International Journal of Education, Business and Economics Research (IJEBER)

ISSN: 2583-3006

Vol. 5, Issue 6, November-December 2025, pp 20-38

To cite this article: PhD. Ha Thi Phuong Thao and Ngo Ngoc Minh Anh (2025). Trends In Venture Capital Investment In Israel And Policy Implications For Mobilizing Capital For Innovative Startups In Vietnam. International Journal of Education, Business and Economics Research (IJEBER) 5 (6): 20-38

TRENDS IN VENTURE CAPITAL INVESTMENT IN ISRAEL AND POLICY IMPLICATIONS FOR MOBILIZING CAPITAL FOR INNOVATIVE STARTUPS IN VIETNAM

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https://doi.org/10.59822/IJEBER.2025.5602

ABSTRACT

This study examines the structure, trends, and operational mechanisms of venture capital (VC) flows in Israel from 2015 to 2024, providing a comparative perspective with Vietnam to propose a comprehensive policy framework for mobilizing investment capital for innovative start-ups. The findings indicate that Israel's success derives from the establishment of a coherent chain of causal mechanisms, including: (i) an enabling institutional and legal framework, (ii) public–private risk-sharing and reinvestment mechanisms, (iii) effective knowledge diffusion and data transparency, and (iv) an endogenous reinvestment loop through the Corporate Venture Capital (CVC) system. In contrast, Vietnam's start-up ecosystem faces significant bottlenecks related to its legal framework, information transparency, R&D capacity, and the ability to form domestic capital cycles. A comparative analysis using the Mechanism-Based Analysis (MBA) approach reveals that Vietnam remains at the stage of "policy activation and orientation," lacking sufficient intermediary mechanisms for venture capital flows to function effectively. Accordingly, the study proposes three policy pillars to enhance capital mobilization for Vietnamese start-ups: (1) improving institutional frameworks and establishing a unified coordination mechanism; (2) connecting the capital ecosystem with knowledge, data, and investor networks; and (3) strengthening R&D capacity, adopting digital technologies, and promoting deep innovation.

KEYWORDS: Venture capital, Israel, trends, capital mobilization policy, startups, Vietnam.

1.0 INTRODUCTION

In the global context, venture capital (VC) has emerged as one of the primary financial channels supporting innovative start-ups in overcoming their nascent stage and scaling up their operations. Numerous studies have demonstrated the decisive role of VC in shaping cutting-edge technological industries, enhancing productivity, and creating new markets (Gompers & Lerner, 2001; Lerner & Nanda, 2020). However, the driving forces behind VC growth are undergoing profound changes under the combined effects of global economic downturns, prolonged high interest rate cycles, and the reallocation of international capital flows toward deep-tech sectors and the data-driven economy.

Israel is regarded as a "Startup Nation," possessing the highest density of startups and venture capital funds per capita in the world. This success largely stems from proactive government policies that have laid the foundation for a vibrant venture capital ecosystem (Senor & Singer, 2009). During the period 2015–2024, Israel's venture capital flows experienced significant fluctuations: total capital raised peaked in 2021 at over USD 9 billion, then declined and stabilized at around USD 2–2.5 billion per quarter from 2023 to 2024 (RISE Israel, 2024). The IVC–KPMG Report (2024) also highlights a marked decrease in VC fundraising activities, accompanied by an investment shift toward core technology sectors such as artificial intelligence (AI), cyber security, and deep tech, while fintech and foodtech have seen a decline.

In Vietnam, the innovative startup ecosystem has expanded rapidly, with approximately 4,000 startups as of 2024; however, access to venture capital remains limited (UEH, 2024). Domestic funds are relatively small in scale, the legal framework is still incomplete, and transparency issues in fundraising processes have led to Vietnamese startups being heavily dependent on international capital inflows (World Bank, 2024). Meanwhile, international studies emphasize that to enhance value creation and survival capacity, startups require the support of VC not only in financing but also in governance, strategic orientation, and network connections (Maciel da Silva &Jucá, 2023).
While many previous studies have focused on describing the role of venture capital in fostering innovation in developed economies (Gompers & Lerner, 2001; Lerner & Nanda, 2020), few have delved into the restructuring of VC capital flows in the post-pandemic periodand the policy implications for emerging economies. In Vietnam, most studies (Giang & Toan, 2020; UEH, 2024) have primarily identified the current state of the startup ecosystem without clarifying the diffusion mechanisms of international experiences into the domestic institutional context. This gap underscores the need for more in-depth research on the dynamics of VC capital flows in Israel - a representative country in attracting venture capital - in order to draw policy lessons for Vietnam.
Therefore, this study contributes in two main aspects: (i) Providing updated data and trend analysis for the period 2015–2024 on the structural transformation of VC capital flows in Israel; and (ii) Constructing a policy logic framework for capital mobilization strategies aimed at innovative startup enterprises under Vietnam's specific conditions.

On that basis, the research question arises: How have the trends in venture capital flows in Israel evolved during the period 2015–2024, and what strategic lessons on capital mobilization can Vietnam learn from Israel's experience? This study aims to analyze the shifting trends of VC

investment in Israel, compare them with Vietnam's current context, and propose policy implications for mobilizing capital for innovative startups in Vietnam.

2.0 THEORETICAL FRAMEWORK

2.1. Investment capital

Investment capital is a fundamental factor driving economic growth and development in all nations, reflecting the capacity to mobilize and allocate resources for production and innovation. According to the Vietnam Law on Investment (2020), investment capital is defined as *"money and other assets as prescribed by civil law... used to carry out investment and business activities."* This is a broad-based approach, in which investment capital includes both tangible and intangible assets; it encompasses not only monetary, land, machinery, and natural resources but also knowledge, technology, inventions, and labor skills - elements that are increasingly becoming the main drivers of growth in the knowledge-based economy (OECD, 2022). The World Bank (2024) reports that capital accumulation contributes more than 50% of potential growth in developing economies, reaffirming the importance of investment in expanding production, generating employment, and reducing poverty. Without sufficient investment capital, it is difficult for an economy to achieve modernization, productivity enhancement, or sustainable development goals. At the micro level, investment serves as the basis for enterprises to upgrade technology, expand scale, improve production efficiency, and strengthen global competitiveness.

Venture capital (VC) originated and developed rapidly within the high-technology sector in the United States from the mid-1980s. VC represents a distinctive form of investment capital that focuses on financing start-ups and newly established, unlisted companies with high growth potential but also high risk. According to the OECD (1996), venture capital is defined as "capital provided by professional investors who both invest in and participate in managing young, unlisted enterprises." The National Venture Capital Association (NVCA) defines it as "financial capital provided by professional investors to start-up companies with exceptional growth potential in exchange for equity, with the expectation of high returns through successful exit transactions" (NVCA, 2023). Although expressed in different ways, these definitions converge on the understanding that venture capital refers to funds supplied by professional organizations to young, high-risk, technology-driven firms that require equity financing to develop products or expand their markets. Venture capitalists not only provide financial resources but also contribute technological expertise and managerial experience to support the growth of these enterprises.

