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DEFINING THE NONPROFIT SECTOR:

ISRAEL

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PREFACE

This is one in a series of Working Papers produced under the Johns Hopkins Comparative Nonprofit Sector Project. Now in its second phase, this Project is a collaborative effort by scholars in over twenty countries to understand the scope, structure, and role of the nonprofit sector using a common framework and approach.

The Working Papers provide a vehicle for the initial dissemination of the work of the Project to an international audience of scholars, practitioners and policy analysts interested in the social and economic role played by nonprofit organizations in different countries, and in the comparative analysis of these important, but often neglected, institutions.

Working Papers are intermediary products, and they are released in the interest of timely distribution of Project results to stimulate scholarly discussion and inform policy debates. A full list of these papers is provided on the inside of the back cover.

The production of these Working Papers owes much to the devoted efforts of our Local Associates, and our project staff, in particular Regina Rippetoe, the project manager, and Wendell Phipps, the project's secretary. We also want to express our deep gratitude to our colleagues on this project, to the International Advisory Committee that is helping to guide our work, and to the many sponsors of the project listed at the end of this paper.

The views and opinions expressed in these papers are those of the authors and do not necessarily represent the views or opinions of the institutions with which they are affiliated, The Johns Hopkins University, its Institute for Policy Studies, any of its officers or supporters, or the series' editors.

We are delighted to be able to make the early results of this project available in this form and welcome comments and inquiries either about this paper or the project as a whole.

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DEFINING THE NONPROFIT SECTOR: ISRAEL[1]

INTRODUCTION

The term "nonprofit sector" is clouded by ambiguities and obscurity and is used to describe a phenomenon which varies tremendously across societies, cultures, historical periods and environments. Thus it is essential, before trying to research the nonprofit sector in a certain society, to define its meaning in that society. The purpose of this paper is to clarify the role of the third sector in Israel, its historical background, the types of organizations that comprise it, its standing in the political economy of Israel, and how its characteristics comply with the structural-operational definition utilized in the Johns Hopkins Comparative Nonprofit Sector Project and with several nonprofit sector theories.

In addition to the regular confusion and misconceptions abundant in this field, in Israel this task of defining the nonprofit sector is even more challenging because the assumption of the sector as an entity is hardly accurate. A wide variety of nonprofit organizations and associations, and quasi-governmental organizations have always existed in Israel. Yet, they do not consider themselves part of a sector, nor would outsiders. For a variety of reasons, which will be elaborated later in this paper, the delineation of the sector in Israel is rather ambiguous and there is no clear-cut, distinct nonprofit sector as such (Gidron, 1992).

There are three main factors which are crucial to defining and understanding the nonprofit sector in Israel. The first is religion, whose relation to the Israeli nonprofit sector is complicated by the fusion between religion and State. Its importance is evident in the large share and wide variety of religious organizations in the sector. The religious aspect of the nation is also the reason for the deep involvement of the Diaspora Jews in the third sector (and in Israel as a whole), mostly through contributions. This is an historical element which started with Diaspora support for the Jewish community in the holy cities in Palestine for two millennia and continued with its support of the Zionist movement, the pre-State organizations and is now evidenced by its support of Israel and the conception of Israel as "the home of the Jewish people."

The religious roots of the Israeli third sector require special attention. Judaism has encouraged and sometimes required voluntarism and charity for thousands of years; this led to the creation of nonprofit organizations in Jewish communities all over the world. These organizations often served the specific purpose of preserving religious and group identity, a notion which was carried to the modern Israeli nonprofit sector.

The second point relates to the pre-State era. In the years preceding the establishment of the State of Israel, both under the Ottoman rule, but mainly under the British mandate over Palestine, the Jewish population in Palestine managed its internal affairs autonomously. This was done mostly through what we would term today "nonprofit organizations." Some of those acted in a quasi-governmental capacity, and served as the coordinating and financing arms of the Jewish community. Thus the Israeli third sector developed in the absence of a State and sometimes as a substitute for it. Moreover, the pre-State nonprofit organizations knowingly set up the infrastructure for the State-to-

be and its service delivery agencies. This historical fact had a long-lasting effect on specific characteristics of the Israeli third sector, such as the differences in legal status between pre-State nonprofits and other nonprofits, issues of autonomy, government involvement, funding patterns and more.

The final factor to be considered when defining the third sector in Israel is the effect of the predominant ideology of the political system on the nonprofit sector. Political centralism, dominant until the 1970s, resulted in a relatively small (in terms of number of establishments) nonprofit sector, highly dominated by the government. The subsequent transition to an individualistic and pluralistic ideology triggered a significant expansion and diversification of the nonprofit sector. The effects of these changes are also reflected in government-nonprofit sector relations, in the sector's funding patterns, etc., thus demonstrating the compelling influence the political climate has on the nature of the third sector. Hence, understanding the effects of the dominant political ideologies is crucial to understanding the development of the nonprofit sector in Israel.

These last two characteristics of the sector explain the public sector's proximity to and intervention in the nonprofit sector. This proximity is evident in the third sector's structure, as is seen in the basically public-nonprofit sector hybrid organizations, and the unclear delineation between these two sectors in Israel. The public sector is also the main source of nonprofit sector funding, and it has even been involved in the funneling and distribution of contributions by Diaspora Jewry. Finally, the nonprofit sector's close relations to the government have resulted in the government's use of some third sector organizations as instruments for policy implementation.

We believe these themes are crucial in defining, understanding and classifying nonprofit sector organizations in our country.

HISTORICAL BACKGROUND

The special characteristics of today's Israeli nonprofit sector have roots in the historical development of the society, and historical analysis must take into account the relevant values of Jewish religion, tradition and culture in the eras preceding Israel's establishment. Therefore, we will divide our historical review into three main periods: (1) The Diaspora era, (2) the pre-State years (1880s-1948), and (3) the State (1948-present). The State can be sub-divided into two periods: the formative era that ended in the early 1970s, and the pluralist era which has prevailed since. This division is both historic and ideological, since these periods differ not only in their historical events, but also in the ideologies that prevailed and influenced future events (Gidron, 1997a).

The Diaspora Era

The Jewish Diaspora is comprised of semi-autonomous communities that have been scattered throughout the world for over 2000 years. These communities tried to maintain their culture and traditions in environments that were not always tolerant of cultural differences and seclusion. In order to prevent assimilation into the surrounding societies, these communities served their own needs through a complex network of philanthropic associations (Jaffe, 1992). The traditions of individual help to the needy of the community (*tzedakah*) and mutual help are central institutions of Jewish culture and have their roots in the biblical era, when farmers were requested to leave some of

their crops in the field so the poor could collect them, and became institutionalized in the Diaspora, where it became accepted and expected behavior (Katz, 1979; Yishay, 1986).

This resulted in the rise of many and various voluntary nonprofit organizations active in the management of community life through fundraising, providing services and support of Jewish interests locally and internationally. An important aspect of this was the support of the Jewish community living in the Holy Land, which later developed into Diaspora support for the Zionist movement, and contributions to the public and nonprofit sectors that still are sent to Israel and comprise a significant share of nonprofit sector revenue (Gidron, 1996). The culture and the circumstances of the Diaspora also led to a tradition of voluntary associations which immigrants brought with them to Israel (Horowitz & Lisak, 1990), and which is evident in the country's nonprofit sector today (Eisenstadt, 1989; Gidron, 1997).

