Trust between public and private sectors: The path to better regulatory compliance?

A review of the state of trust, its importance in public and private sector relationships, and policy implications from behavioral insights in trust-building reforms

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Abstract:
This paper is a literature review on the topic of trust between public and private sectors. It includes discussion on trust's conceptual underpinnings, its importance in private and public sectors' functioning, and potential interventions targeting the fostering of greater trust. This latter discussion is set within the context of behavioral science and its use in helping to understand trust as well as tools to help diagnose and design approaches to trust-building reforms. This evidence will help inform the implementation of policy reforms to maximize their credibility, effectiveness, and induce the desired behavioral changes among businesses and governments. The paper also notes the need for additional research and evaluations that directly incorporate measures of trust.

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Executive Summary

As argued by Nobel Laureate Kenneth Arrow: "Virtually every commercial transaction has within itself an element of trust" (Arrow, 1972). Trust is a critical part of society’s functioning and well-being. The variability of trust can be problematic, but also an important behavioral response that allows us to make transactions and engage in social and civic processes when we do not have perfect information on all parties intentions (Gambetta, 2000). Indeed, trust levels have been found to positively correlate with a myriad of economic and social well-being indicators such as high compliance rates, increased innovation, increased equality, rule of law, higher GDP per capita, among others. As a result, trust is a common denominator of many of society’s most prized indicators, each of which are directly or indirectly tied to the relationship between public and private sectors.

The purpose of this paper is to gather evidence to better understand the relationship between private sector’s trust and the effectiveness of public institutions. This evidence will help inform the design and implementation of policy reforms to improve trust in low trust environments as well as highlight the potential importance of trust in government to business relations. The insights described will help to maximize the credibility and effectiveness of reforms as well as induce the desired behavioral changes among businesses.

This paper will address the role of trust between public and private sectors via three parts. Part 1 describes the current state of trust including the extent of its existence, its conceptual underpinnings, and the potential importance of behavioral science to understanding it. Part 2 then reviews the literature on trust’s role in private and public sector relationships, particularly in areas of compliance and business regulation. From there we review interventions\(^1\) and policy reforms used to influence trust between private and public sectors, all viewed from a lens of

\(^1\) Interventions here refers to changes in strategy to produce a behavior change. They are not necessarily a part of a policy reform, with many interventions being conducted in an experimental, simulated setting to understand potential behavior change should a policy reform be enacted.
behavioral science. Part 3 derives policy insights from these interventions with specific recognition of behavioral science tools to help design reform.

Part 1: Our Understanding of Trust and Behavioral Insights
In the aftermath of the 2008 financial crisis, trust in and between a broad range of public and private institutions (e.g. banks, government agencies, etc.) fell sharply in countries around the world (OECD, 2017). The decline has continued, as the 2017 Edelman Trust Barometer, which conducts a survey of trust across 28 countries, saw a net decline in trust across sectors of business, media, NGOs, and government for the first time in 17 years (Lord, 2019). Similarly, the Gallup World Poll found that of 26 countries polled (out of 38), trust in national government declined from 2007 to 2016, with some countries seeing a decline of over 20 percentage points (Lord, 2019). Countries with particularly large declines in trust were those countries with significant income inequality, low educational attainment levels, low GDP and low levels of civic engagement (OECD, 2017). Recognizing trust’s decline requires a deeper dive into the concept of trust, and the many facets and dimensions it can take.

Trust is a response to asymmetrical information, forcing parties to cooperate to varying extents in order to achieve mutually beneficial outcomes (Gambetta, 2000). If asymmetrical information increases, this can lead to a decline in trust. There are many different types of trust used to manage the varying types of information asymmetries. For example, limited trust exists between two specific, known parties while a generalized trust is granted to all people.

Measurement of these various types of trust is not necessarily a straightforward process, adding to the complication of seeking to ‘manage what we measure’. Trust, while an old concept, does not have an old history of measurement, particularly within official statistics (OECD, 2017). In those cases where measurement has been conducted over the past several decades, international comparability is often an issue and the accuracy of the measures are often unclear. While measurement has been limited and often flawed, this is in part a result of the lack of demand for actionable measures to be developed. Recent years of low trust have however led to a change in this, with increasing drive to make measurements that institutions can use to guide policy (OECD, 2017).

While the concept of trust is complicated and its measurement difficult, new insights are becoming available to begin to better understand and enhance trust. In particular, recognition of the use of behavioral science is growing and worthy of further attention.

Behavioral science provides an opportunity to expand traditional approaches to policy reform, bringing greater recognition of human behavior and decision-making processes into resolution and allowing for more efficient, effective policy design. Behaviorally-informed policy is based on three key ideas:

1. **People think automatically.** Much of our thinking is automatic and based on what comes to mind effortlessly. Deliberative thinking, in which we weigh the value of all available choices, is less common.
2. **People think socially.** Human beings are deeply social. We like to cooperate—as long as others are doing their fair share. We tend to follow descriptive norms (the behavior we perceive in others) and proscriptive norms (those actions we’re expected to do). We tend to be most persuaded by information when it comes from a trusted social contact. Interventions and policy reforms can be designed to support cooperative behavior.

3. **People think with mental models.** When people think, they generally do not invent concepts. Instead, they use mental models – those beliefs, concepts and ideas used by people to interpret the world around them, drawn from their societies and their shared histories. Societies provide people with multiple and often conflicting mental models; which one is invoked depends on contextual cues.

Recognition of these three ideas helps to frame the trust or lack thereof seen in public-private sector relationships. Despite our best intentions, we’re all susceptible to cognitive biases and heuristics – which can inhibit thoughtful, equitable decision-making and policy design.

**Part 2: Literature Review on Trust between Private and Public Sectors**

Trust plays an important role in every government activity, whether be it through designing and formulating policies or through service delivery to businesses and citizens. This makes trust very important, as governments around the world are major service providers – and not just through policies and programs, but also through the scale of their employment. In the United States in 2018, federal, state, and local government employed 22 million people – 14% of the population – while providing services to 328 million people (Buell et al., 2018). As the OECD (2017) notes, failure of governments to recognize the importance of trust can reduce their effectiveness and eventually even put their mandate at risk.

When businesses lack trust in their government, there is less respect for laws and regulations passed, and less desire and willingness to comply with regulations. In assessing trust in government, OECD (2017) notes there are two core dimensions: 1) competence and 2) values. The first includes the governments’ ability to provide services and appropriate access to services, protect its citizens, and more generally its ability to adapt to change through rulemaking, reform, and reorganization. The latter involves the private sector’s perception of the government’s use of power and integrity, its effort to engage with citizens and pursue socioeconomic progress for all society. Perceptions of procedural justice, corruption, excessive bureaucracy, etc. all can influence business trust in government. Likewise, when governments feel their private sector counterparts are pursuing opportunistic behavior, dodging taxes and regulations, they are inclined to manage this loss of trust with greater enforcement, coming at a greater cost, and often further reducing the private sector’s trust in them. Effective targeting and management of trust through policy reform is thus, often in the interest of both parties.

**Private-public sector trust can be impacted through many channels** including: transparency and communication, public engagement, participatory budgeting, corruption, tax compliance, informality, self-regulating industries, social inclusion, among others.

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2 Fairness and transparency in government processes
Various interventions have been conducted that show the importance of trust as well as potential behavioral insights gained by policymakers. For example, transparency in government operations has been shown to support trust in the city government of Boston, U.S. (Buell et al., 2018), through increased awareness of government operations. Government operations can range from more visible public works repairs to less recognized public incentive programs such as mortgage tax deduction, each of which are common elements to many people’s lives and each require government time and money to implement but are not always readily recognized by citizens as a public service. Helping people see the services provided by the government helps them appreciate it more. Along similar lines, increases in participatory budgeting at the municipal level have been shown to be effective at boosting trust in South Kivu, DRC with a 16 fold increase in tax compliance (Howard, 2012; Estefan and Weber, 2012).

While the importance of trust is clear in business and government relationships, the extent to which trust causally determines outcomes such as economic growth, increased incomes, increased equality, or increased productivity is an area of developing research. Based on strong correlations between trust and positive economic outcomes, it is suggested that achieving higher levels of trust can contribute to reduced poverty and increased economic prosperity.

**Part 3: Policy Insights for Improving Trust between Government and Private Sector**

**Summoning increased trust levels has not proven to be a readily achievable task.** The use of behavioral insights to influence policy design and reform have however shown to be an important consideration when seeking to foster increased trust. Application of behavioral insights to the structure of relationships between public and private sectors will be an important area of future research.

**The use of behavioral insights could be of relevance in policy design.** Development policy typically targets financial resources, laws, or incentives – the conventional tools used by policymakers to support economic development. Behavioral science expands on this by drawing on a variety of disciplines, including economics, psychology, anthropology, sociology, and neuroscience. **Behaviorally-informed policy emphasizes the importance of context for decision-making and impact.** It addresses details in bureaucracies, technologies, and service delivery that are often overlooked in policy design but that dramatically influence the effectiveness of development programs and projects, providing creative solutions to difficult challenges, often at low cost. Interventions and reforms designed to work with behavioral insights rely on careful diagnostics to understand the issue at hand and involve an iterative process of testing and adaption to maximize effectiveness of the intervention. Policy makers can make use of a series of tools such as journey mapping (a step-by-step representation of a user’s interaction with a service), mystery shopping (anonymous individuals take part in a shopping or service experience, without the business or government knowing, and provide feedback on the experience), gamification (the use of game-design elements in non-game settings to increase user

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3 The democratic decision-making process for allocating public budgets.
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engagement), and observations to support recognition of opportunity for reform as well as improving the effectiveness of a trust-oriented policy reform – a reform that includes increased trust as policy objective. These tools serve as a diagnostic to identify the behavioral obstacles to fostering trust, and would be followed by the implementation of behavioral interventions (nudges) that could increase trust. Interventions would serve to address either individual-level behavioral factors or applying behavioral insights to improve delivery of an already developed intervention, taking into account common heuristics (rules of thumb), negativity biases (overweighting negative effects), affinity biases (preference for people similar to ourselves), among others.

While rebuilding trust is difficult and unclear, we know much more about what erodes trust. It is thus important going forward for researchers to build a more robust evidence base regarding efforts to restore trust between the public and private sector. This evidence will require a strong underlying analytical structure for recognition of how insights gained suit the local context, and the extent they are transferrable to other contexts. This then necessitates an improvement in the collection of data to further our understanding of trust’s role in our lives (Hamilton et al. 2016).

For a given issue, following an assessment of needs, biases and trust levels; policy reform and government intervention may then be appropriate, but likely not before such an assessment. In her article, Lord (2019) notes the ‘Six Paths to Greater Trust’ these policy reforms may follow:

1. Make sure institutions are effective and deliver real benefits for people.
2. Develop future leaders who work for the greater good, not for themselves.
3. Strengthen accountability and transparency.
4. Engage citizens in solving community and societal challenges.
5. Strengthen social inclusion.
6. Establish real commitment.

Rebuilding trust between the public and private sectors could help support a more prosperous and cooperative relationship.

Part 1: Our Understanding of Trust
I. Introduction

As argued by Nobel Laureate Kenneth Arrow: "Virtually every commercial transaction has within itself an element of trust" (Arrow, 1972). Trust is a critical part of society’s functioning and well-
being. The variability of trust can be problematic, but also an important behavioral response to manage the limits of foresight, allowing us to make transactions and engage in social and civic processes when we do not have perfect information on all parties’ intentions (Gambetta, 2000). In the aftermath of the 2008 financial crisis, people's trust in a broad range of public and private institutions (e.g. banks, government agencies) fell sharply in countries around the world, especially those most severely affected by the crisis (OECD, 2017).

