

MICROENTERPRISE DEVELOPMENT AND SELF-EMPLOYMENT FOR TANF RECIPIENTS:

STATE EXPERIENCES AND ISSUES IN TANF REAUTHORIZATION

**Nisha Patel and Mark Greenberg
Center for Law and Social Policy**



FIELD

Microenterprise Fund for
Innovation, Effectiveness,
Learning and Dissemination

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The Aspen Institute
One Dupont Circle, NW
Suite 700
Washington, DC 20036

Published in the United States of America
2002 by the Aspen Institute

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Printed in the United States of America

ISBN: 0-89843-347-9

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April 2002

The Center for Law and Social Policy (CLASP) is a national public interest law and policy organization that began in 1968. Since 1982, CLASP has focused on the problems of low-income families with children. CLASP focuses on job training and workforce development, child support, welfare reform, and reproductive health and teen parent issues at both the state and Federal level. CLASP has written widely about state and Federal policy proposals; provided training and technical assistance to advocates, administrators and officials; and advocated and testified before Congress and in a number of states to improve the income support, workforce development and child support systems.

The Aspen Institute, founded in 1950, is an international educational organization headquartered in Washington, DC. The Microenterprise Welfare-to-Work cluster evaluation is housed in the Economic Opportunities Program of the Aspen Institute. The staff of the Economic Opportunities Program (EOP) are primarily known for the practitioner-focused, participatory evaluation methodology developed to conduct research and assessment of community-based programs.

Nisha Patel and Mark Greenberg prepared this publication for the Aspen Institute as part of the Institute's evaluation of the Charles Stewart Mott Foundation's Welfare-to-Work Initiatives for Microenterprise Development. The authors would like to thank the Charles Stewart Mott Foundation for its financial support of this work.

We would particularly like to acknowledge the staff of the four microenterprise programs who coordinated our site visits: Ken Williams and Vanessa Rush at Detroit Entrepreneurship Institute; Linda Pancoast at Worker Ownership Resource Center; Christine Pigsley at Institute for Social and Economic Development; and Laura Hoover at Women's Initiative for Self-Employment. In addition, we would like to thank the representatives of the TANF agencies in California, Iowa, Michigan, and New York and the workforce agencies in Iowa, Michigan, and New York for providing state policy information to us in conjunction with our site visits to their states and for providing feedback on this report. We would also like to thank the staff of the ten Mott Welfare-to-Work microenterprise grantee programs for providing feedback on this report.

Finally, we would like to thank Jack Litzenberg, Senior Program Officer at the Charles Stewart Mott Foundation, and Joyce Klein, Senior Consultant to the Aspen Institute, for their support of this project and their helpful comments on an earlier draft of this report.

Executive Summary

With the passage of the 1996 federal welfare reform law there was much uncertainty concerning how implementation of state Temporary Assistance for Needy Families (TANF) programs would affect efforts to provide training and support for microenterprise initiatives for low-income families. In some respects, the 1996 law offered the potential to make it easier for states to provide microenterprise training and support, because the law allowed broad state discretion in key policy areas affecting microenterprise programs. At the same time, the law's emphasis on time limits, caseload reduction, and discouragement of longer-term education and training were recognized as factors that might result in a less supportive climate for microenterprise initiatives.

The findings from our research indicated that the most significant barriers to Temporary Assistance to Needy Families (TANF) recipients' participation in microenterprise training or self-employment did not flow directly from specific federal requirements. While work participation rate provisions and time limit requirements presented potential impediments, those states or communities wanting to provide support for microenterprise training and self-employment had found ways to do so consistent with the requirements of federal law. Rather, at least in the context of the relatively low effective TANF participation rate requirements of recent years, the most significant barriers identified often fell into one of two categories:

- Local administration and management issues, such as high worker caseloads, limited awareness on the part of caseworkers, and need for additional caseworker training.
- A "work first" philosophy, which discouraged participation in any activity that potentially delayed employment entry, and which sometimes resulted in policies or practices that prevented individuals from participating in training or from taking the time needed to effectively establish a business after training completion.

In TANF, the issues of local administration and management are essentially left to each state. The "work first" philosophy is implicitly encouraged by many features of the TANF structure, but is not contained in any single provision of or expressly required by federal law.

While federal law does not present insurmountable barriers, federal requirements sometimes make local efforts more difficult, and the federal TANF law is not affirmatively supportive of microenterprise efforts. Thus, there are a number of ways in which the law could be changed during reauthorization to encourage, or at least not discourage, states from providing support to microenterprise initiatives. Some of the recommendations that we offer are expressly focused on microenterprise development and self-employment:

- Clarify that engagement in microenterprise training and self-employment are countable toward federal work participation rates.

- Specify that time spent in active exploration of the potential for self-employment can count as “job search.”
- Require all states to describe in their state plans the rules that will apply in the treatment of income and assets for individuals engaged in self-employment, including a description of the state’s approach to providing support for individuals in the initial stages of business information.

The other recommendations we offer are more general and not exclusive to microenterprise, but we believe these recommendations would also lend support to microenterprise development and self-employment:

- Sustain current federal TANF and state maintenance-of-effort funding levels with inflation adjustments over the block grant reauthorization period.
- Enact a wage supplement proposal, which would disregard months on assistance while recipients are employed (including self-employed) in calculating total months on the federal time clock.
- Increase child care funding to broaden availability and improve quality of care for low-income families.
- Require states to describe, in their state child care plans and in annual reporting, their efforts to enhance accessibility, affordability, and continuity of care. Make federal funding available to states for research efforts to determine barriers affecting families, and to survey child care providers to identify means of improving access, provider participation, affordability, and quality of care.
- Extend Transitional Medicaid Assistance beyond 2002 and give states the option to extend Transitional Medicaid Assistance beyond 12 months.
- Make poverty reduction an explicit goal of TANF.
- Provide incentives for states to place greater emphasis on improving employment outcomes for welfare leavers.

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Introduction

With the passage of the 1996 federal welfare reform law there was much uncertainty concerning how implementation of state Temporary Assistance for Needy Families (TANF) programs would affect efforts to provide training and support for microenterprise initiatives for low-income families. In some respects, the 1996 law offered the potential to make it easier for states to provide microenterprise training and support, because the law allowed broad state discretion in key policy areas affecting microenterprise programs. At the same time, the law's emphasis on time limits, caseload reduction, and discouragement of longer-term education and training were recognized as factors that might result in a less supportive climate for microenterprise initiatives.

The background section of this report provides relevant definitions and information about the Microenterprise Development Initiatives for Welfare-to-Work demonstration. We then outline the methodology for our site visits and policy case studies, from which the findings in this report are primarily drawn. Next, we describe findings from our work and policy suggestions from individuals interviewed during the site visits. Finally, we summarize barriers to microenterprise development and self-employment for TANF recipients in federal law and offer recommendations to address these barriers in TANF reauthorization.

BACKGROUND

Before describing this project, we offer two definitions. According to the Aspen Institute, a *microenterprise* is a sole proprietorship, partnership or family business that has fewer than five employees. It is small enough to benefit from loans of under \$25,000 and generally too small to access commercial banking services. In the majority of microenterprises, the owner is the sole operator and worker, leading many to refer to this phenomenon as self-employment. Although these two terms are often used interchangeably, self-employment refers to the status of the business owner while microenterprise refers to a very small business.¹ *Microenterprise development programs* provide a range of services to assist individuals to create or expand existing microenterprises. These services include outreach services to recruit and orient potential microentrepreneurs, training and technical assistance to help entrepreneurs to plan, market and manage their own business, and access to capital required to finance the business. Microenterprise programs that work with TANF recipients often add specific services required to meet the needs of that population.²

¹ The Aspen Institute, Economic Opportunities Program, Microenterprise Fact Sheet Series Issue I, *Microenterprise Development in the United States: An Overview*. (Washington, D.C.: The Aspen Institute, Fall 2000).

