The Israeli Third Sector: Patterns of Activity and Growth, 1980–2007

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Those observing Israeli society during the last two or three decades are undoubtedly impressed by the development of the third or nonprofit sector,[1] which has taken on numerous, diverse roles and has, consequently, assumed a central place in the public discourse. In the past, the third sector provided services complementing or, at times, replacing public services. Currently, in addition to these traditional roles (that have also undergone significant transformations), these organizations have assumed the role of developing civil society through the representation of diverse groups and populations, transforming and innovating social processes and the involvement of these groups in policy-making processes, and thus creating social change. These organizations also provide the framework for civic involvement in the form of philanthropy and volunteerism—phenomena that are also currently emerging in society. Third sector organizations are fulfilling all these roles in diverse areas of activity ranging from education

* All data in the paper are based on publications and analyses of the Israeli Center for Third-Sector Research at Ben-Gurion University of the Negev: www.bgu.ac.il/ictr

1 The third sector is loosely defined as the sector of organizations that are neither commercial/ business, which exist in order to reap economic profits from their endeavor, nor public, which were formed by a law or regulation. In Israel that sector of organizations contains three legal entities: associations, nonprofit companies, and trusts.

and welfare to environmental planning, international aid, and traffic accident prevention.

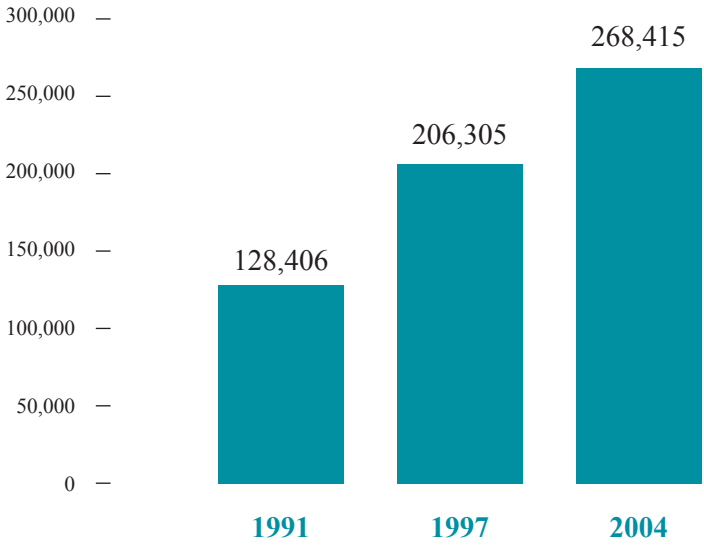
The expansion and development of the third sector is not a uniquely Israeli phenomenon; this process is occurring in various forms throughout the world. Globalization processes and privatization of public services, the weakening of governments and increased awareness on the part of certain groups and populations regarding the potential benefits of self-organizing—all contribute to the third sector's growth. These factors have transformed that sector into an important actor in the economy, society, and polity.

The paper will present data on the contours of Israel's third sector and its development in both roles—providing public or semi-public services and developing civil society—and discuss their meaning.

Economic Size and Characteristics of the Third Sector

The first five tables present the economic dimensions of the third sector in Israel and its development during 1991–2004. Figure 1 presents the salaried workforce (excluding volunteers). In 2004, the third sector's employment figures reached 365,000 employees who fulfill the equivalent of 268,000 full-time positions. For comparative purposes, during the same year the number of people employed in Israeli industry, stood at 386,000 persons. Figure 1 demonstrates that the scope of third sector full-time jobs rose at a rate of 109% in the 13 years since 1991. In comparison, during that same period the population in Israel rose by 36% and the number of salaried employees rose by 62%.

Figure 1 Third sector salaried employment (FTE* positions), 1991–2004



* Full time equivalent
Source: Author's development of data from the Israeli Center for Third-Sector Research at Ben Gurion University of the Negev: www.bgu.ac.il/ictr

Accordingly, there was a pronounced growth in the total expenditures of the third sector, a measure that reflects its economic activity, in general. In 1991, the expenditures for all third sector organizations stood at slightly more than 30 billion NIS (in 2008 prices), in 1997 the third sector's expenditures totaled 62 billion NIS, and in 2004 they were more than 80 billion NIS (Table 1). The third sector's economic growth rate during the entire period surpassed that of the economy in general, even though, when compared to the early 1990s, the third sector's growth rate between 1997 and 2004 had somewhat slowed.