The Pre-State Era

This was the era in which Zionist immigrants (mostly from Europe) started to settle in Palestine with the clear intention of creating a Jewish homeland, laying the infrastructure for the State of Israel. Because the Turkish and the British mandatory governments refrained from becoming involved in the population's internal affairs, the Zionists were able to establish entire systems of social, cultural, health and community services and to manage them through nonprofit organizations. These organizations were established by ideological movements that varied in their orientation (i.e., socialist, liberal, capitalist, etc.) (Gidron, 1997a). Some of these organizations (the Jewish Agency, the Jewish National Fund, etc.) were accepted as temporary government substitutes and thus acted as coordinating and financing agents.

The two important communities that resided in Palestine before the pre-State era, the Arabs and the ultra-orthodox Jews (also referred to as "Charedi"), were not included in this arrangement. Instead, they developed separate sets of nonprofit institutions, whose history is helpful in understanding the processes that shaped Israeli society and its nonprofit sector.[2]

As we can see, the Israeli nonprofit sector developed in the absence of a State in order to supply services that were normally the responsibility of the State. In fact, nonprofit enterprises were the mechanisms for carrying out all social and political activities. In such circumstances many of the sector's organizations had to function as quasi-governmental agencies, so that one of the nonprofit sector's major tasks was constructing the public sector for the future State (Gidron, 1996, 1997;

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[2] See Gidron (1997a) for an elaborate analysis of these two communities in the context of the nonprofit sector.

Eisenstadt, 1967). The nonprofit sector's major role in "State building" had important effects on both the sector and the State.

The State

The formative period (1948-1970s): Immediately after its formation, the government of Israel began to develop structures to replace the quasi-governmental nonprofit organizations established during the pre-State era. This process was fostered by Prime Minister Ben-Gurion and the ruling coalition of Labor parties according to their collectivist, melting pot ideology. They demanded from the different ideological factions allegiance and integration into a homogeneous unity. In accordance with such centralist and monolithic conceptions of State and society, happily adopted by the public, most of the welfare system moved from compartmentalized management via nonprofits to management by the central government. Most services were unified into centrally run State agencies and formalized through welfare legislation. A good example is the unification and nationalization of the various education systems into a central, State-run, dual system of "State education" and "religious State education." These were soon formalized with the Mandatory Education Law (1949) and the subsequent National Education Law (1953). This exemplifies the collectivist approach in which the State assumes responsibility for the welfare of its citizens, and includes recognition of their basic right to receive such services (Gidron, 1997a).

In the field of health a different approach was adopted. The previous system of factional health service and insurance schemes, so called "sick funds," were allowed to remain, although under indirect supervision of the State through funding and governmental health administration. The State supplied services in fields not covered by nonprofits such as mental health, inoculation, emergency services and more. However, the sick funds were regarded as merely a vehicle for the State to achieve a full national health insurance scheme (Eisenstadt et al, 1972).

The Jewish Agency and other quasi-government institutions had to change their missions and were ultimately used by the government as instruments for carrying out tasks such as fund-raising from the Diaspora (which became contributions to the Jewish State), advancing Israeli interests abroad, encouraging Jewish immigration to Israel, settlement and more.

The Arab and the ultra-orthodox populations were not forced into this melting pot, nor were they eager to join. In order to prevent their alienation both were allowed to maintain some autonomy. Their existing systems continued to function separately, although with some State funding secured through political bargaining.

In sum, the formative era was basically centralist and collectivist, and voluntary efforts were discouraged as they were considered to be opposed to the State's interests (Kimmerling, 1993). Grassroots initiatives were not recognized, since the State was expected to fill all the population's needs. This led to the extensive intervention by the public sector into the affairs of the market and nonprofit sectors, and subsequently to a poor distinction between the private and the public spheres in Israel.

The Pluralist period (1970s-present): Several historical developments influenced the process of growth and diversification in the nonprofit sector. The aftermath of the 1973 war, the rising protest

of Sephardic Jews against discrimination by the Ashkenazi elite, and the decline of the Labor party's monopoly led to a discrediting of the collectivist, centralist ethos. These developments were accompanied by growing urbanization, modernization, and individualism. Ideological shifts led to a growing attention to private interests over public ones, and to a shift from a primarily idealistic to a materialistic society. Numerous interest groups started to appear and created various nonprofit organizations. Unlike the formative period when the nonprofit sector was comprised of a few very large organizations in fields legitimated by the State, the late 1970s and 1980s saw a blossoming of diverse small organizations in many fields and forms. Since the 1980s the sector has grown at a rate of over 1,000 new organizations annually (Gidron, 1996) - a high figure for a country as small as Israel. This expansion occurred in Arab and ultra-orthodox nonprofit organizations as well. This was followed by a change in nonprofit sector-government relations: the government is still a major funding source for the sector, but State funding in some fields has declined; patterns have changed from direct to indirect funding; and sometimes the functions and service provision have been separated.

Contributions from world Jewry continue to flow to Israel, although at a lesser rate, and designated giving was made possible, enabling funds to go directly to nonprofits rather than through the State or via the government-controlled Jewish Agency (Eisenstadt et al, 1972), as in the formative period.

To summarize, the Israeli nonprofit sector is based primarily on a long tradition of Jewish philanthropy and voluntary action. It was the main force in the pre-State Jewish community and served in a quasi-governmental capacity. This has influenced State-nonprofit sector relations, as we shall show. In the formative first decades in Israel the nonprofit sector shrank and was incidental to the centralist collectivist ideology; it was guided and used by the government, thus blurring the differences between the sectors. A series of dramatic events in the early 1970s moved Israel toward a more pluralist, individualist orientation, and the sector regained strength and blossomed in coverage and volume. These processes were accompanied by a flow of funds from Jews all over the world - the consequence of an age-old tradition of supporting the Jewish community in the Holy Land.

MAJOR TYPES OF ORGANIZATIONS

The Israeli nonprofit sector is a melange of eclectic and conflicting terms and forms, causing confusion and difficulty in policy-making. Corporate and tax laws distinguish between types of organizations based on different criteria. Historical elements of the sector leave certain types of organizations in limbo and make it hard to delineate the parameters of the sector. We shall start with types of organizations as defined by corporate law, continue with those defined by tax law and conclude with special types and borderline cases, thereby demonstrating some of the unique circumstances of the Israeli nonprofit sector.

Defining the Organizations According to Corporate Law

In Israeli law there are four ways for a nonprofit organization to incorporate. Each method has its own historical base and specific characteristics.

