MICRO-ENTERPRISE AND WOMEN:

THE VIABILITY OF SELF-EMPLOYMENT AS A STRATEGY FOR ALLEVIATING POVERTY

Supporters of micro-enterprise argue that self-employment is a strategy that can improve the economic we being of low-income families and promote economic development in poverty stricken urban communities. IWPR's study ***Micro-Enterprise and Women*** investigates self-employment and micro-enterprise as strategies enhance the income package of women receiving Aid to Families with Dependent Children (AFDC) as well as other low-income women.

The development of micro-enterprise ventures among low-income women could contribute to the economi well-being of their families, provided that this activity is viewed as part of an income package rather than as th sole source of family support. Our study links IWPR's previous work on income packaging[1] with our analysis of self-employment.

In addition, ***Micro-Enterprise and Women*** shows that there is a pool of current welfare recipients with sel employment experience who could benefit from technical assistance, lending circles, and advocacy. The study also discusses program changes and policy alternatives that could increase the development of micro-enterprises and facilitate the success of these ventures.

SOURCES AND METHODS

This study uses data generated from the 1984, 1986, 1987, and 1988 panels of the U.S. Bureau of the Census' nationally representative Survey of Income and Program Participation (SIPP)[2], augmented by special topical modules on welfare history and assets. In addition to the data presented in this **Research-In-Brief**, the full study uses information collected from in-depth interviews and focus groups with participants in micro-enterprise training programs to examine the constraints and catalysts for AFDC recipients who aspire to engag in successful self-employment.[3]

In this research we compare women who currently receive means-tested welfare benefits (including AFD Food Stamps, WIC, or Supplemental Security Income) and who are also engaged in self-employment[4] with three other sample populations:

(1) **Self-employed, Former Welfare Recipients** = Currently self-employed women who have a history of receiving means-tested benefits but do not do so now. These women are referred to as self-employed "successes."

(2) **Wage and Salaried Recipients** = Women whose income packages include wage and salary work and means-tested benefits but not self-employment.

(3) **Welfare Reliants** = Women whose income packages do not include self-employment or wage and salary employment and are, therefore, reliant on means-tested benefits.

We compare the groups based on their personal and workforce characteristics. It is important to note that members of these groups are unlikely to have participated in micro-enterprise training and loan programs.

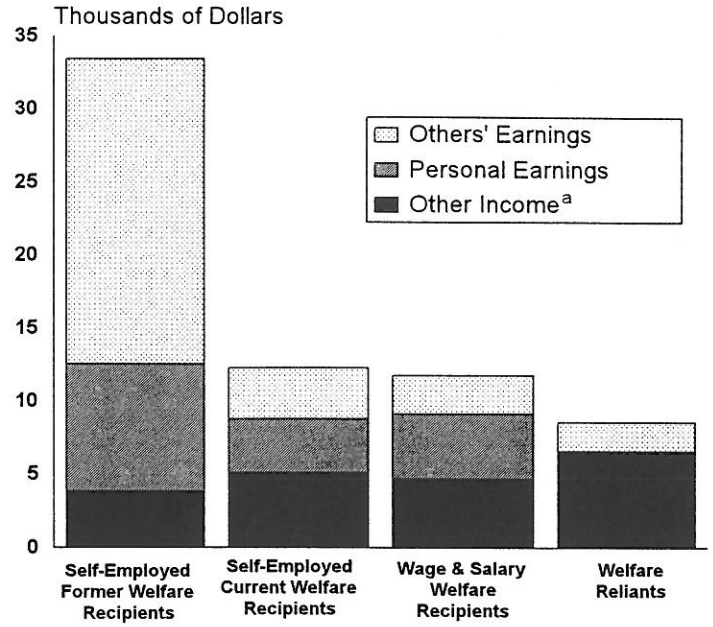
WOMEN MICRO-ENTREPRENEURS

Women in *all* of our comparison groups are involved in income packaging. They combine earnings from different jobs, income of other family members, and where possible, means-tested government-provided benefits.

