

EXECUTIVE SUMMARY

ESTABLISHING HOME-BASE BUSINESSES
TO COMBAT POVERTY AMONG WOMAN
IN ISRAEL

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Koret-Milken Institute Fellow

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Recommendations:

- The absence of credit is the major impediment to low income women seeking to improve their economic condition with entrepreneurial initiatives. The availability of “small” and “microfinance” credit in Israel should be increased substantially and eligibility barriers to such financing reduced.
- An on-line information service should be established to provide accessible and practical information to those who want to start or expand microenterprises.
- Employment offers required by state employment bureaus should not penalize recipients who have initiated a home-based business. A single national standard needs to be adopted.
- Female entrepreneurs should be granted a “grace period” of 3-6 months, during which they may operate their businesses while continuing to receive state income assistance.
- Women with complimentary skills should be encouraged to form home-based partnerships or be employed by one home-based entrepreneur to reduce management burdens.

Women Entrepreneurship in Israel Today

Less than one-third of self-employed individuals in the Israel labor market are women – much lower than other countries.¹ Moreover, four-fifths of self-employed Israeli men are so by choice, whereas one-third of self-employed Israeli women are so employed because they are unable to find other meaningful employment.²

In 2004, 20.5% of Israeli households (403,000), totaling 1.5 million individuals, lived below the poverty line.³ Little attention is paid to the fact that poverty is more acute among women in Israel than among men.⁴ More than two-thirds (67%) of the recipients of income support allowances are women. One-third of the recipients are single parents - mostly women - who must support not only themselves, but at least one child as well.⁵ It therefore stands to reason that the fight against poverty in Israel should focus substantially on alleviating poverty among women.

The primary issue is the need to create increased employment opportunity suited to the capabilities, requirements and special needs of women. Since the mid-1990s, this focus has become a major feature of efforts to deal with poverty in many Western countries.⁶ One

well-established method is to encourage the establishment of small enterprises, a policy that has proved to be effective in reducing rapidly levels of unemployment and poverty among women.⁷

The main conclusion of this study is to recommend means to encourage women to establish small enterprises in general, and home-based businesses in particular, as one of the most practical and effective solutions available for dealing with the problem of poverty.

Home-Based Business Leads to Economic Independence

A home-based business is the most suitable employment solution for many women in difficult socio-economic straits.

The characteristics of home-based businesses are particularly suited to the preferences and needs of women: flexible working hours, the smallest possible distance between home and the work place, and close proximity to children. Home-based businesses, offer a woman the possibility of setting working conditions best suited to her personal preferences. Many well-established “woman’s” occupations (sewing, hairdressing, food, cosmetics, pre-kindergarten services, jewelry) may be operated out of one’s home.

Home-based businesses may be the best solution for women living under the poverty line and for financially constrained single mothers for other reasons as well. Many home-based businesses do not require a particular level of formal education, and certainly not an advanced degree; In addition, capital requirements for home-based businesses are small in comparison to other kinds of businesses. Hence the economic risk in the event of failure is proportionately small as well; a home-based business obviates the need to rent a business location - a major cost of doing business that entails long-term contracts, and increases the risk of business failure.

Private Initiatives

Today, many private organizations in Israel are active in promoting the economic and social independence of women. Many see economic independence for women as an integral part of their goals, with female entrepreneurship as an important means to this end. Most of these organizations operate regionally with funding principally from contributions, though some work in cooperation with local government, the National Insurance Institute and other government bodies. Most of their entrepreneurship activities consist of training courses for achieving personal independence and in entrepreneurship (with or without specific occupational training), group or individual business counseling, and assistance in obtaining funding. Some of the projects are very successful and most of the progress in furthering female entrepreneurship in recent years is the result of their efforts.

However, demand for these programs far exceeds availability. The vast majority of the potential market is denied opportunity due to the lack of adequate organizational funding.

The Government of Israel

The Israel Small and Medium Enterprise Authority (ISMEA): ISMEA was established in 1993 to encourage entrepreneurship. Its official functions are to define and direct policy regarding the encouragement of businesses and entrepreneurship and to coordinate the

activities of the various groups involved in such activity.⁸ Home-based businesses were not specifically mentioned as part of ISMEA's functions. Today ISMEA offers some courses for those wishing to start a home-based business. These courses provide general training and also specific training for individuals wishing to start a particular home-based business (e.g., an infant play group). ISMEA publishes explanatory pamphlets and periodicals on subjects directly related to managing a home-based business.