Ottoman Associations. The oldest form of incorporation is based on Ottoman law. Up until the enactment of the Nonprofit Corporation (*Amutot*) Law in 1980, this was the predominant form of incorporation. This form, which is a remnant of Ottoman rule in Palestine, was adopted by Israeli legislators in 1948, but it quickly became obsolete. It stipulated very few restrictions over associations, or regulations for any kind of auditing and inspection, and contained some very peculiar clauses. Once the Nonprofit Corporations Law was enacted, associations formed in accordance with the Ottoman law were required to re-register within one year. Seemingly, there should be no Ottoman associations in Israel today. Interestingly, the truth is a bit different: the new law contained a clause exempting some Ottoman associations, e.g., labor unions, trade and professional associations that existed prior to the enactment of the law. This can be explained by the deep involvement the State had in the monopolistic labor union - The Histadrut. The Histadrut, although itself nonprofit, was a part of the power base of the Labor Government, and it was clearly in the interest of the government that it retain the relative freedom from scrutiny that the Ottoman Association Law permitted. Therefore, there are a few Ottoman Associations in Israel today - mostly pre-State labor and trade associations whose exceptional political and financial power, along with the strong involvement of the State, led to their exemption from the new law.

Amutot. The term Amuta (in plural - *Amutot*) is based on the Hebrew word "*amit*" meaning friend or colleague, yet applies for all types of nonprofits, not just friendly associations or grassroots endeavors.

The Amutot Law was enacted in the late 1970s, though it was first proposed in 1964 (Benton, 1964). It appears that the need for extra control over nonprofits became necessary when the numbers and fields of nonprofit operations expanded rapidly. Thus it may be claimed that the law was a damage control reaction by the State to the expansion of the sector in the early to mid-1970s.

The Amutot Law also reflects the individualistic orientation of Israeli society at that time, since it explicitly states that any two persons who wish to incorporate for any legal purpose other than profit seeking are free to do so, and no other restriction of purpose exists. However, the law allows some involvement of the State in the internal affairs of the organizations. An Amuta is required to appoint an auditing body and the Amutot registrar may impose such financial investigation by an external auditor. The law requires Amutot to present resolutions which specify the internal arrangements and management procedures of the organization upon its registration. If it fails to provide them, standard resolutions appended to the law will be in effect. Amutot are not allowed to submit candidates for parliamentary election unless they change their legal status and register as political parties under the appropriate law. The Amutot law also dictates the organizational structure of the Amuta, its governing bodies, their respective power and the minimal frequency of meetings. Records must be made available regularly to the membership, and minutes of meetings and financial reports must be open to the public.

Nonprofit companies. The Companies' Ordinance (1983) oversees the establishment and operation of limited liability organizations of all kinds (it is based on the British Companies Act, and its origins date back to the British mandate over Palestine). It specifies that nonprofits may be incorporated as nonprofit companies if they do not pay dividends to their members. They can register as *public utility companies* if they pursue the promotion of commerce, art, science, religion, charity or any other publicly beneficial purpose, using their funds only for that purpose. Public utility

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companies must register with the Companies' registrar as companies limited by guarantee (Ltd.), but may delete the word "limited" from their name, thus improving their external image.

A nonprofit company can be either public or private, depending on the number of its members: public companies must have at least 7 members, whereas private ones can range between 2 and 50 members. Private nonprofit companies may not issue securities for sale to the public. Like Amutot, the company's founders must provide the Companies' registrar with articles of incorporation detailing internal organizational procedures. However, the articles appended to the Ordinance are not automatically in effect, but may be used as a model.

Public Endowments.   Although the term "foundation" is more widely used, the term "endowment" is more compatible with the Hebrew word used in the law - *Hekdesh*. Public endowments form an interesting case. According to the Trust Law (1979), endowments need not be incorporated when the endowment is only a fiscal entity (i.e., a bank account). Rather, as soon as a specific person is appointed trustee, he or she must register within 3 months with the Endowment Register in the Ministry of Justice. Registration is done by providing specific details about the endowment and the trustee to the Registrar. The trustee is expected to give an annual report regarding the account, and the Registrar can demand any other report concerning the management of the fund. If the managers of an endowment wish it to be eligible for tax benefits, they must have it incorporated in one of the two processes described above (Bar-Mor, 1996); therefore, an endowment can be an endowment alone, or, at the same time, an endowment and a nonprofit company or an Amuta.

In fact, any nonprofit can choose among these last three forms. Its decision is based on free choice, according to the best interest of the organization as its founders see fit. Because an Amuta may change its purposes as its members choose, it is flexible and is more suitable for organizations that have a general purpose, but have not yet decided on specific ways of achieving it. An endowment's purpose cannot be altered without the approval of a district court of law, so it is best used for cases in which the founders are set on one single clear purpose and mode of operation. A nonprofit company is most appropriate when the nonprofit in question is a large entity. The Companies' Ordinance is far more elaborate than the Amutot Law, and thus organizing in the form of a company makes it easier to operate large and complex enterprises (Tanenbaum, 1997).

Defining the Organizations According to Tax Law

Tax laws bring about two more types of nonprofit designations: Public Institutions (related to income tax) and Nonprofit Institutions (related to value-added tax). These are not independent types, and a nonprofit must be incorporated first as an Amuta or a nonprofit company in order to be eligible for tax benefits and to acquire either of these titles. However, even if the entity incorporates properly, its application for benefits may be refused if it does not comply with tax law requirements for granting these titles.

Public Institutions. Income tax exemption is given to any entity recognized as a public institution   (clause 9(2) in the Income Tax Ordinance). In principle it is possible for an unincorporated association to gain tax exemptions, but it is normally required to incorporate. A public institution is defined for tax purposes as a corporate body of at least 7 persons, the majority of

whom are not members of the same family. Alternately it may be an endowment where the majority of its trustees are not family related. Both must exist and operate exclusively for a public purpose, defined as religious, cultural, educational, scientific, health, welfare and sports related, or any other purpose such as the prevention of accidents or the reduction of unemployment approved as "public" by the Minister of Finance. Any use of property or revenue for purposes other than those mentioned above will subject the organization to tax liability (Bar-Mor, 1996).

However, it is not sufficient for a nonprofit to act within the limitations of clause 9(2) of the Income Ordinance in order to receive the status of a public institution. There are several additional criteria relevant to this matter: 1) The organization should act on behalf of the entire population and not only a certain group, and it should not use discriminatory practices. 2) There must be no linkage between payment and service, and the conditions for receiving the organization's services must be reasonable and known to the public. 3) The directors of the organization may not gain any profit from the activities of the organization, except for a reasonable salary that is in accordance with their contribution to the organization. 4) The organization may not be profit-oriented nor may it distribute profits. 5) The organization's activity must serve the public good, engaging in activities the would otherwise be administered by the State. 6) The organization may not devote itself to a specific case; it is long-lasting and not ad-hoc (Zahor, et al., 1993).

A few conditions will annul the organization's recognition as a public institution (Zahor et al., 1993): 1) If business activity is a substantial part of the organization's activities. 2) If the organization competes with the private sector in the types of products and services it supplies; if its fees approach market prices, and a large proportion of its clientele includes private businesses, its activity may be considered business activity. 3) When contributions or participation are conditional for receiving services from the organization.

In sum, nonprofit associations, public endowments and companies are exempted from income and corporate tax if they adhere to the definition of "public institution," use their income for tax exempt, public purposes and do not receive income from trade or business dealings. Since the definition of "income from trade or business dealings" is very ambiguous, many public institutions find themselves taxed, even though their expenses may exceed their income. However, this tax-exemption limitation is only partial, since only the income that is derived through trade or business is taxed. Public institutions are also exempted from paying capital gains tax on gifts of real estate they receive, and also are generally exempted from property tax liabilities.

