

Increasing Trust in Latin America and the Caribbean

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“Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence.” K. Arrow (1972, p. 357)

I. Background and Justification

Trust, a person’s belief that another person or institution will act consistently with their expectations of positive behavior (OECD, 2017), is low and falling in Latin America and the Caribbean (LAC). According to the Latinobarómetro survey, citizens’ interpersonal trust decreased from 21% in 2009 to 14% in 2018. This contrasts notably with Europe and Southeast Asia, where interpersonal trust is 44% and 32%, respectively. In addition, over the past decade, the region saw reductions of 51% and 46%, respectively, in trust in the government and trust that institutions work to improve citizens’ welfare.

Numerous studies have identified trust—both trust in institutions and trust in other people—as a key factor in social and economic progress and democratic stability (Algan and Cahuc, 2015; Algan et al., 2017). At the macroeconomic level, trust has been found to be beneficial for economic growth through financial channels (Kiyotaki and Moore, 2002), product and labor markets, innovation and the organization of firms (Algan et al., 2014; Knack and Keefer, 1997; La Porta et al., 1997; Dasgupta and Sergaldin, 2000; Glaeser et al., 2000; Zak and Knack, 2001; Beugelsdijk et al., 2004; and Bloom et al., 2012). It has also been associated with lower macroeconomic volatility in a cross-section of countries (Sangnier, 2013), playing a significant role in foreign direct investment inflows (Guiso et al., 2009; Xin, 2017), affecting investment decisions in the stock market (Guiso et al., 2008) and those of venture capitalists (Bottazzi et al., 2016). In the United States, for example, Dincer and Uslaner (2010) found that a 10-percentage point increase in trust increased the growth rate of GDP by 0.5 percentage points and the growth rate of manufacturing employment by 1.3 percentage points over a five-year period.

Trust has also been linked to health status and health-related behavior (Lochner et al., 2003; Lindström, 2005; Brown et al., 2006), crime rates (Buonanno et al., 2009) and subjective well-being (Helliwell and Wang, 2010; Boarini et al., 2012).

At the individual level, Butler et al. (2016) modelled and tested that expected income, as a function of trust, is hump-shaped. Using data from the European Social Survey, the authors found that although a majority of individuals has well-calibrated beliefs, a non-trivial proportion of the population (10%) has trust beliefs sufficiently poorly calibrated to lower income by more than 13%. In fact, the cost of either too much or too little trust was comparable to the income lost by forgoing college.

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Finally, declining trust in institutions, particularly in political parties, has been associated with an increase in non-mainstream voting and populism in several countries (Inglehart, Norris, 2016; Algan et al., 2017).

Another key ingredient of social and economic development associated with trust is social capital (most of the studies that look at social capital use trust as a proxy, taking advantage of the World Value Survey). Social capital has been found to explain a wide variety of socioeconomic phenomena: economic growth (Guiso, 2011; Boulila, 2008; Knack and Keefer, 1997), human capital (Coleman, 1988; Israel and Beaulieu, 1995; Goldin and Katz, 1999), size of firms (La Porta et al., 1997; Bloom et al., 2009), institutional design, quality and performance (Djankov et al., 2003), financial development (Guiso et al., 2004, 2008; Calderón et al., 2001), crime (Glaeser et al., 1995; Olson, 1982; Zak and Knack, 2001), the power of the family (Alesina and Giuliano, 2007), innovation (Akçomak et al., 2009; Fountain, 1997) and the spread of secondary education (Goldin and Katz, 2001). Furthermore, different empirical studies on social capital attribute the variation between regions and countries and the level of economic and social development to the stock of social capital (Neira et al., 2008; Helliwell, 1996; Helliwell and Putnam, 1999, 2000; Knack and Keefer, 1997; Krishna and Uphoff, 1999; Pereiro and Tortosa, 2015).

Despite the wealth of research on trust and social capital, several central questions remain unanswered.

First, although LAC is one of the lowest-trust regions in the world, there is little research that focuses on the sources and consequences of low trust in the region, nor on the reasons for the recent and precipitous declines in trust.

Second, research on interventions and policies that might increase trust is only incipient: the historical sources of low trust (e.g., war, the slave trade) do not lend themselves to policy interventions. Others—for example, information and repeated interaction—are well-studied at the theoretical and experimental level, but little is known about their effects in the field.

Third, while education is associated with greater trust, the mechanisms underlying this relationship are unknown.

Fourth, the impact of trust on the policy preferences of voters, and the sources of voter trust in political actors and institutions, are first order issues in the functioning of democracies. The limited literature that looks at these issues is dominated by correlational studies and has, in particular, advanced only slightly in studying the relationship between collective action and trust.

