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Asset-based microfinance for microenterprises: Evidence from Pakistan*

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January 2021

Abstract

We conduct a field experiment offering graduated microcredit clients the opportunity to finance a business asset worth four times their previous borrowing limit. We implement this using a hire-purchase contract; our control group is offered a zero-interest loan. We find large, significant and persistent effects from asset finance contracts: treated microenterprise owners run larger businesses and enjoy higher profits; consequently, household consumption increases, particularly on food and children's education. A dynamic structural model with non-convex capital adjustment costs rationalises our results; this highlights the potential for welfare improvements through large capital injections that are financially sustainable for microfinance institutions.

*We are grateful to Clare Balboni, Georgia Barboni, Vittorio Bassi, Emily Beam, Miriam Bruhn, Robin Burgess, Azam Chaudhry, Kristina Czutz, Jonathan de Quidt, Stein Dietzen, Kevin Doneson, Pascale Dupas, Manuel Febres-Cordero, Marwesh Ghatak, Soha Goksel, Morgan Hand, Thomas Henneman, Chiromi Imbert, Anne John, Jason Karwina, Michael Kordic, Julian Labenne, Hannah Lee, Rocío Macchiavello, Maheen Mahmood, Colin Mayer, Karl Moran, David McKenzie, Patrick Moran, Ross O'Keefe, O'Donovan, Kaveh Orkin, Adam Osman, Tamer Ramadhan, Imran Riaz, Faraz Said, Younes Saidani, Petr Sedlacek, Madrid Siflibe, Munir Squires, Juan Carlos Salmerón-Sarrate, Alex Tsyplakov, Kate Wyeromny and Chris Woodruff for their very helpful comments. We thank Ahmad Ayub, Usman Akram and Umair Zahid for excellent field assistance. This project was funded by the Financial Services for the Poor Research Fund at Innovations for Poverty Action (IPA), sponsored by a grant from the Bill & Melinda Gates Foundation Foundation, as well as initial pilot funding from Private Enterprise Development in Low-Income Countries (PEDL). Our pre-analysis plan is available at <https://www.socialscienceregistry.org/trials/3886>. IRB approval was obtained from the University of Oxford (037980/R1002, 12 July 2016). We randomised the order of author names, using the AEAs 'author randomisation tool', which promptly and randomly returned the names in alphabetical order (confirmation code: fsh2R7ID3Gw).

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Appendix for Online Publication

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