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Asset-based microfinance for microenterprises: Evidence from Pakistan*

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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.

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Evidence from Pakistan**

Appendix for Online Publication

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