In Vietnam, the concept of venture capital emerged in the 1990s through a few pilot initiatives by foreign funds, but the market only began to gain real momentum when the U.S.-based IDG Group established the first venture capital fund in Vietnam in 2004. Since then, a growing number of both international and domestic venture capital funds have entered the Vietnamese start-up ecosystem, providing financial support and managerial expertise to local start-ups. The Law on High Technology (2008) officially recognizes *venture capital investment for high-tech development as "investment for research, establishment, and development of technology-based enterprises, implemented through capital contribution and consulting."* Accordingly, access to venture capital not only provides enterprises with financial resources but also facilitates the transfer of knowledge, management experience, and professional networks (Gompers & Lerner, 2001). These factors play

a crucial role in helping start-ups overcome their initial challenges and move toward sustainable growth.

Unlike traditional financing channels, which are often difficult for start-ups to access, venture capital (VC) accepts higher levels of risk in exchange for equity ownership in the enterprise, with the expectation of earning substantial returns in the future. Typically, VC investments are made through **venture capital funds**, which are essentially private investment funds targeting high-risk projects in pursuit of returns that exceed market averages.

Three key actors participate in this process:

- *Limited Partners (LPs):* Investors who contribute capital to the fund, such as pension funds, investment banks, corporations, or high-net-worth individuals. These investors usually do not take part in the direct management of the portfolio companies.
- *General Partners (GPs):* Fund managers responsible for sourcing deals, evaluating investment opportunities, providing capital, and overseeing portfolio management.
- *Investee enterprises (start-ups):* Innovative companies at early or high-growth stages that receive VC funding to develop their products, scale operations, and expand into new markets.

Characteristics of venture capital

Because venture capital focuses on high-risk startup enterprises, it possesses several distinct characteristics compared to traditional forms of investment:

- High risk, high expected returns: Venture capital funds typically target an internal rate of return (IRR) of 30–50% per year to compensate for the high probability of failure. The return structure of venture capital is asymmetric: only a small number of successful deals (around 1–2%) generate "super returns" that offset the majority of losses (Gompers et al., 2020).
- Equity-based investment: Given the extremely high business risk of startups, their capital structure generally avoids debt financing. Instead, venture capital provides funding in the form of equity ownership in new companies. Venture capitalists accept the absence of collateral, and their profits mainly derive from substantial capital gains realized when the company's value grows. This characteristic makes venture capital particularly suitable for startups that are ineligible for bank loans due to the lack of collateral or the inability to issue public shares.
- Medium-term investment horizon with a clear exit strategy: Venture capital funds are not long-term partners like strategic investors. Typically, after 3–5 years, once the startup reaches maturity, the fund exits to realize profits. Common exit methods include initial public offerings (IPOs), mergers and acquisitions (M&A or trade sales), or selling shares to other funds. Therefore, the development of stock markets and M&A activities plays a decisive role in the success of venture capital (OECD, 2025).
- Active involvement in management and operations: Unlike passive financial investors, venture capitalists often take an active role in managing and operating the startups they invest in. They typically provide strategic advice, assist in building management teams, and connect startups with the fund's networks and clients. Such direct participation ensures that startups stay on track, mitigate risks, and enhance project success (Ta., D.T et al, 2014).
- Rigorous screening and due diligence process: Due to high risk involved, venture capital funds conduct extremely thorough evaluations before making investment decisions. The due diligence process examines all aspects of the startup to identify companies with the most exceptional growth potential for investment.
- Portfolio diversification: Through diversification strategies, venture capital funds spread out risks - losses from failed projects are offset by outsized returns from successful ones.

These characteristics demonstrate that venture capital is a complex and specialized field requiring investors to possess deep industry knowledge and strong skills in evaluating early-stage companies. Venture fund managers are often highly experienced professionals capable of assessing new technologies or products and advising the businesses they invest in. As research indicates, venture capitalists must have profound expertise in the sectors of their portfolio projects to effectively guide startups through their highly uncertain early stages.

2.2. Innovative Startup Enterprises and the Role of Investment Mobilization

(1) Innovative Startup Enterprises

An innovative startup enterprise is a business organization established on the basis of a new idea, new technology, or a creative business model, with the potential for rapid growth and significant spillover effects within the knowledge-based economy ecosystem. According to the Law on Support for Small and Medium-Sized Enterprises of Vietnam (2017), an innovative startup enterprise is defined as *"a business established to implement an idea based on the exploitation of intellectual property, technology, or a new business model, with the ability to grow rapidly."*

From an international perspective, the OECD (2022) defines an innovative startup as *"a young, knowledge-based enterprise capable of commercializing technology and creating products or services with high added value".*

In Vietnam, Startups are defined as MSMEs established to implement business ideas based on the exploitation of intellectual property, technology, and new business models, with the potential for rapid growth, according to Article 3.2 of the Law on Assisting Small and Medium-Sized Enterprises No. 04/2017/QH14, which took effect on January 1, 2018.

Accordingly, the key characteristics of innovative startup enterprises include:

- *Novelty & innovation:* Startups do not merely replicate existing models but create new value derived from technology, data, or business models. According to Lerner & Nanda (2020), innovative startups are the nucleus of the knowledge economy, driving the transformation of growth models from "capital–labor" to "knowledge–technology." In countries such as Israel, the United States, Singapore, and South Korea, innovative startups have become pioneers in industrial innovation, digital transformation, and the development of core technologies (AI, deeptech, cyber security, biotech, etc.).
- *High scalability:* products and services can be rapidly scaled to global markets within a short period.
- *High risk:* The failure rate is high because business models are often unproven.
- *Limited resources:* Due to the characteristics of operating based on new technology and high risk, due to their dependence on new technologies and inherently high risks, startups require large and continuous capital inflows but face difficulties accessing traditional financial channels. With conventional capital mobilization methods - primarily commercial bank loans - startups encounter barriers related to collateral, credit history, and cash flow (Gompers & Lerner, 2001). According to OECD (2025), approximately 70–80% of startups at the seed stage fail to raise capital due to insufficient market validation.

These characteristics form the fundamental mechanisms driving the flow of venture capital (VC) toward innovative enterprises. They explain, for instance, why VC tends to gravitate toward start-ups in the technology sector and why its movement is heavily influenced by institutional conditions.

(2) The role of investment mobilization in the Development of Innovative Startup Enterprises

Capital enables startups to transform ideas into products, products into markets, and markets into economic value. Research by the World Bank (2024) reveals a strong correlation between the level of venture capital mobilization and the national innovation capability index. Economies with high VC inflows typically exhibit R&D commercialization rates two to three times higher than the global average (Pham, T. M., 2018).

The fundraising process compels startups to refine their business models, enhance transparency, and strengthen managerial capacity. At the same time, the participation of venture capitalists, angel investors, and accelerators forms a support network that provides mentorship, advisory services, and knowledge sharing across the ecosystem (OECD, 2025).

