show that this process is less noticeable in the Third Sector than one would expect. While the 1980s and 1990s witnessed an upsurge in the extent and diversity in formation of association in Israel, resulting in almost 30,000 new registrations since 1980, the economic structure of the sector and its public funding patterns have basically stayed the same. (41) It seems that in respect to Third Sector policy the old conceptions still prevail. Third Sector public funding still carries a strong statist flavor, as it completely ignores the rising element of civil society in that sector.

The structure of Third Sector public funding in 1998 still carries the remnants of political arrangements made soon after the establishment of the state. The large amounts of funding given to the Sick Funds through legislated support are the result of the decision to avoid creation of a national health insurance system in 1948. This was due to pressures of certain factions in the labor party interested in maintaining the strength of the Histadrut’s largest Sick Fund as a means to recruit the new immigrants as members in the Histadrut and the labor party. Other service provision organizations (in vocational education, institutional care for the aged, day-care) in which the Histadrut had a strong institutional base remained, likewise, in the Third Sector.

Another such historic residue is the arrangement allowing the creation of an independent yet publicly funded ultra-orthodox religious education network.
These arrangements directed large service provision elements into the Third Sector, thus strengthening its service provision bias and its public funding dominance.

The rise in the political power of the ultra-orthodox religious community in recent years is also clearly reflected in the Israeli Third Sector. Their growing ability to secure rising amounts of public funds for their nonprofit, primarily educational institutions, has given them a marked presence in the Israeli Third Sector. Organizations created by or serving the religious population constitute some 40% of all registered Amutot\(^{42}\). As they are able to attract substantial government funding, their activity levels are high as well. The problematic relationships between religion and state in Israel and the lack of separation between the two are clearly reflected here as well.

Thus, an analysis of government policy towards the Third Sector through its funding patterns in the context of the Social Origins theory reveals the major forces behind the present structure and nature of the Sector. In its forms of funding it reflects the statist tradition\(^{42}\); in its targets of funding it reflects the impact of the welfare state and religion on the Third Sector in Israel. In both aspects it does not yet reflect the newly developing liberal tradition. Therefore it fails to meet the needs of the thousands of Amutot established by a variety of population groups around a wide spectrum of interests. Apparently those were not able to forge a strong enough power base to make their interests become a part of the "game".

The availability of a myriad of public funding sources and their scope, and the lack of other meaningful alternatives relays a message to Third Sector organizations that in order to survive they must rely on public sources, a remnant of the clientelist relationship between the State and its population.

**CONCLUSION**

In Israel there is a no declared policy towards the Third Sector. Notwithstanding, one can notice an elaborate de-facto policy towards that set of organizations. The lack of any public debate regarding the roles of the Third Sector and the subsequent lack of planned and appropriate policy are paradoxically accompanied by a system of de facto policy through funding. That policy indicates a clear conception of the third sector as complementary to the state. The resulting funding patterns foster that conception—the government utilizing Third Sector organizations as agents of Welfare State service provision, as tools for accumulating and practicing political power and achieving political goals. These funding
patterns are extremely persistent, enduring the vast changes that the Israeli society underwent in the recent decades. They are rooted in historic political and social arrangements, elite relations and dominance, ideologies and interest-politics.

The character of the Third Sector that these funding patterns foster is basically service oriented, with little emphasis on other roles of the sector such as innovation, advocacy, fostering civil society, voluntarism, etc. As we saw, the present system stems from arrangements among different political actors in order to preserve their respective power bases. If one uses that logic, than change in this situation would require the development of a new power base of those elements in civil society that are interested in a different social and political agenda. This is not necessarily a far-fetched a prediction. It is in those civil society actors' power to push towards an open debate on the roles of the Third Sector and on the responsibility of the state to help develop the civil society role thereof. Apparently in the Israel of the 2000s it is necessary for Third Sector organizations to operate within perimeter of the old political system in order to introduce new interests and promote social and policy changes.

REFERENCES

1. In 1998, central government direct allocations to the Third Sector totaled over NIS 25 billion, which amounted to 10.8% of the overall government budget that year. In 1995, central and local government allocated NIS 21 Billion to the Third Sector, which constituted 63% of all Third Sector revenues.

2. E.g., the Wolf Foundation Law that was legislated for one foundation: and the exemption of labor unions and employers' associations from the Amutot Law, designed specifically for the Histadrut and Industrialists' Union.


6. A similar system called “Pillarization” (based on distinct “pillars” of service systems for different population groups) existed in the Netherlands. See: Burger, A.. Dekker, P., van der Ploeg, T. and van


10. As was also the case with the Business Sector.


18. Up to a limit of NIS 450,000 (this sum was recently raised to NIS 2,000,000) or 35% of the donation.


20. All the data pertaining to 1995 in this paper is based on the analyses done within the Israeli component of the Johns Hopkins Comparative Nonprofit Sector Project. See: Gidron, B., Katz, H., Salamon, L.M., Anheier, H.K. *Israel: An Overview of Major Economic Parameters*. In *Global Civil Society*, Salamon, L.M. and Anheier, H.K., Eds. The Johns Hopkins Center for Civil Society Studies: Baltimore, 1999. The data on public funding in this study includes all the different public funding sources allocating funds to Third Sector organizations.
21. Submitted the annual report to income tax authorities, as required by law.

22. In a recent report to the Prime Minister's office, the number of Amutot receiving grants from the Support Budget from government as well as local authorities (not analyzed in this article) was 5100.

23. The 1998 public funding data include only the four large direct funding sources included in the Israeli third Sector Database and displayed in Table 2. These sources account for most of the public funding of the sector.

24. Central government direct funding in the four types included in the Third Sector database and shown in Table 2. A "funded" organization is an organization that received any funding from one or more of these four sources in the respective year.

25. Organizations that submitted the annual report to income tax authorities in the respective year, as required by law.


28. This figure may be somewhat misleading, as in many religious educational institutions there are no formally paid employees - the teachers are themselves students in Yeshivas (Torah learning institutions) and receive scholarships in return for their work, not salaries. This status exempts them from army service. Consequently these organizations augment the group of employment-free organizations in our data, and probably account for most of the publicly funded organizations in that group.


30. While his analysis pertains to the 1980s and since then a major reform has taken place under the leadership of the Chancellor of the Bank of Israel in Israel's economy, laying the foundations for its integration in the world economic system. The same has not happened vis-à-vis the Third Sector (Aharoni, 1991).


42. Gidron & Katz et al. 1999.

43. Although, with the decline in the centrality of political parties and other such sectorial structures (Histadrut), their service provision organs had to change their orientation. They have become “ideology-free” service providers, competing with each other and with the business sector over clients, using quality of service, not ideology as their major tool.