

מכון ראות

THE REUT INSTITUTE

2006 Annual Report

**June 2007
Tamuz 5767**

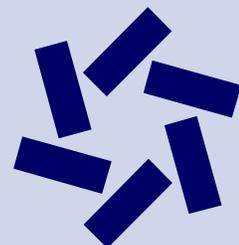
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"[Reut is] Israel's
premier policy
strategy group"

Thomas Friedman
New York Times
03/30/2007

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Overview

Dear Supporters and Friends,

The mission of the Reut Institute is to sustain significant and substantive impact on the security and wellbeing of the State of Israel and the Jewish People. Our strategy has been to be Israel's primary resource for strategic real time decision-support to the Government of Israel (Gol) and to grow Israel's future strategic leaders. All of our services are provided on a pro-bono basis.

Reut continues to religiously focus on its unique value proposition. We specialize in identifying strategic threats and opportunities and generating fundamental shifts of policy. We aim to leverage existing resources in government and academia while avoiding the duplication of already existing efforts.

This report provides the highlights of our work during 2006. In addition, it offers an insight to some of the security and socioeconomic challenges that faced Israel during that time such as the victory of the Hamas movement, the Second Lebanon War, the emerging Iranian hegemony and the need to sustain economic growth.

In this environment, Reut experienced a surge in the demand for its services and responded with a doubling of its capacities as follows:

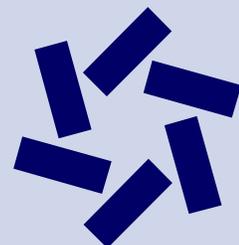
- **Decision Support:** Reut doubled the decision-support services provided to the Gol to sixty five engagements during 2006.
- **Human Capital:** Reut doubled the number of its analysts and upgraded their professional capacities through consolidating a 12-month training process, which has become Israel's leading program in strategy and leadership.
- **The Top 15 Vision:** In September 2006, Reut launched its policy team dedicated to realizing the vision of Israel as one of the fifteen leading countries in quality of life within fifteen years.
- **Impact and Media:** Our media exposure tripled to 179 exposures including Israeli leading newspapers, TV and radio channels, as well as leading international outlets such as the Wall-Street Journal and the New York Times. In January 2007, Ma'ariv Daily's senior commentator, Ben Kaspi, referred to Reut as "Israel's leading policy group".
- **Financials:** Reut doubled its development effort to \$974,000, yet spent only \$796,000. By the last quarter of 2006, 79% of our resources were spent on projects.
- **Management:** In October 2006 Reut adopted a 3-year development plan for 2007-2009 with the objective of becoming Israel's primary address for strategic decision-support to the Israeli government and Israel's primary school for strategic leaders.
- **Becoming an Institution:** In 2006 Reut finalized its Charter and changed its bylaws to create the legal framework essential for a lasting policy group that reflects the vision of its founders.

We are very proud of our accomplishments in 2006. Yet, we are humbled by the knowledge that they were made possible by the generosity of spirit, time and financial resources provided to us by a community of friends and supporters. We look forward to your comments.

With deep gratitude,



Gidi Grinstein
Founder and President



Financial Performance

Development

During 2006 Reut raised \$974,000 from 104 donors (individuals and foundations). Gifts ranged from \$100 to \$70,000 with the average being \$9,400 and the median \$5,000.

13% of our resources in the sum of \$130,000 came from Israelis who live in Israel or the USA.

2.6% of Reut's income in the sum of \$25,000 came from speaking fees primarily of Gidi Grinstein, our CEO.

