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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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*Appendix for Online Publication*

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# Asset-based Microfinance for Microenterprises: Evidence from Pakistan

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