

# **AEC's African Food Security Portfolio: Bridging to a More Secure and Productive Future**

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## **Executive Summary**

Changes in the external environment and related shortfalls in core funding for the Food Security III Security Agreement are threatening the survival of the Department of Agricultural Economics' (AEC) highly productive African food security program of policy-oriented research, outreach and capacity building. This program has made huge contributions to the strong reputation of the Department, College, and University for world-class development scholarship and capacity building in Africa. The program has also generated over \$71 million in external funding (including \$14 million in IDC) to support such scholarship by MSU and its African partners since 1984. Yet funding constraints over the past two years in USAID, on which the program is heavily dependent, have drawn the future of the program into jeopardy. This funding uncertainty is occurring just when: (a) MSU's own Boldness by Design vision is calling for expansion of this type of International Land Grant/partnering approach to scholarship and (b) new funding opportunities are arising that potentially could provide sustainable support to this unique program in the future. The program needs CANR and University support over the next 30 months to allow the faculty leading this effort to focus on achieving this transition, which is already underway.

MSU is unique among universities in the team-oriented approach it has taken to development scholarship and in integrating it with the University's key academic missions. AEC's food security group of scholars (FSG) is made up of tenure-system and fixed term faculty, graduate students, support staff, and their African partners. Over the years, they have built up a highly productive model that links applied policy-oriented research, outreach, and capacity building, in the best international land-grant tradition. But like Humpty Dumpty, if this model breaks, it will be very difficult to put back together again.

Since 2004, the FSG has undertaken several actions to adapt the program to the rapidly changing funding environment. It is now clear, however, that the changes in the post-9/11 macro environment are so large that the Department needs external help to secure this transition and lay the foundation of a more sustainable and productive funding model and long-term program. The team's current approach of trying to assure the survival of the program through scrambling for short-run resources to stay alive has reached its limits. Most importantly, chasing lots of short-term funding "fixes" is preventing the team from investing the time needed to secure the more solid new funding and programmatic opportunities that are clearly on the horizon (e.g., with Gates Foundation).

Current additional funding needs for the program are estimated at \$70,000 between now and September, 2006 and at \$300,000 to \$400,000 per year for each of the following two years (beginning October 1, 2006). These figures may seem large, but need to be kept in perspective: over the past few years, AEC's food security group of projects have brought in approximately \$5 million per year to MSU, including \$1 million/year in IDC. In addition, the \$300,000-\$400,000 figures could be lower, as they are contingent upon levels of core funding for the Food Security III Cooperative Agreement that may be forthcoming from USAID in future years. As explained in the following pages, annual core funding of \$700,000-\$800,000 is required to allow the FSG team to deliver on current obligations while writing the proposals and developing the new programs needed to build the new future. Historically, this core funding has come via the Food Security III Cooperative Agreement, the flagship of AEC's food security portfolio. When originally authorized in 2002, USAID projected its FS III core funding at \$1 million/year. Erosion of that core funding since 2003 has led to the current crisis. What AEC needs is supplemental funding for up to two years to make up the difference between the \$700,000-\$800,000 and that provided from USAID in the form of flexible "core" funding. If core funding from USAID can be increased, less University support would be needed. What is clear, however, is that without a university "line of credit" to deal with the funding uncertainty, FSG faculty will not be able to invest the time to lay the foundation for the new opportunities, and the current model will collapse.

The positive news is that: (a) the type of development scholarship that FSG produces is very consistent with the vision of the World Grant University and Boldness by Design, (b) the team has a strong record of addressing some of the most fundamental problems of human development in the 21<sup>st</sup> Century, and these issues will remain on the world's agenda for many years; and (c) significant new external funders are increasingly aware of and appreciate FSG's work and could be induced to help underwrite the program. The challenge is to get there from here.

