

# Attracting Foreign Venture Capital Investment: The Institutions that Matter Most for Emerging Economies

Jawad Ahmed<sup>1</sup> and Amjad Ali<sup>2</sup>

<sup>1&2</sup>University of Lahore, Pakistan

## Correspondence:

Jawad Ahmed: [jawad.ahmed14@hotmail.com](mailto:jawad.ahmed14@hotmail.com)

**Article Link:** <https://journals.brainnetwork.org/index.php/ssmr/article/view/25>

**DOI:** <https://doi.org/10.69591/ssmr.vol01/005>



**Volume 1, 2023**

## Funding

No

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## Citation:

Ahmed, J. & Ali, A. (2023). Attracting Foreign Venture Capital Investment: The Institutions that Matter Most for Emerging Economies, *Social Science Multidisciplinary Review*, 1, 73-95.

**Conflict of Interest:** Authors declared no Conflict of Interest

**Acknowledgment:** No administrative and technical support was taken for this research

## Article History

**Submitted:** April 04, 2023

**Last Revised:** September 27, 2023

**Accepted:** October 09, 2023



**An official Publication of  
Beyond Research Advancement &  
Innovation Network, Islamabad, Pakistan**

## Attracting Foreign Venture Capital Investment: The Institutions that Matter Most for Emerging Economies

Jawad Ahmed

University of Lahore, Pakistan

Email: [jawad.ahmed14@hotmail.com](mailto:jawad.ahmed14@hotmail.com)

Amjad Ali

University of Lahore, Pakistan

Email: [chanamjadali@yahoo.com](mailto:chanamjadali@yahoo.com)

### ABSTRACT

*This study explores the critical institutions and challenges influencing the attraction of international venture capital (VC) investment in emerging economies. By examining governance indicators such as "Voice and Accountability" and "The Rule of Law," the research highlights the importance of strong democratic institutions and robust legal frameworks in creating an attractive investment environment. It also identifies the complexities of regulatory frameworks, political stability, and corruption control in this context. The findings suggest that while effective governance fosters VC investment, over-reliance on government assistance can be counterproductive. The study emphasizes the need for collaboration among governments, regulatory bodies, and local organizations to create an investor-friendly climate, unlocking the potential for innovation and economic growth in emerging markets. Further research is recommended to understand the nuanced interactions between these factors and VC investments across diverse settings.*

**Keywords:** Venture capital, investment, emerging economies

### 1. INTRODUCTION

Emerging countries are becoming major participants in the international venture capital (VC) investment space, marking a paradigm shift in the dynamics of global finance and innovation. This trend is not only transforming the economic environments of Asia, Latin America, and Africa but also spurring innovation and the development of new technologies (Kopke, 2019). It is crucial to

comprehend the key institutions that attract international venture capital investment to these developing nations. Specifically, this study aims to analyze the institutions and conditions that support foreign venture capital participation in these regions.

The primary objective of this research is to disentangle the complex network of organizations and elements that attract foreign venture capital investment to developing countries. By exploring the laws, government initiatives, educational institutions, infrastructure, market potential, and other crucial elements, this study seeks to provide a thorough understanding of the dynamic interplay between these factors and their implications for economic growth and innovation. The research focuses on the regulatory frameworks that support investment, the role of government initiatives, and the importance of research and educational institutions. Additionally, it emphasizes the significance of connectivity and infrastructure in providing foreign investors with the resources needed for profitable investments. The analysis of market size and growth potential will highlight the enormous opportunities in developing nations, while research on talent acquisition and intellectual property protection will demonstrate how to safeguard capital and foster innovation.

This study is significant in several ways. First, it offers policymakers in developing nations valuable insights into the critical issues that need to be addressed to attract international venture capital investment. Governments and regulatory agencies can foster an environment that encourages foreign investments and promotes economic development and job creation by recognizing the importance of these institutions and factors (Xue, 2022). Second, international financial institutions and foreign venture capitalists will find this study invaluable. It serves as a guide for identifying which emerging economies show the most promise and what key factors make an investment appealing. This information helps investors expand their portfolios in areas with significant return potential, make well-informed decisions, and allocate resources effectively (Su, 2019). Lastly, the study contributes to the body of knowledge on the evolution of innovation and global finance. It highlights how developing countries are transforming within the global economy, shifting from being passive consumers of foreign capital to active participants in innovation and economic expansion. By offering a comprehensive examination of the

institutions and factors involved, this paper enhances our understanding of how foreign venture capital investment is reshaping the global economic landscape.