Fifth, and relatedly, the identification of causal effects in the trust literature, outside of laboratory settings, leaves ample room for progress.

Against this backdrop, the Inter-American Development Bank (IDB) has decided to prioritize these issues and will focus its efforts in the next few years on how to increase

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trust and social capital among citizens and with government. This call for proposals is part of the effort to understand the effects of low trust on public policy, the sources of low trust, interventions that can increase trust and how governments can incorporate these insights into public policy.

II. Objectives

The main questions guiding the research network that is the subject of this call for proposals is how to improve citizens' welfare by increasing trust, social capital and collective action. The project is intended to generate evidence on mechanisms that increase trust through field and natural experiments.

The studies should contribute to our understanding of the determinants of trust in LAC and the mechanisms that promote or discourage interpersonal trust and/or trust in government, politicians and public officials, and/or social cohesion and collective action. We plan to commission 5 research papers in total and give priority to studies that utilize field experiments to increase trust, and that suggest the most policy-relevant, scalable interventions.

For example, financial systems depend on trust in banks to be effective (Fungáčová, 2017). Unbanked adults worldwide mention lack of trust as a reason for not saving with a formal institution (Dupas, 2013; Demirgüç-Kunt, 2013). Stimulating demand for financial services requires that individuals have trust that the real value of their payments and savings instruments will be preserved. Yet, there is little evidence on what determines this trust, especially in LAC, and how to increase it and foster financial inclusion. In some countries, people receiving transfers are not keeping their balance in the banking system because of low trust, which increases transactions costs and tends to reduce savings. A team could join a government or a financial institution and design a proposal that could increase trust and hence increase balances and savings.

Because we understand that data limitations could affect the measurement of trust, a variety of study designs can serve the objectives of this project, and not only those that directly examine the effect of a particular intervention on levels of trust. For example, if an intervention is thought to affect public policy outcomes because of its effect on citizen trust, evidence of the reduced form effects of that intervention on policy outcomes would be welcomed. Similarly, if an intervention is thought to increase citizen capacity for collective action, which in turn makes citizens more willing to trust politicians' promises and thereby affect public policy, evidence of the intervention's effects on collective action or policy would also be valued. Of course, the more abundant the evidence on mechanisms, the more valuable the proposed study.

For example, assume that vaccination is low in a community and observers agree that this is because potential beneficiaries do not trust the vaccine or the people in charge of administering the vaccine. A team could propose an intervention that has an impact on

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trust. The team could measure the impact of an intervention to increase trust in the vaccine or the medical staff by: i) evaluating the effect of the intervention on trust, ii) evaluating the effect of the intervention on vaccination, or iii) both i) and ii). Each measurement could have different data sources and data collection costs. A study that focused only on ii) would be acceptable if theory and previous research have strongly suggested that the main mechanism mediating the result is a change in trust. While we have mentioned examples from the financial and health systems, these are by no means the main or only areas in which teams can present proposals. Every policy area is a potential area of intervention. Additionally, as mentioned above, interventions could try to increase collective action and/or social cohesion.

Because of potential financing restrictions on gathering large amounts of data, we encourage partnerships with government and other public and private institutions that can provide access to administrative data for the design and evaluation of the intervention.

III. Methodology and Scope

We expect the experiments to follow a rigorous approach and will prefer those proposals that make use of field or natural experiments. The methodological section of the proposals should therefore specify the following:

1. Information and data sources.
2. Map / diagnosis of the problem and stakeholders (e.g., voters and politicians, health officials and patients, etc.).
3. Proposed conceptual framework (the microfoundations that link the intervention to trust and other dependent variables) and hypotheses.
4. Experimental design and proposed interventions.
5. Experience of the team in the implementation of the proposed design.

While most of the interventions will be local, given the nature of the proposals, the interventions evaluated, and the lessons learned should be relevant for the countries of LAC.

IV. Content of the Studies

1. Brief analysis / diagnosis of the evolution of the topic and context (i.e., political, economic) in which the experiment will operate. What is the motivation of the study?
2. Brief literature review of the research topic and methodology. Describe the novelty and contribution of the proposed study.
3. Description of the experiment:

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- a) Diagnosis of the problem and stakeholders.
 - b) Description of the data.
 - c) Description of empirical tools and experimental design.
 - d) Assessment of results.
4. General conclusions:
- a) Policy lessons and, especially, the external validity of the results of the work.
 - b) Conditions that may foster or discourage trust, social capital and collective action.

