

## Unintentional yet Unmistakable: The De Facto Public Policy toward the Third Sector

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### Introduction

When one reviews the issue of government policy vis-à-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,<sup>1</sup> there is no clear or stated policy toward 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 of 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 such as higher education or health, a particular set of organizations such as religious learning institutes, or even a specific organization.<sup>2</sup> In all these cases, the 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-à-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 of funding 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 yield a variety of clues as to the overall dynamics involved. It may also hint at the forces behind such vague and indeterminate policy and the possible reasons for them to remain as such.

In the first two parts of this chapter 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 of the kinds of relationships developed between the 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, and discuss the sources and the possible outcomes of these policies.

## **Background**

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<sup>3</sup> addressing this subject offer a number of answers.

Sectoral Third Sector organizations, representing distinct ideological groups and economic interests, developed in Israel before the State was established. This system of sectoral services was set up to meet the needs of Jewish immigrants coming to Mandatory Palestine and developed around distinct population groups, distinguished mostly on an ideological/class basis. 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. These sectoral systems laid the foundations for the statutory service provision infrastructure developed after 1948 in the fields of education, culture, welfare, health, etc.<sup>4</sup>

After the establishment of Israel, a statist approach replaced the sectoral one. It was based on the premise that the State should assume responsibility for a substantial portion of the functions previously filled by sectoral 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.<sup>5</sup> 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<sup>6</sup> was due to the considerable strength of the central government, ideological political parties with a national agenda, and the centrist public administration structure. This statist approach 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, a concept intensified by the blurred demarcation lines between the governmental/public organizations and Third Sector organizations.<sup>7</sup>

The statist approach continued to influence the status of the sector and policy regarding it through the 1960s and into the 1970s.<sup>8</sup> However, significant national events during the 1970s (the Yom Kippur War, the Black Panthers demonstrations), as well as other processes affecting society (the introduction of television, the 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 sectoral centers of power.<sup>9</sup> 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 a 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, nor have they brought about any new administrative procedures marking a more open and exposed system of relationships between the government and the sector. Telias, Katan, and Gidron<sup>10</sup> 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. Aharoni,<sup>11</sup> in his analysis of the political economy of Israel, argues that governments in Israel have never operated on the basis of long-term planning, and the policy-making process has taken an adhoc political and improvisational nature.

### **Major Forms of Public Funding to Third Sector Organizations**

The current system of public funding for Third Sector organizations reflects the traditional status and echoes, in many respects, the traditional roles of Third

Sector organizations. 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, there are two major forms of public funding of Third Sector organizations: direct funding through contracts and grants; and indirect funding through a variety of benefits to the organizations and their donors. Funding involves many public institutions on 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 on the four major forms and present empirical data on their distribution only.<sup>12</sup> While these data obviously do not present the entire picture, they give a very clear indication of the trends involved and the de facto policy emanating from those trends.

## Contracts

The largest and the most important form of *direct* governmental support to Third Sector organizations is through contractual arrangements, whereby the organization usually provides 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 citizens. These contracts are made with organizations that replace or supplement government activity in providing specific services. Such arrangements exist in the areas 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 a variety of services that government ministries occasionally buy from Third Sector organizations.

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

## Grants

*Support grants* are allocated to organizations by government ministries, with the intention that the grantees promote the policies of the (particular) ministry. These allocations follow a standard procedure, which is supposed to ensure equal opportunity across organizations, and were created to curb (albeit not very successfully) the previous practice characterized by inequitable favoring of some organizations (consequently labeling these grants as *particular funds*).<sup>13</sup>

*Bequests fund grants* are funds accrued from estates that have been transferred to the State and allocated according to a procedure based on decisions made by a public committee headed by a judge. The committee receives the applications for support through government ministries along with the ministry's recommendation. Thus, this mechanism actually also involves ministerial and political control of the allocation procedure.

## Indirect Support

The system of *indirect* support to Third Sector organizations primarily includes tax benefits for donors to public institutions<sup>14</sup>—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 through the same procedure), reduced VAT, and insurance for volunteers against injury incurred during the course of their voluntary work. Specific laws and ordinances cover all these forms of indirect support.

Other indirect benefits available to Third Sector organizations are: allocations of land or use of buildings; allocations of personnel (National Service volunteers); and exemption from local taxes. These benefits are left to the discretion of the relevant authority as they are not covered by any law or ordinance.