To summarize, this study explores the organizations and factors that are crucial in attracting foreign venture capital investment into developing nations, shedding light on the intricate interactions between these components and their consequences for innovation and economic progress. This research could influence investment strategies, governmental decisions, and the global conversation about the evolving relationships between finance and innovation.

Foreign venture capital (VC) investment has become increasingly important in recent years, propelling economic development and innovation in developing nations. This trend has been most noticeable in Asia, Latin America, and Africa, where the rise of technology-driven enterprises and start-ups has been accelerated by an infusion of foreign capital (Sipola, 2021). In addition to providing financial resources, the influx of venture capital funds has fostered an entrepreneurial culture and created a vibrant innovation environment.

A well-defined regulatory framework is essential for attracting international venture capital investment (Heiberg, 2020). Emerging nations often struggle with bureaucracy and complex regulatory procedures, which can deter foreign investors. However, countries with streamlined, investor-friendly regulations are more attractive. Clear regulations for foreign investors, simple exit plans, and robust intellectual property protection are crucial in this context (Buccieri, 2023). Government involvement in developing economies also plays a significant role in attracting venture capital. Governments can entice venture capitalists by offering incentives such as tax exemptions, grants, or subsidies to investors and entrepreneurs. Government-supported organizations that promote investment can actively engage with overseas investors to highlight opportunities in the country (Cao, 2021).

High-quality research and educational institutions are another key consideration. These institutions serve as talent pools, producing skilled individuals who can drive innovation. Additionally, they promote a culture of research and development that attracts international venture capitalists seeking opportunities in cutting-edge technology (Alam, 2020). Infrastructure, both digital and physical, is also crucial for international venture capital investors. Access to ports, reliable transportation networks, and international markets is essential.

Moreover, technology-driven firms need robust digital infrastructure, including data centers and high-speed internet. A connected economy ensures the ability to effectively export and scale innovations (Dana, 2020).

The size and growth potential of the domestic market is a major draw for international venture capital investment. Economies with large consumer bases attract investors due to their high rates of return on investment (Azmi, 2021). Emerging economies that exhibit steady growth and urbanization are particularly appealing. Robust intellectual property protection is essential to ensure that original ideas and innovations are safeguarded against piracy or copying. Effective IP laws enhance a nation's ability to attract foreign venture capital investment, as investors want to know that their investments will be protected (Alsgar, 2021).

An innovative and competent team is a significant attraction for international venture capital. Local talent capable of leading businesses and executing innovative ideas is a key draw for investors. Nations with strong educational systems that produce graduates with marketable skills will enjoy a competitive advantage (Omri, 2020). A shared language and culture can also help build stronger relationships with investors. Similarities in language and culture can facilitate communication and help international investors better understand local markets, fostering a favorable business climate. A robust start-up ecosystem of co-working spaces, incubators, and accelerators is vital for fostering creativity. These ecosystems provide entrepreneurs with access to early-stage funding, networking opportunities, and mentoring, increasing the nation's appeal to overseas venture capitalists (Nölke, 2019). Consistent economic policies and stable political environments are what investors look for. Uncertainty due to erratic changes in economic policies or frequent changes in administration can deter international venture capital investment.

## **2. LITERATURE REVIEW**

Attracting international venture capital (VC) investment in emerging countries is a dynamic process with significant opportunities and challenges. While these markets have considerable potential for growth and innovation, several key issues must be addressed to draw foreign investors. Complex regulatory frameworks are a common problem, often acting as major barriers to VC participation. Laws and regulations governing investments should be transparent,

straightforward, and easy to navigate to avoid deterring investors with costly and time-consuming bureaucracy (Cao, 2021).

Political and economic instability is another major concern. Frequent changes in government or economic policies create uncertainty that can compromise investment security. Emerging economies need to demonstrate stable and consistent political and economic systems to attract international VC investment.

