Day 3 - Summary

[JULY 29, 2026]

[Saieh Hall, Room 146]
[5757 S. University Avenue, Chicago, IL 60637]

Lecture Summaries
Week 1, Day 3 Sessions

Session 1 | 9:00 AM – 10:30 AM

Lecture Summary – Private Capital, Entrepreneurship, and Emerging Markets

In this lecture, Prof. Emanuele Colonnelli examined how entrepreneurial and private capital ecosystems develop outside the United States. Commitments to venture capital and private equity funds have grown dramatically and the ecosystem has become far more global, yet capital still flows very unequally: relative to GDP, poorer economies are substantially underrepresented, and activity concentrates in a few urban hubs. Emerging markets also differ structurally, since buyouts are almost absent and the pool of capital is shifting from foreign pension funds and endowments toward sovereign wealth funds, development finance institutions, and family offices. Policies designed for the United States are therefore unlikely to transfer directly.

The first of two studies focused on startups across Africa. Because off-the-shelf data are poor for privately held firms, the project built new deal-level data, matched it to founders' education and work histories, and surveyed roughly four thousand five hundred firms. To learn what entrepreneurs actually want, the study ran an incentivized experiment in which founders ranked realistic but fictitious investment offers with randomly varied characteristics. The dominant finding was an overwhelming preference for equity over debt, combined with strong aversion to giving up control and near-indifference to the identity of the investor. Mentorship and structured business support carried almost no weight.

Prof. Colonnelli emphasized how surprising this preference is, because equity is expensive capital: a founder typically surrenders fifteen to twenty percent of the company in a single round. On standard reasoning these firms should prefer debt, and roughly a fifth of startups in Silicon Valley do use venture debt. The demand for equity is nevertheless strongest among the largest and fastest-growing firms, which argues against the interpretation that founders are merely seeking cheap money. What they value is the flexibility equity provides and the incentive it gives an investor to keep supporting the business, in a setting where the debt contracts actually available are too rigid for firms with volatile revenues and few assets to pledge.

Turning to the supply side, roughly eighty percent of venture and growth capital flowing to African companies is foreign, and it goes overwhelmingly to highly educated founders, about two-thirds of whom have studied or worked outside the region. Flows can be predicted by the match between where an entrepreneur studied or worked and where the investor is based, suggesting that access to networks is a central determinant of who receives financing. Firms with foreign connections do not perform better on measures such as public listings, acquisitions, or employment growth, which weighs against the view that the pattern reflects quality. The binding constraints appear to be the scarcity of qualified local investors and access to their networks.

A second study, conducted with the International Finance Corporation, surveyed roughly fifteen hundred institutional investors about how they assess risk in these markets. Perceived political and regulatory risk remains a substantial barrier and is often out of line with realized default experience, so building credible data about actual risk is itself a policy lever. Participants added that investors worry less about entering a market than about being able to leave it, which pushes firms to incorporate abroad. He closed by stressing the priority of a more resilient local equity ecosystem.

Session 2 | 11:00 AM – 12:30 PM

Lecture Summary – Growing Entrepreneurial and Innovative Clusters

In this lecture, Prof. Josh Lerner examined what governments can realistically do to grow entrepreneurial and innovative clusters. Venture investment has risen from virtually nothing to hundreds of billions of dollars a year, has become far less concentrated in the United States, and now occurs at much lower levels of income per capita than in earlier decades. Governments have responded with very large public expenditures, from entrepreneurial finance programs to individual projects attracting billions in subsidies. Three questions framed the lecture: how important entrepreneurship should be to policymakers, how it should be supported, and whether middle-income countries should approach the problem differently.

On the first question, the evidence is strong. Young firms account for the bulk of net job creation in both developed and developing economies, and small firms have historically originated a disproportionate share of important innovations. Yet they struggle to obtain financing, which is the gap that led Georges Doriot to establish the first venture capital firm after the Second World War. Although only about one in a thousand American businesses receives venture funding, venture-backed companies account for roughly half of recent public listings and close to ninety percent of the research spending done by young publicly traded firms. Meanwhile large corporations have retreated from basic research, making the venture channel more important rather than less.

Prof. Lerner then turned to why so much public money has produced so little. Two failures recur: officials with limited familiarity with entrepreneurship design programs with unintended consequences, and programs are captured by well-connected parties. A study of Queensland illustrated the first, where large sums were directed toward biotechnology while the region's genuinely successful young firms were building drones for irrigation and software for mining. The first of three principles he offered in response is to set the table before handing out money, addressing legal enforcement, exit markets, labor regulation, and the stigma attached to failure. Japan's heavily subsidized venture industry largely disappeared once subsidies ended, showing what neglecting this costs.