The third sector is a major player in the economy as it commands 11% of the GDP and employs 17.5% of the workforce. The third sector's part is especially pronounced when we examine specific areas of activity. The third sector's part in the national expenditures for health, for example, stood at 56% in 2004, showing a slow but continuous increase since the early 1990s. Similar dynamics are reflected in the data demonstrating the division of the national expenditures for education. In this case the third sector's part stood at 40% of the total in 2004 (Figure 2).

Table 1 Third sector expenditures, 1991–2004

Total Expenditures
(in thousands of NIS, 2008 prices)
1991 – 30,323
1997 – 62,161
2004 – 80,006

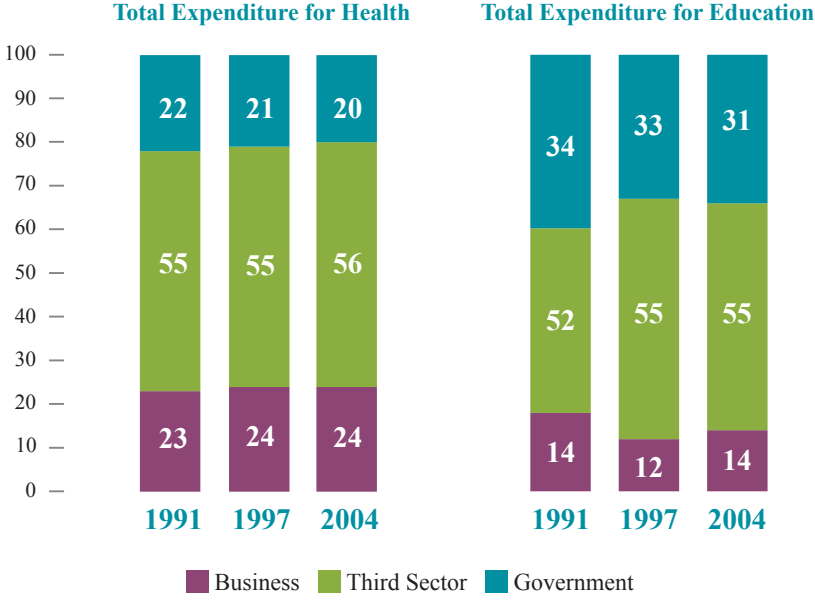
Rate of GDP (2004) – 11%
Rate of Workforce (2004) – 17.5%

Source: Author's development of data from the Israeli Center for Third-Sector Research at Ben Gurion University of the Negev: www.bgu.ac.il/ictr

The analysis of the third sector economic activity by fields of activity accentuates the central place of the fields that focus on provision of services (health, education, welfare), which is significantly larger than all other areas. Provision of services in these fields is commonly viewed as part of the welfare state system. In fact, three areas of activity particularly stand out in the distribution of the third sector's occupation and expenditures—education and research, health, and welfare, which make up more than 80% of the third sector's economic activities in Israel