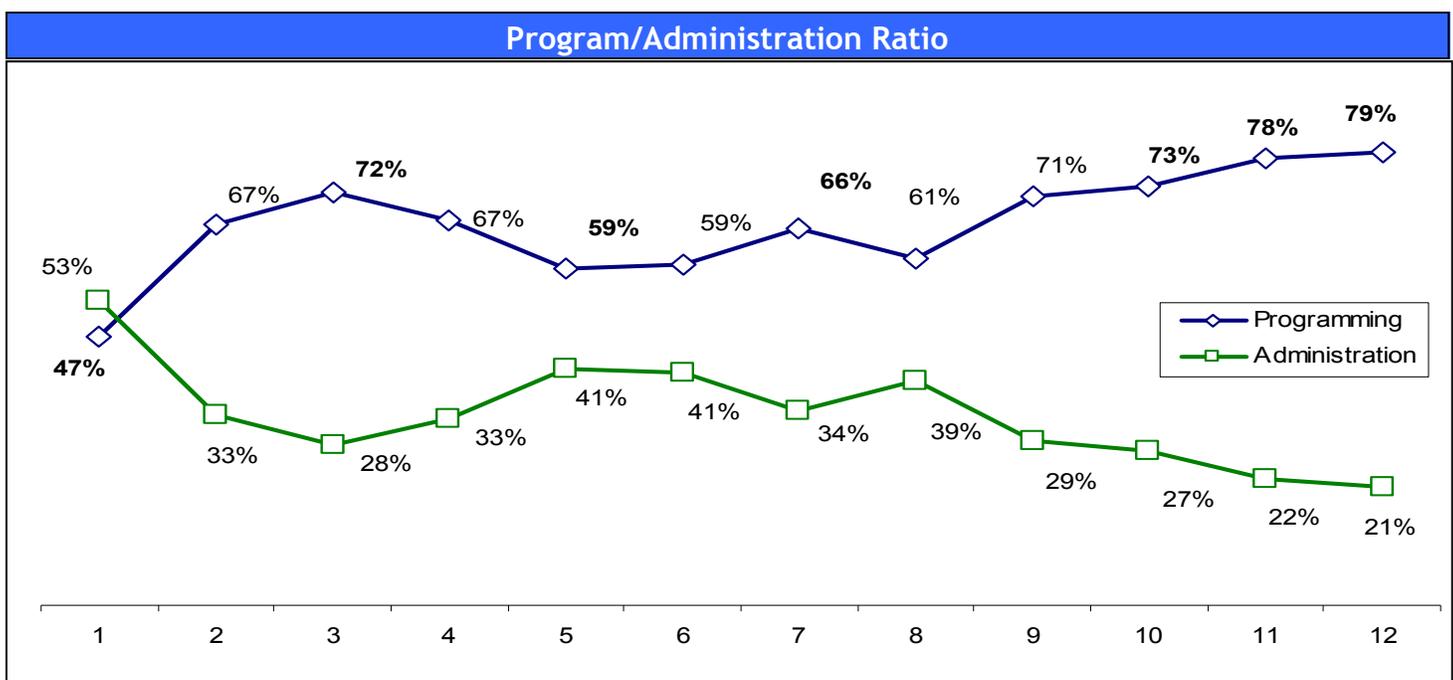
Budget

During 2006, Reut spent \$796,000 dollars. The largest budget items were analyst salaries (\$305,900), management salaries (\$92,858) and research facilities (\$71,263).

Salaries - 50% percent our 2006 expenditure in the sum of \$398,758 were spent on (average) 11 annual full-time employees at an average total cost of \$36,250 per person. Reut grew from 7 employees in January to 13 in December 2006.

Programming / Management Ratio

One of Reut's challenges in managing our growth is to decrease the expenditure ratio between programming and management. Our objective was to end the year with an 80%-20% expenditure ratio. In the diagram below we can see the trends of our expenditure ratio throughout the year. Our annual average is 68/32 while the fourth quarter averaged 78/22. We are confident that the trend beginning in August will lead the way into 2007.



Human Capital

"Reut sees itself, among other things, as a school and a training center for those able to significantly and substantially contribute... Reut will recruit people who have the will and the capacity to serve this vision and will train them for a life-long journey of contribution. Reut will encourage its employees to join the public sphere in Israel. This is an integral part of our mission."

Reut Charter

A School for Future Strategists

Reut plans on making a lasting impact by recruiting and training Israel's future strategic thinkers. To do so, Reut hires young people who are committed to serving the Israeli and Jewish public spheres and provides them with a unique training program of leadership and strategic capabilities. This is a central and integral part of our mission as stated in our charter.

