

CHAPTER VIII

NONPROFIT INSTITUTIONS

NONPROFIT INSTITUTIONS are institutions which provide households with services in the fields of education, health, social welfare, and religion, as well as in the social and political fields. They do not operate for profit, and the services they provide are generally given without charge or at a price covering only part of the cost.

This sector is dominated by a relatively small number of large institutions: the Sick Funds, institutions of higher education and research, overseas organizations like Malben and Hadassah, the Histadrut Executive, and others. Side by side with these are thousands of small institutions operating on a very limited scale. This chapter covers the activities of some 5,200 institutions,¹ of which 4,000 are synagogues.

Of the total outlay of the sector in 1962 and 1963, 41 per cent went on health services, 35 per cent on education, and 15 per cent on social welfare. The other 9 per cent was expended by trade unions, clubs, sports organizations and youth movements, settlement organizations, and religious institutions.²

The expenditure of the nonprofit institutions rose in 1963 by IL 67 million, or 13 per cent, and totalled IL 570 million. Purchases on capital account totalled IL 70 million—an increase of IL 12 million, or 20 per cent.

Table VIII-1

**EXPENDITURE OF NONPROFIT INSTITUTIONS,* BY FIELD
OF ACTIVITY, 1962-63
(IL million)**

	1962	1963	%
Health	206	233	41
Education	179	204	35
Social welfare	74	82	15
Others	44	51	9
Total	503	570	100

¹ Purchases on current and capital account and transfers.

¹ Excluding political parties.

² Synagogues, burial societies, etc.

Receipts of the nonprofit institutions went up by 13 per cent in 1963, and totalled IL 562 million, or IL 64 million more than in the previous year. Most of the increase was in public sector transfers—mainly for educational institutions—which were IL 24 million, 29 per cent, higher than in 1962.

Changes in the balances of financial claims amounted to some 2 per cent of all transactions of the sector. In 1963 it reduced its liabilities to the banking system and the financial institutions, mostly through credits and loans from the public sector. A similar reduction took place in 1962, when the sector had large monetary balances on hand as a result of converting foreign currency at a higher rate of exchange after the devaluation.

In 1963 the demand surplus of the nonprofit institutions totalled IL 131 million as against IL 119 million in the previous year, and was equal to some 23 per cent of total purchases by the sector. Most of the demand surplus was financed by transfers from abroad—94 per cent, as against only 6 per cent by credit from other domestic sectors. In 1962, the year of the devaluation, 96 per cent of the demand surplus was financed by transfers from abroad.

1. "BALANCE OF PAYMENTS", BY TYPE OF RECEIPT AND PAYMENT

(a) *Receipts*

Only slight changes occurred in 1963 in the composition of the nonprofit institutions' receipts. Transfers from the public sector accounted for 19 per cent of total receipts, as against 17 per cent in 1962, and transfers from abroad—for 22 per cent as against 23 per cent. The balance—59 per cent in 1963 and 60 per cent in 1962—was derived from sales of goods and services and transfers from households and business.

1. *Transfers from the public sector*

Public sector transfers, which consist of budgetary allocations and the participation of Government and municipal bodies, amounted to IL 109 million in 1963, an increase of IL 24 million over the previous year. The bulk of the transfers, IL 64 million, were for educational institutions, more than half of them for higher education. Health institutions received less than a third—IL 32 million—most of it Government grants for the maintenance of hospitals and clinics.

Most of the public sector transfers came from the Government—IL 82 million. Transfers from the National Institutions totalled IL 17 million, and from the local authorities IL 10 million.

