

## Concept

# Non-Profit Sector in Israel

### Definition

The non-profit sector in Israel is composed of all the non-governmental organizations in Israel engaged in activities of public or private interest without any monetary profit.

### Background

The non-profit sector in Israel consists of 25,000 organizations that employ over 230,000 people. Its share of the labor force is nearly double the average in 22 developed countries, and is bigger than the American and British non-profit sector.<sup>1</sup> The sector's share of the GDP in Israel increased from 6.5% in 1995 to 7.2% in 2002.<sup>2</sup>

Although the non-profit organizations are involved in many fields,<sup>3</sup> 80% of their activity is focused in five fields: religion, education, culture and leisure, social services, and philanthropy.<sup>4</sup>

Legislation in Israel provides the legal framework for non-profit organizations such as associations, public trusts, and non-profit companies. The definitions vary in the permissible management structure, accountability of position holders, and the report duties. These structural differences allow organizations to adopt the legal framework most suitable to their activities.<sup>5</sup> Certain exceptions to the rule, such as universities, public health care systems, and trade unions, are codified in specific legislation.<sup>6</sup>

However, the variety of legal frameworks is not always sufficient. Unlike many countries, philanthropic foundations in Israel don't have a specific legal status or enjoy tax benefits.

### Characteristics

Non-profit organizations in Israel share the following characteristics:<sup>7</sup>

- **Organized activity** – Organizations must have some sort of regulated and formal activity;

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<sup>1</sup> See: **The Israeli Center for Third-Sector Research**, A quick glance at the third sector in Israel: Size, Financial Resources and Geographic Deployment of Third Sector Organizations in Israel, 2005. pg. 25. ([Hebrew only](#))

<sup>2</sup> See: *Ibid.*, pg. 4.

<sup>3</sup> The activities of non-profit organizations are focused in 12 fields: culture and leisure, education, health, social services, environment, housing, civil organizations for social change, philanthropy, local branches of international organizations, religion, labor unions and memorial foundations. See: **Report of the Gal-Nur Committee**, 2003. pg. 25. ([Hebrew only](#))

<sup>4</sup> See: *Ibid.*, pg. 25.

<sup>5</sup> See: *Ibid.*, pg. 23.

<sup>6</sup> See: *Ibid.*, pg. 23.

<sup>7</sup> See: L. M. Salamon and H. K. Anheier, 1998. [The Emerging Sector Revisited](#). Baltimore: Johns Hopkins University, Center for Civil Society Studies, pg. 5.

- **Non-profit activity** – Profits are not distributed among owners or members of the organization. Budget surpluses are reinvested in the organization to promote its goals;
- **Non government** – The organizations are not part of state or municipal government;
- **Self governing** – The organizations have the managerial freedom to plan and execute projects, to chose clients, and raise finance, as long they abide by professional norms;
- **Membership in the organization is voluntary;**
- **Voluntary** – The organizations attract some level of voluntary contribution.

Non-profit organizations perform at least one of the following activities:<sup>8</sup>

- **Advocacy/lobbying** – Activity aimed at influencing public opinion and government policy;<sup>9</sup>
- **Provision of services** – Providing social services, like health or shelter,<sup>10</sup> to clients or members of the organization, provision of information<sup>11</sup> that meets the needs of the client, or provision of professional assistance;<sup>12</sup>
- **Connection with the government for a specific sector;**<sup>13</sup>
- **Self help** – Organizations formed by individuals with common needs that provide help, information and support for its members.<sup>14</sup>

## Sources of Income

There are three major sources of income for non-profit organizations in Israel:<sup>15</sup>

- **Public funding** – Government funding is responsible for 51% of funding in the non-profit sector. In addition, organizations receive indirect support from the government through tax benefits;
- **Donations from individuals and businesses** – Philanthropy, especially from abroad, is responsible for 19% of the non-profit sector's funding.<sup>16</sup> The extent of donations in Israel is low in comparison to developed countries;<sup>17</sup>

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<sup>8</sup> See: [European Commission, Promoting the Role of Voluntary Organizations and Foundations in Europe](#), 1997.

<sup>9</sup> For example, [The Israel Women's Network](#) is a third sector organization aimed at improvement of the status of women in Israel.

<sup>10</sup> For example, [Yad Sarah](#) loans medical equipment that helps individuals to cope with disabilities.

<sup>11</sup> For example, [Manufacturers Association of Israel](#) provides exporters with information about foreign trade, legislation in the European Union, market surveys, and financial data.