Leadership, Strategy, Zionism

Our analysts go through a year long comprehensive training program, acquiring four different skill sets, each in a 3-month training cycle:

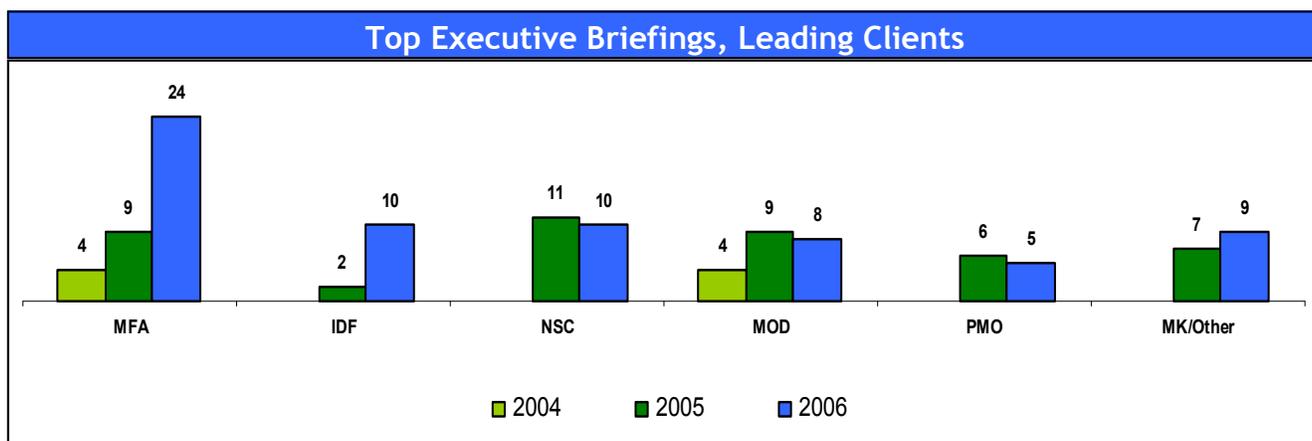
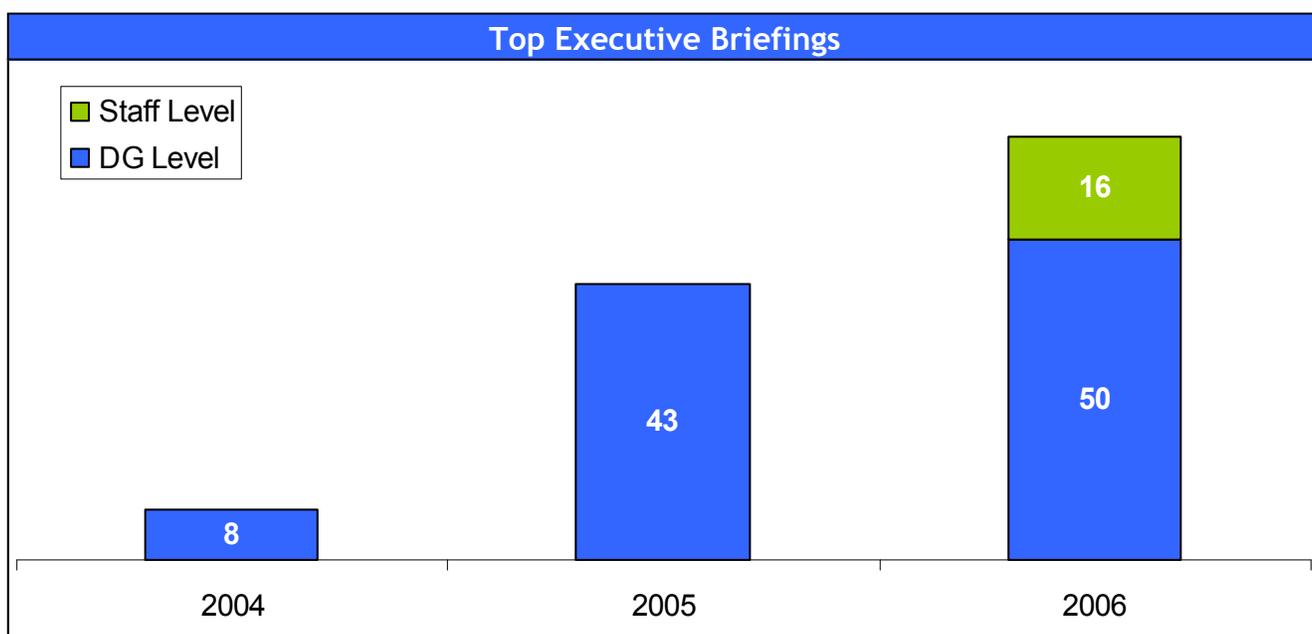
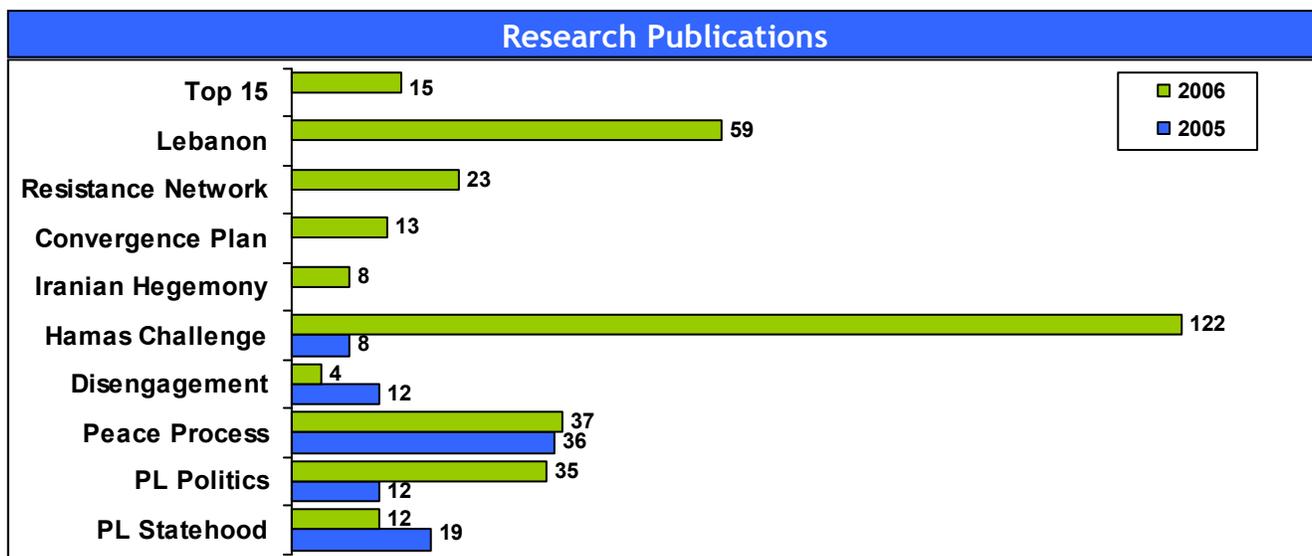
- **Phase I: Personal Capacities** - In the first phase, analysts are trained to work independently based on the Praxis® theory, methodology and computing tools (see www.praxis.co.il).
- **Phase II: Team Work** - In the second phase analysts learn how to be members of teams that work together to develop new insights and knowledge on strategic issues.
- **Phase III: Decision-Support** - In the third phase, analysts are trained to provide decision-support services to decision-makers in the Government of Israel. This phase focuses on gaining a nuanced understanding of Israeli governance and on the dynamics and challenges of effectuating conceptual change.
- **Phase IV: Project and Team Leadership** - In the final phase of the training program, trainees acquire the skills of leading teams of analysts or projects.

Reut has been developing this training program since its inception in January 2004, having trained more than 20 analysts to date.

