



**Prime Minister's Office  
Department of Policy Planning**



# **GOVERNMENT OF ISRAEL, THE CIVIL SOCIETY, AND THE BUSINESS COMMUNITY: Partnership, Empowerment, and Transparency**

Policy Paper – Jerusalem, February 2008\*

\*This document constitutes part of government decision no. 3190 approved unanimously on 24 February 2008



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## Foreword by the Prime Minister

The relations between the State of Israel and civil society organizations began many years before the founding of the state. At the beginning of the Zionist movement, there were only a few sparkly eyed individuals, who believed in, and eventually brought about what came to be the rebirth of the Jewish people in its own land. The success of Zionism is rare proof of the ability of civil society to make history.

I am proud that, sixty years after the founding of the state, our desire to “mend the world” has not abated. It still beats in the heart of every person who promotes social goals. Time after time I am thrilled by the deep sense of mission that motivates volunteers, both young and old. This commendable aspiration may be traced back to the Mishnaic period, when it was written, in Ethics of Our Fathers (V: 14), “One who says, ‘What is mine is mine and what is yours is yours’ is the common type, but some say that this is the characteristic of Sodom. The one who says, ‘What is mine is yours and what is yours is mine’ is an ignoramus; the one who says, ‘What is mine is yours and what is yours is yours own’ is a saintly man.” For us, giving is a value.

This government has chosen to build and maintain a platform for trisectoral partnership. It intends to strengthen relations with third-sector organizations and with socially responsible commercial enterprises, out of the profound realization of their importance. We acknowledge the ability of these sectors to improve society in Israel. It is clear to us that we live in a different society than the one we previously knew, and a different society requires a different way of thinking.

Modern government is one that enables people to act. It must encourage processes that contribute to public welfare. It is clear to us that the government is not all-knowing, and we should facilitate greater participation of others in the decision-making process. It is also

clear to us that many organizations who are not part of the government apparatus provide better services than we do. This being the case, cooperation between the various sectors is vital.

In many ways, we are not different from many countries in the West, which over the last few decades have been engaged in a process of prolonged change. The Beveridgian welfare state model that became institutionalized following the Second World War is not similar to the welfare state model of the third millennium. In Israel, too, the participation of non-governmental organizations in providing social services has increased, often under the government's auspices, with government funding, and on its behalf. Simultaneously, the business community has developed a sense of social responsibility and commitment.

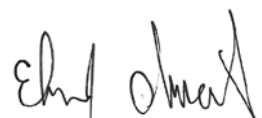
Our policy, therefore, is derived from a new, modern and comprehensive perception of government. We see the public sector as a major, but not the only, factor in the effort to improve citizens' welfare. The elected government is the one that shapes the vision, outlines the policy, and provides the resources and frameworks necessary to implement it. It must encourage initiatives and it must engage and involve other forces in society, among them civil society organizations.

Some see these organizations as a threat. They are wrong. In my opinion, even our critics among these organizations should be conceived of as our partners. Their contribution to Israeli democracy and to the strength of the values of our society is substantial. All over the world, the growth of the various kinds of civil society organizations does not arise from the state's weakness, but is testimony to its strength and stability. Encouraging civil society's activity is a goal of our policy.

True, we must also contend with organizations that might act improperly, or even try to deceive the control mechanisms. Their activity must be closely monitored. However, if thwarting the acts of a few "rotten apples" entails a regulatory apparatus that harms all the others, then in the end we will have lost: those who seek to cause harm will always find a way to realize their intentions, while those who seek to do good will be prevented from acting.

The process for strengthening relations between the sectors is not a simple one. It requires an understanding of the various functions of each sector. Civil society fears governmental control of its activity (though this is not our intention), the business community fears a blurring of the borders of responsibility between it and the State (nor do we seek this), while civil servants fear the transfer of power, information, and funding to others.

These fears are legitimate, but counterbalancing them is Israeli society in all its various layers, which require ongoing cooperation, real dialogue, professionalism, and transparency in relations between the sectors. We must deal with these fears to fulfill our aspirations, and to proceed forward.

  
**Ehud Olmert**  
Prime Minister



# Declaration of Intentions

1

The government of Israel views civil society organizations and business enterprises operating to promote public purposes as partners in the effort to build a better Israeli society. The Government believes that these organizations have always played a key role in shaping the face and image of society, and in strengthening the democratic foundations on which the state is based. The government appreciates the activity of the many and the best of Israeli society, who contribute their strength and wealth, their time and energy, in these frameworks or in others, promoting public welfare and mutual assistance.

2

The government of Israel attributes great importance to supporting non-profit organizations, whose founding and activity are based on voluntarism and on giving, and for whom the public good is a guiding light. The government is looking for a responsible and independent third sector, which acts lawfully, and follows the norms of proper administration, transparency, and professionalism. The government seeks to assimilate these norms in the public, and in the private sectors, operating within the trisectoral framework, and in general.

3

The government of Israel acknowledges the reservoirs of knowledge and experience accumulated by civil society organizations, and using various means it will act prudently to include them in its policy-making. The government, having the authority and bearing the responsibility for setting policies, for providing core services, and for supervising them, views interested civil society organizations as partners in the provision of social services.

4

The government of Israel honors and appreciates the willingness of the business community to contribute its resources for purposes that are not purely economic. The government calls on businessmen and private firms to continue to act in a way that reflects social responsibility and that recognizes the importance of the community and of society, and for its part will work to encourage activities of this kind.

5

The government of Israel considers it necessary to create a platform for ongoing dialogue between the sectors, to intensify cooperation, and to bring about a deeper exchange of knowledge, in a way that promotes social welfare. It will do so while preserving the independence of the partners and without impairing the overall responsibility of the state as the sovereign. As part of its role, the government will continue to carry out its supervisory and regulatory responsibilities.

