

CHAPTER XII

NONPROFIT INSTITUTIONS

1. MAIN DEVELOPMENTS ¹

The scope of real activity in the nonprofit institution sector has remained stable for the past three years. This stability in total sector activity stems from the continued increase of current expenditure, including wage payments and current purchases, against a decrease in investments. Total uses of the sector amounted to more than IL11 billion, constituting about 8 percent of total domestic uses in the economy (including private consumption, investments, and public consumption except defense).

TABLE XII-1

ACTIVITY OF NONPROFIT INSTITUTIONS: MAIN INDICATORS, 1972-1977
(percent, current prices)

	1972	1974	1975	1976	1977
Uses as a percent of total domestic uses excl. defense ^a	8.5	8.0	7.5	7.5	8.0
Current account expenditure as a percent of private consumption	12.0	10.5	10.5	10.5	11.0
Capital expenditure as a percent of gross domestic investment	5.0	5.0	4.5	5.0	4.5
Wages as a percent of public sector wages (excl. defense)	60.0	53.5	53.0	53.0	49.0
Current account expenditure as a percent of civilian public consumption	68.0	61.0	61.0	59.0	55.0
Capital expenditure as a percent of public sector investments	33.0	33.0	26.0	28.0	25.0

^a Including private consumption, public civilian consumption, and investments.

¹ The scope of nonprofit institution activity is based in this chapter on a sample of 22 large institutions. Estimates of the Central Bureau of Statistics concerning activities of nonprofit institutions are based on a different sample, and are therefore not comparable to estimates in this chapter.

TABLE XII-2

EXPENDITURE AND REAL GROWTH OF THE NONPROFIT INSTITUTION
SECTOR BY FIELD OF ACTIVITY, 1975-1977

	Current prices			Annual increase or (-) decrease in real terms ^a		
	1975	1976	1977	1975	1976	1977
	(IL million)			(percent)		
Health						
Total current account expenditure	2,157	2,939	4,519	6.5	5.0	4.0
Wages	(1,132)	(1,612)	(2,633)	(10.5)	(9.0)	(4.0)
Current purchases	(1,025)	(1,327)	(1,886)	(2.0)	(1.0)	(4.5)
Capital expenditure	415	473	541	2.5	-10.0	-17.5
Total	2,572	3,412	5,060	6.0	2.5	1.0
Education and research						
Total current account expenditure	1,894	2,417	3,423	3.0	3.0	-2.0
Wages	(1,273)	(1,650)	(2,409)	(8.5)	(6.5)	(-2.0)
Current purchases	(621)	(767)	(1,014)	(-7.5)	(-4.0)	(-2.5)
Capital expenditure	544	603	701	-4.5	-13.5	-16.0
Total	2,438	3,020	4,124	2.0	-0.5	-4.5
Social welfare and miscellaneous						
Total current account expenditure	850	1,144	1,713	4.5	6.5	6.5
Wages	(491)	(672)	(1,044)	(7.0)	(3.5)	(8.0)
Current purchases	(359)	(472)	(669)	(2.0)	(2.5)	(4.0)
Capital expenditure	191	225	265	-17.5	-8.0	-15.0
Total	1,041	1,369	1,978	0.0	3.8	3.0
Sector totals						
Total current account expenditure	4,901	6,500	9,655	5.0	4.5	2.0
Wages	(2,896)	(3,934)	(6,086)	(9.0)	(8.0)	(2.0)
Current purchases	(2,005)	(2,566)	(3,569)	(-1.0)	(-0.5)	(2.0)
Capital expenditure	1,150	1,301	1,507	-4.5	-12.0	-16.5
Total	6,051	7,801	11,162	3.0	1.5	-1.0

NOTE: Current purchases include interest payments. In order to get the real rate, data on wages were discounted by wage rises in each field of activity. Current purchases were discounted by the price index of private consumption, and investment - by the price index of investment in the public sector.

^a Figures are rounded off to nearest half.

Table XII-1 shows various indicators of the scope of activity in the sector relative to the economy as a whole (domestic uses, private consumption, and investments). The non-profit institution sector has more or less maintained its weight during recent years. The long-range trend in the relative weight of the sector in the economy as a whole also shows a certain stability, as against a decline in its weight relative to the size of the public sector. The ratio between expenditure in current account of the sector and total civilian public consumption fell from 61 percent in 1975 to about 55 percent in 1977. A similar trend is observed when wages and investments of these sectors are compared.

The source of the real reduction in the scope of sector activities in 1977 lies in the shrinking of investments of the sector. Current activity, including current purchases and wage payments, increased in 1977 by 2 percent in real terms, compared to 4-5 percent in the two preceding years. Wage increases stood out more in health institutions than in education and research institutions.

