Improving the Climate for Self-Employment: Policy Recommendations for TANF Reauthorization

Self-employment is one form of work that recipients of Temporary Assistance for Needy Families (TANF) can use to fulfill work requirements, generate income and move off assistance. Research conducted on self-employment, or microenterprise, demonstration programs for recipients of both TANF and its predecessor, Aid to Families with Dependent Children (AFDC), has found that welfare recipients are capable of starting and operating businesses, and that these enterprises are capable of providing higher levels of income than low-wage jobs.1

Under current federal law, states can support an individual's interest in pursuing self-employment in several ways. However, because the federal statute lacks specific treatment for self-employment activities, and because many states have taken a strong “work first” orientation, the reality is that many TANF recipients find it difficult to pursue and succeed in self-employment.

FIELD, the Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination, currently is conducting a multi-year evaluation of microenterprise organizations that have provided self-employment services to TANF recipients. This research has identified several policy changes that could help TANF recipients use self-employment to transition off TANF and toward economic self-sufficiency. These are:

Table 1: TANF Policy Recommendations to Support Self-Employment

<table>
<thead>
<tr>
<th>Recommendation</th>
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<tr>
<td>Create a new category of countable work activity termed &quot;self-employment preparation.&quot;</td>
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<td>Remove limits on participation in vocational educational training.</td>
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<td>Include a provision in the TANF statute specifying that time spent in active exploration of the potential for self-employment be countable as part of &quot;job search.&quot;</td>
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<td>Allow states to &quot;stop the clock&quot; for individuals who are meeting work requirements through self- or wage-employment.</td>
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<td>Amend the TANF statute to include language signaling the importance of income and asset rules that support self-employment.</td>
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<td>Make poverty reduction an explicit goal of TANF, and provide incentives for states to place greater emphasis on stronger employment outcomes for TANF recipients.</td>
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<td>Increase current funding levels for TANF and other low-income assistance programs, so states can provide training and supportive services to enable needy families to move toward economic self-sufficiency.</td>
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This research brief presents the findings from recent FIELD research, which serves as the basis for these policy recommendations. That research details the one-year outcomes experienced by TANF recipients who pursued self-employment and highlights the policy context and issues they confronted when preparing for and engaging in self-employment.

Key Findings on Participant Outcomes

The TANF recipients who entered the microenterprise demonstration programs were: older, had higher levels of education, were more likely to have been divorced and had more recent work experience than the national TANF caseload. However, they also had received TANF or AFDC for a significant period: a median of four years.

The client study undertaken by FIELD found that one year after enrolling in the self-employment demonstration programs:

- 38 percent of participants were running a business; 49 percent had operated a business at some time during the year.
- 71 percent of participants were working:
  - 29 percent in their own business
  - 33 percent in wage employment
  - 9 percent both in their own business and in wage employment.

This compares to 39 percent who were working at the time they began the self-employment program.

- 35 percent of participants were receiving TANF, compared to 94 percent one year earlier.
- Participants had increased their household incomes from $11,689 to $15,068 on average.
- Among all participants, those drawing income from a business and those who “patched” business and job income, had the highest incomes in the sample, averaging $17,636 and $21,360, respectively.

- 51 percent of those running a business drew income from it to support household needs.
- Participants who owned a business upon entering the self-employment program showed strong growth in monthly sales (average growth of $701) and net worth (average growth of $4,549) over the one-year period. Seventeen percent of study participants had businesses at enrollment; they entered the microenterprise programs in order to expand their self-employment efforts.
- The quality of jobs obtained by demonstration participants who were working in wage employment and had left TANF compare favorably to those of TANF leavers surveyed as part of other research efforts. Median hourly job earnings for TANF leavers in the demonstration were $8.17 compared to $7.15 for TANF leavers surveyed as part of the
National Survey of America’s Families (NSAF). In addition, relative to TANF leavers surveyed as part of state TANF leavers studies, high percentages of TANF leavers in the self-employment demonstration received health insurance, paid vacation, and paid sick leave benefits.

**Key Policy Findings**

As part of the FIELD evaluation, the Center for Law and Social Policy (CLASP) has documented written TANF policies in the nine states where the demonstration sites are located. In addition, CLASP staff conducted site visits to four grantees to determine how policy was implemented. These site visits identified important factors such as county-level policy, attitudes of local administrators and caseworkers, and the level of knowledge of self-employment policy on the part of caseworkers. Key findings from these inquiries follow:

- Although microenterprise activities are clearly allowed under current federal law, a tension exists between “work first” and microenterprise training and self-employment.
  - In many instances, TANF recipients were not allowed to pursue self-employment until they had failed at job search, or unless they were engaged in other activities that met work requirements.
  - Agency administrators often showed more supportive attitudes toward self-employment than caseworkers, many of whom believed that self-employment was not a viable option for TANF recipients.