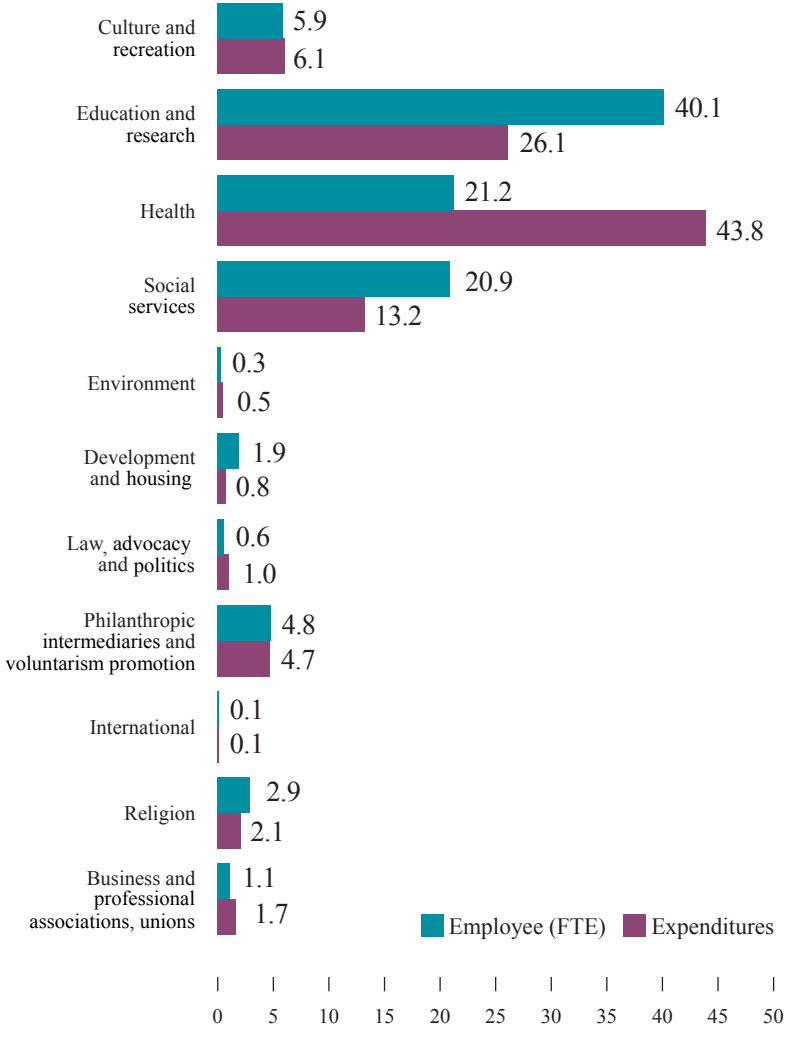
(Figure 3). A number of very large organizations are active in these fields such as the health maintenance organizations (*Kupot Holim*), hospitals, universities and colleges, and large welfare organizations such as *Matav*. Furthermore, in these fields, as will be demonstrated below, substantial government funding is involved, deriving from agreements relating to the mixed welfare system characteristic in Israel since its inception and the recent privatization processes. Accordingly, these services are practically considered an integral part of the welfare state; some are even defined as such by law, e.g., The National Health Insurance Law, The Nursing Care Law, The Council for Higher Education Law.

Figure 2 Total expenditures for health and education by sector, 1991–2004 (percent)



Source: Author's development of data from the Israeli Center for Third-Sector Research at Ben Gurion University of the Negev: www.bgu.ac.il/ictr

Figure 3 Structure of third sector by field of activity – expenditures and employment, 2004



Source: Author's development of data from the Israeli Center for Third-Sector Research at Ben Gurion University of the Negev: www.bgu.ac.il/ictr

Third sector organizations' funding derives from diverse sources—government ministries, local authorities, government corporations, membership dues, payment for services or products, commercial initiatives, donations from individuals and corporations, foreign sources, and more. These diverse sources are traditionally divided into three general categories—income derived from the public purse—national and local levels; self-generated income—from sales of services and products and other independent sources; and income from philanthropy, which includes foundation grants. Income from the government includes transfers of various types, including legislated ones (such as the transfer of HMOs according to the National Health Insurance Law), contracts to provide specific services and other forms of financial assistance.

Figure 4 shows that government funding consistently comprises more than half of the third sector's income. The growth of government funding in the sector's income during the first period was offset during the second period and the 2004 rate is similar to that of 1991. The data also demonstrate that in contrast to many developed countries, there is no commercialization trend of the Israeli third sector, and reliance on the sale of services and other independent sources of income is gradually decreasing. Thus, the funding source that reacts to the fluctuations in government financing is donations, and we see that its part in the 2004 third sector budget has clearly increased in comparison to the past. Whereas the scope of donations from households comprise a small part of the sector's revenues from philanthropy, the increase in philanthropic revenues derives from organizational donations such as foundations and businesses, large private donations, and international donations. The 2004 data show that overseas transfers to third sector organizations totaled 5.1 billion NIS, comprising 6.3% of the total income and one third of the philanthropy-based income.