# Executive Summary

## Scope of third-sector activity in Israel

**236,152**  
jobs in the sector \*

**25,000**  
organizations\*\*

**8,200**  
holders of certification of proper administration\*\*

**4,500**  
Recognized as non-profit institutions for tax purposes\*\*

\* as of 2002

\*\* as of 2006

The scope of activity of civil society organizations in Israel and in other countries has grown substantially in recent years. From 1991-2002, the number of jobs in this sector almost doubled. Research indicates that the government funds more than half the activities of these organizations. According to figures released by the Registrar of Nonprofit Organizations, some 25,000 non-profit organizations are now registered in Israel, and about 8,200 of them have received the grade of “proper administration.” In addition to the tax benefits given to the contributors, which in practice constitute indirect financial aid to this sector, in 2005, the state supported some 3,000 non-profit organizations for a total sum of about 2.2 billion shekels (\$660m, €420m). The financial assistance, direct and indirect, is in addition to an estimated sum of 3.2 billion shekels (\$960m, €610m) paid for services that the state acquires from non-profit organizations.

Despite this, no comprehensive, consistent, and clear governmental policy has yet been developed. We lack a policy that delineates the responsibility, and scope of relations between the sectors; one that promotes the public interest of an active, professional, and transparent civil society. The Prime Minister’s Office began formulating such a policy over the past year, after studying the experience of other countries. In Britain and Canada, for instance, inter-sectoral compacts were signed as part of a broader and deeper process to strengthen these relations.

The policy presented in this document was formulated in light of the principles specified in the Declarations of intentions above. In drafting it, the Prime Minister’s Office relied, in part, on the conclusions of expert committees and commissions that deliberated on the subject in recent years. The main ones being the public commission headed by Mr. Yoram Aridor and the public commission headed by Prof. Yitzhak Galnor. Meetings with leading figures in the third, and in the business sector also contributed significantly to the formulation of this document.



## The government's policy framework set forth three primary goals:

- 1** Strengthening cooperation and establishing relations between the three sectors – the public sector, the private sector and the third sector - to the extent they so desire, while preserving the independence of each.
- 2** Increasing civil society organizations' involvement in the provision of social services, while encouraging dialogue between decision-makers and this sector before formulating policy.
- 3** Facilitating processes of empowerment, professionalism, improved monitoring, and greater transparency in civil society, while assimilating comparable norms in the public and private sectors while acting within this framework.

This policy paper offers a current status report, to the extent possible, of the third sector in Israel, and delineates the activities that the government intends to promote in the coming years. Most of these activities have already been presented and discussed with the various partners and were embodied in a government decision (no 3190, passed unanimously on February 2008). Others are presented for public debate to enable a comprehensive examination of their implications and significance. The local authorities are an important factor in this process, and an effort shall be made to integrate them into the process as well

**Assistance and partnership between the public sector and the third sector**

**2.2 billion shekels**

in support to the organizations\*

**3.2 billion shekels**

to purchase services\*\*

**160 million shekels**

of tax benefits to donors\*\*\*

\* as of 2005

\*\* as of 2002, not including transfers and payments made by law

\*\*\* as of 2006

Primary proposals presented in this policy paper:

**In the sphere of strengthening cooperation and establishing relations between the sectors:**

- Setting up “roundtables” as a permanent platform for the exchange of knowledge and information and for consultation between the sectors for defined purposes. They will be based on agreed-upon principles—in the first stage at the national level, and subsequently at the local level.
- Igniting a process of drafting a joint compact for relations between the sectors in Israel within the “roundtable” framework, including a code of ethics. In the future, the establishment of a tri-sector public council, known as the “Tri-Council,” will be examined.
- Establishing a unit in the Prime Minister’s Office that will act to deliver this policy while advising government agencies in the spirit of the Declaration of Intentions stated above in this document.

**In the sphere of integrating civil society organizations in the provision of social services:**

- Inserting additional criteria in government tenders that reflect the degree of social involvement in the bidders’ activities in order to increase the integration of civil society organizations in tenders for the operation of social services.
- Encouraging government offices to expand and intensify consultation with civil society organizations during the stages of policy formation, at their own discretion and depending on the matter involved, as part of the “roundtable” framework.

**In the sphere of facilitating processes of empowerment, professionalism, improved monitoring, and greater transparency:**

- Reducing charities’ taxes significantly by canceling the employers’ tax (in January 2008), raising the ceiling of contributions recognized for tax purposes and examining aspects of the taxation policy, specifically those related to foundations.
- Requiring total transparency in all matters related to state support for civil society organizations, including central and sectional publication of existing funds available for allocation as well as the allocation criteria.
- Establishing an Israeli equivalent to “Guidestar” that will assemble all state information on civil society organizations in Israel, including salary levels and additional information provided independently by the organizations.

Source: Government of Israel, statistics presented to the Aridor Commission and the Third Sector Research Center.

This document outlines state policy on the sectors' relations in Israel, which recognizes the national need for an active and flourishing civil society. It should be noted that prior to its preparation, the public commission headed by Mr. Yoram Aridor, discussed state assistance to public institutions. A team headed by the senior head of the State Auditing Section in the Prime Minister's Office, Mr. Uzi Berlinsky, was engaged in formulating decision proposals based on the recommendations. These proposals, which relate to the role of the state as regulator and sponsoring body, will be presented in the coming months for public consultation in the trisectoral framework prior to final approval.



# 1

## Civil Society in Israel

### 1.1 Definitions

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Various definitions may be used to describe civil society organizations and their place in the fabric of relations between the state and the citizen. One definition appears in the Galnor Commission Report, which examined the functioning of the third sector and government policy towards it in Israel. The Commission defined civil society as “the space between the state, the free market, and the primary family frameworks, in which social actions are carried out in a non-state context. . . with its main feature being autonomy from the state and with the public being its active agent” (2003, p. 19).