- In some states that allowed microenterprise to be treated as a countable activity by defining it as vocational educational training, other participation requirements created barriers to individuals engaged in self-employment, particularly during the start-up phase.
  - Some states require that a minimum income level be drawn from the business in order for self-employment to count as a work activity. In these states, TANF recipients whose businesses were in early stages and not yet generating many sales, or who chose to reinvest business earnings rather than draw them out for household use, were required to look for a job or do community service, rather than work in their business to meet work requirements.
• In one state, it was simply unclear how participants should document their hours spent in self-employment.

▶ Although treatment of business income and assets varies across the nine states, there are clear examples of how states can facilitate self-employment through supportive income and resource policies.
  • Four states explicitly exempt business loans from treatment as income or resources.
  • Both Michigan and Colorado exempt business bank accounts from treatment as resources.

▶ Time limits pose a challenge to self-employed individuals who may choose to receive ongoing income supplements during the initial period of business establishment, as each month of support counts against the time limit.

Federal Policy Recommendations
FIELD believes the above findings indicate that self-employment can be an important work option for some TANF recipients. Furthermore, they suggest that microenterprise training can be a means for both strengthening businesses for those who choose to be self-employed, and for providing participants with skills valuable in wage employment. However, the current policy context clearly can make it difficult for TANF recipients interested in self-employment to pursue either self-employment training or to continue operating a business through the early start-up months.

Therefore, FIELD recommends the following legislative changes to the TANF program. These policy changes will help to ensure that self-employment is treated as an option equal to wage employment, as well as to enable TANF recipients engaged in self-employment to have a reasonable chance to build successful businesses.

Issue 1: Enhance the ability of states to clearly count self-employment preparation as a work activity. There are two approaches for addressing this issue.

   Recommendation 1A: Create a new category of countable activity termed “self-employment preparation” aimed at equipping an individual to engage in or expand existing levels of self-employment. This activity includes assessment of self-employment readiness and business feasibility, self-employment or microenterprise training, business counseling and/or technical assistance, peer group support, case management, securing of business financing, and early stages of business establishment and operations (to include activities such as acquisition of business licenses, equipment and materials, acquisition or creation of business inventory, developing of marketing and advertising materials, and initial sales and production efforts). The self-employment preparation phase would typically involve significant activities that occur outside a classroom or agency setting, and extend beyond an initial training period, through the early stages of business start-up and operation, to the point where the business is consistently generating sales and income.

   Recommendation 1B: Remove the current 30 percent cap on the number of adults participating in work activities who can be engaged in vocational education training and the 12-month limit on vocational educational training.

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Moving toward Self-Sufficiency through Self-Employment: Patsy Jo Gott

Patsy Jo Gott enrolled in West Company's self-employment program for TANF recipients in early 1998. The divorced mother of four boys, who ranged in age at the time between 10 months and 13 years, Gott had relied on welfare benefits for support between jobs for 10 years. Her goal was to start a landscaping business that would generate income for her family while building on her innate love for the earth as well as her associates' degree in ornamental horticulture, and certificates in landscape maintenance and nursery production.

Gott launched her business in November 1998, and encountered some difficulties soon after. First, she realized that the accounts she had purchased from a relocating yard maintenance firm had been undercharged, and some of the customers were not willing to pay her higher prices. Furthermore, December and January are typically slow months for landscaping services - even in Northern California.

At that point, Gott decided she needed to generate more stable income, and secured a landscaping job at a local cemetery, continuing to work in her business on the side. Her decision was supported by West Company staff and the Mendocino County Department of Social Services / Job Alliance, as both organizations actively promoted income patching as a strategy for TANF recipients. The 40 hour-per-week job paid less on an hourly basis than Patsy charged in her business, and was not enough to enable Patsy to support her family and pay for full-time care for her youngest son should she no longer receive state-funded care. But because it offered benefits and a steady stream of income, Patsy's plan was to work the job while building her business on the side. Working at the job and her business, Patsy was able to stop receiving TANF assistance.

However, the landscaping job required Gott to carry heavy (40-pound) landscaping equipment, and after about three months on the job, Patsy injured her back. Unable to continue the job, she returned to TANF assistance, and decided to re-focus on her business, with a dual strategy: providing gardening and landscaping services, primarily to elderly and disabled women who might be more comfortable with a female landscaper, while also working to complete the requirements for a California State landscape contractor's license that would allow her to go after more lucrative contracts. In addition, she planned to hire staff to do the demanding physical work that she could no longer do.