## **Background**

### **1. AEC's Integrated Food Security Portfolio**

Since 1984, the Department of Agricultural Economics (AEC) has implemented a series of competitively awarded USAID-funded African Food Security Cooperative Agreements and closely related food-security and food-policy projects. These projects tie together research, outreach, and institutional and human-capital strengthening in a way that “adds up,” creating a critical mass of work in key areas and a strong MSU institutional presence in the countries where we work. The program is carried out, in collaboration with African partners, by a team of tenure-system and fixed-term faculty, graduate research assistants, and business-office support staff collectively known as the food security group (FSG). Currently, the FSG involves 11.1 FTEs of faculty time, including 3 tenure-system faculty (Crawford, Staatz, and Weber) who spend between 30 and 80% of their time on the projects, and 10 fixed-term faculty, 4 of whom are based overseas. A business office, which since 2002 has averaged 2.5 FTEs of administrative assistants and 0.5 FTE of clerical staff, provides critical support services. Other tenure-system faculty participate in some of the food security work, but it is not a major focus of their programs.

The projects have made major contributions to the Department's scholarship in research, teaching, outreach, and graduate training. Over the past five years alone, the food security grants have supported an average of 11 to 15 MSU graduate students per year, mostly from Africa. The June, 2005 USDA/CREES External Review of the Agricultural Economics Department noted that “AEC has a world-class reputation for international development programs, especially in Africa,” and that reputation is built substantially on the work carried out under these projects. A 1996 external evaluation of Food Security II noted that “we know of no other land grant university in the United States which has made such a sustained effort to provide USAID, and, through it, African institutions, with high quality resources to assist in economic development.” In 2002, another external evaluation observed “It is quite remarkable that respondents related to 5 programs in 5 different countries, one regional program and the Africa Bureau of USAID have such uniformly positive views of the work that FS II has done.”

These projects have likewise been major financial contributors to the University, bringing in over \$71 million in external funding, including over \$14 million in indirect costs. Over the past five years, annual expenditures for these projects have averaged over \$5 million, generating over \$1 million per year in indirect costs.

In addition to its broad-based scholarship and financial contributions to the Department, College, and University, the portfolio of African food security projects has had other very positive spin-offs to MSU. For example, faculty working on these projects provided key intellectual leadership to the “Partnership to Cut Hunger and Poverty in Africa”, which resulted in increased USAID funding for agriculture in Africa in 2000-03 that benefitted many others in the University. Contacts developed under the Mali food security projects were critical to the development of the

University's study abroad program in Mali led by Steve Esquith and to the development of the new interdisciplinary graduate specialization in ethics in development. Projects with Egerton University in Kenya were important in MSU's winning the ALO/HEPAD East Africa project with Ohio State University.

## 2. Funding Model

AEC is overwhelmingly dependent on USAID for funding its international development work. Between 1999 and 2004, USAID accounted for 95% of externally funded international development projects managed by the Department and 83% of **all** external funding coming to the Department. The funding comes from several different offices and missions within USAID. The agency has a decentralized budgeting process, with each mission and office allocating its own budget. Thus, although heavily dependent on USAID funding, the Department has diversified its funding *within* the agency, which has provided some protection for shifts in budget priorities among countries and programs within the USAID.

The centerpiece of the Department's food security work in Africa since 2002 has been the Food Security III Cooperative Agreement (FS III), a Leader with Associate (LWA) award. FS III is currently authorized through September, 2007, with provision for a 5-year renewal (through 2012) contingent on a favorable mid-term evaluation. The project is managed by USAID's Office of Agriculture within the Bureau of Economic Growth, Agriculture, and Trade (EGAT), the same office that manages the CRSPs and PFID.

