In collaboration with
Stanford Graduate School of Business
Venture Capital Initiative

WORLD ECONOMIC FORUM

The Future of Venture Capital: Unlocking Liquidity and Growth

INSIGHT REPORT

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Contents

Foreword 3

Executive summary 4

1 Why venture capital matters and why the model is under strain 6

1.1 What makes venture capital unique 8

1.2 The US case study: From ERISA to market dominance 9

1.3 The global expansion of the asset class 10

2 The liquidity squeeze and the exit gap 11

2.1 The exit and distribution gap 13

2.2 The scale of trapped value 17

2.3 The rise of secondary markets 18

2.4 Improving secondary-market infrastructure 20

3 The global scale-up gap in innovation 22

3.1 The new geography of innovation: Scaling start-ups 23

3.2 How success breeds ecosystems: The power of founder factories 28

4 Strengthening the foundation: Capital, regulation and institutional reform 29

4.1 How the LP landscape is changing 30

4.2 Regulatory fragmentation: The invisible scaling tax 32

5 AI and the new economics of venture capital 33

5.1 From software to labour markets 34

5.2 The new growth playbook: Faster, leaner, harder to value 34

5.3 Private capital at public scale 35

5.4 The AI-enabled investor 35

6 Strategic recommendations 36

Conclusion: Strengthening the venture capital industry 39

Contributors 40

Endnotes 42

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Foreword



Drew Propson
Head, Technology and Innovation in Financial Services, World Economic Forum



Sarah A. Soule
Philip H. Knight Professor and Dean, Morgridge Professor of Organizational Behavior, Graduate School of Business, Stanford University

Venture capital has long served as a powerful engine of economic growth and technological progress. By channelling capital towards early-stage companies with the potential to reshape industries, the venture model has helped produce some of the most consequential businesses of the modern era, from semiconductors to software and biotechnology to clean energy. The institutions, norms and networks that define the VC ecosystem today were built over decades of iteration, and they reflect a deep understanding of how to identify and scale transformative ideas.

The industry, however, now faces a period of significant pressure. A prolonged contraction in exit activity has created considerable liquidity strain across the asset class, testing the patience of limited partners and forcing a reassessment of fund economics. Additionally, regulatory fragmentation persists and capital pools remain unevenly distributed, slowing the pace of venture-backed innovation. These challenges are not felt equally. Regional ecosystems vary in their depth and access to the global capital networks on which early-stage companies depend. What is working in one market may be structurally unavailable in another.

This is not a crisis of venture capital's relevance, as the need for patient, conviction-driven capital remains critical. It is, rather, a signal that the model must continue to evolve. Meeting this moment requires more than individual reflection. It calls on practitioners, institutional investors, policy-makers and other ecosystem participants to come together to identify where the system is underperforming and develop solutions with the rigour that the stakes demand.

This report, a collaboration between the World Economic Forum and the Stanford Graduate School of Business Venture Capital Initiative, is the product of precisely that kind of collective effort. Drawing on perspectives from prominent voices across the VC landscape over the course of 2025–2026, it aims to offer a comprehensive assessment of where the industry stands and actionable insights for the various actors working to strengthen it. We are grateful to the many leaders whose input and expertise shaped this analysis, and we hope it serves as a valuable resource for those committed to ensuring that venture capital continues to fulfil its essential role in supporting innovation and entrepreneurship.

Executive summary

Five priorities to strengthen venture capital's ability to finance global innovation.

Over the past 50 years, venture capital (VC) has evolved from a niche financing mechanism into a central pillar of the global innovation economy. A small fraction of companies receive venture funding, yet those firms account for a disproportionate share of technological breakthroughs, economic growth and corporate value creation. In the US, companies that received VC funding and subsequently went public now account for nearly half of the market capitalization and 94% of research and development (R&D) spending among all public companies founded in the past 50 years.[1]

Yet the institutional foundations of the venture model are coming under strain. Venture-backed companies are staying private for longer, slowing the recycling of capital across the ecosystem. At the same time, start-up creation has become global, but the ability to scale companies into world-leading enterprises remains concentrated in a small number of ecosystems. Meanwhile, artificial intelligence (AI) is reshaping both the economics of venture-backed companies and the scale of capital required to finance them.

First, capital recycling is slowing down. VC has historically depended on a continuous cycle: funds invest in early-stage companies, successful firms exit through initial public offerings (IPOs) or acquisitions and distributions are reinvested into the next generation of start-ups. That cycle is stalling. Today venture-backed companies remain private for far longer than in previous decades and approximately 1,900 venture-backed unicorns, start-up companies with post-money valuation of at least $1 billion, remain privately held globally, representing more than $7.3 trillion in valuation with an estimated $3 trillion in unrealized value sitting in VC funds balance sheets.[2] As exits slow and distributions fall, secondary markets are emerging as a critical mechanism to restore capital recycling. In 2025, the total volume of secondary transactions reached $106.3 billion, representing nearly one-third of VC-backed exits.[3] Direct secondary activity, however, remains heavily concentrated: the 20 most actively traded companies account for 86.4% of transaction volume.[4]

Second, the geography of innovation is diverging. Start-up creation has become increasingly global, but the ability to scale companies into world-leading enterprises remains concentrated in a small number of ecosystems. The US and China together account for roughly three-quarters of all unicorns globally, and an even larger share of the most valuable companies.[5] Meanwhile, many smaller markets produce innovative start-ups but struggle to scale them domestically, often forcing founders to relocate or seek capital abroad. In Northern America and Asia,[6] roughly one in 60 VC-backed companies becomes a unicorn; in the Middle East and North Africa region (MENA) the figure is one in 100; in Europe it is one in 135; and in sub-Saharan Africa it is one in 330.[7] These differences reflect variations in capital market depth, regulatory structures and talent mobility that shape where innovation ultimately scales.

Third, AI is reshaping venture economics, transforming both what VC finances and how venture-backed companies operate. AI-native firms are reaching significant revenue milestones with far smaller teams than ever before, yet the infrastructure on which they depend, from compute to data centres and energy systems, demands capital on an industrial scale. In 2025, AI accounted for more than half of global venture deal value, with a growing share concentrated in $100 million+ funding rounds.[8] As a result, AI is drawing in capital from well beyond traditional venture financing. Section 5 of this report examines how this is reshaping the boundaries between asset classes.

Taken together, these shifts suggest that VC's institutional architecture must be strengthened if the industry is to continue financing the next wave of global innovation. The recommendations that follow focus on bolstering the institutional foundations of the venture ecosystem, restoring capital recycling, mobilizing long-term institutional capital and reducing structural barriers to scaling innovation globally.

Improve secondary-market infrastructure: Secondaries have evolved from an ad hoc liquidity tool to a critical component of VC's operating architecture. The scale and persistence of recent growth point to a structural shift rather than a cyclical one. The next frontier is not simply more volume but greater coverage: extending efficient liquidity infrastructure beyond the top tier of companies to the long tail of venture-backed firms for which secondary markets remain effectively closed.

Mobilize institutional capital: The gains of innovation finance remain unevenly distributed, in part because regulatory frameworks in many regions constrain institutional investor participation in VC.[9] Solvency and liquidity requirements lead many pension funds to favour bonds and equities over VC investments. Reforms are under way, from Europe's proposed Savings and

Investment Union to India's reform of the Security and Exchange Board of India (SEBI) and the US executive order on 401(k) access to private assets.

Reduce regulatory friction: Regulatory fragmentation remains one of the most persistent barriers to scaling innovation globally. Divergent frameworks governing incorporation, employment, equity compensation and data compliance add cost and complexity at every stage of cross-border growth. Initiatives such as EU-INC, ASEAN digital economy framework agreement aim to lower these barriers, but the gap with the unified domestic markets of the US and China remains substantial.

Strengthen talent ecosystems: Regions that produce the most valuable companies are not just those with the deepest capital pools but those that develop an ecosystem of experienced operators who go on to found, fund and advise the next generation of companies. As the report's analysis of founder factories shows, the recycling of talent from successful ventures is one of the most powerful compounding forces in any ecosystem. Strengthening university–industry connections, facilitating talent mobility through start-up visa programmes and designing stock-option frameworks that reward rather than penalize risk-taking are essential building blocks for regions seeking to grow and retain their talent base.

Enable strategic government participation: Governments have a catalytic role in venture ecosystem development, and the design of intervention matters as much as its scale. Effective programmes tend to be time-limited, anchored in private-capital partnerships and focused on building market infrastructure. Public participation aligned with clear performance metrics and designed to evolve as markets mature can powerfully catalyse private capital flows and accelerate the development of emerging innovation hubs.

1 Why venture capital matters and why the model is under strain

Venture capital is one of the most powerful forces shaping the global innovation economy.



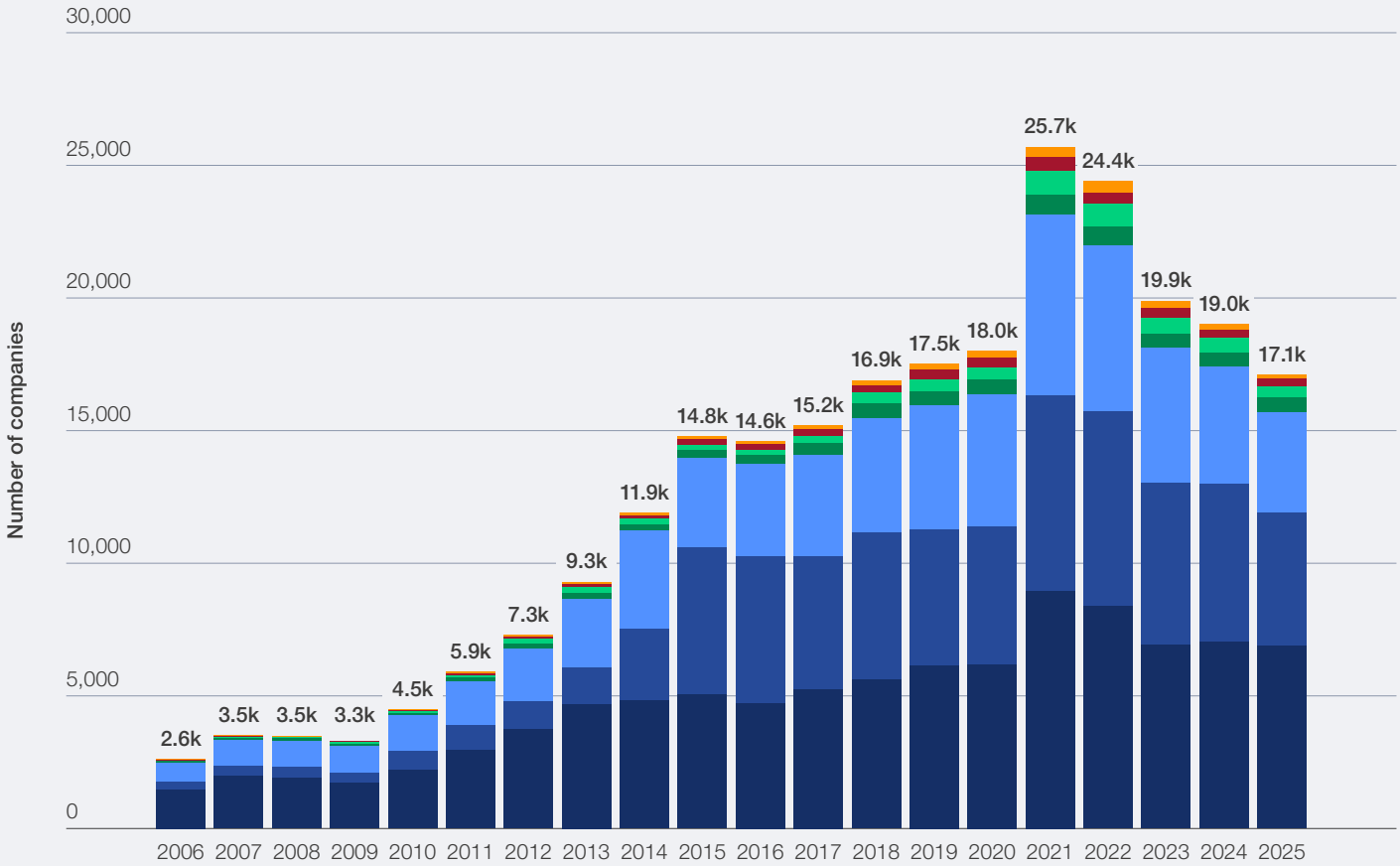
Over the past two decades, the VC industry has scaled at extraordinary speed. Today, seven of the 10 largest companies in the world by market capitalization received venture funding in their early stages (Amazon, Apple, Alphabet, Meta, Microsoft, NVIDIA and Tesla).[10] Less than 0.1% of new businesses receive VC funding, but those that do account for a remarkable concentration of economic value. In the US, public companies that were VC-backed before their IPO now constitute 42% of total market capitalization, 64% of all public company R&D spending and an extraordinary 94% of R&D spending among public companies founded in the past 50 years.[11]

VC's role in the modern economy is defined by this paradox: that a tiny fraction of companies absorb a modest share of capital, yet they generate a disproportionate share of innovation and economic growth. What began as a cottage industry in Silicon Valley has evolved into a global asset class managing nearly $3.5 trillion in assets and backing more than 250,000 companies worldwide over the past two decades.[12]

To understand VC's outsized impact, it helps to examine what fundamentally differentiates it from traditional financing models. VC firms operate according to different incentives and address financing needs that traditional investors cannot satisfy. Traditionally, banks lend against collateral and expect regular repayments, and public markets demand quarterly earnings reports and penalize volatility. Neither is suited to fund breakthrough innovations that may take years to reach commercial viability and carry a high probability of failure.