In the academic world, such an organization is often classified as an organization that does not act on behalf of the state and is not controlled by it (non-governmental), is non-profit and does not distribute its assets, is self-governing, and membership in it is voluntary (Salamon, 1999). The European Commission went to pains to point out that, unlike informal organizations, which operate on a social or family basis, civil society organizations have a formal or institutional existence, are administered in a disinterested manner, and operate to

one degree or another in the public arena for the public good (EC, 1997). The British government views them as “value-driven” organizations, which invest their budget surplus to fulfill social, environmental, and cultural goals (HMSO, 2007)

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Civil society is the space between the state, the free market, and primary family frameworks, in which social actions are carried out in a non-state context . . . its main feature being autonomy from the state and the public being its active agent

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In Israel’s tax laws, a “public organization” is defined as a “body of at least seven persons the majority of whose members are not related to each other. . . which exists and operates for a public purpose, the assets and income of which serve solely for the achievement of the public purpose” (Income Tax Ordinance, section 9(2)). A “non-profit organization,” in contrast, is defined as a “body of persons, incorporated or unincorporated, whose activities are

not directed at deriving profits and is not a financial organization. . . a corporation that was established by law and is not registered as a company, cooperative society, or partnership” (Value Added Tax Law, Definitions). In the corporation laws, an amuta [non-profit society] is defined as a “body corporate for a lawful purpose not aimed at the distribution of



The number of jobs in non profit organizations (including universities, health funds, and religious institutions) almost doubled from 1991 to 2002, at which time non-profit organizations had almost a quarter of a million people

profits to its members and whose principle purpose is not profit-making” (Non Profit Organizations Law, section 1). A company for a public purpose is one whose articles of association “specify public purposes only,” as defined by law, and there is a “prohibition on the distribution of profits or any other distribution to its shareholders” (Companies Law, section 345A). The Aridor Commission, which reexamined state assistance to public institutions, proposed unifying all the above-mentioned definitions, and assigning them the all-inclusive name - “non-profit organization” (2006).

Civil society organizations vary from one another in their purposes and in the nature of their activities. The European

Commission distinguishes amongst organizations that engage in providing services, such as welfare, health, information and consulting services; advocacy and lobbying organizations, which act to change government policy and influence public awareness; self-help and community organizations, which unify a group with a common need and provide its members with assistance, information, and

support; and infrastructure and coordination organizations, which work with a number of organizations and sometimes also mediates between them and the government (EC, 1997). The Galnor Commission distinguished between service providers that are integrated into the public system (such as health funds and educational institutions) and organizations that provide services on a contractual basis (2003).

The team examining the Ministry of the Social Affairs and Social Services’ relations with civil society and the third sector added the category of mixed organizations, which perform a few functions simultaneously, and another category of organizations engaged in developing services, initiatives, and pioneer programs (2004). The research

literature and statutes of various countries distinguish between organizations based on their activities (member organizations and service providers, for example), distinguishing between them and

philanthropic foundations, with the latter being divided into private and public foundations, primarily based on the holders of control of the foundation.

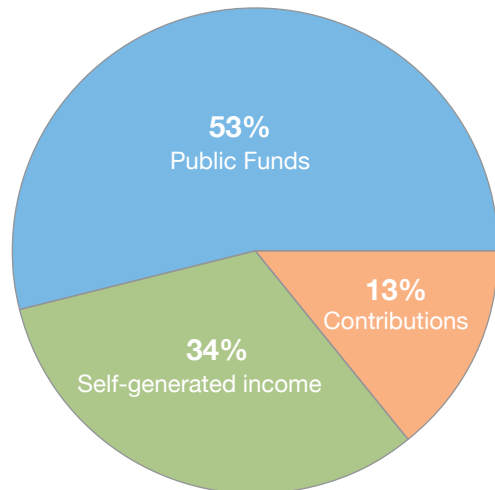
## 1.2 Statistics

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The number of civil society organizations in Israel has grown substantially in recent decades, during which their patterns of activity have also changed greatly. Statistics released by the Israeli Center for Third Sector Research indicate that the number of jobs in non-profit organizations (including universities, health funds, and religious institutions) almost doubled between 1991 and 2002. In 2002, these organizations had close to quarter of a million positions, which amounted to some 11 percent of all employment positions in Israel's economy. It is estimated that some 6,100 of the organizations active that year paid some form of wages to their employees.

However, it should be recalled that the expansion of the third sector is not unique to Israel. The Johns Hopkins Center for Civil Society Studies found that in a few countries, among them Holland, Belgium, Canada, and Ireland, the number of workers employed in this sector is greater than in Israel. The Center also found that, in Israel, Holland, Belgium, Germany, France, and Austria, the government funds more than half of the third sector's activity. The average of all the countries that were examined amounted to about one-third.

Surveillance of funding patterns of the sector, carried out by the Center for Third Sector Research, at Ben Gurion University,



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**Patterns of funding the third sector in Israel (2002).** Source: Third Sector Research Center, Ben Gurion University

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reveals that, in 2002, 53 percent of the income of organizations came directly from public bodies, 34 percent was self-generated, and 13 percent was received as contributions (in Britain, by comparison, the state is directly responsible for 38 percent of the organizations' income). Contributors to a large proportion of the organizations benefit from tax deductions of some 30 percent of the amount of the contribution, depending on statutory limitations – which offer an indirect financial benefit to the organizations. The statistics show that the rate of contributions in Israel is very high compared with other countries.



Civil society organizations in Israel are required to file a report on their activities with to the Registrar of Non Profit Organizations and with the Taxation Authority, and if they are supported by the state – also with the government bodies that support them and with the Accountant-General. The Registrar of Non Profit Organizations is responsible for issuing Non Profit Organizations with a “proper administration” certification, and the tax authorities are empowered to classify an organization as a “not-for-profit institution.” An organization so classified is entitled to an exemption from tax on its income that does not derive from business activity, and contributors are entitled to tax deductions for their contributions (section

Expansion of the third sector is not unique to Israel. Its steadily growing share in many economies around the world led policymakers in a few countries to recognize the need for an active civil society, and view it as an essential element in a modern democracy

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46A). The Accountant-General verifies the organizations’ entitlement to government support based on procedures established by the Minister of Finance, while the ministries providing the support carry out professional

audits and receive reports from the bodies they support. According to figures released by the Registrar of Non Profit Organizations, in 2006, forms were sent out to some 25,000 Non Profit Organizations for payment of the annual fee. About 8,000 of them paid the fee, about 9,000 declared that they are exempt from payment of the fee because their activity is limited, and the remainder did not respond. That same year, some 8,200 Non Profit Organizations received certification of proper administration. The Income Tax Commissioner's Office's figures indicate that some 20,000 of the organizations were registered as non-

profit organizations, 4,500 of which were registered under section 46A.

