

Foreign Aid and Trust in Institutions

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Abstract

We examine how foreign aid relates to citizens' trust in political institutions by combining geocoded information on development projects with geolocated survey data from 22 countries in Eastern Europe and Central Asia (2010–2016). Motivated by the idea that locally visible interventions may generate signals about domestic institutional performance, we exploit spatial proximity and variation in the timing of project implementation to compare individuals residing near projects implemented prior to the survey with individuals residing near projects implemented only later, and complement this design with within-municipality difference-in-differences estimates. Exposure to implemented aid projects is associated with higher trust in a broad set of political institutions. This relationship varies systematically with time since implementation and is sharply heterogeneous across project types and institutional environments. Socially oriented interventions are most strongly linked to trust in political institutions, and the positive relationship is concentrated in countries with lower levels of democratic consolidation, while it is muted in more consolidated democracies. These findings suggest that locally visible development interventions can shape institutional trust in ways that depend on regime context.

Keywords: Foreign aid; Institutional trust; Political trust; Development projects; Social capital; Transition economies.

JEL codes: F35; O19; D73; Z13; P33.

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1 Introduction

Foreign aid has long been a cornerstone of international development policy, intended to foster economic progress and mitigate global inequalities. Yet its political and institutional consequences remain contested. A growing literature has documented distortions in aid allocation, political capture, and unintended effects on domestic governance (Isaksson and Kotsadam, 2018; Bommer et al., 2022). While these contributions have substantially advanced our understanding of the political economy of aid, they have primarily focused on aggregate institutional outcomes, elite behavior, or governance quality.

Much less is known about whether foreign aid systematically shapes trust in domestic political institutions. Existing micro evidence is largely tied to specific contexts, e.g., disaster-related assistance and information interventions, donor-image dynamics, or conflict settings, rather than to a comparative, cross-country perspective (Dietrich et al., 2018; Andrabi and Das, 2017; Watkins, 2021; Atitianti, 2023; Sexton and Zurcher, 2024).

From a theoretical perspective, externally financed development interventions can influence institutional trust through multiple channels. Aid-funded projects may increase trust by improving local public goods provision and signaling state effectiveness. Conversely, aid may weaken support for domestic authorities if citizens perceive external actors as substitutes for state capacity (Brass, 2016). More generally, the direction and magnitude of these political responses may plausibly vary across institutional environments. This motivates the hypothesis that, in consolidated democracies, where institutional assessments are shaped by relatively stable accountability mechanisms and constraints on executive power, localized development interventions may carry limited marginal informational content. In less democratically consolidated settings, by contrast, visible changes in local public goods provision may be more salient cues and could trigger stronger belief updating about institutional credibility.

Recent shifts in the global aid landscape further underscore the relevance of understanding whether, and under what conditions, local exposure to foreign aid shapes trust in domestic political institutions.

Against this background, this paper examines how foreign aid affects individuals' trust in political institutions across 22 countries in Eastern Europe and Central Asia between 2010 and 2016. Combining geocoded information on development aid projects from the Geocoded Official Development Assistance Dataset (GODAD henceforth) by Bomprezzi et al. (2024) with individual-level survey data, we provide systematic cross-country evidence on the relationship between local exposure to foreign aid and institutional trust, and on how this relationship varies across institutional environments and types of interventions.

To discipline the empirical analysis, we outline a parsimonious conceptual framework that

clarifies a plausible mechanism linking local aid exposure to institutional trust and generates testable implications on timing, project type, and regime heterogeneity.

We begin with aggregate descriptive evidence. Combining aid data with country-level averages of trust measures from the World Values Survey and corruption indicators from the Subnational Corruption Index Database (Crombach and Smits, 2024), we document a positive correlation between aggregate aid intensity and institutional confidence. This descriptive evidence motivates the subsequent micro-level analysis.

We turn to individual-level evidence using the Life in Transition Survey (LiTS), geolocated at the municipality level and covering 22 countries over 2010–2016 (Ajzenman et al., 2022). This dataset allows us to relate individuals’ reported trust in political institutions to the local presence and timing of foreign aid projects.

Our empirical strategy exploits spatial proximity to aid projects together with variation in the timing of their implementation. Rather than comparing treated and permanently untreated locations, we restrict attention to municipalities that eventually receive aid and contrast individuals residing near projects implemented prior to the survey interview with individuals residing near projects implemented only after the interview. In this design, the control group consists of not-yet-treated locations that will receive aid in the near future. By conditioning on eventual treatment and exploiting variation in implementation timing, this approach mitigates concerns related to cross-sectional targeting and allocation bias.

We also exploit within-municipality temporal variation using repeated survey waves (2010 and 2016). This difference-in-differences strategy compares individuals interviewed in the same municipalities before and after local aid implementation, holding time-invariant locality characteristics constant and isolating changes in institutional trust associated with the arrival of aid. Together, these complementary strategies provide consistent evidence based on distinct sources of identifying variation.

Across both approaches, we find that exposure to implemented aid projects is associated with higher trust in a broad set of political institutions, including courts, national governments, parliaments, presidents or prime ministers, and local governments. Consistent with the framework’s implications on project visibility, these associations vary systematically with time since implementation. Trust differences are more pronounced once interventions have had sufficient time to generate observable outcomes and become visible to the local population, although the pattern is not monotonic.

These average effects mask systematic heterogeneity along the dimensions predicted by our conceptual model. First, we find that the nature of the intervention matters: projects targeting social infrastructure and services, such as education, health, water and sanitation, and government and civil society, are strongly associated with political trust, whereas

projects in economic infrastructure and production sectors exhibit weaker and more confined correlations. This aligns with the expectation that sectors with higher local visibility and direct impact on daily well-being provide more salient performance signals. Second, trust responses display ~~regime-contingent~~ patterns consistent with the conceptual framework: the positive correlation between exposure to implemented aid projects and institutional trust is concentrated in countries with lower levels of democratic consolidation and is muted in more consolidated democracies. This pattern is robust to alternative measures of democracy.

These findings are consistent with the idea that locally visible aid projects function as performance signals about domestic institutions. The strength of this signaling effect depends both on the salience of the specific intervention and on the broader institutional context, which shapes how citizens interpret and weigh new information when revising their trust in domestic political actors.

Our paper speaks to two broad strands of the literature. The first strand examines the political economy and institutional consequences of foreign aid in recipient countries. A large body of work has documented that aid affects a wide range of economic and social outcomes, including economic growth (Dreher et al., 2022), health and human development (Cruzatti et al., 2023), political stability (Gehring et al., 2022), and population movements such as refugee returns (Dreher et al., 2019b). At the same time, this literature has raised important concerns about the unintended political and institutional consequences of aid, highlighting risks of favoritism, corruption, elite capture, and political manipulation (Isaksson and Kotsadam, 2018; Dreher et al., 2019a; Bommer et al., 2022; Bompreszi et al., 2024), wealth accumulation among political elites (Andersen et al., 2022), and violent conflict (Weintraub, 2016). While these contributions have substantially advanced our understanding of how external resources interact with domestic political incentives, the focus has predominantly been on aggregate institutional outcomes, elite behavior, and macro-level governance indicators.

Existing micro-level evidence remains largely context-specific. Survey experiments and quasi-experimental studies show that disaster-related aid can increase trust in both recipient governments and donor countries (Dietrich et al., 2018; Andrabi and Das, 2017). Belmonte et al., 2025 provide related evidence that aid may influence tax morale by signaling state capacity in Sub-Saharan Africa. In contrast, in conflict settings such as Afghanistan, aid interventions may weaken trust in government and strengthen insurgent support (Sexton and Zurcher, 2024). Other contributions examine donor-specific dynamics, most notably China, and study whether aid provision translates into donor reputation and soft power (Watkins, 2021; Atitianti, 2023). This evidence suggests that the political consequences of foreign aid are shaped by both institutional environments and the characteristics of financed interventions. However, systematic cross-country evidence on how locally visible aid projects

relate to citizens' trust in domestic political institutions remains limited.

Within this literature, our paper contributes along three dimensions. First, we provide systematic cross-country micro-level evidence on the relationship between geocoded exposure to development projects and individual trust in domestic institutions. While prior studies document political effects of aid in specific contexts or for specific donors, our analysis combines multi-donor project data with harmonized survey evidence across 22 countries, and exploits variation in implementation timing within eventual recipient locations. Second, we move beyond average correlations and document structured heterogeneity along dimensions, showing that the exposure–trust relationship varies systematically with time since implementation and with project type. Third, we demonstrate that these patterns are conditional on institutional context. By documenting regime-contingent responses across countries with different levels of democratic consolidation, we highlight that the political correlates of aid exposure depend on the broader institutional environment in which belief updating occurs.

The paper also contributes to the broader literature on the formation of institutional trust, a central dimension of social capital and political legitimacy. A growing body of research has identified factors that erode trust in political institutions, including protest activity (Sangnier and Zylberberg, 2017), trade-induced labor market polarization (Aksoy et al., 2024), technological change and media exposure (Guriev et al., 2020; Geraci et al., 2022), military culture (Bove et al., 2024), foreign military interventions (Langlotz, 2026), corruption (Aksoy et al., 2025), and exposure to major health shocks (Eichengreen et al., 2024).

By contrast, foreign aid exposure has received limited attention in the institutional trust literature. A small number of studies examine how aid affects attitudes toward donor countries (Dietrich et al., 2018; Andrabi and Das, 2017), and recent work analyzes the effect of aid-related interventions on trust in domestic institutions in highly specific contexts, such as emergency assistance following the Afghanistan earthquake (Sexton and Zurcher, 2024). We instead study whether exposure to externally financed development projects is associated with trust in domestic political institutions in a cross-country setting, using multi-donor project data and harmonized individual-level survey evidence.