FIGURE 1 **New VC-backed companies by region and year (2006–2025)**

Global new VC-backed companies grew 6.6x from 2006, peaking at 25,700 in 2021



Total new VC-backed companies (2006–2025)

World	254,953
Northern America	97,082
Asia	71,981
Europe	65,949
Middle East and North Africa	6,971
Latin America and the Caribbean	6,184
Oceania	4,145
Sub-Saharan Africa	2,641

Notes: Data covers 254,953 VC-backed companies founded between 2006 and 2025.

Source: Stanford GSB Venture Capital Initiative calculations based on PitchBook data

1.1 What makes venture capital unique

Venture capital operates under fundamentally different rules from conventional finance. Understanding how it works is critical to understanding its role in financing breakthrough innovation and why it succeeds where conventional financing does not. Box 1 defines four characteristics that differentiate VC from traditional finance.

BOX 1 **Four key characteristics that define venture capital**

1. **Failure tolerance:** VC portfolios are structured to capture outliers. The failure rate can reach 75%, but the power law means a few winners drive returns.
2. **Time horizon:** VC investments often produce no returns for years, enabling long-term innovation cycles incompatible with quarterly earnings pressure.
3. **Partnership structure:** Companies reaching unicorn valuations raise on average 6.5 rounds of funding, with some raising 10 or more.
4. **Strategic involvement:** Beyond capital, VCs serve as active board members providing mentorship, talent support and network access.

Failure tolerance: Embracing failure to find breakthrough success

Traditional finance seeks to minimize risk through diversification. Venture capitalists, by contrast, often concentrate capital in high-potential ventures knowing that most will fail. Evidence suggests the failure rate can reach 75%, meaning that three out of every four VC-backed companies either fail outright or do not return the initial investment amount.[13] VC portfolios are designed to succeed not by avoiding losses but by identifying breakout successes. Driven by the "power law", the VC model generates the majority of returns from a small number of exceptional outcomes.[14] As Bill Gurley of Benchmark observed: "If you invest in a company that fails, you lose 1X of your money. If you miss Google, you miss 10,000X your money."[15]

Time horizon: Patient capital with extended investment horizons

Unlike traditional investments that generate regular income through dividends or interest payments, VC investments typically produce no returns for years and rarely pay intermediate cash flows.[16] Instead, VC operates on the principle of compound growth over extended periods, with returns realized upon a liquidity event, either through the sale of the company or an IPO. This timeline enables companies to pursue long-term innovation cycles that are often incompatible with quarterly earnings pressure.

Partnership structure: Long-term partnership through multiple growth stages

Venture capitalists do not simply write cheques and wait. They become long-term partners in their portfolio companies' growth journeys. Companies typically progress from pre-seed funding for concept validation, through seed rounds for product development, series A rounds for market entry and subsequent rounds for scaling and expansion. Companies reaching unicorn status raise on average 6.5 rounds of funding, with some raising 10 or more.[17] Each new funding round typically brings new strategic value beyond capital, as VCs leverage their networks and expertise to help navigate increasingly complex scaling challenges.

Strategic involvement: Hands-on guidance and governance

Beyond capital, VCs can provide strategic guidance, mentorship and connections to customers, partners and subsequent investors. One of the important contributions most frequently cited by founders is talent acquisition: VCs use their networks to help recruit experienced board members, executives and key employees. VCs typically serve as active board members with significant control rights, and this model creates a governance model that combines financial backing with strategic guidance. The financial securities reflect this structure: investors receive convertible preferred stock with features tailored to early-stage risk, including liquidation preferences, board seats and vetoes over major corporate decisions.[18]

1.2 The US case study: From ERISA to market dominance

The VC model has its roots in the United States and its unique regulatory and financial landscape. Among currently US-listed public companies founded within the past 50 years, VC-backed companies account for almost half by number (47%) and three-quarters by value (77%).[19] Of the 300 largest US public firms in 2025, 74 are VC-backed.[20] The VC industry in the US was enabled in part due to novel legislation in the 1970s that allowed pension funds to participate in VC investing (see Box 2).

BOX 2 **What is ERISA?**

Traditionally in the US, managers and trustees of private pension funds faced severe legal constraints on investing in risky assets. But in the 1970s, new legislation, including the 1974 passage of the Employee Retirement Income Security Act (ERISA) and the subsequent 1979 "prudent man" rule clarification, allowed pension funds to allocate capital to alternative assets, including VC. The rules allowed funds to evaluate investments within a larger portfolio context rather than in isolation, which provided legal protection for pension fund managers to allocate capital to high-risk, high-reward ventures.

The effect was profound. The fraction of new public companies that were VC-backed climbed from virtually zero pre-ERISA to 38% between 2000 and 2025.[21] Their collective market capitalization rose from 1% before ERISA to 41% of US market capitalization by 2025.[22] The ERISA experience demonstrates the transformative potential of regulatory reform in unlocking institutional capital for innovation – a lesson highly relevant for policy-makers in regions where pension fund venture allocations remain largely absent.

Cross-country comparisons reinforce the link between VC and economic growth. Of the 300 largest US publicly traded companies, 103 were founded between 1970 and 2025, and 66 of these were VC-backed.[23]

By comparison, only 28 of the top 300 companies in non-US G7 countries were founded in the same period, of which only four were VC-backed (many by US VC investors).[24]

FIGURE 2 **Share of new US IPOs vs. share of US market capitalization**



Source: Stanford GSB Venture Capital Initiative calculations

1.3 The global expansion of the asset class

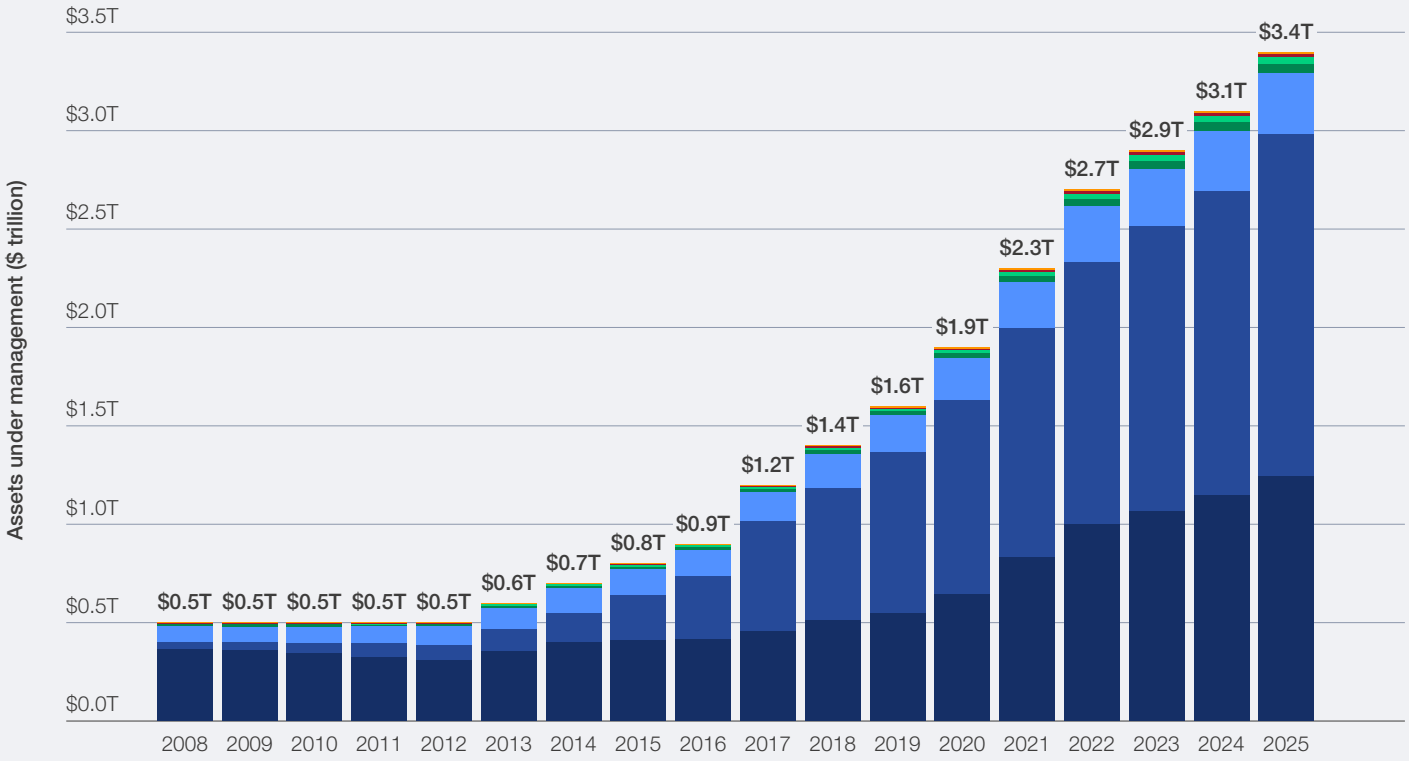
While Silicon Valley has attracted the most attention as the epicentre of venture capital, VC is now a feature of the global economy. Worldwide, VC assets under management (AUM) increased more than sevenfold from 2008 to 2025, from $500 billion to nearly $3.5 trillion.[25] The number of VC-backed companies receiving equity funding annually grew from around 6,500 to a peak of around 49,000 in 2021. Cumulative funding over this period totalled nearly $5 trillion, with more than 250,000 unique companies receiving VC funding globally. VC and growth equity now represent close to a third of all private-market AUM.[26]

The venture ecosystem expanded significantly over this period, with institutional VC funds growing fivefold from around 2,100 to 11,000 and global deal value reaching an estimated $530 billion in 2025.[27] Global VC investment reached $400 billion across more than 24,000 deals in 2024 and an estimated $530 billion across almost 21,000 deals in 2025, with US VC investments accounting for approximately $340 billion of the 2025 total.[28]

The maturity of VC ecosystems shows a clear split among regions. Northern America today accounts for nearly 60% of total VC-backed post-money valuation, with Asia following at 26%, Europe at 11% and the rest of the world at 3%.[29] More than 3,700 companies globally have achieved unicorn status, with the United States and China together accounting for 72% of the total.[30] In 2025, Asian VC funds managed $1.7 trillion, followed by $1.2 trillion in Northern America.[31] European AUM reached approximately $0.3 trillion, while all other regions managed less than $0.1 trillion.

FIGURE 3 **Global VC assets under management (AUM) growth by region, 2008–2025**

VC AUM grew 6.6x from $507 billion to $3.36 trillion; Asia overtook Northern America in 2017



AUM in 2025 ($ billion)

World	$3,357B
Northern America	$1,234B
Asia	$1,711B
Europe	$305B
Middle East and North Africa	$49B
Latin America and the Caribbean	$34B
Oceania	$15B
Sub-Saharan Africa	$8B

Note: Institutional VC funds >$50 million, ≤15 years old, closed/liquidated/fully invested.

Source: Stanford GSB Venture Capital Initiative calculations based on PitchBook data

2 The liquidity squeeze and the exit gap

A widening liquidity gap threatens fund returns and the pace of innovation funding.



The venture model was built on a positive feedback loop: invest long-term capital, back winners through years of growth, return the proceeds and reinvest in the next generation. For decades, this cycle ran continuously. Today, however, the most valuable VC-backed companies stay private for longer – many now for more than a decade – and the capital that funded their growth remains locked up, unavailable to finance what comes next.

This section examines the forces driving this challenge and the solutions emerging in response.

Capital recycling under pressure

VC funding relies on two primary sources: capital recycling from existing limited partners (LPs) and fresh commitments from new investors. Capital recycling occurs when LPs reinvest distributions from successful investments in one fund vintage into subsequent funds, creating a compounding cycle that finances each new generation of start-ups. When distributions slow, the entire innovation-funding engine decelerates.

As companies extend their private life cycles, the underlying ecosystem of venture financing shifts: investors do not realize value through distributions, which means that proceeds cannot be reinvested into the next generation of start-ups.