The Steering Committee for the Encouragement of Female Entrepreneurship (1996): This committee was set up in 1996 by ISMEA⁹ to establish an action plan for encouragement of female entrepreneurship, for opening small businesses managed by women, and to help women with existing businesses. The committee made recommendations in several areas, including: financing, general professional training, training of target groups, follow-up and support, publicity and information, creating a team to assist businesses operated by women, and the carrying out of further research in the field.¹⁰ After submission of the committee's report, its activities were stopped, and most of its recommendations were not adopted.¹¹

The Program for the Participation of Single Parents in Business Entrepreneurship (2003): This program was established by a special committee of the Ministry of Industry, Trade and Labor in 2003 within the Manpower Planning Authority. The program was intended to improve employment opportunity for single parents who receive supplementary income payments or child support, by encouraging and assisting them to set up small businesses.¹² As of July 2006, this program has not been implemented.

Obstacles to Female Home-Based Business

Inadequate Sources of Capital

A crucial element in assisting female entrepreneurs escape poverty via home-based businesses is the availability of capital. In Israel the availability of capital for this population is extremely limited. Without access to these small sums the ability to launch a successful business is highly unlikely.¹³

The possibilities of a woman in difficult financial circumstances obtaining bank credit are essentially non-existent, and, statistically speaking, the likelihood of receiving a loan from one of the few philanthropic funds in the field is very limited.¹⁴ Even if the applicant's financial position is relatively good, her chances of receiving a loan from is also limited, as these funds have a minimum amounts in excess of the sums required by women's businesses in general, and by home-based businesses in particular.¹⁵ Only a few funds work with women in microenterprises.¹⁶

The Koret Israel Economic Development Funds (KIEDF) and its Israel Microenterprise Initiative is the major exception. KIEDF commenced guaranteeing leveraged bank loans via Bank Hapoalim in 2003 to program graduates of Economic Empowerment for Women (EEW), a non-profit assisting women receiving assistance interested in opening home-based business. In 2005 the program was expanded to other applicants as well, and as of June 2006 had facilitated 450 loans primarily in the Galilee representing \$1.5 million., approximately

35% to Israeli Arabs. In 2006, KIEDF commenced expanding the program to various populations throughout the country including single mothers, the Orthodox, Israeli Arabs and the Bedouin.

Income Supplement Benefits

Employed and self-employed women are treated differently with regard to state income supplement benefit eligibility.¹⁷ The primary difference involves proof of income requirements. An employed woman must show wage slips that are available to all employees as a matter of law. A self-employed woman is required by the National Insurance Institute (NII) to produce all the documents related to her business income, including but not limited to, accounting data that requires complicated documentation.

In addition to proof of income, a woman requesting income supplements is required to report periodically to the local employment bureau. She is also required to accept any offer of employment made by the bureau. Whereas consideration is given to an employed woman, so that additional work offered will not conflict with her job, a self-employed woman does not receive such consideration; consequently, accepting the job offered by the bureau usually means ceasing to work in her own enterprise. If she refuses the work offered by the bureau, her income supplement benefits are stopped.

The NII is a source of further trouble for women wanting to open or maintain microenterprises. The lack of consistency in NII procedures for determining the level of income supplements for self-employed women discourages women from initiating business activity. Different branches of the NII use different methods for calculating benefits, adding to the uncertainty and risk a woman faces as she risks exchanging state benefits for a new enterprise. The fear of forfeiting benefits is one of the major issues discouraging women - especially single parents - from attempting to become independent.¹⁸

Lack of Access to Information

Information regarding the administrative procedures needed for establishing and operating a home-based business not readily available. The operation of the business may, in actual fact, be trivially simple; however, lack of information about official procedures, such as licensing, can create problems serious enough to lead to a business failure. A woman entrepreneur, operating a home-based business, or interested in doing so, must expend substantial efforts, and sometimes money as well, to obtain complete, up-to-date information regarding the administrative requirements for running the business. There is in Israel no official body or technical resource where the relevant information is concentrated and readily accessible.

Bureaucracy

The administrative procedures necessary for the registration and operation of a business are complicated to the extreme. A female entrepreneur, who wishes to start and operate a home-based business, must follow these procedures with great care, establishing contact with a large number of official bodies, including the Department of Customs and VAT, the Income Tax Authority, the National Insurance Institute, and local authorities. The long queues of people waiting for service at these government agencies, serve to exacerbate matters.¹⁹ Of

course, men setting up businesses face many of the same difficulties, but fewer men must simultaneously care for their children.

The Negative Public Image of the Small Business Sector

There is a negative stereotype in Israeli society, regarding the risks of small businesses. Many news stories concerning small businesses published in major newspapers dwell on the problems confronting small businesses, on the lack of government support for this sector, on budget cuts in the official bodies charged with supporting small businesses, and so forth. Today, many more people see starting a small business more as a fools exercise, than as a logical step toward personal and economic independence. Financial straits and foolhardy adventures do not sit well together, especially with women who have families and children to care for.