According to the database maintained by the Accountant-General, in 2005, about 3,000 Non Profit Organizations received state support, amounting to some 2.2 billion shekels. The Center for Third Sector Research found that, in 2002, the government acquired services from the third sector that are not supplied pursuant to statute or pursuant to a multi-year arrangement to the tune of 3.2 billion shekels. Total tax benefits received by contributors to non-profit organizations now stand at approximately 160 million shekels a year.

### 1.3 Status Report

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In the past decade, a few governments around the world formulated a systematic policy relating to the activities of civil society organizations. The expansion of the third sector in these countries, and in general, and its growing share in the national economies, led policymakers in a few countries to recognize the need for an active civil society and to view it as an essential element of modern democracy. They also emphasized the need to maximize the contribution of organizations to the general welfare. In the mid-1970s, a number of policy papers proposed laws, and inter-sectoral compacts were published and approved that reflect these processes in, among other countries, Britain, Germany, Canada, and India.

A few key papers examined at depth the relations between the state and civil society in Israel. The first was written by Prof. Yitzhak Galnor, who headed the Commission for the Examination of the Functions of the Third Sector in Israel and the Policy toward It. The Commission was established in 2001 at the initiative

of Prof. Binyamin Gadron, head of the Center for Third Sector Research, at Ben Gurion University. Its recommendations were published in 2003. Two years later, a committee headed by Mr. David Brodet, published a comprehensive position paper that proposed a work model for coordinating relations between the sectors in Israel. The committee was composed of representatives of the three sectors, and was appointed in advance of the public administration conference organized by the Civil Service Administration and ELKA - Joint.

In 2004, the Ministerial State Control Committee established the Public Commission to Examine State Assistance to Public Institutions, headed by Mr. Yoram Aridor. The Commission submitted its recommendations in 2006, which were based on background material prepared for it by the academic, Mr. Nissan Limor. The Ministerial Committee appointed a team led by the head of the Senior Section of the State and Internal Audit Department in the Prime Minister's Office, to consolidate the

proposed decisions from the Commission’s report, based on the Commission’s recommendations. In addition, in July 2006, at the request of the director-general of the Prime Minister’s Office, Mr. Ra’anana Dinur, a committee that included the heads of the third-sector organizations and volunteer organizations submitted recommendations “for the development of State policy in the volunteer and third-sector spheres.”

To date, the government of Israel has not formulated an inclusive, consistent, and clear policy regarding its relations with civil society. Despite the need for such a policy, other than initiatives implemented in some of the ministries, such as the Ministry

of Social Affairs and Social Services, which is attempting to create a basis for ongoing discourse and cooperation with civil society, no orderly conception has been developed on the subject and its various aspects. In the months preceding the Second Lebanon War, the Prime Minister’s Office began such a process, within which framework several discussions and meetings were held with representatives from the third sector. In March 2007, two consultations were held with civil society representatives on how to advance the process, and in July 2007 a similar meeting was held with representatives of the business community involved in social activities.

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**This policy document, which was attached to the proposed decisions presented to the government, is based on work carried out over the past year, both with government officials and with persons outside of government.**

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# 2

## Government's Key Policies

Civil society, in all its incarnations, is extremely important to the State of Israel and to Israeli society. Clearly there is also great importance to the involvement of the business sector in activity that does not have a purely economic goal. These two sectors play a key role in strengthening Israel's society and economy, and in reinforcing the democratic foundations of the state. The government is responsible for ensuring conditions that will facilitate the success of these activities, and foremost among these is the advancement of the citizen's welfare. The government has intended to do this without impairing the independence of civil society, the life force of the organizations, but with the responsibility imposed on it as the sovereign. Therefore, the government process has

three major objectives. First, strengthening cooperation and relations between the government, civil society, and the business sector, to the extent that these act to advance public purposes and seek this end. Secondly, expanding the participation of civil society organizations in the provision of social services to the public, while at the same time encouraging dialogue between the decision-makers and the organizations before the decisions are made. The third objective is the encouragement of the processes that contribute to increasing empowerment, professionalism, supervision, and transparency of the activities of civil society, while instilling similar norms in the government and the business sector in their activities within this framework.

### 2.1 Strengthening Partnership and Establishing Relations

#### 2.1.1 Permanent platform for trisectoral dialogue

Cooperation between the three sectors might greatly benefit each of them as well as all of Israeli society. The whole, in this case, is greater than its parts. However, so far, the relations have been sporadic and have lacked coordination and consultation mechanisms. Various initiatives to establish such mechanisms have always been lauded, but the cooperation was usually

temporary and did not enable ongoing consultation and coordination.

*"... It is essential to find an arrangement that will enable government activity to serve as a central tool that directs social processes. However, it is necessary to give proper expression to the third sector's activities and to use the efforts and good will expressed by the business sector..."*

*( Brodet Committee Report 2005, p.50)*

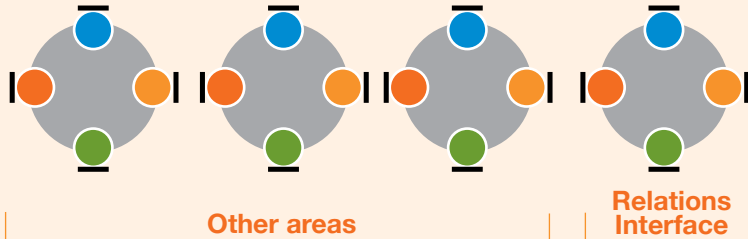
## Public Council ("The Tri-Council")

### Unit in the Prime Minister's Office

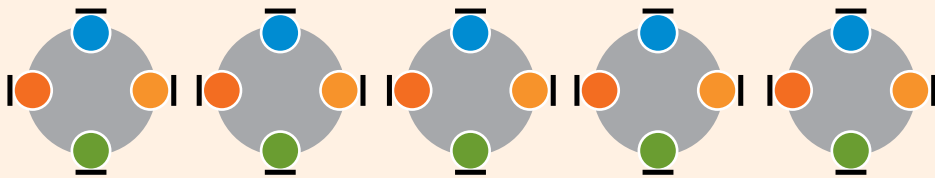
#### Names of Participating ministries:

