

The Outsourcing of Welfare Services: Trends and Changes

Shavit Madhala-Brik and John Gal*

Abstract

The privatization of social welfare services is an on-going process since the 1980s. This chapter sheds light on the phenomenon and concentrates on the privatization process as it relates to an array of services of the Ministry of Labor and Social Welfare. At the center of the analysis stand two questions. (1) What is the scope of activities of for-profit and nonprofit agencies working in this field? (2) Can we identify trends in market concentration in welfare service provision? The study's findings indicate that the extent of services that are outsourced by the ministry has grown over the years: from 70 percent of the ministry's total expenditure in 2000 to about 80 percent in 2015. The majority of service providers to this ministry are veterans in the field, and they garner about 96 percent of the total payments for outsourced services. The findings relating to concentration levels indicate that competition among service providers in the field of personal social services is limited. The 50 largest providers, whose share among all of the outsourced service providers is about 2 percent, garner about 46 percent of the total expenditures for outsourced services and the majority have provided services for many years.

This chapter is a first attempt to create a comprehensive knowledge base regarding the outsourcing of social welfare services in Israel. The findings indicate a continuous widening and steady process of welfare service privatization, with varied players — both nonprofit and for-profit agents. These findings can serve as a platform for wider discussions on the phenomenon of outsourcing of social services in Israel.

Shavit Madhala-Brik, Researcher, Taub Center. Prof. John Gal, Chair, Taub Center Social Welfare Policy Program; The Paul Baerwald School of Social Work and Social Welfare, The Hebrew University of Jerusalem. Our thanks to the Ministry of Labor and Social Welfare officials for their profuse help in making the data available and clear, particularly Miri Ben Simhon, Or Nuriel, Natalie-Leon, Meirav Dadia, and Iris Florentin. Thank you to Udi Praver, Hila Tal-Avitan, Tamar Peled-Amir and Nimrod Dagani from the Prime Minister's Office. Special thanks go to Yekutiel Sabah, Professor Avi Weiss, Dr. Ronen Mandelkern and Haim Bleikh for their helpful comments

Introduction

The privatization of public systems has become a central plank of Israeli government policy in recent years. This is particularly true of social services (Office of the Prime Minister, 2016). It should come as no surprise that privatization has been at the center of the professional and public discourse since an accelerated process of transferring responsibility for service provision from the state to non-governmental agencies began in the 1980s (Gal, 1994). The privatization process extends to numerous and diverse social services, primarily those under the responsibility of the Ministry of Labor and Social Welfare (Meron, 2015; Katan, 2007).

The main mode of privatization of welfare services in Israel is privatization of delivery or outsourcing, which is to say that services that the state funds and for which it is responsible are delivered by non-governmental agencies, whether for-profit businesses or nonprofit organizations (Mandelkern and Sherman, 2015). The outsourcing process is carried out by government tenders inviting agencies to compete for a contract to perform an action or operate a service for a predetermined period of time. The choice of providers relies on defined criteria, and the state is responsible for assuring the proper operation of the privatized service through a regulatory system (Lahat and Talit, 2011). The assumptions underlying the outsourcing of social services are that this system allows greater flexibility and effectiveness of operation, and that competition between different specialized service providers will improve the service to citizens. The competition between the providers takes place at the tender stage, and in most cases there is no competition between the providers over the service-receiving clients. Clients are generally referred to service providers by the ministry or the local authority and often have little choice over which provider to use.

Despite the declared advantages of privatization, public discussion of the issue, especially concerning social services, continues. In the context of outsourcing welfare services, the discussion focuses on concerns over the possible negative consequences of privatization for social service recipients and employees. In other words, the state's withdrawal from operating systems that provide vital services to excluded and disempowered populations with diverse needs raises substantial questions over the way society deals with their difficulties (Benjamin, 2015; Mandelkern and Sherman, 2015). Among the questions that arise are the following:

- Does the process of outsourcing welfare services give non-governmental agencies powers that might violate the rights of service recipients?
- Are the criteria for selecting providers transparent and fair?
- Does the transfer of the service to non-governmental organizations actually streamline service delivery, improve it and increase users' access to it?
- Does the streamlining of the service come at the expense of the rights of the workers who provide the service and their professionalism? That is, has privatization resulted in a worsening of conditions of employment or pay for employees?
- Does the state have sufficient tools to regulate the service delivery and protect its users?
- Is there real competition between the various service providers or is the result actually the creation of market concentration characterized by a small number of providers?
- Are there significant differences between for-profit and nonprofit providers?

Despite the many consequences of the transition from state-run welfare services to their operation by non-governmental agents, it is evident that the discourse on the subject has often taken place without a solid base of data on the extent and characteristics of the phenomenon. This chapter does not answer all of the questions that arise from the discussion of the privatization of social services in Israel, but it does contribute to the discourse by analyzing a comprehensive set of data on the outsourcing process under the responsibility of the Ministry of Labor and Social Welfare. Specifically, we will examine the extent and characteristics of service outsourcing by the ministry and the changes that have occurred in them over time.

Furthermore, the chapter will discuss two of the questions at the center of the public discourse. The first question focuses on the patterns of activity of for-profit and nonprofit agencies in this area. Identifying the outsourced service provider is part of a broad discussion of the implications of that identity for service delivery. There has been a long discussion in the literature over the question of whether agencies that operate for

profit (businesses) are different from organizations with a social agenda (nonprofits) as far as social service provision is concerned. The point of departure for the discussion is that there are substantial differences between these two kinds of organizations. This is expressed, of course, in their formal and legal status as well as their tax status. It has been argued, though, that other characteristics of the organizations also affect the areas in which they operate, the target population for their services, and the quality of service provided. These characteristics are rooted in the distinction between organizations established for the sole purpose of improving the welfare of excluded populations and those whose goal is to secure profit for shareholders or private owners. These basic differences may be expressed in the perceptions of the organizations' directors and employees, employee training, and the level of public trust they are afforded. The assumption is that in all of these dimensions, nonprofits are preferable to businesses (Schmid, 1998).

The involvement of nonprofits and businesses in delivering social services and the competition between them under the same conditions and over time tends to obscure the differences between them. In fact, other factors such as provider size, how long the organization has been operating and its experience in service provision may have a greater impact on the ways services are delivered, their quality and their users' satisfaction. The findings as to the extent of the blurring of the differences between nonprofits and for-profits and its consequences are not unequivocal and the debate continues between researchers (Child, Witesman and Spencer, 2016; Eikenberry and Drapal Kluver, 2004; Rees, Taylor and Damm, 2013). The findings presented in this chapter offer an insight into the range of activity of the two organizational types over time, but they do not allow us to draw conclusions regarding differences or similarities in their service provision.

The second question that will be discussed is whether concentration trends can be identified in the area of welfare service delivery. One of the main justifications for the privatization of service operation is the advantages of competition between service contractors (Mandelkern and Sherman, 2015). Assuming that one of the goals of outsourcing social services is to foster competition leading to streamlined and improved services, then concentration is a key issue. A comprehensive report recently published by the Office of the Prime Minister discussed the streamlining and improvement of the quality of outsourced social services. The report argued that the existence of a competitive market improves the level of services provided to citizens, even in the area of social services. It also argued that in the field of social service operators, there has been no emphasis on

expanding existing markets by encouraging the entry of new operators, and that in the absence of a sufficient supply of providers, a situation is created where the service customer is captive to the few existing providers. In this context, the report recommends that the government create competition between social service providers and act to expand the market in these areas (Office of the Prime Minister, 2016).

It should be noted that the “social service market” is different in its complexity from other markets for a number of reasons. The main one is the dependence of the service recipients upon service providers. In cases where the change of a service provider can cause significant harm to recipients (such as residential centers for individuals with intellectual developmental disabilities), that dependence is even greater and the competition issue assumes a different meaning. In those cases, the change of provider is limited, as is the use of competition, because it undermines continuity and stability of care. In these cases, the advantages of employing a large and experienced provider over the employment of new and small providers can develop over time, including the specialization and experience they gain. Given these considerations, this chapter examines the concentration trends in outsourcing of services by the Ministry of Labor and Social Welfare.

1. The provision of public welfare services by outsourcing

At the center of the chapter will be the dimensions of outsourcing in the public welfare services operating under the responsibility of the Ministry of Labor and Social Welfare. We will review the services provided today by way of outsourcing and the changes that have occurred in that area. We will examine the expenditure of the Ministry of Labor and Social Welfare on outsourced services over a period of 15 years while distinguishing between the kinds of non-governmental agencies who provide them and examining the degree of concentration and turnover in their provision.