FIGURE 4 **The VC funding cycle**



Source: World Economic Forum and Stanford GSB Venture Capital initiative

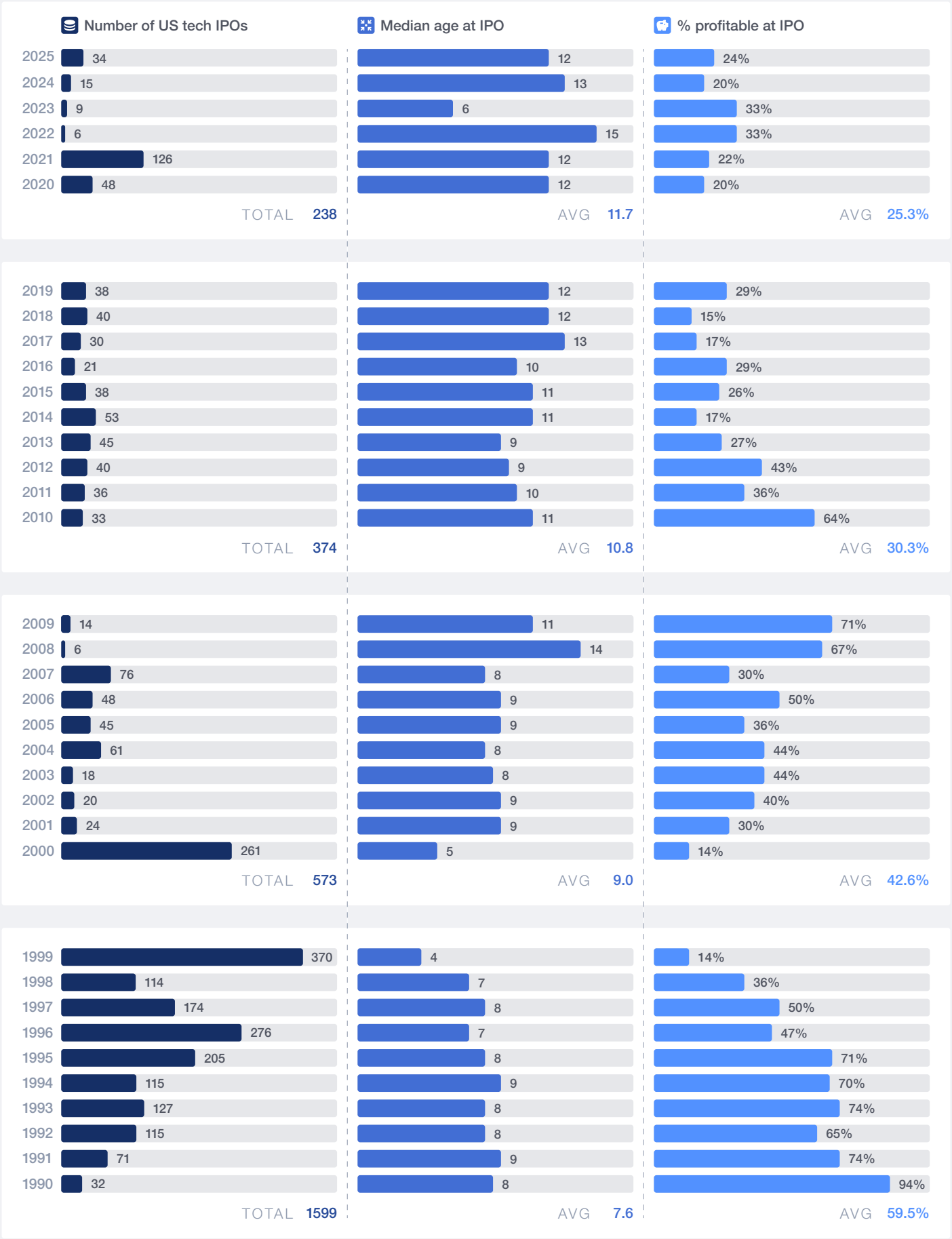


2.1 The exit and distribution gap

Traditionally, VC investors received payouts within five to seven years, when companies went public or were acquired. That timeline no longer holds. Many of the most valuable VC-backed technology companies – from SpaceX to Stripe – have remained private for well over a decade. In 2025, the average time for VC-backed companies to hold IPOs increased to 12 years.[32] The shift towards longer private life cycles is also visible in the scale of revenue required to go public: median revenues at listing have nearly quadrupled, from $44 million in the 1990s to more than $170 million over the past decade.[33]

Not only has the timeline to IPO extended, but the volume of IPO activity has also significantly declined: US tech IPOs fell from 1,598 in the 1990s to just 227 in the 2020s (see Figure 5). Some recent evidence also suggests that the growth of private capital markets is not merely delaying IPOs but may also be shifting the quality of companies going public: as late-stage private capital grows more abundant, stronger companies tend to stay private for longer, skewing the IPO pipeline towards companies with less established growth profiles.[34] Unicorns have not necessarily shown greater readiness for public markets. In the US over the past five years, only 26% of technology company IPOs were profitable at listing, less than half the 60% rate seen during the 1990s.[35]

FIGURE 5 | **US VC-backed IPOs by year and average age at IPO 1990–2025**



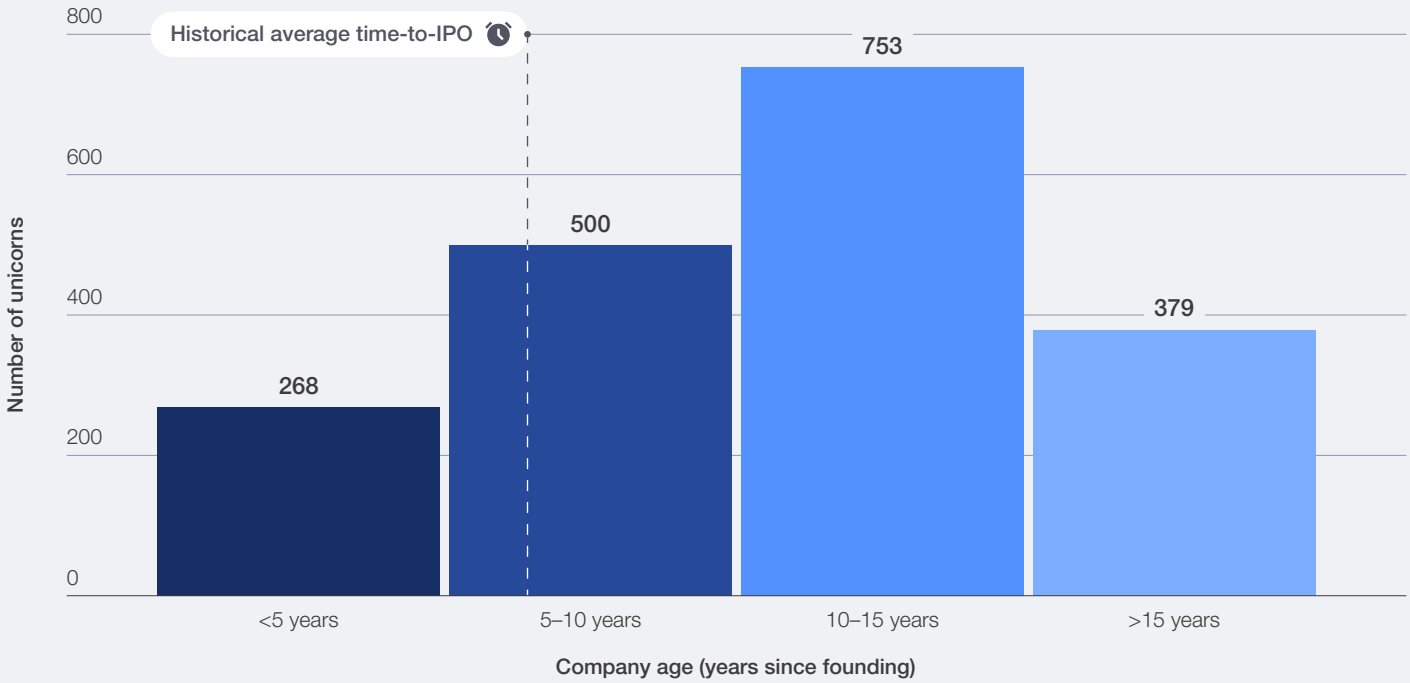
Source: Based on Ritter, J. R. (2026). *Initial public offerings: VC-backed IPO statistics through 2025*. University of Florida. https://site.warrington.ufl.edu/ritter/files/IPOs-VC-backed.pdf

Extended private life cycles

Among today's global privately held unicorns, 20% were founded more than 15 years ago and 59% more than 10 years ago.[36] The timeline from seed to series D now takes 45% longer than in 2022.[37] SpaceX raised its early VC round in 2005 and remained private for more than two decades before filing for an IPO in 2026; Stripe, founded in 2010, has yet to go public.

Traditional exit routes have not kept pace with value creation. Even during the substantial IPO surge of 2020–2021, more than 800 companies (70% of the cohort) became unicorns as privately held companies rather than through public listings.[38] Since interest rates began rising in 2022, most have experienced challenges in realizing liquidity events.

FIGURE 6 **Share of private unicorns by founding year**



Of today's 1,920 privately held unicorns, 59% were founded more than 10 years ago, and 20% more than 15 years ago.

Note: Data covers 1,920 privately held unicorns globally as of 31 March 2026.

Source: Stanford GSB VCI analysis using a proprietary dataset based on PitchBook, Dealroom, Preqin, Tracxn, Crunchbase, VentureSource and desk research

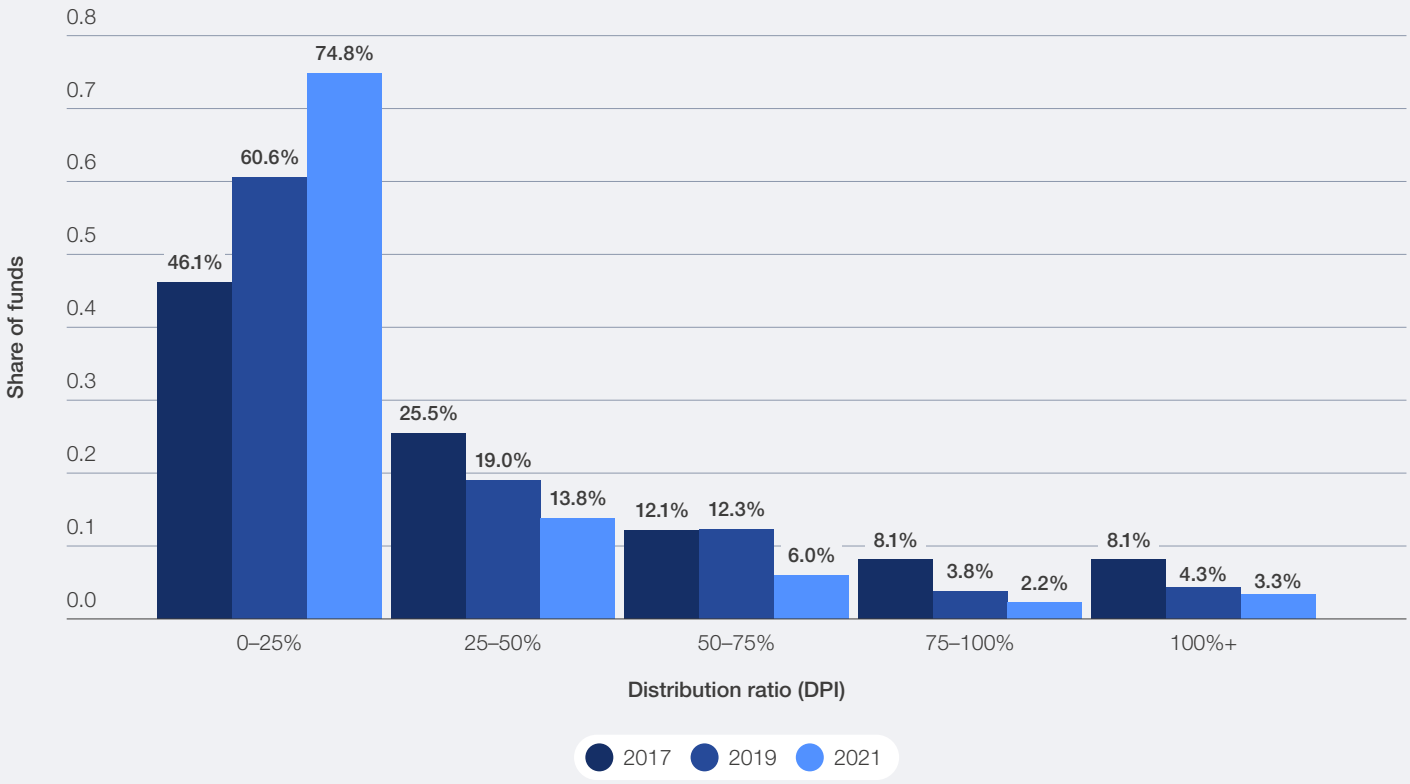


The distribution drought

As a result of these changes, distributions are no longer flowing back to investors at the pace they expect. Historically, funds in their prime return years (5–10 years old) returned roughly 20% of their value to investors, but by the end of 2025 the average had fallen to 12%.[39] In other words, investors are receiving back only about 60 cents for every dollar they would typically expect at this stage. This measure, known as distributions to paid-in capital (DPI), captures how much cash investors have actually received relative to what they committed.

Among funds launched in 2021, three-quarters had returned less than a quarter of their investors' money by their fourth anniversary.[40] That compares to just half of 2017-era funds measured at the same point. And fewer than 6% of 2021 funds had returned more than half of investors' capital, roughly half the rate seen in earlier fund generations.[41] The result is a sustained distribution drought that constrains capital recycling across the ecosystem.

FIGURE 7 **Cash returned by venture funds, distribution ratios by fund launch year at the four-year mark**



Note: Data drawn from 1,600 VC funds in the listed vintages.