Under an LWA, one or more offices in USAID provide "core" funding to the competitively bid "Leader" agreement; the "core" provides funds for management of the agreement and cross-cutting synthesis research and outreach. Other offices and USAID missions then can negotiate Associate Awards ("buy-ins") to the LWA, which they fund separately for work that is related to the research themes of the overall cooperative agreement. In FS III, core funding from September, 2002 through March, 2006 totaled \$3.125 million, provided by EGAT, Africa Bureau, and the Bureau for Democracy, Conflict, and Humanitarian Assistance (Office of Food for Peace). Over the same period, associate awards (from the USAID Zambia, Mali, Mozambique, and West Africa Regional Program missions) totaled \$8.53 million. Although 73% of the funding to this LWA to date has come through associate awards, core funding remains critical to providing cross-cutting scholarly outputs, outreach to USAID/Washington, managerial support services, and the working capital to develop new associate awards. Campus-based faculty (both tenure-track and fixed-term) working on FS III are jointly funded by core and associate awards, while those based overseas are typically funded 100% on associate awards (or related non-FS III projects). Three tenure-track faculty working from a campus base have consistently received from 25 to 80 % of their salary support from these projects, generating considerable salary savings for the Department. When USAID initially authorized FS III in September, 2002, the Agency projected core funding at \$1 million/year. Since that time, however, core funding has constantly eroded (see below), drawing into question the capacity of the Leader Agreement part of the project to continue to function. Associate Awards of the Cooperative Agreement have

received obligated funding, but some of these operate on a one-year time-frame that adds considerable uncertainty to the overall enterprise and to continued funding for fixed-term faculty who are vital to delivering the high quality outputs needed to win Associate Awards in the first place.

Although FS III is authorized for multiple years, the core funding to the Leader agreement and much of the funding to the associate awards are provided by USAID in annual installments, and are thus subject to variations in USAID's overall annual budget. This, in turn, means that many of the fixed-term faculty are on year-to-year appointments, which generates additional uncertainty for them and for the Department regarding their continuing employment. Although in 2002 and 2003, MSU had provided 2- and 3-year rolling contracts to the fixed-term faculty to help deal with this uncertainty, those contracts lapsed starting in 2004. When MSU did put the rolling contract arrangement into place in 2002, USAID recognized this as an exemplary policy by a major land-grant university, and suggested that other universities needed to consider such policies to bring more stability and high quality fixed-term staff needed to allow universities to work effectively on development projects.

In addition to FS III, the FSG has developed other USAID- and non-USAID-funded projects that address similar themes and are thus part of the Department's larger food-security portfolio. Between September, 2002, when FS III began, and March 2006, the FSG has operated 27 separate University projects (separate account numbers and transmittals) as part of the portfolio, with 14 accounts currently active. Each account has its own terms of reference, start and end dates, PIs, and reporting requirements, with many involve substantial expenditures overseas (through imprest funds) as well as on-campus expenses. Managing this portfolio in an integrated way, while meeting all the University and donor financial and substantive reporting requirements, requires significant effort by the PIs and the FSG's business office.

### **3. Hallmarks of the FSG Approach**

Hallmarks of the MSU-AEC food security program include:

- a. **A thematic, scholarly approach, developed in partnership with African colleagues and the funding agencies.** The FSG pursues research, outreach, and training programs that are built around key themes that are designed to be mutually reinforcing and that have been mutually agreed upon by the Department, African partners, and the funding organizations. Rather than simply react to funders' proposals and terms of reference, like a consulting firm, the Department's FSG helps shape the research, outreach and training agenda to be integral to the Department's and University's broader programs of scholarship. Rather than just "chase dollars", the FSG helps shape the funding agencies' development research and outreach agendas and then attracts the dollars to MSU to support that scholarship.
- b. **Integrating research, outreach, capacity building and institutional strengthening.** This integration emerges directly from the Department's commitment to partnering and to

the Land Grant approach. The integration strengthens the overall impact of the FSG's work, increases the demand for policy-relevant information, and feeds into the Department's overall research, outreach, and teaching programs.

- c. **An emphasis on real-world problems.** Consistent with MSU's commitment as a Land Grant University, the FSG applies its scholarship to addressing critical food policy problems facing African countries and their development partners. Keeping a focus on producing results that are useful to policy makers and civil society in shaping and implementing development programs is critical to maintaining both relevance and funding for this program of scholarship.
- d. **A team-oriented approach.** The program uses a team approach, rather than the model of an individual PI working on a tightly delimited problem. The team approach allows the Department take on broader programs of work that attract more resources, benefit from synergies across researchers, and have larger impacts on the funders' and African partners programs and research agendas. The team approach also demands, however, significant effort be devoted to project coordination and management.