Our results indicate that the political consequences of foreign aid are conditional rather than uniform. Aid exposure is systematically associated with trust in institutions where democratic consolidation is weaker and where interventions generate visible improvements in local public goods provision. These patterns are consistent with the view that citizens rely more heavily on observable performance signals in environments where institutional credibility is less entrenched.

Importantly, our findings do not imply that foreign aid mechanically strengthens demo-

cratic institutions. Instead, they are compatible with an interpretation in which aid exposure can shape reported institutional confidence, a component often associated with broader notions of state–citizen relations, in regime-specific ways. In settings with weaker democratic constraints, externally financed interventions may reinforce institutional trust without necessarily altering underlying accountability structures. Understanding these conditional political effects is therefore central to evaluating the broader institutional implications of international development engagement.

The remainder of the paper is organized as follows. Section 2 presents the conceptual framework and derives testable implications for the empirical analysis. Section 3 describes the data sources and the construction of the key variables. Section 4 outlines the empirical strategy. Section 5 reports the empirical results. Section 6 discusses the findings, addresses interpretive limitations, and concludes.

2 Conceptual Framework

This section outlines a conceptual framework linking exposure to implemented aid projects to reported trust in political institutions. The objective is not to provide a fully strategic model of donor–government interaction. Instead, we articulate a simple mechanism through which locally visible interventions may affect citizens’ beliefs and derive testable implications that map directly into the empirical design.

Consider an individual i living in locality l in country c . We denote by θ_c the unobserved level of institutional performance in country c , that is, how effectively domestic political institutions deliver public goods and services and fulfil their governance functions. Citizens do not observe θ_c directly. Instead, they hold beliefs about institutional performance.

Implemented aid projects generate locally visible outcomes that provide noisy signals about institutional performance:

$$s_l = \theta_c + \varepsilon_l, \tag{1}$$

where ε_l captures idiosyncratic variation in realized project outcomes across localities.

Because aid-funded interventions are externally financed, citizens need not attribute observable outcomes entirely to domestic institutions. Let $\alpha \in [-1, 1]$ denote the *informational pass-through*, the fraction of the observed signal that citizens attribute to domestic institutional performance. When $\alpha > 0$, citizens credit at least part of the observed outcome to domestic institutions; this is consistent with settings where domestic authorities are perceived as facilitating or co-owning externally financed interventions. When $\alpha < 0$, the observed outcome carries a negative signal: citizens infer that external financing reflects state incapacity

or substitution of domestic provision by foreign actors. This alternative corresponds to the mechanism discussed by Brass (2016) and is consistent with evidence from conflict settings where aid has been found to weaken confidence in government (Sexton and Zurcher, 2024). Whether α is positive or negative is therefore an empirical question.

Citizens hold prior beliefs μ_0 about institutional performance. After observing the attributed signal αs_l , they update their beliefs:

$$\mu_1 = \mu_0 + \kappa(\alpha s_l - \mu_0), \quad (2)$$

where $\kappa \in (0, 1)$ captures *responsiveness to new information*. In the empirical analysis, reported institutional trust serves as the observable counterpart to these updated beliefs μ_1 .

Although α and κ both affect the magnitude of trust responses, they capture conceptually distinct mechanisms. Variation in α reflects how observed outcomes are attributed to domestic institutions, including whether they are interpreted as positive, null, or negative signals, whereas variation in κ reflects how strongly citizens revise their beliefs once such a signal is formed. We return to this distinction in Section 6.

This structure delivers our first testable implication.

Implication 1 (Project visibility). *Within eventual recipient locations, institutional trust should differ systematically between locations where projects have already generated observable outcomes at the time of the survey and locations where projects will be implemented only in the future.*

Once implemented projects have generated observable outcomes, these may affect belief updating among nearby citizens. On average, the salience of such outcomes may increase after implementation, as projects have time to become visible and directly experienced. Salience, however, need not increase monotonically with project age: interventions that are too recent may not yet have generated fully visible outcomes, whereas highly dated projects may become less salient to respondents over time.

This implication distinguishes the informational mechanism from pure allocation effects. If trust responded to the mere prospect of receiving aid, e.g., through anticipated resource transfers or improvements in expectations, we would not expect a systematic difference between implemented and not-yet-implemented projects within the set of locations that will eventually receive aid. By contrast, a systematic difference between the two is what one would expect if realized, observable outcomes are the relevant informational event, rather than allocation per se.

Project type

For the purpose of understanding heterogeneity across project types, the key element is whether project outcomes generate signals that are salient, locally observable, and directly experienced by citizens.

Projects that generate direct, locally observable improvements in daily life, such as new schools, health facilities, or water and sanitation systems, are more likely to produce salient local signals that can be directly experienced by households. By contrast, projects whose effects are more diffuse or less directly experienced by ordinary citizens, such as energy systems or financial sector programs, are likely to generate weaker or more ambiguous local signals. In Section 3, we operationalize this distinction using the sectoral classification available in the project-level data.

Implication 2 (Project type). *Trust responses should be larger for interventions that generate direct, locally visible improvements in daily life than for projects whose effects are more diffuse or less directly experienced.*

Democratic consolidation

The trust response to locally visible interventions may also depend on the broader political environment in which belief updating occurs. We distinguish two conceptually distinct channels through which the degree of democratic consolidation may shape trust responses to aid exposure.

The first channel operates through the informational pass-through α . In more consolidated democracies, media pluralism and political contestation generate competing narratives about the origin of externally financed interventions, potentially attenuating the extent to which local outcomes are credited to domestic authorities (Enikolopov et al., 2011). In less democratic regimes, centralized control of political communication may facilitate attribution of visible outcomes to incumbent authorities, even when projects are externally financed (Guriev and Treisman, 2019, 2020). Under this channel, α tends to be closer to zero in more consolidated democracies, so that any given observed aid-funded outcome is attributed less strongly to domestic institutions.

The second channel operates through the responsiveness parameter κ . In more democratically consolidated settings, the presence of more established informational benchmarks may lead citizens to place less weight on directly observed local outcomes when revising their beliefs. Under this channel, visible local signals generate weaker belief updating, as citizens'

priors are more firmly anchored, independently of how strongly these signals are attributed to domestic authorities. Both channels, therefore, generate the same directional prediction.

Implication 3 (Democratic consolidation). *The positive association between local exposure to implemented aid projects and institutional trust should be stronger in countries with lower levels of democratic consolidation than in more consolidated democracies.*

We treat the relationship between the degree of democratic consolidation and the strength of trust responses as a maintained hypothesis, theoretically motivated by the mechanisms described above, and evaluate its empirical content in Section 5.3.

Note that the degree of democratic consolidation is conceptually distinct from θ_c : the former is a structural feature of the political environment that shapes how signals are processed and attributed, whereas the latter is the level of institutional performance about which citizens form beliefs. In the empirical analysis, democratic consolidation is operationalized using the V-Dem Liberal Democracy Index and alternative measures, as described in Section 5.3.

Link to the empirical analysis

The three implications map directly onto the empirical strategy developed in Sections 4 and 5. Section 5.2 tests Implications 1 and 2 using the not-yet-treated design, which compares individuals residing near already implemented projects with individuals near projects scheduled for future implementation within eventual recipient locations. Within this framework, the dynamic pattern across implementation cohorts tests Implication 1, while the disaggregation by project sector tests the visibility and project-type mechanism captured by Implication 2. Section 5.3 tests Implication 3 by splitting the sample according to the degree of democratic consolidation.

In addition, Section 5.4 provides complementary within-locality evidence using the pseudo-panel structure of the Life in Transition Survey. This difference-in-differences strategy compares individuals interviewed in the same municipalities before and after local project implementation. If belief updating is triggered by realized implementation rather than by allocation per se, the trust response should emerge only after local project implementation within the same locality. While this design does not test a distinct prediction of the framework, it provides an alternative identifying variation for the same underlying mechanism and reinforces the main results from the not-yet-treated analysis.

3 Data

Our analysis draws on multiple complementary data sources. Information on foreign aid projects comes from GODAD, which provides geocoded data on development aid projects at the project level (Bomprezzi et al., 2024). The dataset contains detailed information on project locations, timing, donors, financial commitments, and sectoral classifications, allowing us to identify the location, timing, and type of development interventions.

We use project-level information on implementation years to construct measures of local exposure to implemented projects and of time since implementation, which allow us to examine dynamic patterns in the relationship between aid and institutional trust. In the main not-yet-treated design, we exploit variation in project timing relative to the survey interview year, distinguishing between projects implemented prior to the interview and projects implemented only in subsequent years within the set of eventual recipient locations.

We exclude projects allocated in response to natural disasters or humanitarian emergencies, as these may be directly triggered by contemporaneous shocks that also affect institutional trust. We also limit our analysis to 2019, to avoid possible confounding effects due to the COVID pandemic.

Projects in GODAD are further classified into broad sectoral categories following the OECD sector taxonomy. Specifically, we distinguish between Social Infrastructure and Services, Economic Infrastructure and Services, and Production Sectors. Social infrastructure and services include projects related to education, health, water supply and sanitation, government and civil society, and other social services. Economic infrastructure and services comprise interventions in transport and storage, communications, energy, banking and financial services, and business services. Production sectors cover activities related to agriculture, forestry, fishing, tourism, industry, mining, construction, and trade-related policies and regulations. We use this classification to examine whether the relationship between aid exposure and institutional trust varies systematically across different types of development interventions.

To provide some descriptive evidence, we combine aid data with country-level survey measures from the World Values Survey (WVS) and corruption measures from the Subnational Corruption Index Database (Crombach and Smits, 2024). The list of countries is reported in Tables A1 and A2 in the Appendix.

Measures of institutional trust are drawn from the standard WVS question: “I am going to name a number of organizations. For each one, could you tell me how much confidence you have in them: is it a great deal of confidence, quite a lot of confidence, not very much confidence, or none at all?” Responses are coded on a four-point scale ranging from 1 (“a

great deal of confidence”) to 4 (“none at all”), and are averaged at the country–year level (Haerpfer et al., 2022).

