



## Podcast: Ian MacMillan on the \$60 Billion Question

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Earlier this week, Warren Buffett made a \$31 billion gift to the Bill and Melinda Gates Foundation to help find cures for the world's 20 worst diseases and to improve the educational opportunities for all Americans. Buffett's contribution -- in the form of 10 million shares of Berkshire Hathaway stock to be transferred in increments over a number of years -- will more than double the size of the existing Foundation, which is already the world's largest. But questions have immediately arisen as to how \$60 billion can be effectively managed, what impact the donation will have on other donors, and whether the Foundation has come up with the best approach to solving systemic health problems in developing countries. [Ian C. MacMillan](#), Wharton professor of innovation and entrepreneurship and director of the Sol C. Snider Entrepreneurial Research Center, talked with Knowledge@Wharton editorial director Robbie Shell and senior editor Steve Guglielmi about this gift. MacMillan's areas of interests include societal wealth creation, technology strategy, and managerial and entrepreneurial approaches to knowledge management.



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### Podcast Transcript: Ian MacMillan on the \$60 Billion Question

**Knowledge@Wharton:** I'd like to start by asking you the same question that Bill Gates himself raised during an appearance at the New York Public Library on Monday. How hard will it be to spend this huge amount of money effectively?

**MacMillan:** I would imagine that Mr. Gates, who has elected to step down from [his role as chief software architect] at Microsoft to take over the direction of this thing, is not going to have too much trouble finding ways to spend that money. But what I find particularly exciting about this is that Warren Buffett has recognized that Gates and the Gates Foundation is one of the few foundations in the world today that's really focused on outcomes rather than on input. So, it's not going to be that difficult. It may be a little more difficult to spend it wisely, but it certainly won't be difficult to spend that amount of money if he, as he says, really cares about helping the world's poor.

**Knowledge@Wharton:** Do you have any ideas as to what he should spend the money on?

**Ian MacMillan:** This may end up being a theme in much of this discussion, but I believe that what he is doing now is basically right. It's a business-like way of approaching things. He's looking at outcomes. He's looking at people who are immunized. He's looking at educating people. His whole approach is looking at outcomes and results rather than just continuing to perpetuate the problem. So, he should continue to spend money on the world's worst diseases -- the top 20 worst diseases. He should continue to spend money on driving education through to every member of the U.S. population at first and then to the rest of the world. Those are the right things to do.

**Knowledge@Wharton:** What about the concern that this huge foundation will let others off the hook -- that they'll feel they no longer have to give aid to these causes now that Gates is on the case.

**Ian MacMillan:** Anyone who lets himself off the hook now is not truly a philanthropist. The problems of the world are so large and so urgent that there's really no reason to say, "Well Gates gave, so I shouldn't." That's just incorrect thinking.

**Knowledge@Wharton:** What do you see as the biggest challenge Gates faces in the developing countries, ranging from maybe poor infrastructure to unresponsive or corrupt local governments, or whatever?

**Ian MacMillan:** If I think about Africa -- and I am African -- our hugest problems lie in what we do with the destitution that sort of rules over the continent. A huge part of it is government corruption. A huge part of it is people who are simply in a situation where they can't feed themselves. And a huge part of it is simply taking the money that is given to help these people and channeling it directly into corrupt government officials' overseas accounts. And this is a place where I think Mr. Gates, when he takes charge, is going to make darn sure that sort of thing stops. It's going to be difficult because it has become basically entitlement in the eyes of many of these corrupt government officials. But Gates is tough enough to impose his will upon a situation like that.

**Knowledge@Wharton:** Gates says that his foundation has been engaging in microlending for the past eighteen months, granting small loans to poor people so that they can start their own businesses and not require constant aid handouts. How successful can Gates be at this? Is it a good strategy?

**Ian MacMillan:** I think that creating entrepreneurial self sufficiency is one of the most important weapons that we can look at. In particular, many, many women will be able to create many businesses for themselves. The real concern I have, though, is that there is another set of opportunities that tend to go unconsidered, and that is the opportunity to help small businesses that are growing to grow faster.

Many small companies, particularly in countries like those in Africa and other developing nations don't have a banking system that makes loans available for companies. And what you find happening is that a firm that survives the market test and actually can begin to build, runs out of money and has no where to go to get that money. So I would submit that a significant amount of money could be set aside to help businesses grow faster. In many cases when you fund a start up situation, all you are really doing is kind of creating the possibility that the money will be wasted as the business fails.

So, why not focus on firms that have survived the market test as well, and make sure that they get the money to grow? This in turn creates employment not just for the entrepreneur but for others. I think that it is a good idea to do this, and it is working very successfully in many countries at the moment and there are many foundations and organizations that are doing this. When I say this, what I mean is microlending. But I think that we should also start to put some money into helping small businesses grow faster.

