

Microenterprise works!

Microenterprise for Welfare Recipients

A Tool for Self-Sufficiency

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**Corporation for Enterprise Development
Pacific Bell**

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Introduction

Self-employment is considered an eligible work activity under CalWORKs. With the help of microenterprise programs, county departments of social services can offer the option of self-employment to transitioning welfare recipients. This booklet is a resource guide for microenterprise development in the era of TANF.

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What is a microenterprise?

A **microenterprise** is a business with five or fewer employees that can usually be started for less than \$35,000. A **microentrepreneur** is the business owner. Typical microenterprises include childcare, gardening, specialty food production, arts and crafts, and business and personal services such as computer repair or hair and nail care. Many times a microenterprise is started because a family needs a little bit of extra income to make ends meet.

In **microenterprise development**, **microenterprise programs** provide services to new, prospective, and experienced small business owners. These services include: business management seminars and individual consultations, workshops, microloans, marketing networks, and support services such as childcare, transportation, language skills, and computer training. Microenterprise programs help get a business out from “under the table” so it can grow to become a legitimate enterprise. Typically, microenterprise programs are non-profit agencies.

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DANIELLE FRANKLIN — SKIN CARE, SPA TREATMENTS, AND STRESS REDUCTION

Widowed at twenty-three, Danielle suddenly became the sole provider for herself and her two-year-old daughter. With disability insurance and AFDC, she was able to graduate from beauty college, earn her cosmetology license, and open her business – Danielle’s Touch, Skin and Body Care. She realized that she could improve her business by adding to her skills, and she made full use of training programs offered by Women’s Initiative for Self Employment (WI). Danielle graduated from WI’s core training program, then continued to participate by attending a peer support group and utilizing one-on-one consulting as needed. The next year, she received a \$2,000 loan from WI that enabled her to move her business to a downtown location with more opportunity for expanding her customer base.

At the time Danielle entered Women’s Initiative’s training program, she was receiving public assistance and had a poor credit history. Yet with her income more than doubling after the training, she was able to leave welfare the following year. Today Danielle supports herself and her child exclusively from her business income. She isn’t stopping here, though; she’s working on plans to expand her business to a larger facility and provide an even greater variety of services. Danielle used her training to build a solid foundation for her business. As she puts it, “Today my business plan serves me well; it is the heart and soul of who I am as an entrepreneur, what my business is, whom it serves, and what it can be.”

How can a microenterprise help a welfare recipient to become self-sufficient?

The basic presumption underlying CalWORKs is that Work First will start a welfare recipient on the road to self-sufficiency. According to county-level studies, former welfare recipients in areas with strong economies earn about \$9 an hour. However, in 1999, the California Budget Project estimated that California's high cost of living means that a single parent with two children must earn about \$18 an hour to cover basic expenses.¹ Seventy-one percent of transitioned welfare recipients are employed in low-wage jobs that offer little opportunity for advancement or wage increases.

Many clients are underemployed with low-wage, temporary, or seasonal work and want to "patch" income with self-employment to make ends meet. "The poor rely on more than one source of income. Of the welfare recipients who took part in the SELP study, 50 percent have two or more sources of income and 37 percent work at a part-time job as well as running a business."²

Microenterprise works.
The proof is in the numbers.

Of microentrepreneurs who started out on welfare:

- 72 percent increased their household income an average of \$8,484 over five years.
- They also increased their household assets by \$15,909.
- 53 percent moved over the poverty line.
- 61 percent decreased their reliance on public assistance.³

MICHELLE — OBTAINING THE SKILLS NECESSARY TO GROW A BUSINESS

Michelle Jackson (name has been changed), a single woman in her mid-twenties, was living solely on her welfare benefits. She aspired to operate her own daycare center as a way to support herself with a job she enjoyed. Michelle attended childcare classes at a local junior college and in due time received a license to operate a daycare center.

Michelle recognized there was more to operating the center than her knowledge of children. She needed business skills to make her enterprise financially viable. So she enrolled in Valley Economic Development Center's ten-week microenterprise training program. (Valley Economic Development Center is conducting a pilot program providing business training to TANF recipients in the city of Los Angeles.)

