

CHAPTER VIII

NONPROFIT INSTITUTIONS

IN 1964 THERE WERE some 5,200 nonprofit institutions providing households with services in the fields of education, health, social welfare, and religion, as well as in the social and political fields.¹ From the legal standpoint, the overwhelming majority of these institutions are organized as Ottoman societies,² while the rest are organized in some other form, such as cooperative societies or limited-liability companies. The latter are included in this sector, as their operations and methods of financing fit the definition of the survey population.³

The nonprofit institutions are not guided in their activities by the market-price mechanism, nor do they operate from motives of financial gain. During the period 1960-64 proceeds from sales of services⁴ accounted for 17-18 percent of total income. The direct return on services provided or sold thus covers only a small part of costs, and consequently the sector has to resort to other sources for financing its activities—mainly transfers from other domestic sectors and from overseas.

The volume of foreign transfers depends to some extent on a number of institutions which raise funds abroad for financing a large part of their programs (current and development budget alike), the consummation of these programs in turn being conditional on the success of their campaigns. The fact that the volume of foreign transfers (in dollar terms) moved downward until 1963, and rose but slightly in 1964, points up the limitations of this source of funds. Institutions which finance a considerable part of their activities through such transfers develop slowly in comparison with others.

The directions in which the sector has developed in recent years are largely

¹ Including more than 4,000 synagogues, 200 yeshivot (Talmudic academies), 100 Talmud Torah religious schools, 50 secondary schools (including evening schools), as well as several score old-folks homes, orphanages, youth and health institutions, etc. Political parties and workers' committees are excluded for lack of reliable data on their financial operations. An explanation of the structure of nonprofit institutions appeared in Bank of Israel Bulletin No. 12, May 1960.

² An Ottoman society is defined by law as a society formed for any purpose other than profit. This survey deals only with institutions providing services to households; it excludes Ottoman societies which provide business services, such as the Taxi Drivers Association and the Cinema Owners Association.

³ For example, Binyanei Ha'ooma Ltd., Beth Reali Ivri Ltd., etc.

⁴ Charges for services provided, except membership fees to Sick Funds and other organizations.

determined by transfers from the public sector, whose weight in total nonprofit institution receipts is on the rise. The increase in these transfers, which are mostly channelled to educational and health institutions, has resulted in a greater expansion of activity in these two fields than in the others.

The output of nonprofit institutions,¹ like that of the public sector, is measured according to their expenditure. Health institutions, which operate on a larger scale than any other institution (see Table VII-1), accounted for 40 percent of the sector's total outlay in 1964. Most of this sum was spent by a single organization—the General Sick Fund—which is the largest institution of all.

Table VIII-1

**EXPENDITURE OF NONPROFIT INSTITUTIONS,^a BY FIELD OF ACTIVITY,
1960-64**
(percentages)

	1960	1961	1962	1963	1964
Health	39	39	41	40	40
Education	30	31	32	33	34
Social welfare	14	15	14	14	13
Others	17	15	13	13	13
Total	100	100	100	100	100

^a Purchases on current and capital account and transfers to households.

The relative share of expenditure on education, the second most important field of activity, increased steadily during the period 1960-64, owing mainly to the rapid development of institutes of higher education and research.

The weight of expenditure in the other fields—social welfare, religion, and trade unions and social organizations—moved downward during this five-year period. The development of these institutions was slow relative to those supplying educational and health services.

Total outlay of the sector in 1964 on current² and capital account stood at IL 665 million at current prices—an increase of IL 85 million, or 14.6 percent, over the previous year.

Purchases on capital account showed a conspicuous rise of 28 percent, from IL 71 million to some IL 99 million. This reflects the increased weight of investment in total expenditure, a trend which began in mid-1962 with the renewal of investment in institutes of higher education and research.

¹ Voluntary work is not included, even though it is productive, as it does not involve any expenditure. Its share in the sector's total output is negligible.

² Including transfers from households.