We exploit all available WVS waves and aid observations over the period from 2006 to 2020. Our analysis starts in 2006 because the variable measuring trust in banks, a key dimension in our study, is consistently available only from this wave onwards. Individual WVS responses are aggregated to country-year averages and matched to annual country-level measures of aid intensity. We dichotomize the variable so that higher values correspond to higher trust.

Corruption is measured using the Subnational Corruption Index (SCI), drawn from the Subnational Corruption Database, which aggregates information from more than 800 surveys conducted between 1995 and 2022 and captures both experiences and perceptions of corruption across multiple dimensions. SCI values are likewise aggregated at the regional level. These data are used to produce descriptive subnational-level correlations that motivate the individual-level analysis.

Our main individual-level analysis relies instead on repeated cross-sectional data from the Life in Transition Survey (LiTS), a nationally representative household survey conducted by the EBRD in collaboration with the World Bank (Ajzenman et al., 2022). We use the 2010 and 2016 waves, which provide geocoded individual responses at the municipality level for 22 countries in Eastern Europe and Central Asia. The list of countries is reported in Table A3 in the Appendix.

A key feature of LiTS is that the survey design incorporates a locality-level panel structure. In the 2016 wave, interviewers were instructed to revisit the same localities sampled in 2010. While households and respondents differ across waves, individuals are repeatedly sampled within the same localities, which allows outcomes to be tracked over time at the local level (see Ajzenman et al., 2022).

Within each locality, households are randomly selected in each wave, so that the data do not follow the same individuals over time but instead constitute a pseudo-panel at the municipality level. This structure enables comparisons of individual outcomes within the same locations before and after changes in local exposure to foreign aid projects. By leveraging within-municipality variation over time while controlling for location-specific unobserved heterogeneity, this design mitigates concerns that cross-sectional differences in trust simply reflect time-invariant local characteristics.

LiTS includes detailed information on respondents’ socio-demographic characteristics as well as a rich set of attitudinal measures. Our main outcome variables capture trust in political and economic institutions and are drawn from the question: “To what extent do you trust the following institutions?” Responses are recorded on a five-point scale ranging from

1 (“complete distrust”) to 5 (“complete trust”).

We focus on trust in national governments, parliaments, presidents or prime ministers, courts, local authorities, the banking system, and foreign investors. These measures constitute the core individual-level outcomes used in the empirical analysis.

Table 1 reports summary statistics for the main individual-level sample used in the empirical analysis, based on the 2010 and 2016 waves of the Life in Transition Survey. The table documents the distribution of trust outcomes, individual characteristics, and key exposure measures across observations. For completeness, Appendix Table A4 reports summary statistics for the larger sample used in the within-locality difference-in-differences analysis. Together, these tables provide an overview of the data underlying our empirical strategies.

Table 1: Summary Statistics LiTS survey respondents (not-yet-treated design)

Variable	Mean	Std. Dev.	N
Complete Trust in Banks	0.102	0.303	10,224
Complete Trust in Foreign Investors	0.075	0.263	10,224
Complete Trust in Courts	0.092	0.289	10,224
Complete Trust in President	0.165	0.371	10,224
Complete Trust in Political Parties	0.07	0.256	10,224
Complete Trust in Government	0.101	0.301	10,224
Complete Trust in Regional Government	0.094	0.292	10,224
Complete Trust in Local Government	0.101	0.302	10,224
Complete Trust in Parliament	0.088	0.283	10,224
Female Respondents	0.560	0.496	10,224
Ever Worked	0.757	0.429	10,224
Very Good Health	0.135	0.342	10,224
Tertiary Education or Higher	0.272	0.445	10,224
Father’s Primary Education	0.219	0.413	10,224
Mother’s Primary Education	0.241	0.428	10,224
Married Respondents	0.638	0.481	10,224
Age: 45 or Older	0.499	0.500	10,224
Christian Respondents	0.583	0.493	10,224
Log Food Expenditure	8.684	2.760	10,224
Log Utilities Expenditure	7.551	2.738	10,224
Log Transportation Expenditure	6.423	3.556	10,224
Log Education Expenditure	3.934	4.870	10,224
Log Health Expenditure	7.281	3.899	10,224
Log Clothing Expenditure	8.102	3.939	10,224
Log Durable Goods Expenditure	4.006	5.010	10,224

Note: This table reports summary statistics for all variables used in the not-yet-treated analysis. Expenditure values are expressed in current USD.

4 Empirical strategy

We begin with some motivating evidence relating aggregate measures of institutional trust and perceived corruption to variation in aid intensity. We first document the correlation between aid allocations and institutional confidence across countries and over time by estimating the following specification on country–year averages from the World Values Survey (WVS):

$$Trust_{ct} = \alpha + \beta TotalAid_{ct} + \varepsilon_{ct} \quad (3)$$

where $Trust_{ct}$ is the average level of trust reported in country c during the survey year t , and $TotalAid_{ct}$ captures the total foreign aid directed to country c in year t from the GODAD dataset.

To complement this cross-country evidence with a more granular analysis, we leverage subnational-year data from the Subnational Corruption Index (SCI), matched with annual measures of aid exposure. We estimate the following specification:

$$Corruption_{sct} = \beta TotalAid_{sct} + \delta_c + \lambda_t + \mu_{sct} + \eta_{sct} \quad (4)$$

where $Corruption_{sct}$ represents the perceived corruption level in subnational region s of country c at time t . This second specification allows for the inclusion of country, δ_c , and year, λ_t , fixed effects, which account for time-invariant local characteristics and common temporal shocks. Moreover, we add receiving-agency fixed effects, μ_{sct} , which identify the domestic public entities (e.g., specific ministries, public agencies, or subnational authorities) formally responsible for managing aid transfers. This aggregate evidence motivates the analysis that follows.

We then turn to individual-level evidence that combines geocoded information on aid project locations with repeated cross-sectional survey data at the municipality level. Our empirical strategy links individuals' reported trust in political institutions to local exposure to aid projects, measured through spatial proximity to project sites and variation in project implementation over time.

The analysis relies on two complementary sources of variation. First, we implement a not-yet-treated design in the main cross-sectional wave (2016) by comparing proximity to projects already implemented by the interview year with proximity to projects that will be implemented only in subsequent years (from 2017 to 2019). Crucially, rather than comparing recipient and non-recipient areas, we restrict attention to locations that are eventual recipients of aid projects within the observation window. In this framework, the control

group consists of not-yet-treated locations that will receive aid after the survey, rather than permanently untreated areas.

We refer to this as a *not-yet-treated design*, following the terminology introduced by Callaway and Sant’Anna (2021) for staggered adoption settings in which the control group consists of units that will eventually receive treatment but have not yet done so at the time of observation. Our implementation adapts this logic to a cross-sectional setting: rather than exploiting panel variation in treatment status within the same units over time, we compare individuals residing in spatial proximity to projects implemented prior to the survey with individuals residing in proximity to projects scheduled for implementation only after the survey year, within the set of eventual recipient locations. The control group therefore consists of not-yet-treated localities whose future implementation provides evidence that they were on a trajectory toward treatment, mitigating concerns that the comparison reflects permanent differences in aid eligibility or local characteristics.

Specifically, in the not-yet-treated design, we estimate the following specification, where $Trust_{ilct}$ denotes the level of trust reported by individual i , residing in locality ℓ in country c , interviewed in year t .

$$Trust_{ilct} = \alpha + \beta Exposure_{\ell t} + X'_{ilct}\gamma + \mu_{\ell t} + \varepsilon_{ilct} \quad (5)$$

The key explanatory variable, $Exposure_{\ell t}$, captures local aid exposure by interacting spatial proximity with project timing. Specifically, it contrasts locations near projects implemented prior to the survey with those where implementation occurred only later. In the main 2016 wave, this corresponds to contrasting proximity to projects implemented during 2011–2016 with proximity to projects implemented during 2017–2019. The vector X_{ilct} includes individual-level controls drawn from the Life in Transition Survey, such as age, gender, educational attainment, employment status, household characteristics, parental background, and expenditures; $\mu_{\ell t}$ are Receiving Agency x Year fixed effects. Standard errors are clustered at the locality level.

A key identifying assumption of the not-yet-treated design is that, within the set of eventual recipient locations, the timing of project implementation is not systematically correlated with short-run shocks to institutional trust. Conditional on eventual treatment status, identification requires that, absent implementation, institutional trust would have evolved similarly across localities receiving projects earlier versus later.

Restricting the analysis to eventual recipients mitigates concerns related to cross-sectional targeting, since all municipalities in the sample ultimately receive aid. However, identification could still be threatened if time-varying local dynamics, such as changes in administrative

capacity, political realignments, or anticipatory behavior, systematically influence both implementation timing and institutional trust.

To reduce the likelihood that implementation timing mechanically coincides with contemporaneous shocks, we exclude emergency-driven projects, which are more likely to respond directly to short-run crises, such as natural disasters or political disruptions, that could independently affect institutional trust. Excluding such projects helps ensure that the variation in timing exploited in the design is less directly tied to acute local shocks.

All specifications include Receiving Agency \times Country fixed effects, μ_{lct} . These fixed effects absorb time-invariant heterogeneity across receiving bodies within countries, including differences in administrative capacity, sectoral mandate, and baseline institutional quality. Identification therefore relies on within-agency variation in implementation timing. While this specification does not eliminate all concerns about endogenous sequencing, it narrows the scope for bias driven by persistent differences across implementing receiving institutions.