² For more information on the design of microenterprise programs for TANF recipients, see The Aspen Institute, Economic Opportunities Program, FIELD Forum Issue 3, *Designing Microenterprise Programs for Welfare Recipients*. (Washington, D.C.: The Aspen Institute, November 1999).

To learn about the experience of and lessons providing microenterprise development services and support under TANF, in 1998 the Charles Stewart Mott Foundation initiated the "Microenterprise Development Initiatives for Welfare-to-Work" demonstration. The three-year project, which involved 10 grantees in 9 states, sought to better understand the issues microenterprise programs have faced in the TANF framework. 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 Aspen Institute's Microenterprise Fund for Innovation, Effectiveness, Learning, and Dissemination (FIELD) is currently evaluating the 10 demonstration programs. The role of the Center for Law and Social Policy (CLASP) in the evaluation has been to assist the Mott Foundation and the Aspen Institute in developing a better understanding of how state policies have affected access to and participation in microenterprise training and self-employment for TANF recipients. The findings and recommendations presented in this report are drawn from CLASP's site visits to four of the demonstration programs and policy case studies of the nine states represented by the project, as well as participation in periodic meetings with the ten demonstration grantees and baseline and initial outcome data from the demonstration research. The 2002 versions of the policy case studies are available as a companion document to this report.

It is important to note that the federal policy information outlined in this document reflects current federal law at the time of publication. Information drawn from the nine policy case studies reflects state TANF policies as of April 1, 2001. During 2002, Congress is considering reauthorization of the 1996 federal welfare reform law. Changes enacted during reauthorization could impact efforts to provide microenterprise training and support for low-income families.

SITE VISITS

Sites. The four grantees selected for the site visits were:

- Detroit Entrepreneurship Institute (DEI) in Detroit, Michigan
- Worker Ownership Resource Center (WORC) in Rochester, New York
- Institute for Social and Economic Development (ISED) in Des Moines, Iowa
- Women's Initiative for Self-Employment (Women's Initiative) in San Francisco, California

Methodology. The framework for the site visits consisted of two-day visits and follow-up phone calls and e-mail exchanges, when necessary. The site visits were conducted during June through August of 2001. Four groups of individuals were interviewed as part of each site visit:

- Grantee staff: management staff, training staff, case managers, and employment specialists.
- Training participants: self-employed participants, employed participants, participants still on TANF, and participants who had left TANF.
- Local TANF/workforce agency staff: In Michigan and Iowa the local workforce agencies receive TANF funding and are responsible for developing employment/service plans for

individuals on TANF. In San Francisco County in California, the local workforce agency receives TANF funding for training services, and contracts with training providers to provide services to TANF recipients. Therefore, when appropriate, in addition to talking with local TANF agency staff, we also spoke with local workforce agency staff in order to get the workforce agency's perspective on microenterprise training and self-employment.

- State TANF/workforce agency staff: In Michigan, Iowa, and New York, TANF funding for work-related services is contracted to the state workforce agency; therefore, in addition to talking with state TANF agency administrators, we also spoke with state workforce agency administrators, when possible, in order to gather information about the workforce agency's perspective on microenterprise training and self-employment.

Policy Issue Areas. The site visits examined a number of different policy issue areas:

- Philosophy of the state/county agencies toward microenterprise training and self-employment for TANF recipients
- TANF funding
- Role of TANF/workforce agency caseworkers
- Work participation requirements
- Sanctions
- Time limits
- Treatment of income and assets
- Supportive services: child care, health insurance, and transportation

POLICY CASE STUDIES

States. The nine states represented in the demonstration project are: California, Colorado, Illinois, Iowa, Massachusetts, Michigan, Minnesota, New York, and Oregon.

Methodology. The information for the policy case studies was drawn from four primary sources: 1) The State Policy Documentation Project, CLASP's joint project with the Center on Budget and Policy Priorities, 2) state statutes, regulations, and caseworker manuals, 3) U.S. Department of Health and Human Services caseload and financial data, and 4) information provided by staff at state and county TANF agencies. CLASP prepared drafts of the policy case studies and then sent them to the state TANF agencies for comment and verification of information.³

Policy Issue Areas. The case studies examined the following issue areas:

- TANF spending to support microenterprise
- Initial participation requirements

³ All states except Massachusetts responded.

- Countable activities
- Sanctions for failing to comply with work requirements
- Time limits
- Treatment of income
- Treatment of assets
- Supportive services: child care, health insurance, and other services

The 2002 versions of the policy case studies are available as a companion document to this report.⁴

FINDINGS

The findings presented below draw largely on the four sites that were the focus of the in-depth site visits. The state-by-state policy information for all nine states in the demonstration is available in a separate document referenced above. However, in areas where it seemed useful to do so, we have included some examples of policy information for all nine states in this report.

Philosophy of State/County Agencies. One common theme among the agencies in the four states was a tension between a “work first” philosophy and microenterprise training and self-employment. According to the state agencies in Michigan and Iowa and the county agencies in California, microenterprise is an option for TANF recipients, but not necessarily a first option. In California, the state TANF agency stated that it supported self-employment activities under limited conditions. In New York, the state TANF and workforce agencies described their perspective on microenterprise training as neutral but stated that counties have discretion in determining the extent to which microenterprise training is considered an option.

In some cases, there were differences between TANF and workforce agency perspectives. For example, TANF agencies sometimes saw their mission as finding families individualized options for self-sufficiency, whereas workforce development agencies saw their mission as getting people into jobs.

Another common phenomenon was that agency administrators often had more supportive perspectives about microenterprise than caseworkers and other staff closer to the frontlines. The supportive perspective of state agency administrators did not necessarily “trickle down” to the county level or to the caseworker level. For example, state TANF agency staff in Michigan felt that even if microenterprise was not an option for everyone, it was potentially a viable option for some TANF recipients. However, when we spoke with TANF caseworkers from three local district offices in Detroit, several caseworkers felt that TANF recipients needed to get jobs rather than start businesses. Some caseworkers stated that TANF recipients’ business ideas were not realistic or viable. While state TANF agency staff in Iowa agreed that microenterprise was one of several options for work activities, some workforce agency caseworkers in Iowa felt that microenterprise was not a viable option for TANF recipients.

⁴ Available at: <http://www.fieldus.org/home/index.html>

Some grantee staff reported that caseworkers in rural areas were sometimes more receptive to microenterprise as an option for TANF recipients. This receptivity was often linked to the lack of other more immediate job opportunities in rural areas.

