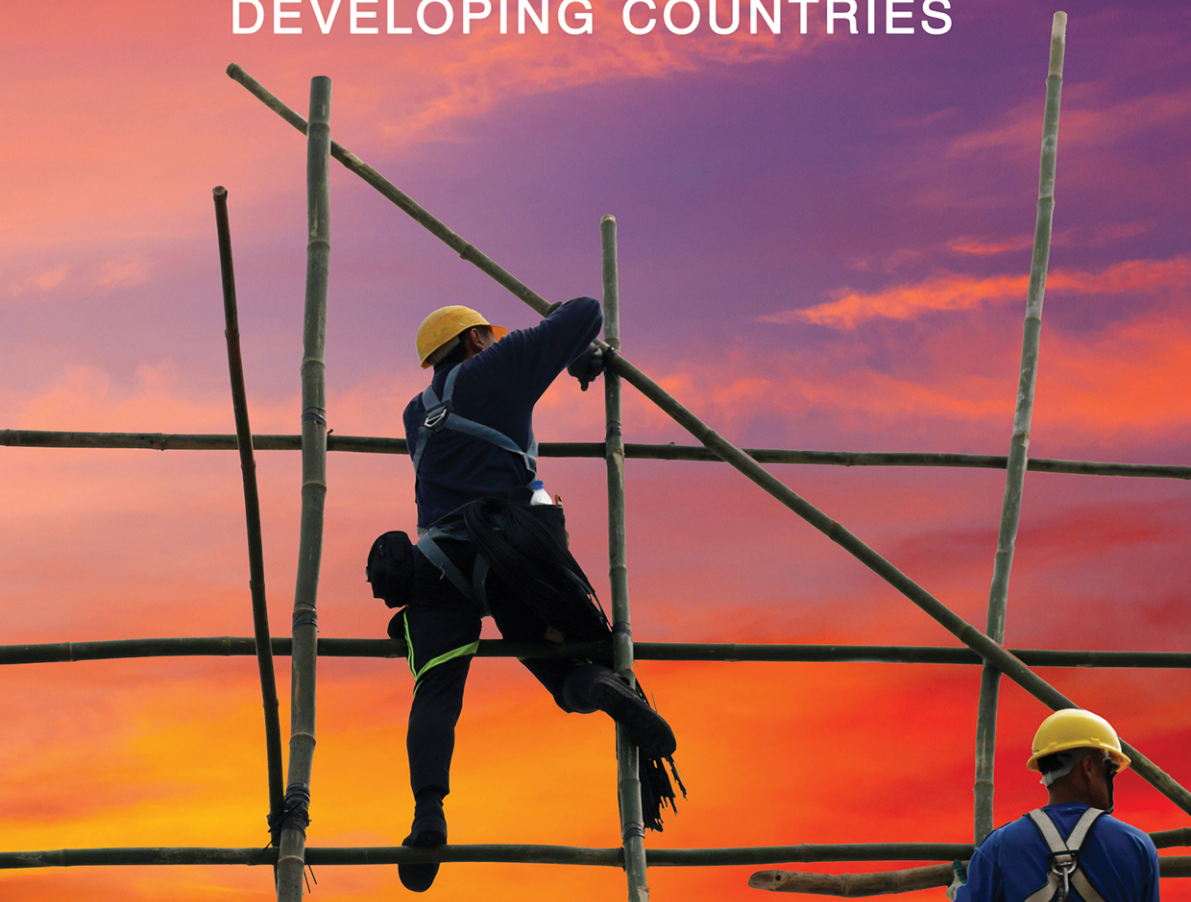# TRUST

CREATING THE FOUNDATION FOR ENTREPRENEURSHIP IN DEVELOPING COUNTRIES

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Trust

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Preface

I have been studying entrepreneurs in developing countries for about two decades. Initially my work was with incumbent enterprises, often in the form of large family-run businesses. Along the way, though, it was curious to see how the new kids on the block nonetheless forced their way into contention, despite having the deck stacked against them. Established companies had much readier access to scarce money and talent, and they knew how to deal with often-corrupt corridors of power. But that did not stop new entrepreneurs from finding chinks in the armor of the old guard.

Then, less than a decade ago, I began supporting young entrepreneurs as an angel investor, and soon after, I started my own enterprises in the developing world. I connect and advise the surplus talent and a flood of ideas in Cambridge, where I work, with the huge opportunities and need for insight in the developing world.

I have found this work to be intensely creative . . . and exhilarating! In fact, I find entrepreneurship-in-the-field and my academic work to be entirely symbiotic, if perhaps unusual (or so I'm told).

In this short book, comprising a few illustrative stories, I've tried to distill some of the patterns I've found. None of the sto-

ries here are about my own ventures, though the accounts are informed by them. Rather, these are individual entrepreneurs and settings I've studied and worked with in myriad capacities, usually each in multiple ways and for a few years, and sometimes for more than a decade.

The themes in the chapters also directly inform my own entrepreneurial efforts. For example, coming face-to-face with the visceral distrust that consumers routinely display when looking for all manner of daily consumables—suspecting vendors of either being incompetent or unscrupulous—led me to co-found Aspiring Minds, a machine-learning talent assessment firm that uses technology to certify the quality of talent all over Asia, operating from its offices in Beijing, New Delhi, and Manila. Aspiring Minds helps cement trust in the ecosystem by connecting youth to economic opportunities.