Whilst the wide range of methods of support for 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 backbone, representing arrangements successfully obtained by different segments of society for their constituent Third Sector organizations. Once institutionalized, some of these arrangements, after being tested in court for equality, were generalized and applied to other types of organizations.

When reviewing these 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, reflecting the blurring of the boundaries between the sectors and the lack of a concrete policy regarding the Third Sector.

2. The system of contracts, although built on a sound basis, involves a small number of large organizations in the different fields, with very little room for

additional new (and innovative) players. Whilst this current policy creates stability among grantees, it does not encourage innovation and development.

3. Political considerations are apparent and clear in the system of grants, a remnant of the times when service organizations were promoting sectorial political goals, and it, therefore, is prone to political and economic abuse and misuse. Political considerations are also involved in indirect and other types of funding.

4. The diverse and complex system of public allocations to Third Sector organizations turned public funding into a norm, leading organizations to expect such funding. Indeed, many Third Sector organizations are funded from the sources mentioned above, and even more have requested a certification of "appropriate management," in order to be eligible for funding from one of the public sources. Such expectations are based on the still prevalent political tradition of dependence on the government, and is accentuated by the lack of alternative funding sources, which thus far the government may not have been interested in developing.

## **Funding the Third Sector—Empirical Findings**

### **Public Funding—The Key Source**

The lack of a clear and planned government policy toward the Third Sector is paradoxically accompanied by a large and complex system of public funding to Third Sector organizations which consistently constitutes more than one-half of all funding to the Third Sector in Israel.<sup>15</sup> In the Israeli component of the Johns Hopkins Comparative Nonprofit Sector Project<sup>16</sup> this share rises to almost two-thirds of total funding to the sector (63.5 percent in 1995).

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 percent of all active<sup>17</sup> organizations in the sector in 1998 received funding from one or more of the four major public sources discussed above.<sup>18</sup> In 1998 some 75 percent of all active organizations were interested in receiving public funding. Thus public funding is not only the largest source in comparison to other funding sources of the sector, but also a very common funding source of Third Sector organizations and very possibly the most desirable.

### **What Does the Government Fund?**

Public funds are primarily allocated to organizations in two fields of practice: health (53 percent of the total), and education and research (37 percent). Thus, in 1995, organizations in these two categories combined received nine out of every

ten shekels (NIS) allocated from the public purse to Third Sector organizations (see Table 9.1).

**Table 9.1 Public Funding of Third Sector Organizations by Field of Practice, 1995**

	Percent of Total Public Funding to Sector	Percent of Total Funding in Field
Culture and recreation	4.4	43.6
Education and research	36.6	63.9
Health	53.1	75.1
Social services	2.4	32.8
Environment	0.3	31.5
Housing and development	0.3	31.5
Civic and advocacy	0.1	24.8
Philanthropic intermediaries	1.7	30.9
<i>International activity</i>	0.0	23.2
Religion	0.7	32.1
Unions and professional	0.2	14.1
Others	0.0	31.9
Total	100	63.5

Government funding constitutes the major share of the total revenues in these two fields—75 percent in health, 64 percent in education and research. Interestingly, government funding is a significant source in other fields as well. Even in fields that get a very small share of the total public funding, that source often covers 25 percent or more of their funding.

The distribution of government funds has a clear service provision orientation: in 1998<sup>19</sup> 93 percent of the total funding from the four major government sources went to service provision organizations.

### **Different Forms of Funding—Different Beneficiaries**

The data in Table 9.2 presents the variety of different public funding sources to Third Sector organizations across the system. Legislated support, the largest form of government funding, totaling NIS 21 billion in 1998, clearly corroborates

