Dear JFN members and Federation leaders,

As you may know, the failure of two consecutive elections to result in the formation of a governing coalition means that Israel has been run by a transitional government for almost a year. Critical budgeting decisions are being postponed as a result, threatening the solvency of the many social service and nonprofit organizations that rely heavily on government funds.

In light of this ongoing situation, we at JFN and JFNA want to ensure you are aware of the potential implications for Israel’s social services and the impact on nonprofit organizations (“NGOs”).

This briefing document provides the most up-to-date information available and explains governmental processes and their possible impact on organizations active in the social sector. It is important to note that the current situation raises many questions and an array of potential complexities regarding contractual relationships between social organizations and government ministries, not all of which can be foreseen.

We hope this document helps you to carry out informed discussions within your organizations, increases sensitivity to the reality in which grantees are operating, and empowers you to develop a plan of action and take the necessary preparations relevant to your philanthropic activity.

Given the fluidity of the situation, we are continuing to seek additional information and insight about how the situation is playing out.

Please share with us any further questions you may have and let us know what additional information your foundation/federation needs in order to have more efficacious dialog with NGOs you support. We will share your queries with the Accountant General’s office with the aim of obtaining you the relevant guidelines.

The information provided in the attached briefing is based on a document prepared by Civic Leadership: The Umbrella Organization of the Third Sector in Israel and the Forum of Foundations in Israel, in collaboration with the Accountant General’s Office in the Ministry of Finance, and is shared with their consent.
What the Absence of a National Budget Means for Israel’s Nonprofit Sector?

How did we get here?
Since the April 2019 elections, Israel has been operating under a transitional government. Among other limitations, this transitional government lacks the authority to pass a national budget for 2020. Since January 1, Israel has had no national budget, which means that many organizations and social services that rely on government allocations are in a precarious situation. In recent weeks, we have begun to receive inquiries from organizations that have been hurt due to this situation.

What happens when there is no state budget?
In this instance, the government of Israel functions according to a format known as a continuation budget, in accordance with section 3(b) of the Basic Law: The State Economy.

What is a continuation budget?
The law authorizes the government to expend each month a sum equivalent to one-12th of the previous year’s budget, adjusted for inflation. These funds are to be used, first and foremost, to meet the state’s and government ministries’ legal obligations as defined by existing legislation, contracts and conventions. In other words, funds are spent only on contracts that were authorized and signed in previous years and include a financial commitment on the part of the government for the current year as well.

It is important to understand that the continuation budget refers to money that is allocated to a government ministry by the Finance Ministry, and not to funds from the government ministry to the organization with which it has the contract. The Finance Ministry first distributes funds to the ministries based on existing contracts (those the ministries signed with organizations in previous years that include provision for 2020 as well). In other words, the ministry must first fund existing contracts and only then can it consider allocating funds to new contracts.

So what about new contracts?
In order for a social service provider or nonprofit to have a new contract approved, or to extend or expand an existing contract, it has to have received priority status from the relevant ministry. (For example, a school or other educational provider cannot have new funds approved unless the Department of Education gives it priority status.) This is what will determine the rest of the process and the likelihood of receiving the money (see below for a description of the process involved).
**What criteria does the government ministry use in prioritizing an organization?**

**This is determined by the strategic plan of each ministry.** Every month the Accountant General of the Finance Ministry provides each ministry with a monthly spending quota based on the priorities and needs of all government offices. (Usually these priorities are determined by the official government book of work plans. However, because of the ongoing situation, this book was not published for 2020 and each ministry is therefore working according to its own internal plan).

**What is the implication for contracts and agreements with the government?**

There are four possible scenarios:

1. **A current existing contract: Government ministries are committed to funding contracts that have already been signed.**
   
   Contracts that were already signed for 2020 or were signed in previous years but include 2020 within its scope and no changes were made to it, are considered contractual commitments.
   
   As such the payments will be transferred in accordance with the terms of the contract (for example, if the contract indicates that a specific number of payments will be made at particular times throughout the year, this will be honored).

2. **A signed contract exists but the ministry has delayed payment: A social service agency or nonprofit that has a signed contract for 2020 but the payment from the government has been delayed.**
   
   In this instance, there is no real reason to fear that the funds will not be transferred, and the NGO should be in contact with the appropriate staff of the relevant ministry.