Source: Stanford GSB Venture Capital Initiative calculations based on PitchBook data

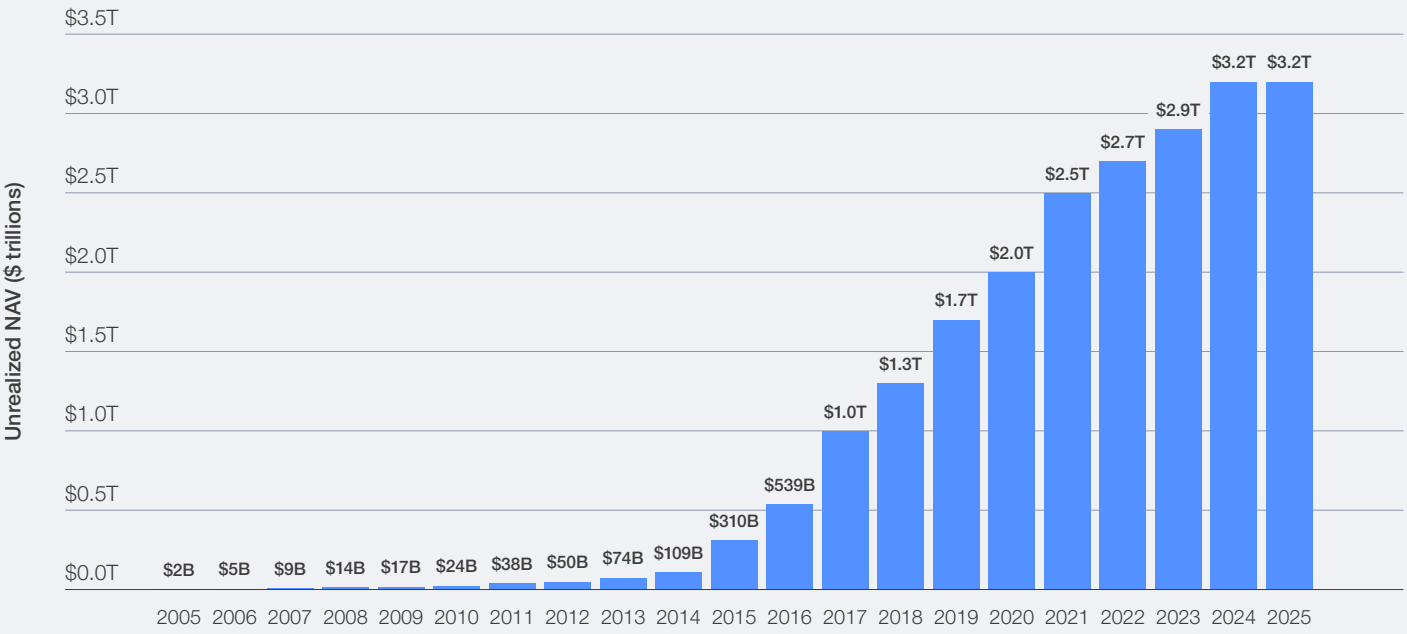
The distribution drought has had a significant impact on investor cash flows. Since 2022, US venture funds have drawn a net $196.9 billion more from their investors than they have returned – a sustained capital deficit without precedent in the industry's history.[42] This deficit has cascading consequences. Venture fundraising in 2025 saw the fewest new fund closings in a decade, with $138 billion raised across 1,257 funds.[43] The median time to close a US VC fund has stretched to a record 15.3 months, up from 9.7 months in 2022, as investors grow increasingly reluctant to recommit before receiving returns from prior vintages.[44]

The drought is also reshaping who gets funded. Capital concentration has intensified: the 10 largest VC funds captured 42.9% of total capital raised in 2025, while smaller funds worth $500 million or more accounted for just 6.7%.[45] The implication is stark: the distribution drought is not merely slowing capital flows, it is reshaping the industry's structure, concentrating resources among the largest managers and raising the barriers for emerging managers.

The distribution drought is not solely a product of external market conditions. In 2021, capital flowing into venture markets reached an extraordinary peak, many companies from that vintage now sit frozen between their last private valuation and what public markets or acquirers will accept without a significant markdown. Working through that overhang will take time regardless of how external conditions evolve.

2.2 The scale of trapped value

FIGURE 8 **Cumulative unrealized net asset value in VC funds by vintage**



Total unrealized NAV (2025) $3.2 trillion

Note: Unrealized NAV reflects the aggregate value of VC fund holdings not yet distributed to LPs, calculated from PitchBook fund-level data. Unrealized value in younger vintages is expected, as funds typically take several years to begin returning capital; the liquidity concern relates primarily to mature vintages where distributions are now overdue.

Source: Stanford GSB Venture Capital Initiative calculations based on PitchBook data

Approximately 1,920 VC-backed unicorns remain privately held globally, representing collective post-money valuations exceeding $7.3 trillion.[46] Analysis for this report estimates that roughly $3 trillion of unrealized value remains in VC funds globally, including $1.7 trillion in funds launched in 2019 or earlier.[47]

A growing share of mature unicorns may not be ready for traditional exits. Recent research suggests that among US unicorns, 79% remain unprofitable and 75% have less than $300 million in annual revenue – the typical benchmark for a successful large technology IPO.[48] Only 25% of unicorns meet a combined benchmark of over $100 million in revenue run rate, at least 15% year-on-year growth and margins no worse than negative 25%.[49]

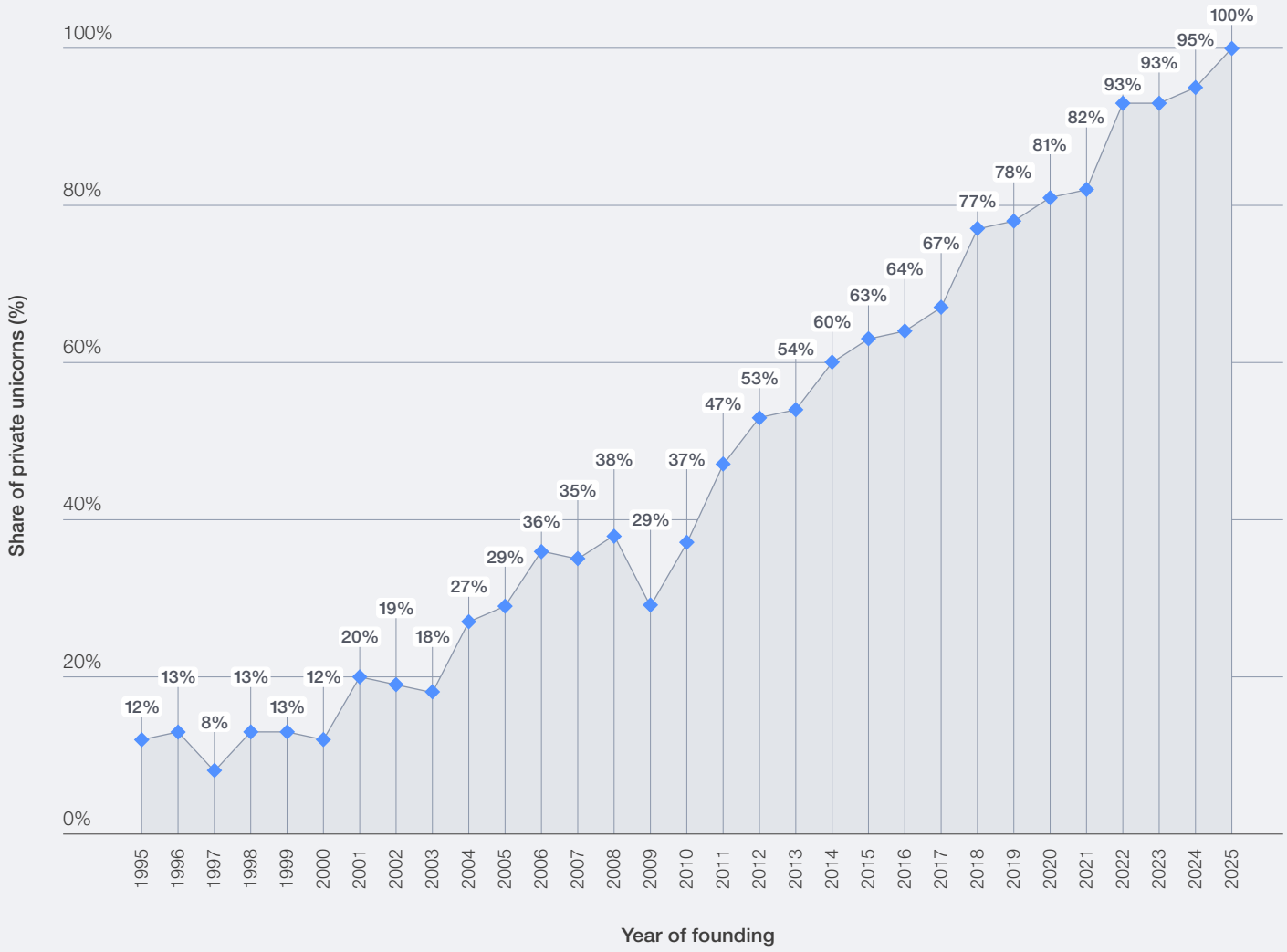
Why private unicorns stay private

Several reinforcing drives have weakened the incentive to go public. The first is the growing attractiveness of private markets: scale-ups can now access the capital they need to grow and scale on more favourable terms, with fewer disclosure obligations and less dilution. Beyond traditional VCs, later-stage companies can now also raise capital directly from crossover investors, growth equity firms or sovereign wealth funds. Some fundraising rounds now routinely exceed the total capital raised by companies that exited in earlier cycles. The latest round of $110 billion raised by OpenAI was four times larger than the biggest IPO ever (Saudi Aramco's IPO, which raised $25.6 billion, followed by Alibaba's $21.8 billion IPO and Softbank's $21.3 billion).[50]

The second is the diminishing appeal of public markets for many VC-backed start-ups. Passive index funds have funnelled enormous amounts of capital into public markets, but that money tends to flow to already indexed companies. The majority of VC-backed companies do not meet the size and/or liquidity thresholds for index inclusion, so they do not realize the gains associated with the rise of index funds.

The result is unambiguous: among US unicorns, 82% of the 2018 cohort remain private and 27% of unicorns founded in 2005 have yet to exit.[51] For LPs, this means more capital locked up for longer, with returns dependent on liquidity events whose timing remains increasingly uncertain.

FIGURE 9 | **Share of private unicorns by founding year (1995–2025)**



Source: Stanford GSB VCI analysis using a proprietary dataset based on PitchBook, Dealroom, Preqin, Tracxn, Crunchbase, VentureSource and desk research

2.3 The rise of secondary markets

The liquidity gap has contributed to the rapid evolution of secondary markets, where existing investors sell their stakes to new buyers rather than waiting for an IPO or acquisition. Secondary markets have evolved from a niche tool into core infrastructure for the venture ecosystem. Secondary transactions involve the sale of existing ownership stakes in privately held assets in the private equity industry from one investor to another. Their main difference from primary transactions is that no new capital is raised by the underlying companies or funds. As a result, their main goal is to provide liquidity to the seller.

Over the past three years, secondaries have continued to grow and now represent approximately 30% of US VC exit value, compared to just 3% a decade ago.[52] In the US, VC secondary transaction (including direct secondaries and GP-led transactions) value reached an estimated $106 billion in 2025, nearly exceeding the combined value of all VC-backed IPOs of $119 billion in the same year.[53] Direct venture secondaries in the US grew 83% from Q4 2024 to Q4 2025, underscoring the structural shift now under way.[54] Despite this growth, secondaries still account for just 2.6% of total unicorn value, indicating substantial room for expansion.[55]

The market encompasses fundamentally different transaction structures, each serving distinct purposes, involving different counterparties and raising different governance considerations (see Box 3).



BOX 3 | **Categories of secondary transactions**

Secondary transactions fall into three main categories:

Direct secondaries: Sales of shares in individual private companies, including by employees or early investors. A range of secondary platforms have built structured marketplaces that connect employees, early investors and institutional buyers.[56] Activity has increasingly centred on large, company-led tender offers.

General partner (GP)-led secondaries: Transactions initiated by the fund manager to restructure existing funds, most often through a continuation fund that acquires one or more assets from an older fund, with both funds led by the same fund manager. LPs of the legacy fund may either exit or roll their interest into the new fund.

Limited partner (LP)-led secondaries: A limited partner sells all or part of its stake in one or more VC funds to another investor. LP-led transactions have historically been the dominant form of VC secondary activity, driven by portfolio-rebalancing needs, liquidity requirements or investment strategy shifts.

The secondary market presents challenges for investors and regulators alike, in part because of its fragmented and opaque nature. Transactions occur bilaterally across a range of private platforms, intermediaries and GP-led vehicles. They are not subject to centralized reporting requirements. In the US, annual venture secondary volume is estimated at $91.7 billion in direct transactions and $14.6 billion in GP-led deals.[57] Yet this liquidity continues to cluster around later-stage giants while most start-ups trade thinly or not at all.

The evolution of GP-led solutions

In less than five years, the use of GP-led secondary transactions has grown significantly. They already play a key role in private equity but have recently grown into a key part of the venture liquidity toolkit. The volume of VC continuation funds surged tenfold in 2024, with high-profile transactions by firms including Lightspeed, NEA and Insight Partners.[58]

Beyond continuation funds, new structures are emerging such as evergreen funds (open-ended vehicles with no fixed lifespan, designed to raise capital and invest continuously), which permit periodic redemptions after an initial lock-up. In addition, the rise of '40 Act funds has introduced broader investor participation including retail capital, as established VC firms launch regulated vehicles alongside traditional offerings.[59]

The benefits to fund managers are clear: continuation funds allow GPs to retain ownership of their best-performing assets while satisfying investor distribution preferences. But their increasing prominence raises questions for industry leaders and regulators alike. Continuation funds can raise potential conflicts of interest because GPs act on both sides of the transaction and extend the management fee period. As continuation funds become more prevalent in VC, robust governance standards will be essential.

In private equity, where these structures are more established, the Institutional Limited Partners Association (ILPA) has issued best practices including a "status quo option" for rolling LPs, ensuring no change in fee base or carried interest terms.[60] As the capital base deepens, governance standards mature and transaction structures diversify, GP-led solutions are becoming permanent infrastructure.

2.4 Improving secondary-market infrastructure

Despite the rapid growth of secondary markets, their overall share of total exit volume remains small, constrained by market frictions. Addressing these barriers is essential if secondaries are to evolve from a niche liquidity tool into the scalable infrastructure the venture ecosystem now requires.