2. *Transfers from the rest of the world*

Transfers from abroad amounted to IL 123 million in 1963, or IL 9 million more than in 1962. Foreign currency proceeds, however, were lower—\$ 41 mil-

Table VIII-2

"BALANCE OF PAYMENTS" OF NONPROFIT INSTITUTIONS, 1962-63

Receipts	1962	1963	Increase	Payments	1962	1963	Increase
Transfers from the public sector	84.8	109.0	24.2	Purchases on current account	428.9	481.5	52.6
Transfers from the rest of the world	114.4	123.1	8.7	Purchases on capital account	58.8	70.5	11.7
Sales on current account and transfers from households and business	299.4	330.3	30.9	Transfer payments to households	15.7	18.0	2.3
Total transfers and sales	498.6	562.4	63.8				
Balance of transactions with other domestic sectors	4.8	7.6	2.8				
Total	503.4	570.0	66.6	Total	503.4	570.0	66.6
Transfers from other nonprofit institutions	10.9	11.8	0.9	Transfers to other nonprofit institutions	10.9	11.8	0.9
Total receipts	514.3	581.8	67.5	Total payments	514.3	581.8	67.5

lion as compared with \$ 47 million in 1962 and \$ 51 million in 1961; the 1963 figure was the lowest for the past six years.¹

The bulk of the transfers from abroad—IL 62 million—were intended for educational institutions (primarily of higher learning and research), for religious institutions and yeshivot (Talmudic academies), and for organizations with main offices abroad such as ORT and the educational institutions of Hadassah. Social welfare institutions, chiefly Malben and various women's organizations such as WIZO, received about a quarter of the overseas transfers—IL 37 million.

3. Sales and transfers from households and business

Income from sales of goods and services and transfers from households and business firms amounted to IL 330 million in 1963—IL 31 million more than in 1962.

Of this sum, IL 176 million represented dues paid by households to trade unions and Sick Funds, as compared with IL 156 million in 1962. The increase occurred mainly in membership dues to the Histadrut (General Federation of Labor in Israel), as a result of a rise both in membership and in average dues per member.

The remaining transfers of households and business in 1963 came to IL 55 million, as compared with IL 53 million in 1962. These receipts consisted primarily of donations to educational and welfare institutions.

Income from the sale of services and goods totalled IL 99 million in 1963, a growth of IL 9 million over 1962. Most of the increase was accounted for by educational institutions, particularly secondary schools, owing to a rise in the weight of school fees in their total receipts, and also by institutions of higher learning and research, which derived a larger income during the year reviewed from research projects undertaken for others.

(b) Payments

Expenditures of the nonprofit institutions during the two years 1962–63 break down as follows: purchases on current account—85 per cent; purchases on capital account—12 per cent; transfers and relief payments to households—3 per cent.

1. Purchases on current account and transfers

Purchases on current account totalled IL 482 million in 1963; about IL 300 million represented payments of wages, salaries, and fringe benefits, which rose

¹ The estimate of the nonprofit institutions' income is based on their balance sheets, which are not always drawn up on a calendar year basis. In the last months of 1961 and the beginning of 1962, part of the foreign currency receipts were converted at the former exchange rate of IL 1.80/\$ 1. Consequently, local currency receipts were higher in 1963 than in 1962 even though dollar receipts were lower.

by IL 42 million, or 17 per cent, over the previous year's figure. Most of the increase was accounted for by educational and health institutions, where wages constitute two-thirds of total current outlay.

Other current purchases—goods, rent, taxes, and interest payments—amounted to IL 183 million, as compared with IL 172 million in 1962.

Transfers to households totalled IL 18 million in 1963. Some IL 8 million of this was in the form of scholarships and prizes awarded by educational and religious institutions to students and scholars; the remainder consisted of relief payments by social welfare and health institutions.

2. *Purchases on capital account*

Purchases on capital account—investment in buildings and equipment—reached IL 70 million in 1963, an advance of 20 per cent over 1962. This is the steepest rise since 1958, and it reflects the expansion of investment which began in mid-1962, mainly in institutions of higher learning. This constitutes a reversal of the downtrend in the level of real investment and in its weight in total purchases of the sector, which began in 1958 when many of the educational and health institutions completed their building programs.

(c) *Financial transactions*

Transactions in financial claims constitute only a small proportion of the nonprofit institutions' activities. The net balance of short- and long-term borrowing from the public sector rose in 1963 by IL 11 million, as compared with an increase of IL 6 million the year before. Net credit from households and business was also higher in 1963. On the other hand, there was a decline of IL 6 million in the balance of net credit from the banking system and financial institutions, following a decrease in 1962 as well.

Aggregate net credit received by the nonprofit institutions was IL 8 million higher in 1963 than in the previous year, as compared with an increase of IL 5 million in 1962.