This is important because trust is woven into our daily lives, and it is recognized that increased trust levels tend to lead to better societal and economic outcomes. Business exchange tends to be more frequent in more trusting countries (Labonne and Chase, 2008). Countries with higher levels of trust tend to experience higher rates of GDP growth as well as have stronger institutions (Knack and Keefer, 1997; Zak and Knack, 2001; La Porta et al., 1997). La Porta et al. (1997) find that a one standard deviation increase in trust is associated with a 0.7 standard deviation increase in judicial efficiency and a 0.3 standard deviation reduction in government corruption.

Trusted institutions can also help move society forward as citizens and businesses are more likely to comply with laws and regulations, pay taxes, contribute economically, tolerate others, and support neighbors. An absence of trust is linked to chaos and conflict (Lord, 2019). If there is distrust between government and private sector, the state authority may impose regulations and policies that are negative for businesses, further reducing trust in the state, thereby reducing planned future investments in the country (Utterwulghe, 2018). This leads to high economic and transaction costs, increased risk aversion on the part of investors and more widespread non-compliance with laws of the economy. Beyond economic costs are the losses in social capital as increased alienation of groups occurs and a reduced desire of taxpayers to support welfare programs proliferates.

The OECD (2017) summarizes the importance of trust in society, in that the perception of fairness and reciprocity is both a process and an outcome. People desire a voice and to have their voice respected. With this comes high levels of trust which correspondingly enable and enhance the government’s capacity to act.

Scope of this review

The purpose of this paper is to gather evidence to better understand the relationship between private sector’s trust and the effectiveness of public institutions. This evidence will help inform the implementation of policy reforms to maximize their credibility, effectiveness, and induce the desired behavioral changes among businesses. Our interest in the subject of trust between private and public sectors is supported by the potential benefits of its presence and the high costs associated with its absence. Effective targeting and management of trust is in the interest of both parties.

This paper seeks to begin a discussion on the subject of trust between private and public sectors through three parts. The first describes the current state of trust including the extent of its existence, its conceptual underpinnings, the varied approaches to measuring it and an introduction to behavioral insights to better understand it. Part 2 then reviews literature on
trust’s role between public and private sectors, and interventions used to influence trust between these two sectors, all viewed from a lens of behavioral science. Part 3 concludes by recognizing takeaways from interventions done to date and behaviorally-informed approaches to reform that can help in the design of future interventions. Finally, a concluding summary and policy design insights will close the review.

Methodology and Limitations
This paper was developed through a systematic review of literature on the subjects of trust and behavioral insights, with a focus on trust between public and private sectors. The scope of this review required identifying several sub-sets of literature as the literature specific to the purpose of this paper was often limited and/or indirectly addressed via other subjects. For example, our review stretched across literature bases of behavioral science, theoretical conceptions of trust, approaches to measuring trust, research specific to trust in government, trust in business, trust between government and business, trust between citizens and business, trust between citizens and government, and importantly, proxy concepts that relate to trust but may not explicitly address the subject of trust (example subjects include corruption, transparency, integrity, fairness, reciprocity, procedural justice, private sector opportunistic behavior, business informality, self-regulating organizations, public-private sector consultations, cooperative games, information asymmetry, risk analysis, among others). We were limited in our ability to review all potential subjects of relevance as the subject of trust quickly becomes cross-cutting, appearing in all transactions between government and businesses. The focus was therefore on the role of trust in promoting or discouraging regulatory compliance.

Following this review, we began to aggregate and arrange findings into the structure shown here. The structure was developed via an iterative process with the 4 authors and designed to both utilize the best available evidence we discovered as well as address key questions. In some cases, the questions of most interest were not readily answered by the evidence. For example, a desire to identify specific policy recommendations to foster trust was not readily addressed as the evidence more often shows what trust levels are and how they relate to economic development, but not the extent trust to which drove the development. Similarly, we see that certain conditions such as high public integrity are associated with high trust levels, but the extent a reform to foster integrity correspondingly bolsters trust levels is unclear. Throughout this review, we highlight limitations to the literature and note future primary research that would benefit the field.

II. Trends in Trust
Trust levels in many countries have declined or continued to stay low in recent years. The reasoning for this decline is likely multifaceted, ranging from perceived corruption, economic inequality, and public rhetoric.
Overview of the State of Trust in the World

The 2017 Edelman Trust Barometer, which conducts a survey of trust across 28 countries, saw a net decline in trust across sectors of business, media, NGOs, and government for the first time in 17 years (Lord, 2019). Similarly, the Gallup World Poll found that of 26 countries polled (out of 38), trust in the national government declined from 2007 to 2016, with some countries seeing a decline of over 20 percentage points. The Pew Research Center also found that in 38 countries surveyed, a median of only 14% of people say they trust their government “a lot” to do what is right for the country (Lord, 2019). Countries with particularly large declines in trust were those with significant income inequality, low educational attainment levels, low GDP and low levels of civic engagement.

There is, however, significant variation across countries in terms of government trust levels recorded. The OECD found that among its member countries, the largest losses of trust in the national government occurred in Chile, Finland, Greece and Slovenia, where there were declines of over 20 percentage points. However, a rise in trust occurred in Israel, Germany and the Slovak Republic (OECD, 2017). Social, economic, and cultural factors can play a large role in differing trust levels. For example, countries such as Norway, Sweden and Finland reported in the World Value Survey that 60% of respondents believe that people (interpersonal trust) can be trusted. Compare that to Colombia, Brazil, Ecuador and Peru where less than 10% of respondents said they could trust other people (Ortiz-Ospina and Roser, 2019). Because of this large difference (Figure 1), a focus on how trust levels change may be a more appropriate focus than a straight country to country comparison.

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4 It is important to note the risk that measures may be doing less to capture trust in the institutions as much as capturing trust in particular political figures.

Figure 1: Trust levels between people vary greatly around the world
Edelman Trust Barometer\(^5\) (2020) found that while the U.S. had the single largest 1 year decline in trust of institutions ever recorded, certain countries have seen an increase in trust, such as China (now ranked 1\(^{\text{st}}\) for public’s trust in institutions) and the United Arab Emirates (UAE). Edelman also found that for people surveyed and considered a part of the ‘informed public’, India, Sweden, Singapore, and Malaysia were among leading countries with improvements in trust in institutions.

Figure 2: Across the 28 surveyed countries, trust varies by who you ask

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\(^5\) The Edelman Trust Barometer is an online survey which measures several aspect of trust and credibility in public sector performance annually. It is conducted in 28 markets, with more than 34,000+ respondents.
In Africa as well, the Afrobarometer survey has noted the extent respondents do not have political and institutional trust. For example, 47.8% report little or no trust in legislative bodies, 42.3% say the same for courts, 47.9% for police, 44.2% for national electoral commissions, and 58.5% for opposition parties (Smith, 2017).

Reasons Behind the Decline of Trust
The decline in trust is likely a result of many factors, whether that be corruption, public rhetoric, breakdowns in rule of law, economic inequality, among others (Lord, 2019). Corruption for example, is a well-recognized obstacle, that despite our awareness of it, many countries have made little to no progress in addressing it (Transparency International, 2017). Along the same lines as corruption, is the public’s perception of leadership’s integrity (OECD, 2017) - as the public increasingly differs in their perceived integrity of people in government, trust, in particular, institutional trust, will decline.

III. Concept of Trust

Theoretical Underpinnings of the Concept of Trust
While there is general consensus amongst social scientists on the importance of trust, the conceptualization of it is much less clear, and as a result, the measurement of it also becomes difficult. Trust in an economy is not derived from a single source, but built from three key environmental influences (Zak, 2006):

- Social Environment (e.g. strength of social norms, similarities amongst those in the transaction, etc.)
- Legal Environment (e.g. enforcement of contracts, ability to redress unfair outcomes)
- Economic Environment (e.g. income levels, inequality, etc.)

We use trust as a tool to manage for asymmetrical information, those situations where the parties in a relationship or transaction do not have the same levels of information. Knowing that there is always some amount of information we do not have, we must trust that the other party will behave in a way that does not harm us.

Cooperation vs. Coercion
The concept of trust is built into the balance of cooperation and coercion, with a goal of managing the extent of asymmetrical information at the most economical cost. Cooperation is a cornerstone of society. Some level of cooperation is inevitable if a society is to function. More cooperation (and thus more trust) is however not necessarily what is pursued nor what is always most desired (Gambetta, 2000). Some level of competition can leave us better off through promoting a process of continuous improvement, whether that be through improved products, better service delivery, reduced costs, etc. As a result, cooperation and competition are not necessarily exclusive components to society, but more likely a beneficial synergistic coexisting pair. Recognition of the importance of both can help with understanding how policy design for improved welfare can work with both sides, as competition may in many cases depend on
cooperation in that those competing agree to cooperate with the rules developed, particularly in a capitalist society. We are thereby led to trust in the value of competition managed cooperatively. Finding the appropriate balance has not proved straightforward as understanding how to generate a balance of cooperation and competition is still unknown and as this unknown continues, so too will the level of trust rise and fall. We must not err in thinking that because cooperative behavior can benefit everyone that all individuals will decide to adopt this accommodating behavior.

*Humans as Conditional Cooperators*

Central to the concept of trust is the acknowledgement and pursuit of the understanding of how humans behave. An overarching theme of behavioral sciences is that people are prone to be conditional cooperators (WBG, 2015), i.e. they cooperate as long as others are cooperating. Although there are still many ‘free riders’ in each society (those individuals that don’t cooperate even if the other party to the transaction is cooperating), it has been found that conditional cooperators are the dominant type (WBG, 2015). This conditionality means that low trust can perpetuate a vicious cycle, whereby once trust is reduced it leads to other behaviors that correspondingly further reduce trust as well. For example, if there is low trust between the government and a business who are transacting, communication may diminish between them, which can lead to greater uncertainty and perceived risk, which leads to even less trust. As a result, an effort to improve trust while in this cycle requires one of the parties to take the first step, such as providing increased assurances of integrity, while risking the potential for opportunistic behavior on the part of the other party (Sako, 1997).

*There are many types of trust*

Many types of trust are discussed in the literature. Table 1 provides a helpful description of these different types. The following page provides a visualization (Figure 3) of these definitions to help better recognize how the types of trust are connected.

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**Table 1: Types of Trust** *(source: Author’s compilation from literature)*

<table>
<thead>
<tr>
<th>Definitions of the Types of Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political Trust</strong></td>
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<td>---------------------</td>
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<tr>
<td><strong>Social Trust</strong></td>
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<tr>
<td><strong>Regulatory Trust</strong></td>
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<tr>
<td><strong>Interpersonal Trust</strong></td>
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<tr>
<td><strong>Generalized Trust</strong></td>
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<tr>
<td><strong>Limited Trust</strong></td>
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<tr>
<td><strong>Goodwill Trust</strong></td>
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<tr>
<td><strong>Contractual (Safeguards) Trust</strong></td>
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<tr>
<td><strong>Inter-organizational Trust</strong></td>
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<td><strong>Competence Trust</strong></td>
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<td><strong>Process-based Trust</strong></td>
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<tr>
<td><strong>Intentional Trust</strong></td>
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<tr>
<td><strong>Personal (Emotional) Trust</strong></td>
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<td><strong>Calculative Trust</strong></td>
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</table>
**Figure 3:** A visualization of how the various types of trust may connect to each other
Certain types of trust defined above have received particular attention given their importance in society as well as their complexity. Political trust for example can include trust in the legal system, trust in the political system, trust in risk management in government, and so forth. An effort to address trust will require untangling its various components.