Table VIII-2
"BALANCE OF PAYMENTS" OF NONPROFIT INSTITUTIONS, 1963-64
 (IL million)

Receipts	1963	1964	Increase	Payments	1963	1964	Increase
Transfers from the public sector	107.9	125.6	17.7	Purchases on current account	485.3	547.2	61.9
Transfers from the rest of the world	127.7	143.3	15.6	Purchases on capital account	76.9	98.5	21.6
Transfers from households and private business enterprises				Transfer payments to households	18.1	19.3	1.2
Membership dues and fees	179.4	210.3	30.9				
Other transfers	55.0	62.7	7.7				
Sales on current account	103.8	113.6	9.8				
Total transfers and sales	573.8	655.5	81.7	Total	580.3	665.0	84.7
Balance of transactions with other domestic sectors	6.5	9.5	3.0	Transfers to other nonprofit institutions	11.8	12.5	0.7
Transfers from other nonprofit institutions	11.8	12.5	0.7				
Total receipts	592.1	677.5	85.4	Total payments	592.1	677.5	85.4

Nonprofit institution receipts went up by 14.2 percent during the year, to reach IL 656 million—an advance of IL 82 million. Most of the increment originated from transfers from households (chiefly membership dues), which constitute the largest income item. The increase in such transfers amounted to 16.5 percent.

Transactions in financial claims represent only a small part of the sector's activities. Outstanding liabilities rose by IL 10 million in 1964, or IL 3 million more than in the previous year. Most of the increase stemmed from the larger amount of credit granted the sector by private business (contractors and suppliers.)

The demand surplus of the nonprofit institutions totalled IL 153 million in 1964, as against IL 134 million the previous year. Only 6 percent of the surplus was financed by credit from other domestic sectors, the remainder being covered by transfers from abroad.

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

(a) Receipts

Several changes occurred in the composition of the sector's receipts during the period 1960-64 (see Table VIII-3). The most prominent was the growing weight of transfers from the public sector, which amounted to 19 percent in 1964 as against 15 percent in 1960. In contrast, the weight of transfers from households fell from 45 percent in 1960 to 41 percent in 1963 and 42 percent in 1964.

The share of the two remaining sources (sales and transfers from the rest of the world) remained more or less unchanged.

Table VIII-3
RECEIPTS OF NONPROFIT INSTITUTIONS, 1960-64
(percentages)

Source	1960	1961	1962	1963	1964
Transfers from households	45	44	42	41	42
Transfers from the rest of the world	22	22	23	22	22
Transfers from the public sector	15	16	17	19	19
Sales of services	18	18	18	18	17
Total	100	100	100	100	100

1. Transfers from households

Transfers from households to nonprofit institutions were IL 39 million greater than in 1963, and totalled IL 273 million. Of this sum, IL 30 million stemmed from the 17 percent increase in membership dues paid to the Sick Funds and trade unions,¹ which totalled IL 210 million in 1964. The growth in dues collections resulted mainly from a rise in the average wage received by members.² Membership in the Histadrut (General Federation of Labor in Israel), which accounts for a large part of total receipts from dues, rose in 1964 by 5.5 percent, and stood at over 870,000 in November.

About two-thirds of the transfers from households went to health institutions (see Table VIII-4), mainly Sick Funds. Trade unions and social organizations received about one-quarter. In these two fields transfers from households constitute the biggest source of income.

Table VIII-4
TRANSFERS FROM HOUSEHOLDS TO NONPROFIT
INSTITUTIONS, BY FIELD OF ACTIVITY, 1964

Field of activity	IL m.	%	Household transfers as a percent of total receipts in field of activity
Health	164.7	60	65
Education	21.3	8	10
Social welfare	19.0	7	21
Others	68.0	25	75
Total	273.0	100	42

Other household transfers to nonprofit institutions consisted of grants and donations to religious, educational, and social welfare institutions; these amounted to IL 63 million in 1964. Of this sum, IL 29 million went to synagogues and other religious institutions, and about IL 10 million to institutes of higher learning and research.