#### 4. Recent Changes in the Macro Environment in which the FSG Works

Since 2002, changes in the environment surrounding development efforts in Africa have had strong impacts on the Department's food security efforts.

##### *Overall USAID Budgetary Constraints*

In the wake of 9/11, the Iraq and Afghanistan wars, and the post-Katrina and post-tsunami recovery efforts, discretionary development-assistance funding for USAID has fallen. For example, between FY 2003 and FY 2006, USAID's total non-food-aid funding for sub-Saharan Africa fell by 13%. In addition, this aid was increasingly directed towards short-term work in "hot-spots" such as Sudan, Liberia, and Djibouti (the only USAID missions whose budgets were not cut between FY 2004 and FY 2006). As a result, fewer resources were available to longer-term development efforts in the better-performing countries, such as Mali, Mozambique, and Zambia, where MSU is active. Core funding to FS III comes in large part from USAID's EGAT Bureau. Between FY 2004 and 2006, that bureau's funding also fell by 13%. In addition, an increase in Congressional earmarks has resulted in that Bureau having more earmarks than budget in FY 2007, raising the specter that EGAT may be unable to contribute core funds to FS III in FY 2007. Thus, while the Department's strategy of diversifying funding sources *within* USAID provided some protection in the past against shifting priorities *within* the agency, it was less successful in protecting against the across-the-board cuts for work on African development that the agency has suffered over the past three years.

##### *Changes in USAID's Orientation and Contracting Practices*

Several changes over the past 3 years in how USAID carries out its business have made it more difficult to attract new FS III associate awards and other USAID-funded projects. At the same

time, two recent changes in USAID's thematic orientation open new opportunities for expanded FS III work. Negative factors have included:

**Bundling of projects.** As USAID has reduced its own staffing levels in response to funding cuts, missions' capacities to manage individual projects have diminished. In 2003, USAID thus began bundling its projects into much larger entities, which are then put out to bid to large consortia. Some of these projects include components that are consistent with the themes of FS III, but also include many other components in which MSU has no comparative advantage. The bundling into mega-projects of components dealing with the applied research and policy outreach agenda of FS III thus reduces the likelihood that missions will fund such food-security work directly with MSU via the cooperative agreement. Rather, if MSU wants to participate in such activities, it must join large consortia in bidding for the project. This not only raises the transaction costs of obtaining the contracts, but also reduces MSU's capacity to shape the research agenda to be consistent with the overall academic missions of the University and its African partners. The University, if it follows this path, is forced to act more like a consulting firm than a Land Grant University. President Simon has raised this issue with USAID leadership in her meetings with them in mid-2005.

**Little revival in long-term training support.** Although USAID has talked a lot in recent years about reinvigorating its efforts to support long-term, graduate training for Africans in agriculture, it has allocated very few resources to this effort. The food security projects remain the main means through which graduate training of Africans in agricultural economics at MSU is financed (via project-supported assistantships). Maintaining the graduate training is crucial to the long-term survival of MSU's very productive network of collaboration with African scientists.

**Increased demand for cost sharing.** USAID has also increasingly required that universities cost-share on projects funded by the agency. Most other agricultural economics departments meet the cost share requirement in part through contribution of tenure-stream faculty time, which is funded on their base budgets. At MSU, the Agricultural Economics Department depends on salary savings of faculty on large, externally funded projects to finance other departmental priorities. This inability to cost-share salaries gives this group of faculty at MSU few means of cost-sharing other than offering reductions in the indirect cost rate (IDC) on those parts of the project that would qualify for on-campus rates. Inability to meet cost-share requirements makes MSU less competitive in attracting USAID-funded projects.

**Increased emphasis on short-term implementation.** As the pressure from Congress on USAID to show tangible short-run results has increased, USAID has increasingly emphasized implementation of projects that show short-run, visible results. This shift in emphasis has come at the expense of the longer-term applied research, outreach, and capacity building necessary to build sustainable development and in which MSU has a comparative advantage relative to consulting firms and NGOs.