With scholarship funding from a local charitable organization, Gott completed the necessary coursework and passed the contractor's test. She is currently in the process of securing the additional journeyman's hours required to meet the full licensing requirements. She continues to work for her existing customers and build her client base. While she still receives some TANF benefits to support her family, Patsy's tax records show that her total income has almost doubled since 1998 due to the addition of self-employment income. Patsy projects that if she is able to earn the average revenue for landscape contractors in Mendocino County, in the future she should be earning an annual income over $30,000.
Issue 2: In states with a strong up-front job search requirement, individuals are sometimes precluded from exploring self-employment until they have searched first for some minimum number of jobs. Also, in some instances, caseworkers have hesitated to approve participation in microenterprise training because of uncertainties about an individual’s capacities or the viability of their business concept. Allowing for a structured process of self-employment exploration during the job search process could address this problem.

Recommendation 2: Create a provision in the TANF statute specifying that time spent in active exploration of self-employment potential be countable as part of “job search.”

Issue 3: Time limits on assistance pose a distinct difficulty for individuals pursuing self-employment, because if the state provides ongoing income supplements while the individual builds the business, each month of such support counts against the time limit.

Recommendation 3: Create a provision to allow states to “stop the clock” for individuals who are meeting work requirements through self- or wage-employment.

Issue 4: Supportive rules relating to treatment of business income or assets can facilitate self-employment on the part of TANF recipients.

Recommendation 4: Amend the TANF statute to include language that signals the importance of income and asset rules that support self-employment. This language might include a set of “model” income and asset rules regarding self-employment that states could elect to adopt.

Issue 5: The overall “work first” philosophy that underlies the implementation of TANF appears to have a larger effect than any specific provision in affecting access to self-employment preparation services and in determining support for the initial stages of business development. This philosophy generally directs individuals to search for or secure wage employment, rather than to pursue their interest in microenterprise.

Recommendation 5: Support emerging proposals to make poverty reduction an explicit goal of TANF, and revise or add performance bonuses that provide incentives for states to place a larger emphasis on stronger employment outcomes for TANF recipients.

Issue 6: The level of TANF funding available in states will have a significant impact on the level of interest in the self-employment option. If TANF funding is reduced or remains flat, the ability to advocate for participation in activities that take longer periods of time will be reduced.

Recommendation 6: Increase current funding levels for TANF and other low-income assistance programs so that states can provide training and supportive services to enable needy families to move toward economic self-sufficiency.
About the Study
FIELD, a program of the Aspen Institute, is currently evaluating 10 demonstration programs funded by the Charles Stewart Mott Foundation to provide microenterprise, or self-employment, services to TANF recipients. These demonstration programs enrolled TANF recipients who received a range of program services, including microenterprise and personal effectiveness training, access to capital, business counseling, and in some cases, employment assistance. The 10 demonstration sites are listed below.

Table 2: Participants in the WTW Demonstration and Learning Assessment

<table>
<thead>
<tr>
<th>Detroit Entrepreneurship Institute, Inc.</th>
<th>West Company</th>
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<tbody>
<tr>
<td>Institute for Social and Economic</td>
<td>Women's Initiative for Self Employment</td>
</tr>
<tr>
<td>Development</td>
<td>San Francisco, Calif.</td>
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<tr>
<td>Iowa City, Iowa</td>
<td>Women's Self-Employment Project</td>
</tr>
<tr>
<td>Little Sisters of the Assumption Family</td>
<td>Chicago, Ill.</td>
</tr>
<tr>
<td>Health Services</td>
<td>Women's Self-Employment Project</td>
</tr>
<tr>
<td>Dorchester, Mass.</td>
<td>Chicago, Ill.</td>
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<tr>
<td>MiCasa Resource Center for Women</td>
<td>WomenVenture</td>
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<tr>
<td>Denver, Colo.</td>
<td>St. Paul, Minn.</td>
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<tr>
<td>Southern Oregon Women’s Access</td>
<td>Worker Ownership Resource Center</td>
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<tr>
<td>to Credit, Inc.</td>
<td>Geneva, N.Y.</td>
</tr>
<tr>
<td>Medford, Ore.</td>
<td>Worker Ownership Resource Center</td>
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FIELD’s evaluation, assisted by CLASP, includes several key components:

▶ A longitudinal study of 590 TANF recipients who enrolled in the microenterprise programs between January 1999 and June 2000 (conducted by the FIELD program), which has collected data on participants at program enrollment and 12 months later.2

▶ Case studies of TANF policies relating to microenterprise in the nine states where demonstration sites are located (conducted by CLASP).

▶ Site visits to four of the grantee sites to document key policy issues encountered by program participants, grantee staff and welfare agency staff and management, during the course of the demonstration (conducted by CLASP).

▶ Documentation of program strategies used by the microenterprise programs to serve TANF recipients (conducted by FIELD).

The above findings and recommendations are drawn from the first three components of the evaluation.

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2 The longitudinal study, still in process, also is collecting data on participants at 24 months after program enrollment. The 24-month data will be released in the Fall of 2002.
A section of the FIELD Web site (www.fieldus.org/ll/welfare.html) is devoted to the Microenterprise Welfare to Work Learning Assessment.

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