TANF Funding. A state may spend federal TANF funds to provide microenterprise training, development, and support services for members of needy families with children, whether or not those families are receiving cash assistance. A state may also use its maintenance of effort (MOE) funds for microenterprise training.⁵ In addition, a state could use MOE funds to design a non-welfare program offering microenterprise training to needy families.⁶

Three of the grantees visited had contracts with either a state or local TANF agency or workforce agency to provide training services:

- DEI had a performance-based reimbursement contract with the city of Detroit Michigan Works Agency, the local workforce agency, to provide microenterprise training to a minimum of 100 TANF recipients. DEI received both TANF funds and federal Welfare-to-Work funds through the city of Detroit. The organization's good working relationship with a city employment and training official has been a key factor in DEI's ability to access funding and provide training to individuals on TANF.
- ISED had a reimbursement contract with the Iowa Department of Human Services, the state TANF agency, in order to provide microenterprise training to TANF recipients across the state. Payment for services was based on program participation (attending a minimum number of classes), not necessarily program completion.
- Women's Initiative had contracts with two county agencies to receive TANF funding. The contract with the Alameda County Social Services Agency, the local TANF agency, was a fee-based contract to provide microenterprise training as a "supportive service." This was a recent change made to Women's Initiative's contract. By being designated as a support services provider, as opposed to an employment contractor, Women's Initiative no longer had to compete with the numerous job training providers eligible for reimbursement for serving TANF recipients from Alameda County. Rather, Women's Initiative provided a complementary service. For example, an individual could receive training to become a child care worker from another job training provider, and then come to Women's Initiative to obtain the entrepreneurial knowledge and skills necessary to start her own child care business.
- Women's Initiative's contract with San Francisco County was a vendor contract with the San Francisco County Private Industry Council (PIC), the local workforce agency. In providing contracts, the PIC co-mingles federal and state TANF funds and federal and state Welfare-to-Work funds so that the same contractors can serve a variety of different groups. Women's Initiative's contract provided for reimbursement at three payment points for individual referrals. A disadvantage of this contract was that Women's Initiative had to compete with multiple job training providers for TANF participants, but there was not an established process for ensuring that potential participants had information about Women's Initiative. This challenge was exacerbated by the fact that caseworkers sometimes exhibited favoritism

⁵ In order to receive its full federal TANF grant, a state must meet a maintenance of effort (MOE) obligation. A broad range of spending for needy families, in and outside the TANF cash assistance program, can count toward MOE. The MOE obligation is based on state expenditures for AFDC and a set of related programs in FY94. It is set at 80 percent of those expenditures, and is reduced by 75 percent if the state meets federal participation rates.

⁶ For a discussion of TANF and MOE spending rules, see *Developing Policies to Support Microenterprise in the TANF Structure: A Guide to the Law* by Mark Greenberg.

toward particular vendors, with whom they had established relationships.

- WORC did not have a contract to receive TANF funding for the training services that the organization provided to TANF recipients. In Monroe County in New York, where WORC's Rochester training program is located, the county TANF agency reported that it generally does not use the federal or state TANF funds to provide training contracts because other training funds such as Workforce Investment Act (WIA), Vocational Educational Services for Individuals with Disabilities (VESID), Tuition Assistance Program (TAP; New York state-funded college tuition program), and Pell grants are available.

Role of TANF/Workforce Agency Caseworkers. The role of TANF caseworkers was a key factor in determining whether a training provider received referrals. The particular worker or office with which an individual comes into contact may make a difference in how and where that individual gets referred. Participants' experiences with the welfare office often varied by caseworker. Overall, participants we spoke with felt caseworkers were not informed about microenterprise programs and rarely presented microenterprise training or self-employment as options. In general, participants and providers suggested that if individuals received access to microenterprise training, it was because they were advocates for themselves or the microenterprise training provider was an advocate for them. Most participants we spoke with indicated that they found out about microenterprise training from sources other than TANF agency caseworkers (e.g., saw a flyer at the TANF office or other community agency, word of mouth). There was a shared perspective among grantee staff and training participants that caseworkers' caseloads were too high to allow for the necessary individual attention to clients. A related concern among caseworkers and local agency administrators was that working with self-employed clients would entail a great deal of extra work.

"Work first" policies may make it difficult for TANF recipients to access microenterprise training when caseworkers are the "gatekeepers" to training opportunities. The implications of our findings speak to the importance of educating caseworkers about three key areas:

- First, that microenterprise training is an allowable work activity for individuals on TANF;
- Second, that self-employment and patching⁷ can be viable options for self-sufficiency; and
- Third, that microenterprise training providers can offer services such as tracking of hours for work participation purposes and assistance to both the participant and the caseworker in documentation of business income and assets.

Work Participation Requirements. Families receiving TANF assistance are subject to a set of federal work participation requirements, some of which could make it more difficult for a state to provide microenterprise training. However, under current law, it is generally possible for a state to provide access to microenterprise training for at least some families in its TANF cash assistance program without jeopardizing the state's ability to meet the requirements.

In order to avoid risk of federal penalties, states must meet an overall participation rate and a two-parent participation rate. Federal law provides considerable detail as to how the numerator and denominator of each rate is calculated, and specifies both the number of hours required

⁷ Patching refers to combining self-employment and wage employment

to be a countable participant and the permissible activities that can count toward participation. In some cases participation in microenterprise training can count toward participation rates only for a limited period of time. States can choose to count such training as “vocational educational training,” but vocational educational training is countable only for up to 12 months per individual. In addition, there is an overall cap of 30 percent on the share of individuals counting toward participation rates who may do so either through participation in vocational educational training or by being a teen parent engaged in school completion. For federal purposes, self-employment may be included in the definition of unsubsidized employment, which is countable toward the work participation rates with no cap on the proportion of participants or length of individual participation. States can also develop their own work requirements, and define activities that can meet the requirements.

Even when microenterprise training is not countable toward federal participation rates, a state may still be able to provide training without fear of jeopardizing compliance with federal law if the state has had substantial caseload reduction since 1995. This is because TANF allows states a downward adjustment in participation rates based on a caseload reduction credit. Generally, the TANF law establishes maximum participation rates that states must meet, and then provides that a state’s actual participation rate will be reduced if the state’s caseload has fallen since 1995 for reasons other than changes in program eligibility rules. For example, in FY 2002, states face a federal participation rate of 50 percent for all families; however, if a state’s caseload had fallen by 50 percent or more between 1995 and 2001, the state’s adjusted participation rate would be zero.

The site visits were conducted during summer 2001, at which time all four states visited had adjusted federal work participation rates at or close to zero. However, in both Michigan and New York, local agencies still felt pressure to meet higher rates. In all four states, agency staff at the local level still felt pressure to get TANF recipients into work activities.

While the definitions of vocational educational training differed somewhat in the four states visited, microenterprise training could be considered a countable work activity in all four states when it was defined as vocational educational training. In New York, counties also had the flexibility to consider microenterprise training a countable work activity when it was defined as community service. For some of the sites visited, the greatest challenge around participation rate requirements was not getting microenterprise training to be a countable activity, but meeting the hourly requirement for countable hours. Under federal law, the hourly requirement for the overall participation rate calculation is 20 hours per week for single parents with children under age 6 and 30 hours per week for all other families. However, some states have set higher hourly requirements. The requirement in Iowa, Michigan, and New York is 30 hours per week. In California, the requirement can be either 32 or 35 hours per week.

The way in which microenterprise training was countable varied across the four sites visited:

- In Michigan, DEI restructured its training program in order to meet the 30-hour-per week requirement, and DEI staff felt that this had been a positive change.
- In Iowa, ISED’s curriculum also allowed participants to meet the state’s hourly work participation requirement and counted as vocational educational training.
- Conversely, in New York, while WORC’s microenterprise training program was technically countable as a work activity, the fact that the curriculum did not include enough supervised

hours to meet the 30-hour-per-week requirement generally prevented TANF recipients from documenting their participation as a primary work activity.

- In California, for participants from Alameda County, hours in the Women's Initiative training program were counted as vocational educational training. For no TANF participants from San Francisco County did participation in Women's Initiative's training count toward their hourly work participation requirements; all were pursuing other primary work activities to meet the requirement (e.g., unsubsidized employment, other vocational educational training). In order for hours spent in Women's Initiative training to count in San Francisco County, there had to have been a direct referral of the participant from an employment specialist at San Francisco County Department of Human Services (DHS) to Women's Initiative for training. At the time of the site visit, Women's Initiative had yet to receive any referrals of TANF participants from DHS.