Granting or annulling the status of public institution to organizations is decided by the Knesset (the Israeli Parliament) Finance Committee. Thus tax exemption is subject to political processes.

Although the law does not specify it, according to the income tax code an organization must first be incorporated and recognized and registered as a "Malkar" (nonprofit institution) according to VAT laws, in order to be recognized as a public institution (Zahor et al., 1993).

Nonprofit Institutions. The Value-Added Tax (VAT) exemption law (1975) exempts each of the following kinds of organizations, all recognized as *Malkar*, i.e., nonprofit institutions: State and local authorities, and municipal associations; bodies or associations, incorporated or not, that are not

profit seeking and are not financial institutions; corporations other than companies, partnerships or cooperative societies; pension funds exempted from income tax.

While the first category refers to the governmental sector, all the latter categories contain nonprofits which need to fulfill the following requirements specified in the law in order to qualify for VAT exemption: 1) The organization must be an association of persons (incorporated or not). 2) It may not conduct business for profit. 3) It must not be a financial institution.

These rules are very ambiguous and often result in contradiction and controversy over the tax status of organizations. In fact the law does not clearly define the full criteria for the recognition as *Malkar*. These criteria were detailed by the Israeli Supreme Court verdict in the appeal of the Amuta named "At Your Gates, Jerusalem" against the VAT and Customs Director (Supreme Court Verdict 767/87, 1990). The verdict states that an organization can lose its tax benefits (entirely or for a part of its activities) as a nonprofit institution, under several conditions: a) Full VAT may be levied on a profit-making nonprofit even if profit-making is only secondary to its operations. b) VAT exemption is given only to entities which do not compete in the market the way business firms usually do. The VAT exemption is not intended to discriminate against competitors in the market.

According to the rulings of the verdict, VAT exemption is given to nonprofits only because their activities are not regular services with regular prices, and not for the purpose of decreasing their tax burden. VAT is inappropriate for such organizations, and instead the State taxes the salaries and wages they disperse. This remains valid only if (1) the nonprofit does not compete in the free market where the tax exemption favors it over competing business firms, thereby discriminating against them, and (2) the State does not unjustly lose part of its due income from the activities of the nonprofit because of exemption from VAT (Supreme Court verdict 767/87, 1990).

As seen here, the Israeli nonprofit sector is a maze of terms and entities. A nonprofit can be several types of organizations simultaneously, and there is no clear, consistent distinction between the various types of organizations based upon structure or field of activity. Moreover, the criteria for classification are not uniform. Some are based on the organizations' purposes, and others on their structure. Some are voluntary, depending upon the choice of the organizations' founders, while others are external, bureaucratic decisions. Sometimes status is decided by legal entities, and sometimes by political bodies. Some types of organizations require prior incorporation, and others do not; they can be partly one type and partly another.

Special Groups

Jewish ultra-orthodox educational organizations. These types of educational organizations alone account for some 18 percent or more of all nonprofit organizations in Israel and for some 8 percent of total nonprofit sector revenue (Gidron, 1996). This fact is reason enough to devote special attention to them, but these organizations are also unique in character and history.

Upon the establishment of the State, all the Zionist educational systems were nationalized and centralized. The ultra-orthodox educational systems, however, were granted autonomy, partly for political reasons, and partly in order not to risk losing the support of the Jewish Diaspora. Consequently, ultra-orthodox education remained in the nonprofit sector. This has given it a special

status within the Ministry of Education; it is referred to as "Independent Education," and is not subject to oversight by the Ministry's officials. Its funding does not come directly from the government's education budget, as is the case with other education organizations (including nonprofits that receive subsidies from the Ministry of Education), and government support is dependent upon periodical bargaining between the ultra-orthodox political parties and the government (in which they have always been members as part of a coalition).

These institutions differ from other educational organizations in several ways. Their methods of education are distinctly different, based upon traditional modes of education that were prevalent in Jewish communities in the Diaspora, and the need of adherents to preserve these methods. Compared to the centralized, systemic structure of the national educational system, the ultra-orthodox education is comprised of many separate, independent systems, factions and competing subsections. Their organizational structure is often much less formal, and the wage systems they use are substantially different.

Roman-Catholic institutions. One of the consequences of the fact that the State is defined religiously is the special status that Roman-Catholic institutions have in Israel. This definition of the State caused concern in the Vatican over the status of their churches and congregations in Israel. Negotiations between the Vatican and the Government of Israel gave rise to a special agreement that granted Roman-Catholic institutions special autonomy from governmental inspection and procedures. They are not required to incorporate, nor to give financial reports to the government. This arrangement gives them a sort of extra-territorial status, demonstrating Israel's support for freedom of worship to all religions.

Memorial organizations. These comprise a very small part of the Israeli nonprofit sector, but an important one. This field of nonprofit practice is not uniquely Israeli, but it is relatively large and visible and represents an important aspect of national culture as expressed in the sector.

The large number of organizations evolving around the remembrance of Holocaust victims and the commemoration of soldiers fallen in Israel's wars stems from the symbolic meaning of these victims in Israel's ethos. The victimization of the Jewish people throughout its history, with its climax in the Holocaust, and the conception of the Jewish people as isolated, constantly persecuted and attacked are seen as the moral base and justification for the establishment and the existence of Israel. In addition to governmental activity in this realm (such as the Yad Va-Shem Institute), the popular aspects of these sentiments are expressed through many different voluntary nonprofit associations.

Synagogues. While there are several thousand active synagogues in Israel, these organizations are seldom incorporated and registered as nonprofits. Gidron (1996) found only 876 registered synagogues - a small minority of the total number. It is, however, is not an insignificant figure in relation to the total number of institutions recorded by income tax authorities (over 8500 entities). Most synagogues do have some stable organizational structure, although they do not formally incorporate, sometimes take place in varying locations such as private homes, schools, etc., and are active only during specific religious holidays. The same holds true for the extensive charitable activity that goes on in ultra-orthodox Jewish communities. There is a large number of entities that are active in traditional Jewish charitable activities, such as matchmaking, food

provision, and other assistance to the needy. Both types of organizations tend to avoid formal registration. It may be argued that both examples show that activities which are mainly traditional tend to be carried out within local, communal networks, rather than formally within registered or incorporated nonprofit organizations. The organizations in these groups are certainly a part of the nonprofit sector according to this project's definition, but are hard to track down and consequently difficult to study.

Community groups. Another special field in the Israeli nonprofit sector is community development. Associations such as neighborhood committees, apartment building committees and PTAs (associations of school pupils' parents) exist in abundance, but only a small proportion have a formal organizational structure of any sort. Many of these activities are managed in an ad-hoc fashion, and are incompatible with this project's definition. Others meet our definition's criteria, but are not formally incorporated or registered. Similarly to the previous examples, these organizations will be difficult to study.

It seems, that certain realms of civil society and community action are not associated with a formal structure, or that within these realms it is not seen as functionally beneficial for them to do so. This is possibly another consequence of the ambiguous definitions of the private and public spheres of social action in Israel.