Investors not only provide financial capital but also contribute international networks, managerial expertise, technological know-how, and access to customers. Empirical studies in Israel indicate that startups backed by venture capital demonstrate 30–40% higher productivity and growth potential compared to non–VC-backed firms (IVC–GNY–KPMG, 2024).

This closed-loop cycle generates a self-reinforcing process of capital accumulation, knowledge development, and experiential learning for venture capital funds (Lerner & Nanda, 2020). Each successful investment round not only yields financial returns for the fund but also nurtures a new generation of startups, thereby reinforcing the continuous innovation chain.

2.3. Mechanism-Based Analysis (MBA) and the Analytical Approach of This Study

The Mechanism-Based Analysis (MBA) approach originates from the works of Peter Hedström and Petri Ylikoski (2010) and Mayntz (2020). MBA posits that all scientific explanations must identify the causal mechanisms - that is, the intermediary processes through which a cause produces an effect.

According to Ylikoski (2014), a mechanism is defined as *"a chain of observable actions, interactions, or processes that make it possible to understand how a cause leads to an effect in a specific context."* Mechanisms in research can be represented at two analytical levels:

- *Mechanism scheme*: a generalized theoretical model applicable across multiple contexts;
- *Causal scenario*: a sequence of specific events, actions, policies, and interactions within a real-world case that illustrates the actual causal process.

This study adopts the causal scenario approach to identify and explain the causal mechanisms shaping the flow of venture capital (VC) in Israel, thereby deriving policy implications for Vietnam. Specifically, the flow of VC is conceptualized as the outcome of a chain of interrelated causal mechanisms, summarized as follows:

- *State activation mechanism*: The Israeli government initiated the foundation for VC development through matching funds, preferential policies, and a stable investment legal framework, thereby activating private sector participation in the VC market.
- *Risk-sharing mechanism:* The government and private sector jointly bear the risks associated with high-tech investments, enhancing risk tolerance and incentivizing innovation.
- *Knowledge diffusion mechanism:* VC serves as a connector among investors, research institutions, start-ups, and large corporations, forming a network for knowledge dissemination and technology transfer.
- *Reinvestment loop mechanism:* Profits from successful exit deals are reinvested in a new generation of start-ups, creating a continuous VC cycle that sustains and strengthens the innovation ecosystem.

Taken together, these mechanisms enable venture capital to overcome the three inherent "bottlenecks" of start-ups: lack of collateral, weak credit history, and information asymmetry. Consequently, VC emerges as the most effective financial mechanism within an innovation-driven economy (Lerner & Nanda, 2020). However, as OECD (2025) cautions, the effectiveness of VC depends heavily on each country's institutional characteristics and market capacity - particularly in ensuring that government support policies do not crowd out private investment incentives.

Based on this foundation, the study identifies the following general causal relationship of VC flows:

Institutional and policy activation (X) → Risk-sharing and knowledge diffusion mechanisms (M) → Formation of stable and growing VC flows (Y_1) → Enhanced national innovation capacity (Y_2) → Policy foundation for VC mobilization for Vietnamese start-ups (Y_3).

According to Ylikoski (2014), a causal mechanism holds explanatory value only when validated within a specific context (*context-sensitive explanation*). Although Vietnam and Israel differ in economic scale, R&D capacity, and risk-taking culture, analyzing Israel's causal scenario enables Vietnam to:

(i) Identify the prerequisite conditions required for VC mechanisms to function effectively (institutional framework, risk-taking culture, technological human capital);
(ii) Determine the boundaries of external validity and necessary contextual adjustments when applying policies.

In summary, the MBA approach allows this study not merely to describe VC flow trends but to explain the causal chain "from policy to outcome," thereby providing a scientific foundation for developing policies to mobilize venture capital for innovative start-ups in Vietnam.

3.0 RESEARCH METHODOLOGY

Data collection methods

This study employs the Mechanism-Based Analysis (MBA) approach to examine the trends of venture capital (VC) flows in Israel and to draw policy implications for Vietnam. To construct and validate the aforementioned chain of causal mechanisms, the authors adopt a combination of desk research and comparative qualitative analysis methods:

- Systematizing theoretical foundations and empirical evidence related to venture capital, the characteristics of VC funds, and the role of VC in fostering innovative start-up development.
- Collecting and synthesizing secondary data from reputable academic sources such as Scopus, OECD I Library, World Bank, IMF, NVCA, and specialized journals on innovation and finance.
- Compiling empirical data on the restructuring trends of VC flows in Israel, including:

  (i) The Operational Models Of VC Funds;
  (ii) The Composition Of Investment Actors (Public–Private–Matching Funds);
  (iii) Sectoral Shifts in Investment Focus.
- Integrating these datasets with the contextual conditions of Vietnam's innovation-driven start-up ecosystem to compare institutional frameworks, policies, and innovation capacities.

Data Processing Methods

The collected data are aggregated, calculated, and presented in tabular form. Based on this synthesis, the research team conducts an evaluative and comparative analysis of venture capital flows in Israel.

For the Vietnamese context, a comparative assessment is carried out to identify both similarities and differences between the two ecosystems (Israel and Vietnam). This analytical process helps to determine the necessary preconditions for the effective adaptation and application of similar VC mechanisms within Vietnam's policy and institutional environment.

4.0 VENTURE CAPITAL TRENDS IN ISRAEL

(1) State Activation Mechanism – The Formation of the Venture Capital Ecosystem

Israel's start-up ecosystem began to take shape in the late 1990s, founded on a close collaboration between the government, private sector, military, universities, and research centers. This represents the State Activation Mechanism, in which the state plays a catalytic role - creating institutional foundations, reducing initial risks, and stimulating private capital flows into the venture capital (VC) market.

A defining milestone in this mechanism was the launch of the Yozma Fund Program (1993) -the world's first public–private matching fund, recognized by the OECD (2022) as a pioneering model of the "matching fund" mechanism. Under this program, the Israeli government contributed 40% of total capital and allowed private investors to buy back the state's equity shares after five years if the venture succeeded. This policy design effectively minimized investors' downside risk while maximizing market incentives, thereby triggering a powerful market activation effect.

Following the success of Yozma, Israel developed a comprehensive set of complementary policy instruments, including:

- Capital gains tax incentives for VC funds and foreign investors;
- Credit guarantees and risk-sharing schemes for high-tech investment projects;
- A stable and investor-friendly legal and regulatory framework, encouraging long-term private and international participation.

Simultaneously, Israel fostered a unique collaborative network linking universities, the military, and private enterprises. Institutions such as the Technion – Israel Institute of Technology, the Weizmann Institute of Science, and the IDF Unit 8200 became major "talent incubators" for start-ups, especially in fields like artificial intelligence (AI), cyber security, and defense technology.