**Table 9.2 Direct and Indirect Public Funding of the Israeli Third Sector**

	Direct Funding: Contracts				Direct Funding: Grants				Indirect Funding	
	Legislated Support		Disbursement for Services		Support Grants		Bequest Fund Grants		Donor Tax Funds	
	millions NIS	percent sector total	millions NIS	percent sector total	millions NIS	percent sector total	millions NIS	percent sector total	number of recipient organizations	percent sector total
Culture and recreation	731	3.4	24.2	2.0	428.8	16.4	3.2	4.5	311	9.9
Education and research	9,738	45.4	471.1	39.8	1,392.7	53.7	5.0	6.9	774	24.5
Health	9,400	43.9	47.5	4.06.9	0.7	2.4	3.4	79	2.5	
Social services	586	2.7	366.7	31.0	98.1	3.8	40.3	55.4	450	14.3
Environment	-	-	4.5	0.4	26.1	1.0	0.5	0.7	13	0.4
Housing and development	-	-	64.3	5.4	42.5	1.6	3.4	4.7	35	1.1
Civic and advocacy	-	-	10.2	0.9	9.8	0.4	0.5	0.7	80	2.5
Philanthropic intermediaries	-	-	115.3	9.7	157.9	6.1	10.4	14.3	469	14.9
International activity	-	-	222.0	0.0	2.6	0.1	0.2	0.3	19	0.6
Religion	498	2.3	32.7	2.8	337.6	13.0	1.2	1.6	606	19.2
Unions and professional	-	-	46.0	3.9	70.5	2.7	4.1	5.6	19	0.6
Others	473	2.2	1.6	0.1	16.3	0.6	1.4	2.0	298	9.5
<b>Total</b>	<b>21,426</b>	<b>100</b>	<b>1,185.0</b>	<b>100.0</b>	<b>2,596.0</b>	<b>100.0</b>	<b>72.7</b>	<b>100.0</b>	<b>3,153</b>	<b>100.0</b>



the pattern discussed above: 90 percent of the funding goes to organizations in education and research, and health.

The second contractual funding form, disbursement for services (totaling NIS 1.2 billion in 1998) shows a different pattern. This form of funding is more widely distributed across different Third Sector fields of practice. Yet organizations in education and research still receive the largest share—40 percent of the total. Social welfare organizations get 31 percent of all disbursements.

Most of the support grants funding (totaling nearly NIS 2.6 billion in 1998) is distributed to organizations in education and research (54 percent). It is directed almost entirely to ultraorthodox Jewish religious educational institutions. Other religious organizations, almost all of them Jewish, receive another 13 percent of this budget. Culture and recreation organizations get over 16 percent of this budget.

The pattern for the distribution of bequests fund grants (totaling NIS 72 million in 1998) is again different: 55 percent of that budget goes to social welfare organizations, and 14 percent to philanthropic organizations.

The distribution of organizations receiving the status *public institutions*, whose donors consequently receive tax benefits, shows a different pattern still and it is much more equally distributed across fields.

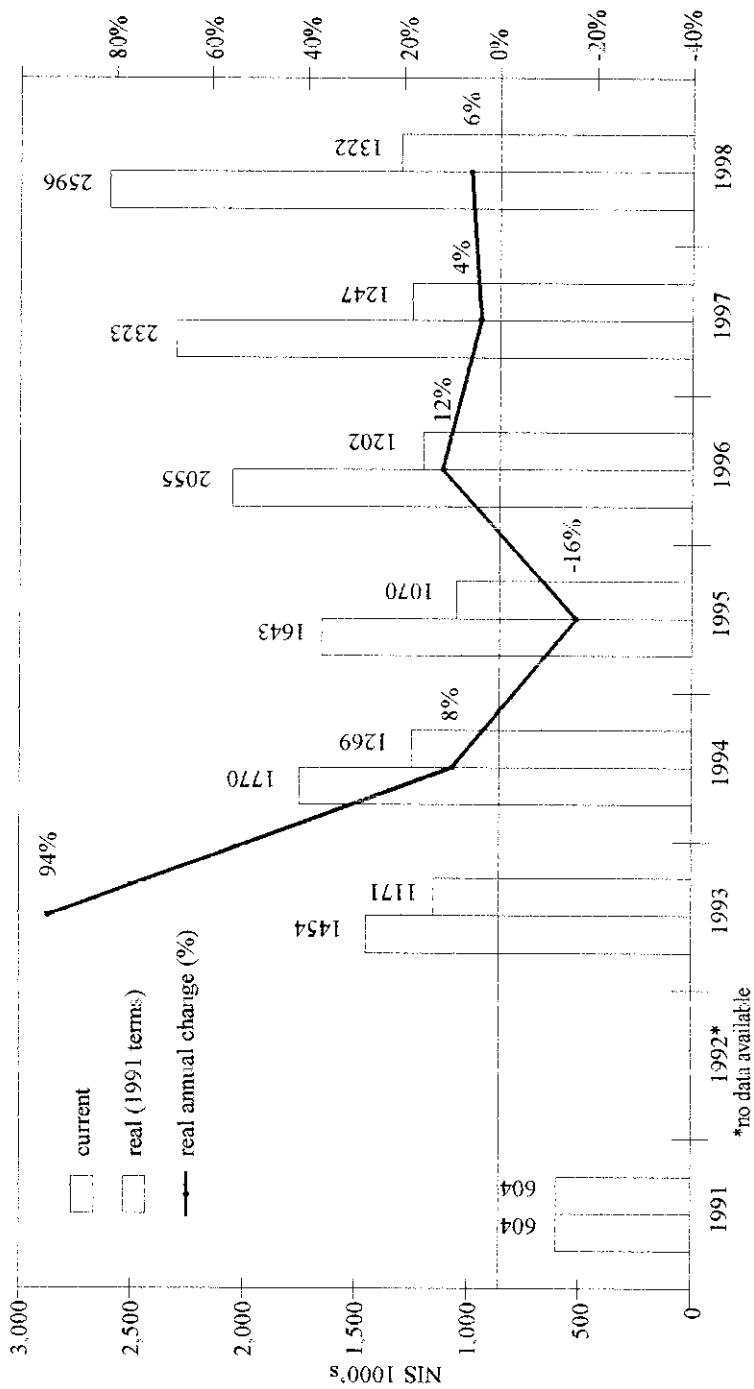
### **Political Funding of Third Sector Organizations—Support Grants**