**Knowledge@Wharton:** Some press reports have suggested that Buffett's gift is a statement that the capitalist system, which has made him one of the richest men in the world, has failed to provide for society's poorest people. Do you think that this is in fact what Buffett is saying?

**Ian MacMillan:** I think this is simply a manifestation of the sort of idiocy that you get from some press people. They have nothing good to say and so they don't say it.

**Knowledge@Wharton:** So you think it was just one reporter's interpretation of the gift?

**Ian MacMillan:** I'm surprised that it's only one. I mean there is a whole category of people out there who are determined to see that nothing good happens in this world and report only the blackest news in the worst possible light.

**Knowledge@Wharton:** How would you go about measuring the success of this foundation?

**Ian MacMillan:** I think by focusing on outcomes. I think that when people approach the Gates Foundation, what he will probably do is say, "Well, let's have a look at outcomes, let's see how many children were immunized, let's look at what's happened to the nutrition in the region in which you are going, let's look at how many children were actually educated, and let's look at results." And, that is how one measures the success -- it's by how many people are helped. With this kind of money and with some care in not spending it too fast, you know we're talking about helping millions of people here. And if we hold the agencies' (who ask for this money) feet to the fire in terms of the measurable outcomes, I think that this is going to do an immense amount of good. And we'll see it in terms of healthier, happier lives for millions of people.

**Knowledge@Wharton:** What kinds of safeguards would you have to set up to ensure that the money is wisely spent? Are you concerned about Gates' ability to do that?

**Ian MacMillan:** I really think that he will put in place the appropriate systems. I think that the safeguards are going to come to make sure that if you say you are going to do something, it will be measured. And, what you are going to do should be seen in the light of what value it has to society.

**Knowledge@Wharton:** What could be the biggest potential downside of this gift?

**Ian MacMillan:** There is a subset of agencies out there, who claim to be philanthropic, and in a way what they have done is set up a self-perpetuating system. It's what Paul Theroux calls the "agents of virtue," and what they do is put in place organizations that simply ensure that they spend as much money as they can making themselves comfortable and ensuring that the next year's round of grants come in so that they can continue to be comfortable. And to me, the big danger is that these organizations start to get their claws into the Gates Foundation money. I think that if we can prevent that from happening, that would be a very good thing.

Another down side is if somehow or other this money gets channeled into corrupt government officials' overseas accounts. Because many of these governments -- not all of them, note -- but many of these governments have no interest whatsoever in the starvation ending in their countries or the diseases being solved, because what that will mean is that the aid will stop flowing. And that means that the little channel to the overseas account is going to run dry. So my concern lies in the ability to avoid that happening.

[What] I am hoping will happen as a result of the kind of work I think the Gates Foundation will be undertaking is to reduce what I call the "tin cup dependencies" that are created. Where a problem occurs, aid goes in to solve the problem, but doesn't solve the problem, and what happens is that people keep on coming back with their tin cups. The worst case of all is when this tin cup dependency, coupled with the sense of entitlement, leaves the people themselves to believe that there is nothing they can do or want to do to solve the problem themselves. I strongly suspect that this is just not going to happen with the Gates Foundation, but this could be a real danger.

**Knowledge@Wharton:** Last question, how would you spend this money if it were yours? You've mentioned helping small companies, in addition to the microlending strategy. Are there other areas that you would spend this money on?

**Ian MacMillan:** Well, this is going to be self-serving, so let's be upfront about it. We've got a program here where I believe that it is possible -- when you use the talents of a university like the University of Pennsylvania to look at social problems -- that one can begin to create businesses, actually create businesses that attack the problem, and the businessman or businesswoman makes money solving the problem. And what that does is it takes out that tin cup dependency, because if the person can start to make money doing this, you set in motion a virtuous cycle rather than a vicious cycle. And, the more money the person makes, the more people are helped. The more people are helped, the more money the person makes.

**Knowledge@Wharton:** So, it's a for-profit model?

**Ian MacMillan:** Yes, it's a for-profit. But, what we are trying to do is firstly put our energy and our own money where our mouth is, and say, "Let's go out there and try to create these businesses, and if they work, they can be replicated across the planet in places where they are needed." The second important thing is that you don't have to make a lot of money if you are an entrepreneur in a developing economy. So what would be regarded in this country as limited profits could be a bonanza for somebody in countries in Africa and Latin America. So, it doesn't take a lot of money to be made in order to make it worthwhile for them.

And the third thing that we are hoping is that, if we can configure the right kinds of businesses, you could go to a philanthropist and say, "If you will make a one-time investment in this plant or in this factory that we are going to create, you will create jobs and employment and improve health and nutrition for decades without us ever having to come back to you for money, because it will become self sustaining". So that's one of the places where I think I would spend the money. And I'm certainly hoping that somebody like the Gates Foundation would start to look at that as one of the ways of attacking the problem of poverty. After all, both Mr. Gates and Mr. Buffett started off as entrepreneurs, and look what happened with them.

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