Through this mechanism, the government refrained from directly investing in individual start-ups; instead, it acted as a catalyst, enabling private and international capital to circulate autonomously within the innovation ecosystem. This state-driven activation laid the institutional and financial foundation for Israel's emergence as a global leader in venture capital and innovation-driven growth.

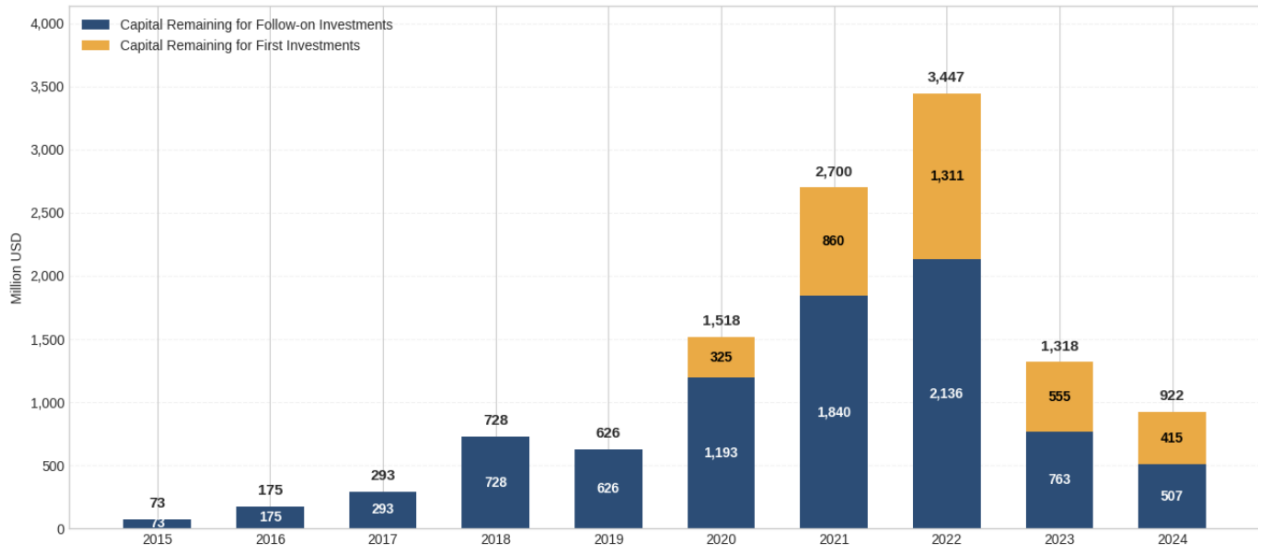


Figure 1. Total capital volume of venture capital funds in Israel (million USD)
Source: IVC-GNY-KPMG, (2025)

After a decade of operation, from 2015 to 2024, Israel's venture capital (VC) funds collectively hold approximately USD 11.8 billion in remaining capital available for investment in high-tech companies. Of this amount, around USD 3.5 billion is earmarked for new portfolio companies (Capital Remaining for First Investments), while approximately USD 8.3 billion is allocated for follow-on investments in existing portfolio firms (Capital Remaining for Follow-on Investments).
This sustained capital flow demonstrates the accumulation and efficient reinvestment capacity of Israel's VC ecosystem, reflecting its ability to maintain a continuous cycle of capital circulation and value creation. The reinvestment of returns from successful ventures into new start-ups ensures the long-term sustainability and resilience of Israel's innovation-driven economy.

(2) Risk-Sharing Mechanism – Sustaining Confidence in the Venture Capital Market

From the initial state activation mechanism, Israel's venture capital (VC) market evolved further through the risk-sharing mechanism between the government and the private sector. The government continued to maintain matching funds and applied research grants through the Israel Innovation Authority (IIA), while also implementing preferential credit policies for strategic technology investment funds. These measures effectively distributed financial risks and sustained investor confidence during the global economic volatility of the 2022–2024 period.

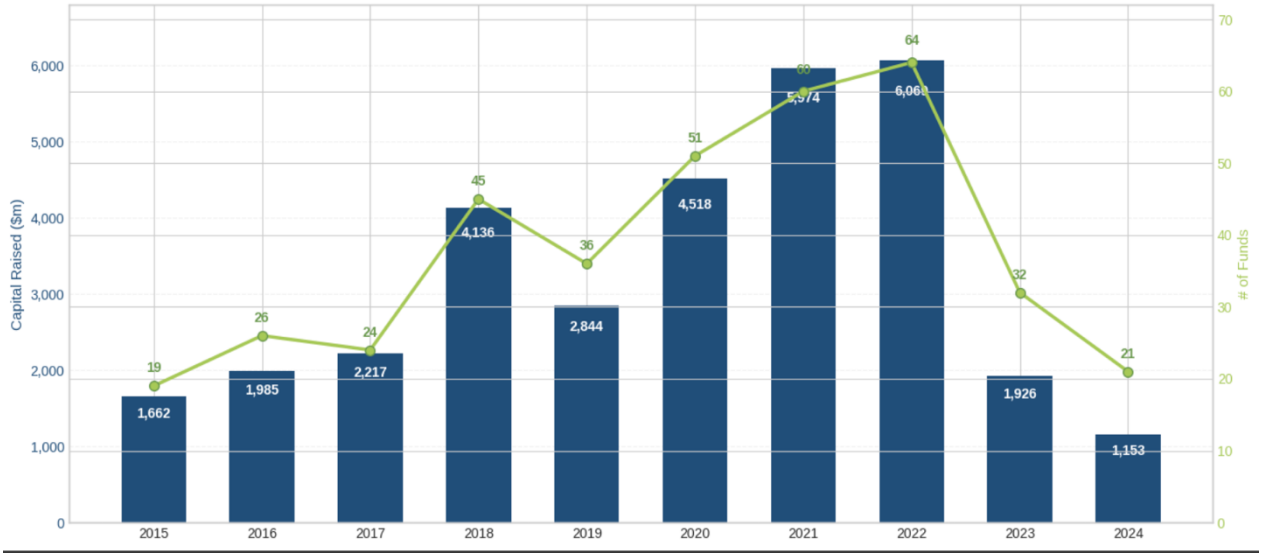


Figure 2. Number of Venture Capital Funds and the Fundraising Scale of Israeli Venture Capital Funds