Self-employment is considered a countable work activity as unsubsidized employment in all four states:

- In California, to determine the self-employment hours in a month that can be counted, the participant's monthly earnings (gross income from self-employment minus business expenses) are divided by the state minimum wage or the participant's wage (in cases when the self-employed recipient receives a wage), whichever is higher. Any hours of the 32/35 hours per week required that are not met through self-employment must be fulfilled through other allowable activities.
- Similarly, in Michigan, self-employment counts as unsubsidized employment as long as the participant meets or exceeds the required 30 hours per week of work. For an hour of self-employment to count toward the hourly requirement, net business sales have to meet or exceed the minimum wage.
- In Iowa, there is no minimum wage required for self-employment to count as unsubsidized employment. Rather, the requirement is that participants must be working toward the goals outlined in their TANF service plans.
- In New York, according to the state TANF and workforce agencies, whether self-employment may be counted as a work activity could be measured with income; however, counties have discretion in determining this. In Monroe County, where WORC's Rochester training program is located, the county agency's policy states "The Department will consider business plans, current income, potential for increased net income, and other factors identified in the individual's assessment when determining if self-employment will be deemed to meet the definition of unsubsidized employment. In some instances self-employment will generate a net income at a rate less than the federal minimum wage."

There were two common themes of note across the four sites we visited. First, agency staff, grantee staff, and participants alike emphasized the importance of documentation of hours of participation in work activities. Second, the majority of individuals we spoke with agreed on the value of having designated liaison(s) and caseworkers at TANF/workforce agencies who are knowledgeable about the state or county work participation rules relevant to microenterprise training and self-employment. Having designated liaisons and specialized caseworkers seemed to make the referral, training, and business startup phases all proceed more smoothly. Likewise, there was agreement on the importance of ensuring that grantee staff and training participants

have a good understanding of the state or county rules with regard to work participation requirements.

Two states had supportive policies in the area of work participation requirements.

- **DEI:** A waiver of Michigan state policy allowed DEI participants to attend training without having to pursue additional employment. Currently, in Michigan, TANF recipients are required to pursue work activities for a minimum of 30 hours per week. For participants enrolled in training at DEI, attending training and pursuing business development activities for 30 hours per week fulfilled the requirement. However, TANF recipients in Michigan enrolled in other types of training that does not amount to 30 hours per week are required to make up the difference in hours through pursuit of other work activities. For example, an individual enrolled in a job training program for 20 hours per week would be required to fulfill the remaining 10 hours through other activities such as part-time work or job search.
- **Women's Initiative:** For participants from Alameda County, a staff person at Women's Initiative documented each individual's work participation hours while she was enrolled in training. A designated employment specialist at the Alameda County Social Services Agency received documentation of hours from Women's Initiative while participants were in training, which helped to ensure a smoother administrative process and decreased the likelihood that participants would run into barriers in meeting their required hours.

In all four states, state work participation requirement policies presented barriers to individuals engaged in self-employment, specifically during the business start-up phase. While self-employment was clearly countable toward work participation rates in all four states, questions arose about how to determine the number of countable hours for individuals engaged in self-employment, particularly if revenue generated from the business was limited.

- As described above, in Michigan and California, a minimum income is required for self-employment to count as a work activity. Participants were often required to do "job search" or community service to make up hours if they were not meeting the minimum income requirement. In Michigan, participants had only 90 days after training completion to show sufficient minimum income before they were required to pursue alternate work activities.
- In Iowa, if participants were not self-sufficient after a period of time, they were encouraged to find wage employment. However, the length of this period of time was unclear and appeared to be at the discretion of caseworkers.
- In New York, it was unclear how participants should document their hours in self-employment. According to Monroe County staff, clients have three months to get their businesses up and running and must be working on their businesses full time, with no particular income requirement.

Sanctions. In all four states, individuals could be sanctioned (i.e., have grants reduced or terminated) for failure to comply with work requirements. In California and New York, the sanctions could result in grant reduction. In Iowa and Michigan, sanctions could result in loss of the entire grant.

However, we heard very few examples of TANF participants in microenterprise training or self-employment who had their welfare benefits stopped or reduced for non-compliance with rules. There were many more examples of TANF participants who were required to pursue other work

activities (e.g. job search, community service, wage employment) in order to maintain eligibility for benefits.

Time Limits. Generally, states are prohibited from using federal TANF funds to provide assistance to a family with an adult who has received federal TANF assistance for 60 months (5 years); states can provide exceptions for up to 20 percent of cases. However, these time limits only apply to the use of federal funds. Since each state's TANF cash assistance program is funded with a combination of federal and state funds, a state has discretion to decide whether the "time clock" runs for families receiving assistance while participating in microenterprise training or while self-employed. If a state segregates state funds from federal funds, then any month in which the state provides assistance to a family with segregated funds does not count against the federal TANF time limit.

The time limit policies in the four states visited are not representative of the full range of policies across the nation. Nationally, 20 states terminate or reduce assistance after a family reaches a time limit shorter than the federal five-year time limit. Most of the remainder of states impose a five-year time limit on assistance. However, among the four states visited, Michigan does not have a time limit but rather will use state funds to continue providing assistance to families who reach the federal five-year time limit. In California, the time limit applies only to adults. The state will continue to provide assistance to children in families who reach time limits. Under its state constitution, New York is required to provide assistance to needy families; therefore, the state has a state-funded Safety Net assistance program into which families can move after reaching the federal five-year time limit. Iowa has a five-year time limit, and there has been increased emphasis on time limits in recent months, which may affect TANF recipients' decisions to pursue microenterprise training and caseworkers' decisions to recommend training. However, the site visits occurred before families began reaching the federal five-year limit, and so we did not hear any examples of microenterprise participants who had reached time limits.

Even in states without a strong emphasis on time limits, there is still an awareness that "the clock is ticking" and that participation in longer-term activities may not be in TANF recipients' interest because they are using up time. Once individuals enter self-employment, they must make judgments about whether to use up time on the clock by accepting a partial income supplement if their earnings are so low that they still qualify for some amount of cash assistance.

Treatment of Income & Assets. A family's eligibility for cash assistance and the amount a family receives depend, in part, on the family's income. Once an individual begins operating a business and generating revenue, state rules for treatment of income will affect the family's continuing eligibility for cash assistance. Under TANF, states have discretion to define income, to determine what deductions from income are allowed or required, and to establish the amount of earned income that will be disregarded in determining eligibility and benefit amount.

A family's eligibility for cash assistance will also depend on its assets, and operating a business will likely mean the accumulation of business-related assets. Under TANF, states may set an asset test of any amount, or may choose not to impose a limit on resources. States also determine which assets are countable toward the limit and whether some types of assets are not counted toward the limit.

Rules governing definitions of and restrictions on income and assets allowed among self-employed TANF recipients varied in the four states visited. However, in all four states, there were specific rules for determination of earnings from self-employment and treatment of business assets. In addition, in Iowa, participants in Entrepreneurial Training, such as that offered by ISED, were eligible for waivers that allowed them to be subject to even more generous self-employment income and assets policies. The income and assets policies for all nine states in the demonstration are summarized in the tables that follow.