¹ Part of the membership dues may be regarded as purchases by households instead of transfers by them, but since it is impossible to separate purchases and transfers, all membership dues have been treated as transfers.

² In November 1963, 17 percent of the Histadrut's members had reached the maximum level of income subject to tax (IL 500 monthly); by November 1964 the figure was up to 23 percent.

2. *Transfers from the rest of the world*

Transfers from abroad totalled IL 143 million (\$ 47.5 million), as against IL 128 million in 1963. In spite of this rise, foreign currency proceeds were still lower in 1964 than in each of the three years preceding 1963, when they averaged about IL 147 million (\$ 49 million) annually.

Transfers from abroad finance both current operations and investments. The share of these receipts, which are originally intended for investment, is estimated to range between 20 and 25 percent of the total annual amount obtained from overseas. These transfers are mainly for institutions operating in specific fields, e.g. institutes of higher education and research, yeshivot (Talmudic academies), Christian educational and health institutions, and certain social welfare institutions.

In 1964 the bulk of foreign transfers went to institutions which together accounted for less than 30 percent of the sector's total operations.¹ About IL 80 million, or 56 percent of the aggregate sum, went to educational institutions, especially those of higher learning and research. These institutions do not finance their current budgets from such income but earmark a large part of it for development purposes while attempting to cover their operating expenses from local sources. It should be noted that in some cases the transfers are related to a specific investment project and would not be forthcoming unless the project is carried out.

Social welfare institutions received about IL 38 million in 1964, most of it intended for various women's organizations and Malben. In these two fields—education and social welfare—overseas transfers constitute the major income item.

3. *Transfers from the public sector*

Public sector transfers expanded by IL 18 million, or 16.5 percent, and totalled IL 126 million. Educational institutions received most of the incremental public sector transfers—IL 14 million out of IL 18 million. Their share of all such transfer receipts came to 60 percent; these went principally to institutes of higher learning and research, and were extended in the form of budgetary allocations. All told, educational institutions received IL 75 million in 1964 as against IL 61 million the previous year; of this sum, IL 43 million went to institutes of higher education. Transfers from the public sector constituted about 33 percent of all educational institution receipts, as against 28 percent in 1960 (see Table VIII-5).

Health institutions received approximately IL 33 million, compared with IL 32 million the year before. In the other fields as well, except for social welfare, the proportion of such transfers in total receipts went up.

¹ The reference is to institutions where transfers from abroad constitute more than a third of their total receipts.

Table VIII-5

**PUBLIC SECTOR TRANSFERS TO NONPROFIT INSTITUTIONS,
BY FIELD OF ACTIVITY, 1964**

Field of activity	IL m.	%	Public sector transfers as a percent of total receipts in field of activity	
			1964	1960
Health	32.8	26	13	11
Education	74.9	60	33	28
Social welfare	12.6	10	14	17
Others	5.3	4	6	1
Total	125.6	100	19	15

Although the share of the public sector in financing nonprofit institutions is increasing, it still constitutes the smallest source of funds for most of them, except in the field of education.

4. Sales of services

Income from sales of goods and services amounted to approximately IL 114 million, a growth of IL 10 million over 1963. About 42 percent of the sales, or IL 48 million, were accounted for by educational institutions, and represented some 22 percent of their total proceeds. Most of these receipts were school fees, while the remainder came from the participation of various institutions in financing research and scientific projects.

The health institutions' receipts from sales of services came to IL 39 million, or 34 percent of total sales by the sector. The reference is to the direct sale of services—i.e. other than through taxation of members but including transfers from the National Insurance Institute.

(b) Payments

The composition of the sector's outlay (see Table VIII-6) exhibited contrary trends during the period 1958-64. In 1958 the proportion expended on investment began to move downward¹ and continued in that direction until mid-1962, when several institutions embarked on large-scale development projects. As from that year, the share of investment has been rising.

