Decentralization and the use of NGO's have become a widespread phenomenon in Israel in recent years. The issue of cooperation between local authorities and the Third Sector in the provision of social services is quite complex. The transfer of authority and responsibility for the provision of social services to NGO's raises apprehensions regarding the cost, stability, quality, and availability of the service. These issues have not yet enjoyed sufficient attention in the academic literature.

This paper deals with relations between local government and the Third Sector and discusses both theory – basic patterns, areas of activity, functioning, prospects and risks – and practice. More specifically, it focuses upon relations between the municipality of Jerusalem (the most populated city in Israel, with a population of over 700,000, and one of its poorest cities) and welfare NGO's.

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