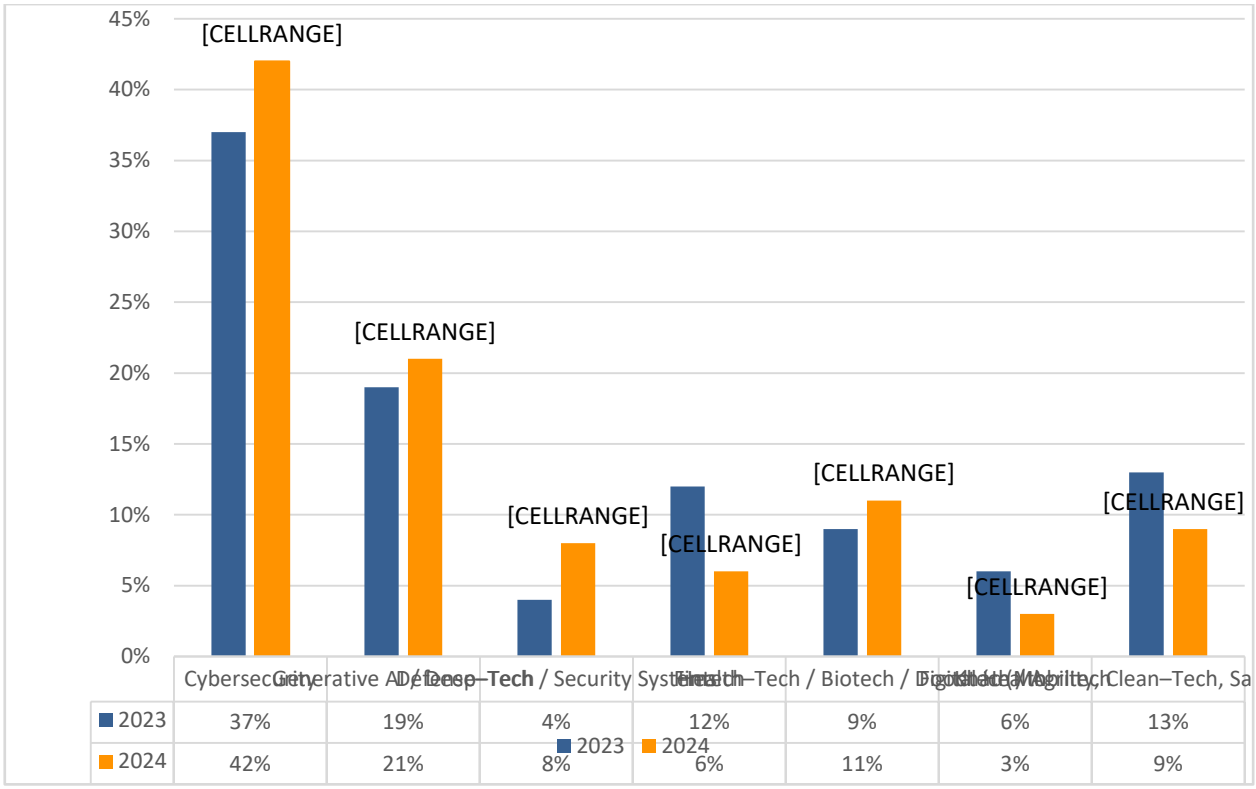
Source: IVC-GNY-KPMG, (2025)

In 2024, the total venture capital volume in Israel reached 1,153 million USD, the lowest point in the 2015–2024 period. That same year also witnessed a significant decline in the number of active funds, dropping to 21 funds. Among them, U.S. investors accounted for 80% of total foreign capital, but the number of international investors operating in Israel fell by 16% compared to 2023. Of the world's 20 largest VC funds, only seven continued investing in Israel (including *Sequoia, Insight Partners, Andreessen Horowitz*, etc.).Thirteen of the 21 funds were raised by management companies (MCs) established within the last five years, with a total known capital of 656 million USD. Two funds focused specifically on early-stage companies: the Impact Fund (SIBF) and Jumpspeed II (IVC–GNY–KPMG, 2025).

This risk-sharing mechanism has enabled the market to self-adjust toward quality rather than quantity, reflecting a natural refinement aligned with the global economic downturn. Although total investment declined compared to 2022, Israel has maintained its position as one of the world's leading venture capital hubs, supported by stable capital flows into core technology sectors such as artificial intelligence (AI), deep-tech, and cybersecurity. Moreover, despite the overall contraction in scale, follow-on investments still accounted for around 70% of total VC capital, demonstrating that domestic investor confidence remained strong - largely sustained by the government's effective risk-sharing policies

(3) Knowledge Diffusion Mechanism – The Shift in Target Industry Structure

Since 2018, the focus of venture capital (VC) flows in Israel has shifted from expansion to refinement, reflecting the operation of the Knowledge Diffusion Mechanism. VC funds have increasingly gone beyond merely providing financial capital to take on the roles of mentors, incubators, and knowledge connectors - bridging investors, universities, start-ups, and major technology corporations. This knowledge-based mechanism has driven a structural transformation in investment priorities, steering capital toward core technology (deep-tech) sectors, particularly artificial intelligence (AI), cyber security, and defense technology.



	Cybersecurity	Generative AI / Deep–Tech	Defense–Tech / Security	Fintech / Tech	Biotech / Tech	Foodtech / Mobility	Clean–Tech, Sa
2023	37%	19%	4%	12%	9%	6%	13%
2024	42%	21%	8%	6%	11%	3%	9%

Figure 3. Comparison of Venture Capital (VC) Investment Structure by Technology Sector in Isreal, 2023–2024

Source: Author's calculation based on IVC-GNY-KPMG data, 2025

The capital structure indicates that cybersecurity continues to serve as the pillar of Israel's innovation economy, accounting for 42% of total VC investment (approximately USD 4.1 billion) - the highest level ever recorded.

Next-generation artificial intelligence (Generative AI) and deep-tech collectively represent about 21% of total investment, reflecting the global post-ChatGPT trend, with notable deals involving Wiz, Run:AI, and AI21 Labs.

Meanwhile, defense technology (defense-tech) surpassed the 8% threshold for the first time, driven by strong momentum from public–private funds such as the DefenseTech Fund 2024. In contrast, fintech and foodtech experienced significant declines, falling to 6% and 3%, respectively - their lowest levels since 2018 - due to shifting investor preferences and a downturn in consumer demand.

(4) Capital Restructuring Mechanism – Transition from Private to Public–Private Hybrid Model

The market structure has gradually shifted from a purely private venture capital (VC) model to a public–private hybrid model. In this hybrid framework, the government supports basic research and early-stage development, while the private sector focuses on commercialization and scaling up.