The findings and discussion in the chapter are based on data provided by the Ministry of Labor and Social Welfare and interviews and conversations with ministry officials as well as administrators in agencies who provide various outsourced welfare services. The data is from the Accountant General’s payment system in the years 2000, 2005, 2010 and 2015. The data include the specification of provider type and total payments¹ to each

1 Total payments refers to the full amount paid to outsourced service providers by the government, regardless of whether a portion of that is paid for by the local authorities. The sum does not include tenders carried out by the local authorities not through the Ministry of Labor and Social Welfare.

provider at the level of budgetary regulation (the maximum level of detail in the state budget). The data summarize expenditure for outsourcing in each of the ministry's four main departments: (1) the rehabilitation department, which operates rehabilitation centers for people with disabilities; (2) the Department of Personal and Social Services, which addresses the personal and social needs of individuals, families and communities, and operates in areas such as services for the elderly, the welfare of the individual and the family, services for children and youth, and adoption; (3) the Department for Intellectual Developmental Disabilities, which specializes in the identification, diagnosis and care of people with developmental cognitive disabilities and support for their families; (4) the Department of Corrections, which provides treatment and social supervision, rehabilitation and prevention services for offenders, severely disadvantaged populations, and victims of crime.² In the analysis, nonprofits were separated from for-profit business service providers. We should note that among the for-profit service providers are also agencies owned by the state or the Histadrut labor federation that operate on business model principles.

The analysis in this chapter refers to the period for which data were obtained. Since the transition to outsourced services by the Ministry of Labor and Social Welfare occurred for the most part before 2000, this analysis presents a partial picture of the process and the trends of the last 15 years.

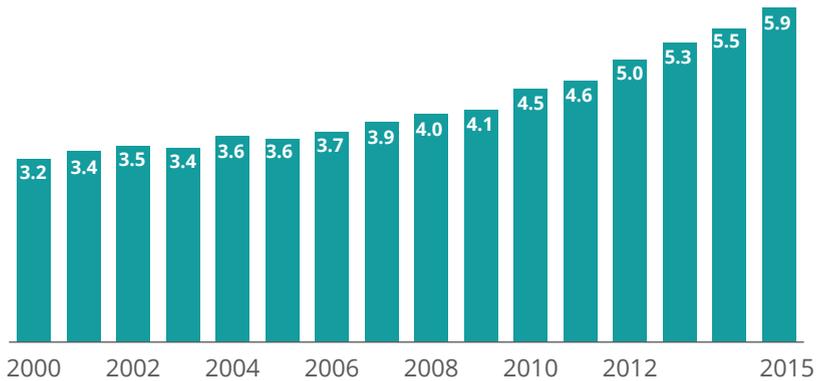
The breakdown of expenses on outsourced services

The Ministry of Labor and Social Welfare's budget is growing. This trajectory has gathered momentum in the last decade and especially since 2005 (Figure 1). In 2015, the ministry's budget was NIS 5.9 billion. The ministry's expenditure on outsourced services was NIS 4.8 billion, 80 percent of the ministry's total budget (in terms of net expenditures). This amount was devoted to purchasing outsourced services in the areas of rehabilitation for people with disabilities, services for those with intellectual and developmental disabilities, personal and social services, and correction services. In 2000, that expenditure was NIS 2.3 billion (2015 prices), which is 70 percent of the ministry's total budget, and from that year onward, the expenditure rose dramatically — both relative to the ministry's budget and in absolute terms. The large share of expenditure on outsourced services,

² In this study, "expenditure on outsourcing" refers to expenditure by the Ministry of Labor and Social Welfare on outsourcing in the four aforementioned areas, which are the main part of expenditures on outsourcing. It does not include expenditures on foster families, daycare facilities and research and training.

and its increase in recent years, indicate the central role of outsourcing providers in the delivery of welfare services in Israel. This also reinforces the importance of understanding the characteristics of the structure for outsourcing of these services.

Figure 1. Ministry of Labor and Social Welfare budget
2015 prices, NIS billions



Implementation budget data in net expenditure terms (without local authority and extra-ministerial budgetary participation).

Source: Shavit Madhala-Brik and John Gal, Taub Center.

Data: Ministry of Finance, Implementation Budget.

The number of social service providers to the Ministry of Labor and Social Welfare was 2,697 in 2015 (Table 1), two-thirds of which were for-profits and one-third of which were nonprofits. However, half of the total payments went to nonprofit and half to for-profit service providers (Figure 2). Over the years, there was a rise in the number of nonprofits providing services to the ministry, while simultaneously there was a rise in the share of payments dedicated to those organizations, especially between 2000 and 2005. On the other hand, there was a drop in the number of service providers, especially between 2010 and 2015.

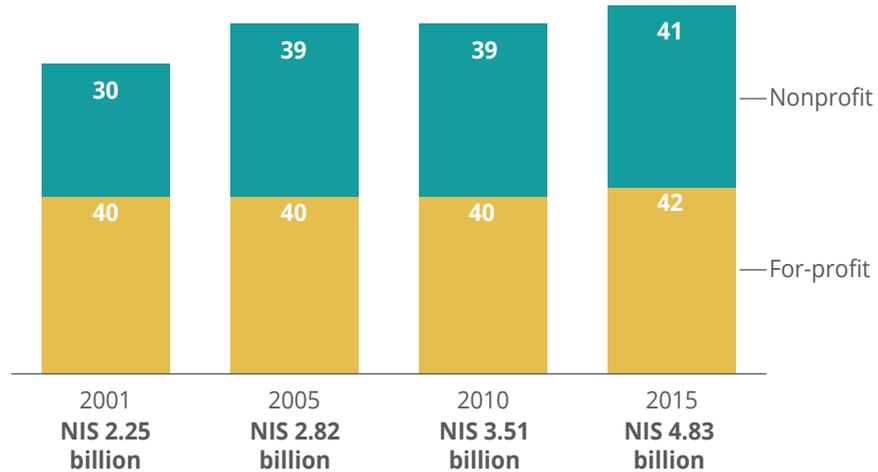
Table 1. Number of service providers over time

By type of service provider

	Number of service providers	Out of them:	
		Nonprofit	For-profit
2000	2,985	431	2,554
2005	2,963	608	2,355
2010	3,003	642	2,361
2015	2,697	872	1,825

Figure 2. Expenditure on outsourcing

As a percent of Ministry of Labor and Social Welfare budget, 2015 prices



Total expenditure for outsourcing as a percent of the budget in net expenditure terms.

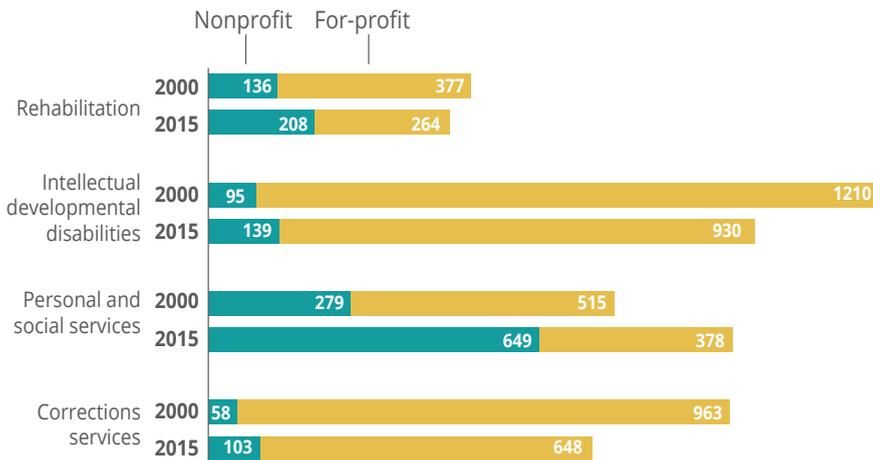
Source for both: Shavit Madhala-Brik and John Gal, Taub Center.

Data for both: Ministry of Labor and Social Welfare; Ministry of Finance, Implementation Budget.

Structure of the welfare services provided by outside parties by area

In 2015, most of the nonprofits (74 percent) providing services to the Ministry of Labor and Social Welfare did so to the Department of Personal and Social Services (Figure 3). The number of nonprofits that provided services to that department increased significantly between 2000 and 2015, more than doubling. Today, most of the service providers in that division are nonprofits. In other departments as well, we see nonprofit providers entering the field in place of for-profit providers: in the years examine, there was a rise in the number of nonprofits despite the general drop in the number of service providers delivering services to these.