We further examine pre-implementation balance using the 2010 LiTS wave, prior to the implementation of projects in the relevant timing windows. If implementation timing within eventual recipients is unrelated to pre-existing trust trajectories, future implementation windows should not predict differences in institutional trust in 2010. To validate this design, Figure 1 reports standardized differences in trust outcomes and respondent characteristics between localities assigned to different aid implementation windows. Differences are small and centered around zero, with confidence intervals spanning the null across virtually all outcomes and covariates. Appendix Table A5 presents regression-based evidence consistent with these visual patterns. While this evidence cannot rule out all forms of endogenous timing, it is consistent with the identifying assumption that differences observed in the 2016 wave reflect exposure to implemented projects rather than pre-existing divergences between early and late recipients.

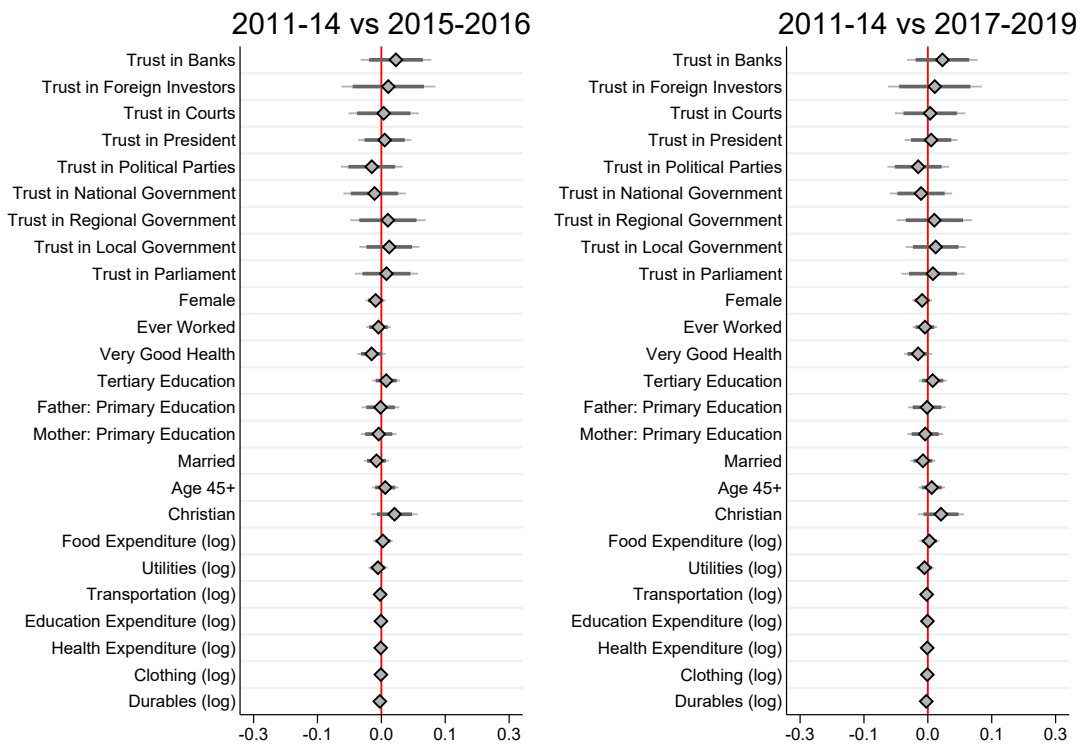
Finally, we exploit within-locality temporal variation in project timing by comparing individuals interviewed in the same municipalities before and after the local implementation of aid projects. This within-locality difference-in-differences design leverages the pseudo-panel structure of the Life in Transition Survey, which repeatedly samples the same localities in 2010 and 2016, as described in Section 3.

Equation 6 contrasts individuals interviewed in the same localities before and after the local implementation of foreign aid projects:

$$Trust_{ilct} = \alpha + \beta Exposure_{elt} + X'_{ilct}\gamma + \mu_l + \lambda_{rt} + \varepsilon_{ilct} \quad (6)$$

where $Exposure_{elt}$, captures local aid exposure by interacting spatial proximity with project

Figure 1: Pre-implementation balance across timing groups



Notes: The figure reports standardized differences in trust outcomes and individual characteristics between localities assigned to different aid implementation windows, estimated on the 2010 LiTS wave. The left-hand side compares localities in the 2011–2014 implementation window with those in the 2015–2016 window; the right-hand side compares the 2011–2014 group with localities scheduled for implementation in 2017–2019. Dots represent point estimates and bars indicate 95% and 99% confidence intervals. Results include Agency x Country FE. Standard errors are clustered at the locality level.

timing. In this specification, the time dummy equals one if aid projects had been implemented in locality ℓ prior to the interview year t , and zero otherwise; X_{ilct} denotes a vector of individual-level controls; μ_ℓ are locality fixed effects and λ_{rt} are region-by-survey-wave fixed effects (region \times year), with r denoting the region of locality ℓ . Standard errors are clustered at the locality level.

This specification compares individuals residing in the same locations but interviewed at different points in time relative to local project implementation. The treatment indicator captures the arrival of at least one implemented project in the locality prior to the interview year. We do not distinguish between single and multiple allocations within the inter-survey interval; the estimated coefficient, therefore, reflects the average effect of post-implementation exposure at the municipality level. Identification relies on within-locality variation over time, under the assumption that, absent local project implementation, institutional trust would have followed parallel trends within localities.

Together, these two approaches allow us to relate individual attitudes toward political and economic institutions to local aid exposure while relying on distinct but complementary dimensions of variation: a not-yet-treated comparison based on geographical proximity and timing in the 2016 cross-section, and within-locality before/after comparisons between 2010 and 2016.

As an additional diagnostic, we examine balance in observable respondent characteristics across localities differentially exposed to aid projects. For the not-yet-treated design, Appendix Figure A1 reports balance tests comparing respondents residing above and below the average distance to aid project locations within the Diff-in-Diff sample.

While some differences in selected covariates are detectable, overall differences are limited and do not display any systematic pattern, supporting the comparability of the groups used in this analysis.

Finally, to test Implications 2 and 3 of our conceptual framework, we examine whether the relationship between aid exposure and institutional trust varies systematically across aid intervention types and institutional environments. To this end, we report results by project category and conduct heterogeneity analyses across countries with higher versus lower levels of democratic consolidation, measured using alternative democracy indices.

5 Results

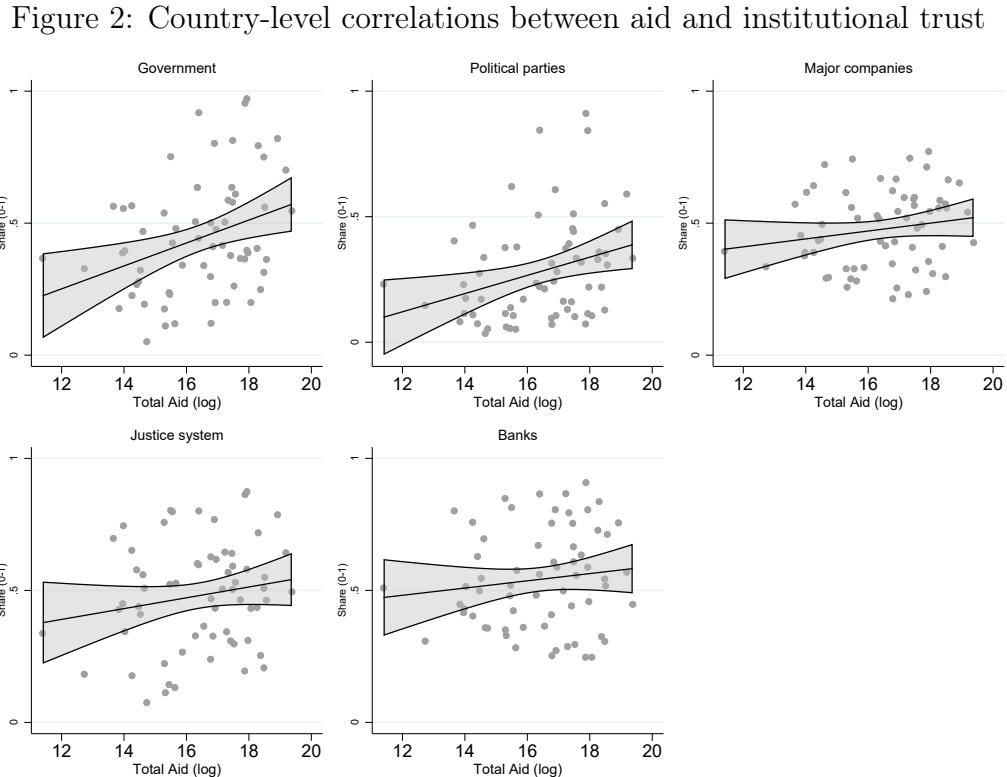
This section presents the empirical evidence in a way that maps directly into the three implications derived in Section 2. We start with a brief descriptive exercise based on aggregate

country-level data, which is intended only to motivate the micro-level analysis and to document broad cross-country patterns. We then test the implications using geocoded project data from GODAD merged with municipality-geolocated individual responses from the Life in Transition Survey (LiTS).

5.1 Motivating evidence

We begin by combining country-year measures of aid intensity constructed from geocoded project information in GODAD with country-year measures of institutional confidence from the World Values Survey and subnational-year measures of perceived corruption from the Subnational Corruption Index Database. We summarize these aggregate relationships by visualizing the corresponding cross-country patterns. This preliminary evidence motivates an analysis of local aid exposure and institutional trust at the individual level.

Figure 2 plots the relationship between the logarithm of total aid allocations received and average confidence in key institutions, including government, political parties, the justice system, banks, and major companies. Across outcomes, higher aid allocations are associated with higher reported confidence, with a broadly monotonic pattern over the observed range.



Consistent patterns also emerge for corruption outcomes. Table 2 reports regression estimates relating subnational-level aid allocations to the Subnational Corruption Index (SCI), aggregated to the country–year level. Since higher SCI values indicate lower corruption, the positive coefficient implies that higher aid allocations are associated with lower perceived corruption. This conditional correlation is robust to the inclusion of country fixed effects, year fixed effects, and receiving-agency-by-country fixed effects.