On the other hand, not everything is bleak within USAID. Two important new opportunities have arisen that offer the potential for increased opportunities for FS III:

**Thematic reorientation of work in Africa, in partnership with the African-led NEPAD initiative.** Beginning in 2002, African countries came together through the African Union to develop the New Partnership for Africa's Development (NEPAD), a vision and a strategic framework for Africa's renewal. NEPAD, which has been broadly endorsed by all major donors, is developing a Comprehensive African Agricultural Development Programme (CAADP) that will set priorities for agricultural development investments by African governments and donors. As discussed below, the Department's food security group has been asked to play a key role in this CAADP program.

**Increased interest of USAID's Food for Peace Office in more flexible uses of food aid** as part of a broader set of response options to food crises. As described below, the FSG has moved aggressively to take advantage of this new interest in USAID, which draws upon the FSG's traditional strengths in market analysis.

### *Growing Opportunities for New Potential Funding Sources*

With the growing public attention to addressing poverty and hunger in Africa in the post-9/11 environment (e.g., Tony Blair's Commission for Africa, the UN Millennium Development Goals, the Gleneagles G-8 summit, and the actions of public figures like Bono), several new potential supporters of the Department's food security work have emerged. And the high quality and unique scope of what the MSU food security model has produced has gained broader attention. At the same time, other "traditional" actors have moved more into the food security realms where MSU has predominant expertise. Newer potential supporters include the Millennium Challenge Corporation (a new US Government development assistance agency, funded at \$3 billion in FY 06); European funding agencies like DFID (the UK's counterpart to USAID), which now can increasingly contract outside of Europe; foundations that previously have not supported work in food security, such as the Hewlett Foundation; private firms interested in investing in developing countries; and "the new philanthropists" such as the Gates Foundation. Traditional funding agencies that are increasingly shifting their portfolios towards the type of food security issues where the Department has expertise include the FAO and the UN World Food Programme, Rockefeller Foundation, and the World Bank.

## **5. The Two FS III Funding Crises**

Since 2005, FS III has faced two funding crises. The first, in 2004/05, involved a budget shortfall (\$408,000) due largely to nearly year-long delays in anticipated associate awards and the need to keep staff in place while we bid for a large new project. In 2005, the Department, CANR, VPRGS, ISP, and Provost's office partnered to provide \$296,000 in non-recurrent funds to help address this issue.

The second, and looming crisis, results from current and projected budget deficits that have resulted from erosion of USAID's support of core funding, which has become increasingly severe in 2005 and 2006. As mentioned above, at the time when USAID originally awarded FS III to MSU, the agency projected core funding to the Leader Agreement at \$1 million/year. Because of budget stringencies in the agency, that level of financing was only provided in the first year of the project (FY03). Core funding declined to \$750,000 in FY 04, \$700,000 in FY 05, and \$625,000 in FY 06. Furthermore, \$225,000 of funding in FY06 came from the Office of Food for Peace with very specific terms of reference, making it functionally more like an associate award than the more flexible and integrative core funding. Furthermore, in FY 06, Africa Bureau, for the first time, failed to contribute any core funding to the CA. While this bureau has currently committed \$170,000 in core funding for FY 07 and may be able to double that amount to \$340,000, EGAT is in an extremely tight budget situation because of congressional earmarks and currently has *no* funds programmed for FS III core in the coming fiscal year. This erosion of core funding risks undermining both the ability to manage administratively the combined core and associate awards, carry out the integrative analysis that is so important to both MSU and the University's broader academic mission, and do the writing and outreach that is central to attracting new USAID and non-USAID funding.