Borderline Cases

Pre-State Organizations. An important group of borderline organizations is made up of pre-State organizations, especially those that were quasi-public, such as the Jewish Agency and the Jewish National Fund (JNF). As mentioned earlier, these organizations were the coordinating and managing bodies of the Jewish community in Israel until the declaration of independence, when they were replaced by the national government. However, the government wanted to preserve the resources and international networks developed by these organizations and so used the Jewish Agency and the JNF as channels for collecting contributions from the Jewish world. The use of these contributions was dictated by governmental policy, and the funds were distributed by government offices, not by the organizations themselves (Gidron, 1997). Thus, the Jewish Agency, along with many other pre-State nonprofits, were co-opted by the government, and became an extension of government to the extent that it is very difficult to tell which of their activities are independent and which are government dictated. Another facet of this argument is presented by Eisenstadt and his colleagues (1972), who point out that the 1971 Government Yearbook clearly states that the Jewish Agency and the government collaborate and coordinate their activities, including labor distribution, and share ownership of several public organizations. For example, the public company managing water inspection and planning - TAHAL- is 52 percent government, and 48 percent owned by the Jewish Agency and the JNF (Eisenstadt et al, 1972, p.402).

Thus, it is difficult to classify pre-State organizations as part of either the nonprofit sector or the public sector. According to their structure and legal status they are nonprofits. Yet, considering the public-private continuum, these organizations certainly operate mostly within the public sector. Moreover, statistical offices in Israel do not regard them as nonprofit organizations; rather, they belong to a separate category labeled national institutions.

These specific borderline cases exemplify some of the major characteristics of the Israeli nonprofit sector by demonstrating the ambiguities and blurring of lines between the sectors, showing State intervention in the nonprofit sector and the long term effects of the State on the sector. They also emphasize the unique influence of the pre-State era on the nonprofit sector's composition and borders. Finally, these borderline cases point out the importance of the contributions from world Jewry and their influence on the character of the third sector in Israel.

The Sick Funds. Health insurance and service schemes were founded in the pre-State era by different Jewish ideological factions in Palestine. The factions acted in lieu of a government health system. This is especially apparent in largest health fund, Kupat Holim, controlled by the biggest sector of the population, the Labor followers, which also controlled the largest labor union (the Histadrut) and the strongest political parties. No national health plan was set up when the State was established, so most health services were left in the hands of the individual sick funds. Kupat Holim, which had a network of hospitals and clinics all over the country, and upon which the majority of the population depended, received treatment that was clearly preferential. This was also due to the common power base that the Histadrut, and consequently Kupat Holim, had in the government. The government used Kupat Holim as the major national scheme and consequently financed it and helped it to expand its services in order to care for the masses of immigrants arriving in the young State. The other sick funds were left to fend for themselves. What resulted was a virtual monopoly in the field of health by Kupat Holim, which supplied services on behalf of the State.

Thus far it is not very different from the case of the Jewish Agency: another example of a centralist government co-opting nonprofits and using them to carry out its policies and strengthen its power base, thereby blurring the lines separating the public and the nonprofit sectors. However, as the Labor Party lost power, pluralistic trends became dominant, and competition arose which weakened Kupat Holim. Its ties with government and its monopoly were undermined. In the early 1990s it seemed that the sick funds were returning to the nonprofit sector, until the Labor Government managed to enact a National Health Insurance Law (1995). This law, claimed by some to be an attempt to reinstate Kupat Holim's monopoly, put all the sick funds into a sort of twilight zone between the public and nonprofit sectors. According to the new law everyone must be a member of one of the health plans, but these no longer collect membership dues. The government has created a health tax, the revenue of which is transferred to the sick funds according to their proportional share of patients out of the entire population (clearly giving Kupat Holim an advantage). Membership in health plans, which are funded through taxation, is no longer voluntary (or at least only partly voluntary). Under such circumstances, although legally and structurally they still are nonprofits, it is hard to designate them as entirely belonging to the nonprofit sector.

This process may be seen as a reaction of the State and the political system to the pluralist nature and trends of the nonprofit sector in the last two decades. The health law is a method of regaining control over the field of health and restoring the power balance that existed in the formative period. It shows the importance of the pre-State period in shaping the nonprofit sector, and its continuing effect on power politics within in the sector itself and between it and the State. It further demonstrates the involvement of the government in the nonprofit sector, even in today's pluralist atmosphere, and the ambiguities regarding sectoral borders in Israel.

DEFINING THE ISRAELI NONPROFIT SECTOR

Overall, the structural-operational definition used in the Johns Hopkins Comparative Nonprofit Sector Project (Salamon and Anheier, 1997) is compatible with popular and legal conceptions regarding such organizations in Israel. The definition's core criteria (i.e., that an organization be organized, private, self-governing, non-profit-distributing, and voluntary) coincides with Israeli conceptions. Actually, the description of its organizations defines the nonprofit sector as an independent social unit. Since in Israel there is no clear concept of a nonprofit sector as a separate entity, neither by the organizations themselves nor by government officials, an inductive definition such as this one is useful. Yet, there are a few points worth noting.

The second criterion of the structural-operational definition limits inclusion in the third sector to private organizations. Besides the nearly universal difficulty in distinguishing between public and private institutions due to blurred lines and concepts such as "contracting," "third party government" and more (see Kramer, 1995), this criterion may cause two problems specific to the Israeli context.

First, the definitions of private and public in the Israeli legal and public discourse may differ significantly from those in this project's frame of reference. According to the project's definition, private means "institutionally separate from government." Within the framework of Israeli law, the categorization of a nonprofit organization as private or public is based upon the number of members. Popular conceptions of these terms in Israel regard "public" as serving or oriented to the general public, and open to all (or many) sectors of the population in terms of both participation and receiving services, whereas "private" nonprofits are oriented to a specific person or persons, or a specific interest group. Additionally, according to the Income Tax Ordinance, a private organization can be granted the title "Public Institution" provided that it benefits the public. This means that public institutions can be private organizations.

Also, as we mentioned in the previous section, the pre-State organizations may be separate from government, but it can hardly be said that they are private. First, they define themselves as belonging to the Jewish people and are popularly regarded as public organizations, and second, they were originally established as quasi-public entities. Once a legitimate government was established, these organizations were not dissolved because the government saw them as channels for carrying out its policies, using contributions from Diaspora Jews that were collected by these organizations. These problems arise in Israel as a result of the poor distinction between the public and the private spheres (Lissak & Horowitz, 1990), which leads to a blurring of the sectoral borders (Kramer, 1994; Gidron, 1992, 1996, 1997).

The concept of "voluntary" may also prove problematic in the Israeli context. This problem is evident when discussing the case of the sick funds. These medical insurance and treatment service organizations were certainly nonprofit organizations according to every criteria of the definition up until 1994. Following the approval of the national health insurance law, however, things changed. The new law requires universal membership in one of the health plans, but the individual may choose which to join. Following this ruling, an individual is free to choose a specific fund but is not allowed to choose not to join at all. Moreover, if he or she does not join freely, the State will assign him or her to a sick fund, regardless of the individual's wishes. This form of "voluntary"

membership does not fully coincide with the project's conception; however, a full exclusion of the sick funds from the nonprofit sector on this basis is not entirely justified.