### Social Capital and its relation to Trust

Trust itself fits into the category of social capital, a similarly broad concept meant to capture aspects of societal organization and functioning that can add value. Putnam (2000) states that “social capital refers to the social connections, networks, and interpersonal trust that occur in communities”.

### IV. Measuring Trust

In order to help understand the variation of trust types there are many different efforts to measure the concept, from international surveys to behavioral revealed responses. Measurement of trust is far from perfect – often leading to vague answers or in some cases inadvertently measuring relationships that were not intended. Still many approaches are being implemented, allowing for time series and geographic comparisons.

#### Limited History of Measurement and Varied Techniques of Measurement

Trust, while an old concept, does not have an old history of measurement, particularly within official statistics (OECD, 2017). In those cases where measurement has been conducted over the past several decades, international comparability is often an issue and the accuracy of the measures are often unclear. While measurement has been limited and often flawed, this is in part a result of the lack of demand for actionable measures to be developed. Table 2 below outlines prominent international surveys of trust. Each has a different scope of countries included.

<table>
<thead>
<tr>
<th>Survey</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Gallup Poll</td>
<td>Provides data across all 34 OECD member countries to capture the impact of the global financial and economic crisis on trust in government</td>
</tr>
<tr>
<td>World Values Survey</td>
<td>Has measured trust in government for the longest period of time, but the dataset is fragmented, and data is only available for multiple year periods, the latest wave being 2005-07</td>
</tr>
<tr>
<td>European Union’s Eurobarometer</td>
<td>Provides a consistent dataset (including biannual data points) covering 23 OECD member countries</td>
</tr>
<tr>
<td>Afro barometer</td>
<td>Pan-African research using attitudinal survey questions</td>
</tr>
<tr>
<td>Arab barometer</td>
<td>Pan-Arab research using attitudinal survey questions</td>
</tr>
<tr>
<td>Edelman Trust Barometer</td>
<td>Provides time-series trust monitoring for selection of countries</td>
</tr>
</tbody>
</table>

While those surveys above are international, there are also many countries that assess trust at the national level to help understand policy analysis. This is an area of further exploration for
interested policymakers (additional discussion on measurement approaches are included in the appendix of the paper). Integration of trust measurement into national statistics can prove a valuable approach to creating more granular understanding of where citizens are placing trust and begin to better understand the ‘why’ of trust allocation that can guide future policy design.

**Self-reported perceived trust**

Trust levels may be surveyed through respondents’ self-reporting on their perceived trust in government, in the judiciary, in politicians, etc. Many of the previously mentioned surveys take this attitudinal approach. For example, “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?” is a question used in the General Social Survey6 (Glaeser et al. 2000; Ortiz-Ospina and Roser, 2019). This has however long been noted for lacking depth and breadth. This attitudinal measure captures respondents’ perception in others’ intention to act a certain way.

As a result, the typical attitudinal survey questions used in international surveys, while well-used, often lead to vague answers (Glaeser et al. 2000). This leads to a disconnect between the importance given to understanding trust and the way it is measured (Seyd, 2016). When answers are vague and the measurement is in need of improvement there is less opportunity to understand the status quo, let alone understand what types of policy changes could be made as a result. For example, an attitudinal question asking for respondents’ trust in government, without defining what government means as a term to the respondent can lead to varying responses. Rather than answer in response to government as an institution, respondents may instead be providing an assessment of feelings towards current political figures (Seyd, 2016).

**Revealed behavior and preference**

As a result, it may be that measures of past trusting behavior (i.e. revealed behaviors) are better tools for predicting an individual’s trusting choices than attitudinal surveys. Seyd (2016) echoes this sentiment, noting that trust measured from behavior rather than reported attitude would help reach more accurate understanding of levels of trust. Glaeser et al. (2000) suggests then that the attitudinal trust questions typically used may instead be better at estimating trustworthiness in society, such that people who say they trust other people tend to be trustworthy themselves (Seyd, 2019).

**Measuring across Dimensions of Trust**

Trust can be disaggregated into various dimensions. Seyd (2016) helped build a more complete picture of the dimensions and sub-dimensions of trust (Table 3) in response to the limited insights gained from the uni-dimensional, attitudinal survey questions previously described.

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6 A U.S. specific survey monitoring variety of social characteristics since 1972
Table 3: Dimensions of Trust (Seyd, 2016)

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Sub-dimension</th>
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<tbody>
<tr>
<td>Competence</td>
<td>Competence</td>
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<tr>
<td></td>
<td>Inefficiency</td>
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<tr>
<td></td>
<td>Expertise</td>
</tr>
<tr>
<td>Concern; Benevolence</td>
<td>Concern</td>
</tr>
<tr>
<td></td>
<td>Understanding</td>
</tr>
<tr>
<td>Integrity</td>
<td>Honesty; truthfulness</td>
</tr>
<tr>
<td></td>
<td>Openness</td>
</tr>
<tr>
<td>Reliability</td>
<td>Promise-keeping</td>
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<tr>
<td></td>
<td>Consistency</td>
</tr>
<tr>
<td>Fairness</td>
<td>Equity</td>
</tr>
</tbody>
</table>

Integration of these various dimensions into the measurement of trust may help to isolate the factors most heavily influencing the allocation of trust, thereby making the resulting measure more actionable for policy makers. Further discussion on uni-dimensional vs. multi-dimensional measures are included in Appendix A. We note the multiple dimensions here to show the potential complexity of accurately measuring trust.

**The Investment Game** (Evans and Revelle, 2008)

The Investment Game (also called the Trust Game) is the most common situation used to study and measure trust through revealed behavior in an experimental setting. The general form is as follows: There are two players, the sender and the receiver. At the beginning of the game the sender has $10. The sender decides how much of the money he would like to invest (the sender will keep the money that he does not invest). The receiver is given triple the amount that the sender invests. Finally, the receiver decides how much money to return to the sender (and how much to keep for herself). This creates a question of how much to save and invest with each round of the game and how an instance of reduced investment by the sender can risk reducing the amount the receiver is willing to return.

**Behavioral trust measurement development**

There is also some growing evidence regarding the individuality of trust, which Evans and Revelle (2008) refer to as the *propensity to trust*. The authors suggest that trusting behavior is much more tied to individual differences than is typically recognized in economic analysis (Evans and Revelle, 2008). Using economic decisions themselves are a method for putting a spotlight on the psychological differences of the decision makers. So while there is a level of calculative trust in making economic decisions, as Dunning et al. (2011) note, it is also expressive in that the *act* of trusting can be of great importance in comparison to the sought after *outcome* of trust which is often considered the point of value in trusting a relationship.

**V. Introduction to Behavioral Science**

Throughout the following sections behavioral sciences will provide a meaningful lens for understanding potential policy reforms. Recognizing cognitive biases and understanding the
mental models with which people, businesses and governments approach transactions are important frameworks used to enable trust to grow. The application of behavioral sciences to policy interventions can complement traditional policies, and effectively improve trust between the public and private sectors. The following sections will provide a brief introduction as to why behavioral science is being recognized as an increasingly important policy tool, and how interventions to date have begun to demonstrate results in improved trust levels.

Development policy typically targets financial resources, laws, or incentives to support economic development. Behavioral science expands on this by drawing on a variety of disciplines, including economics, psychology, anthropology, sociology, and neuroscience. Behaviorally informed policy emphasizes the importance of context for decision making and behavior. It addresses details in bureaucracies, technologies, and service delivery that are often overlooked in standard policy design but that dramatically influence the effectiveness of development programs and projects, providing creative solutions to difficult challenges, often at low cost. Interventions rely on careful diagnostics and involve an iterative process of testing and adaption. As a result, behavioral change is a long process. Changing belief systems can take generations, in some cases, or where the need is more pressing, may be done over a few years (Zuniga, 2018). Recognizing the difficulty in creating meaningful behavior change, and the amount of time required to do so, can help manage policymaker expectations. Finally, behaviorally informed policy can help policy makers themselves avoid some of the decision traps and biases that affect all individuals.

Behaviorally informed policy is informed by three key ideas:

1) **People think automatically.** Much of our thinking is automatic and based on what comes to mind effortlessly. Deliberative thinking, in which we weigh the value of all available choices, is less common. We do not deliberate whether we should jump out of the way of an approaching car, but we may deliberate whether it’d be faster to go straight or turn left when navigating to a meeting in a new city. We often use mental shortcuts. Daniel Kahneman (2011) distinguishes these two systems of thinking: System 1 covers automatic thinking, while System 2 includes those more intensive considerations, weighing pros and cons and so forth. In many cases we are predisposed to avoid use of System 2 as it is energy intensive and so we create rules of thumb to help us continue to use System 1. This means that policies are often more effective when they create situations for simple decision making that requires limited mental effort - for example, when they make it easy to enroll in programs by making simple, desired options the default (Kahneman 2003; WBG 2015). While many economic models may take the individual to be perfectly rational and capable of considering all available information appropriately, in reality, decision making is almost never like this (WBG 2015). Thus, because people typically have much more information than they can process quickly, or have limited bandwidth to make decisions, minor changes in the immediate context in which decisions are made can have disproportionate effects on behavior.

2) **People think socially.** Human beings are deeply social. We like to cooperate—as long as others are doing their fair share (we are ‘conditional cooperators’ as described in Part 1).

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7 Beliefs, concepts and ideas used by people to interpret the world around them.
We tend to follow descriptive norms (the behavior we perceive in others) and proscriptive norms (those actions we are expected not to do). We tend to be most persuaded by information when it comes from a trusted social contact. Institutions and interventions can be designed to support cooperative behavior. Social networks and social norms can make policies and interventions more effective. However, group behaviors can also influence individual preferences that lead to destructive societal behaviors such as racial or ethnic segregation or widespread corruption (WBG, 2015).

3) **People think with mental models.** When people think, they generally do not invent concepts. Instead, they use mental models drawn from their societies and their shared histories. Societies provide people with multiple and often conflicting mental models; which one is invoked depends on contextual cues. Policies and interventions to activate empowering mental models can make people more productive and effective at achieving their goals. Some mental models can be useful, but others can be harmful such as those that contribute to intergenerational transmission of poverty by making poverty an identity, a place in society from which children perceive they belong within (WBG 2015).

Policy makers are increasingly turning to behavioral science to help tackle intractable policy challenges. While serving as Administrator of the Office of Information and Regulatory Affairs from 2009-2012, Cass Sunstein, pioneered the approach of using a behavioral lens in regulatory policy design. Under his direction, federal policy makers incorporated the lessons of behavioral economics via defaults, norms, disclosures, and more across a variety of sectors (Sunstein, 2013). In 2015, the OECD gathered policy makers and scholars for an inaugural seminar on best practices of incorporating behavioral science into regulatory policy. A report gathering examples of behavior interventions in policy worldwide followed. In the United Kingdom, the Financial Conduct Authority (FCA) created a team focused on Behavioral Economics and Data Science to examine and address biases and consumer behavior in retail financial markets and firms, and ways to address risks to consumers using behaviorally informed interventions and policy redesign. Additional examples can be found in the World Bank’s report on “Behavioral Science around the World: Profiles of 10 Countries” by Afif et al. (2018).