1. Purchases on current account

Purchases on current account totalled IL 547 million on 1964, a growth of IL 62 million, or 13 percent, over the previous year. Most of the increase—IL 37 million—was in wage and salary payments, which amounted to IL 333 million, or more than half of aggregate expenditure. This item was the highest for all types of institutions.

¹ Purchases on capital account amounted to 17 percent of total expenditure in 1958.

Table VIII-6
EXPENDITURE OF NONPROFIT INSTITUTIONS, 1958-64
 (percentages)

	1958	1959	1960	1961	1962	1963	1964
Purchases on current account	80	82	83	84	85	84	82
Purchases on capital account	17	15	14	13	12	13	15
Transfers to households	3	3	3	3	3	3	3
Total	100						

The share of health institutions in the total wage bill went up from 40 percent in 1960 to 44 percent in 1964 (the General Sick Fund accounts for more than two-thirds of aggregate wages). The share of educational institutions rose from 25 to 30 percent, while that of the rest of the sector declined from 35 to 28 percent. These changes stemmed from the rapid development of educational and health institutions, where outlay on wages and salaries is relatively high.

Other purchases on current account¹ added up to IL 214 million in 1964, an increase of IL 25 million over the previous year.

2. *Purchases on capital account*

Purchases on capital account amounted to some IL 100 million, an advance of 28 percent over 1963. Investment in educational facilities totalled IL 59 million in 1964, as against IL 43 million the previous year,² while health institutions invested IL 18 million, compared with IL 16 million in 1963.

A breakdown of the sector's investments by field of activity shows educational institutions heading the list: during the years 1957-64 they accounted for more than half of all investments. In second place were health institutions.

3. *Transfers to households*

Transfers to households totalled IL 19 million in 1964, or 3 percent of the sector's aggregate expenditure. These transfers came from educational institutions—scholarships and research grants—and from social welfare and health institutions (relief payments).

(c) *Financial transactions*

Net long-term borrowing from the public sector rose by IL 8 million in 1964, compared with IL 11 million the year before. The balance of credit from house-

¹ Purchases of goods and services, rent, taxes, and interest payments.

² Investment in four institutions—the Haifa Technion, Weizmann Institute, Tel Aviv University, and the Hebrew University in Jerusalem—amounted to IL 50 million in 1964.

holds and business (primarily contractors) went up by IL 10 million, as against IL 9 million in 1963. Credit extended by nonprofit institutions to households was IL 5 million larger in 1964—about the same increase as in the previous year. The net balance of loans and credits from other domestic sectors rose by IL 10 million, compared with IL 7 million the year before.

Transactions in financial claims include transactions in securities. Only a very few institutions hold securities—a number of old-folks homes, loan funds, and institutes of higher education. In this respect nonprofit institutions in Israel differ from those in other (Western) countries, where portfolio investment constitutes an important source of income.¹ This situation is largely due to the linking of donations and legacies to specific investment and development projects.

2. DEMAND SURPLUS AND FINANCING OF PURCHASES ON CAPITAL ACCOUNT

(a) *Demand surplus*

The demand surplus of the sector is defined as the excess of transfers from other domestic sectors over net purchases (i.e. less sales). The surplus (at current prices) has been growing in recent years (see Table VIII-7); in other words, the increase in income from local sources is lagging behind that of expenditure. It should be stressed, however, that the demand surplus is actually concentrated in a small number of institutions financed largely by transfers from abroad, e.g. ORT, WIZO, Alliance Israélite Universelle, Hadassah, etc. These institutions, whose headquarters and managements are located overseas, constitute a living link between Diaspora Jewry and this country, enabling it to actively participate in Israel's social and economic life.

The operations of these institutions are largely financed by foreign transfers, and this results in the creation of a demand surplus. In 1964 the surplus totalled IL 153 million, compared with IL 134 million the year before. Of this sum, 94 per cent was covered by transfers from abroad, and only 6 per cent through additional domestic credit.²

A good criterion of the sector's dependence on its demand surplus is the ratio between it and total purchases. Whereas in 1960 the demand surplus represented 26.5 per cent of total purchases, the proportion declined to 23.5 per cent in 1964. That is to say, despite the increase in the demand surplus, the ratio between it and total purchases is falling. This is due to the fact that the sector's domestic operations have been growing faster than its receipts from abroad.