Overall, this evidence points to a positive correlation between foreign aid and institutional confidence, motivating a closer examination of the relationship at the individual level using geolocated data.

Table 2: Foreign Aid and perceived corruption

	(1)	(2)	(3)
Total Aid (log)	0.003*** (0.001)	0.003** (0.001)	0.003** (0.001)
Receiving Agency \times Country FE	No	Yes	Yes
Year FE	No	No	Yes
Country FE	Yes	No	No
Observations	3,870	3,870	3,870
R-squared	0.805	0.841	0.847

Notes: The dependent variable is perceived corruption from the SCI. Higher values of this index indicate lower perceived corruption. Standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

5.2 Not-yet-treated analysis

To test Implication 1, we exploit the 2016 LiTS wave by adopting a “not-yet-treated” design within the set of eventual recipient locations. Rather than contrasting treated areas with permanently untreated ones, our strategy compares individuals residing near projects implemented prior to the survey (2011–2016) with those near locations where projects were scheduled for implementation only later (2017–2019). This latter group serves as the ideal counterfactual, as these localities are eventual aid recipients that had not yet generated an observable performance signal at the time of the interview.

Table 3 reports estimates from equation 5. Exposure is captured by an indicator for living farther than the average distance from aid project locations ($\text{Distance} > \text{avg}$), as computed in our sample, interacted with project implementation timing. The coefficient, therefore, reflects differences in institutional trust between individuals living closer to projects implemented during 2011-2016 and individuals living closer to projects implemented only

after the interview year (2017-2019), within the same country and survey wave. Accordingly, negative coefficients indicate greater trust among individuals living in closer proximity to already implemented aid-funded sites.

Table 3: Trust in Institutions

	(1) Trust Banks	(2) Trust Foreign Investors	(3) Trust Court	(4) Trust President/PM	(5) Trust Parties
Distance > average × 2014–2016	-0.071 (0.186)	0.005 (0.190)	-0.217 (0.192)	-0.378* (0.215)	-0.324* (0.187)
Distance > average × 2011–2013	-0.086 (0.163)	-0.047 (0.177)	-0.534*** (0.184)	-0.481** (0.204)	-0.323* (0.190)
Mean Dep. Variable	2.917	2.747	2.646	2.916	2.363
Observations	10,224	10,224	10,224	10,224	10,224
R-squared	0.205	0.165	0.254	0.345	0.271

	(6) Trust Gov't	(7) Trust Regional Gov't	(8) Trust Local Gov't	(9) Trust Parliament
Distance > average × 2014–2016	-0.340 (0.213)	-0.281 (0.217)	-0.431* (0.221)	-0.312* (0.188)
Distance > average × 2011–2013	-0.420** (0.202)	-0.311 (0.204)	-0.425** (0.213)	-0.445** (0.182)
Mean Dep. Variable	2.65	2.708	2.797	2.546
Observations	10,224	10,224	10,224	10,224
R-squared	0.307	0.261	0.208	0.299

Notes: OLS estimates. All estimates include Receiving Agency × Country FE and Individual controls, which include employment status, age, health status, marital status, gender, education, parental education, religion, and expenditure. Standard errors are clustered at the locality level. * p<0.10, ** p<0.05, *** p<0.01.

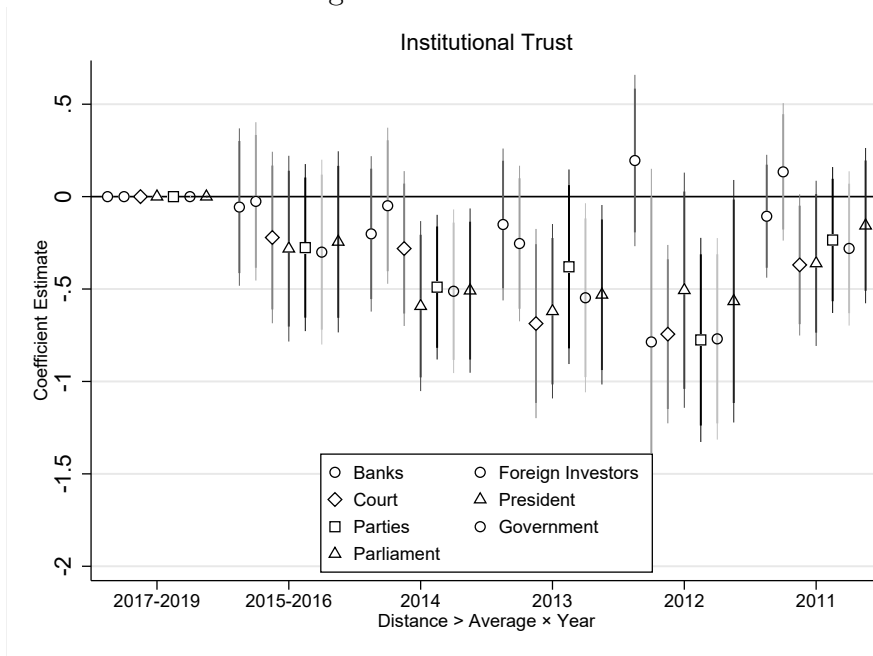
Across most institutional outcomes, we find precisely this pattern, with particularly pronounced estimates for trust in courts, the president or prime minister, government, local government, and parliament.

The conceptual framework further implies that trust responses should strengthen as projects mature and become more visible (Implication 1). Consistent with this implication, the magnitude and statistical significance of the estimates increase with time since implementation. Coefficients are generally larger and more precisely estimated for projects implemented during 2011–2013 than for those implemented during 2014–2016, suggesting

that the exposure–trust relationship strengthens as interventions move from implementation to locally salient outcomes.

Figure 3 illustrates this dynamic pattern by plotting coefficient estimates according to implementation timing. Importantly, the estimates associated with projects scheduled for implementation only in 2017–2019 provide a natural benchmark: as these projects were not yet implemented at the time of the 2016 survey, they should not generate any observable signal. Consistent with Implication 1, we find positive and significant estimates for projects implemented in the years immediately preceding the survey. Interestingly, the figure suggests a non-monotonic relationship: while the coefficients for the 2012–2015 period are positive and significant, the effect for the earliest cohort (2011) is smaller and lacks statistical significance. This pattern suggests that the signaling power of aid-funded interventions follows a maturation process, where the impact on trust peaks as projects become fully operational but may gradually dissipate over longer time horizons.

Figure 3: Aid and trust



We next examine whether the exposure–trust relationship varies systematically with the salience and direct observability of interventions, as suggested by Implication 2. Tables 4 and 5 report estimates separately for projects classified as Economic Infrastructure and Services and Social Infrastructure and Services. Throughout, the identifying comparison remains within eventual recipient locations and contrasts proximity to already implemented projects with proximity to not-yet-implemented projects scheduled for later implementation.

Table 4: Trust in Institutions – Economic Infrastructure and Services

	(1) Trust Banks	(2) Trust Foreign Investors	(3) Trust Court	(4) Trust President/PM	(5) Trust Parties
Distance > average × 2014–2016	-0.555* (0.304)	0.075 (0.264)	-0.328 (0.407)	-0.306 (0.468)	-0.266 (0.353)
Distance > average × 2011–2013	-0.662** (0.297)	0.163 (0.247)	-0.129 (0.408)	-0.463 (0.429)	-0.013 (0.343)
Mean Dep. Variable	2.917	2.747	2.646	2.916	2.363
Observations	5,177	5,177	5,177	5,177	5,177
R-squared	0.224	0.182	0.262	0.349	0.285

	(6) Trust Gov't	(7) Trust Regional Gov't	(8) Trust Local Gov't	(9) Trust Parliament
Distance > average × 2014–2016	-0.291 (0.434)	-0.196 (0.427)	-0.147 (0.380)	-0.171 (0.347)
Distance > average × 2011–2013	-0.133 (0.400)	-0.274 (0.404)	-0.167 (0.395)	0.067 (0.326)
Mean Dep. Variable	2.65	2.708	2.797	2.546
Observations	5,177	5,177	5,177	5,177
R-squared	0.320	0.289	0.227	0.305

Notes: OLS estimates. All estimates include Receiving Agency × Country FE and Individual controls, which include employment status, age, health status, marital status, gender, education, parental education, religion, and expenditure. Standard errors are clustered at the locality level.
* p<0.10, ** p<0.05, *** p<0.01.

Table 4 shows that investment in economic infrastructure and services is associated with higher trust in banks, while its correlation with other political institutions remains largely statistically insignificant. This suggests that the positive externalities of economic aid may be confined to institutions more closely related to financial stability and market performance, rather than translating into a broader increase in political legitimacy. By contrast, proximity to implemented social infrastructure and services projects, covering education, health, water and sanitation, and government and civil society, is associated with significantly higher trust in courts, parliament, central government, and local authorities, particularly for projects implemented earlier in the period (Table 5). This pattern aligns with Implication 2 insofar as socially oriented interventions are more directly experienced by households and therefore more likely to generate salient local performance cues.

Table 5: Trust in Institutions – Social Infrastructure and Services

	(1) Trust Banks	(2) Trust Foreign Investors	(3) Trust Court	(4) Trust President/PM	(5) Trust Parties
Distance > average × 2014–2016	0.100 (0.254)	-0.045 (0.255)	-0.179 (0.214)	-0.334 (0.244)	-0.397* (0.221)
Distance > average × 2011–2013	0.141 (0.202)	-0.213 (0.234)	-0.616*** (0.189)	-0.421* (0.222)	-0.367 (0.224)
Mean Dep. Variable	2.917	2.747	2.646	2.916	2.363
Observations	5,047	5,047	5,047	5,047	5,047
R-squared	0.217	0.173	0.272	0.356	0.281

	(6) Trust Gov't	(7) Trust Regional Gov't	(8) Trust Local Gov't	(9) Trust Parliament
Distance > average × 2014–2016	-0.335 (0.241)	-0.297 (0.269)	-0.478 (0.292)	-0.434** (0.211)
Distance > average × 2011–2013	-0.488** (0.227)	-0.319 (0.236)	-0.519** (0.261)	-0.588*** (0.206)
Mean Dep. Variable	2.65	2.708	2.797	2.546
Observations	5,047	5,047	5,047	5,047
R-squared	0.315	0.260	0.212	0.322

Notes: OLS estimates. All estimates include Receiving Agency × Country FE and Individual controls, which include employment status, age, health status, marital status, gender, education, parental education, religion, and expenditure. Standard errors are clustered at the locality level. * p<0.10, ** p<0.05, *** p<0.01.