**Behavioral dimensions of trust**
The allocation of trust is often driven by various cognitive biases and social norms. As a result, understanding these norms, mental models, and automatic thinking is needed for effective structuring of incentives between private and public players of a transaction, enabling each party to cooperate and improve their well-being. Implementation of behavioral science must, however, be done with caution, as insights gained from another intervention’s context may not apply in the same way in another context, given the large mental models people and societies have created that may stand in opposition to an intervention. As a result, some trust in the innovative approach of behavioral science is needed to take trust-oriented reforms to the next level. The following case study provides an introduction to the type of dissonance between thought and reality that behaviorally informed policy can work to improve.
Comparing Structural and Behavioral Barriers

Structural components of society such as laws and regulations may dictate the nature of an exchange on paper; however, the value of the relationship from the exchange often goes unvalued, failing to incorporate the behavioral component (incentives, perceptions, etc.), and leading to a potentially unrecognized economic surplus from the exchange. People may, in many cases, prefer to conduct transactions on the basis of trust, whether that be ethics, kinship, friendship, or empathy. Certain cognitive biases may predispose us to develop trust and/or maintain trust where it is known to already exist, rather than pursuing relationships of potentially higher economic value (Nootboomb et al., 1997). Humans are also predisposed to trust more highly in those that we feel a greater social connection to, whether that be national, racial, religious, etc. (Seyd, 2016). More generally, feelings of social cohesion can promote trust.

Historical and Socioeconomic Factors Correlate to Trust

The typical levels of trust in conducting business can vary country to country, and is often tied to the socioeconomic makeup of the country as well as the history of experiences. These two components can be powerful influences on the mental models apparent in a society. Knack and Keefer (1997) note that trust and norms of civic cooperation tend to be stronger and at higher levels in countries with institutions that are trusted for their ability to specifically protect property and contract rights as well as those countries that are less polarized, whether that be by class or ethnicity (trust across social groups is often lower than within them).

Immigrants and Inherited Trust

In countries such as the U.S. with large numbers of immigrants and citizens descended from immigrants there is recognition of an ‘inherited trust’ level. Algan and Cahuc (2010) show that the level of inherited trust is significantly influenced by the country of origin of their descendants and when their descendants immigrated, suggesting that people carry with them the level of trust from a different society for multiple generations.

Part 1 Conclusion: Our Understanding of Trust

Trust in many places around the world is in decline, and in decline across multiple dimensions. This is significant given that trust is built into every transaction we participate in, every relationship we engage in. The decline however does not stem from a single cause and unfortunately the concept of trust, while based in a simple tool of managing asymmetric information, becomes rather complex when the details are brought to light, making its measurement, and correspondingly, its management, more difficult. In response, the lens of behavioral science can provide insights into how reform might be conducted so as to facilitate trust building in society.
Part 2: A Literature Review on Trust between Public and Private Sectors

This section will focus on the importance of trust between public and private sectors, how the two are connected and types of interventions that have been used to either directly or indirectly help support trust between the two. Where possible, cases described will incorporate behavioral insights. In many cases, the evidence is focused on the relationship between citizens and government as opposed to businesses and government. This is in part a reflection of the available evidence and the greater research that has been oriented towards citizen and government relationships. However, much of the findings from the citizen level research can translate to business level relationships given that business owners and workers are citizens themselves, and the types of trust utilized are often the same. Relationships between government and businesses are often tied to specific individuals who have the same behavior biases regardless of the role they are playing.

I. Relationship between Private Sector Trust and Government

The relationship between the public and private sectors are of tremendous importance to the functioning of society and well-being of its citizens. Governments around the world are major service providers – and not just through their policies and programs, but through the scale of their employment. In 2018, the United States federal, state, and local government employed 22 million people – 14% of the population – while providing services to 328 million people (Buell et al., 2018). Given the scale of government, trust plays an important role in the effectiveness of government. As the OECD (2017) notes, failure to recognize this puts governments at peril. Ortiz-Ospina and Roser (2019) note that trust in government improves levels of policy acceptance, reduces administrative costs, and improves compliance with laws.

In assessing trust in government, OECD (2017) notes there are two core dimensions: 1) competence and 2) values. The first includes the government’s ability to provide services and appropriate access to services, protect its citizens, and more generally its ability to adapt to change. This includes the extent regulation and processes are overly cumbersome or not timely and inhibit use of government services in the first place. The latter involves the private sector’s perception of the government’s use of power and integrity, its effort to engage with citizens and pursue socioeconomic progress for all society. These two dimensions may vary by the level of government such as municipal vs. federal as well as the perceived psychological distance\(^8\) between business and the given level of government.

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\(^8\) Psychological distance captures the social, temporal, spatial and experiential gaps between two parties and the resulting implications for how that limits or enhances the two parties likelihood of seeing ‘eye to eye’.
II. Transparency and Engagement can Boost Trust

There is a burgeoning literature on how transparency and feedback mechanisms can lead directly to greater trust and cooperation. Various tools exist for fostering engagement between the public and private sectors.

Private Sector Consultations

A well-referenced example of such tools is the private sector consultation, whereby governments reach out to private sector to receive insights for the development of effective solutions. These can support trust building by increasing transparency of policy making, encourage broader ownership of the policy’s development, give a voice to stakeholders impacted by a policy, as well as increase awareness of the existing policy limitations (Rosen, 2017; Herzberg and Sisombat, 2016). This can follow a formal procedure to manage deliberation of key issues to be addressed and potentially differing objectives of stakeholders and may be administered by a neutral third party to facilitate increased perception of fairness by both government and private sector stakeholders. This may result in increased trust in the process.

While measurement of changes in trust from private sector consultations are limited, measures of increased public-private sector interaction serve as a lead indicator for increased trust. The latter was noted in Tanzania where the Tanzanian Horticultural Association developed a dialogue mechanism with the Ministry of Agriculture where previously there had been none, leading to increased engagement, improved policies, and increased sector growth (Wanzala-Mlobelaand, M. & Banda, K., 2018). The OECD (2016) notes that certain characteristics make consultations more effective and may also promote trust building such as (OECD 2016):

1) Make it easy for the private sector to engage
2) See partnership with the private sector as a relationship, not a contract
3) Government may need to take risks if it wants others to do so
4) Invest in results measurement (in this case, include measures of trust along with those indicators that are directly related to the consultation’s purpose)

A complementary concept to the private sector consultation is the design and use of feedback loops for promoting understanding between the public and private sectors and thereby allowing faster iterations of policies to benefit both parties. Government responding to feedback provided by the private sector, i.e. closing the feedback loop, is an important feature to increasing stakeholder buy in and supporting continued feedback. The UN Global Compact and World Resources Institute refer to these positive feedback loops as ‘Ambition Loops’ – such that “strong reinforcement from leaders in the private sector can feed into stronger public policies, which in turn spur additional business action” (World Resources Institute, 2018). This can come from business leaders pushing economic possibilities that allow government to advance new policies and in response governments can develop long-term, consistent policies that provide confidence to the private sector to invest heavily and pursue opportunities.

While both of these concepts are aligned with our description of trust, explicit reference to trust and the corresponding measurement of trust in these frameworks appears under-utilized and
worthy of future consideration. The following examples provide more explicit reference to trust levels and where possible, measures of outcomes.

**Trust in Government can occur through Social Inclusion**
A part of building trust in the government is inclusion and addressing barriers to be able to understand the government’s work and build trust in them. Efforts to support inclusion that help build social and institutional trust include improved access to finance and banking for individuals and business, education and skill training, health care options, improved access to transportation and communication, access to fair court processes, improved ‘cultural competency’ and use of multiple languages, among many other potential avenues (Lord, 2019; Zak, 2006). Inclusion through freedoms such as civil liberties and press freedoms that increase the amount of social interaction can facilitate both interpersonal and institutional trust as well (Zak, 2006). Elements of elite capture and lack of trust may persist between private and public sectors if engagement is not done in an inclusive manner. For example, early-stage policy development can be captured by large, elite interests who then drive the policy to align best with their own objectives. Similarly, access to the communication tools used for communicating with the government can create a selection process that limits who participates and the type of feedback that can be collected. This risk becomes quickly apparent for SMEs who make up large proportions of nearly all economies, but tend to have less access to governments (Bettcher, Nadgrodkiewicz, and Herzberg 2015). An inability to promote broader social inclusion may limit the extent social cohesion can develop and support growth of generalized trust.

**Intervention: Income Transfers and Inequality**
Zak (2006) in a study of 42 countries utilizing income transfers, found that reduction of inequality through income transfers, thereby boosting inclusion, resulted in a 50% social return on investment from increased trust, a large figure likely a result from the very low trust found in countries with very large income inequalities.

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**Case of the Republic of Korea** (Kim and Kim, 2007)
The Republic of Korea has a history of use of limited trust, that type of trust which is shown to those within their own group such as kinship connections or being from the same geographic region, while generalized and social trust is often comparatively low. In response, the government of Korea has taken steps to:
- Increase administrative openness by disclosing more administrative information and enhancing access
- Improving regulations around integrity of public officials
- Employ self-regulating constraints to prevent abuse of authority in local governments
- Establish electronic systems for public interaction with government to improve transparency and trust

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9 This provides some insight into the path of economic development of the country, with chaebol’s (family controlled industrial conglomerates in the Republic of Korea) playing a major role in the growth of the country’s economy. Examples include Hyundai, Samsung, and LG.
These efforts are meant to strengthen generalized trust in government and broaden the economic base. Evaluations of these will be important.

Civic Engagement
An increase in civic engagement in government processes and with it, an understanding of how government processes function, has been shown to increase levels of institutional trust. The obstacle in many cases, to get this increased engagement is through greater recognition of the ‘submerged state’ – those components of government that citizens and businesses often fail to know about or give due credit (Mettler, 2011). For example, Koch and Mettler (2012) show that a recent survey in the U.S. found that 60% of citizens who claimed the Home Mortgage Interest Tax Deduction denied that they used a government social program and more surprisingly, the figures were similarly high for those beneficiaries of student loans, veterans’ benefits, Medicaid, Medicare and food stamps. It is clear that when individuals feel disconnected from government service delivery, they fail to understand the work that goes into the services, thus resulting in a perception of lower value of those services.

In the case of other countries, citizens may compensate their lack of trust in police or judicial system with a strengthening of their other social networks. This can result in, rather than widespread, generalized trust, the communities falling back on themselves, generating limited trust in private circles and using informal protections (rather than formal legal ones) (Rothstein and Stolle, 2008).

Intervention: Operational Transparency in Government and Citizen Feedback
The findings by Buell et al. (2018) suggest that peoples’ perceptions of and engagement with government can be altered and enhanced by increasing government’s operational transparency. In other words, helping people see the services provided by the government helps them appreciate it more. To reach this finding, Buell et al. (2018), conducted multiple studies in both a laboratory setting and in real-world settings to test how seeing work performed by the government led to changes in trust of the government. With each study they increased the depth of information shared, moving from a basic five minute video that summarizes work performed by the government of an archetypal town, to an interactive website, to a live updated mobile phone application used by the city of Boston, USA, which residents could submit service requests to and receive photos of the service being provided. In all cases, trust in the government increased as did support for the government. Even in cases where transparency on the backlog of service requests (a growing list) was shown, citizens were no less trusting than if they had no transparency at all. Further, in the third study scenario, app users who received photos of their request being met submitted 60% more requests and in 40% more categories over the following 13 months (Buell et al. 2018). These results highlight that the incorporation of operational transparency into service designs has the potential to affect not just short-term perceptions and behaviors, but promote longer-term engagement as well (Buell et al. 2018).
Data Transparency

With rapid technological advancements, there is widespread discussion on how technology can both facilitate and hinder trust. Previous examples note how technology was used to reduce transaction costs of information sharing, allowing private sector to better understand government process, and government to better respond, all leading to increased trust. Arzeki et al. (2020) argue that reliable data and transparency in data can be an important tool to enhance trust in the public sector and recommend increased data transparency in MENA countries. Extensive data collection also runs the risk of privacy infringement, as feelings of a ‘surveillance state’ have strong negative connotations for many businesses (van Ooijen et al., 2019). Should businesses feel their data is being mismanaged, not safe, or that too much information is being taken from them, dialogue may diminish and distrust may grow. To help manage this, governments will need to ensure through transparency how the data is being used as well as the data privacy protections in place.