¹ The fund established out of the Swope legacy to the Technion is an outstanding exception.

² In the years prior to the devaluation of February 1962, 85 per cent of the sector's demand surplus was financed by transfers from abroad. The higher exchange rate enabled some institutions to repay part of their liabilities to the banking system and financial institutions in 1962, with the result that the share of the demand surplus financed by overseas transfers went up to 96 per cent that year.

Table VIII-7
DEMAND SURPLUS OF NONPROFIT INSTITUTIONS, 1960-64
 (IL million)

	1960	1961	1962	1963	1964
Demand surplus					
Purchases, less sales	320.2	352.9	397.5	458.4	532.1
Less: Net income from domestic transfers	217.4	244.0	278.3	324.2	379.3
Total	102.8	108.9	119.2	134.2	152.8
Financing of demand surplus					
Transfers from the rest of the world	85.8	92.1	114.4	127.7	143.3
Net credit from other domestic sectors	17.0	16.8	4.8	6.5	9.5
Total	102.8	108.9	119.2	134.2	152.8
Demand surplus as a percent of purchases	26.5	25.3	24.4	23.9	23.7

(b) *Financing of purchases on capital account*

Nonprofit institution saving is defined as the excess of net purchases¹ on current account over transfers on current account from other domestic sectors. This figure, which is of a negative magnitude, actually represents the sector's share in national saving. The sector has displayed an improvement in this respect, the amount of dissaving dropping from IL 63 million in 1962 to IL 58 million in 1964 (see Table VIII-8).

Transfers from abroad are intended partly for financing the current activities of the nonprofit institutions and partly for financing their investments. If dissaving from domestic income is deducted from total overseas transfers, the balance may be taken to represent the contribution of this source to the financing of investment. The figure rose from IL 51 million in 1962 to IL 85 million in 1964, sufficient to cover about 87 percent of the nonprofit institutions' total investment.

The weight of the public sector in total receipts on capital account has been declining. These transfers are mainly intended to finance current rather than development budgets.

¹ Purchases less sales.

Table VIII-8
FINANCING OF NONPROFIT INSTITUTION PURCHASES ON
CAPITAL ACCOUNT, 1962-64

	1962		1963		1964	
	IL m.	%	IL m.	%	IL m.	%
Purchases on capital account	58.8		76.9		98.5	
Financing of purchases						
1. Transfers from abroad	114.4		127.7		143.3	
2. Saving out of domestic income	-63.4		-60.3		-57.8	
3. (1) + (2)	51.0	87	67.4	87	85.5	86
4. Public sector transfers on capital account	3.0	5	3.0	4	3.5	4
5. Net credit from other domestic sectors	4.8	8	6.5	9	9.5	10
Total	58.8	100	76.9	100	98.5	100

Net credit from other domestic sectors¹ has exhibited a slow upward trend—from 8 percent of total receipts on capital account in 1962 to 10 percent in 1964.

3. CHANGES IN REAL ACTIVITIES

The rate of real increase in the sector's overall operations went up in the last two years. This constitutes a reversal of the downtrend in the growth rate, which began in 1958 when some of the big institutions completed their building programs.

The real growth of investment amounted to 24 percent in 1964 and 22 percent in 1963, in contrast to a decline during the three preceding years. This increase, as already mentioned, was due to the larger investment in institutes of higher education and research. As a result of this expansion of investment, the scope of the sector's operations rose by 7 percent in 1963 and 8 percent in 1964. These increases were lower than those in the real national product during these two years, and consequently the sector's share of the national product and consumption continued downward.

It should be noted that the growth of the sector's real activities stemmed from

¹ The balance of financial transactions with other domestic sectors. Transfers from households for investment purposes were not classified separately for lack of data. All transfers from households have therefore been treated as transfers on current account.