These patterns suggest that different types of aid interventions are linked to distinct dimensions of institutional trust, with socially oriented projects more strongly related to political trust and economically oriented projects to confidence in financial institutions.

5.3 Institutional environment and regime heterogeneity

We then test Implication 3, which concerns heterogeneity across institutional environments. The conceptual framework implies that the responsiveness of trust to realized local signals may vary across institutional environments. In less democratically consolidated settings, this can arise because priors are less tightly anchored and/or because the informational environment shapes how observed outcomes translate into evaluations of domestic institutions; the data do not allow us to separately identify these channels.

We operationalize the institutional environment using the V-Dem Liberal Democracy Index (v2xlibdem), a continuous country-year measure of democratic consolidation ranging from 0 to 1 (Coppedge et al., 2025). The index captures the extent to which political power is constrained by constitutional guarantees, the protection of civil liberties, judicial independence, and effective checks and balances, while incorporating the level of electoral democracy. Higher values reflect stronger liberal-democratic institutions and more robust limits on executive authority.

We classify countries into high- and low-democracy groups based on the median value of the index in the baseline year and estimate equation 5 separately for the two subsamples. This sample-split strategy allows the effect of local aid exposure to vary flexibly across regime contexts without imposing parametric interaction restrictions.

Tables 6 and 7 report the results for high- and low-democracy countries, respectively. In high-democracy settings (Table 6), coefficients are generally small and statistically indistinguishable from zero across most institutional outcomes. In countries with lower levels of democratic consolidation instead (Table 7), proximity to already implemented aid projects (relative to future implementation within eventual recipient locations) is associated with substantially higher levels of institutional trust, particularly for political institutions and for projects implemented earlier in the period.

Table 6: Trust in Institutions High level of Democracy (V-Dem)

	(1) Trust Banks	(2) Trust Foreign Investors	(3) Trust Court	(4) Trust President/PM	(5) Trust Parties
Distance > average × 2014–2016	0.133 (0.223)	0.043 (0.239)	-0.047 (0.221)	-0.207 (0.266)	-0.212 (0.225)
Distance > average × 2011–2013	-0.040 (0.207)	0.049 (0.227)	-0.348 (0.213)	-0.336 (0.263)	-0.256 (0.237)
Mean Dep. Variable	2.917	2.747	2.646	2.916	2.363
Observations	5,446	5,446	5,446	5,446	5,446
R-squared	0.18	0.13	0.14	0.16	0.12

	(6) Trust Gov't	(7) Trust Regional Gov't	(8) Trust Local Gov't	(9) Trust Parliament
Distance > average × 2014–2016	-0.128 (0.265)	-0.046 (0.281)	-0.200 (0.314)	-0.174 (0.232)
Distance > average × 2011–2013	-0.226 (0.256)	-0.097 (0.270)	-0.192 (0.305)	-0.330 (0.230)
Mean Dep. Variable	2.65	2.708	2.797	2.546
Observations	5,446	5,446	5,446	5,446
R-squared	0.13	0.11	0.09	0.12

Notes: OLS estimates. All estimates include Receiving Agency × Country FE and Individual controls, which include employment status, age, health status, marital status, gender, education, parental education, religion, and expenditure. Standard errors are clustered at the locality level. * p<0.10, ** p<0.05, *** p<0.01.

The contrast between Tables 6 and 7 indicates that the positive association between exposure to implemented projects and institutional trust is concentrated in less consolidated democracies. This pattern is consistent with an interpretation in which locally visible, externally financed interventions carry greater marginal informational content, and/or translate more strongly into evaluations of domestic institutions, when beliefs are less tightly anchored and institutional constraints are weaker. As emphasized in Section 2, these channels are conceptually distinct but empirically difficult to disentangle in our setting.

The sectoral patterns documented in Tables 4 and 5 is consistent with this reading. Socially oriented interventions, which are more directly experienced by households and more plausibly co-attributed to domestic authorities, generate the strongest trust responses. Economically oriented projects, by contrast, display weaker and more institution-specific patterns, an outcome consistent with lower attribution to domestic institutions or, in the limit,

with a near-zero or negative α for project types that are less salient to ordinary citizens. Jointly, the regime and sectoral heterogeneity suggest that the sign and magnitude of the informational pass-through parameter α are not fixed but vary systematically with the nature of the intervention and the political environment in which it is observed.

These findings are robust to alternative measures of democratic quality. Repeating the analysis using other V-Dem democracy indices yields comparable results. Moreover, when the sample is split using the Polity democracy score, the qualitative pattern remains unchanged; corresponding estimates are reported in Appendix Tables A6 and A7.

Table 7: Trust in Institutions Low level of Democracy (V-Dem)

	(1) Trust Banks	(2) Trust Foreign Investors	(3) Trust Court	(4) Trust President/PM	(5) Trust Parties
Distance > average \times 2014–2016	-0.120 (0.283)	0.165 (0.295)	-0.264 (0.279)	-0.355 (0.319)	-0.266 (0.270)
Distance > average \times 2011–2013	-0.171 (0.248)	-0.250 (0.285)	-0.876*** (0.288)	-0.668** (0.308)	-0.443 (0.294)
Mean Dep. Variable	2.917	2.747	2.646	2.916	2.363
Observations	4,315	4,315	4,315	4,315	4,315
R-squared	0.24	0.22	0.32	0.43	0.33

	(6) Trust Gov't	(7) Trust Regional Gov't	(8) Trust Local Gov't	(9) Trust Parliament
Distance > average \times 2014–2016	-0.368 (0.305)	-0.391 (0.307)	-0.577** (0.281)	-0.283 (0.271)
Distance > average \times 2011–2013	-0.712** (0.291)	-0.670** (0.281)	-0.774*** (0.254)	-0.656** (0.269)
Mean Dep. Variable	2.65	2.708	2.797	2.546
Observations	4,315	4,315	4,315	4,315
R-squared	0.37	0.34	0.31	0.35

Notes: OLS estimates. All estimates include Receiving Agency \times Country FE and Individual controls, which include employment status, age, health status, marital status, gender, education, parental education, religion, and expenditure. Standard errors are clustered at the locality level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

5.4 Within-locality difference-in-differences

Finally, we provide complementary within-locality evidence using the pseudo-panel structure of LiTS. This second strategy compares individuals interviewed in the same municipalities in 2010 and 2016 and exploits changes in local exposure induced by the arrival and implementation of aid projects. The objective is to strengthen identification by absorbing time-invariant locality characteristics and by showing that the exposure–trust relationship also emerges when comparisons are made within municipalities over time, rather than only across municipalities in a single cross-section.

Table 8 reports estimates from equation 6, which includes locality fixed effects and region-by-year fixed effects. Exposure is captured by the interaction between a post-implementation indicator (equal to one in 2016 if projects had been implemented in the locality prior to the interview) and an indicator for residing farther than the sample-specific average distance from aid project locations ($\text{Distance} > \text{Average}$). As in the not-yet-treated analysis, negative coefficients imply higher trust among individuals living closer to implemented sites.

Table 8: Trust in Institutions – Difference-in-Differences

	(1) Trust Banks	(2) Trust Foreign Investors	(3) Trust Court	(4) Trust President/PM	(5) Trust Parties
Distance > Average × 2016	-0.450*** (0.171)	-0.318* (0.168)	-0.431* (0.223)	-0.406* (0.243)	-0.075 (0.245)
Mean Dep. Variable	2.859	2.703	2.568	2.905	2.272
Observations	13,205	13,205	13,205	13,205	13,205
R-squared	0.329	0.273	0.371	0.451	0.345

	(6) Trust Gov't	(7) Trust Regional Gov't	(8) Trust Local Gov't	(9) Trust Parliament
Distance > Average × 2016	-0.324 (0.251)	-0.447** (0.198)	-0.487** (0.210)	-0.565** (0.224)
Mean Dep. Variable	1.262	2.705	2.818	2.444
Observations	13,205	13,205	13,205	13,205
R-squared	0.385	0.346	0.320	0.387

Notes: OLS estimates. All estimates locality FE, Region × Survey FE, and Individual controls, which include employment status, age, health status, marital status, gender, education, parental education, religion, and expenditure. Standard errors are clustered at the locality level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Consistent with the evidence exploiting staggered exposure, we find that, within the same locality, individuals interviewed after local project implementation report higher trust in several institutions relative to those interviewed in 2010 in the same locality. The estimated effects are statistically significant for trust in banks, courts, the president, regional and local governments, and parliament.

Because this specification absorbs time-invariant locality characteristics through locality fixed effects, identification relies on within-municipality changes in exposure between 2010 and 2016, under the assumption that, absent local project implementation, trends in institutional trust would have evolved similarly across more- and less-exposed localities. The timing-based results thus reinforce the main findings from the not-yet-treated analysis, showing that the association between aid exposure and institutional trust is not driven solely by cross-sectional differences across locations, but also emerges when comparing individuals within the same localities over time. This within-locality evidence is consistent with the framework’s emphasis on realized project implementation as the relevant informational event for belief updating, rather than on mere project allocation.