Now, just a month after she graduated from the program, Michelle's daycare center is up and running at full capacity. The income she earns has allowed her to stop receiving cash assistance. While she still receives some supplemental benefits, she is on track to be completely self-sufficient within a few months.

Who are the best candidates for microenterprise development?

Clearly, self-employment is not the answer for everyone. The personal commitment and high degree of internal motivation essential for self-employment cannot be taught. It may be helpful to know the common characteristics of a welfare recipient seeking microenterprise development. TANF recipients who enrolled in the Self-Employment Investment Demonstration Project from 1988 through 1992 differed from the national TANF caseload in several important ways.

A project participant was more likely to:

- Be a minority woman between the ages of 35 and 49
- Have a high school degree or GED (86 percent)
- Be divorced or separated
- Have a larger number of children (2.3)
- Have some past work experience (99 percent)⁴

The Aspen Institute estimated that in 1997 at least 2 million of the 10.5 million self-employed individuals in the United States were low-income microentrepreneurs.

The percentage of prospective entrepreneurs from among welfare clients will vary according to the economic conditions and business support of the community.

Effective methods of outreach and referral

To accurately determine who could be the best candidates for self-employment, we need to first make sure all those who want to explore this employment option get the opportunity. The following is a list of recommendations for an effective outreach and referral system:

- **All welfare recipients should be aware of the availability of microenterprise development services.** Representatives from microenterprise programs can make presentations for county job training contractors, One Stop Career Centers, and community meetings. Contact information for microenterprise programs can be included in client mailings.
- **A supportive environment with the eligibility and assessment staff will encourage an open discussion of self-employment.** Clients who have experimented with independent work or even operated a business informally may be reluctant to disclose this. It may be perceived that it's "too much hassle" to bring self-employment work forward for monitoring and reporting. If clients believe there are disincentives for reporting self-employment work, they may miss out on a microenterprise development opportunity.
- **A fluid referral system helps keep clients engaged in support services that promote self-sufficiency.** Client referrals for microenterprise services may come from the eligibility and assessment staff, job training and placement contractors, or from outreach efforts. For internal referrals, it may be helpful to have a county staff person dedicated to working directly with the microenterprise program. Some of the best prospects for microenterprise development come from job training programs.

It is important to position the microenterprise program as a support service, not a competitor to existing county contractors. If a microenterprise program is successful at obtaining prospective microentrepreneurs and refers them to the county for eligibility certification, the certified prospects need to be referred back to the microenterprise program, not be redirected to other training.

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Quick, effective screening benefits all

Assessing whether a client is a strong candidate for self-employment need not be a difficult or lengthy process. Welfare caseworkers, aware of the time limits on benefits, want to help their clients become self-sufficient as quickly as possible. Here are a few examples of how counties ensure that only clients who are strong candidates enter a microenterprise program:

Add a business-readiness test to client assessment.

In Alameda County, assessment counselors wanted to add a screen for potential microentrepreneurs to their existing client assessment. Women’s Initiative for Self-Employment created a simple and reliable test for business readiness. Since adding this tool, assessment counselors feel confident that they are not wasting a client’s time by making a referral to a program when there is little chance for success.

Contract with a service provider to do business-readiness assessment.

Santa Cruz County contracts with El Pajaro Community Development Corporation to assess clients for business readiness and provide technical assistance and training to the best candidates.

Mendocino County contracts with West Company to provide training and support to all of its Welfare-to-Work clients who choose self-employment. Very early in the process, clients attend a workshop called “Reality Check.” Any clients who are found to be weak candidates are referred back to the county to receive services more suited to their needs. Those who are still interested and have demonstrated readiness then begin to receive training.

Consider employed clients for microenterprise services.

Clients who have completed training in a specific trade can gain experience working in a small business in that trade. While working, they can take business management classes and begin laying the groundwork for their own business.

How does self-employment operate with Work First?