As shown in Figure 9.1, the monetary values of support grants show an overall increase, more than doubling the real amount of grants in eight years. However, the increase is not a linear one. The amount of support grants decreased substantially in 1995 to a low, in real terms, below the level of 1993 grants during the Labor government. In the following years these funds showed a more or less stable growth rate, and it returned to the levels of the early 1990s only during the *Likud* (right-wing) government in 1998.

On closer observation, the patterns of support grants in the 1990s demonstrates some more refined dynamics, demonstrating the shifts in the distribution of this form of funding. The allocations to environmental organizations as a share of the total support grants budget rose during the Labor government (1995) when compared to the governments preceding and following it (see Table 9.3). A similar trend is seen in allocations to health organizations.

Two more interesting dynamics in the allocations of support grants can be seen in religious organizations, and professional associations and unions. The former benefited substantially from a rise in the share of support grants allocations in 1998 as compared to 1995, while allocations to the latter rose in 1995 and declined again in 1998. These patterns clearly reflect different priorities by different political parties.

Figure 9.1 Support Grants to Third Sector Organizations, 1991 - 1998



**Table 9.3 Support Grants to Third Sector Organizations by Field of Practice 1991, 1995, and 1998**

	1991		1995		1998		1991-1998	
	NIS millions current 1991	%	NIS millions current 1995	equivalent in 1991 millions	NIS millions current 1998	equivalent in 1991 millions	%	%
Culture and recreation	128.2	21.2	281.1	189.5	423.8	276.6	17.7	16.4
Education and research	247.5	57.6	906.0	590.0	1392.7	906.9	55.1	53.7
Health	5.8	1.0	46.0	29.9	16.9	11.0	2.8	0.7
Social services	20.0	3.3	52.1	33.9	98.1	63.9	3.2	3.8
Environment	2.6	0.4	37.3	24.3	26.1	17.0	2.3	1.0
Housing and development	2.3	0.4	14.3	9.3	42.5	27.7	0.9	1.6
Civic and advocacy	8.5	1.4	15.0	9.7	9.8	6.4	0.9	0.4
Philanthropic intermediaries	14.5	2.3	50.6	32.9	157.9	102.8	3.1	6.1
International activity	2.5	0.4	10.21	6.6	2.6	1.7	0.6	0.1
Religion	25.9	4.3	58.1	37.9	337.6	219.8	3.5	13.0
Unions and professional	24.7	4.1	101.7	66.2	70.5	45.9	6.2	2.7
Others	21.6	3.6	60.7	39.6	16.3	10.6	3.7	0.6
Total	603.6	100.0	1642.9	1069.9	2595.8	1690.4	100.0	100.0

## **Implications of the Patterns of Public Funding on the Character of the Third Sector**

Existing government funding patterns have significant impact on the roles of the Third Sector, for example, the bias that government funding currently expresses toward Third Sector service provision organizations, fosters the role of service providers, mostly in the context of the welfare state.