Intellectual property protection is also critical. Weak or inconsistent IP laws leave creative works and original ideas vulnerable to theft, deterring international investors. Strong legal systems and enforcement are necessary to assure investors their assets are protected. The availability of skilled talent is crucial for attracting VC investment. Emerging economies must focus on developing a workforce with the expertise needed to drive innovation, as a lack of qualified candidates can deter investors who seek assurance of local talent to manage and implement creative ideas. Infrastructure inadequacies, both digital and physical, can impede VC investments. Reliable transportation networks, easy access to ports, and robust digital infrastructure, including data centers and high-speed internet, are essential for the smooth movement of goods and services and for supporting technology-driven firms (Alam, 2020).

Language and cultural differences can also pose challenges. Effective communication and operations are hindered by linguistic and cultural barriers, making it harder to understand and adapt to local markets. Common languages and cultural similarities can create a more welcoming environment for foreign investors. The lack of success stories in the local start-up scene can turn away potential investors. Proven success stories provide evidence of market potential and build investor confidence (Xue, 2022). Market capacity and growth prospects are vital in attracting VC investment. Large customer bases offering significant returns are appealing to investors. The steady expansion and urbanization of emerging economies enhance their attractiveness (Su, 2019).

Finally, access to networking and connectivity is essential. Facilitating connections between international investors and local entrepreneurs through events, conferences, and networking opportunities can help attract foreign VC funding.

By addressing these issues, emerging economies can create an investor-friendly environment and unlock their potential for innovation and economic growth.

## **2.1. Foreign Venture Capital Investment**

Attracting international venture capital (VC) investment in emerging economies is a dynamic process filled with opportunities and challenges. While these markets hold significant potential for growth and innovation, several key issues must be addressed to attract foreign investors. Complex regulatory frameworks often act as major barriers. Laws governing investments should be transparent, straightforward, and easy to navigate to avoid deterring investors with costly bureaucracy (Cao, 2021). Political and economic instability is another concern. Frequent changes in government or economic policies create uncertainty, compromising investment security. Stable and consistent political and economic systems are essential for attracting international VC investment.

Intellectual property protection is crucial, as weak or inconsistent IP laws leave creative works and original ideas vulnerable to theft, deterring international investors. Strong legal systems and enforcement are necessary to assure investors their assets are protected. Additionally, the availability of skilled talent is vital for attracting VC investment. Emerging economies must develop a workforce with the expertise needed to drive innovation, as a lack of qualified candidates can deter investors.

Infrastructure inadequacies, both digital and physical, can also impede VC investments. Reliable transportation networks, easy access to ports, and robust digital infrastructure, including data centers and high-speed internet, are essential for supporting technology-driven firms (Alam, 2020). Language and cultural differences can pose challenges, making effective communication and operations difficult. Common languages and cultural similarities can create a more welcoming environment for foreign investors.

The lack of success stories in the local start-up scene can turn away potential investors. Proven success stories provide evidence of market potential and build investor confidence (Xue, 2022). Market capacity and growth prospects are also vital, as large customer bases offering significant returns are appealing to investors. Steady expansion and urbanization enhance the attractiveness of emerging economies (Su, 2019). Access to networking and connectivity is

essential, as facilitating connections between international investors and local entrepreneurs through events, conferences, and networking opportunities can help attract foreign VC funding. Addressing these issues can create an investor-friendly environment and unlock the potential for innovation and economic growth in emerging economies.

## **2.2. Emerging Economies**

Emerging economies are rapidly expanding and industrializing, significantly integrating into the global economic landscape. Kato (2021) notes that these nations exhibit robust growth rates, driven by population increases, rising consumption, and industrial output. Urbanization in these regions offers opportunities for infrastructure and real estate development, though it also presents challenges in transportation, housing, and environmental sustainability.

Luo (2007) highlights the immense market potential of emerging economies due to their large populations, attracting businesses looking to expand. These countries are advancing technologically, investing in education, research, and development, which enhances their global competitiveness and fosters entrepreneurship. They are also rich in natural resources like minerals and energy, presenting both opportunities and challenges for sustainable management (Peng, 2008).

However, these economies face issues such as inadequate healthcare and education systems, political instability, and wealth disparity, which need addressing for sustained progress. Su (2016) emphasizes their growing influence in global commerce and politics, actively participating in international organizations and altering global power dynamics. As the world becomes more interconnected, the development of emerging economies helps reduce global poverty and creates opportunities for trade and investment (Yin, 2021). To fully realize their potential, these countries must address internal challenges, promote innovation, and pursue sustainable development.