The financing of sector expenditures stems from the sector's own resources, constituting about 40 percent, from transfers from the public sector, amounting to 35 percent, and the balance from transfers from abroad. The annual deficit, i.e. the difference between expenditures and revenues, amounted to about IL800 million in 1977. The cumulative deficit of the sector reached IL2.5 billion this year, compared with IL1.7 billion in 1976.

2. STRUCTURE OF THE SECTOR

Nonprofit institutions are institutions supplying health, education, and welfare services to households, as well as various social services. These include religious institutions, sports organizations, professional associations, etc.

A high degree of centralization characterizes the structure of the sector: most of the economic activity is concentrated in the hands of a small number of institutions, about 30 to 40, while the sector as a whole consists of more than ten thousand institutions, about half of which are synagogues.

The trend of development of sector institutions over the years was not uniform: until 1972, education and research institutions expanded, while in health institutions there was a relative contraction; the weight of education and research institutions in total uses of the sector amounted to 45 percent, and that of health institutions, 39 percent. Since 1972, the trend has changed direction, and a gradual decrease began in the relative weight of education, to about 36 percent in 1977. At the same time, health institutions expanded, and their weight reached 46 percent in 1977, against 44 percent in 1976. Welfare institutions and various social organizations maintained their relative weight during most of these years.

TABLE XII-3

**TOTAL SOURCES OF THE NONPROFIT INSTITUTION SECTOR
BY FIELD OF ACTIVITY, 1975-1977**

	1975	1976	1977	Weight in total sources				
				1972	1974	1975	1976	1977
	(IL million)			(percent)				
Health								
Net transfers from the public sector	560	595	980	15.0	20.0	22.0	17.5	19.5
Foreign transfers	242	294	316	7.5	8.5	9.0	8.5	6.0
Independent sources*	1,450	2,054	3,169	63.5	58.5	56.5	60.0	62.5
Loans	320	469	595	14.0	13.0	12.5	14.0	12.0
Total sources	2,572	3,412	5,060	100.0	100.0	100.0	100.0	100.0
Education and research								
Net transfers from the public sector	1,525	1,847	2,485	60.0	63.5	62.5	61.0	60.5
Foreign transfers	427	541	714	18.0	14.5	17.5	18.0	17.5
Independent sources*	405	543	834	18.0	16.5	16.5	18.0	20.0
Loans	81	89	91	4.0	5.5	3.5	3.0	2.0
Total sources	2,438	3,020	4,124	100.0	100.0	100.0	100.0	100.0
Social welfare and miscellaneous								
Net transfers from the public sector	304	385	550	15.5	30.5	29.0	28.0	28.0
Foreign transfers	343	478	625	26.0	36.0	33.0	35.0	31.5
Independent sources*	312	437	719	53.0	30.5	30.0	32.0	36.5
Loans	82	69	84	5.5	3.0	8.0	5.0	4.0
Total sources	1,041	1,369	1,978	100.0	100.0	100.0	100.0	100.0
Sector totals								
Net transfers from the public sector	2,389	2,827	4,015	35.0	40.5	39.5	36.0	36.0
Foreign transfers	1,012	1,313	1,655	15.0	15.5	16.5	17.0	15.0
Independent sources*	2,167	3,034	4,722	41.5	36.0	36.0	39.0	42.0
Loans	483	627	770	8.5	8.0	8.0	8.0	7.0
Total sources	6,051	7,801	11,162	100.0	100.0	100.0	100.0	100.0

* Independent sources include sales (e.g. tuition fees and members' dues).

3. USES OF FUNDS

Total uses of the sector, including current and capital purchases, as well as wage payments, stabilized this year, as in the past two years. There was a real increase of about 2 percent in current expenditures (purchases and wage payments) in 1977, compared with 4-5 percent in the preceding two years.

The activity of the sector in the year under review was influenced by the contraction of activities in educational institutions, mainly in higher education. The reduction of resources at the disposal of educational institutions, which depend heavily on transfers from the public sector, forced them to reduce their activities considerably. It should be noted that only 23 percent of the financing of expenditure in institutions of higher education stems from their own resources, as against about 60 percent in health organizations; thus, these institutions are more sensitive to budget reductions of the government and the national institutions. The reduction of activity was expressed mainly in the area of investments, which dropped by 16 percent in 1977, which is sharper than the decline in 1976.

The reduction made itself felt in current activities as well, as reflected in current purchases: these suffered a real decline in the past three years. This pressure was also noticeable in the freezing of academic positions as well as those of employees in both administration and the services². There was a considerable increase in the real level of wages in health institutions this year: a real increase of about 4 percent as compared to 9-10 percent in the preceding two years. These rates are high in relation to other institutions of the sector and to the economy as a whole.