6 Discussion and conclusions

This paper provides new cross-country evidence on the relationship between foreign aid and citizens’ trust in political institutions. By combining geocoded information on development aid projects with large-scale individual survey data, we find a positive association between exposure to implemented aid projects, relative to not-yet-implemented projects within eventual recipient locations, and reported trust in several institutions. Complementary within-locality evidence using repeated survey waves points in the same direction. This relationship is not uniform, but strongly heterogeneous across project types and across institutional environments.

Three regularities stand out. First, the correlation between aid exposure and institutional trust varies systematically with time since implementation, consistent with the idea that projects require time to generate visible local outcomes but may become less salient when they are too distant from the survey date. Second, socially oriented interventions, particularly in education, health, water and sanitation, and civil society, are systematically associated with higher trust in political institutions, whereas economically oriented projects are primarily linked to confidence in financial institutions. Third, and most importantly, these trust responses are concentrated in countries with lower levels of liberal-democratic consolidation.

These patterns are consistent with a framework in which locally visible, implemented interventions may generate signals that shape reported institutional trust. In particular, the heterogeneity across countries documented in Section 5.3 is consistent with two conceptually distinct channels outlined in the conceptual framework in Section 2. The first operates through the informational pass-through parameter α : in less consolidated democracies, locally visible aid-funded outcomes may be more readily attributed to domestic institutions, whether because governments are better able to claim credit for externally financed interventions or because alternative narratives are weaker. The second operates through the responsiveness parameter κ : where reliable informational benchmarks are scarcer, citizens may place greater weight on directly observed local outcomes when revising their beliefs about institutional performance. We do not observe either mechanism directly, and the data do not allow us to disentangle them empirically. What the estimates do show is that the association between implemented aid projects and reported institutional trust is substantially stronger in countries with lower levels of democratic consolidation. This pattern is consistent with the idea that local performance signals matter more in such settings, whereas in more consolidated democracies, evaluations of political institutions appear to rely more heavily on broader informational benchmarks and less on localized aid-funded outcomes.

A remaining concern is that implementation timing may partly reflect differences in local implementation capacity. If projects are implemented sooner in municipalities that are better able to facilitate execution, observed trust differences could partly capture these underlying local dynamics rather than project-related belief updating.

Several features of the evidence make this interpretation less plausible. First, the heterogeneity documented in Section 5.3 is difficult to reconcile with a uniform shock to local implementation capacity. Improvements in implementation capacity would plausibly affect trust across institutional contexts, whereas we observe systematically stronger trust responses in less consolidated regimes.

Second, the sectoral differentiation we document is not easily accounted for by general improvements in local implementation capacity. Socially oriented projects are associated with broad increases in political trust, while economically oriented projects display narrower and institution-specific patterns. An explanation based on implementation capacity would need to generate this structured heterogeneity across project types and institutional domains.

Moreover, as discussed in Section 4, all specifications include Receiving Agency \times Country fixed effects, so identification relies on within-agency variation in implementation timing. This specification absorbs time-invariant differences in implementation capacity across receiving bodies within countries and therefore substantially mitigates concerns that the results are driven by persistent institutional differences.

These findings contribute to the literature on the political economy of foreign aid by shifting attention from aggregate institutional outcomes to citizens' perceptions of political authority, and by identifying structured heterogeneity rather than average effects. While prior work has emphasized the risks of favoritism, corruption, elite capture, or conflict associated with aid flows (e.g. Isaksson and Kotsadam, 2018; Bommer et al., 2022; Andersen et al., 2022), systematic cross-country evidence on how aid shapes institutional trust has remained limited. By documenting regime-contingent and project-specific patterns, our analysis clarifies when and where aid is more likely to be associated with higher institutional confidence.

The results also have broader implications for understanding the political externalities of international development engagement. In institutional environments characterized by weaker liberal-democratic consolidation, socially oriented aid projects are associated with higher reported trust in domestic political institutions. This pattern is consistent with the possibility that locally visible development interventions influence attitudinal components often associated with broader notions of the social contract, in ways that depend on regime characteristics. These responses may strengthen reported institutional confidence in the short to medium run, without necessarily implying changes in underlying accountability structures, institutional performance, or democratic quality. Our results therefore speak to belief updating and attitudinal responses to locally visible interventions rather than to structural institutional transformation.

More broadly, these findings suggest that international development engagement may have political implications that extend beyond its immediate economic and humanitarian effects. In our setting, locally visible aid projects are associated with significant updates in trust in domestic institutions, particularly within less consolidated regimes, where such interventions serve as more salient cues for citizens.

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Appendix

Table A1: Sample Distribution by Country (WVS)

Country	Observations	Percent	Cumulative
Algeria	1	1.56	1.56
Argentina	3	4.69	6.25
Armenia	1	1.56	7.81
Azerbaijan	1	1.56	9.38
Bangladesh	1	1.56	10.94
Belarus	1	1.56	12.50
Bolivia	1	1.56	14.06
Brazil	2	3.13	17.19
Chile	2	3.13	20.31
China	2	3.13	23.44
Colombia	2	3.13	26.56
Ecuador	2	3.13	29.69
Egypt	1	1.56	31.25
Georgia	1	1.56	32.81
Ghana	1	1.56	34.38
Haiti	1	1.56	35.94
India	1	1.56	37.50
Indonesia	1	1.56	39.06
Iraq	2	3.13	42.19
Jordan	2	3.13	45.31
Kazakhstan	2	3.13	48.44
Kyrgyzstan	1	1.56	50.00
Lebanon	2	3.13	53.13
Libya	1	1.56	54.69
Malaysia	2	3.13	57.81

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Country	Observations	Percent	Cumulative
Mexico	2	3.13	60.94
Morocco	1	1.56	62.50
Nigeria	2	3.13	65.63
Pakistan	2	3.13	68.75
Peru	2	3.13	71.88
Philippines	2	3.13	75.00
Poland	1	1.56	76.56
Romania	1	1.56	78.13
Russia	1	1.56	79.69
Rwanda	1	1.56	81.25
Serbia	1	1.56	82.81
South Africa	1	1.56	84.38
Thailand	2	3.13	87.50
Trinidad and Tobago	1	1.56	89.06
Tunisia	2	3.13	92.19
Ukraine	1	1.56	93.75
Uruguay	1	1.56	95.31
Uzbekistan	1	1.56	96.88
Yemen	1	1.56	98.44
Zimbabwe	1	1.56	100.00
Total	64	100.00	

Table A2: Sample Distribution by Country (SCI)

Country	Observations	Percent	Cumulative
Afghanistan	66	1.71	1.71
Algeria	4	0.10	1.81
Angola	201	5.19	7.00
Argentina	24	0.62	7.62
Armenia	49	1.27	8.89
Azerbaijan	27	0.70	9.59
Belarus	65	1.68	11.27
Belize	8	0.21	11.47
Benin	41	1.06	12.53
Bolivia	41	1.06	13.59
Botswana	31	0.80	14.39
Brazil	62	1.60	15.99
Bulgaria	8	0.21	16.20
Burkina Faso	55	1.42	17.62

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Country	Observations	Percent	Cumulative
Burundi	33	0.85	18.48
Cameroon	82	2.12	20.59
Cape Verde	6	0.16	20.75
Central African Republic	18	0.47	21.21
Chile	8	0.21	21.42
China	202	5.22	26.64
Comoros	8	0.21	26.85
Costa Rica	10	0.26	27.11
Croatia	16	0.41	27.52
Côte d'Ivoire	74	1.91	29.43
Djibouti	14	0.36	29.79
Dominican Republic	30	0.78	30.57
Ecuador	39	1.01	31.58
Egypt	62	1.60	33.18
El Salvador	13	0.34	33.51
Ethiopia	127	3.28	36.80
Fiji	37	0.96	37.75
Gabon	16	0.41	38.17
Gambia	25	0.65	38.81
Georgia	45	1.16	39.97
Ghana	80	2.07	42.04
Guatemala	17	0.44	42.48
Guinea	38	0.98	43.46
Guyana	14	0.36	43.82
Haiti	24	0.62	44.44
Honduras	22	0.57	45.01
Iran	26	0.67	45.68
Iraq	23	0.59	46.28
Jamaica	22	0.57	46.85
Jordan	29	0.75	47.60
Kazakhstan	53	1.37	48.97
Kenya	75	1.94	50.90
Kosovo	21	0.54	51.45
Kyrgyzstan	35	0.90	52.35
Lebanon	31	0.80	53.15
Lesotho	28	0.72	53.88
Liberia	46	1.19	55.06
Madagascar	90	2.33	57.39
Malawi	56	1.45	58.84
Mali	81	2.09	60.93
Mauritius	4	0.10	61.03

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Country	Observations	Percent	Cumulative
Mexico	21	0.54	61.58
Moldova	18	0.47	62.04
Mongolia	44	1.14	63.18
Morocco	29	0.75	63.93
Mozambique	124	3.20	67.13
Myanmar	39	1.01	68.14
Namibia	23	0.59	68.73
Nicaragua	17	0.44	69.17
Niger	35	0.90	70.08
Nigeria	197	5.09	75.17
Panama	2	0.05	75.22
Paraguay	13	0.34	75.56
Peru	45	1.16	76.72
Philippines	72	1.86	78.58
Poland	14	0.36	78.94
Romania	24	0.62	79.56
Rwanda	51	1.32	80.88
Senegal	52	1.34	82.22
Serbia	22	0.57	82.79
Sierra Leone	36	0.93	83.72
South Africa	14	0.36	84.08
Suriname	19	0.49	84.57
São Tomé and Príncipe	5	0.13	84.70
Tajikistan	54	1.40	86.10
Tanzania	126	3.26	89.35
Timor-Leste	15	0.39	89.74
Togo	8	0.21	89.95
Tunisia	49	1.27	91.21
Turkey	63	1.63	92.84
Ukraine	34	0.88	93.72
Uruguay	10	0.26	93.98
Uzbekistan	9	0.23	94.21
Vanuatu	9	0.23	94.44
Vietnam	84	2.17	96.61
Yemen	34	0.88	97.49
Zambia	72	1.86	99.35
Zimbabwe	25	0.65	100.00
Total	3870	100.00	