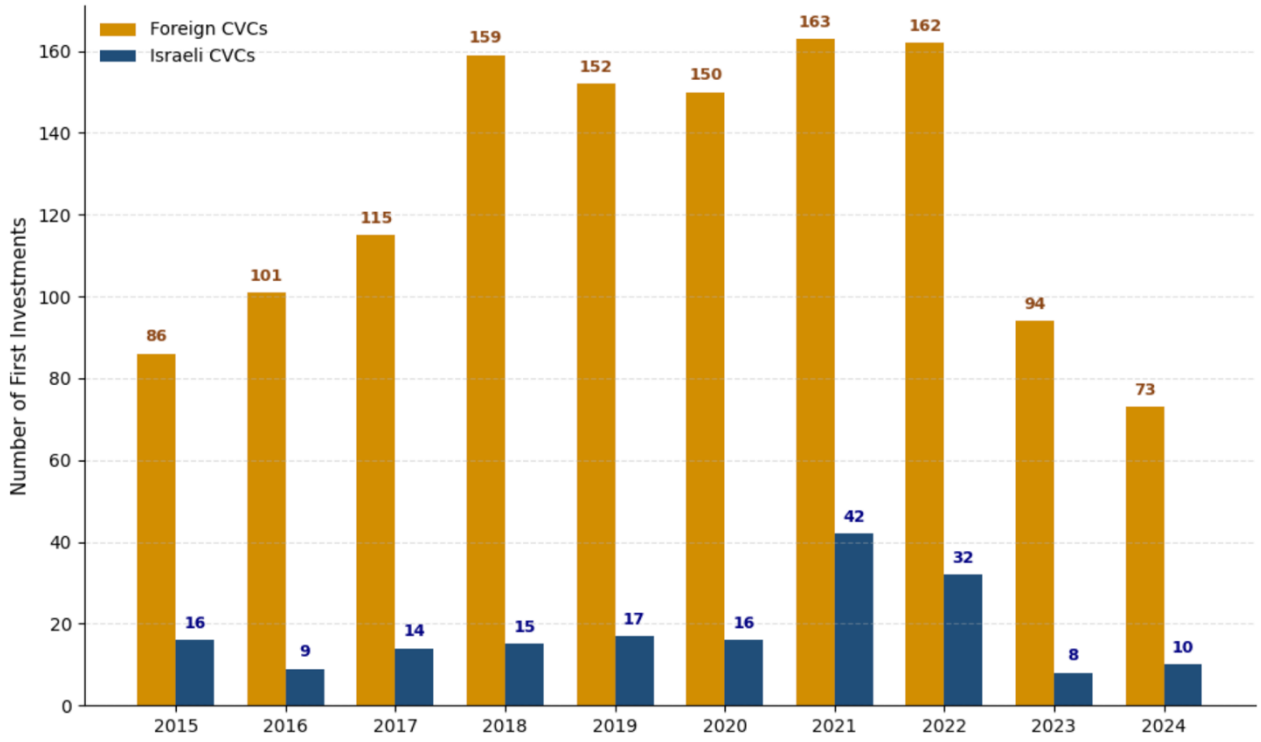


Figure 4. Number of first-time investments of domestic and foreign CVCs in Israel 2015–2024
Source: IVC-GNY-KPMG, (2025)

According to IVC–GNY–KPMG (2025), Israel had 347 corporate venture capital (CVC) funds in operation in 2024, most of which were R&D branches of international corporations such as Google, Samsung, Toyota, and NEC. Foreign CVCs dominated during the 2017–2022 period, averaging 150–163 deals per year. However, since 2023, the number of foreign CVC transactions has declined by more than 40%, while domestic CVCs have remained stable at around 8–10 deals per year. This shift indicates a trend toward the localization of capital and knowledge flows, enabling Israel to establish an autonomous reinvestment cycle and reduce dependence on foreign funding. Domestic and state-affiliated funds - such as the Israel Innovation Authority (IIA) and the DefenseTech Fund - have increasingly co-invested with enterprises and universities in core technologies, exemplifying the continuous reinvestment loop mechanism that sustains Israel's innovation ecosystem.

The decline in foreign CVC activity reflects Israel's strategy of "localizing capital and knowledge" and the broader transition from a purely private VC model to a public–private hybrid model. In this structure, domestic and state-backed funds increasingly play a central role, co-investing with enterprises and universities in core technology sectors.

5.0 Comparison of Venture Capital (VC) Flow Trends between Israel and Vietnam and Policy Implications for Mobilizing Capital for Innovative Start-ups in Vietnam

5.1. Overview of Vietnam's Innovation Ecosystem

As of 2024, Vietnam's innovation ecosystem has recorded more than 4,000 startups, of which approximately 60% operate in the fields of digital technology, finance, and services. This ecosystem has been strongly driven by national policies on innovation, particularly through the roles of the National Innovation Center (NIC) and the Vietnam Private Capital Association

(VPCA), which have contributed to strengthening the connection between investors, startups, and regulatory agencies, thereby establishing a foundation for the domestic venture capital market.

The Vietnam Innovation Network has expanded its operations to 22 countries, bringing together more than 2,000 experts and partnering with over 80 universities and research institutes. This network has established a Government–Business–Academia coordination mechanism aimed at promoting knowledge sharing and developing a pool of high-quality human resources. The involvement of domestic corporate venture capital (CVC) funds - such as those from Viettel, FPT, Masan, and MoMo - has added further momentum to a flexible public–private collaboration model, thereby expanding domestic venture capital flows and strengthening Vietnam's innovation ecosystem. However, a survey by the Ministry of Science & Technology and UEH (2024) indicates that more than 80% of Vietnamese startups still rely on self-financing or funding from friends and family, while only about 10% have access to venture capital or angel investment. The main challenges include (Do Ventures, VPCA, NIC & BCG, 2025):

- Lack of managerial capacity, financial planning and business valuation;
- Lack of transparency in information and financial data;
- Limited understanding among domestic investors of technology-based business models;
- An incomplete legal framework for private equity investment and exit mechanisms;
- The underdevelopment of intermediary financial institutions such as public–private seed funds, incubators, and investment-matching platforms.

As a result, many Vietnamese startups are forced to seek funding from foreign venture capital funds, leading to risks related to intellectual property and control shares when foreign investors hold a dominant ownership ratio at an early stage (Nguyen Thuc Huong Giang & Le Vu Toan, 2020).