Figure 4 Third Sector Sources of Income, 1991–2004

Source: Author's development of data from the Israeli Center for Third-Sector Research at Ben Gurion University of the Negev: www.bgu.ac.il/ictr

To summarize this part, the economic data clearly show a very large third sector, commanding a sizable share of the economy but focusing primarily on service provision functions in the traditional areas of health and education and, to a lesser degree, welfare. This pattern of third sector activity has to do with the historical development of those services, which, during the pre-State era were provided by what we would term today "third sector" organizations. While the policy during the first years after Israel's independence was one of "statism" and attempts were made to nationalize sectoral services,

the implementation of this policy was successful only to a degree. In some cases (primary health, vocational education, ultra-Orthodox education, higher education), there was resistance to abolishing the previous structures and these systems practically retained their previous status. Throughout the years these organizations developed close relationships with the State, which entailed funding from the public purse, and gradually they became providers of the public services within their domain. In certain respects, in their internal functioning, they resemble public agencies.

The economic growth of the sector during the 1990s and the first decade of the twenty-first century is primarily explained by the policy of privatization of public services that was adopted by the Israeli government. That policy transferred the function of delivery of the services to the nonprofit and business sectors, whereas the public sector retained the function of funding and supervision.

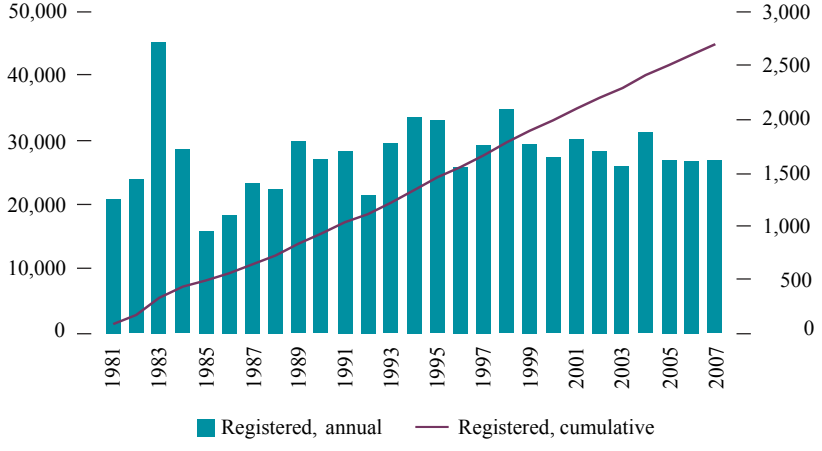
The Associational Aspect of the Third Sector: Developing Civil Society

While the economic data on the third sector present important dimensions on its characteristics, it does not tell the whole story. Third sector organizations usually start off as associations, created voluntarily by citizens who express their collective interests by such acts. Thus, following the patterns of association of the Israeli citizenry over several decades can tell us something about issues of interest and concern, populations that are active in creating associations more than others, etc.

Reliable data about the registration of third sector organizations is available from 1981, the year in which the Law of Associations (1980) came into effect and the Associations' Registrar commenced his activities in registering organizations. Between 1982 and 1984, there was a notable increase in the registration of associations, which

may be explained by the requirement that organizations previously registered as Ottoman Societies reregister as associations according to the new law. During the second half of the 1980s the number of new third sector associations registered in Israel steadily increased until the number of newly registered associations per year stood at approximately 1,600–1,700. In other words, approximately seven new organizations were registered every day of the Registrar's working days. From 1980 until the end of 2007, 44,846 third sector organizations were registered in Israel. Of these, at the end of 2007, there were 27,115 *active* associations (registered associations that were not declared to have disbanded by themselves, the registrar, or the court). The trend line in Figure 5 demonstrates that the registration rate remained steady and there is no evidence of any ebbing indicative of possible change with regard to this trend.

Figure 5 Registration of third sector organizations, 1981–2007

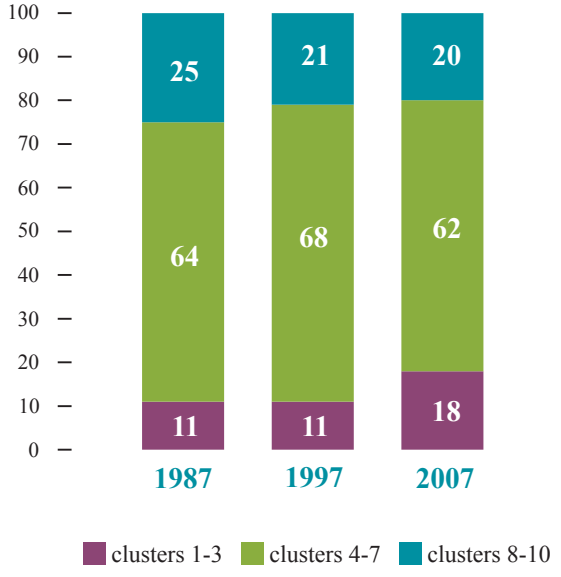


Source: Author's development of data from the Israeli Center for Third-Sector Research at Ben Gurion University of the Negev: www.bgu.ac.il/ictr