Transparency Alone is Not a Panacea

While we have mentioned the benefits of operational transparency and transparency in other regards, it is still important to note that transparency is not an end in itself, particularly for addressing integrity. Transparency can be effective if it triggers interaction and dialogue and assigns accountability, but not everything requires regular interaction (OECD, 2018). What is more important is regular accountability to specific aspects of governance that can change the public’s observation of integrity. For example, people who disclose a conflict of interest, seemingly being more transparent, are more likely to give biased advice as there is now some perception of diffused moral responsibility (Cain, Loewenstein and Moore, 2011; Cain, Loewenstein and Moore, 2005). This can be a dangerous tool and is often seen to some extent amongst public officials who acknowledge their inability to speak intelligently to a subject, and then proceed to speak on it anyways.

Similarly, when large amounts of information are disclosed to the public, the task of filtering the information and discovering if there are any conflicts of interest becomes the work of the media and civil society. If a conflict of interest exists, but is not discovered, there is now a discrepancy in responsibility and accountability. Untargeted transparency without a clear recipient, may in this case, do little to support true integrity, creating a false sense of integrity that may later be broken down and hurt trust in the long run (OECD, 2018).

Intervention: Increasing the Number of Transactions May Support Generalized Trust

Labonne and Chase (2008) conducted a study in the Philippines to gauge the relationship between transaction costs and generalized trust across 135 rural communities, with transaction cost reduction being proxied by the construction of new roads. The authors note a conservative estimate of a 4.5 percentage point increase in generalized trust from building a road, with the road serving to facilitate repeated interactions with traders the rural community residents would not have likely otherwise interacted with. Trust also increased most for those individuals most likely to engage in a transaction due to the road construction. This suggests then that trust is a product of transaction cost reduction which then supports economic growth, rather than trust a
priori reducing transaction costs and then leading to growth (Labonne and Chase, 2008). Of note is there was no change in bonding trust – that trust directed towards community members, given that the roads only increase interaction with those from other areas. This signifies that an increase in one type of trust does not lead to increasing other types of trust as well. Thus, while aspects of causality are difficult to disentangle, this study is evidence of the effect of reduced transaction costs on trust.

III. Tax Compliance Through Improved Trust

Much like the previously described operational transparency concept, private sector firms’ tax compliance is a function of their perceived level of service provided by the government and the fairness of their tax burden (Lee et al. 2019). The perceived fairness may be influenced by the extent other businesses comply with taxes, the potential variation in tax rates that may benefit different sizes of businesses, and/or the belief that a certain tax should exist in the first place. Tax compliance has thus been found to be influenced by people’s trust in the government. Studies by Kirchler et al. (2008 & 2010) have shown that high trust in a tax authority increases tax compliance. This simple insight is complicated by the reality of the relationships between the private and public sectors. Kirchler et al. (2008) note that the tax climate can range on a continuum from antagonistic to synergistic. The antagonistic climate is one many countries are familiar with as taxpayers and tax collectors work against each other with a ‘cops and robbers’ mentality on both sides, with each side viewing the other as the bad guy, making for a vicious cycle of evasion and enforcement. This may also include a high prevalence of bribery and/or heavy compliance burden that has a sense of unfairness (Lee et al. 2019). While the synergistic climate has both parties working together with the understanding that tax authorities are performing a service to benefit the community at large, and are a member of the community themselves. This can be fostered by consistent tax enforcement (Lee et al. 2019).

Noting this balance, the ‘slippery slope framework’ looks at tax compliance as a balance of trust in government and the power of the government (Kirchler et al., 2008). Trust refers to the perception by taxpayers that the authorities serve the public good while power includes the taxpayers’ perception of the ability of authorities to detect evasion and fine evaders (Mas’ud et al., 2014). As the ‘slippery slope’ name suggests, a downward trend is easy to achieve. If trust in the tax authorities decreases for some reason, a decision to increase auditing to show competence may in fact be viewed a sign of mistrust in the taxpayers as well, leading to more businesses and individuals feeling they are being unfairly targeted, and thereby further reducing their trust in the tax authority. The alternative, an upward trend in trust, is less straightforward, but if achieved can also boost the power of the tax authority (Kirchler et al., 2008).

Beyond the theory of this discussion, Mas’ud et al. (2014) show that the assumptions of the framework have been proven in empirical cross-country analysis. They corroborate that trust or power alone are not effective in improving tax compliance, but together are effective. Similarly, Wahl et al. (2010) in their research studying the effect of power and trust on tax payment found a positive impact was derived from power and trust regarding tax payment. A highly reliable and
trustworthy tax authority could increase tax compliance either voluntarily or through enforcement.

**Participatory Budgeting for Increased Tax Compliance**

Allowing for citizen participation in their own governance has been shown to support feelings of trust in the government as well through increased transparency, feedback/engagement, and accountability. Existing evidence suggests a causal relationship between participation and levels of tax compliance, as citizens and businesses are more willing to pay taxes if they feel their preferences are being heard and acted upon (Howard, 2012; Estefan and Weber, 2012). For example, Cabannes (2004) conducted a comparative study of 25 municipalities around Latin America and Europe and found a significant reduction in levels of tax delinquency after the municipality adopted participatory budgeting. In Porto Alegre, property taxes grew from 6% to 12% of the municipality’s revenues over the 10 years following participatory budgeting. Further, visibility of the work and services done as a result of the participatory budgeting process also supports the public’s willingness to pay (Cabannes, 2004).

**Case study: Participatory Budgeting in the Democratic Republic of Congo**

In South Kivu, a district within the Democratic Republic of Congo, a participatory budgeting initiative via mobile technology was developed with local mobile operators and funded by the World Bank (Howard, 2012; Estefan and Weber, 2012). Whenever there was a region meeting to deliberate about how to spend public funds, every handset under the local cellular towers would get a text message about it and be able to text back answers. Following the meeting, everyone would get a message with the results. As a result of this initiative, the World Bank found that tax compliance increased from 7% to 12% in Kabare, and in Ibanda lead to a 16 fold increase in tax compliance. This success has led the provincial government to allow transferring money to local areas like Ibanda but only if they use participatory budgeting (Howard, 2012; Estefan and Weber, 2012). While the causal relationship is still being studied, this reduction in ‘distance to power’ and decision-making is a strong tool for reframing previously held biases about government processes and trust in public officials.

**IV. Corruption and Integrity in Institutions affects Trust**

In many countries, corruption is commonplace. Corruption is a component of society that tends to work in inverse of trust levels. As a result, many of the initiatives that can be taken to reduce corruption, also correspondingly increase trust levels with trust being the end goal. Countries such as Georgia, Hong Kong SAR China, Rwanda and Singapore have all, through concerted efforts, overcome legacies of corruption (Lord, 2019).

Transparency International’s 2017 ‘Corruption Perceptions Index’ found that in most countries, while awareness of corruption was increasing, there was seemingly little progress in the endeavor to eliminate it (Transparency International, 2017). Addressing corruption in societies where it has become part of daily life, requires a review and reorientation of what many members

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10 When it is so widespread, those making the corrupt exchange effectively trust that the other party are also corrupt, thereby trusting that their immoral behavior will not have consequences for themselves (Rothstein and Stolle, 2008).
of society may consider to be their cultural identity. This is difficult when corruption has been so deeply integrated that it shapes expectations and decisions in social and political interactions (Zuniga, 2018).

To begin to address this issue, policies designed to strengthen and boost integrity involve two steps (OECD 2018; Zuniga 2018):

1) Rethink the existing systems as a whole with the lens of behavioral insights. For example, reviewing existing anti-corruption policies for how well or poorly they may be structured to address moral and ethical issues.

2) Apply behavioral insights in a specific intervention to address context and culture-specific behavioral biases, cognitive limitations and social preferences.

While these steps are helpful to reference, the empirical evidence on the impact of behavioral approaches to corruption is limited. Still, the ideas expressed here have proven beneficial in a variety of contexts, not just corruption, and are important to consider (Zuniga, 2018). As noted in the OECD’s 2018 report on Behavioral Insights for Public Integrity, “integrity is not just a question of individual moral choice, it is influenced by society, peers, neighbors and colleagues. Integrity policies function best when in congruence with...the logic of social interactions” (OECD, 2018). For example, President Paul Kagame in Rwanda used step 1 above to begin to reframe a new national identity as a Rwanda based on pre-colonial values rather than the corruption that plagued the country leading up to the 1994 genocide (Zuniga, 2018). This redefines what it means to be Rwandan, altering the cultural identity of the newest generations in order to be a more trusting, prosperous country in the long term.

**Approach to preventing corruption through cognitive biases** (eMBeD, 2018; OECD, 2018)

The World Bank’s Mind, Behavior, and Development Unit (eMBeD) applies behavioral science to enhance the effectiveness of Bank operations. Using lessons learned from WBG corruption case studies, eMBeD has done work to design behaviorally informed incentives for Bank staff to counter cognitive biases when dealing with both the preventative and enforcement aspects of corruption.

Stratagems to influence the individual include:

1) Real time reminders about integrity values at the moment of potential corruption/fraud
2) Reminders about the harms of corruption in real time
3) Integration of fairness
4) Negative effect of social norms to be recognized
5) Speed and certainty of detection supports enforcement and fear of being caught
6) Encouraging affirmative action such as asking individuals to affirm accuracy of statements rather than not respond
7) Value of specificity - makes rules specific and time bound rather than 'principles' based
8) Be conscious of over-strict control that can have adverse effects. Excessive monitoring of a trust-based rule might drive people to disregard the rule, and create an entry-point for severe misconduct.
Intervention: Public Procurement and the Use of Integrity Pacts

Integrity Pacts are a tool developed by Transparency International (TI), the global anti-corruption NGO, for preventing corruption in public contracting. An Integrity Pact is both a signed document and approach to public contracting which commits a contracting authority and bidders to comply with best practice and maximum transparency. A civil society organization (often one of TI’s chapters) is also then engaged to monitor the procurement process and regularly reporting the results to the public (Transparency International, 2019). The TI chapter in Mexico has implemented over 100 Integrity Pacts since 2002, valued at over US$30 billion. These can also include the use of ‘social witnesses’ which are individuals from the public chosen by the country’s public administration to witness the procurement contracts above a certain value (Transparency International, 2019). These have brought a new level of transparency to a public and private sector interaction long considered corrupt, although additional evaluation of the results is needed.