Similarly, my encounters with technology—whether in connecting small vendors to global commerce in China or the use of advanced biometrics in India—has alerted me to its incredible promise, but also to the usually overlooked need to situate the technology in its specific problem-centered milieu. This is a lesson I've taken to heart in a tea chain that's located across India, Chaipoint. We have started using robots, developed in Shenzhen, to make quality tea at large scale in the Asian way—so-called *chai*. We have learned to do this in a way that respects centuries-old rituals of tea drinking.

Throughout all this, a central facet of this book, and of my work over past decades, is to recognize that problems cannot be easily modularized and tackled in bits and pieces in the developing world. Getting capital to a capital-starved person isn't much use if her health is compromised or she has no means to travel somewhere to use it. A change of mindset is needed to move away from the idea that entrepreneurs should be laser-focused on the

problems they want to solve—as they do in locales like Boston and San Francisco—to a mindset that emphasizes that they don't have that luxury in the developing world. They must do that, and more—they must *create the conditions to create*. The book's stories of the heart-surgeon entrepreneur from Bangalore and the unlikely multinational social entrepreneur from Bangladesh provide sharp illustrations of this mindset change.

This reasoning applies equally to so-called for-profit entrepreneurs and those motivated more by a desire to achieve social progress. I've also encountered a hearteningly large number of entrepreneurs working within the state in country after country—in this book, I discuss such efforts in Brazil and India. Normally, we think of bureaucracy and entrepreneurship as oxymoronic. My experiences suggest that this need not be so, something I commented on in a prior book narrating earlier experiences in China and India, *Billions of Entrepreneurs* (Harvard Business Press; Penguin in South Asia, 2008). So I hew to a rather broad view of entrepreneurship rather than one focused only on hotshots taking companies public.

I'd be thrilled if this book led entrepreneurs—and those interested in entrepreneurship as the key to economic advance—to reflect on their experiences, and perhaps coaxed some would-be entrepreneurs to jump into the fray!

I'm grateful to all the entrepreneurs I've had an opportunity to work with, those in the book and numerous others, for teaching me so much. Similarly, the luxury of being at an institution like Harvard, a crossroads for talented students, is difficult to overemphasize. Numerous research assistants have helped over the years, especially those spread at Harvard's centers across the developing world, several linked to Harvard Business School and the university's Lakshmi Mettal South Asia Institute, which I currently have the privilege of leading. Most directly, though, I am

thankful to Jonathan Mingle, who worked with me on the manuscript a couple of years ago, to Carolyn Brown this past year for a herculean effort to help it across the finish line, and to Mahima Kachroo, who helped with the lovely pencil illustrations.

On a daily basis, I owe my wife, Ruhi, and teenage daughter and son, Simran and Rishi, much affection and a massive debt of gratitude for support that's too extensive to describe in detail. My daughter and my sister, Latika, kindly read early parts of the text. But it's time to dedicate this work specifically to my mom and dad, who've remained my role models throughout my adult life. I do this with heartfelt thanks and no small measure of pride in them.

Tarun Khanna
Boston, February 2018

Trust, Entrepreneurship, and the Developing World

Entrepreneurs with great ideas to address problems and opportunities in developing countries cannot rely on the usual foundations— laws, regulatory oversight, and government protections—as they might in the developed world, because such foundations are incipient or don't even exist. Good ideas from such countries can easily morph into failed ones—coupled with acrimony and mistrust—if an entrepreneur inadvertently presumes on the sustenance of phantom, trust-enhancing societal foundations. Rather, the entrepreneurial solution is to embrace the situation and to explicitly focus on nurturing trust as a complement to the problem being solved, in myriad ways that I will explore in this book. The entrepreneur must not just create, but must also *create the conditions to create.*

Ambient Trust

This may seem prosaic and pedestrian, but think for a minute about how we get things done in many parts of the United States. When you have an urge to buy something, the web seamlessly and instantly provides the information you need; when your faucet

leaks, several plumbers, all rated by reliability, are at hand to fix it. If the plumber you hire doesn't do a good job, there are ways to take him to task. A decade ago, my then five-year-old son locked himself in a basement room. We called the Newton city police. They were at our doorstep to unlock the door in less than ten minutes. Now, Newton—an affluent, well-run suburb of Boston— might be different from other parts of the United States. Still, in our part of the world, the conditions generally exist to summon whatever we need to just get on with life.

It's more than that, too. If a courier service leaves large packages on my doorstep, I trust that someone won't grab them and run. I often leave my garage door open at home, or my office door at work. I'm not trying to tempt fate, simply responding naturally to the empirical reality that, other than having suffered a minor burglary in New York City once, three decades of safety have bred in me this trust in urban life in East Coast USA. Arrangements that permeate daily life engender that kind of trust in much of the developed world.

Indeed, if you think about it, without this ambient trust, the workings of just about *everything* would be compromised. If I hesitated to call the local police when my son accidentally locked himself in the basement—perhaps because I thought they wouldn't respond or I feared I'd be shaken down for a side-payment (*baksheesh*)—no amount of their discipline and training would be of much use.

As an angel investor, I often hand off money to a would-be entrepreneur. I trust her to use it for the purposes intended. It's true that if some ethical lapse or fraud occurs, I can resort to accountants and lawyers and regulators to seek redress. But these are likelier to be institutions of last resort after informal means have failed—say, efforts to preserve her reputation, or the threat of blackballing her from future endeavors. Further, the use of

the formal entities would require me to trust *them* in the first instance.