He gave particular attention to the commercialization of university research, which he described as a persistent weak link. Governments often fund research generously without asking whether the resulting ideas ever reach the market, and universities differ enormously in their propensity to commercialize. That variation is largely independent of research quality, reflecting instead a university's experience with technology transfer, its location, and local norms, with faculty who move between institutions tending to adopt the practices of wherever they land. Those norms can nonetheless shift quickly: Israel had a single venture fund in the early 1990s, but a few visible spinout successes changed attitudes within a few years. His remaining principles were to incorporate the market through matching requirements rather than selecting fashionable sectors from above, and to get the details right and iterate.

The final section addressed two challenges specific to middle-income countries. The first is increasing returns to scale: venture activity and frontier technology are highly concentrated geographically both within and across countries, and this partly reflects genuine differences in performance. The second is the spillover problem, since knowledge is hard to capture: research is often commercialized elsewhere, firms open foreign branches, and successful ventures are acquired abroad. Large economies may capture enough of the returns not to worry, but for smaller ones the arithmetic is very different, which argues for targeted rather than broad public spending. His recommendations were to promote activity where a country has a comparative advantage, to push for scale rather than geographic fairness, to insulate programs from political pressure, and to be patient. He closed on the advantages of being a follower, since many successful emerging-market firms are adaptations of models proven elsewhere.

Session 3 | 1:30 PM – 3:00 PM

Lecture Summary – Spatial Creative Destruction and Regional Development

In this lecture, Prof. Leonard Wantchekon argued that sustained development requires a race to the frontier in science and technology, and examined the political obstacles that prevent it. He began from the position that technological progress rather than capital accumulation drives long-run growth, since capital accumulation runs into diminishing returns while technology exhibits increasing returns. Science operates through two mechanisms: productivity, since a country's technological competence constrains what it can produce, and state capacity, which he argued is often overlooked, as technology improves tax collection, service delivery, education, and health while expanding what citizens can do for themselves. In the Schumpeterian framework of Aghion, Akcigit, and Howitt, innovation effort rises with the probability that a successful entrant is actually permitted to enter, so democracy is growth-enhancing, particularly close to the frontier.

The central obstacle he identified is political distortion, induced either by voters through patronage or by firms through political connections, and affecting investment, regulation, procurement, and infrastructure spending. The mechanism is entrenchment: incumbents invest in connections to deter entry, and industries with more connected firms display less innovation and slower productivity growth. In many developing countries the problem is structural rather than marginal, since firms are frequently owned or managed by political and military elites. His work in Benin distinguishes indirect capture, exercised through elected politicians, from direct capture of the bureaucrats who implement policy, and finds that direct capture increases as elections become more competitive, because control of tenured officials acts as insurance that survives a change of government. Electoral competition alone therefore does not curb distortion.

His proposed response is what he calls spatial creative destruction through decentralized safe havens. Rather than waiting for reform at the center, policy should identify a peripheral region where the cost of adopting more open and competitive institutions is low and the potential return high, and allow success to diffuse to neighboring regions through geographic proximity, cultural affinity, and sectoral complementarity. Decentralization delegates the decision to persist with reform to the most reform-tolerant region, and the risk of an institutional trap rises with informational fragmentation.

The final section applied this framework to river valleys in Africa. Across more than five thousand districts in forty-six sub-Saharan countries, districts with better soil display higher poverty rates, and the relationship reverses only once market access is taken into account. Instrumenting road placement with colonial routes shows that those roads were built to serve mines and ports rather than agricultural potential, and post-independence investment has largely repaved them, leaving weak east-west integration. River valleys, resource-rich but infrastructure-poor, are therefore natural safe havens where relaxing infrastructure constraints yields disproportionate gains. Research infrastructure can anchor such places, as illustrated by Benin's oil palm research station at Pobè and by Brazil's Embrapa, whose locally focused research accounts for a large share of agricultural productivity growth. Prof. Wantchekon concluded by presenting his own venture, an innovation hub combining a polytechnic, a research hub, and an agricultural complex sited in two Beninese river valleys, which pairs experimental farms with cultural and ecotourism activity so that the technologies developed are cross-cutting and the model can sustain itself commercially.

Session 4 | 3:30 PM – 4:30 PM

Session Summary – Participant Country Presentations

The day concluded with two Academy participant presentations. Sara Loukili presented work from the Central Bank of Morocco on firm creation, and the administrative database the central bank has assembled by matching tax, social security, credit registry, and industrial survey records on individual firms.

Mojie Li followed with a presentation from the Chinese Academy of Fiscal Sciences on why countries pursue economic growth, arguing that growth is best understood as a means of building national capacity and that conventional measures capture only part of what development requires.