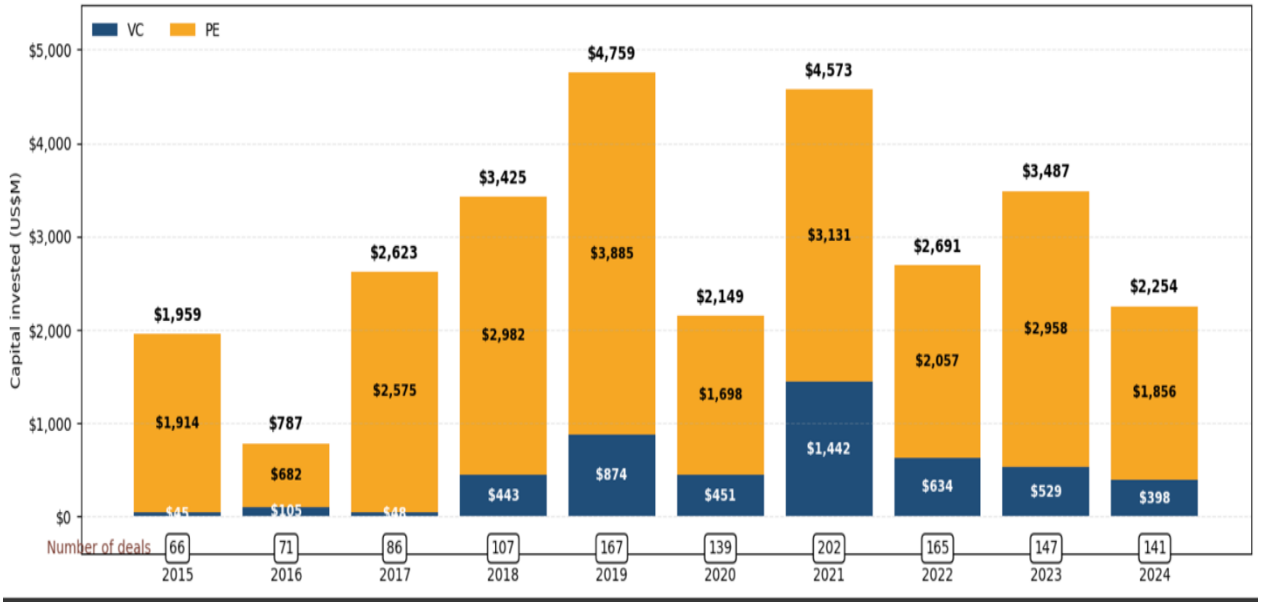


Figure 5. VC and PE investment structure in Vietnam

Source: Do Ventures, VPCA, NIC, BCG, (2025)

The period 2015–2024 demonstrates that Vietnam's private capital market has maintained a trajectory of long-term expansion despite fluctuations. It peaked at USD 4.76 billion in 2019, declined due to the COVID-19 pandemic, and then rebounded to USD 4.57 billion in 2021. By 2024, the market size reached USD 2.26 billion across 141 deals, reflecting investors' sustained confidence in Vietnam's long-term potential. Within this, venture capital (VC) accounted for USD 398 million, a 25% decrease compared to 2023, yet both the number of deals (118) and the number of active investors (around 150) remained the highest since 2021. Vietnam continues to attract strong capital inflows from Singapore and Japan, confirming its regional appeal. In terms of sectoral composition, VC investment has shifted from Fintech and Edtech toward deep-tech and green technology sectors, including artificial intelligence (AI), agritech, and business automation. This trend reflects a strategic restructuring of investment portfolios toward sustainability and higher value creation (Do Ventures, VPCA, NIC & BCG, 2025).

However, to sustain capital attraction momentum, Vietnam needs to improve the legal framework for VC funds, diversify exit channels, and enhance transparency in investment activities. Compared to private equity (PE) capital—which consistently accounts for the dominant share (80–90% of total inflows) and focuses on sectors such as consumer goods, infrastructure, technology, and manufacturing—venture capital (VC), though smaller in proportion, exhibits a faster growth dynamic and represents the innovative startup ecosystem. In 2024, total VC investment reached USD 398 million, a decrease of approximately 25% compared to 2023, yet the number of deals remained stable (118 deals). The total number of active VC investors in the market reached nearly 150, the highest level since 2021. Notably, Vietnam attracted strong participation from domestic investors, as well as from Singapore and Japan, along with increasing involvement from international funds such as Do Ventures, Mekong Capital, and Golden Gate Ventures.

5.2. Comparison of Venture Capital (VC) Flows between Israel and Vietnam (2015–2024)

Based on Ylikoski's (2014) Mechanism-Based Analysis (MBA) framework, Israel is considered a prototype causal scenario - a context in which the causal mechanisms of venture capital (VC) flows operate in a complete and coherent manner. In contrast, Vietnam serves as a contextual case, used to identify the similarities, differences, and structural "mechanism bottlenecks" that need to be addressed to enable the effective functioning of VC mechanisms within its own innovation ecosystem.

Table 1. Comparing the causal mechanism between Israel and Vietnam

Mechanism	**Israel – Operational conditions and characteristics**	**Vietnam – Current status and bottlenecks of the**	**Evaluation mechanism**
Institutional and legal	There are separate laws for VCs and a series of synchronized policy tools	There is no VC law yet; lack of divestment regulations and financial transparency; distributed coordinating agency.	Big difference
Share risks &	Matching funds,	Lack of guarantee; There	Big difference, Lack of

reinvest	investment guarantees, R&D tax incentives; Follow-on capital accounts for 70%.	are no reinvestment incentives; Domestic capital has little turnover.	"risk sharing mechanism" and "endogenous capital circle".
Share and spread knowledge	University - Enterprise - National Defense" model; The IIA Innovation Authority manages nationwide VC data.	VINN network is developed but investment data is scattered and lacks a national information portal.	Although similar in structure, Vietnam is still weak in the mechanism of "spreading knowledge and data".
Technology & R&D	R&D spending/GDP ratio is high, investment focuses on deep-tech, AI, defense-tech.	Low R&D/GDP; lack of R&D tax credits and intellectual property support mechanisms.	Big difference – lack of technology base to motivate and attract VC
CVC	347 CVC funds, most of which are R&D branches of US-Japan-Korea corporations; cyclical reinvestment.	Some domestic CVCs (FPT, Viettel, Masan) are small-scale and have not yet formed a parent-child fund.	Big difference - weak domestic capital, highly dependent on foreign capital

Source: Compiled and analyzed by the author group

5.2. Strategic Implications for Capital Mobilization of Innovative Startups in Vietnam

Experience from Israel shows that the country's success in attracting and developing venture capital flows stems not only from its technological innovation capacity but primarily from its flexible institutional framework, tightly connected ecosystem, and the ability to transform knowledge into economic value. This paper identifies three principal mechanism groups that influence the capacity for capital mobilization among innovative startup enterprises, as illustrated in the following diagram:

