

**TANF and Microenterprise:  
Choices in Structuring Initiatives**

**Presentation for State TANF-Microenterprise Initiative  
December 12, 2000**

**1. In general**

- a. In thinking about possible uses of TANF and maintenance of effort funds for microenterprise efforts, there are three key concepts to keep in mind:
  - i. TANF funds can be used for a broad array of expenditures for needy families, i.e., low-income families with children, and the use is not limited to families receiving welfare benefits.
  - ii. There is an important distinction between assistance and nonassistance: if a TANF benefit is structured as nonassistance, it will not be subject to TANF time limits, work requirements, and certain other TANF requirements.
  - iii. Each state has both federal TANF funds and state maintenance of effort funds; the use of maintenance of effort funds can be structured to help families in various ways that are not subject to TANF requirements.
- b. These concepts matter because, when taken together, they mean that a state wanting to use TANF/MOE to support microenterprise has a set of choices: the state can support training and initial business development within its TANF cash assistance programs, whether or not subject to TANF time limits; and, the state can design programs to help provide training and business support for microenterprise for low income families completely outside the TANF cash assistance system.

**2. Three key concepts: allowable TANF spending, assistance/nonassistance, and choices in use of MOE funds**

- a. **Wide range of possible uses of TANF**
  - i. For most purposes, in determining whether TANF funds can be spent in a particular way, key question is whether the expenditure is “reasonably calculated” to accomplish one of the purposes of TANF.
  - ii. Two purposes most directly relevant to microenterprise activity are:
    - (1) provide assistance to needy families so that the children may be cared for in

- their homes or in the homes of relatives;
    - (2) end the dependency of needy parents on government benefits by promoting job preparation, work, and marriage.
  - iii. TANF expenditures under either of these purposes must be for members of “needy” families, but are not limited to families receiving welfare – states may, for example, define needy families as all families with children and with incomes below 200% of poverty.
- b. **TANF funds may be used for assistance or nonassistance**
  - i. When an expenditure falls within the definition of assistance, it counts against TANF time limits, and the family receiving it is considered part of the TANF caseload, is subject to TANF work requirements, child support cooperation requirements, and TANF data collection requirements.
  - ii. Conversely, if the expenditure is considered nonassistance, it does not count against TANF time limits, and if the only TANF-funded benefits received by a family are nonassistance, the family is not considered part of the TANF caseload, or subject to TANF work requirements, child support requirements, or data collection requirements.
  - iii. In general, a benefit or service is considered assistance if it is either:
    - (1) designed to meet a family’s ongoing basic needs (i.e., for food, clothing, shelter, utilities, household goods, personal care items, and general incidental expenses); or
    - (2) a supportive service such as transportation or child care provided to a non-employed family.
  - iv. Many forms of benefits and services are not considered assistance. Nonassistance includes the following benefits and services:
    - (1) nonrecurrent short-term benefits designed to deal with a specific crisis situation or episode of need; not intended to meet recurrent or ongoing needs; and will not extend beyond four months;
    - (2) work subsidies (i.e., payments to employers or third parties to help cover the costs of employee wages, benefits, supervision, and training);
    - (3) support services such as child care and transportation provided to families who are employed;
    - (4) contributions to and distributions from Individual Development Accounts;
    - (5) services such as counseling, case management, peer support, child care information and referral, transitional services, job retention, job advancement, and other employment-related services that do not provide basic income support.
- c. **Rules governing TANF and MOE are different**
  - i. In order to receive its TANF block grant, the state must meet a maintenance of effort obligation each year, requiring the state to spend at least a specified level of state funds for benefits and services to needy families.