Figure 1 shows the portion of family income that comes from the women's personal earnings, other family members' earnings, and other income (including government transfers), for each of the groups.

The data also show that women in all groups, except for welfare reliants, have more than one job per person. ***Even the "successful" former welfare recipients continue to be 'packagers' of self-employment with wage and salary work. On average, these women had 1.9 jobs.***

Figure 1. Components of Family Income

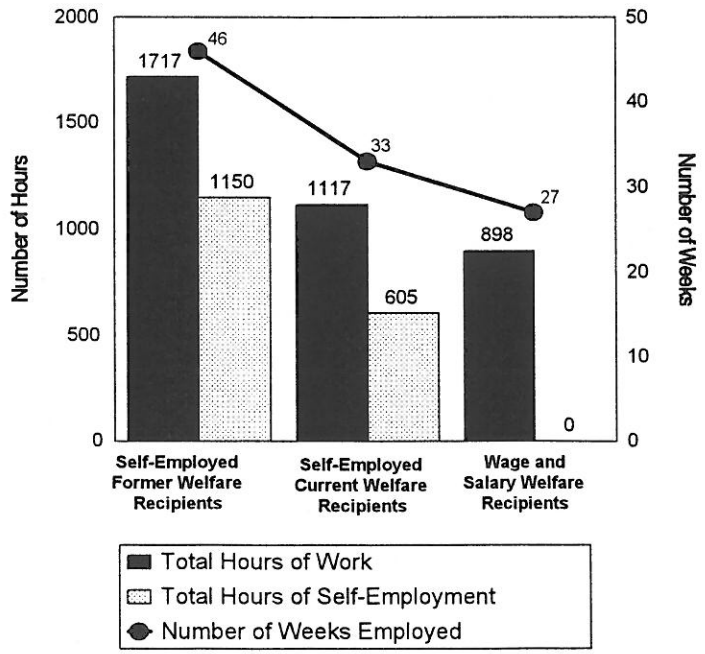


[a]Other income includes government transfers, private benefits, child support, other informal, and miscellaneous income.

Source: IWPR calculations based on the 1984, 1986, 1987, and 1988 panels of the Survey of Income and Program Participation.

Compared to other current welfare recipients, the recipients who package welfare with self-employment appear to be a special population who could emulate the "successes" *if* they received additional training and access to educational and financial resources.

Figure 2. Total Hours of Work, Self-Employment, and Number of Weeks Employed

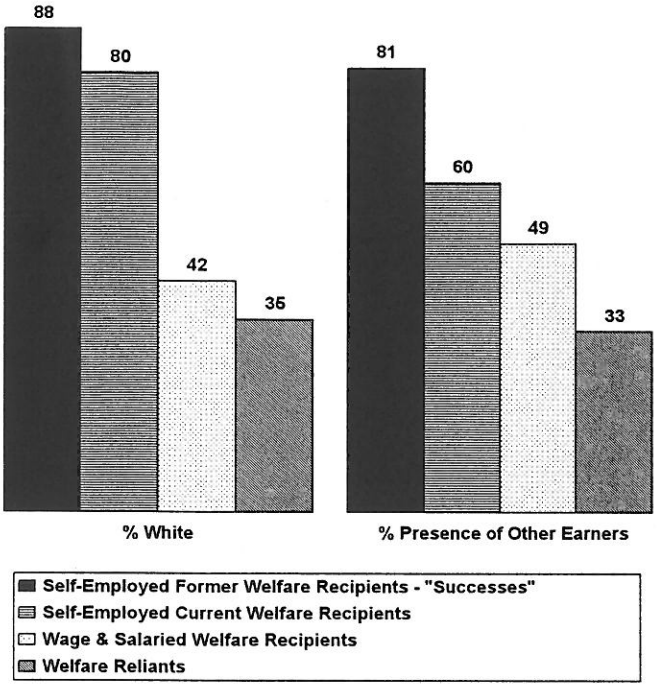


Source: IWPR calculations based on the 1984, 1986, 1987, and 1988 panels of the Survey of Income and Program Participation.