Table A3: Sample Distribution by Country (LiTs -Not-yet-treated Analysis)

Country	Observations	Percent	Cumulative	Localities
Albania	465	4.55	4.55	38
Armenia	332	3.25	7.80	30
Azerbaijan	250	2.45	10.24	24
Belarus	466	4.56	14.80	54
Bosnia and Herzegovina	455	4.45	19.25	34
Bulgaria	499	4.88	24.13	40
Croatia	868	8.49	32.62	65
Georgia	424	4.15	36.77	35
Kazakhstan	435	4.25	41.02	37
Kosovo	683	6.68	47.70	59
Kyrgyz Republic	427	4.18	51.88	27
Moldova	362	3.54	55.42	27
Mongolia	507	4.96	60.38	37
Montenegro	366	3.58	63.96	28
Poland	356	3.48	67.44	49
Romania	827	8.09	75.53	69
Russia	703	6.88	82.40	67
Serbia	459	4.49	86.89	41
Tajikistan	295	2.89	89.78	35
Turkey	463	4.53	94.31	39
Ukraine	306	2.99	97.30	27
Uzbekistan	276	2.70	100.00	51
Total	10,224	100.00		913

Note: The table reports the distribution of observations by country. The number of localities corresponds to the count of unique places within each country.

Table A4: Summary Statistics (LiTS – Within-locality DiD)

Variable	Mean	Std. Dev.	Observations
Complete Trust in Banks	0.075	0.263	13,205
Complete Trust in Foreign Investors	0.048	0.215	13,205
Complete Trust in Courts	0.062	0.241	13,205
Complete Trust in President	0.14	0.347	13,205
Complete Trust in Political Parties	0.192	0.961	13,205
Complete Trust in Government	0.068	0.252	13,205
Complete Trust in Regional Government	0.062	0.242	13,205
Complete Trust in Local Government	0.076	0.264	13,205
Complete Trust in Parliament	0.05	0.219	13,205
Female Respondents	0.601	0.490	13,205
Ever Worked	0.702	0.457	13,205
Very Good Health	0.128	0.334	13,205
Tertiary Education or Higher	0.259	0.438	13,205
Father's Primary Education	0.203	0.402	13,205
Mother's Primary Education	0.214	0.410	13,205
Married Respondents	0.605	0.489	13,205
Age: 45 or Older	0.492	0.500	13,205
Christian Respondents	0.657	0.475	13,205
Log Food Expenditure	8.048	2.079	13,205
Log Utilities Expenditure	7.072	2.059	13,205
Log Transportation Expenditure	5.815	2.877	13,205
Log Education Expenditure	3.797	4.372	13,205
Log Health Expenditure	6.741	3.183	13,205
Log Clothing Expenditure	7.550	3.271	13,205
Log Durable Goods Expenditure	3.971	4.613	13,205

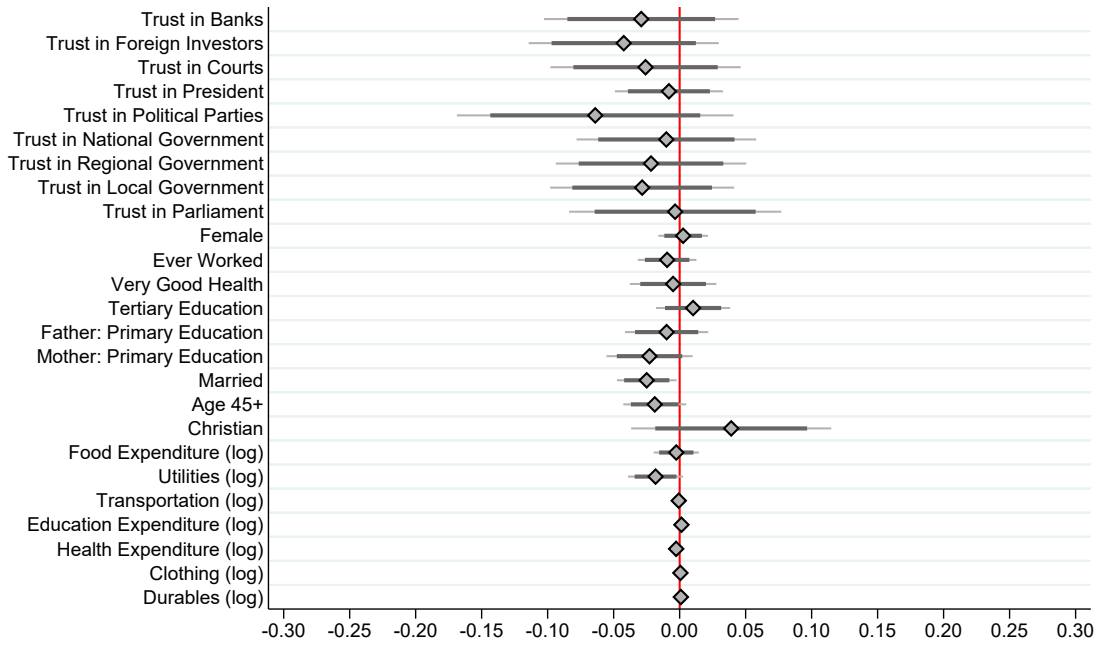
Table A5: Placebo on 2010 Survey

	(1) Trust Banks	(2) Trust Foreign Investors	(3) Trust Court	(4) Trust President/PM	(5) Trust Parties
Distance > average × 2014–2016	0.448 (0.394)	0.060 (0.336)	0.266 (0.299)	0.049 (0.321)	-0.261 (0.193)
Distance > average × 2011–2013	0.158 (0.401)	-0.266 (0.316)	-0.030 (0.279)	-0.028 (0.299)	-0.276 (0.210)
Observations	3883	3883	3883	3883	3883
R-squared	0.25	0.13	0.25	0.35	0.26

	(6) Trust Gov't	(7) Trust Regional Gov't	(8) Trust Local Gov't	(9) Trust Parliament
Distance > average × 2014–2016	-0.088 (0.336)	0.687* (0.380)	0.305 (0.364)	0.032 (0.258)
Distance > average × 2011–2013	-0.163 (0.336)	0.510 (0.359)	0.084 (0.348)	0.026 (0.248)
Observations	0.30	0.22	0.17	0.29
R-squared	3883	3883	3883	3883

Notes: OLS estimates. All estimates include Receiving Agency × Country FE and Individual controls, which include employment status, age, health status, marital status, gender, education, parental education, religion, and expenditure. Standard errors are clustered at the locality level. * p<0.10, ** p<0.05, *** p<0.01.

Figure A1: Balance Test 2010



Notes: The figure reports standardized differences between localities above and below the average distance from aids in 2010. Dots represent point estimates and bars indicate 99% and 95% confidence intervals. Results include Agency x Country FE. Standard errors are clustered at the locality level.

Table A6: Trust in Institutions High level of Democracy (Polity)

	(1) Trust Banks	(2) Trust Foreign Investors	(3) Trust Court	(4) Trust President/PM	(5) Trust Parties
Distance > average × 2014–2016	0.158 (0.216)	0.085 (0.232)	0.040 (0.224)	-0.175 (0.262)	-0.173 (0.228)
Distance > average × 2011–2013	-0.048 (0.205)	0.056 (0.224)	-0.346 (0.217)	-0.353 (0.263)	-0.247 (0.239)
Observations	6,698	6,698	6,698	6,698	6,698
R-squared	0.16	0.11	0.13	0.15	0.12

	(6) Trust Gov't	(7) Trust Regional Gov't	(8) Trust Local Gov't	(9) Trust Parliament
Distance > average × 2014–2016	-0.083 (0.260)	-0.014 (0.275)	-0.165 (0.303)	-0.104 (0.233)
Distance > average × 2011–2013	-0.244 (0.255)	-0.119 (0.267)	-0.205 (0.303)	-0.331 (0.232)
Observations	6,698	6,698	6,698	6,698
R-squared	0.13	0.12	0.11	0.13

Notes: OLS estimates. All estimates include Receiving agency × Region FE and Individual controls, which include employment status, age, health status, marital status, gender, education, parental education, religion, and expenditure. Standard errors are clustered at the locality level. * p<0.10, ** p<0.05, *** p<0.01.

Table A7: Trust in Institutions Low level of Democracy (Polity)

	(1) Trust Banks	(2) Trust Foreign Investors	(3) Trust Court	(4) Trust President/PM	(5) Trust Parties
Distance > average × 2014–2016	-0.170 (0.309)	0.083 (0.306)	-0.374 (0.297)	-0.423 (0.333)	-0.297 (0.290)
Distance > average × 2011–2013	-0.173 (0.258)	-0.295 (0.284)	-0.887*** (0.298)	-0.672** (0.310)	-0.470 (0.299)
Observations	3,063	3,063	3,063	3,063	3,063
R-squared	0.30	0.27	0.39	0.53	0.40

	(6) Trust Gov't	(7) Trust Regional Gov't	(8) Trust Local Gov't	(9) Trust Parliament
Distance > average × 2014–2016	-0.446 (0.325)	-0.450 (0.313)	-0.630** (0.291)	-0.389 (0.289)
Distance > average × 2011–2013	-0.706** (0.296)	-0.650** (0.284)	-0.755*** (0.255)	-0.662** (0.277)
Observations	3,063	3,063	3,063	3,063
R-squared	0.47	0.41	0.36	0.44

Notes: OLS estimates. All estimates include Receiving agency × Region FE and Individual controls, which include employment status, age, health status, marital status, gender, education, parental education, religion, and expenditure. Standard errors are clustered at the locality level. * p<0.10, ** p<0.05, *** p<0.01.