Self-respect and a Poor Self-image

Many women confronted with unemployment and financial problems see their situation as proof of personal failure.²⁰ They lack self-confidence and faith in their ability to succeed. In the field of entrepreneurship, an individual's self-confidence and faith in his/her own ability to succeed are essential ingredients for business success.

Poor Management

In Israel, the entrepreneurial activity of women is characterized by a relatively low level of management ability. This results from a lack of the necessary background and essential skills. Access to training courses and suitable professional counselling, increase the chances of business success (though they do not make success certain, in the absence of other personal qualities). But women in financial difficulties cannot afford training courses or management counselling, which usually have to be paid for.

The International Experience

The "Welfare to Work" program was initiated by the Charles Stewart Mott foundation in 1998.²¹ Its purpose was to determine the effectiveness of promoting self-employment as a means to greater economic independence for welfare recipients, and to pinpoint the optimum conditions for such a policy to succeed.

The program included business training and professional assistance, providing basic business tools and an initial business plan. In order to maximize the usefulness of the services provided by the program, all participants were first individually evaluated as to their personal suitability for entrepreneurship. Participating organizations also provided assistance to those seeking a salaried job in addition to or self-employment.

Following implementation of the program, the levels of employment and income among participants increased significantly, and dependence on state transfers was reduced from 94% at the outset of the program to 25% at its conclusion. Participants who combined independent business activity with work for wages, showed the greatest increase in income level, and the lowest level of unemployment.

Based on the data cited above, and the experience in and outside of Israel, the outlines of a policy for encouraging female entrepreneurship and home-based businesses become clear.

Short-Term Recommendations

1. Increase Sources of Funding for Small Businesses

As noted, the absence of credit is a major hindrance to women entrepreneurs with their own financial problems. Increasing the availability of “small” or “micro” loans, and lowering of the threshold of eligibility for such loans, are essential steps in the promotion of small businesses in general, and home-based businesses in particular.

2. **On-line Information for Microenterprises**

An on-line information service should be set up, to make information accessible to those who want to start microenterprises, or for those who have already done so.

3. **NII Policy: Tailoring Income Supplements to Business Needs**

In order to bring the conditions for receiving NII benefits in line with the business needs of the recipients, employment offered by a state employment bureau should fit within the time constraints of the recipient’s business. A female entrepreneur should also be granted a “grace period” of three months, during which she may operate her business while continuing to receive her income assistance, without being obliged to accept any and all jobs offered by the employment bureau.

4. **Uniform NII Procedures**

NII policy should be clearly stated, readily available and applied uniformly by all NII branches. One way of making the procedures accessible is to publish them on the Internet website of the National Insurance Institute and/or that of ISMEA, and have them translated into the principal native languages of the target population.

5. **Operating a Home-Based Business without Managing It**

There are a number of personal qualities an entrepreneur should have in order to succeed. Not everyone possesses these qualities in sufficient measure to ensure success. We suggest two options that will allow women to enjoy the benefits of a home-based enterprise, while reducing the demands of managerial activity.

The first is for women with complimentary skills to form partnerships. The second is for one entrepreneur to employ a number of women working at home, thus reducing management responsibilities. These options should be promoted by the government and philanthropic organizations involved in offering assistance to underprivileged women and potential entrepreneurs.

Long-term Recommendations

6. Improving the Image Small Enterprise and Entrepreneurial Self-esteem

A national media campaign for home-based businesses should be conducted. The campaign should inform the public about institutions that assist entrepreneurs who run home-based businesses, or are interested in doing so, and should demonstrate the support of government and private institutions for such entrepreneurs, in order to create a positive image for home-based businesses, which are means to financial self-sufficiency and employment.

7. **Reducing Bureaucracy**

All the administrative procedures required for establishing and operating a home-based business, including informational assistance to would-be entrepreneurs, should be available at a “one-stop” shop.

These recommendations should help remove obstacles currently impeding underprivileged women wishing to set up and operate a home-based business. If adopted, they should promote the development of entrepreneurship among women, expand the Israeli work force, reduce transfer payments and poverty and further the growth of the Israel economy.