Figure 2 shows that, compared to other groups, "successes" work more hours (1717) and weeks per year (46) and have higher personal earnings ($8,658). Most striking, their work effort includes both self-employment (1150 hours) and wage and salary employment. Like the "successes," the self-employed current transfer recipients also work longer hours than the wage and salary recipients (1117 hours as opposed to 898) and work more weeks (33 compared to 27 weeks). Like the successes, the self-employed current welfare recipients include both wage-employment and self-employment in their income package.

Figure 3 shows selected personal and family characteristics of women in the four groups. Despite certain differences, characteristics of current self-employed welfare recipients resemble "successes" more than other current welfare clients. They are more likely to have other earners in their family and, like the "successes," they are also more likely to be white.

Figure 3. Selected Characteristics of Comparison Groups



Source: IWPR calculations based on the 1984, 1986, 1987 and 1988 SIPP panels of the Survey of Income and Program Participation.

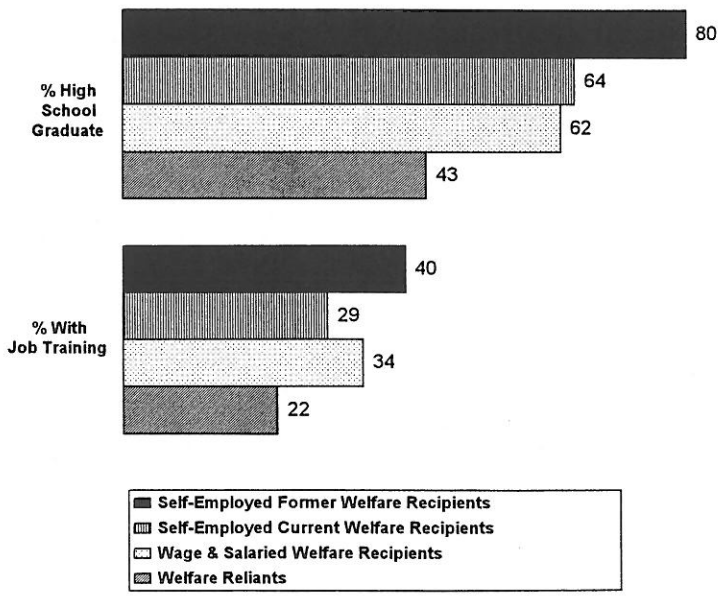
Figure 4, which demonstrates findings on education and skills of these women, shows that "successful" entrepreneurship requires relatively high levels of education and job training. Current self-employed welfare recipients have more education and work experience than welfare reliant women but not as much as the successes; they are most similar to the wage and salary workers who receive transfers.

Although training, high school completion, and more hours of work contribute to successful self-employment, they do not appear to be sufficient for success. A key factor that distinguishes "successes" from the other women is the amount of income from other family members (principally spouses).

Figure 3 shows that self-employed women who previously received AFDC are more likely to have other earners in their families than all other groups of current recipients (81 percent reported other earners in the family). These other earners are most likely working spouses who can provide initial capital and supplementary sources of income during periods of low-earnings from the self-employment businesses. Self-employed *current* transfer recipients are the most likely group of welfare recipients to receive earnings from other family members next to previous recipients (60 percent as opposed to 33 percent for the non-employed and 49 percent for wage and salary workers). Findings on earnings and income of families reveal that 63 percent of the family income of "successes" comes from other earners (see Figure 1). Self-employed *current* transfer recipients receive 28 percent of their family income from other earners and welfare reliants and wage and salary welfare recipients receive 23 percent and 22 percent of their family income from other earners, respectively.

Mainly because of the existence of other income sources, families of self-employed transfer recipients spend fewer months in poverty compared to the other groups and have a higher ratio of family income to poverty level income (110 percent compared to 64 percent for welfare reliants and 95 percent for wage and salary recipients). This suggests that although adding self-employment to the income packages of welfare recipients contributes to the economic well-being of these families, by itself it is not a route to self-sufficiency.