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This role of trust applies to more complex endeavors as well. Near my office is Harvard's Wyss Institute for Biologically Inspired Engineering (called "Wyss" for short). Some years ago, I got to know a scientist there who came from Dublin named Conor Walsh, who founded the Harvard Biodesign Lab to help create wearable robotic devices. These have a range of uses, from rehabilitating accident victims to enabling soldiers to lug heavy materiel in combat. The lab itself is a perpetual beehive of activity, with prototypes of prosthetics that range from the bizarre to uncannily natural-looking, sensors strewn around, the background hum of pneumatic actuators and the more grating sounds of specialized saws, even tailors working with customized fabric to clothe the robotic devices.

The Wyss scientists must often work collectively with the patients whose needs they are trying to address. This requires the patients to be ferried to the labs where they can be fitted with, say, a robotic sleeve that lets someone paralyzed from the waist down partly stand, so that his limited mobility can be measured with sensors and devices. If you think about it, there is a range of different types of expertise that Walsh's team needs to access to get this right. They need to understand the anatomic particulars of each patient to get the material and fitting correct, they have to understand the incredibly complex field of medical pain management, and they probably must get a handle on patient psychology as well. Conor Walsh is a smart guy, yet these aren't his sweet spots. He has to tap into the goodwill and collaboration of folks from different backgrounds so that he can do his thing. Here at the Wyss, then, lies a complicated web of trust.

Fortunately, the amazing thing about Cambridge is that all of these expertise pools are a literal stone's throw away. But accessing them requires that Walsh and his team be seen as worthy collaborators. Other experts trust that he and his team members will not misappropriate their input or waste their time. These specialists are perhaps confident that the expertise sharing will be reciprocated at some point. Even in the hypercompetitive world of cutting-edge research, there are rules, norms, and arrangements that protect scientists. The consequences of violating this unspoken trust are unspeakably severe. Social ostracism would surely result. Indeed, an outcast has no hope of going on to participate in the free flow of ideas that is the lifeblood of any system of science.

Conor's web of trust has to spread even further. The doctors and the medical establishment responsible for patients' well-being have to begin to trust that the biodesign folks at the Wyss Institute will work sensitively with their patients, using a skill set that engineers or tailors have not normally cultivated as part of their professional experience. All these consummate professionals must work on protocols and mutual information sharing that both cultivate and nurture this trust. Nothing gets done without it.

Then out in the world can be found literally dozens of providers of risk capital who will entertain a plausible experiment to translate Conor's research into reality. Here again, the provision of early-stage financing entails considerable trust. The scientist must trust the financier to whom he reveals his ideas in a bid for funding. What protects the scientist? The financier signs a nondisclosure agreement, of course, promising to keep the proprietary content secret. Still, the financier's desire to maintain a trustworthy reputation to ensure future dealings with such scientists is equally important.

As is suggested by these simple examples—local ones to me— trust comes in many forms. It might emanate from reputations

that have been carefully cultivated over years, even decades, by frequent quotidian interactions. Trust might be initiated by referrals—that is, I work with somebody because he's referred to me by someone I trust. It's often underpinned by formal structures, laws, and regulations—public law-and-order rules, contractual practices in individual and organizational undertakings, the norms of American academia, and so on.

Always, trust oxygenates. It enlivens our existence and facilitates every interaction, whether complex or mundane, business or personal.

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This idea is far from new. It goes back, in fact, to the very roots of economics itself. Adam Smith, the father of economics, may be best known for the concept of "the invisible hand," in which people following their own self-interests guide the markets to stability.[1] Indeed, Smith was right to marvel at the almost magical cumulative effect of each individual acting in her own self-interest. But even Smith emphasized the importance of trust for the functioning of markets. For him, trust was the hidden engine of economic progress.

As Smith argues in his 1759 book *Theory of Moral Sentiments*, "Frankness and openness conciliate confidence. We trust the man who seems willing to trust us. We see clearly, we think, the road by which he means to conduct us, and we abandon ourselves with pleasure to his guidance and direction. Reserve and concealment, on the contrary, call forth diffidence."[2] Smith gives some examples of the value of trust in his famed 1776 book *The Wealth of Nations,* as well: "The wages of goldsmiths and jewelers are everywhere superior to those of many other workmen, not only of equal, but of much superior ingenuity on account of the precious materials with which they are entrusted. We trust our health to the physi-

cian, our fortune, and sometimes our life and reputation, to the lawyer and attorney."[3]

Legions of academics have studied trust.* I've been extensively educated by this scholarship, of course. In this book, though, I wish to focus on a relatively underemphasized part: the idea that the creation of trust is an act both of creativity and of individual agency. Indeed, I aver that it's the closest thing to a general admonition for creating ventures that can productively shape developing societies *at scale*—that is, in more than just piecemeal ways.