## **2.3. Role of regulatory framework in attracting FVCs in emerging economies.**

The regulatory framework is vital for attracting foreign venture capital (VC) investment in emerging economies by providing legal support, stability, and trust. Bustamante (2021) highlights its role in offering legal protection and

security, ensuring enforceable contracts, and safeguarding intellectual property (Hain, 2016). Additionally, tax incentives and streamlined administrative procedures enhance investment appeal, as noted by Karhunen (2022) and Khan (2013). However, Marintize (2015) warns that excessive deregulation can lead to fraud, emphasizing the need for balanced regulations with effective monitoring. This balance ensures protection for foreign VC investments while fostering local entrepreneurial ecosystems.

#### **2.4. Role of Government Initiatives in Attracting Foreign Venture Capital**

Government initiatives are crucial for attracting foreign venture capital (VC) investment in emerging economies, significantly influencing economic growth, innovation, and job creation. Yin (2021) highlights that strategies like tax incentives and regulatory reforms reduce barriers for foreign investors, making these markets more appealing. For example, India's reduction of long-term capital gains tax to 0% has attracted substantial foreign VC investment (Zunino, 2022). Simplifying bureaucratic procedures and enhancing intellectual property protection also create a favorable business environment (Dau, 2014). Co-investment by governments, as seen with Singapore's Temasek Holdings, reduces perceived risks and incentivizes foreign investments (Yin, 2022). However, excessive government intervention can distort market dynamics and lead to inefficiencies, cronyism, and corruption, as seen in China's tech sector (Kato, 2022). Thus, while government support is essential, it should primarily focus on creating a conducive environment for business rather than direct capital allocation.

#### **2.5. The role of intellectual property protection access to skilled talent in influencing the VC investment decisions**

Intellectual property (IP) protection and access to skilled talent are pivotal factors shaping VC investment decisions, especially in innovative startups. Strong IP protection, as emphasized by Wright (2005), provides investors assurance that their investments in innovation-driven ventures are safeguarded from infringement and theft, boosting confidence, and encouraging capital allocation. Conversely, overly stringent IP rules, as cautioned by Cao (2021), may stifle innovation by fueling patent wars and defensive patenting, diverting resources from productive innovation. Moreover, as highlighted by Yi (2021), access to qualified personnel, such as in Silicon Valley, creates a talent-rich

ecosystem that attracts global investors. However, talent rivalry and rising labor costs, as noted by Alsagr (2022), can pose challenges, prompting some economies like Singapore to strike a balance between robust IP protection and fostering innovation through collaboration. Finding this balance is crucial for attracting VC investment while fostering innovation and cooperation, ultimately determining the success of emerging ecosystems.

## **2.6. The role of intellectual property protection access to infrastructure in influencing the VC investment decisions**

Intellectual property (IP) protection and access to infrastructure are pivotal factors influencing venture capital (VC) investment decisions. Effective IP protection, as highlighted by Omri (2021), creates an environment where investors' capital is safeguarded against infringement, fostering investor confidence, and attracting capital. Silicon Valley's success, driven partly by robust IP legislation, exemplifies how strong IP protection can bolster investor appeal, as noted by Alsagr (2022). However, an excessive focus on IP protection, as cautioned by Sipola (2021), may hinder innovation by fostering legal battles and defensive patenting cultures, diverting resources from product development. Moreover, stringent IP enforcement can foster secrecy, discouraging collaboration and idea exchange, and undermining the collaborative spirit essential for creative ecosystems.