Figure 3. Number of service providers in 2000 and 2015
By department and type of service provider



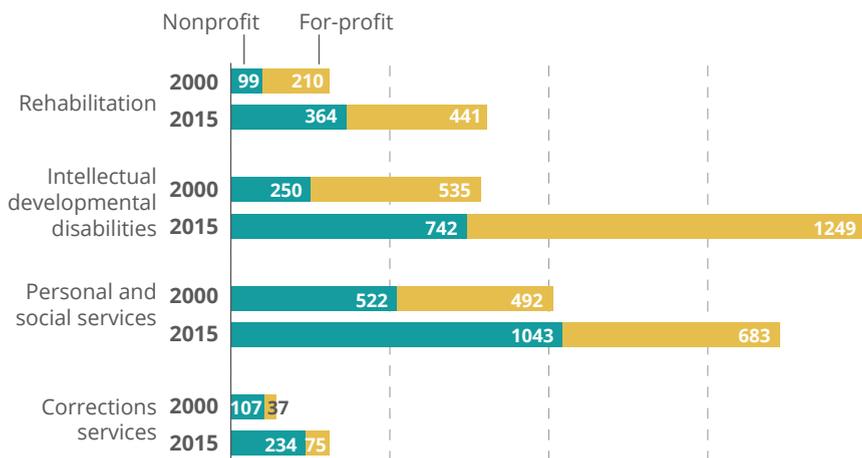
Source: Shavit Madhala-Brik and John Gal, Taub Center.
Data: Ministry of Labor and Social Welfare.

Despite the drop in the number of outsourcing service providers to the corrections services, intellectual developmental disabilities department, and rehabilitation department, there was a rise in the total payments to these providers between 2000 and 2015 (Figure 4). The increase in the total payments to the Department for Intellectual Developmental Disabilities is especially noteworthy. In 2015, the total payments to providers in this

department were about one-third of the Ministry of Labor and Social Welfare' total budget and 41 percent of the total expenditure for outsourced services. The expansion was primarily in the increase in payments to for-profit providers in this department, despite the drop in the number of those service providers. The average annual expenditure per for-profit provider in this department rose from NIS 440,000 in 2000 (in 2015 prices) to NIS 1.3 million in 2015. In the Department of Personal and Social Services, there was a rise in the total payments to both nonprofit and for-profit providers, despite the drop in the number of for-profit providers. The average expenditure per for-profit provider in this department doubled in the examined years. At the same time, there was a decrease in the average payment from this department to nonprofit providers. In the corrections and rehabilitation departments, too, the rise in average payment per service provider is higher for for-profit providers.

Figure 4. Distribution of service providers in 2000 and 2015

By department and type of service provider, 2015 prices, NIS million



Source: Shavit Madhala-Brik and John Gal, Taub Center.

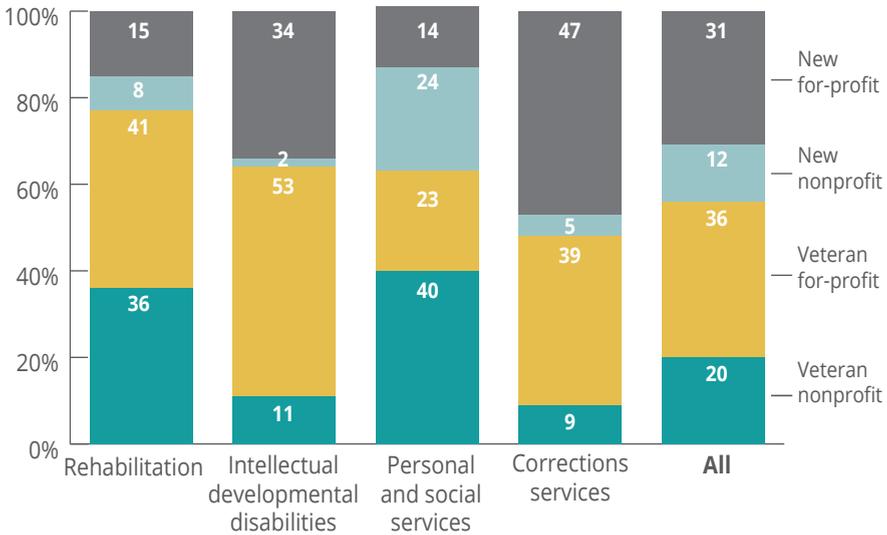
Data: Ministry of Labor and Social Welfare.

Figure 5 shows a breakdown of outsourcing providers who provided services to the Ministry in 2015, by type of provider and length of time as a service provider. A “veteran” service provider is defined as one who has provided the ministry with services in at least one of the years prior to 2015

that were examined: 2000, 2005 or 2010. The data show that 56 percent of the service providers are veteran. A look by department shows a somewhat different picture. In the rehabilitation department, 76 percent of the service providers are veteran. In the corrections department, on the other hand, fewer than half are veteran. The emerging picture of differences in the composition of service providers for the different departments raises questions regarding the entry of new providers to the welfare services provision market. Is this explained by barriers that prevent the entry of new service providers, by the structure of the tenders, or by a lack of providers in the field?

Figure 5. Distribution of service providers by type and tenure in the market, 2015

Percent



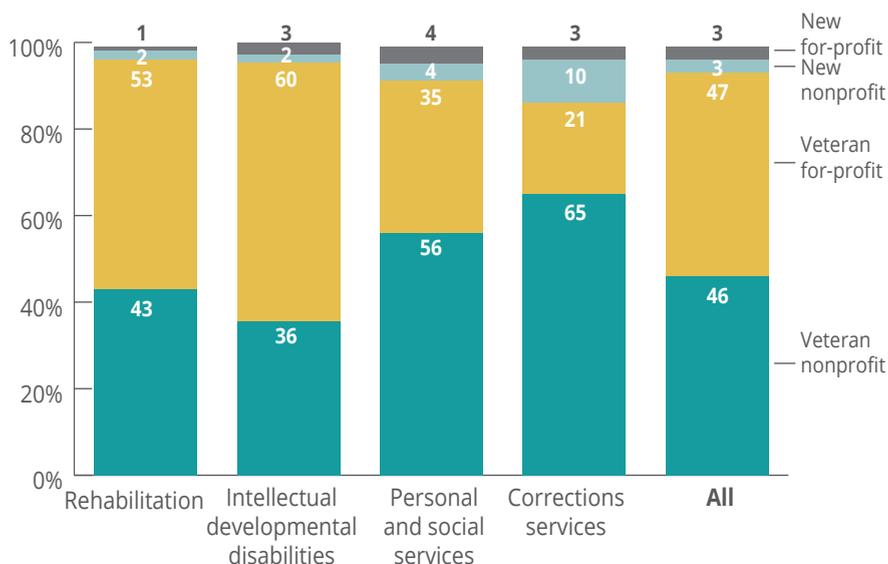
Source: Shavit Madhala-Brik and John Gal, Taub Center.
 Data: Ministry of Labor and Social Welfare.

The breakdown of payments by type of service provider and tenure indicates that the veteran providers' share of total payments is significantly larger than their share among the total providers, at 96 percent (Figure 6). Even in the corrections department, where a little less than half of the

providers are veteran, 87 percent of the payments go to them. It appears that the veteran providers are very large companies or organizations relative to newcomers in the field.

Figure 6. Distribution of payments by type of service provider and tenure in the market, 2015

Percent



Source: Shavit Madhala-Brik and John Gal, Taub Center.

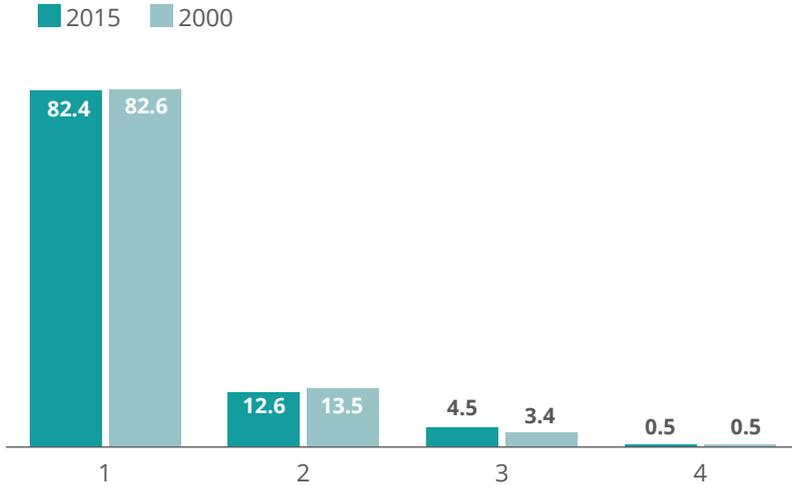
Data: Ministry of Labor and Social Welfare.