The distribution of third sector organizations is not divided equally among the different societal groups or geographic regions. Figure 6 presents the socio-economic distribution of registered NPOs. The data is divided among three categories of communities. The Statistical Bureau clusters all communities in Israel into 10 categories by a series of socio-economic indicators, from the lowest (1) to the highest (10).

Figure 6 indicates that 18% of organizations registered in 2007 were established in communities rated in clusters 1–3 (in which 15% of the Israeli population lives in 31% of the communities in Israel), 20% of the organizations were established in communities classified as clusters 8–10 (17% of the population resides in 15% of the communities), and the remainder were established in communities classified as clusters 4–7. The trend revealed in these data comparing 2007 to 1997 and 1987 is clear and demonstrates that the place of the weaker communities as "hosting" third sector organizations in Israel has increased. This may be attributed to the government policy of privatization of services and the increased activity of NPOs in weaker communities. It may also be attributed to the increased awareness by lower socio-economic groups of the potential benefits of organizing.

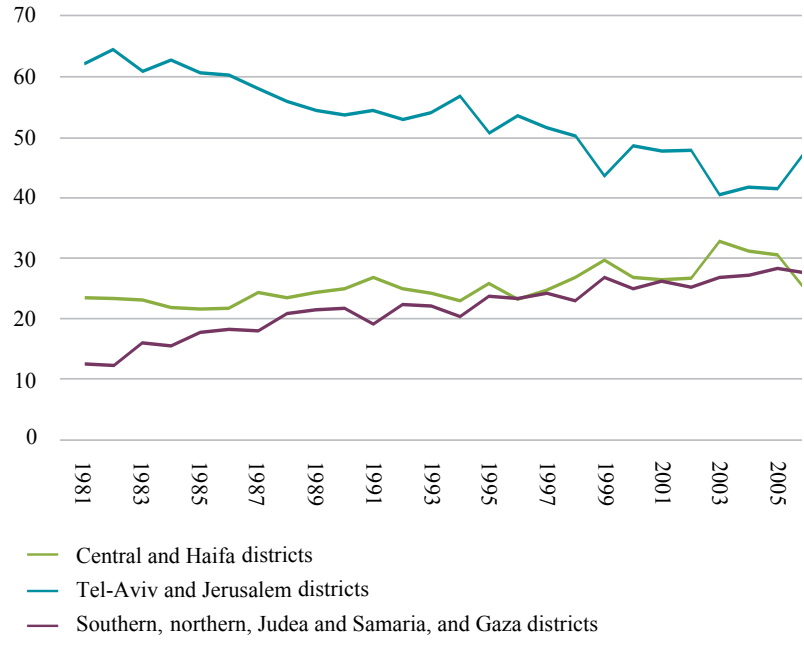
Figure 6 Socio-economic analysis of registered third sector organizations, by clusters of municipalities, 1987-2007 (percent)



Source: Author's development of data from the Israeli Center for Third-Sector Research at Ben Gurion University of the Negev: www.bgu.ac.il/ictr

An additional inequality regarding the division of third sector organizations in Israel involves the spatial distribution of the organizations registered each year, in particular with relation to the nation's center and the periphery. Figure 7 shows that the rate of registration of organizations in the periphery (the southern and northern districts) is slowly rising and nearly doubled during the past 20 years. On the other hand, the rates of registration of organizations in the Tel Aviv and Jerusalem districts have been decreasing, and since 2002 they have been halved in comparison to their rates in the early 1980s.