The Israeli reality and popular conceptions of the nonprofit sector in Israel are slightly different than the project's structural-operational definition. For example, the legal status of political parties in Israel is altogether different from that of nonprofits. They are registered separately, have a separate law governing them, and have a different tax status. Political parties in Israel are financed by the government, according to procedures and criteria of finance specified by law. The law also strictly regulates the receipt of contributions. This characteristic alone is sufficient to indicate that they are not necessarily institutionally separate from the public sector, and therefore incompatible with the project's definition.

Moreover, some Israeli political parties also fail to meet the self-governance criterion. For example the religious-Jewish-orthodox parties are not strictly independent, and much of their decision making is done outside the formal boundaries of the organization by a group of rabbis or a similar body, which has the right of veto. Thus, in keeping with the reality and conception of the nonprofit sector in Israel, we have chosen to exclude them from our data collection focus.

To sum up, we can say that the structural-operational definition closely fits the Israeli nonprofit sector, and is applicable to most of the sector. The incompatibilities found are mostly relevant to hybrid cases and specific types of organizations, and can be reconciled without risking an inaccurate description of the situation.

THE NONPROFIT SECTOR AND ISRAELI SOCIETY

Civil Society and the Nonprofit Sector

The term "civil society" is problematic in the Israeli context, partly because for many years it has been considered inappropriate to act outside the parameters defined by the State (Kimmerling, 1993). As a result, the term "civil society" is hardly mentioned in Israeli political discourse, and it cannot even be found in the platforms of the country's political parties.

Until recently Israel has been characterized by strong tendencies toward political and bureaucratic centralization, the dominance of central organizations and political parties, hegemony of national leaders, and consensus among the majority of the Jewish population on key values, policies and social issues. However, the same factors that push for centralization and consensus also contain the seeds of diversity and alternative approaches. Based on these observations, social and political scientists in Israel prefer the term "civil spaces," meaning that, in the dialectic of relations between State and society in Israel, civil society has emerged only in limited areas of the social sphere. In those fields where civil society has developed, some of this activity took shape as nonprofit organizations, resulting in the relative growth and prominence of these fields in the nonprofit sector.

Israel has faced continuous security problems stemming from the lack of peaceful relations with its Arab neighbors. The continual sense of threat has instilled in Israelis a strong tendency toward centralization and consensus which limited the role of civil society, thereby hindering the

development of nonprofit organizations. However, the unsettled security situation also sparked the formation of organizations that oppose the national consensus, especially after the controversial 1973 and Lebanon wars. The political controversy around these wars and their aftermath resulted in the delegitimization of centralist and paternalist ideologies and to an explosion of civic activity, both organized and disorganized. This process was expressed by the rapid growth in numbers and prominence of advocacy organizations, all of them nonprofits.

A large portion of Israel's Jewish population in its early years consisted of immigrants from many countries and different socio-cultural backgrounds. Most of them came without financial resources and had to depend almost completely on government intervention programs which were colored by the predominant ideology of the 1950s and 1960s. Among the Israeli public this situation fostered the feeling that the government was responsible for solving all kinds of problems; it strengthened the position of central bodies and weakened alternative initiatives. However, this situation did not prevent the formation of many ethnic organizations that wished to preserve the specific cultural heritage of their members and to represent their interests to government authorities.

Another "civil space" is in the field of religion. The role of the Jewish religion in the State has promoted both unity and diversity. Although the majority of Israeli Jews identify themselves as secular, they feel a strong attachment to Jewish tradition and agree that it is an important factor in the State and society. On the other hand, the pivotal role of religion has provoked strong opposition among certain groups of secular Jews calling for separation of religion from State, and among minority religious factions calling for the end of the orthodox monopoly over organized religion. These efforts resulted in the creation of a variety of non-orthodox alternatives, representing all religious factions and the secular population.

As mentioned before in this paper, many community action initiatives and associations such as PTAs and neighborhood committees are not organized or are too fluid to be included in the nonprofit sector per se. Thus relations between the nonprofit sector and civil society in Israel can be visualized as two separate circles (perhaps "amoebas" is a more accurate analogy), partly overlapping, and changing in space, size and form with changing currents in Israeli society and polity.

Religion and the Nonprofit Sector

Religion plays an extremely important role in the State and society. The Jewish religion has determined the geographical location of Israel and has supplied the State and the Zionist movement with many elements both symbolic and concrete (i.e. flag, national anthem, language). It is the main basis for solidarity, since it is the only element shared by Jewish immigrants from different cultures, and it determines the common enemies - gentiles. It is the only determinant for collective identity, and it legitimizes the existence of the State (Kimmerling, 1993). Its influence is evident in the nonprofit sector in the values that underlie its emergence and activities, in its funding, in its structure, and in its relations with other institutional actors.

First, philanthropy, voluntarism and mutual help have been the cornerstones of Jewish society for millennia. Religion and tradition encouraged Jews to contribute to the needy, either as individuals or in organizations, without expecting anything in return. As a result, many aspects of

life in the Diaspora, in the absence of a State, were managed via nonprofits, and the welfare functions of society were seen as the task of the community. These norms were brought to the Jewish community in Palestine, so that the culture of giving and volunteering triggered a pattern of using nonprofit organizations as a means of social and community action and for providing services before 1948 and after the establishment of the State.

Second, Israel was established as a home for the Jewish people - for all Jews, whether living in Israel or abroad. Thus, Diaspora Jews see themselves as invested in Israel, and support for it as being in their own interest. This follows an age-long history of support from abroad to the Jewish community in the Holy Land; the need to maintain a connection to Israel and to ensure the continuity of Jewish life therein has prompted Jews all over the world to contribute to the country's Jewish community. This support changed its character and volume throughout the years, but has never stopped. Funds collected by the Jewish Agency and similar organizations were directed to the government through the nonprofit sector and were designated for programs developed according to priorities of the government. This flow of funds was an important supplement to the national budget as a source of financing for various social and economic enterprises (Eisenstadt et al, 1972). It is based on religious values and sense of community nurtured during 2000 years in exile. This support amounts to a significant portion of the sector's funds, and it accounted for some 4 percent of the sector's total income in 1991 (Gidron, 1996).

Third, Israel is a nation-State, but since Judaism is both a religion and a nationality, the definition of the Israeli State is a religious one. Hence, the State took over many religious activities for both Jewish and Muslim populations. Evidently, Israel has no separation between religion and State. Instead of the separation which exists in most democratic western societies, the guiding principle in Israel is "status quo" between religious and non-religious, established during the first government by D. Ben-Gurion. According to this principle the religious will give up the ideal of enforcing traditional Jewish law in all aspects of life, whereas the secular population will concede the principle of personal freedom in certain areas such as marriage, divorce, burial, Sabbath laws, and more (Aviv, 1993), which are performed by religious institutions founded and funded by the government. This, together with the monopoly given to the Orthodox Jewish orientation in interpreting Jewish law, has influenced the structure of the nonprofit sector.

The Orthodox Jewish monopoly in State religion has enabled them to secure governmental funding for their nonprofits, resulting in a large number of these organizations (mostly educational) comprising about one-fifth of the entire sector, which are mainly dependent on public funding (52 percent) (Gidron, 1996). Their large numbers have pushed aside other religious orientations (Reform, Conservative), leaving them to fight for legitimization of their beliefs and for funding. Since they were not considered to be legitimate and posed a threat on the orthodox hegemony, they had to operate completely outside the realm of State-funded religious institutions, and consequently all their activities are in the form of nonprofits. They rely mostly on the support of Diaspora Jewry. Thus the Orthodox nonprofits multiplied because of the fusion of State and religion, while Conservative and Reform Jewish nonprofits developed (at a much slower rate) despite it.