On the Job Training

Our analysts are deployed within the Reut policy teams immediately upon joining our organization. Their day-to-day work involves dealing with the hottest and most complex topics on Israel's national agenda and providing decision-support services to the central agencies of the GOI.

Decision Support Overview



The Hamas Challenge

"The existence of a political entity in the West Bank and Gaza is essential for Israel to achieve its objective of ending its control of the Palestinian population [says] The Reut Institute."

Wall Street Journal
08/11/2006

Policy Challenge

One of the major challenges confronting Israel was the victory of Hamas and its control of the Palestinian Authority as of January 2006.

Our Main Insights

Reut has focused on the growing political power of Hamas since June 2005. We have developed a comprehensive analytical framework that allowed us to closely support Israeli decision-makers.

At the time, we had two main insights. First, Hamas may win the elections due to the district-based electoral system. Second, the Palestinian political system is headed to an ideological, constitutional and political deadlock. Consequently, the political process is also destined to an impasse.

Blocking of Funds Will be Ineffective; The PA Might Collapse

Upon Hamas' landslide victory, Israel adopted *the Three-Demand Policy*, insisting on Hamas' explicit denunciation of terrorism, recognition of existing agreements with Israel and acknowledgement of Israel's right to exist. The anchor of this policy was the financial embargo.

Reut repeatedly highlighted the weakness of this policy. This was primarily due to the fact that Israel did not wish for the PA to collapse as this might reinstate Israeli responsibility for the Palestinians.

Reut framed an alternative strategy around the idea of forcing Hamas into a 'corridor of difficult political decisions' that would highlight the tension between its ideology and the needs of the population.

Impact and Decision Support Services

Reut covered the challenge of Hamas in 34 policy briefings and 49 research products. Our work was covered in over 60 articles in the Israeli and international media. However, our efforts fell short of affecting the policy of the Gol, which was rendered irrelevant with the Hamas victory in Gaza in June 2007.

Convergence Plan

“Israel will be able to take advantage of initial negotiations to coordinate technical aspects of Convergence, while making it clear that the core, essence and contours of the plan are not up for discussion and are determined unilaterally.”

From Negotiations to Convergence, Reut Policy Event 07/10/2006

Policy Challenge

The ‘Convergence Plan’ had been the political flagship of the Olmert Government with regard to the Palestinians. It was based on further unilateral redeployment in the West Bank. At the same time, at the beginning of 2006, the Roadmap seemed ‘the only game in town’ with the establishment of a Palestinian State in Provisional Borders (PSPB) as its anchor.

Our Main Insights

The victory of Hamas (1/06) rendered bilateral negotiations with the Palestinians impossible. Nonetheless, a PSPB seemed to have the potential of addressing all parties’ interests. Hamas was not required to recognize the Finality of Claims while Fatah could claim to have established the Palestinian state. Israel and the International community will have progressed towards the Two-State Solution.

Difficult Transition from Negotiations to Convergence

The Gol’s initial position was that the Convergence Plan will be implemented after exhausting negotiations with the Palestinians. Failed negotiations would ‘prove’ that Israel has ‘no partner’, thus legitimizing unilateralism.

Reut had forewarned that the unique characteristics of Israeli-Palestinian negotiations will make it impossible to carry out such a transition. In fact, the Gol has only “one political bullet in the barrel” sort-to-speak and it has to choose between negotiations and unilateralism.

The Bear Hug Paradox

The Bear Hug Paradox is a dynamic in which Israeli gestures towards moderate Palestinian factions weaken them politically, while confrontation with extremist elements may strengthen them. In this effort, Reut provided the Gol with guidelines for dealing with this paradox and building a Palestinian address.

Impact and Decision Support Services

Our insights regarding the challenge of Israel’s relations with the Palestinians were communicated through 13 policy products and multiple policy briefings. This work was presented at the Herzelia Conference (1/06) and at the Reut Policy Event (7/06) where Foreign Minister Zipi Livni was the keynote speaker.