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Maintaining trust requires vigilance, something we've largely failed to practice in the developed world of late. Especially in the years since the global economic crisis triggered by the meltdown of the U.S. financial system in 2008—the worst since the Great Depression in the 1930s[4]—trust in business has remained low. It's not as low as trust in the media or in government, but that should offer scant comfort.[5] In this environment, entrepreneurs are suspect. It's extraordinary that it has come to this: that business, the very institution responsible for so many of the creature comforts that are becoming daily conveniences throughout the developed world—such as by leveraging the so-called gig economy to carry out simple tasks or accessing healthcare through remote video technology—is reviled by the person on the street. As one possible countermeasure, at the Harvard Business School, my colleagues began to teach corporate accountability as a mandatory course in which students are exposed to ethical dilemmas in business as a way of sensitizing them to their future responsibilities. Several of us educators laud this initiative but also maintain a healthy

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* For example, economists like Douglas North, biologists like E. O. Wilson, and political scientists like Francis Fukuyama have written extensively about trust.

skepticism as to whether it's more effective than a Band-Aid on a gushing wound. Regaining a former level of trust will be necessary in the future.

What's important to note is that our trust-induced institutional arrangements do two things: They dramatically simplify daily life, and they enable collaboration to invent anew. They move societies forward. Indeed, trying to determine which comes first, trust or trust-building institutions, is a futile endeavor. They go hand in hand. The institutions can build trust over time. Yet, the institutions require that trust in their abilities be taken seriously, as well. Here, developing trust, and building institutions that create that trust, need to be part of the same conversation for virtually all entrepreneurs throughout the developing world.

Vacuums in the Developing World

Growing up in India, even in affluent areas, my family and I always had wrought iron grills on every window of our home. These were meant to keep the bad guys out, for security. They allowed us to keep the windows open, but prevented someone from clambering in off street level, or even scaling the wall of a not-too-elevated apartment complex.

We also had domestic help as far back as I can recall. Occasionally, the help had been in the family for decades, creating a paternalistic and full-trust relationship between our family and that of the help. But, on other occasions, the relationship was a short and transactional one with someone far less advantaged than us. Wariness ensued all around. We'd worry about petty theft, for example. There was no way we would leave the house unattended for a cleaning service, as we do today in Newton.

As an adult, I saw this same lack of trust elsewhere in the developing world. I have traveled frequently to Johannesburg over

the last two decades, just as South Africa entered its post-apart-heid era. I commuted between the campus at Wits (University of Witwatersrand) to accommodations closer to what is now the tony enclave of Sandton and close to sprawling townships such as Alexandra.

My pleasant memories of visits with friends are marred by the recollection of security concerns. The idea that you should not keep your windows open when your car stops at a traffic light for fear of being held up at gunpoint. The fact that by entering an affluent house, you felt like you were entering a secured military encampment. Barbed wire often crowned the walls surrounding the abode. Access to friends' driveways was through underground tunnels into which you entered only with security-code authen-tication. All this was to keep out unemployed individuals whose lives were in disarray, either those from Johannesburg's townships or migrants from neighboring Zimbabwe, a country in economic free fall. This was a situation considerably worse than what my family had experienced in just "normally" untrusting India. Think about how scary it can be in such circumstances even to go to the corner convenience store—so-called *spaza* shops are heavily secured—or consider what happens when you can't even set up a corner store for fear of future violence.

Sarah Lockwood is a researcher of Zimbabwean origin at Harvard. She cofounded Mawazo—meaning "ideas" in Swahi-li, a language spoken across large swaths of Africa—which is an organization that supports small-scale social entrepreneurs in var-ious regions in Africa. She describes her personal situation this way: "Security is a huge issue here. In my neighborhood in Cape Town, for example, a middle-class suburb close to the University of Cape Town, we not only have the usual personal security for our house (high walls, automatic gates, and a complex alarm sys-tem with cameras and sensors on windows and doors), but there

are also guardhouses throughout the neighborhood, manned 24/7 by private security guards who conduct regular foot, bicycle, and car patrols."[6]

This lack of trust, typical throughout South Africa, is more than simply a challenge for the people living there, however; it is part of the business landscape itself. In fact, residential, commercial, and industrial security is an industry worth billions of rand in its own right in South Africa. The number of security officers employed across the country is more than twice the number of the South African police officers. The problems with mistrust run so deep in that society that an industry watchdog is required to help establish whom to even trust to supply these security services. As the famous Roman poet Juvenal said in his work *Satires, "Quis custodiet ipsos custodes"*—literally, "Who will guard the guardians?"[7]

Creating trust can give a business a competitive edge in South Africa. The golf estate Dainfern cites its security expertise as a major selling point of membership. This expertise is no joke. Measures include seismic sensors in the walls and steel bars that extend 10 feet into the ground to deter potential intruders from tunneling below. Sarah describes the golf course further: "Detectors along the length of the perimeter wall listen for incursions. An electric fence tops the wall. Closed-circuit cameras. Gatehouse control-room. Rapid reaction vehicles. Frequent armed patrols. . . . All of this so residents can stroll through the neighborhood, leave their windows open at night, and their children can walk safely to the on-site school."

Even an ordinary trip to KFC in Soweto, a township of Johannesburg famous for uprisings against apartheid and now a tourist destination, requires extreme security measures. Sarah describes some of them: "At the KFC in Soweto, the counter where you order is completely barricaded by metal bars and bullet-proof glass, with just a few small gaps for you to put your money in and get

your food out." The entire system there is weighed down by an extreme lack of trust.

Such distrust imposes a tremendous cognitive burden, like sand in society's wheels, which slows things down and consumes extra energy. Distrust saps one's zest for life. It has an enervating effect on attempts to be creative, to solve problems, even to just get on with daily living.