Specialization or diversification among service providers

An interesting issue concerning outsourced service providers is their specialization or diversity in terms of the services they offer; diversity offers access to a broader range of tenders. Figure 7 shows the distribution of providers by the number of different departments they serve. The emerging picture indicates that most of the providers serve a single department. An examination of the breakdown for 2000 shows a similar picture and significant changes are not seen over time.

Figure 7. Distribution of service providers by number of departments they serve

Percent



Source: Shavit Madhala-Brik and John Gal, Taub Center.
Data: Ministry of Labor and Social Welfare.

Turnover among types of service providers

One of the consequences of outsourcing social services is the entry of for-profit providers into the social services arena. Two decades ago, Yosef Katan (1996) noted that the involvement of the private sector in the personal welfare service arena was growing, and that businesses were entering areas of activity in which they had not been engaged previously. This issue has been discussed extensively in the literature and raises various questions: did the entry of the business service providers cause a change in the structure and identity of the nonprofit organizations, which previously, alongside the government, were the main providers of welfare services? Did nonprofit organizations adjust over time and become similar to the for-profit businesses with which they had to compete for tenders? Is there a difference today between the two kinds of providers in their organizational conduct and service delivery, and does the ministry prefer one over the other?

Interviews with officials in the ministry and in service provider agencies (nonprofits and for-profits) indicate that the ministry does not have an explicit preference for a specific type of provider. However, in certain areas of service, the nonprofits have a relative advantage in terms of experience. In many cases, nonprofits provided services in those areas even before the government decided to expand its outsourcing, thus giving them an edge over newcomers to the field.

The following figures (Figures 8 and 9) present the changes that occurred in the distribution of payments between for-profit and nonprofit providers in the main areas of the two major service departments: the Department of Personal and Social Services and the Department for Intellectual Developmental Disabilities. In most areas of the Department of Personal and Social Services between 2000 and 2015, the share of total payments increased to nonprofits. There was a significant expansion of services for the elderly, partly due to the outsourcing of senior day centers, mainly through locally operated nonprofits. Despite the expansion of the nonprofit share, most of the payments for services for the elderly are still transferred to for-profit companies as part of the main expenditure item “service for the elderly – institutional care.”

The changes in the distribution of payments between for-profit and nonprofit providers in the main areas of the Department for Intellectual Developmental Disabilities (Figure 9) show that between 2000 and 2015, the activity of for-profit providers in the area of community and home care increased. Also, for-profit providers entered the field of institutional care for individuals with autism, an area in which only four providers operated in 2000, and in which a single organization garnered 90 percent of the payments. Outsourced community services for individuals with autism did not exist in 2000 and, therefore, the distribution for that year does not appear.

Figure 8. Payment distribution in the Department of Personal Social Services

By type of service provider and area, percent

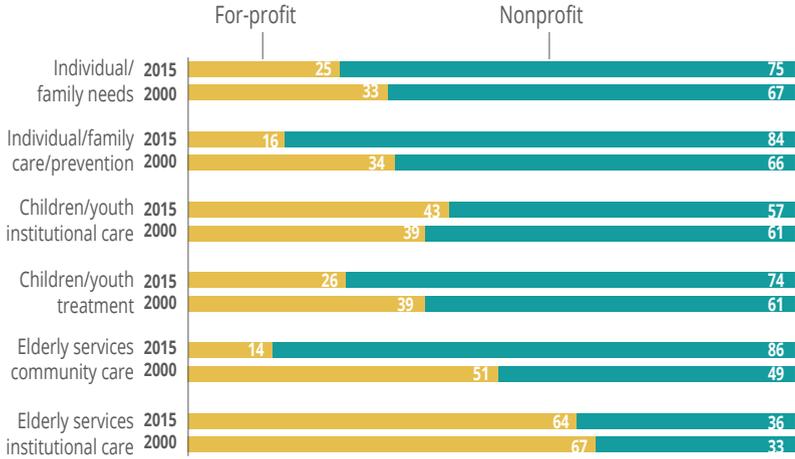
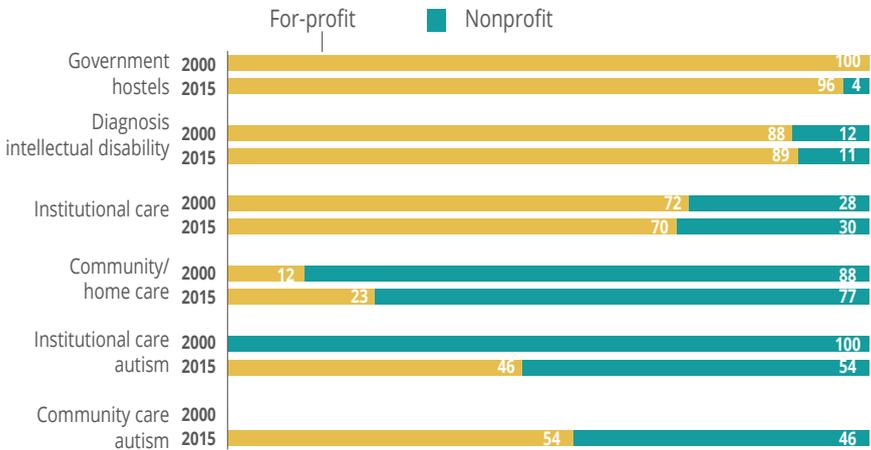


Figure 9. Payment distribution within the Department for Intellectual Developmental Disability

By type of service provider and area, percent



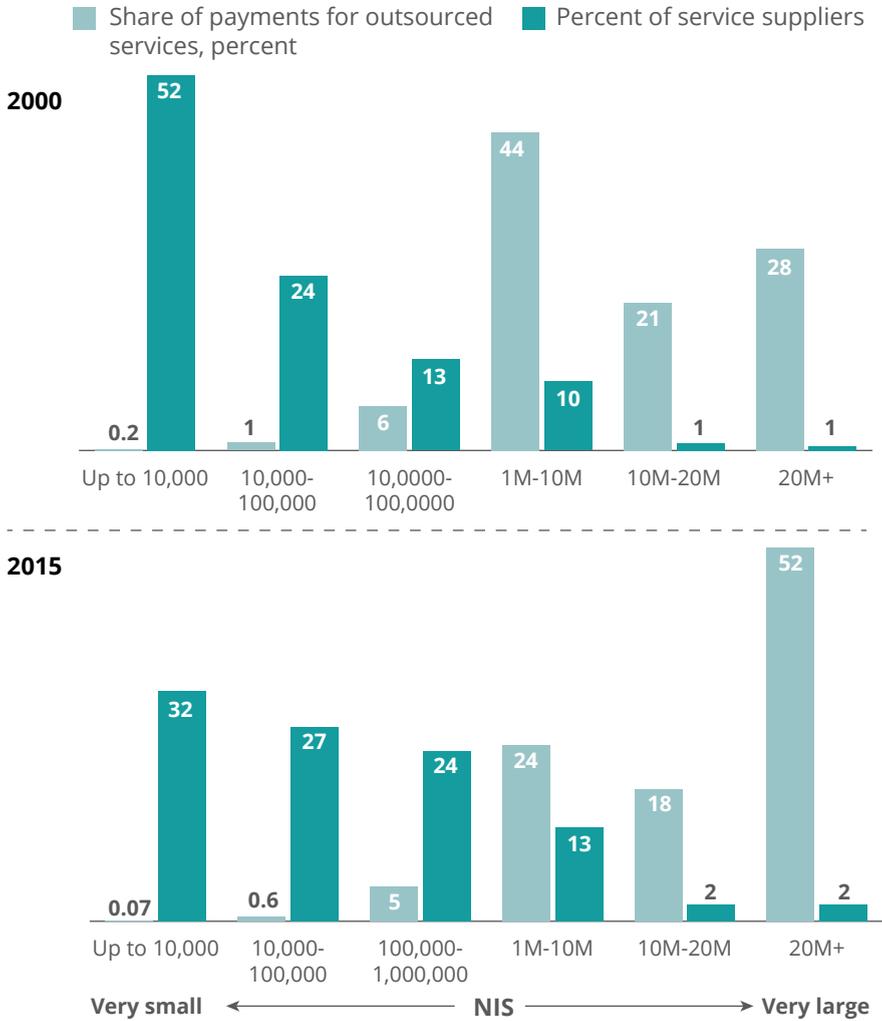
Source: Shavit Madhala-Brik and John Gal, Taub Center.
Data: Ministry of Labor and Social Welfare.