Information asymmetry and price discovery: As private companies are not subject to public reporting requirements, significant information asymmetry between buyers and sellers complicate fair value assessment. Without standardized financial disclosures, participants rely on incomplete or outdated data, which complicates fair value assessment particularly for companies outside the top tier of household names.

High transaction costs and complexity: Secondary sales are complex and require legal reviews, multiparty consent and extensive due diligence. This results in high transaction costs and lengthy closing times. These barriers deter smaller participants and make transactions below a certain size threshold uneconomical, which effectively excludes much of the long tail of VC-backed companies.

Transfer restrictions and lack of standardization: Most private-company shares are subject to transfer restrictions, including a Right of First Refusal (ROFR) held by the company or its major investors. The absence of standardized processes adds time and uncertainty to each transaction.

Institutional frictions: LPs also face institutional hurdles, such as slow internal approval processes. Many institutional investors, such as pension funds and university endowments, negotiate secondary and co-investment rights as part of their LP agreements. However, exercising those rights requires rapid due diligence and decision-making that can be difficult to execute within traditional institutional governance structures.

While secondary markets have solved a structural problem for the asset class, they have created a two-tier system. Companies with brand recognition and sufficiently large capitalizations attract active secondary interest, which gives their employees and early investors a degree of liquidity.

But for the vast majority of VC-backed companies, including many that are growing strongly but lack household-name status, the secondary market offers little practical relief. As a result, secondary trading concentrates in a handful of companies: the 20 most actively traded companies account for 86.4% of transaction volume.[61] This has produced a bifurcated market, with most start-ups trading thinly and with high spreads, or not at all.

Going from friction to infrastructure

Addressing these structural challenges requires more than incremental progress; it requires deliberate creation of an enabling ecosystem that facilitates transparency, standardization, cost efficiency and market access. Achieving that requires focus on three areas in particular: technology platforms and price discovery; broadening market participation; and, finally, regulatory modernization. Together, these pillars can shift secondary markets from episodic liquidity events towards a more predictable layer of private-market infrastructure capable of supporting sustained capital recycling.



1 Technology platforms and price discovery

More transparent and reliable pricing mechanisms are essential to narrow the information asymmetry between buyers and sellers in private markets. These platforms have reduced search costs, improved transaction matching and introduced more consistent execution processes. Company-sponsored tender offers, often facilitated through platforms such as Carta, have also gained momentum, providing periodic liquidity windows for employees and early shareholders while allowing companies to retain control over timing and pricing.

Despite this progress, platform-based liquidity remains concentrated in a relatively small number of late-stage, high-profile companies. Access is generally limited to accredited investors, and transaction activity tends to cluster around firms with strong brand recognition, significant institutional backing and established secondary demand. As a result, the benefits of structured liquidity have not extended to the broader population of venture-backed companies.

The next stage of development requires improving price discovery and expanding coverage beyond household names. Hundreds of VC-backed firms valued between $500 million and $5 billion represent substantial trapped value, yet they trade infrequently and often at wide bid-ask spreads due to limited transparency and thin participation. Developing more standardized disclosure practices, improving data aggregation across platforms and increasing participation from long-horizon institutional buyers could deepen liquidity in this middle tier of the market.

Over time, more robust technology infrastructure could enable secondary markets to function less as ad hoc liquidity events and more as a consistent layer of private-market trading.

2 Broadening market participation

Liquidity constraints are also driving demand-side innovation. A growing pool of capital from beyond the traditional institutional base is entering private markets, attracted by the opportunity to access companies that now stay private for a decade or longer. Platforms such as EquityZen and Forge Global offer direct ownership of pre-IPO shares with minimum investments as low as $5,000, although access currently remains limited to accredited investors.[62] Numerous exchange-traded funds (ETFs) now also provide retail exposure to baskets of alternative assets – including private equity and VC – or to synthetic indices tracking private-company valuations. The funds turn inherently illiquid, venture-backed stakes into positions that trade like public securities.

Additionally, tokenization has emerged as a potentially transformative mechanism for private-market access. Blockchain technology offers an alternative way to represent private-market ownership that could make it more accessible to a range of investors. Instead of fund interest or paper-based certification, tokenization uses digital tokens on distributed ledgers. This shift can facilitate trading, reduce settlement times and lower the minimum investment thresholds that currently exclude most non-institutional participants.[63]

This broadening of market participation carries direct implications for the liquidity challenge. New pools of capital can deepen secondary markets and provide additional exit pathways for existing investors. Broadening participation may support liquidity over time, but only if accompanied by robust investor protections, transparent valuations and clear disclosure standards. Retail investors typically have less access to the detailed financial information available to institutional participants and they may face challenges in assessing valuations and managing the illiquidity inherent in the underlying private assets. Progress will depend on the ability of policy-makers and market participants to build systems that foster liquidity while preserving investor protection, fair valuation and market integrity.

3 Regulatory modernization and market access

Numerous jurisdictions are considering proposals to modernize and improve investors' access to the VC market. In the US, a package of legislative and executive initiatives is reshaping the regulatory landscape. In August 2025, the White House issued an executive order seeking to clarify how fiduciaries include private assets such as VC within employer-sponsored plans. The order seeks to expand market participation but faces practical barriers due to legal requirements for fiduciaries. In Congress, two proposals would have implications for the VC ecosystem: the Developing and Empowering our Aspiring Leaders (DEAL) Act expands qualifying venture investments to include secondaries and fund-of-funds, and the Incentivizing New Ventures and Economic Strength Through Capital Formation (INVEST) Act modernizes aspects of the accredited investor framework, expands retirement plans' ability to invest and removes some constraints on closed-end fund investments in private funds.[64]

The evolution of secondary markets represents more than a temporary response to challenging conditions. Secondary markets, continuation funds and alternative liquidity mechanisms have become permanent features of the venture landscape, and regulatory regimes must adapt accordingly. As the next section explains, variation across jurisdictions is one of the biggest factors affecting why some ecosystems produce global champions while others struggle to scale.

3 The global scale-up gap in innovation

Start-ups now emerge everywhere, but only a handful of ecosystems can scale them into global champions.



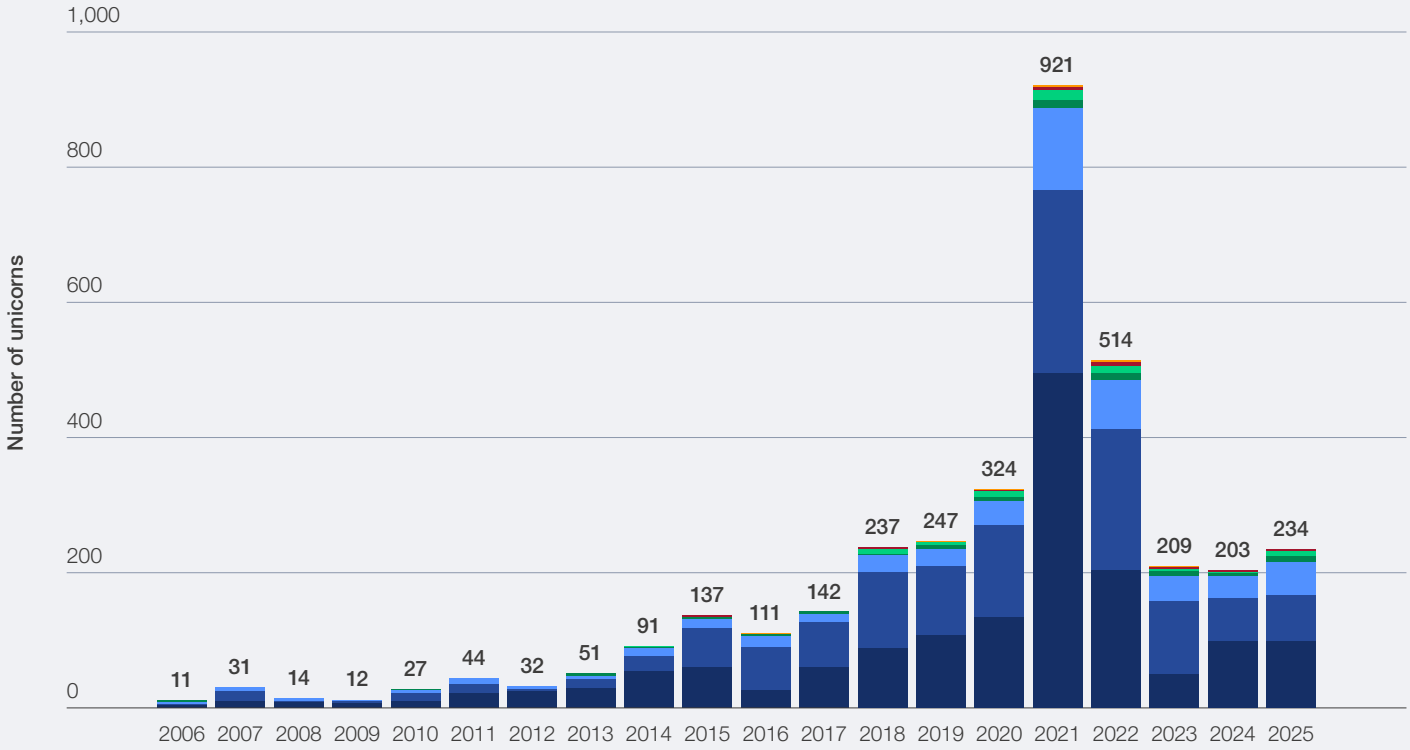
Start-ups now emerge everywhere, but they do not succeed in scaling everywhere. Where a company is founded increasingly determines whether it can grow. Successful ecosystems for scaling start-ups are not simply better funded, they are self-reinforcing, built on experienced founders, recycled capital and accumulated operational know-how that compound with each successive cycle. This section examines two forces that explain why some ecosystems produce global champions while others primarily incubate start-ups: the depth and global distribution of VC, and the talent dynamics through which successful companies seed the next generation of founders.

3.1 The new geography of innovation: Scaling start-ups

While more than 250,000 VC-backed start-ups have received funding over the past 20 years, a small number of transformative companies produce disproportionate economic impacts. Today's 87 privately held start-ups valued over $10 billion and the next generation of those exceeding $100 billion will reshape entire industries.[65] Where these future champions emerge and where they choose to scale will be critical to the geography of innovation and long-term economic growth.[66]

FIGURE 10 **Where have unicorns been created in the past 20 years?**

Private and exited: 2021 was the peak year with 921 new unicorns; Northern America and Asia account for 82%



Total new unicorns (2006–2025)

World	3,592
Northern America	1,606
Asia	1,343
Europe	484
Middle East and North Africa	72
Latin America and the Caribbean	56
Oceania	23
Sub-Saharan Africa	8

Note: Data covers 3,592 unicorns that reached unicorn status between 2006 and 2025. These figures include unicorns that have gone public or been acquired.
Source: Stanford GSB VCI analysis using proprietary dataset based on PitchBook, Dealroom, Preqin, Tracxn, Crunchbase, VentureSource and desk research

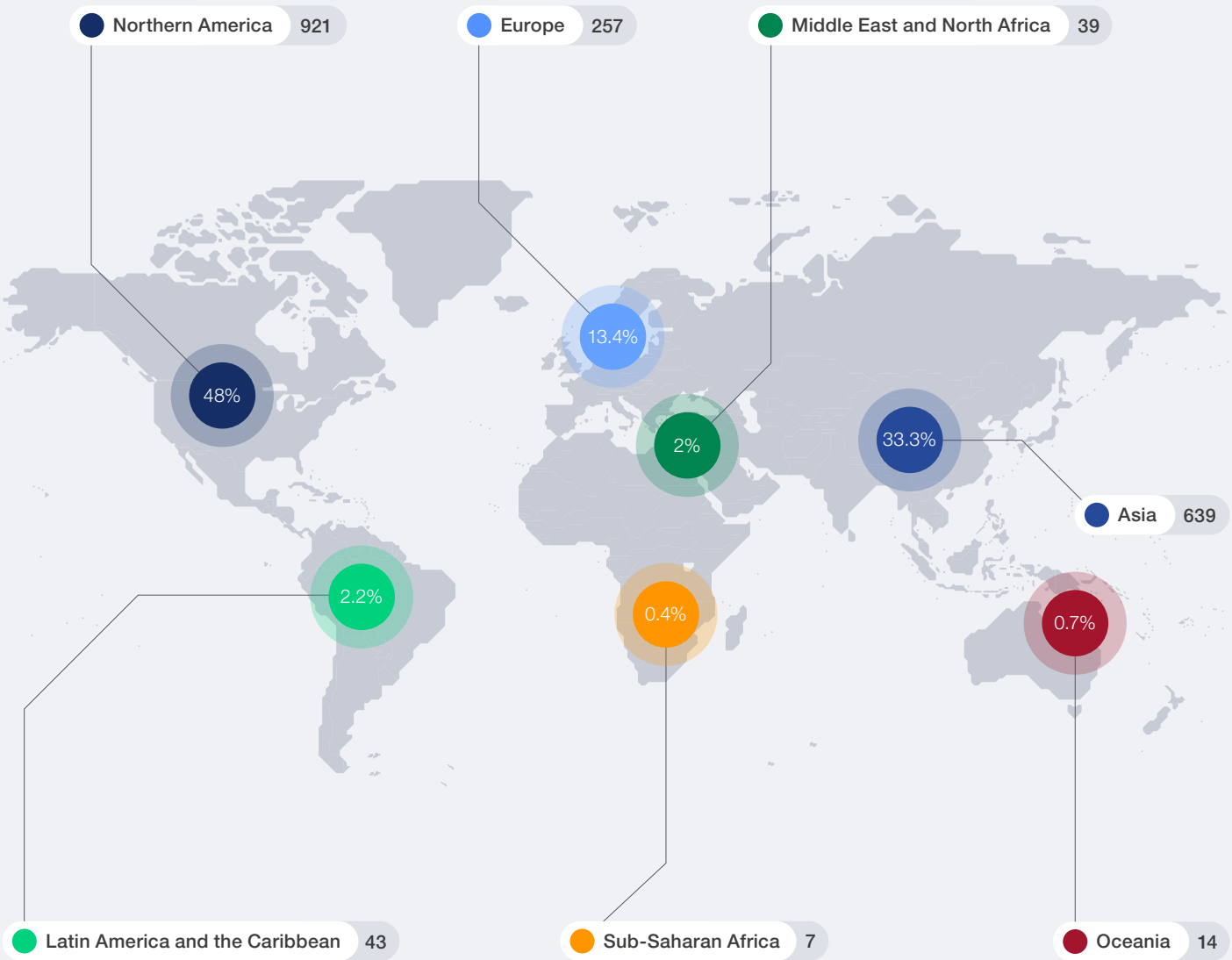
When looking at the global geography of unicorns (including companies that have gone public or been acquired), Northern America and Asia account for 81% of all unicorns.[67] The disparity is not only absolute but proportional. In Northern America and Asia, roughly one in 60 VC-backed companies becomes a unicorn; in MENA the figure is one in 100, in Europe it is one in 135 and in Sub-Saharan Africa it is one in 330.[68]