The current public funding patterns also impact on the numbers of active organizations in specific fields: in fields where more organizations receive government funding there is a higher percentage of active organizations. Thus, education and research is 53 percent funded and 51 percent active whilst social welfare is 42 percent funded and only 39 percent active. Calculation of the Pearson correlation between the rate 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 according to fields of practice, there is a significant positive correlation between government funding and the rate of active organizations in the Third Sector.

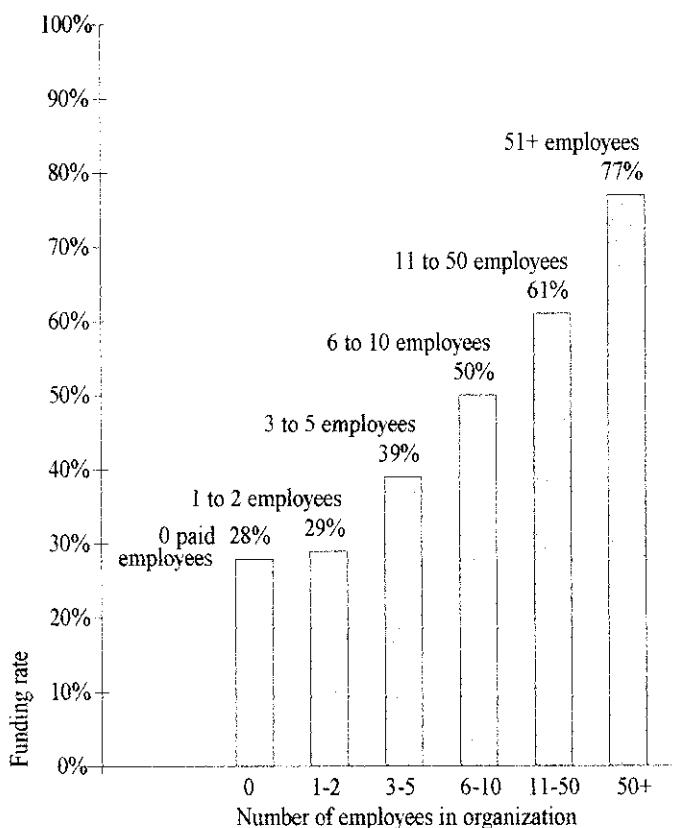
Besides the significant relation between government funding and activity rates there is also presumably a positive relation between public funding and the rate of registration in specific fields of practice. It is often claimed that in fields where funding is available and stable (especially where government funding exists), we can find organizational initiatives as entrepreneurs see that assurance as an opportunity to make a difference. Our data gives some support of such a relationship, albeit not statistically significant.

Analysis of public funding to Third Sector organizations according to size demonstrates another effect of public funding on the Third Sector in Israel. The trend shown in Figure 9.2 is one of a clear relationship between the size of the organization (as indicated by the number of employees) and the likelihood of it receiving governmental funding. Whilst 77 percent of the organizations with 50 or more paid employees receive government funding, only 28 percent in organizations without paid employment<sup>20</sup> receive such support. Government funding then is more likely to go to large, established organizations, rather than to those that are smaller or less well established.

### **Discussion: The Social Origins of a De Facto Policy and the Character of the Third Sector**

The lack of a centrally planned and knowledge-based policy toward the Third Sector and its organizations is not surprising when looking at policy studies in the last decade. The work by Telias, Katan, and Gidron<sup>21</sup> clearly depicts the consistently adhoc, improvisational, and personal nature of policy-making in Israel. It is mostly geared toward current political interests, conforming to

**Figure 9.2 Government Funding of Third Sector Organizations by the Number of Employees, 1998**



transient political demands, and serving the narrow interests of specific groups or individuals. According to their findings it is clearly in the interest of both government officials and politicians to maintain the current ambiguity. It allows for a continued use of Third Sector organizations and their funding for accumulating and administering political power.