Income Policies			
State	How Are Earnings from Self-Employment Calculated?	Earnings Disregard	Monthly Earnings Limit for TANF Eligibility (Single Parent with 2 Children & No Income Other Than Earnings)
California	Gross income minus either 40% or actual self-employment expenses (participant's choice); business loans not counted as income	\$225 + 50% of remaining earnings	Region 1: \$1,582 Region 2: \$1,518
Colorado	Gross income minus the cost of doing business Gross income test does not apply during first 12 cumulative months. Loans are not counted as income.	2/3 of gross income for 12 cumulative months; thereafter, \$90 work expense disregard + \$30 (limited to 12 months) + 1/3 of remaining earnings (limited to 4 consecutive months) Applicants get only the \$90 work expense disregard.	\$752 (Since the earnings disregards are time limited, the amount a parent can earn and still be eligible for TANF decreases over time).
Illinois	Gross income minus verified business expenses	2/3 of monthly earned income Applicants get only a \$90 work expense disregard.	In Group I counties: \$1,131

Iowa	<p>Gross income minus cost of doing business; payment on interest portion of a loan payment</p> <p>Participants in Entrepreneurial Training may be granted waivers of income and asset standards for 12 consecutive months to allow for business start-up or expansion. During the waiver period, the income test does not apply to the first \$15,000 in net profit from the business. Additional income deductions include a business expense deduction of up to \$5,000 on capital assets and durable goods, a business expense deduction of up to \$5,000 for payment of both principal and interest on a business loan, or a combined allowable deduction of up to \$7,500. Finally, participants in entrepreneurial training are allowed a deduction of up to \$3,000 for funds deposited into a cash reserve fund used exclusively for business expenses.</p>	20% work expense disregard + 50% of remaining earnings	\$1,065
Massachusetts	<p>Gross income minus business expenses</p> <p>Loans are not counted as income so long as the funds cannot be used to meet current living costs.</p>	<p>For families subject to time limit: \$120 + 50% of remaining earnings</p> <p>For families not subject to time limit: \$120 + 1/3 of remaining earnings</p> <p>Applicants get only a \$90 work expense disregard.</p>	\$1,045

Michigan	<p>Total proceeds minus allowable expenses</p> <p>Allowable expenses include labor, stock, and raw material; interest and principal on loans for equipment, real estate, or income-producing property; insurance premiums on loans; transportation costs other than routine travel to and from work; and purchase of capital equipment.</p> <p>A bona fide loan is not counted as income.</p>	\$200 + 20% of remaining earnings	\$774
Minnesota	<p>Gross income minus reported expenses</p>	<p>38% of monthly earnings</p> <p>Applicants who have not received assistance in the past 4 months receive an 18% disregard</p>	\$1,421
New York	<p>Net income minus expenses necessary for producing goods and services</p> <p>Business loans are not counted as income.</p>	<p>\$90 work expense disregard + 49% of remaining earnings</p> <p>Applicants who have not received assistance within the past 4 months get only the \$90 disregard.</p>	\$1,219
Oregon	Gross sales or receipts	50% of monthly earnings	\$616

Asset Policies

State	Asset Limit	Vehicle Exemption	Disregarded Assets
California	\$2,000; \$3,000 if the family has a member over age 60	\$4,650	Property essential to employment or self-employment; up to \$5,000 in restricted account that can be used for business capitalization, education & training, & home purchase; business loans
Colorado	\$2,000	Full value of 1 car	Personal property needed for self-employment, such as sales stock, inventory, or tools; business bank account; loans; IDAs
Illinois	\$2,000 for 1 person; \$3,000 for 2 persons; limit increases by \$50 for each additional person	Full value of 1 car	IDAs
Iowa—Regular policy	\$5,000; \$2,000 for applicants	Equity value up to \$3,959 for each car used by adult or working teenage child (The disregarded equity value is upgraded annually based on the latest increase in the Consumer Price Index for used cars.)	Up to \$10,000 in equity value for tools of the trade; non-homestead property that is producing income consistent with its fair market value; IDAs
<i>Iowa— Waiver policy for Entrepreneurial Training participants</i>		Equity value of vehicle used over 50% of the time for producing income in the business	Income-producing property used in the business, including capital assets, equipment, durable goods & other tools of the trade; equity value of non-homestead real property used for the business; \$5,000 in a business bank account used exclusively for the business; \$3,000 in a cash reserve fund used exclusively for the business (allowed in addition to bank account)

Massachusetts	\$2,500	\$5,000	Property essential to self-employment
Michigan	\$3,000	Cars not considered countable assets	Bank account used solely for the expenses of a business; a bona fide loan; IDAs
Minnesota	\$5,000; \$2,000 for applicantsLoan	value of a car up to \$7,500	Personal property needed for self-employment, such as sales stock, inventory, or tools; IDAs
New York	\$2,000; \$3,000 if the family has a member of age 60	\$4,650; exemption must be increased to \$9,300 or higher as determined by county on case by case basis if vehicle needed to seek or retain employment	Personal property necessary for business purposes, including vehicles in the name of the business; business loans
Oregon	\$2,500; \$10,000 if participating in work activities	Equity value of 1 car up to \$10,000	IDAs

In some cases, TANF caseworkers were aware that income and asset rules may differ for self-employed recipients, but saw so few self-employed clients that they were unfamiliar with the rules. In addition, grantee staff frequently mentioned that caseworkers had difficulty applying the rules because of their lack of familiarity with business operations and terminology. There is a need to educate caseworkers about definitions of business income and assets. In cases where there were specialized caseworkers assigned to microenterprise participants, alternate income and assets policies for self-employed individuals were more likely to be understood and implemented correctly.

Both ISED and DEI had supportive policies with regard to treatment of income and assets:

- ISED: A waiver of state policy allowed ISED participants to be subject to alternative income and asset rules for a 12-month period during business start-up or expansion. The participant, with assistance from ISED, could determine when to implement the waiver. The waiver did not necessarily have to be implemented immediately upon training completion, but rather could be implemented once a business had begun to stabilize (e.g., three to four months after training completion). This policy allowed the waiver to be utilized during the time period that was most beneficial to the individual. The income and asset waiver policies are outlined in the tables above.
- ISED: In addition to the alternate income and asset rules, at ISED’s Waterloo location participants were assigned to a “specialized” caseworker who was familiar with business income and assets, which made the correct implementation of the relevant policies much easier.

- DEI: Similarly, DEI participants were assigned to designated caseworkers who were familiar with distinct rules that apply to individuals engaged in microenterprise training and self-employment. There are 29 district welfare agency offices in Detroit, and 3 of those sites were designated to serve DEI clients. When a TANF recipient became a client of DEI, that individual's case was supposed to be transferred to a caseworker at one of the three designated offices.

Child Care. States receive federal funds for child care assistance to low-income families through the Child Care and Development Fund (CCDF). A state must spend a specified amount of state funds on child care in order to receive the full amount of federal CCDF funds available. A state may also spend TANF funds for child care either by transferring TANF funds to CCDF or by directly spending TANF funds. States have broad discretion in deciding how to spend child care funding, and can decide whether and to what extent to provide child care assistance to TANF participants engaged in microenterprise training or self-employment. A state might choose to provide child care assistance for some work activities and not others. States may also operate transitional child care programs for families leaving TANF cash assistance for employment (or other reasons), but they have no obligation to do so. Families leaving TANF due to income from self-employment may qualify for subsidized child care through these programs even if they no longer qualify for TANF-related child care assistance.

Nationally, and in each of the four states we visited, there has been a significant expansion in the provision of child care assistance in recent years. At the same time, national data indicate that even with this expansion, only a minority of eligible low-income families receive child care assistance. We found that in each of the four states, child care subsidy assistance was generally available for participants in microenterprise training, as long as the training was counting toward the individual's work requirements for TANF purposes. In each of the sites, state and county policies were not intended to treat individuals in microenterprise training differently than individuals in other types of training. However, in Iowa, grantee staff reported some incidents of participants not receiving child care assistance while in microenterprise training because they were told it was not the right kind of training or because the individual had previously received child care assistance while enrolled in other educational training, such as a community college program.