Prime Minister's Office  
Ministry of Finance  
Ministry of Justice  
Ministry of Education  
Ministry of Social Affairs and Social Services  
Ministry for Environmental Protection

#### National Roundtables



#### Local Roundtables

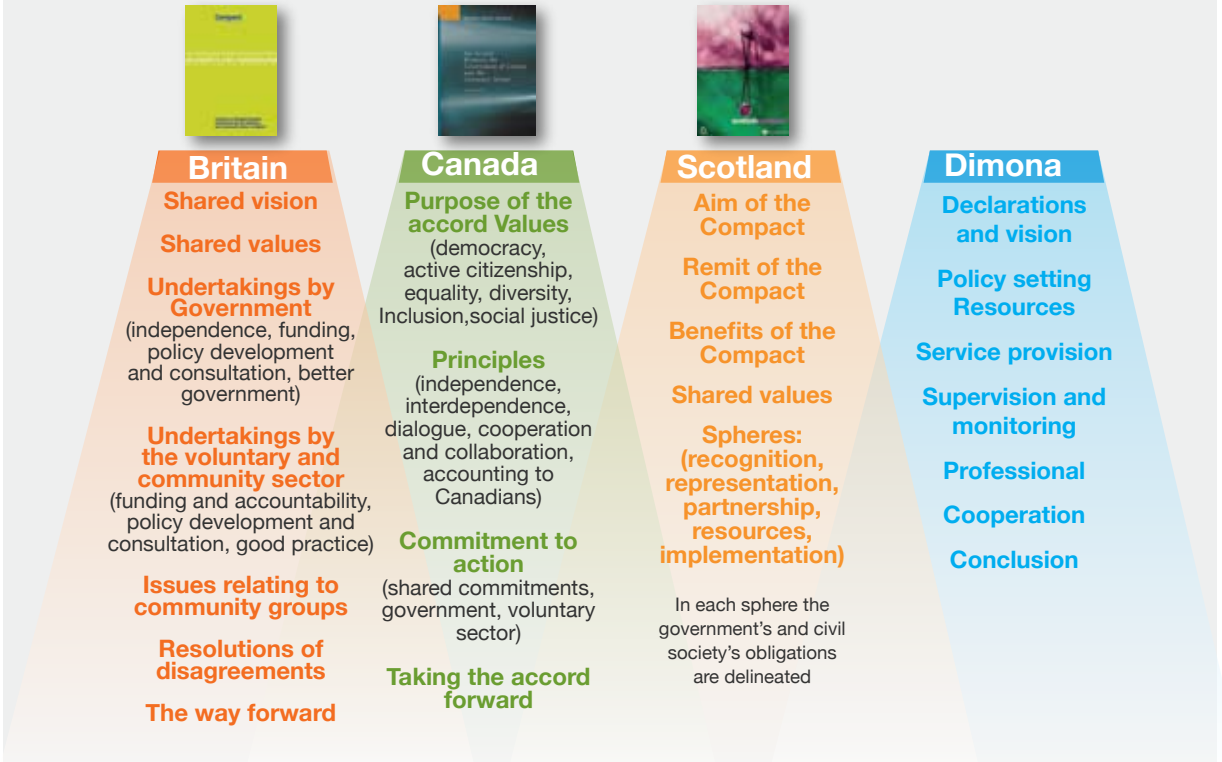


The Prime Minister's Office seeks, therefore, to initiate ongoing discourse between the different sectors, in the form of "roundtables," based on consensual principles for conducting the discourse, and with the assistance of professionals adept at holding the discussions. The main activity of the roundtables will center on the exchange of knowledge and information between the various entities – on their joint activities, priorities, future plans, and other issues that appear on the agenda of the persons engaged in this work. The roundtables will also serve as a non-obligatory forum for consultation on various subjects, including policy and matters that affect the functioning of the government itself. Each roundtable will deal with a defined area, will be open to anyone wishing to take part – provided that the participant meets the reporting and management conditions that shall be determined – and shall be headed by agreed-upon chairpersons.

To advance the process, a unit shall be established in the Prime Minister's Office,

which will engage, among other things, in promoting the project and working with the government ministries taking part, in representing the Prime Minister's Office in discussions on relations between the sectors in Israel, and in implementing the government's policy as described in this document. Among other things, the unit shall ensure maximum transparency in the roundtable discussions and shall take part in the drafting of clear rules for conducting the discussions.

At a more advanced stage, the possibility of appointing a tri-sector public council ("Tri-Council"), which is based on the roundtable discussions, and which will act to intensify cooperation and expand the number of bodies taking part, will be examined. The Council, once it is established, will serve as a national forum for arranging inter-sectoral relations. Its future purpose will be to expand the activities of the roundtables to include local government, similar to the developments that have already been made in a few cities in Israel.



**2.1.2 Process of drafting a joint compact**

To provide a lasting foundation for cooperation between the sectors over time, the roundtables underlying this document are insufficient. The Prime Minister's Office aspires to enshrine the relations in a joint compact, which will define basic principles and reflect the desire to empower civil society and promote cooperation between the sectors. Inasmuch as it does not currently have any official body representing civil society organizations, it will be necessary to include as many organizations as possible in drafting the compact.

Observations of the process of preparing compacts across the world (for example, the Canadian Joint Tables and the British Compact) indicate that the drafting process is long and hard, and much thought is given to its very being. A similar feeling prevails among persons who took part in a similar process in Israel, whether at the end of

the compact's drafting or at the end of the agreement on a joint document.

The process, when it begins, is carried out by means of a few open "roundtables," each of which handles a separate "chapter heading" of the compact. However, inasmuch as the entire matter is in its early stages, the work procedures will be raised in ongoing discussions, following an examination of the work of the roundtables currently being formed.

*"... The goal of the proclamation is to create a document that outlines the relations between the third sector and the government, to the benefit of the entire Israeli society. The proclamation will be based on understandings and agreements that will serve as a guiding voluntary framework for the government's policy toward the third sector."*  
(Galnor Commission Report 2003, p. 37)



### 2.1.3 Local authorities and the Third Sector

The inclusion of local authorities in the process is of great importance. The local environment is the main center of activity for civil society organizations, and in certain spheres, such as education and welfare, of the central government as well. Therefore, the government is interested in encouraging local officials and entities to institutionalize fixed, diversified patterns for inter-sectoral cooperation, such as those that will be implemented at the national level. To advance the process, first and foremost the cooperation of the head of the local authority is required.