However, the geography of innovation is evolving. The US has generated more than half of newly created unicorns over the past five years, but that share has been declining as ecosystems in Europe, India and the Middle East mature.[69] Yet the gap between creating unicorns and scaling them remains stark. Of the 87 companies worldwide that are currently privately held decacorns (valued at $10 billion or more), Northern America claims 59 (68%) and Asia 21 (24%). Europe, despite producing 12% of global unicorns, accounts for just five decacorns, or 6%.[70]

The US and China continue to dominate the upper end of the valuation spectrum, where the largest companies drive outsized economic impact. Closing this gap between the rest of the world and the US/China will require not just more start-ups crossing the billion-dollar threshold, but also greater ecosystem depth: deep domestic capital pools, credible exit pathways and the regulatory frameworks to support their global scaling.

FIGURE 11 **Where can unicorns be found today?**

Northern America and Asia account for 81% of all private unicorns worldwide



Note: Data covers 1,920 private unicorns globally as of 31 March 2026.

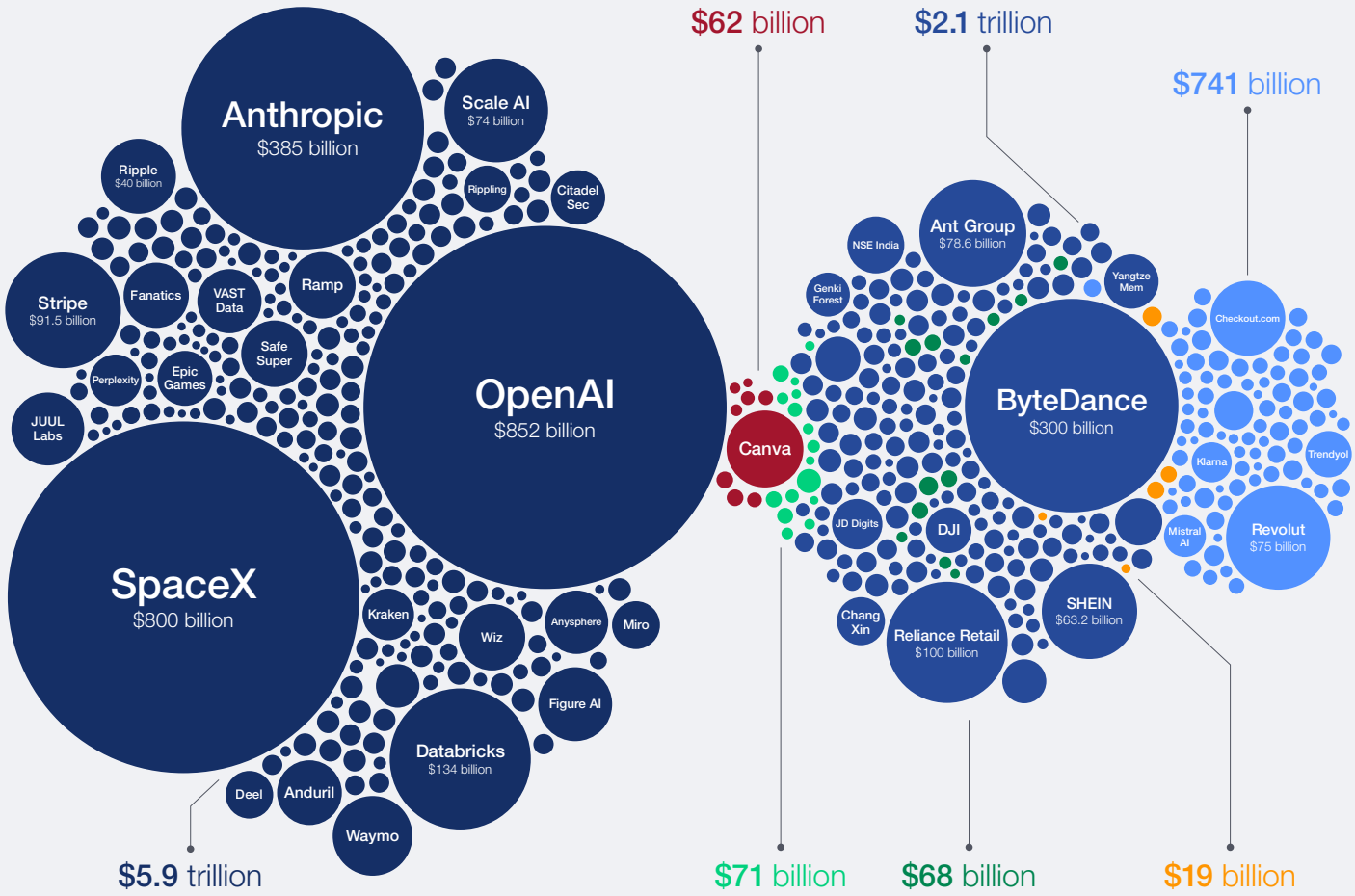
Source: Stanford GSB VCI analysis using proprietary dataset based on PitchBook, Dealroom, Preqin, Tracxn, Crunchbase, VentureSource and desk research



Counting unicorns, however, tells only part of the story. The distribution of enterprise value (current unicorn post-money valuations) is substantially more concentrated than the distribution of companies. The United States and China combined account for 70% of all unicorns by count, but have a striking 82% of aggregate post-money valuations.[71] Europe, despite producing roughly 13.5% of all unicorns, holds just 8% of their total value.[72] That gap reflects the dominance of a handful of outsized companies at the very top of the spectrum. Based on their last funding rounds, the four most valuable private companies in the world – OpenAI, ByteDance, SpaceX and Anthropic – are currently still exclusively American or Chinese, and their combined market value accounts for more private enterprise value than every European and Indian unicorn combined.[73]

FIGURE 12 **Distribution valuations of privately held unicorns**

1,920 private unicorns with combined PMV of $9 trillion



Northern America	921	Asia	639	Europe	257	Middle East and North Africa	39
Latin America and the Caribbean	43	Oceania	14	Sub-Saharan Africa	7		

Note: Data covers 1,920 private unicorns globally as of 31 March 2026.

Source: Stanford GSB VCI analysis using proprietary dataset based on PitchBook, Dealroom, Preqin, Tracxn, Crunchbase, VentureSource and desk research

Several regions are producing more unicorns than ever, but the valuation gap with Northern America shows that increasing unicorn creation is only part of the challenge. Building the enabling environment for those companies to continue to scale will determine which regions close the gap. At current rates, the gap between Northern America and Asia on the one hand and Europe and other regions on the other is likely to widen further. Closing this gap will require more than incremental progress. On current trajectories, the scale of the gap means that even with a meaningful acceleration in European unicorn creation, it would take years to close the distance to where Northern America stands today. The priority for Europe and other regions is not simply to generate more start-ups but to improve the conditions that enable them to scale and improve the start-up to unicorn conversion rate. In the US, unicorns now reach $1 billion post-money valuations in an average of just 3.4 years.[74] Outside the US, the median unicorn took eight years to reach that milestone between 2020 and 2025 – more than twice as long.[75]

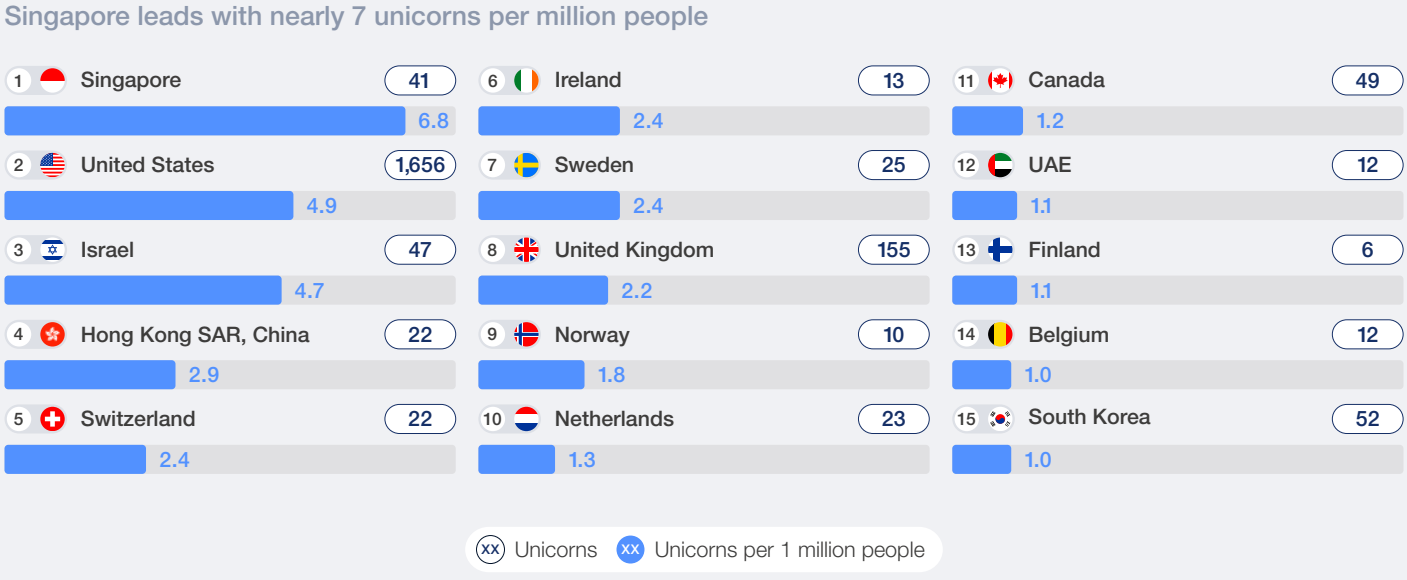
BOX 4

Unicorn density: A different lens on innovation capacity

Adjusting for population size or GDP reveals a strikingly different picture of how VCs have affected innovation. On a per capita basis, Singapore leads the world with 6.8 unicorns per million people – a remarkable density that reflects its deliberate strategy of combining sovereign capital, regulatory innovation and talent attraction. The US ranks second at 4.9 per million. Israel follows closely at 4.7, underscoring the outsized impact of its technology ecosystem relative to its population of just 10 million.

FIGURE 13

Top 15 countries by unicorns per capita



Note: Companies are attributed to the country in which they were headquartered at the time of their unicorn round. Unicorn counts include private and exited unicorns. Population data from World Bank as of year end 2024.

Source: Stanford GSB VCI analysis using a proprietary dataset based on PitchBook, Dealroom, Preqin, Tracxn, Crunchbase, VentureSource and desk research



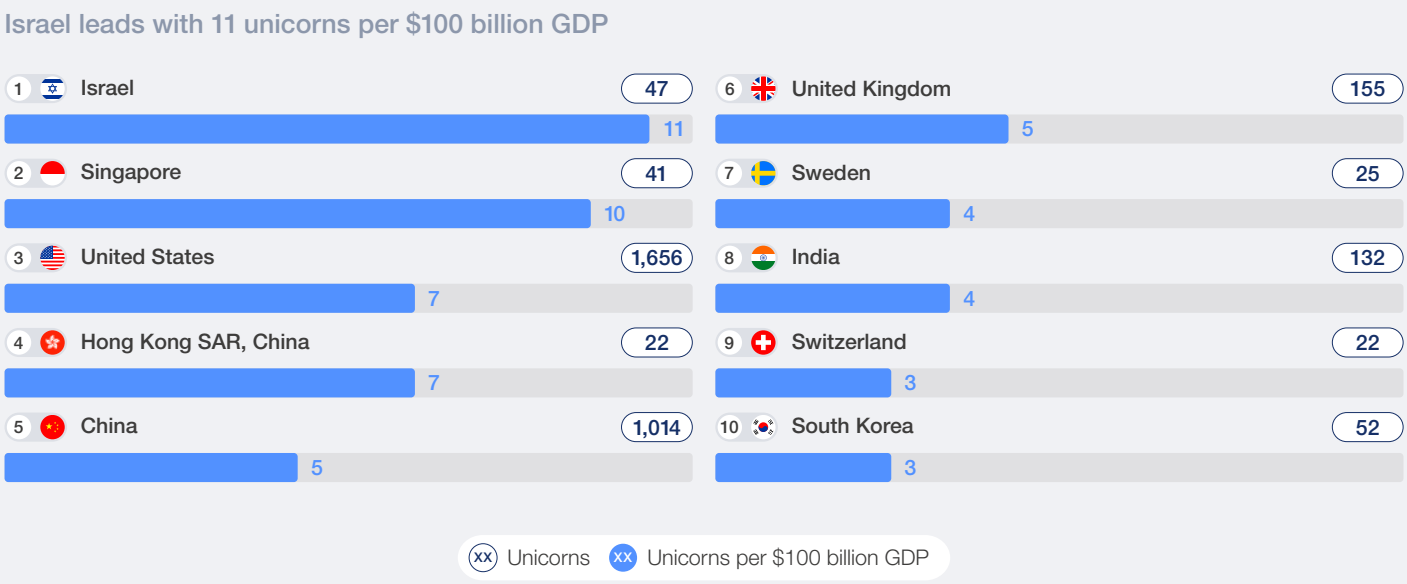
Six European countries rank among the top 10 globally in unicorn density, which suggests that Europe's ecosystem is more productive than aggregate figures imply. The challenge for smaller markets is not only generating innovation but scaling it. Companies founded in smaller markets often need to relocate or raise capital abroad to reach their full potential.