Figure 4. Education and Job Training



Source: IWPR calculations based on the 1984, 1986, 1987, and 1988 panels of the Survey of Income and Program Participation.

POLICY IMPLICATIONS

Because income from self-employment alone does not raise a woman and her family out of poverty, an important policy and program issue is what additional financial and social supports can be put in place to supplement self-employment income. This is especially important for those women who lack assets or cannot rely on income from other family members.

A relatively secure financial base is a potentially important factor in ensuring self-employment success. Lack of assets, like lack of supplemental income, is a barrier to successful business development. "Successes," on average reported about $2,600 in individual assets in a four month period. Self-employed current recipients reported a significantly lower level of assets (fewer than $400 on average for the same period) to invest in their businesses. This suggests that self-employed former welfare recipients have a more secure financial base than do current recipients. This is also confirmed by the median level of household net worth for "successes," which is equal to $2,287.

We also found that, for "successes" with a history of AFDC, an average of nine years had passed since their first AFDC spell. This suggests that it takes time for these businesses to 'take off' and for these women to get off welfare. Until then, means-tested welfare benefits represent an important income source. We conclude then that success at self-employment appears unlikely without the help of policies that ensure access to financial resources. ***This is especially true for women who are currently on welfare.***

In order for self-employment to be successfully included in the welfare recipient's income package, changes must be made in the treatment of income and financial assets by welfare regulations.

Regulations such as the $1,000 limit on assets for AFDC recipients, the $1,500 limit on vehicle value, and the treatment of business income as personal income, prevent recipients from accruing enough earnings to cover expenses and expand their business. Also using gross rather than net income in measuring self-employment earnings overstates family income, and acts as a barrier to successful self-employment.

Lack of health insurance among the "successes" suggests that without more accessible health care benefits, self-employment is risky for women with families.

Although better off in terms of their earnings, income, and assets, the group of "successes" are the worst off in terms of access to health insurance compared to all other groups. The average number of months of health insurance for these women was 2.5 out of 12, which is drastically lower than every other group in this study. Current transfer recipients with some self-employment also had fewer months of health insurance compared to non-employed AFDC recipients and welfare clients with wage or salary work (8.9 months as opposed to 11.5 and 10.0 months). This suggests that undertaking self-employment may reduce one's access to health insurance and health care. This will continue to be the situation until affordable, accessible health care coverage becomes available.

Micro-enterprise programs must affirmatively recruit women of color.

Given the high percentage of whites among the "successes" and current recipients packaging with self-employment, our study points to the importance of recruitment and training of women of color into micro-enterprise training and lending programs.

The full report, **Micro-Enterprise and Women: The Viability of Self-Employment as a Strategy for Alleviating Poverty**, *by Roberta Spalter-Roth, Enrique Soto, and Lily Zandniapour, is available from the Institute for Women's Policy Research. This research project was funded by the Charles Stewart Mott and the John D. and Catherine T. MacArthur Foundations. This* **Research-In-Brief** *was prepared by Enrique Soto, Lily Zandniapour, and Jill Braunstein in June 1994.*

Notes:

[1] See ***Combining Work and Welfare: An Alternative Anti-Poverty Strategy***, by Roberta Spalter-Roth, Heidi Hartmann, and Linda Andrews, Institute for Women's Policy Research, Washington, DC, 1992.

[2] We did not use the 1985 panel of the SIPP because it does not include a welfare history module.

[3] See the full report, ***Micro-Enterprise and Women: The Viability of Self-Employment as a Strategy for Alleviating Poverty***, and the **Research-In-Brief**, ***Micro-Enterprise Catalysts and Barriers: Voices of Low-Income and Poor Women***.

[4] Our findings show that 12 percent of welfare recipients include self-employment in their income package. This is about the same rate of self-employment in the general population of unemployed women (10 percent).