Figure 7 Spatial analysis of registered third sector organizations (by region; percent)



Source: Author's development of data from the Israeli Center for Third-Sector Research at Ben Gurion University of the Negev: www.bgu.ac.il/ictr

Another difference between groups in Israel is along the national divide, specifically between the Jewish and the Arab populations. Table 2 shows that the rate of organizations identified as Jewish[2]

2 The categorization is based on the idea that some organizations are clearly established by a Jewish group and serve Jews, such as synagogues, ultra-Orthodox educational institutions, etc. The same holds true for Arab organizations. Obviously there are organizations that cannot be categorized that way as they serve all populations; however, some organizations have bridging goals and those we termed "bi-national."

within the general registry is gradually decreasing, whereas the rate of organizations categorized as Arab or those which may be identified as bi-national is on the rise. In the beginning of the 1980s, a mere one of every 20 registered organizations in Israel was Arab or bi-national. In 2007, one of every eight newly registered organizations was Arab or bi-national. Nonetheless, since the 1990s the growth rate of organizations established by or on behalf of the Arab minority has slowed down. In fact, the growth rate of organizations representing those minorities was fastest at the end of the 1980s and the beginning of the 1990s. This period coincides with the first intifada and the rapid growth may be explained by a national awakening of the Palestinian citizens of Israel. Yet, despite the growth of the number of Arab third sector organizations, their numbers remain relatively low when compared to the rate of this population within the general Israeli population. One explanation for this finding involves demographics: Third sector organizing tends to characterize the middle and upper classes rather than society's lower socio-economic stratum. In Israel, the socio-economic status of its Palestinian citizens is generally lower than that of the Jewish population. A second explanation focuses on culture—third sector organizing is less common among traditional societies. A third explanation focuses on the political realm—the relatively low rate of third sector organizations among the Palestinian citizens of Israel may be also explained by their suspicions toward Israeli institutions.

Table 2 Patterns of registration by national identity, 1982–2007

Year	Jewish	Arab	Dual	Total	Total registered
1982	95.3%	4.4%	0.3%	100%	
	1,043	48	3	1,094	2,861
1997	90.8%	8.6%	0.6%	100%	
	13,827	1,312	83	15,250	27,511
2007	87.5%	11.5%	0.9%	100%	
	20,933	2,759	199	23,961	44,846

Source: Author's development of data from the Israeli Center for Third-Sector Research at Ben Gurion University of the Negev: www.bgu.ac.il/ictr

Third Sector Organizations' Fields of Activity

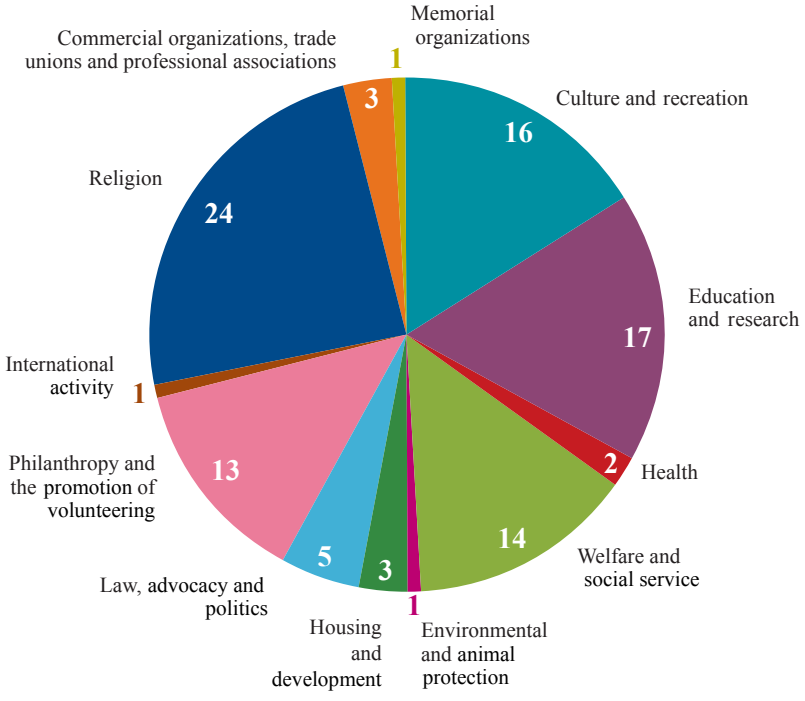
What do third sector organizations actually do? An analysis of the organizations according to their fields of activities (each organization was categorized in one of 12 possible fields of activity in accordance with their main goals) points to the fact that the majority of third sector organizations in Israel deal with issues pertaining to the traditional areas of voluntary organizations: health, education, welfare and various social services. Half of the active organizations in 2007 worked in education, health, welfare, culture, and recreation (Figure 8). An important finding has to do with the small proportion of organizations in the health field; it is particularly interesting as compared to the very significant size the health field has in the economic map of the third sector. It is clearly a case of a small number of very large organizations.

