

To: Community of Friends and Supporters of the Reut Institute  
American Friends of the Reut Institute  
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Sub: **Financial and Organizational Resilience of the Reut Institute**

### **Introduction**

1. This report offers a brief overview of the financial and organizational resilience of the Reut Institute and a description of the steps that the Reut Institute – through its Board of Directors and management team – has taken in this context. Most of the critical decisions had been taken in a series of board meetings, which took place between July and October 2008.
2. **The message of this report is that we believe we are on the right track for securing the financial resilience of the Reut Institute throughout 2009.** This report complements the Reut Institute's 2008 Annual Report, 2009 Development Plan for the years 2009-11 and our 2009 Work Plan.

### **General Overview**

3. **Our 2008 Development Plan for 2008-2010 was very ambitious.** The 2008 Development Plan for the years 2008-2010 – which was approved in December 2007 and titled "Consolidating the Springboard and Leaping" – set high goals for the organization. Its logic called for using the first part of 2008 to strengthen the foundations of the Reut Institute in order to allow for rapid growth and expansion, by launching an additional policy team each year. Thereby, the plan called for recruiting twelve new analysts *per annum*.
4. **Alas, instead of 'playing offense' we have had to 'play defense'.** The shrinkage of wealth due to the global economic crisis has had far-reaching implications for philanthropy and therefore also for nonprofits the world over. The Reut Institute, like many other nonprofits in Israel, is also suffering.

**During the past year it has become demonstrably more challenging to meet our development goals.** Some of our donors and supporters have had greater difficulties in renewing past commitments and it has taken a greater effort on our part to collect new pledges.



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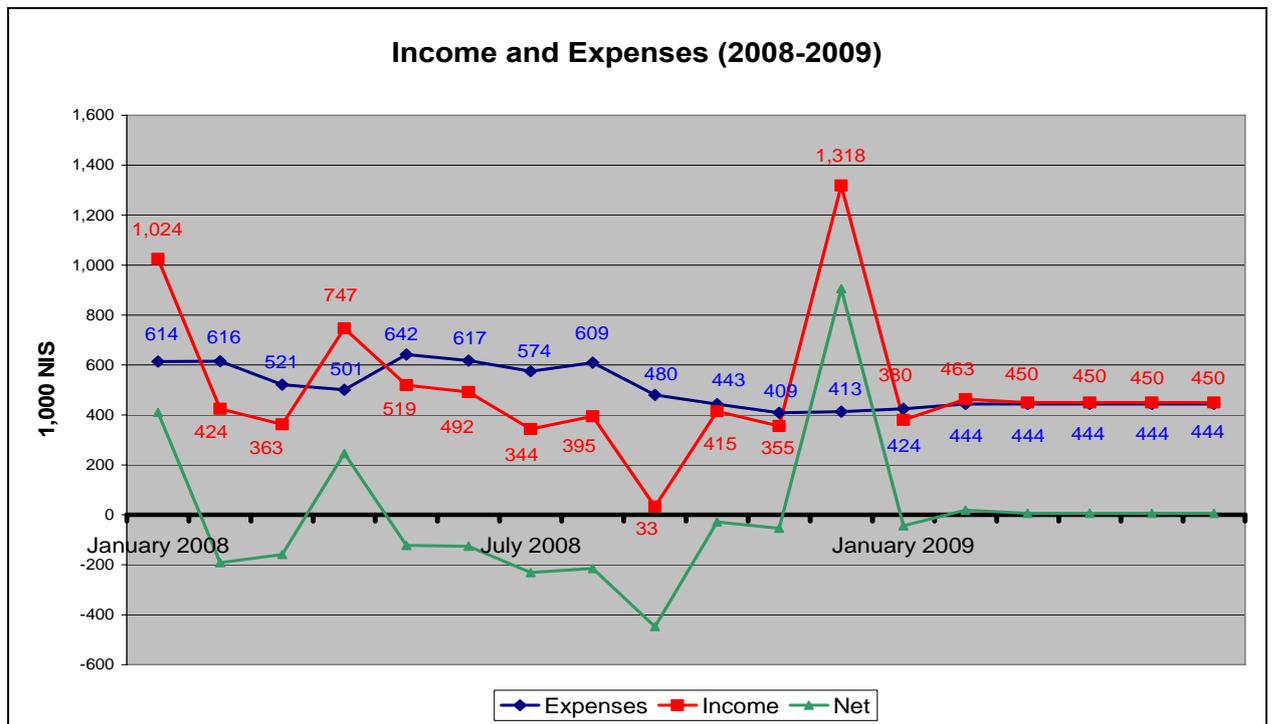
Furthermore, some of our supporters have had to review their already existing pledges. A few of them even asked us to release them of their commitments altogether or simply told us that they would not be able to follow through with their pledges. In this particular context alone, the total sum that the Reut Institute has had to 'write off' amounts to more than 500,000 USD over 2008-2010.