Aharoni arrives at similar conclusions, in regard to both the Third Sector and the business sectors.<sup>22</sup> This is due to the coalition structure of government, which prevents overall planning, as each minister sees his ministry as the realm of his party, and utilizes it to pursue party interests. "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 decisions on controversial issues."<sup>23</sup> Action without planning and without setting clear criteria amplifies the government's political control by creating strong dependence of any economic or social entity on the goodwill of government ministers and politically appointed officials. This pattern coincides with the still enduring statist ideology, preferring government decision-making to that of all other players. This political and personal nature of policy-making is apparent in the fluctuation of support grants to the sector in the 1990s.

However, the lack of planning and coordination in policy issues involving the Third Sector does not imply that there is no policy at all. In fact, the funding patterns by central government to Third Sector organizations give a clear indication of a persistent *de facto* policy toward these organizations. It accumulates into a pattern that implies a perception 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, along with the meager support of other types of organizations, is very telling. It reveals a statist ideology, resulting in an unintentional yet unmistakable policy, utilizing the Third Sector to replace and complement the public sector in providing different essential services. At the same time it minimizes or altogether ignores other roles of the sector such as advocacy, innovation, and development of civil society. It does so by financing primarily welfare service provision organizations, by preferring to fund large labor-intensive organizations, and by favoring specific social groups over others, for example, a clear preference of the ultra orthodox Jewish religious organizations. Such statist and centralist policies persist in the Third Sector, despite the many changes which this sector and Israeli society has undergone since the 1970s.<sup>24</sup>

Whilst we have witnessed an upsurge in the extent and diversity in formation of associations 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.<sup>25</sup> It seems that, in respect to Third Sector policy, the old perceptions 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 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 disproportional importance of religion in the sector, the limited impact of foundations, and the undeveloped civil society apparent in the Israeli Third Sector, are all clearly influenced by that *de facto* policy.

The data points out strikingly strong government influence over the sector, as the government is the major source of sector vitality. This involvement of the

State in the Third Sector is rooted in the pre-state era when, what we now call, Third Sector organizations were the exclusive mechanisms of both the welfare service system and the community's political and administrative institutions. This contributed to the lack of distinction between Third Sector organizations and government. The centralist and statist ideologies of the first Israeli governments led to the subordination of Third Sector organizations on the national agenda and in government institutions.

The availability of a myriad of public funding sources and their scope, and the lack of other meaningful alternatives, relays the message to Third Sector organizations that in order to survive they must rely on public sources, a remnant of the clientist relationship between the State and its population. This *de facto* policy fails to meet the needs of the thousands of foundations established by a variety of population groups around a wide spectrum of interests. Apparently these have not been able to forge a strong enough power base in order to become significant players.

### **Conclusion**

In Israel there is no declared policy toward the Third Sector. This notwithstanding, one can observe an elaborate *de facto* policy toward Third Sector 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. This policy indicates a clear perception of the Third Sector as complementary to the State. The resulting funding patterns foster that perception—the government utilizing Third Sector organizations as agents of welfare state service provision, as tools for accumulating and administering political power, and achieving political goals. These funding patterns are extremely persistent, enduring the vast changes that Israeli society has undergone in recent decades. They are rooted in historic political and social arrangements, and the dominance of an elite society with their 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 such as innovation, advocacy, fostering civil society, voluntarism, etc. We argue that the present system stems from arrangements among different political players in order to preserve their respective power bases. Thus, any 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 proposition. It is within the power of those involved in civil society to push toward an open debate on the roles of the Third Sector and on the responsibility of the State to help develop its civil society role. Apparently, in

twenty-first-century Israel, it is necessary for Third Sector organizations to operate within the parameters of the old political system in order to introduce new interests and promote social and policy changes.

### Notes

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

2. For example, the Wolf Foundation Law that was legislated for one foundation, and the exemption of labor unions and employers' associations from the *Amotot* (Foundations) Law, designed specifically for the Histadrut and Industrialists' Union.

3. See for example Y. Aharoni, *The Political Economy of Israel* (Tel Aviv: Am Oved/Eshkol/Hebrew University, 1991).

4. D. Horowitz and M. Lissak, *The Origins of the Israeli Polity* (Tel Aviv: Am Oved, 1977). D. Horowitz and M. Lissak, *Trouble in Utopia* (Albany: State University of New York, 1989). G. Yatziv, *The Sectorial Society* (Jerusalem: The Bialik Institute, 1999). Y. Shapiro, *Politicians as a Hegemonic Class: The Case of Israel* (Tel Aviv: Sifriat Poalim, 1996). Y. Eran, *Voluntary Organizations in the Welfare System* (Tel Aviv: Ramot, 1992).

