

## MICRO-ENTERPRISE CATALYSTS AND BARRIERS: Voices of Low-Income and Poor Women

Supporters of micro-enterprise argue that self-employment is a strategy that can improve the economic well 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 a strategy to enhance the income package of women receiving Aid to Families with Dependent Children (AFDC) and other low-income women.

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

In addition, **Micro-Enterprise and Women** shows that there is a pool of current welfare recipients with self-employment experience who could likely 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 qualitative data collected through four focus groups, 20 in-depth interviews, and answers to open-ended questions from 140 participants in a survey of micro-enterprise program trainees.<sup>2</sup> In addition to the data summarized in this **Research-In-Brief**, the full 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), augmented by special topical modules in welfare history and assets.

The qualitative portion of **Micro-Enterprise and Women** analyzes the comments of welfare and low-

income women about the factors that helped (**catalysts**), hampered (**barriers**), or could contribute to their success (**suggestions**) as micro-enterprise owners.

The women interviewed in the first focus group did not receive training nor were they running a business; those interviewed in the second focus group received business training but did not start a micro-enterprise. The rest of the interviewees (the third and fourth focus groups' members, and the respondents to the survey and in-depth interviews) received business training and were already in business or starting to run one.

## VOICES OF THE WOMEN

The women interviewed identified three types of **barriers** for becoming self-employed:

■ **Welfare Regulations:** Women feared loss of welfare benefits (income, medicaid, etc.) if they attempted self-employment, because welfare regulations exclude them as recipients when their income increases due to their business earnings or assets. Their business income, however, was not seen as stable. The complexity of welfare regulations, the lack of clear information about them, the difficulty in filling out AFDC applications for recipients attempting self-employment, and the attitudes, inaccurate knowledge, and lack of availability of informed case workers were other obstacles to self-employment.

■ **Lack of Financial Resources:** Lack or insufficient capital was deemed as a serious barrier working against self-employment. Debts and previous bad credit records compounded financial difficulties.

■ **Lack of Support and Services:** Child care, health services, business knowledge and skills, transportation, family support, and even confidence, were important conditions the women felt they were missing, which if obtained could greatly contribute to their business success.



Strongly related to their perceptions about business barriers, the women interviewed pointed out the following “**catalysts**” that would help them become successful business owners:

■ **Financial Support:** Money was regarded as an essential requirement for running a business, since it is needed to purchase the materials, equipment, and services that are used to produce a product or service for sale.

■ **Access to Training and to More Individualized Forms of Training:** Business training was another factor participants thought crucial for starting a business. They noted, however, the need for more specific forms of business training, guidance, after-training support, and even for business mentors.

■ **Support from Family Members:** Participants who had already started a business mentioned the

importance of family support. Family members contribute economic aid as well as free labor and moral support.

■ **Health Coverage:** Most participants emphasized that affordable health insurance would greatly benefit them and their businesses.



Building on their views about barriers working against self-employment, the women interviewed recommended changes that could be made to encourage more low-income women to become successful micro-enterprise owners. Some relevant **suggestions**, in their own words, are:

**Allow more earnings before benefit reduction/exclusion would begin:**

“If you’re going to have a business, you need to be a capitalist. And what is a capitalist -- someone who has capital. So, you have to have the money in the business to run the business, because if you don’t have it, you won’t have a business. So, if you’re not allowed to feed money back into your business to get your capital big enough to keep it going, you don’t have a business and you can’t get off of AFDC....”

**Allow for some form of savings/re-investment:**

“We were contemplating... a solution to the situation.... It has to do with an incentive to get off -- an incentive to have your own business. Somehow a sliding scale that as you’re going up, a place for you to start saving maybe \$100 here and there to get it up to maybe \$1000... there has got to be some kind of a gradual thing, where instead of getting penalized every time you make some money in your business, you’re allowed some leeway there....”

**Measure businesses’ income annually instead of monthly:**

“Or like, if you do have a business -- like my business is better in the winter months than it is in the summer months. And like you said, don’t be penalized if you have more income coming in. It should be on a yearly scale, not on a month to month when you own your own business. Cause there are a lot of businesses that are seasonal.”

### **Have specialized case workers for self-employed welfare recipients:**

“ If they had someone through non-profit, whatever, who understood the welfare system, who also understood starting a business, who also understood having kids, who understood. I mean actually knew what all of this was about. Then maybe they -- have them as case workers. That for us, as business owners, to expect the people who are working in welfare to understand what it is that we're going through is unrealistic. They can't. They have no idea. ”

The comments of these women show that what they perceive as **catalysts** and **barriers** to self-employment are **two sides of the coin of micro-enterprise development**.

## **POLICY IMPLICATIONS**

■ **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.**

Treating business income as personal income acts as a barrier to successful self-employment since recipients fear losing their benefits when business earnings accrue. In addition, regulations such as the \$1,000 limit on assets for AFDC recipients, and the \$1,500 limit on vehicle value, prevent recipients from accumulating enough earnings to cover expenses and expand their businesses. Thus, the measurement of personal and business earnings and assets should be separate, and the level of income disregard and asset limits should be raised.

■ **More funds should be available through lending programs to women on welfare for them to become successfully self-employed.**

Lack of access to credit and loans was reported as a major stumbling block in the road toward self-employment. The poor credit histories and limited assets of welfare recipients make them unattractive to the commercial financial system. Federal or state funds should be available for the creation of revolving funds for welfare recipients, which could be administered by non-profit organizations working in

the area of micro-enterprise training for low-income individuals.

■ **Increased training is required for welfare women attempting to become successful micro-enterprise owners.**

The women interviewed reported that although the training they receive is very valuable, they need more of it. Thus, the creation of federal or state self-employment job training programs (instead of training only for wage and salary jobs) would be appropriate to meet this demand.

■ **Lack of health insurance suggests that without access to affordable health care benefits, self-employment is risky for women and their children.**

Interviewees complained that undertaking self-employment meant the loss of health coverage because of their exit from welfare rolls. This will continue to discourage self-employment until affordable health care coverage becomes available.

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*This Research-In-Brief was prepared by Enrique Soto in October 1994. 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 for \$15; it includes both the qualitative and quantitative research findings. This research project was funded by the Charles Stewart Mott and the John D. and Catherine T. MacArthur Foundations.*

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1. See *COMBINING WORK AND WELFARE: An Alternative Anti-Poverty Strategy*, A Report to the Ford Foundation from the Institute for Women's Policy Research, by Roberta Spalter-Roth, Heidi Hartmann, and Linda Andrews, 1992.

2. The focus group data analyzed (from four focus groups) were provided by two self-employment training organizations for low-income women -- Women's Economic Growth (WEG) from California and Women's Self-Employment Project (WSEP) from Chicago. The survey data were obtained through the Self Employment Learning Program (SELP) of the Aspen Institute, and consisted of responses from 140 participants on twelve open ended questions from their survey of clients of two micro-enterprise training programs: WSEP and The Institute for Social and Economic Development (ISED) from Iowa. The in-depth interviews were conducted by WSEP with 20 participants of their training program.

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