2. Service concentration in the welfare services market

The distribution of outsourced service providers by the share of total payments for services rendered (Figure 10) shows that in 2000, most of the providers were very small receiving total annual payments of NIS 10,000 (in 2015 prices) or less. The main share of payments (44 percent) went to medium-sized service providers, with total payments of between NIS 1 million and 10 million (in 2015 prices). In 2015, there was a fluctuation in the breakdown of providers so that there are fewer service providers in the lowest payment group and more in the medium payment groups.

At the same time, there was a fluctuation in the distribution of payments: in 2015, there was a greater concentration of payments to service providers in the highest payment group, more than NIS 20 million. In fact, in 2015, 4 percent of the service providers received a very high share (70 percent) of the ministry's total payments for outsourcing. This figure is a symptom of the market concentration for outsourced welfare services within the Ministry of Labor and Social Welfare.

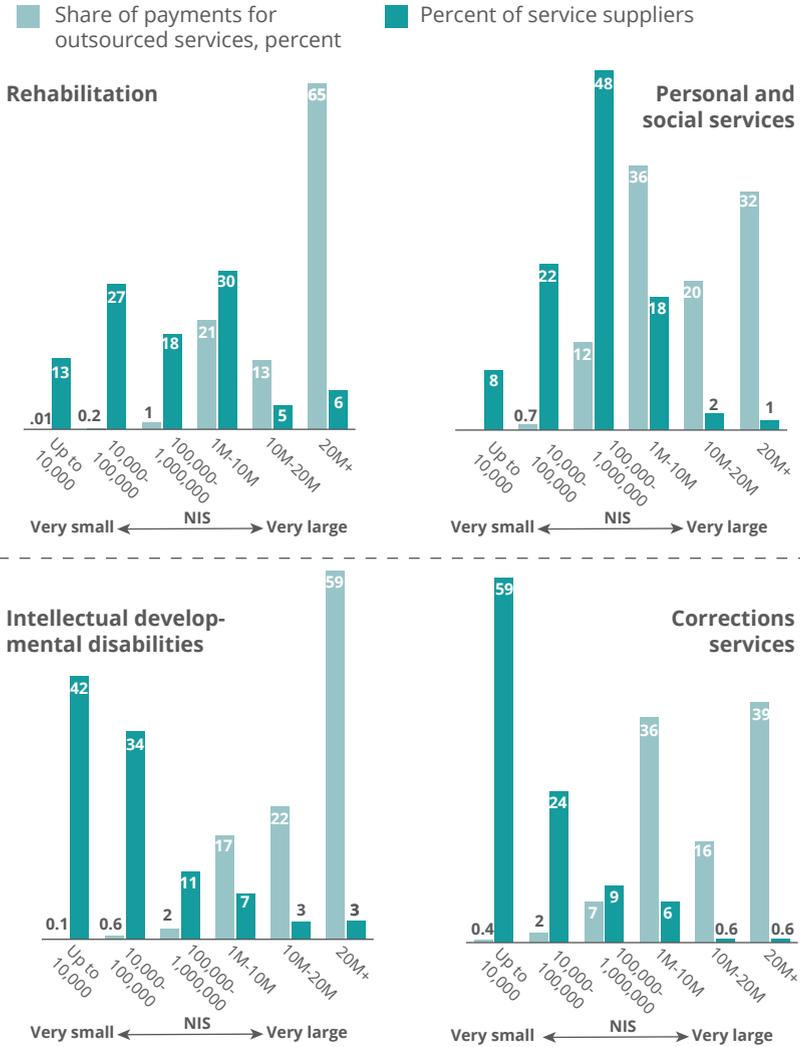
Figure 10. Distribution of service providers and payments by payment group, 2000 and 2015



Source: Shavit Madhala-Brik and John Gal, Taub Center.
 Data: Ministry of Labor and Social Welfare.

The breakdown of service providers and payments on the departmental level (Figure 11) shows differences between them. The distribution of service providers in the rehabilitation and personal and social services departments indicates that a large share of the providers are medium-sized providers. On the other hand, in the departments for intellectual developmental disabilities and in the department for corrections, most of the providers are small, and their number drops as the payment rises. The distribution of payments in the different departments shows that in the departments for intellectual developmental disabilities and in rehabilitation, most of the payments go to service providers in the highest payment group – NIS 20 million and over.

Figure 11. Distribution of service providers and payments by payment group and department, 2015



Source: Shavit Madhala-Brik and John Gal, Taub Center.
 Data: Ministry of Labor and Social Welfare.

Measuring the level of concentration

In order to examine the degree of concentration in the outsourcing of welfare services under the responsibility of the Ministry of Labor and Social Welfare, we employ two analytical tools: the Herfindahl-Hirschmann Index (HHI) and a concentration ratio (CR4) index.

The value of the HHI equals the sum of the squared market shares of the companies operating in the industry. The index ranges from zero (for perfect competition) to 10,000 (for a monopoly), so that a rise in the index value means a rise in concentration and a drop in competition in the industry. According to the US Horizontal Merger Guidelines (Federal Trade Commission and Department of Justice, 2010), a value lower than 1500 indicates low market concentration, and a value higher than 2500 indicates a high level of market concentration. The measurement was made for each budget line (“takana”) as a separate market for those agents providing a service, with their market share measured as a percentage of expenditure for outsourcing under that line. Even though the level of budget lines does not necessarily represent a service market, in the context of the data available for the study, it is the optimal distribution for identifying specific kinds of services where there might be concentration.³

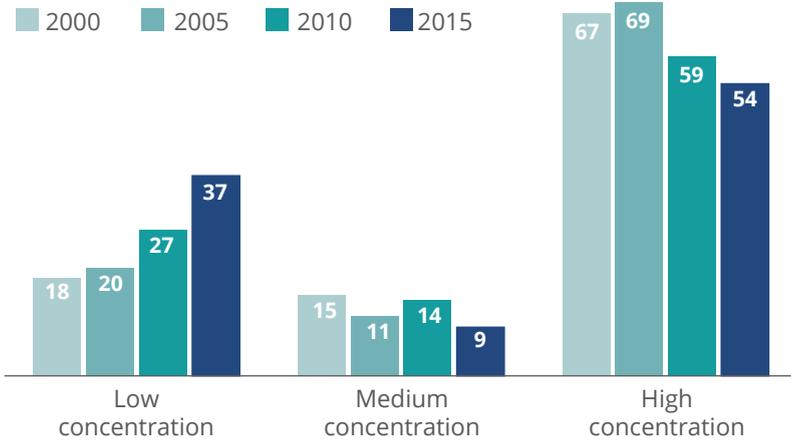
Figure 12 presents the change in the breakdown of the HHI indexes in different years. We can see that between 2000 and 2015 there was an increase in the share of budget lines where a low level of concentration was measured (up to 1500) and a drop in the share of budget lines where a high level of concentration was measured (more than 2500). In areas where high levels of concentration were detected, it is advisable to run an individual test to find the reasons for concentration including barriers that limit the entry of providers into the industry.

The CR4 index measures the total market share of the eight largest providers in the market. Like the measurement made by the HHI index, the CR4 index was calculated separately for each budget line. The examination using this index identified similar trends to those that were obtained by measuring with the HHI index.

³ Budget lines (“takana”) are the highest level of detail in the state budget. In the framework of the data available, the budget line specifies the type of service paid to the service provider. For example, the budgetary line “Community rehabilitation for the disabled” made payments to 69 service providers in 2015 for services to individuals with disabilities living in the community.

Figure 12. Distribution of HHI index values for budget lines in various years

Percent



Source: Shavit Madhala-Brik and John Gal, Taub Center.
 Data: Ministry of Labor and Social Welfare.

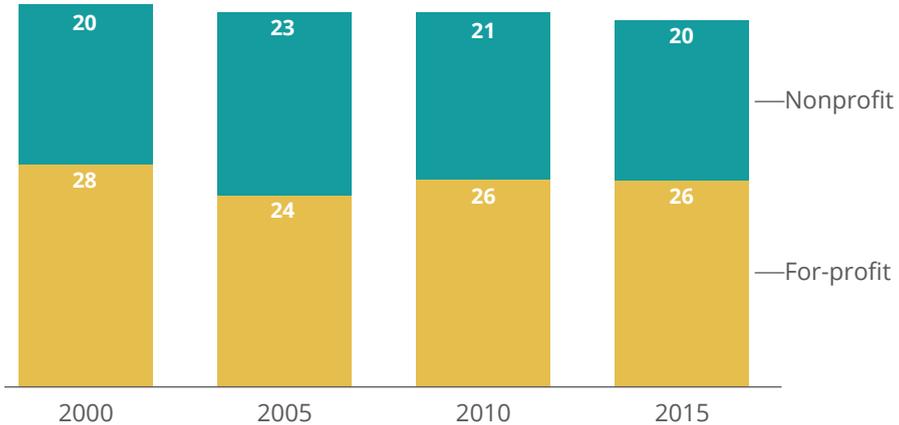
The 50 largest service providers

The share of the 50 major service providers⁴ of outsourced services to the Ministry of Labor and Social Welfare is only 2 percent of all providers. An examination of the ministry’s expenses indicates that these providers receive 46 percent of the ministry’s expenditures for outsourced services, namely NIS 2.2 billion in 2015 (Figure 13). This level dropped slightly between 2000 and 2015 (from 49 percent to 46 percent) but remained high, particularly relative to the low share of these providers out of the total.