## **6. AEC/FSG's Response**

In response to these challenges, over the past two years, the FSG has taken the following actions to reposition itself strategically in the new environment:

### ***Continue to Deliver High-quality Work on Current Projects***

Given the overwhelming dependence of the Department on USAID, it is critically important to continue to perform well under current USAID-funded projects even as we move to diversify our funding base. Over the past 2 years, FSG continued to deliver important outputs to our USAID and African partners, in the process generating an additional \$9.6 million of new USAID funding between January, 2004 and March 2006 (\$9.3 million of which came through FS III). Even more important, the Mozambique, Zambia, Kenya and West African Regional Program missions have all asked FS III to prepare proposals to extend current programs in those countries, and a similar request is expected by June from USAID/Mali. These actions lay the ground work for a favorable evaluation of FS III in late 2006, which could lead to a 5-year reauthorization beginning in September, 2007. Having that reauthorization in place will be critical to keep a cornerstone of USAID funding in place as we seek to further diversify our funding base over the next 5 years.

### ***Realignment within USAID***

The FSG has also made two strategic moves to diversify and strengthen its funding within USAID.

- With support from the Food for Peace Office, FSG began a research program in 2005 on more effective uses of food aid. Given the growing importance of emergency relief in

USAID's portfolio and USAID's growing leadership in the USAID-EU collaboration on food-aid strategies, this is a potential growth area for important applied scholarship and funding. In September, 2005, the Food for Peace Office provided \$225,000 to FS III to begin this work, the first time that this office has contributed to the cooperative agreement.

- At the request of Africa Bureau, the FSG agreed in March, 2006 to serve as the US representative to the new NEPAD/CAADP Expert Reference Group for Food Security. This advisory panel will play a key role over the next 18 months in helping African countries and the G-8 donors identify key actions and investments to be taken over the next decade to strengthen food security at the national and regional levels throughout Africa. The FSG will thus be in on the ground floor of identifying critical food security actions and therefore be well placed to attract external funding to help carry out those components that are consistent with the University's Land Grant Mission.

### ***Downsizing***

Between 2002 and 2006, due to funding uncertainty, the FSG reduced its number of fixed-term faculty 14 to 10 (a 30% reduction), and the number of graduate assistants supported by FS III fell from 11.6 to 8.5 (a 27% reduction).

### ***Redesigned Management Model***

As part of its effort to create greater incentives among all FSG faculty members to attract new funding and to share management responsibilities more broadly, the FSG is adopting a new model for program management and performance evaluation. As part of this model, Eric Crawford and Duncan Boughton will be joining Mike Weber and John Staatz as co-directors of the overall FSG, and certain program management responsibilities are being decentralized to other faculty members. The redesign is also intended to help transition to new leadership in the FSG as senior faculty look for different roles and for ways to transfer management to a new generation of program leaders.

### ***Diversification of Funding Sources***

Beginning in 2004, the FSG has worked vigorously to attract new funding sources that support work consistent with MSU's Land Grant Mission. Diversification for such a large program that is so heavily dependent on one donor is necessarily a long-term process. This is particularly true because few other donors in the past have shown the long-term commitment to institutional strengthening and applied research that were the historical strengths of USAID. Despite the challenges, between January 2004 and March 2006, the FSG attracted \$1.1 million in non-USAID funding through 12 new projects, and an additional \$344,000 in USAID funding that came through mechanisms other than FS III. The non-USAID funding agencies included the World Bank, FAO, UN World Food Programme (WFP), Rockefeller Foundation, CGIAR, and Government of Canada. Several of these organizations, such as the World Bank and WFP, are in

discussion with the Department about further work.<sup>1</sup> The FSG faculty members are also discussing possible new work for the Millennium Challenge Corporation (in Mali), two large private sector firms (Reuters Corporation and Schaffer International), and the Ministry of Agriculture in Rwanda. We have also had preliminary discussions about possible support from the Gates Foundation.

As a result of these efforts, the percentage of new external international development funding received by the Department since January 2004 that was accounted for by non-USAID sources has climbed to 10.5%, up from 5.3% in the 1999-2004 period.

## 7. Remaining Challenges and Suggested Actions

The FSG and the Department face both a long-term and a short-term challenge regarding its food security portfolio.