The principle of non-separation between religion and the State applies to all religions. Christians and Muslims, in a similar manner to the Jews, have their own religious institutions and

services established and operated by the State. These include religious courts, marriage and divorce, and burial services.

The bulk of the educational services (primary and secondary) are public. A division for Arab education exists in the Ministry of Education which runs schools in Arab communities, develops curricula, etc. It is not subdivided into Christian and Muslim Arab communities. However, other nonprofit organizations within the Arab (Christian and Muslim) minorities often have a religious orientation. In this context it is important to note the many welfare organizations related to the Islamic Movement, and the number of private Christian schools and hospitals, many of which were established in the pre-State era, that are related to the various Catholic churches and orders. It is important to mention the level of autonomy Catholic church-related organizations have because of delicate relations between Israel and the Vatican.

The nonprofit sector in the Arab minority (both Christian and Muslim) in Israel is very hard to study, for various reasons. First, there is no distinction between Jewish and Arab in formal reports and databases of the sector. Second, there is very little research about the Arab nonprofit sector. Some efforts to change this situation are currently underway in the Israeli Center for Third-sector Research (ICTR). Third, for historical and political reasons, many Arab organizations refrain from formally registering, which makes studying them more difficult.

Gidron (1997) analyzes the evolution of the Arab nonprofit sector in Israel vis-a-vis the evolution of the Israeli nonprofit sector as a whole. He demonstrates that the number of Arab nonprofits began to grow only in the last two or three decades due to traditional social patterns focusing on kin and political restrictions on organized activity. The turn to pluralism in the 1970s and the modernization process that the Arab population is recently undergoing, similar to the processes in Israeli society as a whole, resulted in a growth in the number of Arab nonprofts. Not surprisingly, most nonprofits can be found in urban Arab communities. These can be divided into two large groups: religious organizations, some of which also provide health, welfare, and educational services; and secular organizations of which part are politically-oriented focusing on advocacy and protection of rights, while others are service-oriented, complementing services not provided by the State.

Reiss (1991) reports a rise in the number of voluntary associations in the Arab community in the 1980s which are established along political, communal and professional lines, alongside the religious affiliation mentioned previously. This is due to the expansion of the education and professionalization of the Arab minority, its increase in population, and the rise of a prosperous and politically aware middle class. However, this development is only in limited areas such as health, education, and clubs for the elderly (Reiss, 1991; Haidar, 1991; ESHEL, 1991), and is mostly evident in the sectarian institutions of the Christian denomination (Haidar, 1991). Subsequently there is a shortage in specific services for the Arab population. This shortage is somewhat moderated by the support and services supplied by traditional kinship networks, which are still active despite the ongoing nucleation of the extended family in the Arab community in Israel (Reiss, 1991).

Government and the Nonprofit Sector

The relations between the nonprofit sector and government in Israel are best described as ambiguous and fluid, as evidenced by the history and the characteristics of the nonprofit sector.

First, we must remember that the nonprofit sector initially functioned in place of the missing government in the pre-State era. Kimmerling (1993) claims that besides creating an ambiguous distinction between society and State, it led to a blurring of the lines between the nonprofit sector and government (see also Kramer, 1976). This vagueness coupled with the centralist-collectivist ideology prevalent in the country's early years made the nonprofit sector very vulnerable to government control. The State's clear corporatist ideological orientation is manifest in a centralist government structure. Its policies are carried out by various social actors which are seen as instruments for the government's policy implementation. Nonprofit organizations such as the Histadrut, Kupat Holim, as well as the Settlement movements, are clearly examples of this system. Thus the nonprofit sector is characterized by a strong sensitivity to governmental policy and ideology.

The establishment of the State and the strong tendencies towards a corporatist State that were prevalent, especially in Ben-Gurion's governments, altered the patterns and extent of voluntary activity. Eisenstadt (1969) stresses that the volume of the nonprofit sector diminished significantly in the first years of statehood, especially activity in civil and service functions. Furthermore, the nature of the existing associations had changed from mostly primary-based (affiliative or expressive) associations to secondary (goal-oriented) associations.

This centralist bias gave rise to strong involvement of the government in the nonprofit sector; essentially the government tried to lessen the sector's strength and minimize the dispersion of power. The government could not afford to give up the mechanisms of control and mobilization that these organizations developed, and would not allow them to compete with its own institutions (Kimmerling, 1993). The result of this process was the co-opting by the government of many nonprofit organizations and even entire industries. This was done in various ways: some industries were simply nationalized as in the field of education; others were taken over completely, although supposedly left intact. This has occurred in health, welfare and other areas, and with organizations such as the Jewish Agency, the JNF and others.

This expansion and subsequent taking over the public sphere by the government left very little place for the nonprofit sector to operate, and it was allowed to function only in a few limited and well-defined areas such as culture, ethnic associations (without a strong emphasis on advocacy), and professional and trade associations. This implicit labor distribution between the government and the third sector is evident in the case of the Civil Guard. This unique Israeli nonprofit neighborhood watch initiative was a grassroots organization established in 1974 by a group of citizens. Their purpose was to improve the security of residential neighborhoods, following a series of murderous terrorist attacks (Geva, 1989). This organization was subsequently supervised and eventually taken over by the police, and it is now a sub-unit of the police and not an independent organization (Yanai, 1994). The Civil Guard still employs volunteers in its force, but it is completely run, financed and steered by police officials, and therefore cannot be considered a nonprofit organization (Moshkovitz, 1993). This case exemplifies how nonprofit attempts in areas considered to be under government

control are swallowed by the State, which continues to use the nonprofits' infrastructure and human volunteer resources. The field of security is definitely one of those State dominated fields, in which no non-governmental initiative will be allowed to last.

The changes in the extent of the welfare State, and especially the cut-backs in governmental expenditures for welfare, had an altogether different effect on the nonprofit sector. Coupled with the growing legitimacy of nonprofit and grassroots action that arose with the move toward pluralism, this shrinking of the Welfare State caused a tremendous growth in the nonprofit sector, both in volume and in coverage (Corazim, 1988; Kramer, 1988; Gidron, 1992). There were also changes in the patterns of nonprofit sector-government relations. Privatization, contracting for services, cooperation through joint programs and similar activities were rapidly multiplying. The field of nursing homes presents a good example of this: it was moved from the government sphere to for-profits and nonprofits, although the government continues to finance them through third party subsidies. Furthermore, the government itself started establishing nonprofits to perform some of its missions.

This change of nonprofit sector-government relations has affected the funding pattern of the nonprofit sector as well. In the 1970s and 1980s there was a gradual yet significant decrease in State funding of nonprofits. Gidron (1997a) demonstrates a decrease from the early 1980s, when public funding was approximately 75 percent of the total funding of the nonprofit sector, to 49 percent in 1991. This process has been accompanied by a steady growth in the share of income from the sale of services, and the growing importance of independent funding organizations which recruit funds abroad outside the institutional parameters of the government and the Jewish Agency (Gidron, 1992).