Worst of all, since we humans are all creatures of habit, we get conditioned to shrug and live with it. As Sarah elaborated regarding the KFC store, "It was only very recently that I realized that this is not normal, and not all KFCs around the world have the same level of security inside." I'd wager that quotidian realities such as these might not make the nightly news, yet they exert as big a drag on societal progress as do even some horrors of war and rampant instability in parts of the developing world.

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The lack of trust worsens an already tough situation in the developing world. For example, it can be hard in those parts of the world to find simple information that's needed to get things done. Some years ago, I found myself in the hot, sultry southern Indian metropolis of Chennai looking for an ice pack to cool some medication that one of my companions needed. Fortunately, we were staying in a luxury hotel at the time. I asked the concierge to help me procure one. It turned out that such ice packs were not commonly used, so it took a while to explain what I needed, then more time for the staff to locate stores that might plausibly have these, none of which had any sort of web presence. A lot of running around ensued, and some hours later a basic ice pack emerged. I calculated that, assuming normal wage rates, about 800 rupees were spent in lost time, for something that ultimately cost Rs 20. Now, in the U.S., I'd probably spend $5 worth of time

to walk over to the local pharmacy in an urban setting or drive to a semi-urban Walmart to pick it up for under $5. That is, the ratio of effort to value is 40:1 in India, compared to 1:1 in the U.S., in this prosaic example. That's what I mean when I say that it's really hard to find things out and get basic things done.

In this situation, I was able to use the over-the-top infrastructure of the luxury hotel to compensate for the vacuum of both available information and the means of actually procuring the ice pack. Similarly, the absence of trust means that folks either must spend time and money to reassure themselves about mundane things, or must simply avoid doing them. For the average resident of Chennai, compensating for such institutional inadequacies is utterly impractical.

When you can't get things done easily, you retreat to the familiar, the tried-and-trusted, to keep things simple. Rather than go the extra mile to find something with difficulty, or to engage with someone you don't really know, you simply end up avoiding things altogether. It's hard to tap into possibilities. The familiarity, comfort, and mutual understanding that come with repeated engagement fail to blossom. Trust is stillborn.

Sometimes, working with people we trust can help us sidestep such barriers to getting things done. Often, though, the absence of the "trust lubricant" merely aggravates the difficulties caused by a generally limited infrastructure. It's not hard to see that, in such circumstances, building an enterprise in Beijing, Bangalore, or Bujumbura is not like building a Facebook app in the comfort of a Harvard dorm. Entrepreneurs in Boston, like the scientists at the Wyss lab, have the luxury of a support system—both the result and the cause of ambient trust—that is tuned to propel their enterprises forward. Those of us working amid the institutional vacuums of the developing world lack this support.

There Is a Solution

In the 1970s, as an impressionable preteen in India, I saw a tear-jerker of a Hindi movie, *Toofan aur Deeya*, loosely translated as "Candle in the Storm." The title song of the movie stayed with me over the ages, and I internalized its allegorical message of a lonely candle flame spreading light and hope, however minimally, while being engulfed by a raging storm that threatened always to snuff it out. The movie's message was somewhat hackneyed, I admit. Yet it was nonetheless effective. Over the years, it has reminded me that we shouldn't underestimate the power of individual initiative, even against insurmountable odds. And the odds surely seem stacked against a creative individual seeking to solve a problem while enveloped by an institutionally weak and low-trust environment. But, better than pointing accusatory fingers at incompetent governments, or blaming the venality of corrupt individuals, we can take a page out of the actions of so many right around us in the developed world.

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Craig Newmark, for example, founder of the eponymous and now hugely popular online classified ads site Craigslist.org, remarked recently, uncannily echoing my childhood memory of a valiant candle flame: "Better to light a candle than to fight the darkness."[8] He used an old saying to reflect on the general problem of how we can find credible information in society.

Craigslist started when Newmark, having lost his job in 1995 just as the internet was taking off, decided to use his severance money to create a website that connected folks who were buying and selling things in the San Francisco area. Today, on his site, you can post ads for nanny services, jewelry, trucks, music gigs, and

virtually anything else that occurs to you. It's mostly free, though the few services for which one pays are sufficient to make the enterprise insanely profitable.

Of course, Newmark must always have been obsessed with the idea that offers hosted on his site should have some authenticity to them so that transacting partners would come to trust it viscerally. This idea of trustworthy information appears to have stayed with him in the two decades since the site's launch. Today, his philanthropy is directed to backing entrepreneurs combating fake information, such as organizations that call out fake information in the news. Indeed, it certainly stays with you when a speech is rated "Liar, Liar, Pants on Fire" or labeled as maximally false with "Three Pinocchios," referring to the wooden puppet whose nose lengthens when he lies in Carlo Collodi's tale from the 1880s, *The Adventures of Pinocchio*.

Fake news has acquired new salience in the era of current U.S. President Donald Trump, who subscribes to his own alternate reality while accusing mainstream media of misrepresentation. Yet poor information is a societal problem, not only a Trump-era problem, and demands a societal response. And I think Newmark, with his support of creative entrepreneurs, is on to something. What, after all, are the alternatives? Moral exhortation? Of course, we should take every opportunity to remind ourselves of "thou shalt not lie" type of mandates, but one would not have to be cynical to question whether this action is enough. We can police lies, but there are simply too many being uttered these days to sanction by using laws, ostracism, fines, and so on.

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It helps that organizations in the business of verifying the credibility of information have often become viable. In other words, entrepreneurs can succeed by explicitly compensating for the

absence of trust. Think of financial analysts who routinely grill executives when their companies put out overly optimistic plans and cause capital to be moved from those making less-plausible assertions to more-credible entities.