State and county policies did not distinguish between self-employed individuals and other employed individuals for purposes of determining eligibility for child care assistance. However, a challenge when dealing with self-employed individuals was determining the hours for which child care should be allowed. For example, when an individual does not have regularly scheduled hours of wage employment, how should the agency determine the number of hours of child care assistance to be approved? In addition, when self-employed individuals were working on a non-traditional schedule (e.g., nights or weekends or varying hours), they faced the child care problems common to individuals with non-traditional schedules: care may be unavailable, more expensive, or of uncertain quality.

Health Insurance. Federal law mandates that individuals who meet the income and resource standards that were in place on July 16, 1996, for determining Aid to Families with Dependent Children (AFDC, the program that preceded TANF) eligibility, and who meet the definition of "dependent child" or are related to and live with a dependent child, are automatically eligible for Medicaid. This provision, Section 1931, was intended to ensure that families who would have been eligible under AFDC rules continue to qualify for Medicaid regardless of TANF eligibility changes. States can broaden Section 1931 Medicaid eligibility by using less restrictive income and asset rules than

those in place in July 1996. Federal law also requires states to provide Medicaid coverage to pregnant women and children under age six with incomes below 133 percent of poverty, and children under 18 with incomes below 100 percent of poverty. States are also required to provide Transitional Medicaid Assistance for up to 12 months for families who cease to be eligible for Medicaid under Section 1931 due to increased earnings from employment. In addition, through the State Children's Health Insurance Program (SCHIP), states can broaden their Medicaid programs or create separate state programs (or both) to provide health insurance to children under age 19 in families below 200 percent of poverty, as well as at higher income levels.

Access to Medicaid for both adults and children while still receiving TANF assistance did not appear to be a problem in any of the four sites visited. However, access to Medicaid for adults in particular after leaving TANF was less certain. In addition to Transitional Medicaid Assistance, many children in families up to 200 percent of poverty and beyond have access to Medicaid or State Children's Health Insurance Programs, whereas most adults in these families do not. Therefore, access to health insurance for self-employed individuals after transitional Medicaid benefits end is a major concern. More generally, participants we spoke with were concerned about maintaining health coverage both for themselves and for their children.

Transportation. States have the option of using TANF funds to provide transportation assistance to individuals moving from welfare to work. Access to transportation assistance (e.g. bus tickets, reimbursement or advance payment for mileage) tended to be available to TANF recipients enrolled in microenterprise training in each of the four states visited. However, access to transportation assistance for individuals during business start-up and while self-employed was less common.

POLICY SUGGESTIONS FROM SITE VISITS

Each group of individuals interviewed during the site visits was asked to make recommendations, based on their experiences with TANF and microenterprise, for policy changes that they would most like to see during welfare reauthorization. Some of the recommendations applied to federal policy, but many referred to state and local policy improvements. Other suggestions applied more to changes at the welfare office or caseworker level. Because there were such a large number of suggestions related to caseworkers' roles and participants' interactions with caseworkers, we have included them here, even though they may not be specific to microenterprise. It should be noted that while there were several common suggestions among each of the interviewed groups (grantee staff, training participants, local agency staff, and state agency staff) across the four sites, not all members of each group agreed to each of the recommendations summarized below.

Suggestions from Grantee Staff:

- Caseworkers should have better contact with clients; caseworkers should deal with clients as people.
- Caseworkers need better knowledge of the rules and should do a better job of educating clients about rules.

- Caseworkers' caseloads should be decreased.
- There should be better communication within welfare agencies.
- There should be more consistent operating procedures across regions, counties, and workers.
- Publicly funded health care should be more available; eligibility should not be so sensitive to income.
- People should be rewarded, not penalized, for leveraging assets (e.g. when participants put income back into a business, rather than drawing it as personal income, they should not be deemed ineligible for cash assistance, if as a result they then fail to meet minimum income requirements necessary to be considered engaged in unsubsidized employment).
- There should be more emphasis on education.
- Individuals should be allowed more time to get their businesses going.

Suggestions from Training Participants:

- Caseworkers need to be more knowledgeable about the issues clients face.
- There should be more uniformity among caseworkers; people should be treated more fairly.
- Policymakers and caseworkers need to see whom they are affecting; agencies should hire people who have "walked in the shoes of welfare recipients."
- Caseworkers' caseloads should be reduced.
- There should be more focus on education; people should have a chance to go to school.
- People should be given time to stabilize their businesses.
- People who are really trying should be given more leeway (e.g., people should not be cut off welfare or required to go to job search if they are following the rules and putting in hours, but perhaps not meeting minimum income requirements).
- The welfare agency should try to figure out the problem, before just cutting people off.
- People on welfare should not all be lumped into the same group; not everyone has the same barriers (e.g., not everyone needs job readiness training or job club).
- People should not have to "work the system" to get what they need.

Suggestions from Local TANF/Workforce Agency Staff:

- There should be better screening of who ends up in microenterprise programs.
- Microenterprise training providers should do more to publicize business success stories.

- Guidelines should be streamlined so that eligibility rules for TANF, Food Stamps, and other programs are simplified and similar.
- There should be more uniformity; there are too many exceptions to rules.
- Child care should be more available to people who are working.
- There needs to be more reliable documentation of participants' income (e.g., require use of income tax statements rather than receipts).
- Barriers to post-employment services should be removed.
- There should be better screening for disabilities and other health issues.
- The welfare agency should have more control over caseworker referrals.
- There should be more support for higher education.
- Stick to the five-year time limit (i.e., do not allow extensions).
- Get rid of time limits all together.
- Reporting requirements for federal programs should be more consistent.

Suggestions from State TANF/Workforce Agency Staff:

- Better screening of an individual's capacity for self-employment and business viability is needed before he/she is allowed to pursue microenterprise training and self-employment as a work activity.
- States should be able to count more activities as work.
- TANF and Food Stamps rules should be made more consistent.
- When microenterprise training provides people with skills that allow them to work successfully at someone else's business, this should also be viewed as a success.
- In determining whether to devote funds to self-employment activities, counties should consider whether doing so is efficient, given the limited number of recipients with interest or capabilities to start a business.
- Rather than immediately supporting a recipient to become self-employed, it should be considered whether or not TANF funds would be used more effectively by assisting the recipient to find work or internships in similar businesses, so that the recipient gains practical work skills.

BARRIERS IN FEDERAL LAW AND RECOMMENDATIONS FOR TANF REAUTHORIZATION

During our site visits and discussions, it became clear that, under current law, the most significant barriers to participation in microenterprise training or self-employment did not flow directly from specific federal requirements. While work participation rate provisions and time limit requirements presented potential impediments, those states or communities wanting to provide support for microenterprise training and self-employment had found ways to do so consistent with the requirements of federal law, at least in the context of the low effective participation rates of recent years. Rather, the most significant barriers identified often fell into one of two categories:

- Local administration and management issues, such as high worker caseloads, limited awareness on the part of caseworkers, and need for additional caseworker training.
- A “work first” philosophy, which discouraged participation in any activity that potentially delayed employment entry, and which sometimes resulted in policies or practices that prevented individuals from participating in training or from taking the time needed to effectively establish a business after training completion.

In TANF, the issues of local administration and management are essentially left to each state. The “work first” philosophy is implicitly encouraged by many features of the TANF structure, but is not contained in any single provision of or expressly required by federal law.