Considering the TANF regulations on work hours and time limits, how can welfare recipients spend time on starting a business? “For microenterprise to be an attractive option to clients and caseworkers, it must be considered a work activity.”⁵

Many tasks involved in business start-up are considered allowable work activities. Work activities such as market research, creating and designing products, making sales calls, applying for licenses, preparing brochures, creating a business plan, and running financial projections are necessary to start a business.

Microenterprise programs that assist welfare recipients will document their work for caseworkers. Here’s a look at the arrangements two counties have made with microenterprise programs to ensure that their clients comply with Welfare-to-Work requirements:

A West Company consultant works one-on-one with Mendocino County TANF clients to create an Individual Self-Employment Plan, which spells out exactly what Welfare-to-Work activities the client will engage in while enrolled in business training. Weekly hours spent in workshops and homework, and time spent in research and development, are tracked by the client and monitored by West Company’s Welfare-to-Work coordinator.

Valley Economic Development Center, which works with TANF recipients in the city of Los Angeles, finds it no problem to document the required thirty-two hours. Their ten-week business training program is structured with the work hours requirement in mind. A client who participates in the

classroom and in labs, completes homework assignments, and meets with counselors will automatically fulfill or exceed the requirements. Moreover, the program coordinator on staff is available to assist clients with the paperwork required for reporting.

Employed candidates need not document work activity. Earlier, it was mentioned that employed clients make good candidates for microenterprise development. It is worth mentioning here that because they are already employed, these clients can participate in business training and other activities necessary for starting a business without a need to document the time involved. Several counties are considering post-employment funds to support microenterprise training for employed clients.

Consider combining job training and self-employment training. Employed clients can receive microenterprise services at the same time they complete job training and start a new job in their field. In Alameda County, job-training contractors encourage the pursuit of self-employment as a career option and work in partnership with a microenterprise program. After completing job training, clients can become independent contractors, developing careers through self-employment in their field of training rather than working for others. This approach is a true job-creation strategy that should find strong support in the community.

“For microenterprise to be an attractive option to clients and caseworkers, it must be considered a work activity.”⁵

What microenterprise services are available for immigrant welfare recipients with limited English skills?

Limited English skills need not be a barrier to self-employment. Microenterprise training and support can still be delivered in a variety of ways, depending on the needs of the community and the resources available.

Communities where one language predominates

Immigrant microentrepreneurs are often successful at starting businesses in their communities, where their language is predominant. Proficiency in English may be unnecessary for clients to grow their business, since the customer base speaking their language is large. Two programs that operate in such situations are Women's Initiative for Self Employment in the San Francisco Bay Area, and El Pajaro Community Development Corporation in Watsonville, Santa Cruz County.

Women's Initiative serves its Spanish-speaking clients through its ALAS program (Alternativas para Latinas en Autosufficiencia). ALAS provides an array of culture-specific training, support, and financing services in Spanish for Latinas interested in, or already involved in, self-employment. Similarly, to address the needs of its predominately Spanish-speaking clientele, El Pajaro offers its curriculum and training in Spanish. They have little trouble finding local business people to consult and teach in Spanish.

ROSA'S ICE CREAM — FROM UNEMPLOYMENT TO OWNERSHIP

Rosa (name has been changed), an immigrant from Mexico in her forties, lost her job at a cannery when the owners closed up shop and headed south in search of cheaper labor. Facing this loss of income, Rosa turned to El Pajaro for training to start her own business. She took full advantage of the opportunity, attending all the workshops El Pajaro offered. With her newly acquired basic business skills, she launched Rosa's Ice Cream. The ice cream shop serves a large base of loyal customers, enabling her to earn a living. Supported by El Pajaro's training and retail space, Rosa was able to turn the loss of her job into an opportunity to create a healthy business.

Communities with several languages

In communities where a large number of different languages are spoken and no single one predominates, providing services is a special challenge. It may not be practical to have separate training, curricula, and teachers for each language.

Pacific Asian Consortium in Employment has developed an Enclave to Mainstream program to serve its clients – immigrants with limited English from several different countries. While business management training is given in English, volunteer business professionals who speak the languages of the participants provide mentoring and counseling.