⁴ In terms of the total payments received from the ministry.

Figure 13. Percent of payment to the 50 largest service providers out of total outsourcing expenditure

By type of service provider

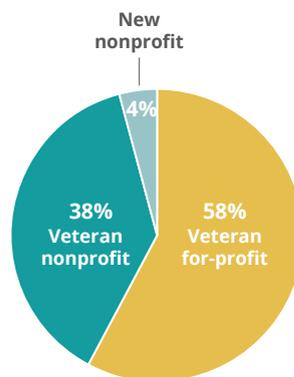


Source: Shavit Madhala-Brik and John Gal, Taub Center. Data: Ministry of Labor and Social Welfare.

An examination of the identity of the major service providers (Figure 14) indicates that, except for two nonprofits, almost all of the largest providers are veterans in the market place who worked with the Ministry of Labor and Social Welfare over the years under examination. About half of them were among the 50 major providers in 2000 as well, and 40 of them also provided services to the ministry in 2010.

Figure 14. Distribution of the 50 largest service providers, 2015

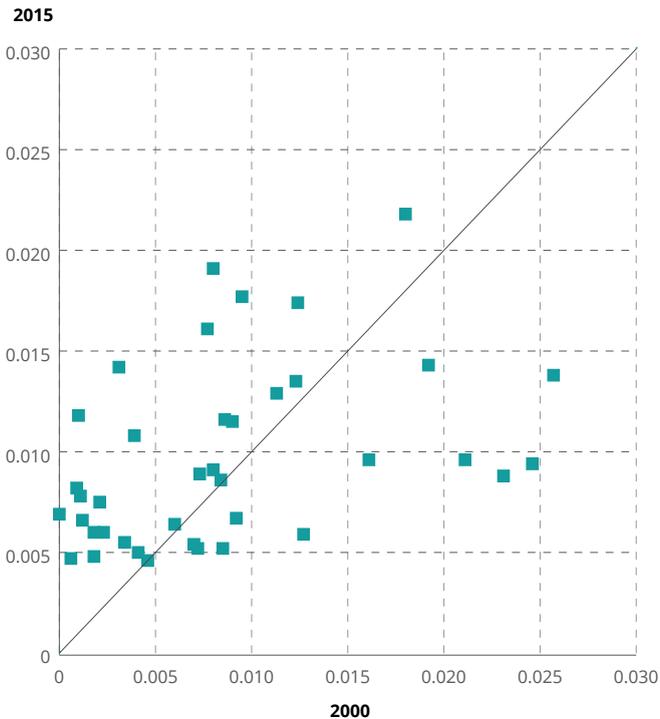
By type of provider and tenure



Source: Shavit Madhala-Brik and John Gal, Taub Center. Data: Ministry of Labor and Social Welfare.

The changes in the scale of the major service providers between 2000 and 2015 are presented in Figure 15, which shows the payment share of each provider in the examined years. Providers whose payment share from the ministry increased appear above the line and those whose share decreased appear below the line. Of the 50 major service providers in 2015, 39 provided services to the ministry in 2000 as well, and most of them received a larger share of the total payments in 2015 than in 2000. Among these, the average change per provider is a 0.12 percent increase of the payment share from the outsourced expenditure. The five largest service providers in 2000 actually saw a drop in their payment share in 2015.

Figure 15. Changes in the share of payment of the large and veteran service providers
Ratio of payment to provider out of the outsourcing expenditure of the ministry in 2000 and 2015

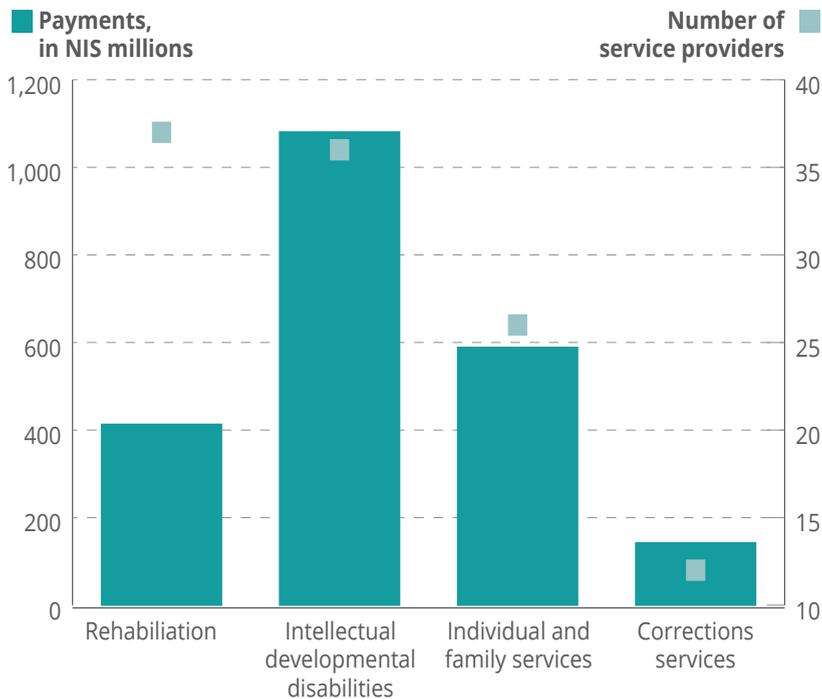


Source: Shavit Madhala-Brik and John Gal, Taub Center.
 Data: Ministry of Labor and Social Welfare.

Figure 16 shows that most of the large providers serve the Department for Intellectual Developmental Disabilities (36 providers). The activity of the major providers decreases when we look at the corrections department, both by the total payments and by the number of service providers who work with the department (especially relative to the general number of providers who worked with the corrections department, which is higher than the general number of providers who worked with the rehabilitation department).

Figure 16. The 50 largest service providers in 2015

Distribution of payment and providers by department

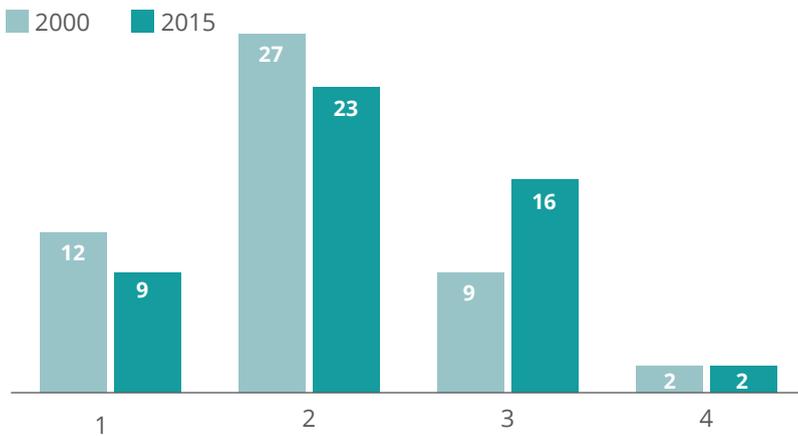


Source: Shavit Madhala-Brik and John Gal, Taub Center.
Data: Ministry of Labor and Social Welfare.

Figure 17 shows the distribution of the 50 major service providers by the number of different departments to which each provider gives services. When analyzing all providers, it emerges that most provide services to only a single department (Figure 7). By contrast, most of the 50 major providers

provide services to more than one department — in 2015, only eight of them provided services to a single department. What this indicates is that most of the major service providers do not specialize in a single type of service but provide a range of services. This trend seems to be growing, and relative to 2000, a larger portion of the major providers work with a larger number of departments.

Figure 17. Distribution of the 50 largest service providers by the number of departments they serve



Source: Shavit Madhala-Brik and John Gal, Taub Center.
Data: Ministry of Labor and Social Welfare.

