Authors
Simon Quinn
University of Oxford

Muhammad Meki
University of Oxford

Kashif Zaheer Malik
Lahore University of Management Sciences

Faisal Bari
Lahore University of Management Sciences

Asset-based microfinance for microenterprises: Evidence from Pakistan*

Faisal Bari[†] ⓡ
Kashif Malik[‡] ⓡ
Muhammad Meki[§] ⓡ
Simon Quinn[¶] ⓡ

January 2021

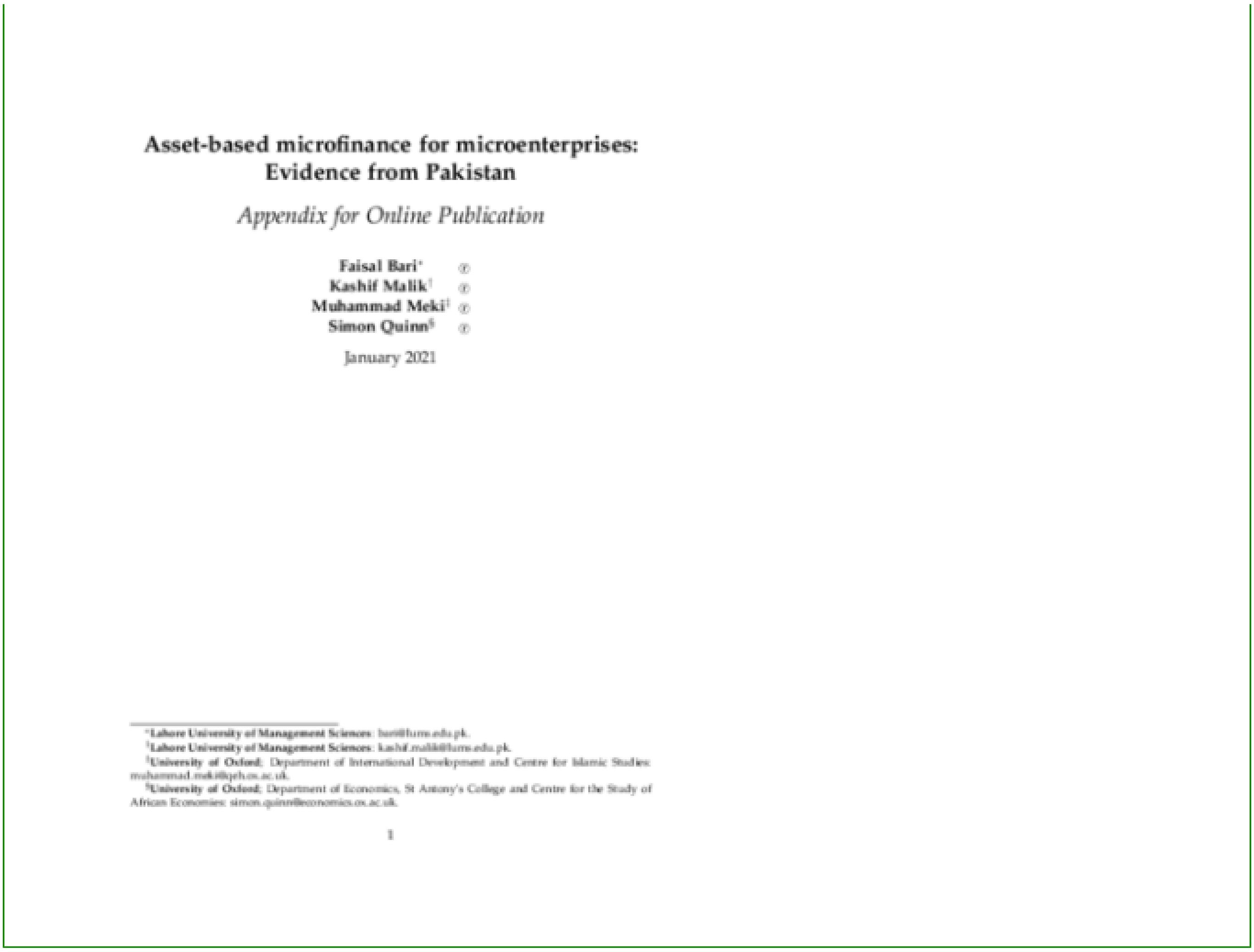
Abstract

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, Giorgia Barboni, Vittorio Bassi, Emily Beam, Miriam Bruhn, Robin Burgess, Azam Chaudhry, Kristina Czura, Jonathan de Quidt, Stefan Dercon, Kevin Donovan, Pascaline Dupas, Marcel Fafchamps, Maitreesh Ghatak, Selim Gulesci, Morgan Hardy, Thomas Hellmann, Clément Imbert, Anett John, Jason Kerwin, Michael Koelle, Julien Labonne, Hamish Low, Rocco Macchiavello, Maheen Mahmud, Colin Mayer, Karol Mazur, David McKenzie, Patrick Moran, Rossa O'Keefe-O'Donovan, Kate Orkin, Adam Osman, Tarun Ramadorai, Imran Rasul, Farah Said, Younes Saidani, Petr Sedlacek, Modibo Sidibe, Munir Squires, Juan Carlos Suárez Serrato, Alex Teytelboym, Kate Vyborny and Chris Woodruff, for their very helpful comments. We thank Ahmad Ayub, Uzair Akram and Umer 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 (R37860/RE002, 12 July 2016). We randomised the order of author names, using the AEA's 'author randomization tool', which promptly and randomly returned the names in alphabetical order (confirmation code: FsN2R70D3Gw1).

[†]**Lahore University of Management Sciences**: bari@lums.edu.pk.
[‡]**Lahore University of Management Sciences**: kashif.malik@lums.edu.pk.
[§]**University of Oxford**: Department of International Development and Centre for Islamic Studies: muhammad.meki@qeh.ox.ac.uk.
[¶]**University of Oxford**: Department of Economics, St Antony's College and Centre for the Study of African Economies: simon.quinn@economics.ox.ac.uk.

Innovations for Poverty Action



Asset-based microfinance for microenterprises: Evidence from Pakistan

Appendix for Online Publication

Faisal Bari[*]
Kashif Malik[†]
Muhammad Meki[‡]
Simon Quinn[§]

January 2021

[*] **Lahore University of Management Sciences**: bari@lums.edu.pk.
[†] **Lahore University of Management Sciences**: kashif.malik@lums.edu.pk.
[‡] **University of Oxford**; Department of International Development and Centre for Islamic Studies: muhammad.meki@qeh.ox.ac.uk.
[§] **University of Oxford**; Department of Economics, St Antony's College and Centre for the Study of African Economies: simon.quinn@economics.ox.ac.uk.

1

Asset-based Microfinance for Microenterprises: Evidence from Pakistan

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 rationalizes our results; this highlights the potential for welfare improvements through large capital injections that are financially sustainable for microfinance institutions.

January 01, 2021