The support unit in the Prime Minister's Office and in the public council, upon their

establishment, will operate simultaneously on these two levels, to accompany and encourage cooperation of this kind. Such initiatives are already being developed in a few cities in Israel, Sderot being one of them. However, they must be strengthened, both by means of professional tools and by using the knowledge that has been accumulated as a result of activity at the national level.

*"Research findings, from the authorities that were investigated, indicate that there was a consistent pattern in the local administration's attitude, toward civil society organizations in Israel in 2002-2004, which can broadly be defined as disregard" (Sarid et al. 2006, p. 47)*

## 2.2 Greater Involvement in Public Services and Policy Formation

### 2.2.1 Inclusive and comprehensive policy consultation

Cooperation with civil society should begin, where possible, already at the stage of policy planning. In social matters, civil society organizations are a significant source of knowledge that the government

can use to assist it. In other civil spheres in which the government intervenes by means of regulation and other tools, consultation of this kind can also contribute greatly. This contribution is in addition to government decisions that have a direct effect on the activities of the organizations themselves.



*"[The contribution of advocacy organizations] is undisputed. . . These organizations serve as a balancing and control factor that assists the ministry in coping with a dynamic environment, to respond to it, and to develop accordingly. . . Advocacy groups reflect democratic values of open, critical discourse."*  
(Ministry of Social Affairs and Social Services 2004, p. 9)

Involvement of the organizations in consultation and in discourse before policy is set will, therefore, likely greatly contribute to the quality of the decisions that will be made. Genuine attention, with a willingness to change fundamental beliefs, has many advantages. However, it should be noted that an attentive ear does not guarantee the government will agree; moreover, if

the government's decision is different from the one being proposed, the government will attempt, as best it can, to explain to the various partners the reasons for its decision.

The consultation process is common in many countries and in multi-state organizations, such as the UN and the EU. In Israel, consultation will be held in the roundtables run by the various ministries. Government representatives will be encouraged to put policy dilemmas on the table for a broader discussion and consult members of the civil society and the business sector. In this context, the importance of organizations engaged in achieving social change (advocacy organizations) stand out. These organizations, even if they do not deal with the provision of services, let the decision makers know what the public is saying.

Their contribution to Israeli democracy is incomparable, and their effect is felt in a wide variety of areas – from education and welfare to matters related to the Arab minority, environmental protection, and the status of disabled persons. The voice of these organizations must be heard in the decision making process, even if it is not always possible to reach agreement and understanding between the parties

### **2.2.2 Civil society organizations and public services**

Integrating civil society organizations into the provision of social services to the public will likely, in certain cases, benefit the organizations, the government, and the public. Already at the present time, civil society organizations provide many services to the public, primarily in the field of welfare and education, with the assistance of state government and monitoring. In the West as well, more and more governments are cooperating with non-profit organizations (this is seen, for example, in the British government's publication of a policy document for encouraging this process, 2007, HMSO).

We believe that cooperation with civil society differs substantively from privatizing services and handing them over to the private market. The difference is found in the public motives of the organizations, in the nature of their activities, and in the welcome tendency of some of them to channel possible surpluses from these contractual agreements back to the public. If you wish, the organizations can also contribute their resources to add to the core service, which is funded entirely by the state.

The high degree of professionalism of some of the organizations, their flexibility and value-based motives, make the third sector

a natural partner in providing services to the general public. Partnership of this kind enables the government to invest most of its efforts in outlining policy, in budgeting, supervision, and control. However, this does not eliminate the government's responsibility; rather, the responsibility that the state imposes on itself is reflected in the policy decisions it makes, in providing the necessary budgets, in establishing professional rules, and in conducting ongoing supervision, regardless of the arm that actually provides the service.

The government, then, considers it important to encourage the involvement of non-profit organizations in government tenders to provide social services. Involvement of this kind currently exists, but is often limited –because of regulations and tax arrangements, because a prerequisite degree of financial strength is required, because of the investment needed to compete for a tender of this type, or for reasons of feasibility.

Intensifying the awareness and dialogue between the government and the organizations, examining the possibility of including these special features in the body of the tender as an expression of the social value of their activity (as detailed below), and the measures that will be taken to empower civil society organizations, with the emphasis on professionalism and transparency, are liable to assist in attaining this goal.

### **2.2.3 Promoting partnership in the provision of social services**

Civil society organizations involved in providing social services are, as stated above, partners in the effort to improve social welfare. These organizations benefit from a number of advantages in supplying a social service to the public. Integrating



them in the government's services apparatus provides an economic and social benefit, which cannot always be quantified and measured beforehand.

Thus, for example, there is importance in the organizations' commitment to the public interest, and not to the purely economic interest, and also to the altruistic motivation and public ethos underlying the activity of some of the heads of the organizations and their employees. Civil society organizations also have the ability to increase the basic governmental investment intended to fund the provision of the core service, as a result of their access to additional resources (such as volunteers and donations).

The government's policy presented in this document and the additional value that civil society organizations bring with respect to providing social services justify the effort to intensify the integration of the third sector in operating social services. This integration does not reduce the general responsibility of the state to supply core services, or to fund and supervise them. Nevertheless, the criteria used by the state when choosing its service providers should be contingent

**There is importance in the organizations' commitment to the public interest, and not to the purely economic interest, and also to the altruistic motivation and public ethos underlying their activity**

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upon its familiarity with the uniqueness, and advantages of the sector .

Within this framework, the Accountant-General has agreed to include additional criteria in government tenders, which will reflect the degree of the bidder's social involvement, such as activities to promote public purposes that are tied to the service that is the subject of the tender, and the ability to recruit and activate volunteers who will join it in the future, in addition to and separate from the personnel who will be employed to operate the core service.