- ¹ 31%. See: Lior Ben David, *Update: Female Entrepreneurship in Israel* (Jerusalem: The Knesset, Center for Research and Information, submitted to the Committee on the Status of Women, 17 February 2005), pp. 2-3, <http://www.knesset.gov.il/mmm/doc.asp?doc=m01153&type=pdf> (19 February 2005). For further information on the characteristics of self-employed women in Israel see: Miri Lerner, Candida Brush, Robert Hisrich, "Israeli women entrepreneurs: An examination of factors affecting performance," *Journal of Business Venturing* 12 (1997), pp. 315-339.
- ² Ben David, *Update*, p. 2.
- ³ The National Insurance Institute, "The Dimensions of Poverty and Income Gaps 2004/2005," http://www.btl.gov.il/pdf/oni2004_5.pdf (26 March 2005).
- ⁴ Brenda Morgenstern, Miriam Schmeltzer, Tamar Heron, Yehudah King, Tamar Aharoni, Denise Naon, *The Employment Situation among Recipients of an Income Supplement Allowance: Resources, Obstacles, and Assistance Needed for Integration into Work*, Research Paper 79 (Jerusalem: The National Insurance Institute, Research and Planning Administration and the Joint-Brookdale Institute, January 2003), http://www.btl.gov.il/pirsumim/mechkar_79.pdf
- ⁵ Single-parent families were 28% of the recipients of the Income Supplement Allowance in 2000; single-parent families were 36% of the recipients of the Income Supplement Allowance in 1999. See Yehudah King and Gideon Maor Shavit, *Quality of Life among Recipients of the Income Supplement Allowance*, Research Paper 85 (Jerusalem: National Insurance Institute, Research and Planning Administration and the Joint-Brookdale Institute, February 2005), p. 50, http://www.btl.gov.il/pirsumim/mechkar_85.pdf
- ⁶ Daniel Gottlieb and Nitzah (Kleiner) Kasir, *Poverty in Israel and a Proposed Strategy for Reducing It: Expansion of Employment and Changes in the System of Social Benefits* (Jerusalem: Bank of Israel, July 2004), p. 2, <http://www.bankisrael.gov.il/deptdata/papers/paper08h.pdf>
- ⁷ Ministry of Trade, Industry and Labor, Legal Bureau, *Memorandum re: Law for the Encouragement of Small and Medium Enterprises, 5765-2005*, 12/09/2995, explanatory text.
- ⁸ Etti Weisblau, *Background Paper: Aid to Small and Medium Enterprises* (Jerusalem: Knesset, Center for Research and Information, submitted to the Committee for Labor, Social Affairs and Health, 20 June 2005), p.1, <http://www.knesset.gov.il/mmm/doc.asp?doc=m01194&type=pdf> (19 February 2006)
- ⁹ Orly Lotan, *Background Paper: The Advancement of Female Entrepreneurship* (Jerusalem: Knesset, Center for Research and Information, Jerusalem, submitted to the Committee on the Status of Women 19 June 2005), p. 2, <http://www.knesset.gov.il/mmm/doc.asp?doc=m01172&type=pdf> (19 February 2006)
- ¹⁰ Ibid.
- ¹¹ Ibid.
- ¹² Ministry of Industry, Trade and Labor, Manpower Planning Authority, *Program for the Integration of Single Parents into Business Entrepreneurship*, executive summary (Jerusalem: Ministry of Industry, Trade, and Labor, August 2003), p. 1.
- ¹³ Dr. Amalia Saar, Progress Report of an Evaluation of "A Business of Your Own," (NII, 2005), p. 16.
- ¹⁴ Josepha Taviv, Coordinator of Community Projects, Shatil, interview with the author, 19 February 2005.

- ¹⁵ The Israel Small and Medium Enterprise Authority, Department of Funding and Entrepreneurship in Moshavim, *Review of Findings Regarding Dedicated Funds for Small Enterprises in Israel*, ed. Avner Vered, 2005 (11 December 2005), <http://www.asakim.org.il/upload/Microsoft%20Word%20-%20kranotavner.pdf>
- ¹⁶ Ibid.
- ¹⁷ Chagit Rubinstein, Program Director of the KIEDF Microenterprise Initiative, interview with the author, 22 March 2006.
- ¹⁸ The effective tax for a woman Receiving Income Supplement on account of a child is 60%, compared with 100% for everything else. In addition, there are special formulae for Income Support for women whose income (despite the fact that they are working) is less than the statutory minimum, according to criteria such as overall income, number of children, etc. See: Morgenstern *et al.*, "The Employment Situation," p. 71.
- ¹⁹ Sixteenth Knesset, Third Session, *Protocol 188*, meeting of the Committee on the Status of Women, Tuesday, 14 Sivan 5765 (21.06.2005), "Business Entrepreneurship - Encouraging Women to Open Small and Medium Enterprises."
- ²⁰ Meirav Grinstein, *Unemployed Persons who Attempt to Set up a Small Business*, Information sheets concerning the labor market (Jerusalem: Ministry of Labor and Social Welfare, July 2002).
- ²¹ Joyce A. Klein, Ilgar Alisultanov and Amy Kays Blair, *Microenterprise as a Welfare to Work Strategy: Two-Year Findings*, Research Report No. 3 (USA: The Aspen Institute, November 2003), <http://www.fieldus.org/publications/WTWRpt3.pdf>.

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