ARKANSAS ENTERPRISE CAPITAL FUND **CASE STUDY**

Arkansas Advocates for Children and Families

In 2022, after 18 years at the helm of Arkansas Advocates for Children and Families (AACF), Rich Huddleston announced that he planned to leave the organization. As his final days approached, he started to worry. "Anytime you go through a long leadership transition, you see a decline in terms of fundraising," he explained. "Any new leader takes time to get up to speed and build relationships with foundations. You often see a drop–off in funding–we're experiencing that now. We have a budget gap we have to fill."

AACF has advocated to improve the lives of Arkansas's children for 45 years, working to reform the juvenile justice system, promoting measures that improve children's health, fighting for early education and out-of-school opportunities, and championing economic security. With limited opportunities for generating revenue, the organization depends entirely on grants and donations to fund operations. When Rich started as policy director in 1995, AACF was half its current size. By 2003, new child-health-program funding had spurred significant growth. Since Rich became executive director in 2004, AACF has maintained a staff of 11 to14 FTEs, avoiding major cutbacks by courting long-term, unrestricted funding—particularly from individual in-state donors. While the organization once relied almost exclusively on foundation grants, a solid base of individual donor support now provides at least 30% of revenue. As AACF has moved more deeply into education and other policy issues, it has found additional funding opportunities from other foundations and donors.

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A Funding Landscape In Flux

Policy advocates like AACF that rely on philanthropy have a special need for long-term, flexible funding. It takes time for them to build relationships with lawmakers, and the work requires ongoing investment in each policy area. "For some issues, we're the only one there," said Rich. "When we don't have capacity, there's no one else in that policy space—which ultimately impacts the people we're trying to serve, Arkansas's children."

For years, AACF enjoyed stable funding from a group of national funders through its membership in two national networks—Kids Count, led by the Annie E. Casey Foundation, and the State Priorities Partnership, led by the Center on Budget and Policy Priorities, the nation's leading antipoverty think tank. Both organizations have created funder collaborations for their networks and stressed the value of multiyear funding.

New funding trends, however, threaten AACF's future. Funding has increasingly moved away from state policy groups like AACF and toward more grassroots organizations. At the same time, some long-time national funders have cut programs focused on low-income children. Funder reassurance—that the changes reflect no disappointment with the quality of AACF's work but instead mark a shift in strategy—provide little consolation in the face of a funding gap. Finally, the organization has seen several foundations shift from funding child welfare and juvenile justice, two of its core issues.

A funding landscape in flux has made it hard to predict where the next round of funding will come from or what it will support—only 9% of all grant funding over the past five years has had a multiyear time frame. Rich and his team report that funders' increasing focus on specific projects comes at the expense of flexible funding for the organization as a whole, seriously undermining the team's ability to respond to new developments.

Prior to the pandemic, AACF saw a brief shift to more support of general operations as more funders recognized the benefits of that approach, which bears some similarities to Enterprise Capital. From 2019 to 2021 about 22% of AACF grants took the form of operational support, rather than more restrictive programmatic support. Growth in this support gave AACF the ability to respond more effectively to specific events and new policies. Concretely, such funding allowed creation of a new position of government affairs director, enabling AACF to focus on legislators year-round. The director's ability to cultivate long-term relationships proved essential to progress on bipartisan policies that have benefited the state's children and families.

However, the pandemic drove many funders back toward project funding. In 2022, just 12% of AACF grant support took the form of operating grants, and 2023 looks worse: only 8% of commitments so far represent operating support. Many funders found it easier to demonstrate impact with project funding, even when groups like AACF desperately needed general operating support. As this support dwindled, AACF could no longer count on funding for the government affairs director's position. As a result, the group has watched a major window of opportunity closing. "You're just not as effective," admitted Rich. But without the Enterprise Capital it needed, AACF couldn't afford to hire for the position in the face of an economic downturn.

Lack of Enterprise Capital support has hobbled AACF's ability to engage on time-sensitive issues. For example, the decision in the Dobbs case—the U.S. Supreme Court ruling that overturned Roe v. Wade—presented an opportunity to push for major policy initiatives on the child-welfare system, child poverty, and maternal health. When the Arkansas legislature considered a proposal to cut taxes, AACF received small grants to conduct a short-term advocacy campaign, but the staff knew that without long-term coalition building and education, they couldn't head off cuts to vital youth-support programs. "Arkansas has one of the lowest voter turnout rates in the country," lamented Jennifer Ferguson, deputy director at AACF. "Citizens don't know how they can affect change. We need to educate the electorate that they aren't just voting for a tax cut; they're making a choice between a pre-K program and a tax cut or between foster care funding and a tax cut. We need to help them see the direct cause and effect of policy change: Your school doesn't have an after-school program because of that tax cut."

Jennifer sees a different funding approach as essential to AACF's ability to move the needle. "Enterprise Capital would be transformational for us—it would give us the capacity to do long-term strategy work and have a more powerful voice," she says. "The most frustrating part of our work is that we can't raise our voice as loudly because of the need to focus on specific project funding. That means we haven't been able to close the gaps in children's outcomes."

AACF has focused on finding more Enterprise Capital-like dollars to invest in its work long-term. "We have a lot of small, shorter grants, which keep the lights on," said Rich. "But it means we're consistently having to fund-raise, and that takes resources away from other work that supports our mission more directly."

As Keesa Smith, Rich's successor, prepared to take the reins at AACF, she knew long-term funding would play a crucial role in developing and executing a new strategic plan. "A strategic plan looks at the next three to five years, but our funding does not. We have to piece together short-term funding streams to get from one step to the next. But advocacy doesn't work that way. Being reactionary, based on short-term funding, isn't enough. We need to be proactive. We need Enterprise Capital."

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