Vocational English as a Second Language (VESL)

Another method, employed in Alameda County, incorporates a Vocational English as a Second Language (VESL) method in training prospective business owners. Two trainers, an English as a Second Language (ESL) teacher and a microenterprise trainer, teach limited-English speakers in the Peralta Community College district.

The curriculum was developed by a microenterprise program and adapted to also teach ESL in a business context. ESL and business management training are presented in modules that support both elements. Students practice speaking business English through such classroom activities as asking for a business loan and networking. This training will become a regular offering of the community college district's ESL vocational training program.

The goal of Vocational English as a Second Language curriculum is to improve the business-English proficiency of participants as they learn how to start and operate a business.

Where do welfare recipients get the money to start a business?

Businesses are rarely able to start without equipment and materials. Needs vary depending on the type of business, but might include such things as a computer, marketing flyers, or a set of tools. Some counties have chosen to use discretionary funds typically allocated for career clothing and transportation for some of these simple start-up costs.

TANF recipients hoping to pursue self-employment have unique needs. They generally have few assets and rarely qualify for traditional business loans. There are three basic sources of start-up money for microentrepreneurs: **microloans**, **individual development accounts (IDAs)**, and **grants**.

Microloans

Many microenterprise programs provide optional microloans in connection with their training services. A microloan, as its name suggests, is a loan of a very small amount of money, typically between \$500 and \$5,000. Microloans almost always come in conjunction with technical assistance and support services to provide a safety net for the borrower during the critical start-up phase.

In Alameda County, a small microloan fund is dedicated for welfare recipients who are starting businesses. The county social services agency contracted with Oakland Business Development Corporation to manage the microloan fund. This non-profit screens microloan applications of prospective borrowers who have been referred by both county job training contractors and their local microenterprise program. The microloan fund is revolving, meaning it is paid back and then re-loaned to other welfare clients who are starting businesses.

PATSY JO — “GROWING” A BUSINESS IN A NICHE MARKET

Patsy Jo, a single mother of four boys, had training in horticulture and dreamed of owning her own business. She contacted Mendocino County’s West Company for assistance. After completing a series of business-development classes, and creating a solid plan for her business, The Yard Stylist, Patsy Jo applied for and received a \$5,000 loan from West Company’s microloan fund.

Patsy Jo used the money to purchase materials necessary to get her business up and running: a truck, a trailer, and a riding lawn mower. She has found a niche market, catering mainly to the gardening needs of senior women. Patsy Jo appreciates the flexibility provided by self-employment. “I get to schedule my own appointments and that’s more beneficial to me,” she says. This makes her more available to her sons.

Patsy Jo’s business started out slowly, but grew rapidly, producing a profit of \$6,000 her first full year. However, health problems eventually prevented her from working fulltime and she just broke even her second year. This led Patsy Jo to re-evaluate her business, and she is currently restructuring it to include more landscape design and less yard work. She will be taking her California State landscape contractor’s license exam this summer as a final step to implementing this plan.

Individual development accounts (IDAs)

The state of California allows individuals to accumulate up to \$5,000 in a matched savings account that can be used only for specific purposes. One of these is starting a business. Many microenterprise organizations operate IDA programs that provide training in budgeting, and also monitor the match agreements' progress so that savers reach their goals. The advantage of IDA savings is that they can be used to start a fledgling business with an asset instead of with the liability of a loan. For more information about IDAs, contact the Corporation for Enterprise Development. Contact information can be found in the resources section of this booklet.

Grants

A few counties are exploring the use of small grants to fund the start-up costs of a business. These grants, typically \$1,000 or less, may be an option for welfare recipients when combined with training, technical assistance, and monitoring client progress. Trickle Up is a national non-profit organization that provides small business grants to very low-income individuals. Contact information is listed in the resource section of this booklet.

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What can microenterprise programs do for county agencies?