An examination of the five largest service providers in 2015 shows that three are nonprofits and two are private companies. All five are veteran providers who have supplied services to the ministry for over a decade. They provide services to a number of departments. In 2015, these five providers received 9.4 percent of the ministry's total payments for outsourced services. This share of payments grew in the last decade by 2 percentage points, mainly because of a 1.25 percentage point increase in the payment share of one of the providers (the third largest). In 2005, that provider supplied services to the Department for Intellectual Developmental Disabilities and the Department of Rehabilitation, and in 2015, expanded its activity to provide services to the Department of Personal and Social Services as well.

3. Test case: The Department for Intellectual Developmental Disabilities

To examine additional characteristics of the outsourcing process, we present as a test case the Department for Intellectual Developmental Disabilities – the department with the highest expenditure on outsourcing and a department that works with most of the providers. This department is responsible for the diagnosis and treatment of people with developmental cognitive disabilities of all ages and all levels of functioning, as well as for the welfare of their families. Most of the department's services are provided through the local authority social service departments and the day programs they operate. In 2014, local social service departments listed 33,589 people with intellectual developmental disabilities (Ministry of Social Welfare and Social Services, 2015). For the analysis, the department's services were segmented into three main service provision areas: (1) diagnostic services – services whose purpose is to diagnose individuals with intellectual developmental disabilities, to develop personal programs for them and to make decisions as to their placements in various settings; (2) community services – services intended to identify individuals in need of diagnosis, to develop and promote community services, and to promote policy for community-based care; (3) institutional services – comprehensive services for people with intellectual developmental disabilities who cannot live in their family setting because of risk or danger to themselves or their families (Ministry of Labor and Social Welfare website, 2016).⁵

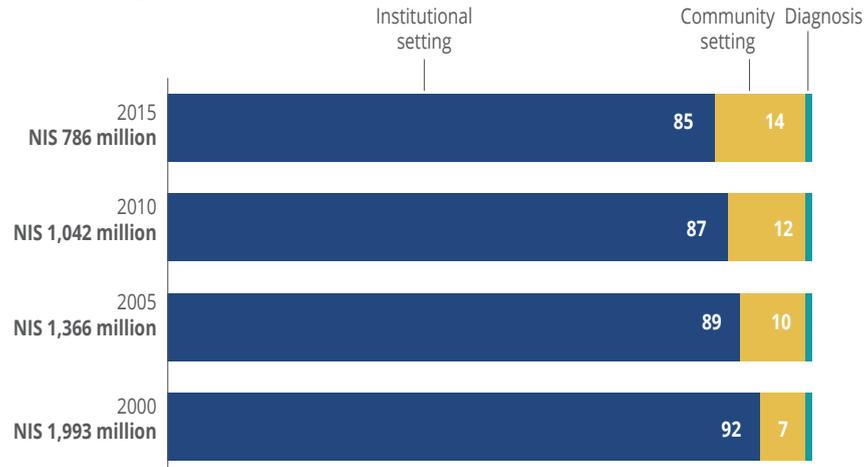
Figure 18 presents the distribution of the Department for Intellectual Developmental Disabilities' outsourcing payments by these three main areas. The data indicate that in 2000, the outsourcing budget of the Department for Intellectual Developmental Disabilities was NIS 786 million (in 2015 prices), and that 92 percent of that budget was allocated for services related to institutional settings. In 2015, there was a substantial increase in the Department's budget for outsourcing and it reached NIS 1,993 million. The relative share of expenditures on services in institutional settings dropped to 85 percent. Over the years, we see a trend of the expansion of community-based services and the growth in the relative share for these expenditures. According to a study by the ministry (Ministry of Labor and Social Welfare,

⁵ According to sources in the Ministry of Labor and Social Welfare, this drop is partly explained by the fact that some for-profit providers transferred from providing direct services to the ministry to providing indirect services through The Israel Association of Community Centers.

2015), in the last years more efforts were invested in directing patients to alternative housing arrangements. For instance, in 2001, only 2.7 percent of people with intellectual developmental disabilities lived in community-living frameworks, and, in 2014, that rate increased to 6.1 percent.

Figure 18. Distribution of outsourcing payments in the intellectual developmental disabilities department

2015 prices, percent



Source: Shavit Madhala-Brik and John Gal, Taub Center.
 Data: Ministry of Labor and Social Welfare.

The number of providers for the intellectual developmental disabilities department distributed by type of provider and area is shown in Table 2. According to the distribution of payments, diagnostic services are provided by only a few providers, but that number has grown significantly over the years. Most of these providers are private sector, for-profit businesses. In community services, there was a rise in the number of providers. Most of the increase was in nonprofit providers: their number increased from 60 in 2000 to 104 in 2015. Compared to diagnosis and community, there was a drop in the number of providers for institutional services, reflected in a drop in the number of for-profit providers from 1,140 in 2000 to 782 in 2015.⁶

⁶ According to sources in the Ministry of Labor and Social Welfare, this drop is partly explained by the fact that some for-profit providers transferred from providing direct services to the ministry to providing indirect services through The Israel Association of Community Centers.

Table 2. Number of service providers in the intellectual developmental disabilities department

By type of provider and service area

	2000			2015		
	Total providers	Of them: Non-profit	Of them: For-profit	Total providers	Of them: Non-profit	Of them: For-profit
Diagnosis	23	2	21	94	5	89
Community care	125	60	65	189	104	85
Institutional care	1,191	51	1,140	851	69	782

Source: Shavit Madhala-Brik and John Gal, Taub Center.

Data: Ministry of Labor and Social Welfare.

The structure of the service provision areas

An examination of the providers supplying diagnostic services to the Department for Intellectual Developmental Disabilities in 2015 shows that a large part of the market share (91 percent) is held by veteran providers. Most of the providers are small and provide service to only a single department within the ministry. The few who do provide services to other departments are for the most part veteran service providers (Table 3).

Table 3. Distribution of service providers giving service to diagnosis and intellectual developmental disability departments, 2015

Type of service provider	Number of providers	Of them: providing services to additional areas	Share of those in the market*
New nonprofit	1	0%	1%
New for-profit	33	6%	8%
Veteran nonprofits	30	10%	10%
Veteran for-profit	30	17%	81%

* The share of payments out of outsourcing payment to the diagnosis and intellectual developmental disabilities departments.

Source: Shavit Madhala-Brik and John Gal, Taub Center.

Data: Ministry of Labor and Social Welfare.

In the area of community services, the picture is different. Here, a high share of service providers work with departments other than the Department for Intellectual Developmental Disabilities in the ministry. Again, an even larger market share (95 percent) is held by veteran providers — most of them veteran nonprofits (Table 4).

Table 4. Distribution of service providers in the community to the intellectual developmental department, 2015

Type of service provider	Number of providers	Of them: providing services to additional areas	Share of those in the market*
New nonprofits	18	44%	1%
New for-profits	23	61%	4%
Veteran nonprofits	86	88%	71%
Veteran for-profits	62	87%	24%

* The share of payments out of outsourcing payment to the diagnosis and intellectual developmental disabilities departments.

Source: Shavit Madhala-Brik and John Gal, Taub Center.

Data: Ministry of Labor and Social Welfare.

Institutional services is the main service area of the Department for Intellectual Developmental Disabilities. An examination of providers in this area shows that the majority are veteran providers. The comparison between the number of veteran service providers and new ones shows that the market share of the veteran providers is particularly large and indicates that the new providers who enter are very small. In contrast to services provided in the community, institutional setting services are provided mainly by for-profit providers. As for the providers' activity in additional service areas, 85 percent of the veteran nonprofits provide services to additional departments and new providers supply services at low rates.