However, it should be recalled that the assumption that civil society organizations

*“An organization operating for the public good, or for the welfare of some of the public, must be open and transparent to its members and to the public at large. Transparency is expressed in a few ways, both in proper disclosure and in providing information on the organization’s activity to its members, to the persons who benefit from the organization’s services, and to everyone who is interested in receiving that information.”*

*(Galnor Commission Report 2003, p. 14)*

will provide better and more efficient service is not always realized in practice. Therefore, it is necessary to examine the use of these criteria only in cases in which the public gains a benefit from it. It appears that the primary benefit in integrating civil society organizations lies in the sphere of social services. A social service can be defined as a service whose main purpose is the improvement of the recipient’s

situation, whose implementation requires interpersonal ties between the service provider and the recipient, and where most of the cost in providing it is not placed on the beneficiary of the service.

It is necessary to distinguish the abovementioned guidelines from a thorough examination of every case on its merits, which will be carried out by the professional person in the government ministry. This person must present the Tenders Committee with socio-economic reasons, taking into account market variables and features of the existing operators, Before deciding to integrate such criteria in the tender process.

It has been noted that the government does not intend to create competition between the organizations as to their willingness to invest resources in a service that the state is supposed to fund. The new criteria are intended primarily to reflect the additional value inherent in civil society organizations.

## **2.3 Empowerment, Professionalism, Monitoring, and Transparency**

### **2.3.1 Tax policy on charities and foundations**

Policy, and taxation and incorporation statutes are the important tools available to the executive branch to intervene in civil society processes. In accordance with the recommendations of the Commission to Reexamine State Assistance to Public Institutions, the state will act to raise the maximum ceiling for contributions to five million shekels per contributor per year, with the new ceiling taking effect upon completion of the database described below and following the completion of work that has been ongoing for some time for

determining the conditions for granting this tax deduction.

This means that the state will be a “partner” in every contribution to each one of the 5,000 civil society organizations recognized under section 46 of the Income Tax Ordinance. In most of the cases, a 1,000 shekel contribution to an organization will result in a tax deduction of 350 shekels. Thus, the state contributes 35 percent of the contribution, with certain limitations, because of the reduction in the tax rate that the contributor is charged. The loss of state revenue prior to the change is estimated at



about 160 million shekels a year.

Furthermore, in 2008, Employers' tax, to which civil society had been subjected, was repealed. The government approved this decision in August 2007 as part of the [Special] Arrangements Law, which was enacted by the Knesset. Within this framework, organizations are not required to pay four percent on their wage expenses, enabling them to use these savings for other needs. The tax authorities estimate that the cancellation of employers' tax will free some 500-700 million shekels a year for civil society (before reduction of the state's proportionate share).

Another change that is liable to contribute to attaining the defined objectives comes from the creation of a new legal status for philanthropic foundations that are principally engaged in funding civil society and in advocacy or in provision of services. In many countries, such corporations are given a special legal status and are

subjected to different taxation rules, along with more stringent transparency requirements. Government ministries will begin to formulate their position on these questions, including those pertaining to relevant tax issues, with the goal being to change existing policy in this matter and to shape a new policy that will serve the government's goals.

### **2.3.2 Transparency in the Third Sector**

Public monies given to civil society, whether directly or indirectly, facilitates a large portion of their activities. Although the amount of financial support given to organizations has never been measured, the government itself provides about two billion shekels of direct support a year, acquires services in the sum of about one billion shekels a year, and grants contributors tax deductions of about 160 million shekels a year. In addition, the organizations benefit from public contributions.



Clearly, total transparency with respect to the activities of the organizations, the government, and the business sector in the tri-sector framework must be ensured. Toward this end, the government, led by the Ministry of Justice, is building a database that will collect all the information held by the government on the activities of the non profit organizations, including the possibilities of supporting them, and thus enabling the integration of information that the non profit organizations themselves provide. In this context, two questions arise for discussion: the mode of operation and the level of transparency required of the non profit organizations.

Regarding the **level of transparency**, the transparency principle entails the provision of proper information to the various interested parties, among them contributors, funders, volunteers, clients, community members and other persons, so that the organizations can continue

to receive their trust. Therefore, it is right and proper to ensure the publication of this information, especially in the case of organizations receiving public funds.

For this reason, the government publishes all the corporate details of all the organizations, their address, purposes, board members, and the five highest salaries paid by the organization (without mentioning the names of the organization's officials, in accordance with the relevant law). In addition, the database will include information on the receipt of certification of proper administration and of direct financial support from government ministries, including the amount of support provided to that stage.

In the case of non-profit organizations where the state directly funds more than one-half of their activities, the Prime Minister's Office believes that the existing law should be amended to require the organization to make public its complete financial statements (including the names of the highest paid officials in the organization, its primary income and expenses in the tax year, and other data), so as to enable the public to be fully cognizant of its management.

When an organization receiving direct financial aid from the state is audited – whether by the Registrar of Non profit organizations, the Accountant-General, or the government ministry responsible for the aid – the audit report shall be made available for public inspection. If flaws in the operation of the non-profit organization are found, and the organization responded to the report, the audit and the response shall be published side-by-side to provide the public with full access to all the information.

In addition, the database will include data

## Information that will be published from the database maintained by the Ministry of Justice

Primary classification	Secondary classification	Non Profit Organization details	Reporting and reports to the Registrar of Non Profit Organizations	Green-stamp status	Report filed with the Taxation Authority	Government ministry support	High salary details (names)	Full financial statement
Non-profit organization that does not request certification of proper administration		√	√					
Non-profit organization requesting certification of proper administration		√	√	√				
Non-profit organization requesting recognition for contributions for tax purposes		√	√	√	√			
Non-profit organization supported by the state	State share under 50%	√	√	√	√	√		
	State share over 50%	√	√	√	√	√	√	√

that the organization wishes to make public. This will enable the organization to reach additional audiences, and give the public-at-large – including persons holding an interest in the organization – access to important information about its activity, purposes, and mode of operation. Publication of such information at the initiative of the organizations will likely increase public trust in the organizations and the aid given to them. It will also draw attention to organizations that do not fully meet the disclosure and public-transparency rules.