2. CHANGES IN REAL ACTIVITIES

The rate of real increase¹ in the current operations of the sector has been declining since 1960. In contrast to a rise of 9 per cent in 1960 and 8 per cent in 1961, there was an advance of only 5 per cent in each of the next two years.

Investment of the nonprofit institutions, in real terms,² declined steadily

¹ Expenditure on current account and transfers have been deflated to constant price levels on the basis of the price index of nonprofit institutions' purchases as calculated by the Central Bureau of Statistics.

² Purchases on current account have been deflated to constant price values on the basis of the Bank of Israel's index of investment prices.

Table VIII-3

EXPENDITURE OF NONPROFIT INSTITUTIONS, 1960-63

(at 1960 prices^a)

	Purchases on current account		Purchases on capital account		Total expenditure	
	IL m.	Per cent increase over previous year	IL m.	Per cent increase over previous year	IL m.	Per cent increase over previous year
1960	330	9	54	-4	384	7
1961	357	8	51	-6	408	6
1962	374	5	45	-11	419	2
1963	393	5	51	14	444	6

^a Purchases on current account have been deflated to constant price values according to the Central Bureau of Statistics' price index of nonprofit institutions' purchases, and purchases on capital account according to the Bank of Israel's index of investment prices.

between 1958 and 1962. In 1963, however, there was a 14 per cent rise owing to large-scale building by the institutions of higher education and research (the University of Tel Aviv, Weizmann Institute, and others).

As a result of this larger investment, there was an overall increase of 6 per cent in the operations of the nonprofit institutions in 1963, as compared with a growth of only 2 per cent in 1962.

3. ROLE OF THE NONPROFIT INSTITUTIONS IN THE PROVISION OF SERVICES

Most of the activities of the nonprofit institutions complement those of the public sector in the field of social services. During the period 1960-63 the share of the nonprofit institutions in the supply of health, educational, and social welfare services declined relative to that of the public sector (see Table VIII-4).¹ This is partly attributable to the tendency which has prevailed for the past several years to transfer nonprofit institutions in various fields to the

¹ The comparison here is between the expenditure of nonprofit institutions and that of the public sector. Since the subject of comparison is the provision of services, transfers to nonprofit institutions have been deducted from the expenditure of the public sector, as they are to be regarded not as outlay on services provided by the public sector, but rather as the financing of services actually provided by nonprofit institutions.

In the Bank of Israel Annual Report for 1962 transfers to nonprofit institutions from the public sector were treated as part of the social services provided by the public sector, and therefore the figures cited in the 1962 report differ from those presented here.

public sector, but in the main it was due to the marked expansion of public sector activities in the field of social services.

In the provision of health services, the weight of the nonprofit institutions declined from 71 per cent of the total in 1961 to 70 per cent in 1963. The reason for this was the large expansion that took place in Government health services—health and sanitation offices, hospitals, etc. Public sector expenditure on health services rose by 20 per cent in 1962 and 14 per cent in 1963, while that of nonprofit institutions went up by 19 and 13 per cent respectively.

In the field of social welfare as well, the share of the nonprofit institutions has declined in the last few years in comparison with the public sector. Public sector expenditure on such services, including National Insurance benefits, rose in 1962 and 1963 by 24 and 17 per cent respectively, as compared with 11 and 12 per cent in the case of nonprofit institutions.

The decline in the relative share of nonprofit institutions in the provision of educational, cultural, and religious services from 43 per cent in 1961 to 40 per cent in 1963 is also explained primarily by the expansion of Government activity in respect of primary, secondary, and vocational education.

Table VIII-4

EXPENDITURE* OF NONPROFIT INSTITUTIONS AND THE PUBLIC SECTOR, BY FIELD OF ACTIVITY, 1961-63

	Nonprofit institutions		Public sector		Share of nonprofit institutions in total
	IL m.	Per cent increase over previous year	IL m.	Per cent increase over previous year	
Health					
1961	172	—	71	—	71
1962	206	19	85	20	21
1963	233	13	97	14	70
Education, culture, religion					
1961	153	—	200	—	43
1962	179	17	263	31	41
1963	204	14	310	18	40
Social welfare					
1961	66	—	163	—	29
1962	74	12	203	24	27
1963	82	11	237	17	26

* The expenditure of the public sector has been calculated according to the conceptual framework presented in the Appendix to Chapter VII in the Bank of Israel Annual Report for 1961. It includes purchases on current account, purchases on capital account, welfare payments (including National Insurance benefits), and development budget loans, less transfers to nonprofit institutions.