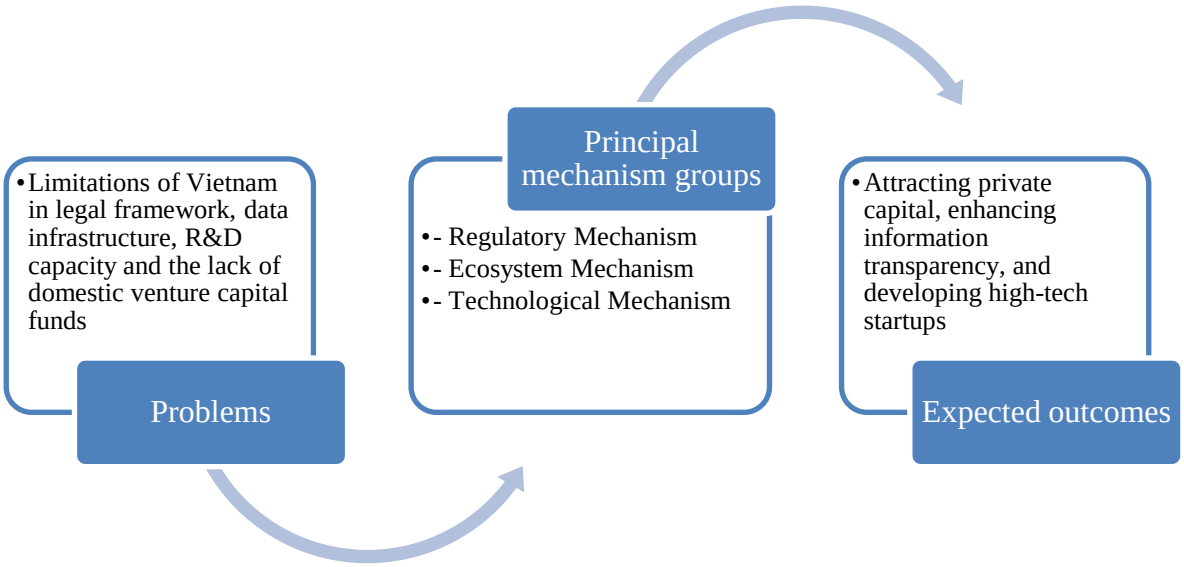


Figure 6: Policy Logic Model

Source: Developed by the authors

Accordingly, the principal mechanism groups include:
- Regulatory Mechanism: focusing on the creation of a legal framework, tax policies, public–private investment mechanisms, and the coordinating role of the State.
- Ecosystem Mechanism: aiming at the development of knowledge and data infrastructure, financial intermediaries, and investor networks.
- Technological Mechanism: enhancing R&D capacity, applying digital technologies in capital mobilization, and promoting the development of core technology sectors.
When these mechanisms are activated in a synchronized manner, the domestic venture capital ecosystem can develop sustainably, attract international capital, and strengthen the competitiveness of Vietnamese startups.

Based on the analysis of capital flow trends during 2015–2024 (IVC-GNY-KPMG, 2025; OECD, 2022), three key strategic groups can be identified that Vietnam should learn from and adapt in order to promote the VC market and enhance the effectiveness of capital mobilization for innovative startups, as follows:

(1) Institutional Improvement and State Coordination Mechanism

Israel has demonstrated that the role of the State in venture capital investment lies not in replacing the private sector but in its ability to create markets and mitigate initial risks. The 1993 Yozma Program serves as a typical model of public–private partnership, in which the government acted as an initial investor and allowed private investors to repurchase the government's stake once the fund performed effectively. This approach built market confidence and facilitated the attraction of international capital flows (Gompers & Lerner, 2001; OECD, 2025).

From this experience, if Vietnam establishes a transparent and stable institutional mechanism, including a dedicated law for venture capital (VC) funds with clear regulations on capital contribution, exit, and information disclosure obligations, transaction costs and legal risks will be reduced, thereby encouraging the participation of private investors and institutional funds (such as pension funds and development funds) in the market.

At the same time, if the government establishes a National Fund of Funds operating under a public–private partnership model and prioritizing strategic sectors such as AI, deep-tech, and clean energy, Vietnam could generate a capital spillover effect similar to that of Israel, where state-backed funds play a "catalytic" role in mobilizing private investment. In addition, appropriate tax policies and exit mechanisms (such as capital gains tax incentives for reinvestment, corporate income tax exemptions for qualified funds, and the development of a secondary market for private equity shares) would enhance liquidity and strengthen long-term investment confidence.

Finally, if the National Innovation Center (NIC) is upgraded into a unified coordinating body similar to the Israel Innovation Authority, the efficiency of public resource allocation would improve, helping to prevent policy fragmentation and overlap.

(2) Linking the Capital Ecosystem with Knowledge and Data

A core feature of Israel's ecosystem lies in the interconnection among three pillars: universities, businesses, and the military. This environment enables VC funds to access projects with strong R&D foundations, while startups receive incubation, advisory, and market access support (RISE Israel & Israel Innovation Authority, 2024). In addition, Israel maintains a national foundational database storing information on investments, deals, and fund performance. This database serves as a crucial informational infrastructure that enhances transparency, reduces asymmetry, and shortens transaction time. Following this approach, If Vietnam establishes a similar mechanism, VC funds will have easier access to a pipeline of projects with strong R&D foundations, while startups will receive comprehensive support in mentoring, incubation, and market connectivity (RISE Israel & IIA, 2024).

Deal flow is cultivated from universities, research institutes, and enterprises, accompanied by the implementation of co-funding "Lab-to-Market" programs to commercialize research outcomes with market potential.

Leveraging the sectoral distribution of universities and research institutes, Vietnam should establish sectoral innovation hubs (e.g., AI, high-tech agriculture, biomedicine, and clean energy) integrating incubators and accelerators.

Develop a national data portal on startups and VC funds to publicize deals, fundraising data, partners, and investors. This database would enable stakeholders to identify investment opportunities and measure market performance.

Moreover, developing angel investor networks and the Vietnamese diaspora investor community play a vital role as a bridge connecting knowledge, capital, and international markets. Many studies (Trinh et al., 2014) have shown that Vietnamese startups often lack early-stage (seed/angel) investors, which is a critical factor in attracting subsequent VC rounds.

(3) Enhancing Innovation Capacity, R&D, and Digitalization of Capital Mobilization Processes

Trends in Israel indicate a strong investment shift toward deep-tech, AI, cybersecurity, and generative AI - sectors characterized by high R&D intensity and long-term competitive advantages (IVC-GNY-KPMG, 2025). Conversely, sectors such as fintech and foodtech are losing traction due to market saturation. In line with this trend, policies to attract capital for innovative startups should shift their focus from general startup support to deep innovation and technology-driven entrepreneurship.

At the national and fund levels, high-tech startup projects typically require substantial initial investment capital. Therefore, it is essential to establish R&D tax credits and investment guarantee funds for high-tech projects, supporting costs related to intellectual property registration and technology commercialization. At the same time, the government should encourage enterprises to adopt digital technologies in capital-raising processes to increase transparency and reduce transaction costs. At the enterprise level, startups need to strengthen their investor readiness through training in strategic management, finance, and international-standard data reporting.

6.0 CONCLUSION

The study has highlighted the strategic role of venture capital in shaping, nurturing, and expanding the technological startup ecosystem. The case of Israel serves as a prime example of how a proactive government can create an institutional framework that encourages the participation of both the private sector and international investors in venture capital activities. During the period 2015–2024, venture capital flows in Israel exhibited three major trends: (i) a contraction in capital raising due to the global economic context and market restructuring; (ii) a shift in investment structure from expansion to refinement, with a focus on core technologies such as deep-tech, AI, and cyber security; (iii) an increasing role of government funds, public–private hybrid funds, and corporate venture capital (CVC) in maintaining the attractiveness and sustainability of the venture capital market. From these observations, Vietnam can draw several strategic lessons for mobilizing capital for innovative startup enterprises. The limitation of this study lies in its reliance primarily on secondary data, which may not fully capture non-financial factors such as innovation culture, the education system, or intellectual property policies. The comparison between Israel and Vietnam remains at a general level and has not yet delved deeply into institutional specificities, market scale, or endogenous innovation capacity. Therefore, future research should focus on a more in-depth analysis of institutional and cultural characteristics related to investment and entrepreneurship.

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