Microenterprise programs can help county agencies in a variety of ways, including:

- Do community outreach and program marketing to clients
- Assess clients for potential viability as business owners
- Provide business training and technical assistance
- Monitor and report client compliance with Welfare-to-Work regulations
- Provide and manage microloan funding
- Track clients and prepare activity reports
- Refer clients to additional community resources

Once a welfare recipient has started a business, the microenterprise program will provide ongoing services to ensure that it is successful. Workshops, post-loan technical assistance, and support groups are just some of the follow-up services a microenterprise program can provide. Counselors at the program will also introduce the microentrepreneur to other community resources such as community college classes, banking services, and the chamber of commerce.

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How is microenterprise development funded?

Many counties have elected to fund microenterprise development for their clients. In the counties that support microenterprise development, both the sources of funding and the contractual relations with the programs vary. Microenterprise programs that serve welfare recipients have been funded from training money, incentive money, and even post-employment dollars.

Some microenterprise programs for welfare recipients are funded through a combination of partnerships with city governments, Workforce Investment Boards, community colleges, Federal Welfare-to-Work grants, Small Business Development Centers, and Community Development Block Grants.

The relationship between the county and the service provider can take the form of a fee-for-service contract, a grant, or a combination of the two. The specifics will depend on the needs of the county and its clients. **Regardless of the funding sources or contractual relationships, the referral, reporting, and reimbursement processes must work smoothly for all parties: clients, county agencies, and microenterprise programs.**

“A state may fund microenterprise training for needy families by using federal TANF block grant funds, state maintenance of effort (MOE) funds, and Welfare-to-Work grant funds. The rules governing each of these funding streams are somewhat different, but each provides a potential source of funding.”⁶

What if there's no microenterprise program nearby?

If there is no microenterprise program available locally, it will be necessary to start one. This can seem overwhelming, but it's important to realize that much of the groundwork may have already been laid in the community. There are probably existing organizations that would be helpful partners. These fall into three main categories: **economic development organizations**, **client development programs**, and **lending-based organizations**.

Economic development organizations

Local groups that are interested in economic development include local Workforce Investment Boards, community colleges, Small Business Development Centers, chambers of commerce, and city economic development agencies. All of these groups have interest and experience in building the local economy through job creation and business support services.

Client development programs

Non-profit organizations that serve the TANF client base, such as Community Development Corporations, affordable housing agencies, family or women's service centers, or local career centers, might be able to expand their service delivery by adding a microenterprise development component. It is likely that the county has already built relationships with these organizations to support clients in other ways.

Lending-based organizations

A revolving loan fund, credit union, community banking institution, or bank consortium could set up a microenterprise program that includes business training with a microloan fund to serve the start-up needs of microbusinesses. This type of arrangement can benefit both the clients and the lending-based organization because it creates future customers.

No need to start from scratch

No county department has to “reinvent the wheel” if it wants to add a microenterprise development component to its toolbox. CAMEO is a resource for any community seeking to start or expand microenterprise services. CAMEO provides training, technical assistance, publications, resources, and connections with established programs to support county efforts.

**To locate a microenterprise program in your area, access CAMEO’s Web site:
www.microbiz.org.
Programs are listed by region.**

Microenterprise organizations

FIELD

The Aspen Institute
One Dupont Circle NW, Suite 700
Washington, DC 20036
202-736-1071
202-467-0790 fax
www.fieldus.org

Association for Enterprise Opportunity (AEO)

1601 N. Kent Street, Suite 1101
Arlington, VA 22209
703-841-7760
703-841-7748 fax
www.microenterpriseworks.org

California Association for Microenterprise Opportunity (CAMEO)

655 13th Street, Suite 201
Oakland, CA 94612
510-238-8360
510-238-8361 fax
www.microbiz.org

Individual Development Accounts

Corporation for Enterprise Development
777 N. Capitol Street NE, Suite 800
Washington, DC 20002
202-408-9788
202-408-9793 fax
www.cfed.org

Small start-up grants for low-income entrepreneurs

Trickle Up Program
121 West 27th Street, Suite 504
New York, NY 10001
212-362-7958
212-877-7464 fax
www.trickleup.org

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