My favorite example of organizations in this genre is the *Consumer Reports* magazine and website, go-to places for millions of Americans to ascertain the quality of something, anything, they're about to buy—whether it be a dishwasher or a car or services of contractors to check out the quality of a new house. *Consumer Reports* runs fifty state-of-the-art laboratories nationwide to test products and services they identify,[9] free of any influence from the producers, since they're funded by subscriptions to their reports. It then issues no-holds-barred recommendations about the pros and cons of various offers, which are completely trusted by the market.

Like Craigslist, the magazine's origins go back to the entrepreneurial efforts of two individuals, in this case an Amherst College economics professor back in 1936 and his partner engineer with a background in product testing. The organization's success today in harnessing the trust that consumers have in it to police mischief is the result of decades of evolution and experimentation. Today, other than its core service of testing, it also engages in extensive research and even advocacy. It has lost some sway to newish organizations such as Yelp, an online website that reviews local businesses via crowdsourcing, though the lessons of *Consumer Reports'* trustworthy assessments remain.

Ironically, during the hysteria in the United States against communism, starting in the late 1930s, *Consumer Reports*, seen as favoring the little guy against corporations, was even investigated by the U.S. House Un-American Activities Committee. How ironic! But what could be more American than its entrepreneur founders' provision of reliable information to support free markets?

These few examples from the developed world suggest that the solution to the problem caused by mistrust usually lies ultimately with the insights of an individual entrepreneur. After all, even celebrated entities began as the actions of an entrepreneur. Take the iconic entrepreneur Sam Walton and his founding of Walmart. Walton sought to compensate for the missing retail infrastructure in what was then small-town America—indeed, very much like the developing country settings I consider here. Ultimately, he earned the trust of tens of millions of Americans who could reliably find affordable merchandise in thousands of hitherto inaccessible locations. Today's Walmart-like behemoths are, ultimately, the results of a brilliant entrepreneurial insight, magnified by problem solving over decades by Sam Walton's teams, which have amassed a track record of exhibiting admirable grit and persistence. It is time, I believe, for such entrepreneurs to step into the voids of the developing world.

Entrepreneurs in the Developing World

These days, most of the developing world lacks such credibility-enhancers. One solution is to encourage their creation. They could then ensure would-be and rightly skeptical buyers that a seller's representations are credible. There's a lot of room for creativity in this endeavor. Such an entity can be specific to certain needs or can be all-encompassing. It might make money for its owners or simply run as a social service. And it will usually employ technology. Creating such an organization is the perfect task for a would-be entrepreneur. As a consumer, I believe the organization will solve the low-trust problem I have with the mostly fly-by-night operators out to make a quick buck, with no recourse for me in the event that I feel shortchanged. I can't truly rely on self-serving promotional material from the purveyors of products, nor

on equally self-serving industry associations, lobbying bodies, and such. And I am less concerned with debating which comes first—trust, or trust-enhancing institutions. Both are part of the effort to improve the conditions for problem solving. The credibility-enhancing organization created by our clever entrepreneur will itself have to earn the trust it seeks to spread, just as *Consumer Reports* has done.

This entrepreneur-centered solution is more general than the idea of creating a credibility-enhancer, however. After all, there are gaps in the developing world, other than unreliable information that prevents folks from getting together. Even if I partner with someone, based on credible information, I might still want to contractually reassure myself that we both have face-saving ways out if things sour. That requires good legal services, another factor mostly missing in the developing world—a gap that might make me shy away from taking an otherwise good deal. In addition, if I had access to a low-cost loan, I might be able to afford to buy some equipment that helps me save more over time than the up-front cost of the equipment. So the absence of low-cost debt, too, can impede creativity. Many more trust voids of this nature exist in the developing world. But on the flip side of these gaps is the view that they represent opportunities for proactive action.

If you stop to think about it, we take a lot for granted when we whip out our smartphones to accomplish many everyday tasks. Standing in a store, we may check whether a product might be available more cheaply elsewhere and then, with a wave in front of a scanner, possibly ensure that money is seamlessly transferred from a bank account to a merchant who will quickly ship our product. Missing intermediaries in developing countries often prevent this from happening. Without these intermediaries, individuals are prevented by absence of information, contracts, funds, and what-have-you from coming together.

Indeed, the evolution of money transactions online in both the developed and the developing worlds demonstrates these concepts in action. PayPal, for example, built a large enterprise in the developed world by reassuring consumers that online payments were secure. Alipay in China, part of the Alibaba group of enterprises, and PayTM in India are en route to accomplishing a similar feat. These developed and developing world successes show that addressing the problem of mistrust can productively move societies forward significantly.

Entrepreneurs like Craig Newmark in the San Francisco Bay Area can build entities to compensate for these trust limitations, contribute to society, and make a buck while doing so. Indeed, virtually all the reputable entities that I can think of in the developing world have worked assiduously to cultivate precisely such trust. They've realized that to reassure their constituents and well-wishers, they need to go the extra mile to compensate for the low-trust, low-infrastructure environments within which they typically operate.