Concluding, we point to two dialectically entangled processes defining the relations between the nonprofit sector and government in Israel. The first one is due to collectivist and corporatist conceptions of State and led to the deep involvement of the government, which supervised and limited the activities of the nonprofit sector. The second one is the growing independence and growth of the nonprofit sector, resulting from growing tendencies towards pluralism, and the decline of the Welfare State. These seemingly opposite vectors operate simultaneously, creating a turbulent and unstable environment. Consequently, various patterns of relations between the nonprofit sector and government can be found in different fields of activity, depending on the distribution of responsibilities between the two.

Theoretical Considerations

The information presented while attempting to define the Israeli nonprofit sector can easily be related to several different theories about the origins and behavior of the nonprofit sector. The prevalence of religious and educational nonprofits can be linked to the outstanding ethnic, religious and cultural heterogeneity of the society. This complies with theories that supply-and-demand economics explain the existence of the nonprofit sector. The inverse correlation between the changing scope of the Welfare State and the expansion of the nonprofit sector complies with Welfare State theories. The interdependence theory is supported by the historical processes described here, such as the nonprofit sector laying the infrastructure for government, and the extensive cooperation between the two. (These theories are presented in Salamon and Anheier, 1996.)

However, these theoretical arguments do not sufficiently explain the complexities of the nonprofit sector in Israel. We believe that a valid understanding of the nonprofit sector can be forged only by seeing the nonprofit sector as embedded in the historical, social and political processes of the society. This notion leads us to consider the social origins theory (Salamon and Anheier, 1996), but with some reservations. Although the approach and some of the variables depicted by Salamon and Anheier are applicable to Israel, other variables are not, since it is a young country with a very unusual history.

The origins of the nonprofit sector in Israel are rooted in the same processes that shaped society as a whole. These processes shaped all the sectors and inter-sector relations, including the nonprofit sector and civil society. The nonprofit sector is based on the ancient Jewish norms of philanthropy, association and mutuality, and on the religiously based desire for national self-expression in Zion. It was shaped and influenced by general social elements, such as the self-exclusion of the ultra-orthodox community and the security concerns underlying the establishment and existence of the country. The development of the modern Jewish community in Palestine under foreign rule, without formal government, had lasting effects on the delineation of the sectors and their inter-relations.

The shifting dominance of ruling ideologies had a clear effect on the nonprofit sector. The dominance of the socialist working-class elite in the pre-State and formative eras, with its centralist and collectivist tendencies led to the formation of a "corporatist" nonprofit regime (Salamon and Anheier, 1996). This was demonstrated by the State's funding of and defining the parameters for nonprofit activity, in what may be termed "a narrowing corporatism," where the government asserts its dominance by limiting and strictly supervising the nonprofit sector. The rising dominance of the middle-class elite in the 1970s, together with a right-wing conservative government carrying the flag of liberalism and privatization changed the nonprofit sector dramatically. Its scope and size grew substantially as governmental funding declined, leading it to develop other funding sources such as foundations, contributions, service charges and membership fees. This change of the dominant elite started a progression to a "liberal" nonprofit regime, although it is still too minor to be certain that this will be the final outcome.

Clearly, the analysis of the nonprofit sector in the context of major social forces and processes, as advocated by the social origins theory, proves fruitful and heuristically valuable. It allows for a more comprehensive understanding of the nonprofit sector and indicates that shared social processes influence the nonprofit sector world-wide. It is especially useful in the definition of the Israeli nonprofit sector, which is extremely complex, fluid and intimately linked to the overburdened polity of Israel.

CONCLUSION

The process of defining the Israeli nonprofit sector leaves us with many new questions to answer and calls for more research. This clearly is not a full and final description of this elusive concept, which may never be completely defined, and we doubt if it should be. However, we have managed to shed some preliminary light over most of the main processes and characteristics of the Israel nonprofit sector.

The sector in Israel is greatly influenced by the Jewish religion. This influence takes various forms. Judaism laid down the values and norms for the nonprofit sector. It is the reason for the unique financial support and active involvement of Diaspora Jews, and its fusion with the State resulted in an abundance of religiously-oriented nonprofits from all religions and religious factions in the Israeli society.

The fact that the nonprofit sector preceded the State, functioning as a temporary substitute, resulted in blurred lines between the public and private spheres, between State and society, and consequently between the nonprofit sector and government, leading to the continuous incursion of the State into the nonprofit sector. This has been accompanied by the strong influence of predominant State ideologies over the nonprofit sector and the ongoing conflict between the centralist and pluralist ideologies. Whereas the former advocates State intervention and limitation of the nonprofit sector, the latter fosters independence and freedom of action in the nonprofit sector, leading to its rapid growth and increasing self-sufficiency.

Challenges

The Israeli nonprofit sector faces some major changes and challenges in the coming decade. In legal terms, the nonprofit sector is now facing a revision of the relevant incorporation laws. The Amutot Law is being revised; an attempt to make it more comprehensive will undoubtedly make it more constraining. At the same time, the right to incorporate as a nonprofit company may be abolished. These legislative initiatives, intended to bring order into this "messy" domain of the Israeli law, will apparently restrict the range of possibilities open to nonprofits.

Efforts are now being put into campaigns demanding changes in the taxation policies concerning nonprofits and contributions to them. The current situation is extremely confusing, with conflicting rulings and policies which sometimes cause nonprofits to be burdened by unreasonable tax liabilities, and diminish the amounts of individual and corporate contributions by limiting the contributors' tax benefits. The success of these campaigns will have a great influence on the future vitality of the Israeli nonprofit sector.

For a variety of demographic and political and economic reasons, the Israeli nonprofit sector is facing a steady decrease in the flow of contributions from the Diaspora. It is aggravated by deepening frustration (particularly in the American Jewish community) caused by recent conflicts over the ultra-orthodox parties' attempt to impose their exclusive definition of Jewish identity. This is mostly affecting the level of funding raised in federated campaigns. There are hopes that this can be offset by fostering the level of domestic contributions, about which recent research revealed their surprising volume (Gidron. 1997b).

The continuing shrinkage of the welfare State and the subsequent decrease in provision of welfare services challenge the nonprofit sector to expand into those fields "abandoned" by the State on the one hand, and to maintain a consistent flow of funds to pay for these services on the other. The latter will have to be done by preventing the government from abandoning its financial obligations and by developing alternative funding sources. This process will also demand that nonprofits cooperate with the government without losing their special identity and characteristics.

Finally, and probably the most challenging task of all, the nonprofit sector is burdened with the mission of encouraging tolerance in face of deepening divisions in Israel society caused by ethnic, national, and religious differences. It was claimed by activists in the sector on several occasions, that it is this sector's mission to develop social capital by education in tolerance, citizens' participation and entrepreneurship, while utilizing and promoting peaceful strategies such as discourse, cooperation and negotiation.

Understanding the Israeli nonprofit sector is a challenging and invigorating task, yet it is an odyssey of which only the first step has been taken. This is obviously only the beginning of the journey. The work that will follow to analyze the economics, politics, law, history and impact of the Israeli nonprofit sector will probably shed more light on the themes and processes that we unraveled here and possibly uncover some new ones, since the entity we are researching is very complex, reflecting an even more complex society.

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