While federal law does not present insurmountable barriers, federal requirements sometimes make local efforts more difficult, and the federal TANF law is not affirmatively supportive of microenterprise efforts. Thus, there are a number of ways in which the law could be changed during reauthorization to encourage, or at least not discourage, states from providing support to microenterprise initiatives. In the following discussion we summarize the federal issues in a set of areas, describing current law, issues presented, and reauthorization recommendations. The areas we discuss are TANF funding, work participation requirements, time limits, treatment of income and assets, child care, and health insurance. Where appropriate, we reference proposed federal legislation that had been introduced at the time of publication that would accomplish the policy changes we recommend.

TANF Funding. While overall TANF funding issues were not a focus in our site visits, it is important to acknowledge that overall funding is expected to be a major issue in reauthorization, and the resolution of this issue could have a major effect on the context and climate for microenterprise efforts. Since 1997, federal TANF funding for basic block grants has remained frozen at about \$16.5 billion annually. State maintenance-of-effort funding has been frozen at between \$10-11 billion annually. If federal TANF block grant funding remains at the current level, by 2007 its inflation adjusted value will be 22 percent lower than in 1997.⁸ If TANF funding is not increased, the budgetary pressures states will face will force decisions about which programs and activities should be cut. Similarly, the ability to advocate for increased investment in families or for participation in activities that take longer periods of time will become significantly more difficult. Consequently, the efforts to sustain and increase TANF funding will be directly relevant to maintaining microenterprise training and supports as a viable option for parents moving from welfare to work.

⁸ Parrott, Sharon, Wendell Primus, and Shawn Fremstad. March 2002. *Administration's TANF Proposals Would Limit—Not Increase—State Flexibility*. Washington, DC: Center on Budget and Policy Priorities.

- **Recommendation: Sustain current federal TANF and state maintenance-of-effort funding levels with inflation adjustments over the block grant reauthorization period.** A TANF reauthorization bill introduced by Representative Ben Cardin (H.R. 3625) proposes to do so.

Work Participation Requirements. Under current federal law, states risk penalties for failure to meet federal work participation rates. Individuals must participate in one or more of a listed set of activities, for a specified number of hours, in order to count toward the rates. Microenterprise training is not a listed activity, but states can count microenterprise training toward participation rates as vocational educational training. In the sites visited, the ability to count microenterprise training as vocational educational training was understood and utilized. Under current law, vocational educational training is only countable to a limited extent. However, none of the visited states were currently constrained by the law's caps on numbers counting toward participation rates through involvement in vocational educational training, in part because each state had an adjusted participation rate at or near zero.

Under current law, engagement in unsubsidized employment also counts as participation. In each of the sites visited, self-employment was recognized as a countable activity as unsubsidized employment for participation purposes.

Despite the fact that microenterprise training was countable, the strong "work first" philosophy sometimes meant that participation was difficult or not supported. During our site visits, we heard of instances in which TANF recipients interested in self-employment were not allowed to pursue microenterprise training as a countable work activity until they had failed at job search. In other cases, TANF recipients were only able to pursue microenterprise training because they were simultaneously participating in other countable work activities, such as unsubsidized wage employment or community service.

State policies that limited the ability of self-employment to count as a work activity were also a barrier for individuals during the business start-up phase in some states. Some states required a minimum level of income be drawn from a 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, in order to meet work requirements.

- **Recommendation: Clarify that engagement in microenterprise training and self-employment are countable toward federal work participation rates.**

One way to clarify countability would be to add language to the listing of vocational educational training expressly noting that it includes microenterprise training and to add language to the listing of unsubsidized employment expressly noting that it includes self-employment. As an alternative, Congress could also create a new category of countable activity that would include participation in microenterprise training, development, and self-employment. Such a category could be termed "self-employment preparation."

Additionally, Congress should broaden the ability of states to count participation in vocational educational training by removing the current 30 percent cap on the number of adults participating in work activities who can be engaged in vocational educational training and by removing the 12-month limit on vocational educational training. The bill introduced by Representative Cardin and bills introduced by Representative Patsy Mink (H.R. 3113), Senator Jay Rockefeller

(S. 2052), and Representative Marge Roukema (H.R. 4903) each propose to broaden states' abilities to count participation in vocational educational training.

In states with strong up-front job search requirements, individuals may never have the opportunity to participate in training if they must search for some minimum number of jobs first. Making clear that exploration of self-employment could constitute job search might address this problem. In some instances, caseworkers were clearly hesitant to approve microenterprise training because of uncertainties about an individual's capacities or the viability of a business concept. Expressly allowing an exploration period to count toward participation might be a way of better identifying appropriate candidates for microenterprise training without forcing the local agency to make a longer-term commitment at a preliminary stage in the process.

- **Recommendation: Specify that time spent in active exploration of the potential for self-employment can count as "job search."**

The text box below provides a description and analysis of the work participation requirements of the Bush Administration's TANF reauthorization proposal. As initially proposed, the proposal would generally make it more difficult to provide support for microenterprise development and self-employment for TANF recipients.⁹

⁹ The Bush Administration's proposal is contained in a document entitled *Working Toward Independence*, released in February 2002. Available at: <http://www.whitehouse.gov/>

Bush Administration's Proposed Approach to Work Participation Requirements Would Make It More Difficult to Support and Encourage Microenterprise Efforts

The Bush Administration's TANF reauthorization proposal would:

- Increase participation rates from 50% to 70% by 2007;
- Phase out TANF's caseload reduction credit, instead allowing families who leave assistance due to employment to count toward participation rates for three months;
- Provide that in order to fully count toward participation rates, an individual must be engaged in a countable activity for at least 40 hours per week;
- Provide that in order to count toward participation rates, an individual must be engaged in a "direct work" activity for at least 24 hours per week. For adults, the activities that would count as direct work would be unsubsidized or subsidized employment, supervised work experience or community service, or on-the-job training. For up to 3 consecutive months in a 24-month period, states could substitute other activities for the listed ones in meeting the 24 hour requirement.
- Provide no additional funding for either TANF or the Child Care and Development Fund

This proposal has been controversial, in part because it has been viewed by many as highly prescriptive, significantly different from current state program designs, not consistent with research findings about effective programs, and potentially very costly to implement.* Apart from these general concerns, the specific concerns for microenterprise development efforts are:

- **After no more than 3 months, individuals would need to be in a work activity for at least 24 hours per week in order to participate or continue participating in a microenterprise development program.** Engagement in self-employment could count as "direct work," but participation in a microenterprise development program generally would not. A state could count participation in such a program as a substitute for direct work for up to 3 months in 24 months. However, for individuals who were unable to start their own businesses within 3 months and unable to find unsubsidized jobs, states would often need to structure 24 hours per week of unpaid work experience programs. This would likely be a significant diversion from efforts to develop the participant's business.
- **In many instances, states would not be able to provide even 3 months of full-time microenterprise development activities.** There would be intense "competition" for determining how to use the 3-month period in which other activities could substitute for direct work. For example, if a state wanted to begin with 6 weeks of job search, the state could then allow only 6 weeks of full-time microenterprise development before needing to engage the individual in 24 hours of direct work activities.
- **With frozen funding, states would likely need to find the cheapest ways to satisfy the federal participation rates.** This would make it more difficult to fund and support microenterprise development programs.

*See Greenberg, Mark, Elise Richer, Jennifer Mezey, Steve Savner, and Rachel Schumacher. *At What Price? A Cost Analysis of the Administration's Temporary Assistance for Needy Families (TANF) Work Participation Proposal*. (Washington, D.C.: Center for Law and Social Policy, April 2002). For state responses to a survey seeking information about the potential costs and implications of implementing the Administration's plan, see *Welfare Reform Reauthorization: State Impact of Proposed Changes in Work Requirements*. April 2002 Survey Results. (Washington, D.C.: National Governors Associations and American Public Human Services Association, April 2002).

