Microenterprise as a Welfare to Work Strategy: Client Characteristics

Microenterprise organizations across the United States have been working with welfare recipients for almost two decades. The goal of these efforts has been to offer clients another path to economic self-sufficiency, a path that can be an alternative or a supplement to traditional wage employment.

While microenterprise is clearly not suitable for every welfare recipient, it has distinct advantages to those who can take advantage of it, namely:

- Self-employment typically builds on existing productive skills (and sometimes even existing formal or informal business activities);
- Working for oneself can offer a more flexible work setting and work hours, and, therefore, may better conform to an individual’s care-giving roles;
- Self-employment can supplement part-time or low-wage work with additional income needed to meet a family’s total income needs;
- Self-employment can allow individuals to create jobs for themselves in areas where paid employment is scarce, or the quality of available jobs is quite low.

Although self-employment for welfare recipients has an established history in the U.S., the enactment of federal welfare reform in 1996 created new challenges for welfare recipients and the microenterprise programs that seek to serve them. The Temporary Assistance for Needy Families (TANF) program allows states the flexibility to raise the asset limits and change the treatment of self-employment income in ways that can better support microenterprise development. At the same time, time limits have placed new pressures on the business development process, and participation requirements and the “Work First” approach adopted in many locations have made it difficult for interested individuals to receive welfare agency approval to pursue self-employment training and business start-up.

The Microenterprise Welfare to Work Demonstration and Learning Assessment

Recognizing that welfare reform would pose new challenges to welfare recipients seeking to become self-employed and to the microenterprise organizations serving them, in 1998 the Charles Stewart Mott Foundation launched a demonstration project to support 10 microenterprise programs serving TANF clients (see Table 1). All of these programs offer self-employment...
training classes, and most combine this training with case management services and employment readiness or job placement services. One program is very different from the others. Project Hope trains TANF recipients to become family day-care providers by supplying both classroom training and placement in child-care internships before clients open their businesses.

Along with making three-year operating grants to the programs, the Mott Foundation commissioned FIELD to conduct the Welfare to Work (WTW) Learning Assessment in order to document client characteristics and outcomes, and to learn more about the policy issues and program strategies that emerged from working with TANF recipients. This research brief summarizes findings from the first wave of a longitudinal survey of participants who participated in the demonstration programs. It details information collected when clients enrolled in the microenterprise program. To put this data in context, these baseline findings are compared to two sources of data on the national TANF caseload:

- U.S. Department of Health & Human Services (HHS) data on the FY1999 TANF caseload, which details the characteristics of TANF recipients.\(^2\)
- The Urban Institute's National Survey of America's Families (NSAF), which was conducted in 1997 and included a nationally representative subsample of TANF recipients.\(^3\)

In addition, we compared findings to previous studies of low-income microentrepreneurs:

- The Self-Employment Learning Project (SELP), a five-year longitudinal survey of microentrepreneurs conducted by the Aspen Institute between 1992 and 1997. The study included a subsample of respondents whose household incomes were below 150 percent of HHS poverty guidelines.\(^4\)

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\(^1\) For further information about programs, please see FIELD forum #3 and www.fieldus.org.


\(^3\) The Urban Institute, Assessing the New Federalism, http://newfederalism.urban.org/nsaf/index.html; www.urbaninstitute.org/nsaf.

The evaluation of the Self-Employment Investment Demonstration (SEID), which explored the experiences of Aid to Families with Dependent Children (AFDC) recipients who pursued self-employment in a five-state demonstration that took place between 1988 and 1992.

**Key Findings**

TANF recipients who enrolled in the demonstration programs differ from the national TANF caseload in several important ways. They are older, have higher levels of education, are more likely to have been married and divorced, and have more recent employment experience.

- Demonstration participants are generally older than the TANF caseload. In fact, they are significantly more likely to be between the ages of 35 and 49, and far less likely to be between the ages of 18 and 25.
- Participants have very strong educational attainment levels compared to the national caseload. Eighty-six percent have a high school degree or General Education Development (GED) diploma and 81 percent have 12 or more years of education; only 46 percent of the TANF caseload in FY1999 had 12 or more years of education. However, it is important to note that demonstration programs, many of which tested for basic skill levels, found that actual skill levels were quite low among their TANF clients.
- Demonstration participants are significantly more likely to be divorced or separated, and less likely to be married or never married, than the national TANF caseload.
- Demonstration participants had a larger number of children (2.3 vs. 2.0 for the national caseload). Like the national caseload, about 54 percent of these children were under the age of six.
- Demonstration participants were much more likely to be African-American (52 vs. 37 percent) and somewhat more likely to be white (37 vs. 33 percent) than the national TANF caseload. Nationally, a larger proportion of the caseload is Latina (23 percent vs. 6 percent in the demonstration population). These differences in race and ethnicity reflect both the location and focus of the individual programs in the study.
- 99 percent of demonstration participants reported that they had some past work experience. This included part-time or full-time jobs and paid or unpaid work. While comparable data is not available for the NSAF or FY99 TANF participants, 43 percent of the NSAF population reported that they had never worked or that they had not worked in the past three years.

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39 percent of demonstration participants were working at the time they enrolled in the microenterprise program, compared to 28 percent for the FY99 TANF caseload. For both populations this includes both people who were employed in jobs and those who were generating income from self-employment. The 39 percent of demonstration participants who were employed comprised 18 percent who were solely engaged in wage employment, 16 percent who were solely self-employed and five percent who were engaged in both wage and self-employment.

Despite their stronger educational and employment backgrounds relative to the national TANF population, participants have significant histories of welfare receipt. Across the demonstration sites, participants had received AFDC or TANF support for a median of four years. The median years of welfare receipt ranged from two years at Project Hope to 6.83 years at DEI.