V. Content of the Research Proposals

Research institutions must submit a proposal (maximum of 5 pages) detailing the following:

- Relevance of the experiment to the questions raised by this invitation.
- Brief explanation of the theory underlying the intervention, its hypothesized effects and the role of trust.
- Methodology to be used in the experiments to address the issues discussed in Section III, including the data and information sources to be used, and the expected results.
- Potential relevance of the lessons and conclusions to be extracted for the public policy debate in the country or countries.

In addition, proposals must include:

- A list of the researchers (in a separate annex) who will be involved in the project. The center should present a research team justification of their capacity to meet the objectives of the project, including relevance of prior experience. Curricula vitae of the researchers should be included. Subsequent substitutions for researchers originally specified in the proposal may be made with prior approval from the IDB Network coordinator, but the project leader should lead the entire project to completion.
- A budget (in a separate annex) indicating the time and resources that will be used within the context of the research work plan must be included. The budget proposed by the research center should disaggregate items financed by the IDB contribution and those financed by the research center. The budget should distinguish among amounts assigned to professional honoraria, data collection, "overhead" and other major categories of research expenditures. The budget can also include third-party financing and contributions from other parties (such as government institutions the researchers will partner with during the intervention).

Note: Proposals may be submitted in English or Spanish.

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VI. Selection Criteria

Research institutions only (including think tanks) may present proposals. The research teams will be selected according to three main factors:

1. Relevance and motivation.
2. Methodological rigor and persuasiveness of the identification strategy.
3. Team experience. The relevance of the team's experience for the proposed project will be a very important criterion in the selection process.

VII. Proposal Registration

Proposing research institutions should be registered as Research Network members (contact Elton Mancilla at eltonma@iadb.org) and should be based in the Latin American and Caribbean region. U.S. and European institutions do not qualify as members of the Research Network. However, researchers from the United States and Europe can participate with research teams from proposing institutions.

Proposals should be submitted using the Web Submission Form that is provided in the Call for Proposals announcement. Proposals are due August 16, 2019. Please note that there are two options within the submission form: one for institutions and another for individual researchers. Please make sure to choose the institutions option.

VIII. Coordination and Schedule

The project will be administered by the Research Department (IDB/RES), with the collaboration of the Institutions for Development Department (IFD), under the technical coordination of Carlos Scartascini (IDB/RES), Philip Keefer (IFD), and Rubén Durante (CEPR), external advisor.

The tentative schedule of activities is as follows:

August 16, 2019: Due date for receiving proposals. Institutions should ensure that the complete documentation is submitted to the evaluation committee. Complete documentation includes the following: registration form with all the information requested, the research proposal, budget, and curriculum vitae (CVs up to three pages long).

October 7, 2019: Announcement of selected research proposals.

November 15, 2019: Due date for receiving revised proposals, incorporating the changes associated to the comments received to the original proposal.

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December 2-3, 2019: First Discussion Seminar in Washington, D.C. with the Technical Directors of the research projects and the coordinating committee for the purposes of presenting the intervention to be carried out and the methodology to be used in the study as well as brief preliminary discussions.

December 23, 2019: Due date for research plan, design of the intervention, and intervention schedule and details. AEA pre-registration of the research proposal and IRB should take place by this date.

April 30, 2020: Due date for receiving a report on the implementation status of the intervention.

June 30, 2020: Due date for receiving a second report on the implementation status of the intervention.

October 16, 2020: Deadline for a second draft of the research papers.

October (TBD), 2020: Second Discussion Seminar in Washington, D.C. or location and date to be determined with the Technical Directors of the projects and the coordinating committee to discuss the second draft of the research papers.

November 16, 2020: Deadline for a revised version of the research papers. Research papers must follow the IDB Manual of Style for working papers. Studies that are of good quality at this stage will be considered for publication as working papers. A selection of the best papers may be invited to participate in a special issue of a recognized academic journal or an edited volume.

IX. Financial Contribution and Payment Schedule

The IDB will contribute up to US\$30,000 or its equivalent in local currency as a contribution to the total budget of each research study, depending on the number of research studies selected. The payment schedule is as follows:

- 20 percent within 30 days of signing the formal agreement between the IDB and the respective research center.
- 20 percent within 30 days of presenting and approving by the IDB of the research plan.
- 20 percent within 30 days of presenting and approving by the IDB of the first report of advances of the research paper.
- 20 percent within 30 days of presenting and approving by the IDB of the final draft of the research paper.
- 20 percent within 30 days of presenting and approving by the IDB of the revised version of the research paper and completion of the conditions of the terms of reference.

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X. References

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Call for Research Proposals



VPS/RES

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