The broad variation in density indicates that there is significant room for nations to catch up and suggests that deliberate policy choices and other factors, not just market size, shape a country's capacity to convert economic output into high-growth companies.

Measured per unit of GDP, the league table looks very different, with Israel and Singapore leading by a wide margin at 11 and 10 unicorns per $100 billion of GDP respectively, ahead of the US and Hong Kong SAR, China at seven. China and the United Kingdom follow at five, with Sweden and India at four, and Switzerland and South Korea at three. Some regions, such as Latin America and sub-Saharan Africa, remain significantly underrepresented.



FIGURE 14 | **Top 10 countries by unicorns per $100 billion GDP**



Note: Companies are attributed to the country in which they were headquartered at the time of their unicorn round. Unicorn counts include private and exited unicorns. GDP data in US dollars, unadjusted for PPP, is as of 2024.

Source: Stanford GSB VCI analysis using a proprietary dataset based on PitchBook, Dealroom, Preqin, Tracxn, Crunchbase, VentureSource and desk research

3.2 How success breeds ecosystems: The power of founder factories

The most enduring contribution of a successful VC-backed company may not be its revenue or market capitalization but the ecosystem it creates. The best-known example of reinforcing innovation ecosystems is the "PayPal Mafia", the group of former PayPal executives and early employees who went on to develop companies such as Tesla, LinkedIn, Palantir and YouTube.

This cohort embedded in Silicon Valley a generation of repeat founders and angel investors. When experienced operators leave successful ventures to start new companies, they carry fundraising know-how, strong networks, growth strategies and the confidence that comes from having built at scale. This transfer of tacit knowledge converts individual start-up successes into self-sustaining innovation ecosystems. Its strength varies dramatically by region, and that variation helps explain why some ecosystems compound while others stall.

Speed is one revealing indicator of how founder factories support growth. This gap is not simply about money. It reflects the maturity of the feedback loops, including how dense the networks of experienced operators have become.

But these feedback loops are no longer confined to Silicon Valley. Recent analysis shows that among more than 360 VC-backed unicorns founded across Europe and Israel, 281 have collectively seeded more than 2,000 new tech-enabled start-ups as former employees have become founders.[76] The effect is highly concentrated. The scale of this effect is striking. As of 2025, alumni from the top three European founder factories, Klarna, Spotify and Zalando, have collectively produced 183 new start-ups (66, 61 and 56 respectively), turning individual company successes into platforms for the next generation of founders.[77]

From unicorns to ecosystems

Founder factories have compounding, multigenerational effects. Sweden, which ranks among the top 10 countries globally by unicorns per capita, illustrates the power of this cycle: Spotify and Klarna alumni alone have gone on to found 127 start-ups.[78] Alumni then led a second generation of success stories, including multibillion-dollar businesses.

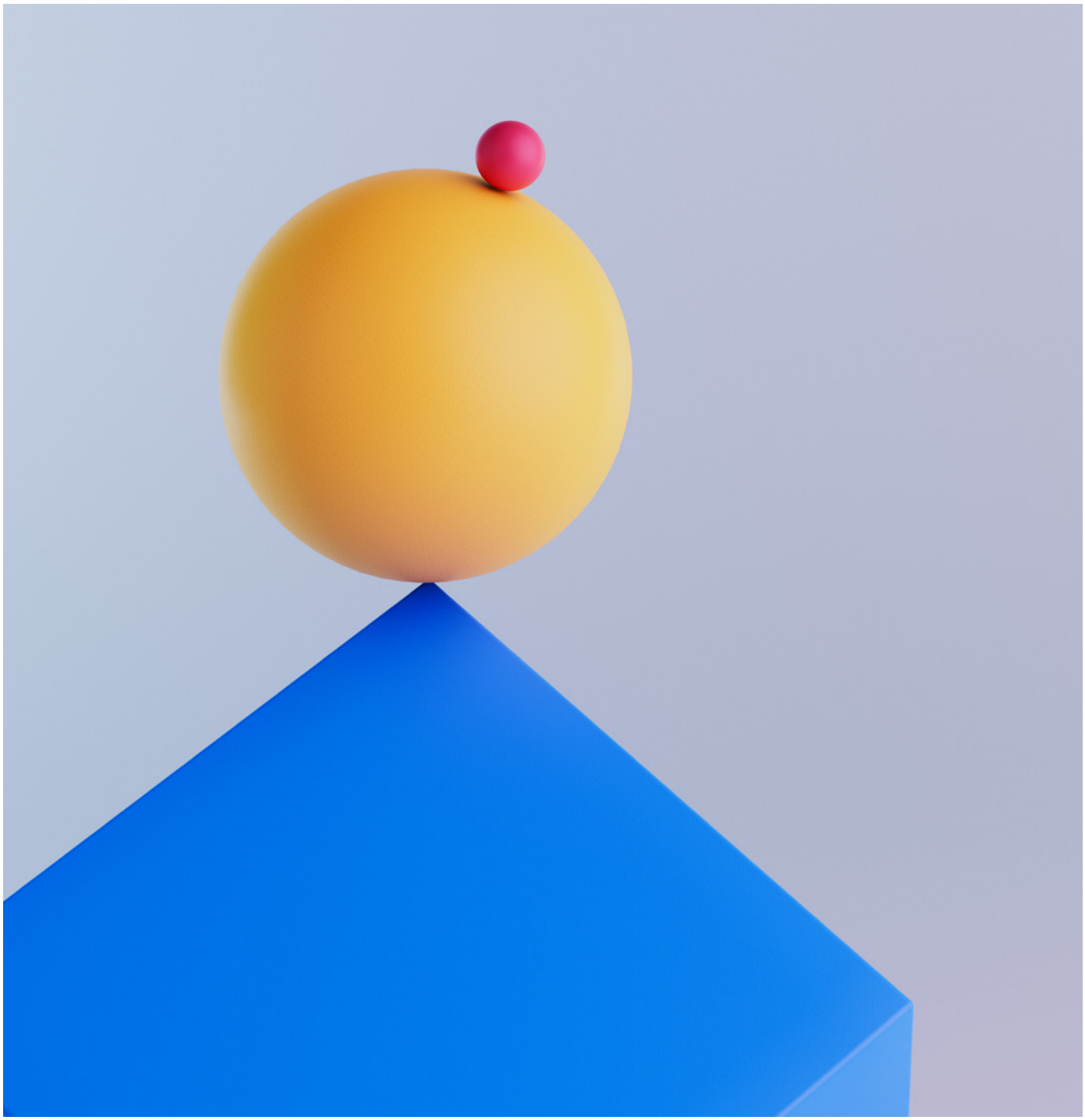
The pattern is visible beyond Europe. Alumni of Flipkart, an Indian e-commerce platform acquired by Walmart in 2018 for $16 billion, have founded scale-ups now collectively valued at close to $25 billion in post-money valuation, while also creating a dense Bangalore-based network of operators with deep scaling experience.[79] In China, alumni from Alibaba, Tencent and ByteDance have both founded and funded thousands of new ventures across AI, fintech and enterprise software. By the end of 2024, 85 AI start-ups had been founded by former Alibaba employees, with 45% of them based in the same city.[80]

As founder-factory effects take hold across multiple ecosystems, talent recycling and capital recycling increasingly reinforce each other: exiting founders become angel investors and early backers, redeploying both capital and operational knowledge into the next generation of companies.

4

Strengthening the foundation: Capital, regulation and institutional reform

The next era of innovation will be defined by how capital is mobilized and deployed.



While new innovation hubs are emerging across regions, the ability to build and scale world-leading companies remains concentrated in a few established hubs. This section examines the structural foundations the industry must strengthen – from mobilizing long-term institutional capital to reducing the regulatory friction that prevents companies from scaling across borders.

4.1 How the LP landscape is changing

VC's ability to grow is ultimately constrained by its investor base. Limited partners (LPs), the institutions that back VC funds, do not simply supply funds, they shape time horizons, risk tolerance, governance standards and the capacity to finance the scale phase. As funds last longer and liquidity becomes less predictable, the composition of LP capital matters more than it did in previous cycles.

The role of pension funds and endowment funds

Pension funds represent one of the largest pools of long-term capital in the global financial system, yet the actual flow of pension capital into VC varies dramatically by region. US and Canadian pension funds have been among the most significant institutional backers of the industry for decades. Major public pension systems in the US and Canada typically allocate 1–3% of their portfolios to the asset class. By contrast, VC and growth equity represent just 0.12% of European pension funds' total assets, a small fraction of their Northern American counterparts.[81]

Even modest reallocations of pension funds and insurance assets in Europe could generate substantial capital flows into innovation finance without materially altering the risk profile of diversified institutional portfolios.[82] Europe relies heavily on unfunded, pay-as-you-go public systems rather than funded private pensions, which partly explains this gap. EU pension regulation has historically pushed fund managers towards fixed income and listed equities, although the European Commission's proposed Savings and Investment Union seeks to clarify that venture and alternative assets can be compatible with this standard.[83]

US university endowments also play a key role in the US VC ecosystem, collectively approaching $1 trillion in AUM.[84] They remain among the most committed institutional backers of VC, with a dollar-weighted average allocation of 12.2% of their portfolios to VC and growth equity as of 2025.[85]

The VC funding gap is most acute in regions where institutional capital pools remain structurally smaller than those in the US. VC investments in the European Union averaged only 0.3% of GDP per year over the past decade, less than one-third of the US average, a gap partly explained by the relative depth of institutional capital.[86] US pension and insurance assets amount to 1.88 times GDP, compared to just 0.77 times in Europe.[87] This gap extends beyond Europe: in South-East Asia, late-stage funding remains heavily dependent on foreign capital; India's VC ecosystem, while increasingly dynamic, still relies on foreign GPs for growth-stage capital; and Japan remains underweight in venture relative to its GDP.



The rise of sovereign wealth funds and family offices

VC's investor base is broadening significantly. Sovereign wealth funds (SWFs), which are state-owned investment vehicles, have become major players in late-stage venture and growth equity, with collective assets now exceeding $15 trillion globally.[88] Singapore's Government Investment Corporation (GIC) and Temasek, Abu Dhabi's Mubadala, Saudi Arabia's Public Investment Fund (PIF) and Indonesia's Danantara have all built substantial direct VC capabilities. Family offices are now estimated to manage around $3 trillion of total assets and, as of 2025, invest on average 12% of their total assets in VC (including growth and VC investments).[89] Unlike institutional LPs constrained by allocation limits, family offices can take concentrated positions and operate with greater structural flexibility. Many are increasing their allocations to secondaries and pre-IPO transactions, adding new routes to venture exposure alongside traditional fund commitments.



Co-investment and the transformation of GP–LP dynamics

Co-investment – where investors invest in individual companies typically with reduced fees and carried interest (carried interest represents a defined percentage of profits that will be paid to the fund manager) – has grown dramatically. For sophisticated LPs, co-investment offers clear advantages. The deal structure has fewer fee layers, provides exposure to high-conviction opportunities and strengthens relationships with portfolio companies. For GPs, offering co-investment has become a competitive requirement in fundraising. The result is a meaningful shift in the traditional GP–LP dynamic.

Yet, co-investments also introduce complexity. GPs must navigate allocation decisions across multiple capital pools while avoiding conflicts between fund investors and co-investors. LPs, in turn, lack dedicated teams and internal decision-making structures to act quickly, which creates a gap between the co-investment rights they negotiate and their ability to exercise them.

The distribution drought has created additional pressures through what is known as the denominator effect: when public portfolio values decline, private assets mechanically become a larger share of the total portfolio, pushing institutions above target allocations and constraining new commitments, often precisely when private valuations are most attractive.

4.2 **Regulatory fragmentation:** The invisible scaling tax

A start-up's ability to scale is shaped not only by available capital but also by the regulatory terrain it must navigate to reach its customers, hire talent and raise funding across borders. While start-ups in the US and China must navigate their own layers of federal, state or provincial regulation, they benefit from operating within large, unified domestic markets where a single legal framework governs incorporation, employment, securities issuance and consumer regulation; this remains a significant advantage over regions where companies cross sovereign borders at each step of their growth. A company incorporated in Delaware can hire in California, sell in Texas and list on NASDAQ within a single federal legal and securities framework. Similarly, a Chinese start-up registered in Shenzhen can scale across provinces serving more than 1 billion consumers under a single commercial code. This structural advantage is one of the most underappreciated drivers of the concentration of VC in these two markets.