The considerable drop in sector investments to a certain extent corresponds to developments in the public and the private economy: total investments of the public sector decreased in real terms by about 6 percent in 1977, as against 16 percent in 1976. At the same time, investments of the nonprofit institution sector decreased even more than that this year: 16 percent, as against a decrease of 12 percent in 1976.

4. SOURCES OF FUNDS

The sources of the sector (excluding financial sources) can be divided into the main

² For example, the number of positions in the five institutions for higher education totalled 14,200 in 1977, compared with 15,600 in 1976.

components: transfers from other sectors, including transfers from abroad; independent resources of the sector itself, stemming from the sale of the sector's products and services (at prices that are not always either market or cost prices); the third component is loans, which finance the difference between uses and transfers and the independent sources. These loans constitute 7-8 percent of all sources, and they amounted to about IL800 million in 1977. The continuing growth of the deficit led to a cumulative deficit estimated at IL2.5 billion this year, compared with IL1.7 billion in 1976 and IL1 billion in 1975. On the one hand, the accumulation of deficits increases the pressure exerted by the institutions of the sector on the government for increase of its support, as well as the loans for the consolidation of debts, and linkage insurance. On the other hand, the government exerts pressure on the institutions to increase the extent of self-financing, for example by making the allocation of support to the sick funds conditional on the increase of medical insurance fees and the collection of levies on medicines. This pressure has brought certain results, and it appears that the weight of independent sources of the sector in total sources increased in recent years from 36 percent in 1975 to 42 percent in 1977, stemming mainly from the doubling of tuition fees in the universities in the last three years³. This occurred in parallel with a decline in the weight of transfers from the public sector. The comprehensive support of the public sector to the nonprofit institution sector is concentrated in educational and research institutions, receiving about 60 percent of total support. More than one quarter of public sector support is directed to health services, and the balance, 10-15 percent, is directed to welfare and other institutions. Most of the transfers from abroad are also directed to educational institutions, which receive more than 40 percent of all transfers to the sector.

It is interesting to examine the weight of independent sources of each institution in the total independent sources of the sector: in health institutions, their weight amounts to more than 60 percent, as against about 20 percent in educational and research institutions. Independent sources in health institutions, the weight of which increased in the last years, include mainly membership fees, employers' matching contributions (paid by the employer) and employers' matching contributions from the self-employed, collected through the sick funds. Self-financing includes various revenues from services rendered by the sick funds, such as payments for drugs and hospitalization and amounts repaid to the sick funds by the National Insurance Institute for treatment of victims of work accidents.

³ Thus, for instance, revenue from tuition fees in the 5 institutions of higher learning amounted to IL209 million in 1977, compared with IL135 million in 1976 and IL96 million in 1975.

5. FINANCIAL RESOURCES AND USES

Financial resources of the sector amounted to IL1.5 billion in 1977, as compared to IL1.2 billion in 1976. Financial resources include two main components: loans and the growth of funds. Funds are earmarked for specific purposes, generally determined by the institution, such as the fund for anticipated price increases, the stipend fund, the fund destined for projects not yet carried out, as well as funds whose destination is determined by outside factors, which may only be used for the purposes determined by the donor.

TABLE XII-4

FINANCIAL SOURCES AND USES OF THE SECTOR, 1975-1977 (IL million)

	1975	1976	1977
Total financial sources	1,118	1,212	1,551
Receipt of long-term loans ^a	377	439	561
Foreign loans and growth of funds	530	280	359
Receipt of short-term loans	211	493	631
Total financial uses	1,118	1,212	1,551
Budget financing	483	627	770
Growth of current assets			
(cash and deposits)	115	113	178
Acquisition of financial assets	432	413	528
Loan repayments	88	59	75

NOTE: Data on financial sources and uses for 1975 and 1976 are based on a sample of 18 institutions, rather than 22 institutions as in the other tables. Some of the institutions did not present any balance for 1977, hence the data are based on partial information received from the institution. All data are based on net growth.

^a Including loans for consolidation and other subsidies.

Loans include both long- and short-term loans; short-term loans increased by 28 per cent in 1977. In the last two years there has been an increase in short-term loans due to pressure from the public sector expressed, as previously mentioned, in a drop in the weight of its support to the nonprofit institution sector, and as a result of this pressure, institutions of the sector turned to credit granting sources: banks, suppliers and contractors, in addition to the public sector.

Total financial uses include the growth of current assets (cash and deposits) and loan repayments. It should be noted that the institutions of the sector invested in financial assets a sum of about IL500 million in 1977, as compared to IL400 million in 1976.