Although demonstration participants may look different from the TANF caseload in key ways, their profile is very similar to that of other low-income individuals and welfare recipients who pursue self-employment. Past studies of low-income individuals and AFDC recipients found a similar demographic profile:

- The “average” low-income entrepreneur in the Self-Employment Learning Project’s poverty sub-sample was a minority woman between 40 and 60 years of age, with a high school diploma or GED, who had children living in the home, some of whom were under six years of age.

- The evaluation of the Self-Employment Investment Demonstration reported that the typical client was a woman, averaged 34 years of age, and had earned a high school diploma or GED. She had two or more children living at home, half of whom were under six years old, and she had been married but was divorced or separated.

Demonstration participants who were self-employed had the highest household incomes in the population. Participants who were employed in jobs also had higher than average incomes at intake. Average household income for the 17 percent of participants who reported self-employment income at intake was $14,281. For the 35 percent who reported employment income, average household income was $13,161. Household income for the entire study population was much lower – averaging $11,689.

<table>
<thead>
<tr>
<th>Table 2: Average Household Income$</th>
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<tr>
<td>All demonstration participants (541)</td>
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<tr>
<td>Demonstration participants reporting self-employment income (102)</td>
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<tr>
<td>Demonstration participants reporting wage employment income (208)</td>
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There was wide variation in the number of TANF recipients who enrolled in the demonstration programs. Over the two years in which individuals enrolled in the study, the number of participants per site varied from 22 at SOWAC to 156 at ISED (see Table 3). Programs with a strong relationship with the local welfare agency were most successful in their recruitment efforts. Those without this

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*The FY99 TANF caseload data does not distinguish clients who are self-employed from those who are employed in jobs.*


*Respondents were asked to report all sources of household income including wage and self-employment earnings, TANF, Supplemental Security Income (SSI), child support and alimony, unemployment benefits, general assistance from their state, disability, retirement benefits or social security, income earned by other household members, help from family and friends, the cash value of food stamps and Women, Infants and Children (WIC) food benefits, and any other sources of income.*
relationship, or operating in an area where the agency did not consider self-employment a viable work option for TANF recipients, had more difficulty attracting clients. Recruitment levels varied for other reasons as well: the geographic coverage of the grantee program (which varied from small rural counties to programs serving entire metropolitan areas and even statewide); the level of caseload reduction in the area served by the site, and the nature of the assessment and screening process employed by the grantee.

There were large differences across the demonstration sites in the percent of clients who considered themselves in business at program enrollment. Across the entire sample, 17 percent of clients were in business at enrollment. Although none of Project Hope’s clients were in business at the time of enrollment, 68 percent of Women’s Initiative’s clients were in business at that time. It is important to note, however, that all of the programs with high percentages of clients in business at enrollment had relatively low numbers of overall clients.

The businesses that did exist at program enrollment were young, small and home-based. The median age of these businesses was one year, and 44 percent were less than 6 months old. The median annual sales for these businesses was $5,000, their business net worth was $600, and only 20 percent had business checking accounts. Eighty-six percent of businesses were home-based.

### Future Research Questions

The Welfare to Work Learning Assessment will collect follow-up information on the demonstration participants at 12 months and 24 months after program enrollment. Findings from the follow-up data will be published in the fall of 2001 and 2002. The follow-up research will address questions such as:

- Did participants start and/or expand businesses? Did the businesses grow and survive over the 24-month follow-up period? How do business outcomes for those who had businesses upon entering the microenterprise program compare to outcomes for those who started businesses after training?
- To what extent do participants choose to blend wage and self-employment, or choose wage employment over self-employment? How do the incomes and experiences of those who “patch” wage and self-employment differ from those who choose self-employment only? Did the microenterprise organizations play a role in helping participants find employment?

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10 Although the demonstration grants were for a three-year period, the longitudinal study only included participants who enrolled in the demonstration programs in the first two years.
How did participants’ receipt of TANF benefits change over time? For those no longer receiving benefits, was loss of benefits due to increasing income, lack of compliance with TANF rules, reaching time limits?

Were participants dealing with personal and family challenges, such as mental or physical illness or disability, domestic abuse, or substance abuse?

Did the availability of child care affect participants’ abilities to operate and grow their businesses?

A section of the FIELD Web site (www.fieldus.org/li/welfare.html) is devoted to the Welfare to Work Learning Assessment. There visitors will find:

- Brief descriptions of the 10 projects in the WTW cluster and their approach to working with TANF recipients.
- A report on the most recent gathering of the WTW grantees, where they discussed the challenges inherent in working with TANF recipients.
- FIELD forums #3 and #7, brief publications covering WTW issues. These can be downloaded from the site or ordered by contacting us.
- Three publications written by the Center for Law and Social Policy that explore different aspects of TANF policy as it relates to microenterprise. These also are available in pdf format or can be ordered.
- A copy of the full report of Microenterprise as a Welfare to Work Strategy: Client Characteristics. This publication can be downloaded or ordered from us.

We can be contacted at:
FIELD
Microenterprise Fund for Innovation,
Effectiveness, Learning and Dissemination
The Aspen Institute
One Dupont Circle, NW, Suite 700
Washington, DC 20036
Phone: (202) 736-1071 • Fax: (202) 467-0790
Web site: www.fieldus.org
email: fieldus@aspeninstitute.org

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Text: This research brief was written by: Joyce Klein, a private consultant to FIELD based in Arlington, Va., who manages the Welfare to Work Learning Cluster; and by Amy Kays, former FIELD staff and co-manager of the cluster, and now a private consultant based in Washington, D.C.


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