   **What can philanthropic foundations do?**
   
   It is worth considering providing additional funding to bridge the gap or lending money in advance of an upcoming payment. In these cases, there is no significant risk to the foundation, as the government is required by law to allocate the funds to which it is contractually committed.
3. An extension on an existing contract, changes to the scope of an existing contract:

An NGO that seeks to change a budget element of any kind in an existing contract, or that needs a time extension on an existing contract, will have to get authorization for this from the Central Committee for Contract Exemptions in the Accountant General’s office in the Ministry of Finance (more on this committee below). Organizations with existing government contracts can receive approval from the committee only if the ministry with whom they have the contract requests it from the Ministry of Finance.

What can philanthropic foundations do?

On the positive side, the ministry has prioritized the NGO and will want to proceed with its contract in the coming year; it will therefore be inclined to bring it before the committee. On the other hand, there is no guarantee that the committee will approve the request and therefore it is worth reaching out to the NGO to understand what the financial implications will be if the government funds do not come through.

4. A new contract between a government ministry and an NGO:

In instances where a ministry seeks to create a new contract with an NGO, the ministry must request approval from the Central Committee for Contract Exemptions in the Accountant General’s office in the Ministry of Finance.

What can philanthropic foundations do? As in the case of existing contracts, if the ministry has prioritized the NGO and wants to proceed with its contract in the coming year, it may opt to present it before the Central Committee for Contract Exemptions. On the other hand, there is no guarantee that the committee will approve the request, so it is worth reaching out to the NGO to discuss what the financial implications will be if the government funds do not come through.

Important things to understand regarding authorization for new contracts or the expansion or extension of existing contracts

Two conditions must be fulfilled:

1. The relevant ministry must have a budget surplus after covering all prior commitments.

If such a surplus exists after the ministry has fulfilled all its obligations, the funds may be used, subject to the approval of the Central Committee for Contract Exceptions, for new contracts, to extend or expand existing contracts, or to execute optional elements of existing contracts, in order to operate “essential services”* and activities included in the previous year’s budget, including those introduced via budgetary changes.

*“Essential services” are services that are in accordance with the priorities set down in the strategic work plan of each ministry, and can be impacted by current realities and the funding they require.
2. Just being put up for discussion at the Central Committee for Contract Exemptions is beneficial.

As soon as a ministry indicates its interest in expanding an existing contract or signing a new contract with an organization, it is prioritizing this organization; the organization’s contract is therefore more likely to be approved by the Ministry of Finance.

How does an organization come up for discussion in this committee?
The relevant ministry requests that the committee discuss the issue.

The Central Committee for Contract Exemptions convenes frequently, but has no set times. Both the relevant ministry and the Finance Ministry carry out in-depth due diligence on the relevant organizations before bringing their proposed contracts before the committee.

Important information regarding calls for proposals for 2020 published by government ministries:
While ministries have begun to publish calls for proposals for support in 2020, this support is contingent on the passing of the national budget for 2020 after a new government is formed.

What does “support” mean?

In addition to contracts and tenders, the state budget has a section called “support,” which refers to the funds each ministry is entitled to allocate to activities that promote its policies. Around 3 billion NIS in total are allocated among all the ministries via a process called the “Process for Support.” The finance minister is able to request funding for this purpose from the state budget in accordance with the Foundations of the Budget Law (חוק יסודות התקציב). The process is the same for all ministries.

Government ministries are allowed to publish invitations to submit requests for support, also known as requests for proposals (RFPs), in 2020. However, in the absence of a ratified state budget, the Support Committee cannot approve these allocations on its own, but can do so only with the approval of the Special Exceptions Committee for Support Allocations.
How can we assess the needs of nonprofit organizations in light of the current situation?

So we can better understand the scope of the expected negative impact on Israel's social service sector, please help to distribute the short survey below.

In these days, Civic Leadership reach out to as many organizations as possible, with the goal of understanding the continuation budget's impact on social.

We believe that it is crucial that, to the extent possible, all relevant factors in the philanthropic field and civil society have the most reliable information available in order to best prepare for the financially challenging year ahead, and especially in order to help prepare for discussions with the various government ministries, including the Ministry of Finance.

*Civic Leadership is the umbrella organization of the third sector, non-profit organizations (NPO's) throughout Israel. Since 1986, it has been dealing with a multitude of legislative and national issues that affect the activities of all the NPO’s from an overall perspective. The organization goal is to increase the third sector influence by representing its interests at the government, Knesset and regulatory levels.

We invite you to share this link to the survey for NGOs