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One of my favorite examples is the world's largest NGO, or nongovernmental organization, one that you most likely have never heard of: BRAC. The awkward acronym originally stood for Bangladesh Rehabilitation Assistance Committee. But BRAC now also stands for "Building Resources Across Communities."[10] It was founded in Bangladesh in 1971 to rehabilitate victims of a devastating cyclone, around the same time as a civil war that resulted in the country's separation as a nation-state from Pakistan.[11] When the cyclone hit in 1970, Fazle Hasan Abed, then thirty-four years old, had been working as chief accountant for Shell Oil, Bangladesh, a coveted position with an enviable salary. He realized that the devastation wrought by the cyclone had presented him with

a life-changing moment. He recently described his memories in this manner:

> *I saw trees uprooted and so on. But we never realized the extent of damage in the offshore islands of Bangladesh and the shore areas. Within two days, news started coming in from outside, and we thought we needed to do something about it. So I mobilized a speedboat from Shell Oil, and some oil, some kerosene and matches and utensils, food and so on, which we took to remote offshore islands where they lost everything. . . . The scene was just horrendous—bodies strewn everywhere—humans, animals, everything. That shocked me to an extent that I felt that the kind of life I led hardly had any meaning in the context in which these people lived—the fragility of life of poor people.*

By 1971, Abed had left his position at Shell to found BRAC with the goal of fighting poverty. Rather than focusing on one problem at a time, BRAC recognized that poverty stems from an interconnected web of issues. Over the years, it has evolved into taking a more holistic approach. Indeed, BRAC found that topics as diverse as healthcare, education, finance, and more are all linked to poverty. Yet, to achieve any of its goals BRAC had to find its way in a country that in most respects was brand new and starting from scratch. In other words, saying that the NGO faced a country with infrastructure and trust limitations is a huge understatement. Indeed, for the most part, BRAC faced a situation in which there was *no* infrastructure whatsoever.

Time and again, BRAC responded by creating the trust-enabling infrastructure itself—creating the conditions necessary to create solutions to the problem of poverty. Speaking about the limitations of addressing any one problem, however critical, Abed has remarked:

We've always considered [microfinance] as one part of a solution, and [it] must be combined with many other things to improve the lives of poor people. For example, if a woman gets money to buy a cow, and then she gets milk but can't sell it, you haven't really helped her very much. So you have to create a market for her to sell the milk. This is microcredit "plus." The other "plus" you have to provide is healthcare and education for children, because if children remain uneducated, this poverty is going to reproduce in the next generation. So you have to do microcredit "plus-plus" to really address the concerns of poor people. Many in the development community are not geared toward this. Most organizations want to do one thing well. I don't mind that, but then they aren't dealing with poverty as a whole.

In other words, whenever BRAC saw a gap in the infrastructure, the organization worked to fill that gap, all the while developing a wide variety of programs and initiatives. From these efforts, everyone has internalized that there is no showstopper for BRAC. Its team of entrepreneurs simply would not be deterred by the seemingly endless obstacles it faced. As a result, BRAC earned yet more trust. BRAC's near half-century of growth teaches us that creating strong infrastructure enables entrepreneurship. Infrastructure begets trust. Trust begets creativity and problem solving. I call this *creating the conditions to create*.

To further reassure its various partners, BRAC's monitoring unit measured everything thoroughly, from the success and failure of all the programs to developing myriad measures of societal impact. BRAC returned unspent money to its donors, underpromising and overdelivering on its obligations. If its employees saw a social problem, they were encouraged to try to innovate and work to alleviate it. The more that employees trusted that their work produced tangible results for society in the tough "game"

that is poverty reduction, the more BRAC was able to recruit top talent and further maintain its trustworthy reputation.

Employee-led and -nurtured creativity over the decades has led to a stream of productive efforts. Some, such as legal aid for impoverished Bangladeshi migrant workers in the Middle East, and work on women's rights, aren't financially self-sustaining. Yet others, like some attempts at retail marketing, or investments in mobile money transfer entities (the last in conjunction with the Gates Foundation and the IFC, both entities that trust BRAC), are robustly profitable, and serve to finance other parts of the BRAC system. Over the years I've been struck by BRAC's emphasis on harnessing creativity and entrepreneurship to address problems, rather than on determining whether there's money to be made on a particular venture, as long as the entirety is financially robust. Indeed, about two-thirds of BRAC's budget now comes from internally generated profits, as opposed to the exclusive reliance it placed on donations at its inception.

Now in his eighties, Sir Fazle Abed told me that when BRAC announced its desire to expand its operations into Africa, donors virtually tripped over themselves to support it, so great was the trust the organization inspires. Today, BRAC operates in a dozen challenging countries in Africa and South Asia.

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The general lesson of this introduction, then, is that even gutsy and creative entrepreneurs like those discussed here can't merely set out to create. In the developing world, they must *create the conditions to create*. And the foremost condition entrepreneurs must create is to find and cultivate whatever it takes to induce trust, from their talent, their partners, their clients, and others. This idea may sound unconventional. In fact, its imperatives are rather onerous. It puts a lot on the shoulders of the beleaguered

would-be entrepreneur. But I think it's in fact the most practical approach.

Those of us focused on the developing world lack the support system to propel enterprise forward. We could simply wait for the law, or the state, to solve the problems. But the law is too often compromised in the developing world. And the state is weakened by the very infrastructure-depleted and low-trust environment it is ostensibly meant to address.

Meanwhile, prevailing scarcity in developing countries—for clean water, for energy, for adequate healthcare, for scarce spots in universities, for you-name-it—complicates things because it often induces a winner-take-all scramble for scraps. Thomas Hobbes, writing in *Leviathan* in 1651, famously described such life as "nasty, brutish and short."[12] This truth is precisely why we must find a way to encourage behavior that is its polar opposite—reassuring people, weaving a web of trust that fosters the risk-taking that is creativity's handmaiden.