V. Informality due to Low levels of Trust

Some informal firms may be informal due to limited trust in the public sector. One notable view, the ‘exit view’ of informality fits this understanding (there are multiple views – as of yet, no single view is encompassing all scenarios experienced by informal firms). The exit view states informal firms and workers make a calculated choice based on costs and benefits of formalization to stay informal, thus avoiding taxes, cumbersome regulations and slow pace of government processes which may be costly to their current business operation (Levy, 2008; Farrell, 2004). In this view then, informality is a cost to government, resulting in lost tax revenues, and thus the government should seek to suppress it as much as possible. However, should a cost perceived on the part of the informal entrepreneur be the lack of trustworthiness in the government, stricter enforcement of formal procedures to register and file taxes may do little to foster increased rates of formalization as the root of the problem is not being addressed – the root problem being potentially many of the subjects previously discussed such as high perceived corruption, lack of perception of government considering one’s needs, perceived unfair regulation, etc. This is not to say however that some element of enforcement is not needed – it is a balance as shown in the previous discussion regarding the interplay of trust and power.

As a slight variation on the likelihood of being informal, the influence of trust on entrepreneurship has been studied, finding that trust has a positive and statistically significant correlation with the probability of becoming an entrepreneur while controlling for education, age, and income. Guiso et al. (2006) test the causality of this relationship by using ‘religious affiliation of the respondents’ ancestors’ as an instrumental variable given that religion is associated with trust, but not with entrepreneurship. Their findings verify that trust leads to entrepreneurship rather than entrepreneurship leading to higher levels of trust (Ortiz-Ospina and Roser, 2019).
Intervention: Trust, Courts and Starting a Business
A World Bank Working Paper by Bruhn et al. (2018) examines the effects of transferring business registration from regional courts to a centralized agency in Serbia, thereby transforming registration from a highly adjudicative practice to a simpler administrative process. The authors found that going from the region with the lowest level of distrust to the region with the highest level, the reform increased the number of new firms by up to 34% (Bruhn et al. 2018). Thus, the effect of the reform is larger in regions with high distrust in courts. This effect is also larger compared to those of other types of registration reforms, suggesting that courts and/or low trust can pose significant barriers to new firm creation. Previous studies have estimated about a 5% increase in new firms due to the introduction of one-stop shops in Colombia (Galiani et al., 2015) and Mexico (Bruhn, 2013) and a 17% increase in Portugal (Branstetter et al. 2013). As a result, a policy reform that is trust-oriented does not necessarily have to foster trust in an existing relationship, but can reroute the allocation of trust to a new relationship which may be associated with a different mental model and different set of perceptions. This case signals to future policymakers the importance of considering trust as a variable in the design of reforms and the potential impact it may have on the results achieved.

Part 2 Conclusion: The Literature on Trust between Public and Private Sectors
The importance of trust between public and private sectors is clear. Aspects of transparency, perceived integrity and fairness are noted as important components for fostering trust. These can be pursued through a variety of channels such as communication, information sharing, technological tools, inclusion initiatives, new incentives, etc. Explicit discussion of trust and interventions with a clear trust orientation should be further developed. Additional research in this area should be pursued such as exploring whether trust diminishes if government does not take into consideration and act on the feedback from the private sector.

Part 3: Policy Implications and Summary of Findings
This chapter will take the previous literature review and move towards more actionable steps for policy makers to utilize behavioral insights in their own jurisdiction.

1. Behavioral Insights for Policy Reform
Behavioral insights can be used to inform policies that help both grow and diminish trust. This can occur through influencing the channel that trust is allocated through and the amount of trust found in each institutional, commercial and personal relationship. Behavioral insights can also shift decision making so that alternative forms of trust are utilized, or different allocation methods are used. As a result, policy design should consider what the status quo of trust allocation is, how the proposed policy would influence existing trust, as well as how it might shift where trust lies. Use of diagnostic tools such as journey mapping, followed by intervention tools such as nudging can help identify opportunity for reform as well as alter the existing choice architecture to be framed in support of a trust building environment.
Behavioral Diagnostics
There are several potential diagnostic tools that can be used to help understand why trust levels are lower than desired. These include journey mapping, mystery shopping, gamification, observation, among others. Given the lack of robust evidence on the various tools, this note will focus on the example of journey mapping to detail how it could be used to analyze the state of relationships between private and public sectors, to identify potential behavioral or psychological barriers that are limiting trust as well as help reduce the biases of government itself by taking the perspective of a target population.

Diagnostic Tools: Journey Mapping
A customer journey map is a visualization of the process that a person goes through in order to accomplish a goal tied to a specific business or product. Behavioral science uses this same tool but applies it to help map the behavioral (or structural) barriers people may experience in their journey to a particular outcome (e.g. registering a business). The construction of the journey map could be done in multiple ways, but generally direct feedback either revealed or by survey of individuals on their journey is necessary to identify all the potential mental steps that are occurring in a given journey. The mapping process can help policy makers recognize opportunities for reform or more generally, opportunities for engagement with the public, such as an awareness raising campaign. As another example, in the case of Bruhn et al. (2018) and the reform in Serbia which had businesses register through an automated administrative process, rather than through the courts, we can see an individual’s journey to pursue business registration and the previously large cognitive hurdles that would significantly limit the desire to register, namely the perceived cost to attempt registration via corrupt judges. Journey mapping could serve to identify this difficulty in other contexts and allow proposals for new journeys to be facilitated. Tables 3 and 4 and Figure 4 show examples of hypothetical scenarios where an enhancement of trust is sought, mapped in process similar to Journey Mapping.

Behavioral Interventions
Following the use of a diagnostic tool and the recognition of behavioral or psychological barriers to the development of trust, behavioral interventions, referred to as a nudge, may be used. These can take two forms, 1) addressing individual level behavioral factors, and 2) optimizing the delivery of interventions that are already taking place.

Choice Architecture and “Nudging”
“Nudging” for policy change – a term popularized by Thaler and Sunstein (2008) – is a way of describing small but meaningful changes to an existing infrastructure – from forms to messages to mass media - that aims to simplify and improve the information presented to the public to make it easier for individuals to pursue their desired behaviors without actually changing the scope of choices available. Simplifying a form, for instance, can make it easier for citizens to fill it out and obtain necessary services. Designing a nudge can involve considering all the ways human choices differ from what would be rationally thought appropriate by looking at the different biases the influence human perception and decision-making (OECD 2018). Improved choice
architecture can help people make good choices. The examples of automatic enrollment in company 401(k) plans or redesigned fuel efficiency labels for vehicles are two examples of a nudge to support increased retirement saving and increased consideration of vehicle fuel efficiency. Both are designed to keep people operating automatically, or as Daniel Kahneman (2011) would say, helping us continue to use System 1. A well-designed “nudge” helps make good choices easier.

**Shifting Mental Models**

While in many cases the changes sought through behavioral insights may seem to be universally positive things, the nature of the mental models and social norms in place may run counter to the goal of a nudge, as certain groups may be made worse off and seek to protect their positions. This is the case in countries where corruption is widespread. The police who may regularly receive bribes use this money to supplement their incomes. A policy designed to reduce bribes may force police to find new sources of income or make their bribe collection more secretive. Similarly, improving gender equality may result in men having to contribute on more household chores as women get out of the home more. Being conscious of the change in mental models sought and the types of norms in place to protect those models will help recognize where opportunities for change lie as well as what goals in social welfare are sought. Tools such as communicating descriptive norms and development of new incentive structures for a desired behavior (such as better pay for police) may help to shift a mental model.

The following tables and visuals detail both the recognition of behavioral barriers, but also show potential interventions that would help nudge private sector participants to pursue a different action and eventually lead to increased trust.

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11 Descriptive norms are the perception of what people actually do – in many cases we have a limited understanding of what descriptive norms actually are because information we have may be biased towards negative events for example. Framing descriptive norms to show reality, if reality is better than perceptions, could help reframe mental models.
Example Diagnostics and Interventions to support Trust

The following two table (Tables 3) and diagram (Figure 2) detail trust building scenarios between the public and private sectors in a hypothetical context (informed by real world cases). Figure 2 is a representation of Table 3. These serve to show along the left-hand side, the particular goals and questions asked by an individual, their typical journey of answering these questions/pursuing these goals, as well as a potential new journey that could be facilitated with interventions and policy reform.

Table 4: Registering a new business: from the perspective of an entrepreneur, under a hypothetical local context

<table>
<thead>
<tr>
<th>Consideration 1.1</th>
<th>What do I need to do legally?</th>
<th>Need/Experience (hypothetical)</th>
<th>Barrier (Can be structural or behavioral)</th>
<th>How Barrier may be addressed by government (non-exhaustive examples)</th>
<th>Behavioral Outcomes Sought</th>
<th>Type of Trust Targeted (if applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aspiring to start a business</td>
<td>I need to find information but it can be difficult to understand, hard to find, and not applicable to me</td>
<td>Gender, race, caste, etc., prejudices, Status Quo Bias</td>
<td>Inaccessible information and/or Information and Cognitive Overload, Hyperbolic Discounting, Substitution Bias</td>
<td>Upfront and clear headers with summaries for written materials, communicate time needed to register</td>
<td>Increased belief in ability to start a business</td>
<td>Competence Trust, Institutional Trust, Regulatory Trust</td>
</tr>
<tr>
<td>Consideration 1.2</td>
<td>How have I experienced previous government interactions?</td>
<td>My father was harassed by officials multiple times. I will use the new road to deliver my products. My previous employer included a bribe with her bids for public contracts.</td>
<td>Negativity Bias – Availability heuristic and Affect heuristic, Bounded Rationality,</td>
<td>Communicate the ‘why’ of registration upfront along with the ‘how’, show tools used to address public official integrity</td>
<td>Increased belief in the value of registering, Increased belief in the integrity of public officials</td>
<td>Institutional trust, regulatory trust, contractual trust, calculative trust</td>
</tr>
<tr>
<td>Consideration 1.3</td>
<td>What opportunities am I seeking</td>
<td>I may want to receive government contracts or engage in cross-</td>
<td>Self-perception – self-efficacy, Status Quo Bias</td>
<td>Provide examples of public contracts the</td>
<td>Increased understanding of what opportunities</td>
<td></td>
</tr>
<tr>
<td>Consideration 1.4</td>
<td>What do those I know do regarding government policy?</td>
<td>A lot of the people I know work informally</td>
<td>Affinity Bias, Confirmation Bias</td>
<td>Provide stories of successful entrepreneurs that bear similar characteristics</td>
<td>Increased personal empowerment</td>
<td>Social trust</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------------------------------</td>
<td>------------------------------------------</td>
<td>----------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>--------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>2. The first decision</td>
<td>Decision point: I will/will not register a business.</td>
<td>It doesn’t really matter and I won’t get caught</td>
<td>Neglect of probability</td>
<td>Provide formal recognition – well-designed documentation in physical and digital form</td>
<td>Instill sense of professionalism accessed through registration</td>
<td>Contractual trust, limited trust</td>
</tr>
<tr>
<td>Consideration 2.1</td>
<td>IF I register, I must begin filing paperwork</td>
<td>The paperwork is hard to understand, the application process is not a fair administrative process</td>
<td>Self-confidence and self-efficacy, Cognitive Overload, Corrupt judges</td>
<td>Reform the filing process or take a new channel into the administration (e.g. make an administrative process rather than judicial)</td>
<td>Improved perception of government interaction – supporting future engagement and trust development</td>
<td>Process-based trust</td>
</tr>
<tr>
<td>3. The second decision</td>
<td>Decision Point: Now that I’ve registered, will I pay taxes?</td>
<td>I have not seen this administration do anything to help me or my community, I need the money</td>
<td>Coercive policy from the government lowering trust, Hyperbolic discounting</td>
<td>Transparent displays of public works initiatives and their progress</td>
<td>Tax compliance through balance of trust and power (from government)</td>
<td>Institutional trust, regulatory trust</td>
</tr>
<tr>
<td><strong>Result of New Journey:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Government has boosted social capital as well as improved components of institutional trust while leading to increased tax revenues</td>
</tr>
</tbody>
</table>
Figure 4: A visualized approach (of Table 3) to the multitude of questions, experiences and barriers an individual may juggle in their journey to start a business. (Source: Authors’ elaboration)
To complement the above table and diagram, Table 4 shows an alternative approach to frame specific aspects of the public and private sector interaction and how barriers in those interactions may be addressed, improving outcomes.