With regard to the mode of operation, there are a few options. In the United States, for example, there are some websites that supply information (some of them for a fee) on the various organizations. The main and most inclusive of these websites is operated by a non-profit organization ([www.guidestar.com](http://www.guidestar.com)), which went to court to receive permission to publish all the annual reports filed by non profit organizations with the taxation authorities. In Britain, a private non profit organization, in cooperation with the Charity Commission, did the same thing, with a grant from the British government ([www.guidestar.co.uk](http://www.guidestar.co.uk)). Other countries

are now in the process of establishing a database of this kind.

The government of Israel, through the Ministry of Justice and the Corporations Authority, which lead the process, is interested in assisting civil society organizations in the process of building this database. The database will draw the data from the Registrar of Non Profit Organizations, the Accountant-General, the Taxation Authority, government ministries, and the Non Profit Organizations themselves. An effort will be made to ensure that the cooperation between the government and civil society organizations will be realized from the planning stages to the execution stages.

### 2.3.3. Transparency in government

Along with greater transparency of the activities of civil society organizations, the government also intends to ensure better transparency of its actions within this framework. Therefore, the database will also include detailed, accessible, and user-friendly information on all the support given by government ministries to non-profit organizations, and will include the

support criteria and general rules, so as to enable every organization full access to this information.

However, a database is not enough. The government must take action to provide civil society organizations with specific information on the relevant criteria for obtaining support, and not burden them with unnecessary information. Therefore, the database will include an information distribution system that will enable users to choose the kinds of information sent to their electronic-mail inbox, thus ensuring full transparency and maximum access to the information on the database.

In addition to the specific requested information and the sending of support criteria at the government's initiative, the database will publish changes in the support criteria, Drafts of new criteria for public comment, and the names of the organizations that received financial aid over the past year. In this context, an effort is being made not to support any organization without first publishing the criteria and tests for receiving aid in accordance with the procedures, except in extraordinary cases. Also, the database will contain all the government forms, instructions, and procedures for submitting applications for aid, and for appealing decisions. The objective is to have one central apparatus that will concentrate all the information needed by non profit organizations wanting to receive direct support from government ministries.

#### **2.3.4 Innovation through social "hotbeds"**

An extensive social network, and proper administration of an initiative in the founding stages are principal predictors of success (Sharir & Lerner 2005). The government's desire to encourage initiatives as part of its policy requires it to focus on the preliminary



The Prime Minister's Office will examine the feasibility of establishing "social hothouses," which, like technological hothouses, will supply guidance, contacts, and assistance to social initiatives when they first begin, until they are able to operate independently

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stages of the civil society initiative, which is essentially the critical stage in their development. For this reason, the Prime Minister's Office will examine the feasibility of establishing "social hotbeds", which like technological hotbeds will provide guidance, contacts, and assistance to social initiatives when they first begin, until they are able to operate independently.

Given that most initiatives – including social initiatives – begin at the local level, a center should be established that will direct, centralize, and coordinate civil society activities at the community level. To do so, it is necessary to assign a municipal body to handle the subject on behalf of the mayor and to conduct "roundtables" at the local level. These activities will be carried out within the broad framework of strengthening relations

between the sectors with the participation of the unit that will be established in the Prime Minister's Office, and in the future, with direct ties to the public council ("Tri-Council), when it will be set up.

### **2.3.5 Regulation and Supervision**

In January 2004, the Ministerial State Control Committee decided to establish a Commission to Reexamine State Assistance to Public Institutions. Over a two-year period, the commission examined state assistance to public institutions and the relevant state policy. It discussed the granting of assistance, the desired policy regarding the amount and kinds of assistance, the criteria, and prerequisites for receiving assistance, and the necessary auditing mechanisms, in the transition toward multi-year support, and other matters.

As a rule, the Prime Minister's Office is not interested in imposing auditing burdens on civil society organizations, and will act to relax the requirements to the extent possible. However, the government is obligated to ensure compliance with the law and to regulate the organizations, especially as recipients of public monies. When an organization does not request such support – either directly or indirectly – minimal regulation and auditing will be required.

The recommendations of the Aridor Commission were submitted to the

Ministerial State Control Committee in May 2006. Six months later, in November 2006, the Ministerial Committee decided that a professional team, headed by Mr. Uzi Berlinsky, the inspector-general in the Prime Minister's Office, "will consolidate the detailed decision proposals to conform to the recommendations of the Public Commission to Reexamine State Assistance to Public Institutions, which will be raised before the Ministerial Committee for discussion."

Pursuant to the decision of the director-general of the Prime Minister's Office, before the discussion in the Ministerial Committee, the decision proposals will be presented to the "roundtable" dealing with the interface of relations between the sectors in Israel. Although auditing of the activities of non-profit organizations is a function of the government, within the framework of the process to strengthen relations between civil society and the government, it is proper to conduct a consultation procedure before any decision is made.

At the same time, the state believes that there is great importance in initiatives coming from civil society for the establishment of self-regulation mechanisms. The very existence of such mechanisms reflects the responsibility of third-sector organizations for the proper activity of their sector, and is liable in the future to influence government policy in these areas as well.

# 3

## A Look to the Future

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In the past decade, many governments around the world have established a systematic policy with respect to civil society activities. In most instances, the change is identical – more intense cooperation between the sectors and measures to encourage and empower organizations operating for the public good, while intensifying public transparency and increasing assistance and benefits. In these countries, among them Britain, Germany, and Canada, third sector activity is not perceived as evidence of the weakness of the government, but the contrary.

The various measures described in this policy document are intended to attain similar goals, the most important being partnership, empowerment, and transparency, while ensuring the independence of the third sector and its unique characteristics. In his comments in the foreword to this document, the Prime Minister wrote that, “In our opinion, even the organizations that criticize us are our partners and their contribution to Israeli democracy and to the strength of the values of the State is second to none.” It is the intention of the government of Israel to promote measures that will implement this conception. The beginning of an ongoing dialogue between the sectors is one of the main steps in this direction.

The path will be paved with more than a few challenges, and certainly will entail expectations and concerns by all the partners. The government of Israel chooses to go with this process out of its deep belief in its necessity. This policy document and the government decisions accompanying it signify the beginning of a new way in relations between the three sectors in Israel.



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