5. **Moderating our development goals was not enough. We needed to change our mindset from 'development mode' to 'crisis mode'.** By the spring of 2008 it had become clear that the Reut Institute would not be able to meet its development goals according to the 2008 Development Plan. By the summer of 2008 we realized that we needed to change our mindset, language and concepts from 'development', 'growth' or 'expansion' to a crisis mode of 'preserving the core', 'scaling back' or 'decreasing burn rate'.
6. **Our decision was to set the objective emerging out of this crisis stronger, better and more resilient in terms of our capacity to serve our mission.** In order to do so, the Reut Institute has established a number of principles and guidelines to enhance the resilience of the organization.
7. **The following table illustrates the challenge of transition from 'development mode' to 'crisis mode'** through an overview of the annual averages since the establishment of the Reut Institute in 2004:

Year	Budget	Avg. Monthly Income	Budget Annual Growth	Weeks of Travel	Pledges Per Week	Pledges Per Week Growth
2004	\$256,000	\$21,333	Not relevant	16	\$16,000	Not relevant
2005	\$496,000	\$41,333	94%	16	\$31,000	94%
2006	\$970,000	\$80,833	96%	14	\$70,000	126%
2007	\$1,400,000	\$116,666	50%	12	\$117,000	67%
2008	\$1,700,000	\$141,666	21%	12	\$142,000	21%
2009 <sup>1</sup>	\$1,450,000	\$120,000	-22%	~ 16	---	---

<sup>1</sup> Figures for 2009 are projections based on the 2009 Work Plan, which is founded on conservative assumptions regarding income and does *not* include gifts that are designated for specific projects.

8. A snapshot of our financial performance during 2008 and the projections for the first half of 2009 (see below) reveal the following:
- The first half of 2008 represented a balanced budget, although new pledges and income did not grow compared to 2007.
  - Between June and September 2008, Reut had a significant monthly deficit, which compromised its reserves. By October 2008, Reut was scratching the bottom of its reserves. The growing difficulties in raising new pledges and generating income were compounded by a significantly depreciated dollar, as well as by high expenses in the aftermath of our first annual ISRAEL 15 Conference held in June.
  - Against this backdrop, the Reut Institute made a number of decisions aimed at strengthening the resilience of the organization:
    - (1) In the first quarter of 2008, Reut froze its growth and expansion plan;
    - (2) In July, we decided to invest heavily in our development infrastructure and capacities; *and*
    - (3) In September, we decreased our burn rate by about 35 percent compared to the peak of 2008.
  - Consequently, **November and December 2008 showed a dramatic turn-around** in cash reserves due to a combination of new pledges and income, as well as significantly lower burn rate.



9. **At the beginning of 2009, Reut has more cash reserves than it had in January 2008 thereby meeting the benchmark that was set by our Board of Directors.** Namely, on January 1<sup>st</sup>, 2009 Reut had three months worth of expenses in cash and the worth of three *additional* months worth of expenses pledged within the coming six months.
10. **Hence, we believe that we have set the stage for the financial resilience of the organization for 2009** as our burn rate has been reduced by approximately 35 percent compared to the peak of 2008. Further, our capacities and resources dedicated to development have grown, and our expectations are conservative.

### Our Principles

11. In July 2008, the Reut Institute established the following principles to guide it through the crisis:
  - **Remaining faithful to our vision, mission and strategy.** Reut will only engage in projects and activities that serve its vision, mission and strategy, and will find new ways to provide for this work. It will not compromise its mission by doing projects that generate revenues but do not meet this criterion.
  - **Maintaining high moral standards.** We have committed to preserving high ethics and values toward our community of supporters, service providers, and present and past employees particularly in cases when existing promises or relationships need to be reconsidered or even severed.
  - **Protecting our core capacities.** Reut will preserve and strengthen its core projects and capacities that are essential for fulfilling its mission. These capacities are, primarily, our human capital. At the same time, other projects and capacities may be discontinued.
  - **Strengthening our foundations *during* crisis.** Reut will strengthen its foundations and build its infrastructure *during* the crisis. This means enhancing our Strategy and Leadership training program in order to groom our analysts for key positions in the Israeli public sphere, developing our institutional and organizational foundations and increasing our ability to develop the organization.
  - **Protecting and strengthening the Reut brand.** Our brand is 'sacred' to us. It stems from our vision, mission and strategy and stands for 'putting our country first', professionalism, reliability, transparency and accountability, creativity and good management.
  - **'Surgical' management.** The management team of the Reut Institute will dedicate more time and effort to making decisions with 'surgical precision' in areas having long-term implications for the organization, such as cutting costs, investing in development, and letting go of employees.