Table 5: Developing a new policy under hypothetical local context

<table>
<thead>
<tr>
<th>Event</th>
<th>Status quo journey</th>
<th>New Journey that Builds Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Need/ Experience (hypothetical)</td>
<td>How Barrier may be addressed by government (non-exhaustive examples)</td>
</tr>
<tr>
<td>1. Perception of government processes in policy development</td>
<td>Opaque processes</td>
<td>Status quo bias for government (easier to continue operations as is), Negativity bias for private sector (one negative experience can tarnish the relationship)</td>
</tr>
<tr>
<td>2. Perceived Integrity of public officials</td>
<td>Experience/ perception of corruption amongst public officials</td>
<td>Structure of the management of policy decisions promotes seclusion and distribution of accountability</td>
</tr>
<tr>
<td>3. Private sector engagement at public hearings/policy development</td>
<td>Lack of participation, loud public outrage, and/or failure to abide by policy once passed</td>
<td>Lack of knowledge about any opportunity or channels to participate</td>
</tr>
<tr>
<td>4. Revision of draft policy</td>
<td>Done largely internally with the lobbying of a few large industries</td>
<td>Lack of opportunity to participate</td>
</tr>
<tr>
<td>5. Repeated interactions between public and private sectors</td>
<td>Vicious cycle of discontent as both sides claim to own the truth</td>
<td>Confirmation Bias and Affinity Bias by both Public sector and Private sector</td>
</tr>
</tbody>
</table>

Result of New Journey: A recurring cooperative game is established building political and broader institutional trust, reducing risk of future opportunistic behavior.
II. Summary of Findings and Research Needs

Managing for the improvement of trust between the public and private sectors is difficult, but clearly relevant across many aspects of government processes and private sector engagement, transparency to public integrity to self-regulating organizations. Table 5 on the following page provides a brief summary of some of the cases noted previously for their trust orientation, widespread usage and/or strength of causal explanation. Still, additional studies are needed to better understand the causal relationships surrounding trust, to what extent trust coexists with other outcomes such as economic growth, or if it can be a method for driving economic growth itself.

Rebuilding trust is difficult and not always clear in terms of how to do it. As Lord notes in the Stanford Social Innovation Review (2019), “communities and even whole nations that don’t follow through with...ways to rebuild and maintain citizens’ trust risk facing compounding crises; they will likely lack the unity and social capital they need to compete, let alone thrive” (Lord, 2019). But while rebuilding trust is difficult and unclear, in comparison, we know much more about what erodes trust. It is thus important going forward to build a more robust evidence base regarding efforts to restore trust between the public and private sector with a strong underlying analytical structure for recognition of how insights gained suit the local context. This then necessitates an improvement in the collection of data to further our understanding of trust’s role in our lives (Hamilton et al. 2016).

The expansion of behavioral sciences into the economic landscape has thus far proven promising in identifying opportunities for nudges that, while not limiting choices of decision makers, promote choices that can foster trust. It is understood, that through many small behavioral insight-driven reforms, large scale systemic impact can begin to be fostered at relatively low cost. Of course, a field such as behavioral science is very conscious of potential limitations in the external validity of their findings – an insight gleaned in one context may be irrelevant in another. Gauri (2018) gives the example of priming potential taxpayers with social norms is an effective nudge in both the UK and Guatemala, but ‘hard tone’ letters in Poland were shown to be even more effective than priming. Applications of behavioral public policy in developing countries can help show the results of untested interventions in new environments (Gauri, 2018).

The difficulty does not end with the fostering of trust however. One of the leading challenges with behavioral change is making it stick (Van der Linden, 2015). When behavior change is motivated externally, it is often of short duration, lasting only as long as the external stimuli (consider the limited lifespan of behavior change generated from awareness campaigns). As a result, making clear the reason for the change can help the motivation transition from being external to internal, and the behavior change becomes long-term (Zuniga, 2018).
Table 6: Summary of Cases on Public and Private Sector Trust Enhancement

<table>
<thead>
<tr>
<th>Category</th>
<th>Intervention / Reform Input</th>
<th>Target Impact</th>
<th>Behavioral Insight</th>
<th>Study</th>
<th>Country</th>
<th>Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency and Communication</td>
<td>Road building</td>
<td>Increase in transactions leading to increased trust</td>
<td>Increased ease of trade allowed for more numerous transactions and boosted trust with members outside the community</td>
<td>Labonne and Chase (2008)</td>
<td>Philippines</td>
<td>1) Small businesses connected by the road, 2) community members</td>
</tr>
<tr>
<td>Transparency and Communication</td>
<td>Public and Government technology interface</td>
<td>Increased value placed in public services</td>
<td>Increased awareness of government activities in response to citizen requests increases satisfaction and trust in government</td>
<td>Buell et al. (2018)</td>
<td>USA</td>
<td>1) Municipal government, 2) citizens using app</td>
</tr>
<tr>
<td>Public and Private Engagement</td>
<td>Participatory Budgeting through Mobile phone communication</td>
<td>Increased tax compliance</td>
<td>Participatory budgeting can boost citizen engagement and likelihood of tax compliance</td>
<td>Howard (2012)</td>
<td>DRC</td>
<td>1) Community members, 2) South Kivu government</td>
</tr>
<tr>
<td>Integrity and Corruption</td>
<td>Public oversight mechanism</td>
<td>Increased integrity in public procurement</td>
<td>Use of social witnesses to oversee public contracting is believed to promote integrity in the procurement process.</td>
<td>Transparency International (2019)</td>
<td>Global</td>
<td>1) Public entity contracting, 2) contractor, 3) community members</td>
</tr>
<tr>
<td>Informality and Entrepreneurship</td>
<td>Changed business registration to administrative process rather than judicial</td>
<td>Increased business registration</td>
<td>Re-routing relationships rather than reforming existing low-trust relationships is an option for unleashing higher trust levels</td>
<td>Bruhn et al. (2018)</td>
<td>Serbia</td>
<td>1) Judiciary, 2) entrepreneurs, 3) executive branch</td>
</tr>
<tr>
<td>Social Inclusion</td>
<td>Increased income transfers</td>
<td>Increased social inclusion</td>
<td>Reducing feelings of income inequality increased trust levels in society</td>
<td>Zak (2006)</td>
<td>42 countries</td>
<td>1) Low income and 2) high income community members</td>
</tr>
</tbody>
</table>

38
III. First steps in Policy Reform

To manage trust, policymakers must first begin to consider trust in decision-making, recognizing its current existence and the benefits of increasing it. Policy makers must consider where low trust exists, the form it takes and the extent it is limiting attainment of the desired development goals. Based on these characteristics, one is better able to assess the necessary steps to pursue improved trust and/or complementary avenues of policy reform that indirectly support trust. Possible questions to address include:

- Where does trust currently exist in private sector and government interaction? Is it possible to expand on these particular points to incrementally increase the scope of activities that have a higher level of trust?
- Alternatively, are there areas of the public-private interaction that suffer from especially low levels of trust and how can the interaction be rerouted around this pathway to one of greater trust, perhaps via different people, different media (online, automated), etc.?
- Or perhaps trust’s low levels are pervasive throughout all aspects of society and thus there are no potential focus points with which to concentrate our efforts. If trust is in all cases at a low point, identifying recurring transactions of particular value may be an opportunity to begin policy reform, such as through a nudge to continue transacting which inadvertently leads to greater trust. For example, public procurement contracts, a direct engagement between public and private sectors, can be structured to support ongoing engagement while also including integrity initiatives.

From there, policy makers must be clear on their measures of trust and incorporating it into policy design processes. As discussed in earlier sections of this review, the measurement of trust is not a straightforward process. In response, the OECD (2017) has developed a set of preliminary questions for designing a trust metric. Understanding what metric to use depends on how the resulting measurement will be used. Questions to consider include:

- i) What are the policy questions?
- ii) Is the trust content being proposed appropriate to respond to the policy questions?
- iii) Does the measure proposed allow monitoring changes over time or comparing population groups?
- iv) What population groups are of greatest interest to the user?
- v) Does the user’s interest lie in comparing outcomes of different groups or in understanding the relationship between different aspects of trust?
- vi) Is the user’s primary interest in generalized trust, limited trust or institutional trust? If the focus is on the latter, which institutions are of primary interest?

(OECD, 2017)
Preliminary Questions for Design of a Trust Metric (Source: OECD, 2017)
Understanding what metric to use depends on how the resulting measurement will be used. Questions to consider include:

i) What are the policy questions?
ii) Is the trust content being proposed appropriate to respond to the policy questions?
iii) Does the measure proposed allow monitoring changes over time or comparing population groups?
iv) What population groups are of greatest interest to the user?
v) Does the user's interest lie in comparing outcomes of different groups or in understanding the relationship between different aspects of trust?
vi) Is the user's primary interest in generalized trust, limited trust or institutional trust? If the focus is on the latter, which institutions are of primary interest?
vii) What are the frequency requirements of the users to monitor changes over time?
viii) What geographic level would the measurement be conducted in?

Upon understanding the existence of trust, the goals of measuring trust and the outcomes pursued, it may be effective to pursue a new behavioral intervention. It is important to note that not every behavioral insight includes greater government intervention - in some cases, it may be that “less is more”. Further, with every policy design or tool used, allowing the public to review them as well as compile evidence regarding their formation will be important given that even if government refrains from action in a particular arena, people and businesses are still going to be subjected to the efforts of other interested parties to apply social pressure, frame mental models, etc. For example, advertisers will continually seek to use behavioral insights to attract customers and elites will continue to apply their own form of social pressure. As Cass Sunstein (2014) notes, “governmental inaction does not necessarily leave space for individual freedom: rather, government inaction may amount to an indifference to loss of freedom”.

Specific steps to take in fostering trust are difficult to prescribe. Local contextual factors will often become the driving factors for what policy could be effective. Still, we can identify characteristics of policy reforms that are important to take into account. In her article, Lord (2019) notes the ‘Six Paths to Greater Trust’, included here with a defining feature of each path.

1. Competence - Make sure institutions are effective and deliver real benefits for people
2. Integrity - Develop future leaders who work for the greater good, not for themselves
3. Accountability - Strengthen accountability and transparency
4. Dialogue - Engage citizens and private sector in solving challenges
5. Equity - Strengthen social inclusion
6. Reciprocity - Establish real commitment

Initial steps that can be taken in pursuing the aforementioned six paths, as identified by the OECD (2017) include:

1. Clear definition of and adherence to integrity principles
2. Take advantage of opportunities to demonstrate to the public competence in practice, such as large public infrastructure projects
3. Political leaders that make personal efforts to display integrity and communicate sense of reciprocity in private sector
4. Development and application of common standards and behaviors at all levels of government to promote perceived fairness and accountability

Conclusion

This note has served as a preliminary review of current research findings on the topic of trust, from its conceptual underpinnings, its importance in private and public sectors’ functioning, to potential interventions targeting the fostering of greater trust between private and public sectors. Research into trust between private and public sectors takes many forms, often addressing the subject indirectly by studying the effects of interventions on compliance, enforcement, regulatory processes, procedural justice, self-regulation, etc. As we have seen, in many of these cases, changes in trust as a result of a reform or intervention are not explicitly measured. Rather, trust is referenced as an intangible feature to the local context, while other measures of growth, compliance rates, number of interactions, etc. are quantified. As a result, much of our information on trust is gleaned indirectly through other indicators that we know correspond to trust. This is in part a result of the difficulty in measuring trust and varying approaches that can be taken.