Table 5. Distribution of service providers giving institutional care services to the intellectual developmental department, 2015

Type of service provider	Number of providers	Of them: providing services to additional areas	Share of those in the market*
New nonprofit	8	13%	2%
New for-profit	314	13%	3%
Veteran nonprofit	61	85%	30%
Veteran for-profit	468	29%	65%

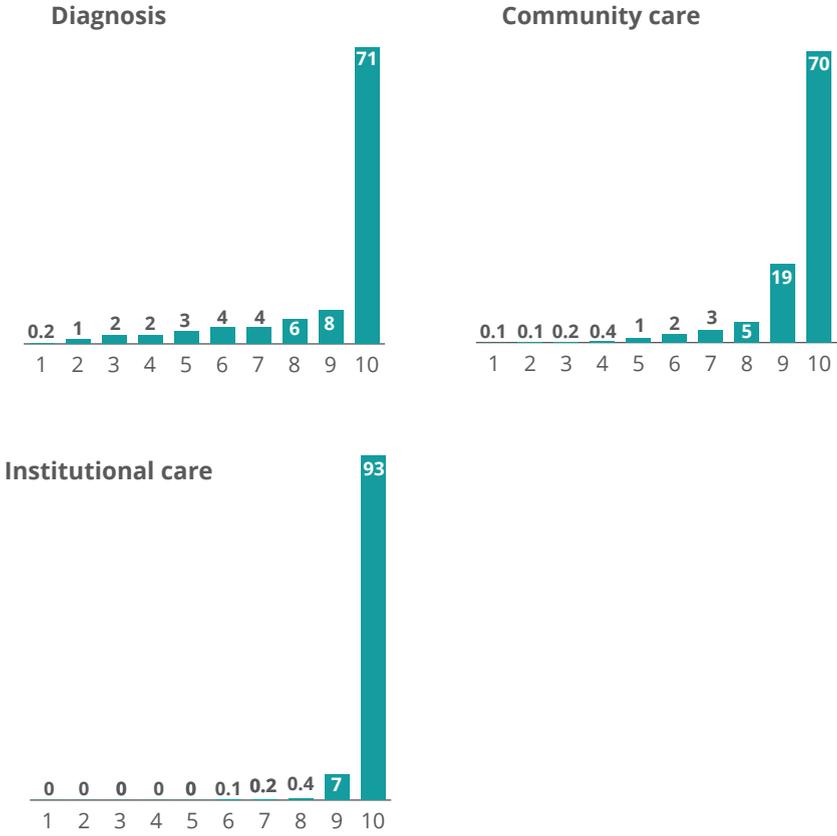
* The share of payments out of outsourcing payment to the diagnosis and intellectual developmental disabilities departments.

Source: Shavit Madhala-Brik and John Gal, Taub Center. Data: Ministry of Labor and Social Welfare.

Market concentration in the outsourcing of services in the intellectual developmental disabilities department

Service providers were divided into deciles according to the amount of payments they received. The distribution of these payments based on receipts appears in Figure 19 by distribution to different domains. In these three areas, a very large share of the payments belong to the top decile of service providers. Especially noteworthy is the distribution among the department's providers of institutional services, according to which 93 percent of the payments are designated for 10 percent of the providers. An examination of the distribution of the three domains for 2000 shows that no significant changes occurred.

Figure 19. Distribution of payments by receipt deciles, 2015
Percent



Source: Shavit Madhala-Brik and John Gal, Taub Center.
Data: Ministry of Labor and Social Welfare.

Summary and conclusions

This chapter sought to provide a detailed picture of the market for outsourced social welfare services within the Ministry of Labor and Social Welfare. The importance of the analysis arises among other reasons from the magnitude of the expenditure on outsourcing out of the ministry's total expenditure – 80 percent. This expenditure has been rising in the last 15 years, and, in 2015, reached NIS 4.8 billion. It is evident that the privatization trend of welfare services in Israel has not been curbed in the last years. It is also evident that there is no particular preference for nonprofit agencies with a civil society agenda in this process, and that in the eyes of policy makers there is no essential difference between for-profit and nonprofit agencies. The characterization of providers showed that most of them are for-profit providers. Nonetheless, the distribution of payments between the two kinds of service providers indicates that about half of the payments went to nonprofits. In the years that were examined, there was a rise in the number of nonprofits working with the ministry, and a simultaneous drop in the number of for-profit providers. Another important finding is that veteran service providers make up 56 percent of the ministry's outsourced providers and received 96 percent of the total payments for outsourced services.

It appears that the competition to provide outsourced social services in Israel is limited. The picture that emerges from an examination of the distribution of payments indicates that a very small share of the service providers receive a substantial share of the total payments. However, the concentration indexes tested for the various departments indicate that competition does exist and is actually increasing with time. The research and results of the analysis raise the question of the importance of competition in the social service markets. On the one hand, the existence of competition between services is one of the justifications for privatization. On the other hand, in the series of interviews conducted for the study, it emerged that service providers are selected mainly on the basis of their experience and expertise in providing the services. Thus, in a domain of services where there is a satisfactory provider, competition is of little importance. Moreover, in social services it is argued that continuity of care is more important than promoting competition through turnover. This is meant to prevent upheavals due to staff changes, for instance, that could harm service recipients, especially when it comes to institutional settings.

The findings indicate the need to take a broad look at the major service providers. An examination of the ministry's 50 major service providers indicates that they receive almost half of the payments for outsourced services. The vast majority of these providers are veterans in service provision, supply services to more than one department and do not specialize in a single type of service.

Analysis of the Department for Intellectual Developmental Disabilities as a test case pointed to an ongoing trend of the expansion of community-based services for individuals with intellectual developmental disabilities, and showed that the provision of community services is undertaken mainly by nonprofits. On the other hand, institutional services are provided mainly by for-profit service providers.

The findings of this study do not shed light on the quality of the services provided by non-governmental agencies operating under the responsibility of the Ministry of Labor and Social Welfare, nor on the quality of the regulation meant to guarantee an adequate level of these services. The study did not examine the status and rights of the employees charged with providing services and employed by the outsourced for-profit or nonprofit agencies. In that sense, the data does not address the distinction between service providers from different sectors or determine whether there has been an accelerated process of blurring the differences between organizational types. Finally, the study does not provide information on the way that the tender process operates and it does not explain why a relatively small number of agencies win a substantial share of the resources dedicated to the outsourcing of services. These are fundamental issues that require further study so that conclusions can be drawn regarding the consequences of the transition to outsourced social services and the way it is undertaken.

Nevertheless, the findings do indicate the widening of privatization of welfare services in Israel with a diverse set of players – both for-profit and nonprofit. Although there is no clear trend of deepening concentration and a lack of competition in this area, there is no doubt that large providers who are expanding their activities to more diverse areas of service play a very significant role. These findings should serve as the basis for further discussion of the phenomenon of the outsourcing of social services in Israel.

References

English

Child, Curtis, Eva Witesman and Robert Spencer (2016), "The Blurring Hypothesis Reconsidered: How Sector Still Matters to Practitioners," *Voluntas*, 27, No. 4, pp. 1831-1852.

Eikenberry, Angela M. and Jodie Drapal Kluver (2004), "The Marketization of the Nonprofit Sector: Civil Society at Risk?" *Public Administration Review*, 64, No. 2, pp. 132-140.

Federal Trade Commission and Department of Justice (2010), *Horizontal Merger Guidelines*.

Lahat, Lihi and Gal Talit (2011), *A Work in Process or a Much Needed Change? Regulating Personal Social Services in Israel*, Policy Paper 2011.02, Taub Center for Social Policy Studies in Israel.

Rees, James, Rebecca Taylor and Chris Damm (2013), *Does Sector Matter? Understanding the Experiences of Providers in the Work Programme*, Third Sector Research Centre, Working Paper 92.

Hebrew

Benjamin, Orly (2015), "Outsourcing Social Services in Israel as a Gateway to Employment: Negotiations Between the Government and Employers," *Social Security*, 98, pp. 39-62.

Gal, John (1994), "Commercialization of the Welfare State and Privatization: Implications for Israel," *Society and Welfare*, 15, No. 1, pp. 7-24.

Katan, Yosef (1996), "The Involvement of Non-Governmental Organizations in Personal Social Services," in Uri Aviram (ed.), *Personal Social Services Trends and Returns*, Taub Center for Social Policy Studies in Israel, pp. 137-160.

Katan, Yosef (2007), "Partial Privatization of the Personal Social Services," in Uri Aviram, John Gal and Yosef Katan (eds.), *Formulating Social Policy in Israel: Trends and Issues*, Taub Center for Social Policy Studies in Israel, pp. 101-130.

Mandelkorn, Ronen and Eric Sherman (2015), "Privatizing Implementation: Outsourcing Social Services," in Itzhak Galnoor, Amir Paz-Fuchs and Nomika Zion (eds.), *Privatization Policy in Israel: State Responsibility and the Boundaries Between the Public and the Private*, The Van Leer Jerusalem Institute and Hakibbutz Hameuchad, pp. 267-319.

Meron, Asa (2015), "Trends and Privatization Processes in Social Services in Israel," in Itzhak Galnoor, Amir Paz-Fuchs and Nomika Zion (eds.), *Privatization Policy in Israel: State Responsibility and the Boundaries Between the Public and the Private*, The Van Leer Jerusalem Institute and Hakibbutz Hameuchad, pp. 87-137.

Ministry of Labor and Social Welfare (2015), *Survey of Social Services 2014*.

Ministry of Labor and Social Welfare (2016), website, www.molsa.gov.il.

Ministry of Labor and Social Welfare (various years), database.

Prime Minister's Office (2016), *Report of the Government Committee to Improve the Quality of Outsourced Social Services*.

Schmid, Hillel (1998), "Human Services for Profit and Not for Profit: Analysis and Comparison," *Social Security*, 51, pp. 29-43.