For venture ecosystems outside these two giants, regulatory fragmentation is a binding constraint on cross-border growth. In Europe, a start-up expanding from Berlin, Paris and Madrid must navigate three different incorporation regimes, employment law frameworks, stock option tax treatment and securities regulations. The cumulative cost of cross-border compliance functions as a tax on scaling and discourages the kind of pan-regional expansion that US and Chinese companies pursue as a matter of course. In South-East Asia, Latin America and parts of Africa, similar fragmentation across smaller national markets compounds the challenge.

The European Union's proposed "28th regime" for innovative companies, commonly known as EU-INC, is an ambitious response to this challenge.[90] Backed by more than 13,000 signatures from founders, venture capitalists and policy-makers, the initiative envisions fully digital incorporation in under 48 hours through a centralized EU registry, standardized investment documentation (including EU-wide Simple Agreement for Future Equity [SAFE] notes), harmonized employee equity frameworks and mutual recognition across all member states. If widely adopted in a coherent way across all European countries, the 28th regime could materially reduce the friction costs and strengthen the conditions for retaining more venture-backed value creation on the continent.

In South-East Asia, the ASEAN Capital Markets Forum (ACMF) and Digital Economy Framework Agreement (DEFA) are pursuing analogous objectives through a more incremental approach: cross-border fundraising passports, mutual recognition of fund licensing and regionally standardized digital business identity. Malaysia's 2025 launch of the start-up ASEAN platform added a unified gateway connecting start-ups to regional investors and talent. These efforts reflect the same underlying logic: smaller economies must reduce cross-border friction to compete for both VC and the entrepreneurs it funds.

5 AI and the new economics of venture capital

AI is rewriting the economics of how companies are built, scaled and financed.



AI is not simply a new sector for venture investment, it is changing what venture-backed companies look like, how venture firms operate and what kind of capital the industry needs to deploy.

5.1 From software to labour markets

The VC model that produced the industry's defining returns over the past three decades was built around a specific kind of company: one that sold software to human users. Enterprise software automated existing business workflows, but it served those users, and the market it could capture was bounded by the number of people performing those tasks. That market – known as software-as-a-service (SaaS) – grew to roughly $300 billion a year.[91]

AI is changing the equation by making it possible to automate the cognitive work itself, ranging from financial analysis to legal review, medical diagnostics to customer services. What is being automated is no longer the workflow around a person's job but could be the job itself. This shifts the addressable market for AI-native companies well beyond the boundaries of traditional enterprise software, opening up vast new categories of economic activity that were previously beyond the reach of software alone. If even a fraction of that opportunity is realized, the addressable market for venture-backed companies expands by an order of magnitude.



5.2 The new growth playbook: Faster, leaner, harder to value

AI is also rewriting the economics of how VC-backed companies are built, scaled and financed. AI-native firms are reaching significant scale faster and with fewer resources than any previous technology generations, with some hitting $100 million in annual recurring revenue in less than a year.[92] This efficiency forces investors to reassess established valuation models but also to challenge what constitutes a durable competitive advantage.

Product–market fit is becoming faster to achieve with significantly fewer resources, but at the same time is harder to defend. Annual recurring revenue (ARR), long used as a cornerstone metric of SaaS valuation, could become increasingly unreliable in the AI era. When AI can replicate core product functionality in weeks, the competitive advantages that traditional SaaS companies built on unique features and customer lock-in begin to erode. For investors, the implication is clear: the valuation frameworks that defined a generation of software investing must be rebuilt for fundamentally different business models.

5.3 Private capital at public scale

The concentration of capital into AI reflects this new reality. In 2025, AI captured more than 50% of global VC deal value.[93] Nearly 60% of global venture funding flowed into rounds of $100 million or more.[94] Five companies alone (OpenAI, Scale AI, Anthropic, Project Prometheus and xAI) raised a combined $84 billion, which absorbed 20% of all global VC.[95] The scale of capital now flowing into AI is pulling financing far beyond the venture industry's traditional boundaries. Amazon, Alphabet, Meta and Microsoft are projected to spend more than $650 billion in capital expenditure in 2026, the vast majority directed at AI infrastructure.[96]

AI's capital demands also extend well beyond the software layer. Its computing and physical infrastructure, from energy systems to semiconductors and data centres, require capital expenditure at industrial scale. At the growth and infrastructure layers, the lines between VC, growth equity, private equity and corporate capital are blurring. While early-stage venture retains its distinctive model, the scale of demand for AI financing is reshaping how later-stage capital is structured, governed and deployed.

5.4 The AI-enabled investor

AI is also reshaping how venture firms source deals, conduct diligence and monitor their portfolios. Large language models (LLMs) can scan patent filings, hiring data, web traffic and code repositories to surface investment opportunities before they appear through traditional channels.[97] A small but growing number of firms are building investment processes in which algorithmic analysis drives decision-making from sourcing through to commitment.

Due diligence is undergoing a similar shift: natural language processing (NLP) can analyse legal documents and regulatory filings in minutes rather than weeks. Post-investment, AI enables real-time portfolio monitoring across dozens of companies at once, covering everything from burn rates to competitive positioning. The skills that defined great investors for decades, including proprietary networks and information asymmetry across geographies, are being reshaped by the technologies now transforming the industry.

The institutional foundations of the industry must evolve to match what lies ahead. The liquidity mechanisms, regulatory frameworks and fund structures examined in previous sections are not separate from the AI transformation. They are the infrastructure through which AI's economic potential will be financed and deployed across the global economy.

6 Strategic recommendations

Five priorities to unlock capital and close the scale-up gap.



The preceding sections have mapped a set of interconnected pressures: a capital recycling mechanism under structural strain, secondary markets that remain concentrated despite rapid growth, a global scale-up gap that limits where innovation can reach full potential and transformations enabled by AI and new technologies. The five priorities below call for coordinated action by policy-makers, institutional investors, fund managers and entrepreneurs.

Priority 1
Improving secondary-market infrastructure

The maturation of secondary markets requires coordinated action on infrastructure, transparency and regulation. Standardizing transaction frameworks and improving price discovery through expanded technology platforms would reduce the bespoke negotiation that currently slows every transaction. Regulatory modernization – including initiatives such as the UK's Private Intermittent Securities and Capital Exchange System (PISCES) and the US DEAL Act – can provide the legal clarity needed to deepen market participation.[98]

Developing industry-wide standards for secondary transaction documentation could significantly reduce friction and accelerate market development. Today, 20 companies account for more than 85% of secondary transaction volume, meaning liquidity remains concentrated in a handful of names.[99] The opportunity is to make secondary markets benefit a far broader range of VC-backed companies, not just the top tier.

Priority 2
Mobilize institutional capital

To unlock institutional capital for venture investment, the regulatory and structural barriers that currently limit participation by pension funds, insurance companies and other long-horizon allocators need to be addressed. Unlocking even a small share of institutional capital – from pension funds, insurers and sovereign wealth funds – could transform the scale of VC globally. The barriers to that reallocation are more structural and regulatory than they are economic.

Adapting prudential frameworks to reflect the long-horizon nature of VC would allow institutional allocators to participate more meaningfully without compromising risk management. At the national level, preferential tax treatment of capital gains for angel or early-stage VC investments can help reduce risk and improve expected returns in jurisdictions where venture activity lags.[100]



Priority 3
Reduce regulatory friction

Regulatory fragmentation remains one of the most persistent barriers to scaling innovation globally. Harmonizing cross-border frameworks and modernizing securities regulations – applying proportionality principles that account for company size and stage – would significantly lower the cost of growth. The EU-INC initiative represents the most ambitious attempt to address this challenge. By creating a single pan-European corporate legal entity, it would allow start-ups to incorporate once and operate across all 27 member states. In South-East Asia, the ASEAN Digital Economy Framework Agreement (DEFA) and Capital Markets Forum (ACMF) pursue similar objectives through a more incremental approach.

Priority 4
Strengthen talent ecosystems

As competition for tech talent intensifies globally, the ecosystems that attract, develop and retain that talent will capture a disproportionate share of venture-backed value creation. Strengthening university–industry connections, facilitating talent mobility through start-up visa programmes and streamlined work authorization, and developing operational expertise at scale are essential building blocks.

Regions that can accelerate the cycle of experienced operators founding the next generation of companies will compound their advantages; those that cannot risk permanent structural disadvantage. Tax policy also plays a decisive role: competitive and predictable capital gains treatment for start-up founders and early employees can materially influence where companies are formed and scaled. Equally important are well-designed stock-option taxation frameworks that ensure employees who join early-stage companies can participate fairly in the value they help create.[101]

Priority 5
Enable strategic government participation

Governments have a catalytic role to play in venture ecosystem development, but the evidence from multiple countries demonstrates that the design of intervention matters as much as its scale. Effective government programmes share common features: they are time-limited with clear exit mechanisms; they partner with private capital rather than replacing it; and they focus on building market infrastructure rather than directing individual investment decisions.

The evidence from Israel's Yozma programme, the European Investment Fund's fund-of-funds model, Saudi Arabia's sovereign-led ecosystem construction and market-making (anchored by vehicles launched by the Public Investment Fund and the National Development Fund) and China's government guidance funds reflects the diversity of approaches governments have pursued to nurture VC ecosystems. Each model carries distinct trade-offs between speed of deployment, private-sector participation in allocation, market discipline and long-term sustainability. But well-designed public participation can meaningfully accelerate ecosystem development when it is aligned with clear performance metrics and able to evolve as markets mature.

Conclusion: Strengthening the venture capital industry

Venture capital has become essential economic infrastructure. No other asset class is specifically designed to provide patient capital to finance the uncertain and the transformative; the industry has backed companies that have reshaped industries and economies alike. Without VC, the most transformative companies in the world would have struggled to access the capital they needed to scale.

Yet the foundations that enabled this success are under pressure. Companies stay private for longer, distributions have fallen to historic lows and trillions of dollars in value remain locked in portfolios that were designed to return capital within a decade. Secondary markets have grown significantly but remain shallow and fragmented relative to the scale of the problem. The ability to build globally competitive companies is still concentrated in a handful of ecosystems, with regulatory fragmentation, uneven talent pipelines and insufficient late-stage capital acting as invisible barriers to scaling.

AI is intensifying each of these pressures while simultaneously redefining what VC finances and how it operates. AI-native companies are reaching scale with unprecedented capital efficiency, yet the infrastructure they depend on demands entirely new financing architectures that VC alone cannot provide. For later-stage deals, the line between VC, growth equity, private equity, sovereign wealth funds and corporate balance sheets is fading as these investors increasingly compete for the same opportunities.

This report has mapped the forces reshaping VC: a liquidity squeeze slowing capital recycling; a global scale-up gap concentrating innovation in a handful of ecosystems; and an AI transformation rewriting the economics of the asset class. Policy-makers must invest in the foundations that enable the VC industry to grow by deepening institutional capital pools, promoting adaptive regulation and lowering barriers to scaling across borders. The decisions made today will draw the map of tomorrow's innovation economy, determining which ecosystems attract the capital, talent and ambition needed to build the next generation of world-leading companies and turn today's start-ups into tomorrow's global champions.

Contributors

Lead Authors

Guillaume Hingel
Lead, Future of Venture Capital,
World Economic Forum

Ilya Strebulaev
The David S. Lobel Professor of Private Equity and Professor of Finance; Director of the Venture Capital Initiative, Graduate School of Business, Stanford University

Project Team

World Economic Forum

Drew Propson
Head of Technology and Innovation
in Financial Services

Stanford Graduate School of Business

Will Gornall
Senior Research Affiliate,
Venture Capital Initiative

Blake Jackson
Research Affiliate, Venture Capital Initiative

Yana Pavlovskaya
Head of Communications and Impact,
Venture Capital Initiative

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Steering Committee

Monica Adractas
Senior Adviser, CPP Investments

Zachary Bogue
Managing Partner and Co-Founder, DCVC

Navin Chaddha
Managing Director, Mayfield Fund

Raj Ganguly
Co-Founder and Co-Chief Executive Officer,
B Capital Group

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Saudi Venture Capital

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Executive Chairman and Chief Investment Officer, NEA

Pal Erik Sjåtil
Managing Partner and Chief
Executive Officer, Lightrock

Bejul Somaia
Partner Global, Lightspeed Venture Partners

Hemant Taneja
Chief Executive Officer, General Catalyst

Working Group

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Strategy Manager, Saudi Venture Capital

Athary Almubarak
Chief Strategy Officer, Saudi Venture Capital

Nacho De Marco
Founder and Chief Executive Officer, BairesDev

Arjun Jain
Partner, NEA

Tom Kapsimalis
Head of Secondaries, CPP Investments

Tejas Maniar
Partner, Mayfield Fund

Max Miller
Head of Growth Equity, CPP Investments

Robert Mittendorff
General Partner and Global Head of Healthcare,
B Capital Group

Jason Pontin
General Partner, DCVC

Ashish Puri
Partner, Lightrock

Michael Romano
Chief Business Officer and Global Head of Capital Formation and Investor Relations, Lightspeed Venture Partners

Production

Mary Bridges
Ernest May Fellow in History and Policy, Belfer Center, Harvard University

Laurence Denmark
Creative Director, Studio Miko

Jay Kelly
Designer, Studio Miko

Alison Moore
Editor, Astra Content

Cat Slaymaker
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Simon Smith
Editor, Astra Content

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Head, Written and Audio Content

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Head, Video and Design

Endnotes

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World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744
contact@weforum.org
www.weforum.org