Summoning trust between private and public sectors has not proven a readily achievable task. Still, with recognition of cognitive biases, the social nature of humans and the mental models they carry, there appears to be opportunity for generating incremental advances in trust building that over time can amount to significant transformation in public–private relationships. The use of behavioral insights to influence policy design and reform has shown to be important and will likely continue to grow in importance. Going forward, additional research and implementation of behaviorally-informed interventions should be conducted that include a measure of trust as a part of their evaluation such that we build a trust-specific evidence base from the evaluations that are already being conducted. This would not be a one-time activity but an ongoing effort to help understand, build and sustain trust.


Appendix A: Measuring Trust

Methods of Measurement
There are many approaches to the measurement of trust. They can take the form of direct or indirect measures, and be uni-dimensional or multidimensional. The following provides a brief breakdown of the different measurement techniques used in practice.

Uni-dimensional vs. Multi-dimensional measures
Debate continues regarding the pros and cons of using a uni-dimensional or multi-dimensional measure of trust and if either or both are appropriate. First, the existing use of uni-dimensional measures (such as the international surveys noted in the body of this report), while perhaps missing the full scope of the concept of trust, are still consistently applied and have been for years allowing for comparative analysis across time and countries (Seyd, 2016). Using a single dimension is also a simple and brief process (Seyd, 2016), allowing for surveyors to ask respondents about trust (using the same dimension) regarding various stakeholders – institutions, politicians, business, etc. 12

However, a uni-dimensional approach may risk mismeasuring the subject of interest, due to the complexity of a subject and differing understandings by respondents. For example, qualitative research on terms such as ‘democracy’ are interpreted many different ways, even within a specific population (Canache et al, 2001; Carnaghan, 2010). Similarly, the typical attitudinal survey questions used in international surveys, while long used, often lead to vague answers (Glaeser et al. 2000). This leads to a disconnect between the importance given to understanding trust and the way it is measured (Seyd, 2016). When answers are vague and the measurement is in need of improvement there is less opportunity to understand the status quo, let alone understand what types of policy changes could be made as a result. For example, an attitudinal question asking for respondents’ trust in government, without defining what government means as a term can lead to varying responses. Rather than answer in response to government as an institution, respondents may instead be providing an assessment of feelings towards current political figures (Seyd, 2016).

In response to the issues with a uni-dimensional measurement, Seyd (2016) helped build a more complete picture of the dimensions of trust and how those dimensions can be represented as well as how an improvement in the score of each dimension can improve trust levels (Table 1A).

12 It is also important to recognize what other measures alongside trust need to be collected simultaneously - in particular - demographics (age, income, household size, urban/rural, employment, education, security, religion, etc.), any previous institutional experiences that are swaying their opinion, etc. (OECD, 2017)
<table>
<thead>
<tr>
<th>Dimension of Trust (Seyd, 2016)</th>
<th>Example Measures of Trust</th>
<th>Conditions Inducing Trustworthiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competence</td>
<td>Generally speaking, politicians are competent</td>
<td>In politics, only the most able people get to the top; Political parties ensure that only capable people get selected as election candidates</td>
</tr>
<tr>
<td>Inefficiency</td>
<td>Governments waste a lot of public money</td>
<td>There is not enough scrutiny over how ministers spend public funds</td>
</tr>
<tr>
<td>Expertise</td>
<td>Politicians generally know what they are doing</td>
<td>Once elected, politicians are given a good training</td>
</tr>
<tr>
<td>Concern; Benevolence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concern</td>
<td>Politicians usually try to help their constituents; Politicians tend to look after their own interests rather than trying to help others</td>
<td>Only politicians who can show they are responding to people’s concerns win elections</td>
</tr>
<tr>
<td>Understanding</td>
<td>In the main, politicians don’t really understand the problems facing ordinary people</td>
<td>The average politician is very like the average citizen</td>
</tr>
<tr>
<td>Integrity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Honesty; truthfulness</td>
<td>In the main, politicians tell the truth;</td>
<td>If politicians don’t tell the truth they are likely to get caught out;</td>
</tr>
<tr>
<td>Openness</td>
<td>Government ministers tell us as little about what they get up to as they can; Governments distort the facts to make themselves look good; When things go wrong politicians admit their mistakes</td>
<td>There are clear rules about what politicians must disclose; There is not enough factual information available to citizens to allow them to judge government decisions; Politicians who admit mistakes tend to get punished by voters</td>
</tr>
<tr>
<td>Reliability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promise-keeping</td>
<td>Politicians are happy to promise things at an election but forget their promises afterwards; Politicians try to keep their promises</td>
<td>If politicians go back on promises made to voters, they will be punished at elections</td>
</tr>
<tr>
<td>Consistency</td>
<td>Politicians change their mind all the time</td>
<td>Politicians must respond to voters, if voters change their minds so must politicians</td>
</tr>
<tr>
<td>Fairness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>Governments treat each group within society equally</td>
<td>Governments that favor some social groups over others will not last long in office</td>
</tr>
</tbody>
</table>

Implementation of surveys with this multi-dimensional approach are more time consuming but may help to reveal how trust is allocated and create the insights needed to begin policy reform. For example, political trust was first measured via a battery of survey questions fielded on the US National Election Study (NES) in 1958 (item 2 from 1964). This survey comprised the following items (Seyd, 2016):

1. How much of the time do you think you can trust the government in Washington to do what is right?
2. Would you say the government is pretty much run by a few big interests looking out for themselves, or that it is run for the benefit of all people?
3. Do you think that the people in government waste a lot of the money we pay in taxes, wastes some of
it, or don’t waste very much of it?
4. Do you think that quite a few of the people running the government are a little crooked, not very many are, or do you think hardly any of them are crooked?

These questions help to address the dimensions of trust in government that would otherwise be missed with a single uni-dimensional question.

Indirect Proxy Measures
Other types of surveys are done that shadow the concept of trust to indirectly assess its existence. For example, surveys of the private sector’s perception of corruption in the government are often used. Transparency International has developed a Corruption Perceptions Index to capture the public’s perception of corruption in their society. While trust may not be directly addressed, an awareness of corruption in government will then lead to a reduction of institutional, political, and judicial trust (as applicable to the situation). Similarly, the number of interactions and the duration of relationship can both be proxies of trust. Labonne and Chase (2008), find that trust towards a given group increases as face-to-face interactions increase.

Trust measures in National Statistics
While we looked at international surveys used for cross-country comparison in the body of this report, there are many countries that also assess trust at the national level to help understand policy analysis. The reasoning for the development and use of national level trust surveys are three fold (OECD, 2013).

1) National surveys can provide greater insight into the drivers of trust rather than just the existence of trust. For example, the Barometer of Citizen Confidence used in Spain publishes monthly data to compare government satisfaction with broader perceptions of the economy.

2) National surveys can also go into more depth. IFOP in France will ask citizens about specific policy targets and their trust in the government’s ability to achieve them.

3) National surveys can have a longer time series than that in international surveys. PEW Research Center in the United States has been conducting national surveys of trust since the 1950’s, allowing for a long-term recognition of how trust has changed with different stakeholders and why.

Use of national surveys may be an agenda item for economic development practitioners to pursue.

Appendix B: Social Capital
Social Capital and its relation to Trust
Trust itself fits into the category of social capital, a similarly broad concept meant to capture aspects of societal organization and functioning that can add value. Putnam (2000) states that “social capital refers to the social connections, networks, and interpersonal trust that occur in communities”. The table below provides a depiction of what the concept covers.
Social capital has been shown to be associated with well-performing democratic institutions, personal happiness, optimism and tolerance, economic growth, and democratic stability. The sources of social capital however often remain empirically unexplored (Rothstein and Stolle, 2008).

### Table 1B: Understanding Social Capital

<table>
<thead>
<tr>
<th>Social capital refers to components of effective social groups. There are two types of social capital described below.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bridging Social Capital</strong></td>
</tr>
<tr>
<td>Ties that develop vertically and horizontally across a society; for example, divisions of social class, ethnic group, gender, religion, or nationality. The characteristics of bridging social capital are important for fostering generalized trust within complex societies (Chauffour, 2018).</td>
</tr>
</tbody>
</table>

Appendix C: Glossary on Behavioral Science Terms

*Credit: The World Bank Group’s Mind, Behavior, and Development (eMBeD) Unit, (2019)*

**Automation bias**: errors people make as a result of a mechanical decision making process or system.

**Behavioral barriers/bottlenecks**: The contextual and psychological factors that might prevent specific human choices and actions.

**Behavioral science**: A field based on psychology, cognitive science, anthropology and economics, to define, understand and predict human behavior.

**Bias(es)**: irrational support or opposition to someone or something that influences judgment.

**Bounded rationality or limited rationality**: limitation of thinking capacity as a result of the context, access to information or options available.

**Cognitive bias(es)**: systematic irrational way of thinking that influences judgment.

**Cognitive load**: amount of mental activity used.

**Cognitive overload**: Overburdened mental resources that make it difficult for individuals to make or follow through on a decision. Usually caused by pressure from challenges and stress, such as navigating life under conditions such as poverty.
**Choice architecture**: act of influencing a choice made by an individual by organizing the way the options are presented.

**Choice overload**: process in which it is difficult to make a decision as a result of the amount of options available.

**Confirmation bias**: trend to look for information that reinforce a previous thought or belief.

**Decision-making**: rational process of discussing and choosing an option among others available that is usually conducted within a group.

**Heuristics**: short cuts or rules applied mainly under uncertain situations to simplify the decision making process.

**Hyperbolic discounting**: trend to choose a smaller and sooner reward rather than bigger and longer reward because of a bias in the time perception.

**Incentives**: something that influences the decision making process or action of an individual.

**Information barriers**: When a lack of knowledge about the resources and opportunities available to someone prevents them from making a decision or taking a certain action.

**Intertemporal choice**: process of making decision at several points of time that influence future decisions.

**Irrationality**: quality of not being rational or being illogical.

**Limited cognition**: constraint in understanding actions, behaviors or thoughts of other people.

**Loss Aversion**: The tendency for decisions and behavior to be influenced by the desire to avoid a loss, rather than be rewarded with an equivalent gain.

**Mental bandwidth**: The cognitive resources that one relies on when making choices.

**Mental models**: Beliefs, concepts and ideas used by people to interpret the world around them.

**Mindset**: set of thoughts, opinions and attitudes of someone.

**Motivation**: causes or reasons of someone to act in a certain way.

**Nudging**: action of influencing an individual during the decision making process using a positive reinforcement and indirect suggestions.
Priming effect: adoption of a certain behavior as a result of having received a previous framework. People are exposed to certain words that provoke specific stimuli to adopt the behavior sought.

Risk aversion: tendency to avoid making decisions that could provoke losses. People prefer a sure outcome rather than an uncertain one.

Self-efficacy: belief that goals can be achieved through executing certain behaviors.

Social norms: Informal rules of behavior considered acceptable in a group, community, or society.

Social preferences: type of preference related with concepts such as altruism, generosity or reciprocity.

Status quo bias: the preference of keep things as they are rather than provoke a change.

Thinking automatic: process in which images and thoughts show up in the mind to assist us in understanding a certain situation or adopt a specific behavior.