One particularly outstanding field of activity is religion. This area includes organizations providing religious services (synagogues, mosques, and churches), ritual baths, burial associations, and religious cultural organizations. In 2007, one in four active organizations in Israel functioned in the area of religion. It should be noted that these data do not include the ultra-Orthodox educational system that are classified under educational organizations. Neither do they include ultra-Orthodox charitable organizations or Muslim charitable organizations which are classified as welfare organizations. If all these organizations not currently classified as religious organizations were to be included in the category of religious organizations, the numbers would be dramatically greater. In other words, religion is a major undercurrent in a major proportion of the third sector organizations.

The category of philanthropy should also be mentioned. This category includes primarily foundations but there are also other organizations that function in the area of volunteerism and philanthropy. Most foundations assist individuals, including the awarding of scholarships or organizations that collect funds related to the medical treatment of a specific person. Some foundations support one organization (for instance, friends of a specific hospital or university) and only a minority of foundations assists diverse organizations and those foundations may be considered significant channels of third sector funding.

Other areas such as the organizations engaged in advocacy or the environment command only a fraction of the total picture but are on the rise.

Figure 8 Registered organizations by area of activity, 2007



Source: Author's development of data from the Israeli Center for Third-Sector Research at Ben Gurion University of the Negev: www.bgu.ac.il/ictr

In summary of this section, it is clear that Israeli civil society, as indicated by the scope and diversity of the associations established by Israelis is thriving. It is clearly influenced by traditional patterns

of association along the synagogue, religious education, and welfare systems. At the same time it also includes advocacy and professional organizations who engage in work along different aspects of society deemed important to their initiators and thus create social change and innovation in society. By and large this is a new pattern of activity in Israel, which formed associations in previous decades around political parties and/or ideological entities.

Conclusion

The paper presented data on the Israeli third sector's two major roles: (1) provision of services that complement the welfare state, many of them with funding by the state; (2) provision of a framework for the development of civil society: engaging in creating voluntary associations that represent collective identities or working toward social and political change and innovation. It also presented data on the evolution and development of these roles throughout the past two to three decades.

Regarding the first role, the mixed welfare system Israel had from its inception received a major boost in the direction of further reliance on the third sector by the policy of privatization of public services enacted in the 1990s. Thus we witness more government contracts to NPOs, practically delegating to the third sector delivery of functions in specific areas once provided by public agencies.

As for the second role, the "associational revolution" we have witnessed since the early 1980s has had a major impact on society. Groups that have been in the margins found new powers to express their interests and bring them to public awareness by collective organizing, and thereby creating new frameworks for agenda setting and policy decision making. At the same time this coincided with a decline in the importance of the political parties, especially the

ideological ones. The data also demonstrate that such associations are not created uniformly in society and that in reality some groups have more resources than others to create and sustain them. It is indicative, however, of the weaker groups in society gradually learning the lesson, and their share in the map of the third sector associations is growing.

The development of the third sector as a unique entity is still in its infancy, and it is not yet possible to form binding conclusions on its impact on the society, the economy, and the polity in Israel. The following are three issues that are likely to interest policy makers and researchers studying the sector within the Israeli society in the next decade or two.

Is Israeli society a more "civil" society as a result of the development of a more pluralistic structure (expressed by the thousands of associations)? Do Israeli citizens believe more in the democratic process? Are they more tolerant to others' views and attitudes?

Is the fact that Israelis are establishing more associations to express their collective interests a uniting or dividing force in society? Are these groups pursuing their own interests and disregarding the overall structure of which they are a part, or are they more ready now to extend their hand to others, now that their interests have been recognized?

What are the new roles for the third sector in the next decade as the new realities of protracted conflict and economic slump persist?