Time Limits. In the TANF structure, states are not required to impose time limits on assistance but face a restriction on the use of federal TANF funds. A state may not use federal TANF funds to provide assistance to a family that includes an adult who has received federal TANF assistance for sixty months. States may allow exemptions for up to 20 percent of their caseloads, and the federal restrictions do not apply to use of state funds. While a time limit on assistance poses potential concerns for many families, it presents a distinctive difficulty for parents interested in pursuing self-employment (and/or other wage employment). If the state provides ongoing wage supplements during the initial period of business establishment, each month of such supplement counts against the time limit.

As noted earlier, states wishing to develop alternative approaches to time limits have considerable opportunity to do so. Michigan has elected to not impose a time limit at all, and both California and New York will continue assistance for some or all family members after the family reaches the time limit. In addition, other states have elected to use state funds to provide assistance for working families, so that assistance for such families is not subject to the federal time limit. It remains unclear, however, whether these strategies will eventually become more difficult to pursue, insofar as the federal time limit is a lifetime limit, and the numbers of families reaching the federal limit will gradually grow over time.

- **Recommendation: Enact a wage supplement proposal, which would disregard months on assistance while recipients are employed (including self-employed) in calculating total months on the federal time clock.** The Cardin, Mink, and Rockefeller bills all include provisions that would allow for such wage supplement policies.

Treatment of Income & Assets. In the TANF structure, rules governing treatment of income and assets are left to each state's discretion. Accordingly, a state can develop uncomplicated rules governing treatment of self-employment income and resources if it wishes to do so. At the same time, there is no federal requirement that the state provide favorable rules. It would be inconsistent with the overall philosophy of state flexibility in TANF to mandate specific TANF income and asset rules for self-employment, particularly since states have essentially unrestricted discretion in setting their basic rules relating to employment income. However, it would surely be useful to have better information about state approaches, and states attempting to develop more supportive policies might welcome guidance drawn from the experience of other states.

- **Recommendation: Require all states to describe in their state plans the rules that will apply in the treatment of income and assets for individuals engaged in self-employment, including a description of the state's approach to providing support for individuals in the initial stages of business formation.**

Child Care. We found that participants in microenterprise programs in our site visits were generally being informed about the availability of child care assistance, and that the child care problems they faced were often not specific to microenterprise participants. For example, problems included time lags in payments to providers, complexity in administrative systems, difficulties in getting providers approved, and lack of available care for nights and weekends. In the reauthorization of the Child Care and Development Fund, there will be significant efforts to increase federal child care funding, and such efforts could benefit microenterprise participants along with other low-income families. There has also been increased attention to the problems of administrative complexity in state child care subsidy programs; many of these problems are not caused by federal law, but a stronger federal role in "signaling" and technical assistance could help improve state performance.

- **Recommendation: Increase child care funding to broaden availability and improve quality of care for low-income families.** The Cardin bill and a bill introduced by Senator Jeff Bingaman and Senator John Kerry (S. 2070) both propose an increase of \$11.25 billion over the next five years; a number of advocacy groups are seeking funding at or above this level. A bill introduced by Representative George Miller (H.R. 3524) proposes an increase of \$46.5 billion over the next five years.
- **Recommendation: Require states to describe, in their state child care plans and in annual reporting, their efforts to enhance accessibility, affordability, and continuity of care. Make federal funding available to states for research efforts to determine barriers affecting families, and to survey child care providers to identify means of improving access, provider participation, affordability, and quality of care.**¹⁰

Health Insurance. In our site visits, we generally found that Medicaid access was not a problem for families while they were receiving TANF assistance, but that the loss of Medicaid for adults leaving assistance or losing transitional benefits was a significant problem, particularly in light of the fact that self-employed individuals often have no other source of access to health care coverage. To some extent, this raises a broader issue: how to address health care coverage for low-income self-employed individuals. At this point, it is unclear whether there will be broader consideration of low-income health care issues in connection with TANF reauthorization. However, Congress must reauthorize Transitional Medicaid Assistance if it is to continue to be available beyond 2002. Currently, Transitional Medicaid Assistance is available to adults for only up to 12 months after families cease to be eligible for “Section 1931” Medicaid due to earnings from employment.

- **Recommendation: Extend Transitional Medicaid Assistance beyond 2002 and give states the option to extend Transitional Medicaid Assistance beyond 12 months.**

Addressing the Work First Philosophy. We ultimately concluded that the overall “work first” philosophy probably had a larger effect than any specific provision in affecting access to microenterprise training and support and in determining support for the initial stages of business development. This philosophy generally requires individuals to search for and obtain any job, regardless of job quality or potential for self-sufficiency, and discourages pre-employment training or skills development that could lead to higher earnings. There is no single TANF provision that could be amended in order to moderate the philosophy. However, policy changes could emphasize that the nation’s focus should be on improving employment outcomes and helping families get better jobs.

- **Recommendation:** Make poverty reduction an explicit goal of TANF. The bills introduced by Representative Ben Cardin and Representative Patsy Mink would both do so. These proposals, if enacted, would have a “signaling effect,” that is, they would communicate to states and localities how they should be viewing their goals and priorities as they implement the legislation.
- **Recommendation:** Provide incentives for states to place greater emphasis on improving employment outcomes for welfare leavers.

One way to strengthen the emphasis of TANF on the quality of job outcomes would be to give states credit toward their participation rates when they move TANF recipients into employment. The Cardin and Rockefeller bills both propose to replace the current caseload reduction credit

¹⁰ For more detail, see Mezey, Jennifer, Rachel Schumacher, Mark Greenberg, Joan Lombardi, and John Hutchins. March 2002. *Unfinished Agenda: Child Care for Low-Income Families Since 1996*. Washington, DC: Center for Law and Social Policy.

with an employment credit. Both proposals would give states more credit for those welfare leavers employed with higher earnings.

Another way to increase emphasis on outcomes would be to establish a fund to promote research, evaluation, and demonstration projects targeted on strengthening the employment outcomes for families leaving welfare for work. The Cardin bill proposes an Employment Advancement Fund and the Rockefeller bill proposes an Innovative Business Links fund, both of which would accomplish this.

Congress could also require all states to develop “self-sufficiency standards” and to use those standards in program planning and measurement of outcomes. A bill introduced by Representative Lynn Woolsey (H.R. 3667) includes such a provision. Under the proposal the federal government would annually award bonuses for progress in increasing the numbers of families reaching or approaching self-sufficiency.

The above listing is not exclusive, and other proposals are likely to emerge in the coming months. There will be a range of proposals all intended to place a greater emphasis on improving the employment outcomes for families entering employment and leaving TANF. Each of these proposals, individually and together, could potentially contribute to a reorientation toward employment quality rather than a “work first” philosophy of urging individuals to take any available job without regard to job quality. In some cases, there may be opportunities to more directly address issues affecting microenterprise participants in the structuring of the proposals.

CONCLUSION

The findings described in this report indicate that the current policy context can make it difficult for TANF recipients who are interested in self-employment to pursue microenterprise training. In addition, policy constraints can pose barriers to TANF recipients who are attempting to stabilize a business during the early start-up months. As a matter of equity, self-employment should be treated as an option comparable to wage employment. TANF recipients engaged in self-employment should have a reasonable chance to build their businesses to the point at which they can achieve self-sufficiency. The policy options outlined above could substantially increase opportunities for TANF recipients to pursue self-employment and to move beyond work to economic self-sufficiency.