- ii. The state may meet its MOE obligations in one of three ways. The differences matter because they affect whether the requirements that apply to families receiving TANF assistance are applicable
    - (1) First, the state may **commingle** MOE funds with TANF funds in a single program. If the state does so, then all families receiving assistance funded with the commingled funds will be subject to all assistance-related requirements.
    - (2) Second, the state may **segregate** MOE funds from TANF funds in a program providing assistance. When a family is assisted with segregated state funds, a month of assistance does not count against the federal time limit, because the federal time limit only applies when a family is receiving federally-funded TANF assistance. However, the other assistance-related requirements (work requirements, child support cooperation, data collection) all continue to apply.
    - (3) Third, the state may use state funds to provide assistance in a **separate state program** that receives no federal TANF funds. Families assisted in a separate state program are not subject to the assistance-related requirements, though a state is, of course, free to impose appropriate state-determined requirements as a condition of receipt of assistance.
3. **Supporting microenterprise within TANF cash assistance program**
- a. **Providing training**
    - i. Training for needy families and supportive services associated with that training are allowable TANF expenses.
    - ii. Participation in training may not count toward TANF participation rates or may only count for a limited period of time. However, the state is still free to allow it, and as a practical matter, as a result of caseload reduction, most states now have effective TANF participation rates at or close to zero.
    - iii. If a state wants to say that time limits do not run during the period of microenterprise training, the state can fund assistance during the training period with segregated state funds, and those months of assistance will not be subject to time limits.
  - b. **Providing support during a period of business development**
    - i. The state can apply its general earnings disregards rules, or apply more generous ones developed specially for microenterprise training participants.
    - ii. Similarly, the state may develop rules to exclude business resources from treatment as assets in order to ensure that eligibility is not interrupted.
    - iii. The state can develop longer accounting periods to provide greater stability and predictability in budgeting, and can simplify change reporting.
    - iv. The state can provide incentive payments and bonuses for attaining particular milestones.
    - v. The state can make use of segregated funding to provide that a period of business

support will not count against time limits.

- vi. The state can develop a package of transition benefits for families leaving assistance after beginning to operate a business.

#### 4. **Supporting microenterprise outside the TANF cash assistance program**

- a. A state may decide that it wants to create a structure of support for microenterprise training or for the initial stages of business development outside the state's traditional welfare program. It is possible to use TANF and MOE funds to do so.
- b. Note that the principal purpose for taking such an approach is not to avoid TANF-related requirements. Rather, it is grounded in the premise that it ought to be possible to help a low-income parent get microenterprise training and get needed support in the early stages of business development without forcing that parent to enter into or stay in the welfare system in order to get help.
- c. As a technical matter, the key considerations in structuring support for microenterprise outside of the TANF cash assistance program are:
  - i. Any use of TANF funds should be for services and benefits that do not fall within the definition of assistance; and
  - ii. If MOE funds are used for benefits that fall within the definition of assistance, the MOE funds should be spent in a separate state program.
- d. Examples:
  - i. **Designing a training program outside of welfare:**
    - (1) TANF funds can be used to fund the cost of training; such expenditures would be considered nonassistance. The training can be conducted by state or local governments, by private entities under contract, or through a voucher framework. The state might, for example, structure a microenterprise training program with a designated number of slots, and interested low income parents could apply to participate.
    - (2) The program could be made open to parents in families with incomes below some designated level, e.g., 200% of poverty. The program could be extended to both custodial and non-custodial parents. (It is probably difficult or impossible to use TANF/MOE funds to extend participation to adults who are not parents.)
    - (3) The state can use CCDF funds to provide child care for needed participation in the training.
    - (4) If the state wishes to provide an income stipend during the training, the state has two main choices:
      - (i) Up to four months of income stipends could be provided during the training using TANF funds, and such stipends could be considered nonassistance as a nonrecurrent short term benefit.
      - (ii) If it is necessary to provide more than four months of income stipends, the state may want to consider using MOE funds, and

structuring the program as a separate state program.

- (5) Instead of income stipends, the state might choose to provide subsidized jobs to training participants. For example, the program could include paid externships that related to the participant's area of interest. TANF funds used for subsidized employment (i.e., work subsidies) are considered nonassistance.

ii. **Designing support during business start-up outside of welfare**

- (1) Suppose the state funds a microenterprise training program, and then wants to provide support to participants during the initial months of business operation. The state could provide TANF cash assistance based on the family's low income, and the family would be considered part of the state's welfare caseload. However, there are a number of other alternatives. For example:
  - (a) Nonrecurrent short-term benefits are not assistance. So, the state could provide one-time lump sum payments to training completers in order to help them meet costs during the first months of business start-up.
  - (b) Work expense allowances not intended to meet ongoing basic needs are not assistance. So, the state could say, for example, that parents completing the microenterprise training course could qualify for a \$200/month work expense allowance during the first six or twelve months of business operation.
  - (c) Bonuses for meeting particular milestones can be structured so that they do not fall within the definition of assistance. The state could design a structure of monetary bonuses for meeting various benchmarks in business operation.
  - (d) Alternatively, if the state wants to provide payments designed to meet ongoing basic needs during the initial months of business operation, the state could do so through an MOE-funded separate state program.

5. **Conclusion:** States have substantial flexibility to assist microenterprise efforts within their TANF programs, but also have an important opportunity to use TANF and MOE funds to create structures of support for microenterprise efforts for low income parents wholly outside the traditional welfare system.

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