- The long-term challenge involves developing a more financially diversified funding base while still addressing thematic issues that build upon the best elements of the current programs, respond to MSU's Land Grant mission and Boldness by Design vision, and address important emerging policy issues. Realistically, this transition will likely take at least 5 years, as new funders are cultivated, get to know and appreciate better what the FSG has to offer, and work out with MSU agreements that address the funders' needs while contributing to the University's Land Grant mission.
- The short-term challenge is how to keep in place the critical mass of tenure and fixed-term staff needed to continue delivering high quality outputs long enough to make the long-term transition. Currently, the FSG has been addressing its funding shortages by a combination of downsizing and aggressively seeking new short-term funding opportunities. The current approach of scrambling to generate new grants and contracts (which, with new donors, are likely to be much smaller initially than our USAID grants), has reached its limits, for four reasons:
  - The FSG group is facing a funding deficit of approximately \$70,000 just to deliver on its current obligations between now and September, 2006.
  - If the FSG group continues to pursue this route of just seeking short-term funding, it risks failing to devote enough effort to fulfilling current obligations. This failure, in turn, will jeopardize our ability to renew FS III for a new 5-year phase. Having that renewal in place is critical, as the cooperative agreement will provide a base around which we can continue to diversify our funding.

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<sup>1</sup>Indications of the new donors' satisfaction with MSU's work include the WFP's decision in March, 2006 to appoint FSG faculty member Cynthia Donovan as chair of its food aid/markets advisory group, and the World Bank's invitation to FSG faculty member John Staatz to take the lead in authoring the chapter on African agriculture in the Bank's flagship publication, *World Development Report*, for 2007.

- As we approach the September 30 deadline for renewal of fixed-term faculty contracts, if these faculty members lack assurance that their contracts will be renewed, they will seek other employment, just at the time when their efforts will be most critical in developing the proposals for renewal of associate awards and preparing for the evaluation of the overall LWA that will lay the groundwork for the 5-year reauthorization of FS III.
- We have recently been approached by a representative of the Gates Foundation, indicating interest in receiving a concept paper on work of the that the foundation might support. We need some time to focus on critically important opportunities like this.

The FSG and the AEC need transition funding starting currently and lasting over the following 30 months to address these challenges. The critical needs are:

1. \$70,000 between now and September 30 to cover potential shortfalls in the current funding cycle.
2. A guarantee of \$300,000 to \$400,000 per year for each of the next two years (starting in September 2006) to cover:
  - a. Potential shortfalls in the FS III core funding for FY 07 (whose level will unlikely be known with certainty before September 30). This funding is critical to allowing us to focus on delivering on current programs and giving a clear signal to fixed-term faculty that their jobs are secure enough for the coming year that they don't jump ship.
  - b. Funding over 2 years to provide for one additional AP 10 and 1 CT for the FSG business office. That office is currently working at full capacity, and needs additional help to allow it to handle all the administrative work involved in dealing with a much broader array of funding agencies and learn their diverse reporting requirements. Developing new funding sources will necessarily involve initially starting out with smaller grants from new donors, but the transaction costs of processing and managing small grants from new donors are often close to those of handling large grants from "familiar" donors. We anticipate that if the business office is able to handle all these administrative tasks in a timely way, the likelihood is high that these two positions could become self-supporting, through new business generated, after two years.
  - c. Release time over two years for faculty members to develop new funding sources, especially private donors. Over the long-term, a program endowment (e.g., \$4 million, which could generate \$200,000 annually in flexible funding) is likely to indispensable in providing financial stability to this program. The FSG has a very impressive program that could likely attract significant funding from the "new philanthropists." But building such endowments take time and effort, and cannot

be done by faculty already working at 110% of capacity just to keep their programs alive on a day-to-day basis.

The amount of this two-year funding is contingent on core resources obtained over the next two years from USAID. We estimate that to deliver on current cross-cutting work, carry out the mid-term evaluation of FS III and lay the groundwork for a renewal of FS III and cultivation of new funding will likely take close to \$800,000 in FY 2007 and around \$700,000 in FY 2008. The University funding would be needed to cover the difference between these amounts and what we receive from USAID.