<sup>12</sup> For example, [The Center For Jewish-Arab Economic Development](#) assists businesses in developing business plans.

<sup>13</sup> For example, representatives of [Zahal Disabled Veterans Organization](#) are represented in Ministry of Defense rehabilitation department committees.

<sup>14</sup> For example, the [Zahal Disabled Veterans Organization](#) offer loans to its members through a self help fund.

<sup>15</sup> See: [Central Bureau of Statistics, Expenditures and Revenues of Non-Profit Institutions – 2004 survey](#). Press release, April 2008. ([Hebrew only](#))

- **Selling services to customers** – Twenty-eight percent of the funding for non-profit organizations comes from selling services either to the private sector or to the general public with payment provided by the government.

## Government policy

In the past two decades in Israel, there is a gradual shift in the provision of social services from the government to the non-profit sector. The decline of the welfare state has resulted in increasing numbers of organizations that fill the gap.<sup>18</sup> Until 2008, there was no overall policy regarding government-non-profit sector relations.<sup>19</sup>

On February 2008, the government of Israel presented its policy regarding the non-profit sector:

- **The non-profit sector is a partner in the provision of social services** – The government will encourage social entrepreneurship and will work to integrate non-profit organizations in government contracts for social services;<sup>20</sup>
- **Consulting the non-profit sector in policy planning** – Round table forums will increase consultation with the sector in the process of policy planning ;
- **Government regulation** – The government will supervise and regulate social services provided by non-profit organizations;
- **Facilitation of private sector donations** – The government will encourage businesses to donate to non-profit organizations by increasing the maximum donation limit and providing tax benefits.<sup>21</sup>

In addition, the government emphasizes the need for an independent, accountable, professional, and law abiding non-profit sector.

## Evaluation and Measurement

The government of Israel regulates the non-profit sector in number of ways: the Registrar of Non-Profit Organizations issues an approval of proper management to qualifying organizations. In

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<sup>16</sup> Foreign donations to non-profit organizations amount to 1.5 billion dollars, while domestic philanthropy accounts for only 250 million dollars. See: **The Israeli Center for Third-Sector Research**, The Role of Philanthropic Foundations and Their Impact on the Civil Society in Israel, 2006. ([Hebrew only](#))

<sup>17</sup> Donations to non-profit organizations in Israel are equivalent to 1.5% of the GDP, while in Holland its 5%, the US 4%, Ireland, Belgium and Australia 2%. See: H. Katz, E. Levinson, and B. Gidron. **Philanthropy in Israel, 2006: Patterns of Volunteering and Public Donations**, pg. 52.

<sup>18</sup> See: **The Israeli Center for Third-Sector Research**, A Quick Glance at the Third Sector in Israel: Size, Financial Resources and Geographic Deployment of Third Sector Organizations in Israel, 2005. pg. 4. ([Hebrew only](#))

<sup>19</sup> See: **Prime Minister's Office**, The Civil Society and the Private Sector: Partnership, Empowerment and Transparency. Policy paper, February 2008, pg. 8. ([Hebrew only](#)).

<sup>20</sup> The Government will explore the possibility of creating "Social Incubators" for social entrepreneurs. For further information. See: *Ibid.*, pg. 21, 25.

<sup>21</sup> In 2008, the non-profit organizations were exempted from the 4% employers' tax. In addition, the government will increase the maximum donation per person a year to 5 million dollars. See: *Ibid.*, pg. 8. ([Hebrew only](#)).

addition, non-profit organizations receiving public funding are evaluated by one or more of the following: the Registrar of Non-Profit Organizations, the Accountant General, or the ministry buying the services.<sup>22</sup>

Non-profits also self-regulate.<sup>23</sup> In addition, there are non-profit organizations that evaluate and measure organizations in the sector. For example, the non-profit company 'Midot' aims to rate charity organizations in Israel.<sup>24</sup>

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<sup>22</sup> See: **Prime Minister's Office**, The Civil Society and the Private Sector: Partnership, Empowerment and Transparency. Policy paper, February 2008, pg. 8. ([Hebrew only](#)).

<sup>23</sup> Mark Sidel, [Toward Accountability and Legitimacy: Nonprofit Self-Regulation in Comparative Perspective](#), 2008, pg. 25

<sup>24</sup> 'Guidestar' is an American nonprofit organization that publishes information about the mission, programs, goals and accomplishments of third sector organizations. See: [www.guidestar.com](http://www.guidestar.com). For 'Midot' webpage see: <http://www.midot.org.il>