Table VIII-9
EXPENDITURE OF NONPROFIT INSTITUTIONS, 1960-64
 (IL million, at 1960 prices)

	Purchases on current account ^a	Purchases on capital account ^b	Total expenditure	
			IL m.	Percent real increase over previous year
1960	330	54	384	7
1961	357	51	408	6
1962	374	45	419	2
1963	396	55	451	7
1964	418	69	487	8

^a Deflated to constant price values according to the Central Bureau of Statistics' price index of nonprofit institutions' purchases.

^b Deflated to constant price values according to the Bank of Israel index of investment prices.

a large expansion in a limited number of big institutions.¹ This was accompanied by a decline in the activities of some nonprofit institutions, namely:

1. Trade unions, sports clubs, and social, fraternal, and similar organizations, where the rise in membership and dues was not as rapid as the rise in prices.²
2. Social welfare institutions, such as immigrant hostels, immigrant organizations, etc.³

In addition, the past several years have seen the transfer to the public sector of such institutions as schools, hospitals, etc.

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

In most fields of activity the nonprofit institutions operate side by side with other domestic sectors (business and the public sector). However, they do not compete with these sectors but complement them, for the latter specialize in different services.

In the health field the nonprofit institutions provide health insurance and clinical treatment and hospitalization for the insured. In the field of education most of the activity is in higher education and research, vocational education, and yeshivot, and—together with the public sector—also secondary and agri-

¹ In 1964, 74 percent of the sector's total expenditure was accounted for by 28 big institutions, each of which had an outlay of more than IL 2 million.

² I.e. a relative decline.

³ An absolute decline.

Table VIII-10

**EXPENDITURE* OF NONPROFIT INSTITUTIONS AND PUBLIC SECTOR.
BY FIELD OF ACTIVITY, 1961-64**

(IL million)

	1961	1962	1963	1964
Health				
Public sector	71	85	94	118
Nonprofit institutions	172	206	232	263
Education, culture, religion				
Public sector	200	263	311	390
Nonprofit institutions	153	179	216	254
Social welfare				
Public sector ^b	163	203	244	289
Nonprofit institutions	66	74	80	88
	Share of nonprofit institutions in provision of services (%)			
Health	71	71	71	69
Education, culture, religion	43	41	41	39
Welfare	29	27	25	23

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

^b Including benefit payments by the National Insurance Institute.

cultural schools. However, the share of nonprofit institutions in these two fields has been declining relative to that of the public sector.¹

A comparison with the public sector shows that the weight of nonprofit institutions in the provision of social services has been falling. This is attributable to the marked expansion of such services provided by the public sector, which in the past four years stepped up its annual outlay² in this field by an average of 23 percent, as compared with 15 percent for the nonprofit institutions.

In the provision of health services the weight of nonprofit institutions declined relative to that of the public sector—from 71 percent in 1963 to 69 percent in 1964.

¹ Most of the secondary and agricultural schools founded during the last decade belong to the public sector, while those schools which are nonprofit institutions were in most cases established before the State.

² Public sector expenditure on social services consists of purchases on current and capital account, welfare payments, and development budget loans, less transfers to nonprofit institutions. These transfers should not be regarded as outlay on services provided by the public sector, but as the financing of services actually provided by the nonprofit institutions.

The fact that the nonprofit institutions provide more health services than the public sector is mainly attributable to the Sick Funds. The latter function as nonprofit rather than State-run institutions because of their connection with trade unions, and in their operations they largely substitute for national health services.¹

In the field of educational and religious services the share of nonprofit institutions fell from 41 to 39 percent, chiefly because of the expanded role of the Government and local authorities in the provision of primary and secondary education.

The weight of the nonprofit institutions relative to the public sector also declined in the field of social services—from 25 percent in 1963 to 23 percent during the year reviewed. A large part of the increase in public sector outlay in this field has stemmed from the rise in provident payments and National Insurance benefits.

¹ The Sick Funds also resemble the public sector in their method of financing, which is based on the taxation of members.