

Drawing together literature on credit market failure and political commitment, this paper proposes a new channel by which a politician may intervene in the credit market without pressuring banks to increase or redirect lending. Instead, the politician can make a constituent into a more attractive credit risk by making her receipt of private government aid conditional on her loan repayment; this allows the constituent to credibly commit to repaying her loan in much the same manner as collateral. However, the politician's offer to deliver benefits is itself only credible if the politician values the constituent's support. I provide evidence of this dynamic with novel data from a survey of microcredit groups in South India. Using measures of the constituent's valuation of two forms of government aid and exogenous variation in the probability that the local politician is eligible for reelection, I show that a constituent with high aid valuation receives more aid, spends more time supporting the politician and his political allies, and receives more credit than a constituent with low valuation, but only when the politician is likely to be eligible for reelection. I perform additional robustness checks to rule out the possibility that the politician is applying pressure to the banks to increase lending and the possibility that receiving aid directly increases the income of the constituent and thus her capacity to receive credit.