Why This Matters Today

If ever there were a time that addressing problems of economic and social inclusion was relevant, that time is now. Those left behind don't trust those in control to focus on their needs. The consequences of having a large disenfranchised population loom all around us. Look at the disaffected voters kicking the United Kingdom out of the European Union, or the unlikely rise of impresario Donald Trump.

You see pockets of deprivation everywhere, including closer to where I live in the developed world, which is subject to the same ravages of distrust as anywhere. A recent contaminated water crisis in Flint, Michigan, was the sort of episode—poisoned water, corrupt politicians, complicit local media, even children with

mental illness—that we see in several developing countries. The repair of that torn institutional fabric will challenge us for some time to come.

You also see underdevelopment of a different sort in pockets of the developed world. These aren't, however, without their charms. As an Indian seeking spicy cuisine, I frequently wander into India-towns and Chinatowns in cities around the developed world to satisfy my cravings. Anyone who has done so sees bustling enterprise in an ecosystem that often parallels that of the mainstream that it abuts. It's functional and typified by informal ways of addressing the trust issue. But it is not a system that permits enterprises to scale easily into the size of Walmart. That requires BRAC-like attention to systematically addressing the infrastructural gaps.

Flint-like disasters and Chinatown-like settings aside, the vast majority of the five billion of the world's seven billion people who live outside the economic mainstream, eking out a subsistence existence, live in the developing world. Their problems are now yours and mine. Witness recent years' teeming masses propelling themselves through unspeakable hazards onto Europe's shores from the conflict-ravaged Middle East.

Some will say that the developed world has already contributed aid to the developing world for decades to cater to these disenfranchised. And they will say that this commitment was amplified by a focus on the so-called Millennium Development Goals set at a U.N. summit in 2000. This is true. Indeed, we are living at a time when average poverty levels are at the lowest they've been in a long time, helped along by rising incomes in populous China and, to some extent, in India. As the Harvard psychology professor Steven Pinker reminds us, we're also living in a rather peaceable time overall, notwithstanding the heartrending images that often appear on our newspapers' front pages and our TV screens—an

argument he makes based on data such as the total number of wars fought around the world and the number of battle deaths globally.[13]

My intent here is not to denigrate this progress. Rather, it's to recognize that there's more to be done, and more efficiently, even as these average levels clearly mask considerable differences in individuals' experiences. For example, the disparity between haves and have-nots in virtually every major country in the world has increased. That rankles.

In the class I teach at Harvard filled with impressionable and idealistic undergraduates, two approaches to economic development come up frequently. As one student put it to me last year, it's easy to be seduced by the tug-at-your-heartstrings and shame-you-into-action approach of giving more aid, supplemented by analytical assurance that the reason we haven't achieved more is not that what we're doing is misguided, it's that we haven't done nearly enough of it. This is an approach sometimes associated with the economist Jeff Sachs in New York.[14]

His colleague William Easterly, also a New York City economist, has taken Sachs to task for what he calls misguided, utopian paternalism. Easterly denounces Sachs's view as a delusion, a modern version of what the English poet Rudyard Kipling called the "White Man's Burden," the idea that outsiders from the developed world can swoop in and solve local problems in poorer locales. He'd rather spur individual problem-solving activity locally in developing countries.[15]

In a sense, Easterly and others emphasizing individual agency do not go far enough. Exhortations don't suffice. I hope to show in this book that what separates attempts at local entrepreneurship that *truly* move societies forward from the overwhelming majority (whose effect is creditable but more piecemeal) is that the former manage to *create the conditions to create*. The success stories

I present will consciously, perhaps even inadvertently, provide in-frastructural solutions that do not help only them but help others, as well.

Yet I also think that Easterly is wrong to denigrate Sachs. Aid is super-important for the bottom at the bottom, for example, where people have virtually no capacity to help themselves. The problem is not the lack of aid; rather, it's the low-trust environment with-in which some aid is being dispensed. Hypothetically, if donors could trust that aid, rather than being misused, will achieve its stated purpose of allowing human beings to develop fully, I can't imagine that Easterly or anyone else would object.

This brings us back to the core of the solution I'm advocating: Whether entrepreneurs pursue an aid-based approach, a more self-help approach, or something in between, they need to find ways to cultivate trust. To do this, entrepreneurs must learn to *create the conditions to create.*

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Examples of entrepreneurs exploring this kind of trust building can be seen all throughout the developing world, from BRAC in Bangladesh to efforts in China and India and Brazil and Mexico. Such entrepreneurs fill the vacuums of trust left by dysfunctional institutions in myriad ways. Their stories, which I chronicle here for you, the reader, have taught me much. Both community-based low-tech solutions and newfangled high-tech solutions work to create a cocoon of trust. But doing so requires a mindset that embraces the fundamental point that, to build their enterprises at scale, it's insufficient for entrepreneurs to focus solely on the problem they seek to address—they must also address the ambient inadequacies within which the problem resides. It's often easier to do so if one seeks out preexisting informal structures of society that are already functional, rather than creating entirely new ones.

Cookie-cutter recipes to address complex issues are hard to find in life, though fostering trust, so as to *create the conditions to create*, comes awfully close to such a solution.

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