## Our Guidelines for Financial and Organizational Resilience

12. **Taking a comprehensive approach toward our financial and organizational resilience.** The Board of Directors and the management team of the Reut Institute have taken a comprehensive approach toward securing Reut's financial and organizational resilience that is based on three pillars:
- **Cash consciousness: playing it safe.** We have made a conservative assessment of future pledges, income and exchange rate and adjusted expenses accordingly;
  - **Strengthening our development infrastructure** by allocating more people and resources to our fundraising efforts; while
  - **Setting the stage for further growth** in the aftermath of the crisis.
13. **Financial resilience: Cash consciousness. Playing it safe.** In order to ensure our financial resilience, we adjusted our growth plans to the possibility of a protracted and volatile economic environment by adopting the following guidelines:
- **Bracing ourselves through 2009.** We assume that the economic slowdown will continue *at least* through 2009 and have aligned ourselves accordingly;
  - **20 percent decrease in average monthly expense.** Reut has cut programs and personnel in order to reduce its *average monthly burn rate* by 20 percent from roughly 535K NIS in 2008 to 444K NIS in 2009 (projected).
  - **Increased reserves and tightened risk management.** Reut raised its benchmark for cash and pledge reserves by 20%. Namely, at any given time Reut should have *in cash* the equivalent of the cost of three months worth of expenses, as well as the equivalent of three *additional* months worth of expenses provided for in hard pledges over the following six months.
  - **A 'base budget', which assumes conservative projections of income.** Reut has taken a conservative approach to its projection of exchange rate, new pledges, and their 'service'. Hence, our 2009 base budget is 1.45 million USD (compared to our 2.1 million USD budget and our 1.7 million USD actual income in 2008).
  - **First budget; then additional projects, staff or activities.** Our 2009 base budget of 1.45 million USD provides for 16 employees in three policy teams and few additional activities (for details, see 2009 Work Plan and Budget). Additional activities, projects or hires will be *conditioned* on securing new funding over and above the assumptions that underlie this base budget.
  - **Maintain a diversified donor base.** Reut will continue to limit our direct or indirect exposure to a single source of income, whether an individual or a foundation, to roughly 15 percent of our annual budget. We attribute much of our relative financial resilience to the strict observance of this rule.



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Hence, Reut and AFRI will continue to rely on a diverse community of donors whose combined average gift is approximately 13,500 USD in 2008.

14. **Strengthening Development Infrastructure.** In order to emerge from the crisis stronger and more resilient, Reut has decided to grow and improve its capacity to create new sources of income and nurture existing ones based on the following:

- **Organizational focus on fundraising.** Reut has enhanced its development team by designating a full-time Director of Development, as well as an additional full-time staffer. We routinely devote greater management focus and attention to this issue.
- **Diversify sources of income and develop new ones.** To date, nearly 90 percent of Reut and AFRI income have been from individuals and family foundations. In the summer of 2008 Reut has launched a systematic effort to diversify its income to include foundations, institutions and funding from Israelis.
- **Special adjustment effort.** AFRI and Reut reached out to some of our existing supporters to raise support over and above their existing or past pledges to help traverse this crisis. As a result, in November and December AFRI and Reut raised over 385,000 USD.

15. **Setting the stage for future growth: 'Consolidating the Springboard'.** As outlined in our development plans, Reut will continue to build the infrastructure that is essential for the rapid growth of the organization rather than retreat and wait for the crisis to pass.

In 2009 we plan to strengthen the foundations of our organization and make them scalable (hence, 'consolidating the springboard') in order to allow for steady and quick growth once the financial situation permits (For further detail see: Reut's 2009 Development Plan). Thus, 2009 will focus on:

- **Strategy and Leadership Training Program.** Reut will finalize the design and implementation of its training package, which is essential for its ability to recruit and train new analysts;
- **Documentation.** Reut will continue its long-standing effort to document the key processes of its work as a necessary requirement for its scalability;
- **Management and institutionalization.** Reut will finalize its program of maturing into an 'institution'.

In conclusion, we hope that this report provides a brief and comprehensive overview and assessment of the financial and organizational resilience of the Reut Institute. We look forward to your feedback and comments.

Sincerely yours,



Gidi Grinstein



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