5. B. Gidron, "A Resurgent Third Sector and Its Relationship to Government in Israel." Pp. 176-195 in *Government and The Third Sector* ed. B. Gidron, L. M. Salamon, and R. M. Kramer (San Francisco: Jossey-Bass, 1992). B. Gidron, "The Evolution of Israel's Third Sector: The Role of Predominant Ideology," *Voluntas* 8(1), (1997): 11-38. R. M. Kramer, "Reflections on the Voluntary Nonprofit Sector in Israel," *Journal of Communal Jewish Life* 70(4), (1994): 253-263

6. As was also the case with the business sector.

7. R. M. Kramer, *The Voluntary Service Agency in Israel* (Berkeley: University of California, Institute of International Studies, 1976), 12-14

8. Gidron, *Voluntas* 8(1): 11-38.

9. I. Galnoor, "Transformation in the Israeli Political System since the Yom Kippur War." In *The Elections in Israel 1977* ed. A. Arian (Jerusalem: Hebrew University Press, 1980).

10. M. Telias, Y. Katan, and B. Gidron, *Central and Local Government Policy Towards the Third Sector in Israel* (Beer Sheva: The Israeli Center for Third Sector Research, Ben-Gurion University of the Negev, 2000).

11. Aharoni, *The Political Economy of Israel*, 132-142.

12. Moreover, these four sources comprise of the majority of the total funding to Third Sector organizations. Further sources of direct public support are grants and disbursements by the National Insurance, grants by The Jewish Agency, grants and disbursements by local authorities, grants by the two national lotteries, and recently, grants from a special fund set up by the Speaker of the *Knesset*.

13. A. De-Hartoch, "State Support of Public Institutions—The Blooming of Specific Funds." *Law* 29(75), (1998): 75-107. Hebrew.



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

15. Central Bureau of Statistics, *Nonprofit Institutions in Israel 1991* (Jerusalem, 1996). R. N. Rotter, N. Shamay, F. Wood, and D. Gluksberg, *The Voluntary Sector and Nonprofit Institutions* (Jerusalem: The Center for Social Policy Research, 1985).

16. All the data from the Israeli component of the Johns Hopkins Comparative Nonprofit Sector Project pertains to 1995. See B. Gidron, H. Katz, L. M. Salamon, and H. K. Anheier, "Israel: An Overview of Major Economic Parameters," in *Global Civil Society*, ed. L. M. Salamon and H. K. Anheier (Baltimore: Johns Hopkins Center for Civil Society Studies, 1999). The data on public funding in this study includes *all* the different public funding sources allocating funds to Third Sector organizations.

17. Submitted the annual report to income tax authorities, as required by law.

18. In a recent report to the prime minister's office, the number of foundations receiving grants from the Support Budget from government as well as local authorities (not analyzed in this article) was 5,100.

19. The 1998 public funding data include the four large direct funding sources included in the Israeli Third Sector Database and displayed in Table 9.2 which account for most of the public funding of the sector.

20. 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.

21. Telias, Katan, and Gidron, *Central and Local Government Policy Toward the Third Sector in Israel*.

22. Whilst his analysis pertains to the 1980s onwards, a major reform has taken place in Israel's economy, under the leadership of the Chancellor of the Bank of Israel, laying the foundations for its integration in the world economic system. The same has not happened vis-à-vis the Third Sector (Y. Aharoni, *The Political Economy of Israel*).

23. Y. Dror, *Improving Policy and Administration in Israel* (Tel Aviv: The Administration Library, 1978), 33-34.

24. S. N. Eisenstadt, *The Transformation of Israeli Society* (London: Weidenfeld and Nicholson, 1985). Horowitz and Lissak, *Trouble in Utopia*, and many others.

25. Gidron, Katz, Salamon, and Anheier, *Global Civil Society*; and B. Gidron, H. Katz, and M. Bar, *The Israeli Third Sector 2000: The Role of the Third Sector* (Beer Sheva: The Israeli Center for Third Sector Research, Ben-Gurion University of the Negev, 2000).

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