War in Lebanon

“Gidi Grinstein calls this the ‘90-10 paradox’: Israel can eliminate 90 percent of Hezbollah’s fighting capacity but it can still declare victory.”

New York Times
08/02/2006

“The only ones to forewarn were the General Security Services and the Reut Institute policy group.”

Ha’aretz
08/24/2006

Policy Challenge

During and following the Second Lebanon War, Reut focused on the dynamics that shape Israel’s ability to win in the fight against Hizbullah and its allies.

Our Main Insights

Strategic Dilemmas of the War

During the War in July 2006, we focused on providing real time decision-support to the Gol highlighting the dilemmas facing Israel. Our focus was the following: *First*, assessing the attainability of the Gol objectives during the war; *Second*, the dilemma of seizing Lebanese land; *Third*, the sequencing of the measures to end hostilities; *Fourth*, the issue of Finality of Claims in the case of Lebanon;

The Aftermath of the War:

An Irrelevant National Security Strategy

Following the War, Israel launched a comprehensive debriefing effort. We found this effort to reflect a mindset according to which the disappointments during the War were an outcome of a set of technical failures such as in intelligence, logistics or command and control.

At the same time, Reut focused its resources on uncovering the underlying reasons for the strategic surprise. **This massive policy effort led to the conclusion that Israel’s national security strategy was exposed as irrelevant and required and overhaul.**

For example, Israel enemies have transitioned into a loosely-coordinated resistance network which is driven by a predominantly political and diplomatic logic. This network has been able to elevate terrorism into a strategic challenge of existential implications. A consequence of this logic is an inversion of the position of the Resistance Network on the issue of Israeli ‘occupation’ of Palestinians. They no longer want it to end, but rather believe that it will accelerate Israel’s implosion similar to that of South Africa or the Soviet Union. Hence, we concluded that a new existential threat is emerging in the diplomatic sphere that Israel has not adequately addressed.

Impact and Decision Support Services

In thirty-three days of war, Reut provided eight policy briefing to top executives in the Israeli government supported by 24 publications and news-analyses. In January 2007 our work was presented in the Herzlia Conference and several insights were reflected in Winograd Committee’s interim report.

Top15 Vision for Development

“The Top15 Vision refers to a set of issues and actions involved in achieving a significant socioeconomic advancement that would put Israel among the 15 leading countries in terms of quality of life within fifteen years.”

Reut Top15 Vision Launch, 11/06/2006

The Launch

The TOP 15 Vision focuses on identifying the scope of actions required to socio-economically ‘leap-frog’ Israel to the point where it is one of the top 15 nations in quality of living.

In September 2006 Reut launched a new team focused on socioeconomic development under the TOP 15 Vision. The following months were dedicated to laying the conceptual and analytical foundations for this work.

The Steering Committee of the TOP 15 team includes Ilan Cohen, former Director General of the Prime Minister Office under PM Sharon, Mr. Isaac Devash, and David Alexander of Markstone Capital Management Group.

Policy Challenge

Our initial focus was on a comparative analysis of countries that went through a period of significant growth in order to identify their common denominator and to assess their relevance to Israel.

Our Main Insights

Inefficiency and Size of Public Sector Limit Israeli Growth

The Global Competitiveness Index ranks Israel 15 in the world in its overall competitiveness. However, Israel suffers from high imbalance between the poor competitiveness of its public sphere and the efficiency of its innovative private sector. Furthermore, the size of Israel's public sector amplifies the impact of its inefficiencies. The conclusion of this analysis is that the potential for a significant socio-economic leap lies in improving the performance of the public sector or by reducing its size.

A Triangle of Trust Essential for Economic Leap

Another common denominator among countries that leaped is that they were able to create an environment of trust between their private and public sectors based on three foundations: a government that was able to design, plan, make decisions and implement them; a massive reallocation of resources from consumption to investments; and a stable business environment.

Impact and Decision Support Services

Following the launch of the TOP 15 team, we initiated several introduction meetings with key decision-makers to successfully establish working relationships with them.