Expenditure of nonprofit institutions includes purchases on current and capital account and transfers.

The bulk of the sector's expenditure in this field is accounted for by the institutions of higher education—the Hebrew University, the Haifa Technion, the Weizmann Institute, and others—as well as by yeshivot, Talmud Torah religious schools, roof organizations of these institutions, research institutes, and agricultural schools. The relative share of the secondary schools in total expenditure has been moving downward with the transfer of such schools from the nonprofit institution sector to the local authorities. In the case of secondary education, there has been a marked drop in the weight of the nonprofit institutions since 1958; in the case of agricultural schools, the decline has been more moderate (see Table VII-5).

Table VIII-5
SHARE OF NONPROFIT INSTITUTIONS IN SECONDARY AND
AGRICULTURAL EDUCATION IN ISRAEL, 1958-63

	1958	1959	1960	1961	1962	1963
Secondary schools^a						
Total enrollment	16,728	20,350	24,565	30,015	36,538	40,425
No. in nonprofit institutions	8,802	10,477	11,461	12,804	12,169	13,346
Per cent in nonprofit institutions	53	51	47	43	33	33
Agricultural schools						
Total enrollment	5,987	6,404	6,825	7,689	7,833	7,805
No. in nonprofit institutions	4,577	4,897	5,044	5,679	5,453	5,450
Per cent in nonprofit institutions	76	76	74	74	70	70

^a Morning secondary schools in the Jewish educational system only.

SOURCE: Ministry of Education and Culture.

In respect of the total activities of the sector as well, there has been a decline in relation to the level of aggregate domestic economic activity, as may be seen from a comparison of the consumption of the nonprofit institutions¹ with total private and public consumption and gross investment in the economy (see Table VIII-6).

¹ This comparison is based on Central Bureau of Statistics' data on the consumption of nonprofit institutions. These differ somewhat from the data presented elsewhere in this chapter on the institutions' outlay because of conceptual differences (the CBS statistics, for example, do not include the sector's expenditure on food).

Table VIII-6

**SHARE OF NONPROFIT INSTITUTIONS IN DOMESTIC
CONSUMPTION AND INVESTMENT, 1960-63**
(percentages)

	1960	1961	1962	1963
Consumption	7.2	7.1	7.0	6.9
Investment (gross)	5.2	3.9	3.2	3.4

SOURCE: Consumption—Central Bureau of Statistics.
Investment—Bank of Israel.

4. SAVING

A characteristic feature of the nonprofit institutions is the dominant position of organizations with overseas headquarters, such as Hadassah, ORT, WIZO, etc., and the consequent financing of most of their current outlay by transfers from abroad. Many other institutions as well—institutes of higher learning and research and yeshivot—derive funds more or less regularly from individual supporters and organizations abroad for financing part of their current activities. As a result, saving out of local receipts only has been of a considerable negative magnitude. In 1962 and 1963 the dissaving amounted to IL 63 million each year. From this it can be seen that the expansion of current purchases in 1963 was accompanied by a corresponding growth in income from domestic sources.

If the transfers from abroad, which may largely be regarded as ordinary current receipts, are added to the domestic income on current account, then there was a positive saving in 1963 of IL 60 million, as compared with a dissaving of IL 63 million exclusive of such transfers. Compared with 1962, this represents a rise of IL 9 million, the source of which was the larger amount received from abroad.

Table VIII-7

SAVING OF NONPROFIT INSTITUTIONS, 1962-63
(IL million)

	1962	1963
1. Receipts on current account	381.2	436.3
2. Purchases on current account	444.6	499.5
3. Saving out of domestic receipts on current account (1) - (2)	-63.4	-63.2
4. Transfers from abroad	114.4	123.1
5. Saving (4) + (3)	51.0	59.9