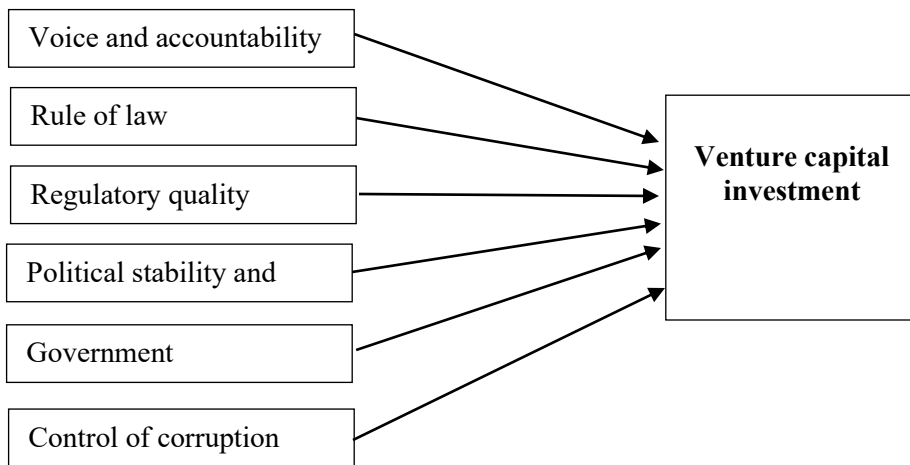
Similarly, access to infrastructure, including physical, digital, and educational components, significantly influences investment decisions. Yi (2021) emphasizes the importance of physical infrastructure, such as transit networks and co-working spaces, in enabling startups to operate efficiently and mitigating operational risks. Petry (2022) underscores the necessity of digital infrastructure, fast internet, and cloud computing resources, particularly for tech-based companies. Moreover, educational infrastructure, including universities and research facilities, ensures access to a qualified workforce and fosters innovation, as noted by Dana (2022). While infrastructure availability and IP protection are critical, a balanced approach is necessary, considering other factors like market potential and team dynamics to make informed investment decisions in a competitive business landscape.

Foreign venture capital plays a vital role in fostering economic development in emerging economies by injecting expertise, capital, and promoting innovation. However, if not managed properly, it can raise concerns about sovereignty and control exploitation. By addressing funding gaps, facilitating access to global markets and networks, and promoting innovation, foreign venture capital contributes to job creation and infrastructure development. Yet, it's crucial to mitigate risks associated with loss of sovereignty and control, as foreign investors may influence decision-making processes to the detriment of the country's interests, leading to potential exploitation of local resources and labor.

### **3. METHODS AND PROCEDURE**

Foreign venture capital (FVC) plays a crucial role in financing startups and driving innovation, particularly in emerging economies. Various theoretical perspectives guide FVC behavior in these contexts. The Resource-Based View (RBV) suggests that FVCs invest in startups with unique capabilities and resources, such as access to local markets or novel technologies. Institutional Theory emphasizes how FVCs consider the local institutional environment, favoring companies that align with prevailing regulations. Transaction Cost Economics (TCE) posits that FVCs seek to reduce transaction costs, often by leveraging local networks or co-investing with regional partners.

These perspectives underscore the importance of favorable political and regulatory environments, effective governance, low corruption levels, and stable political conditions in attracting FVC. Empirical hypotheses suggest significant correlations between FVC and indicators like "Voice and Accountability," "The Rule of Law," regulatory quality, political conditions, government effectiveness, and corruption levels. Countries with transparent governance, strong legal systems, favorable regulatory frameworks, stable political climates, effective governance, and low corruption tend to attract more FVC, fostering innovation and economic development. Understanding these linkages is crucial for investors and governments seeking to leverage FVC for economic growth and innovation.



***Figure 1: Impact of voice and accountability, rule of law, regulatory quality, political stability, government effectiveness, and control of corruption of venture capital investment***

### **Dependent Variable:**

The dependent variable in this research is Venture Capital investment. Venture capital funding is a vital component of the entrepreneurial ecosystem, providing financial support to early-stage, high-potential firms in exchange for equity. These investments drive economic growth, job creation, and innovation. Venture capital investment by population refers to the distribution of venture capital resources in an area relative to its population size. Typically, regions with larger populations attract more venture capital investments due to the size of their markets and potential customer base. However, ensuring an equitable distribution of venture capital is important for promoting diversity and inclusion in entrepreneurship. Therefore, distributing venture capital investment according to population demographics can help support entrepreneurs from underrepresented areas and ensure broader access to investment opportunities.

### **Independent Variables:**

**Voice and Accountability:** Refers to the extent of public engagement in government decision-making processes and the freedom of speech within a society.

**Rule of Law:** Encompasses the protection of property rights, contract enforcement, and the prevention of crime, providing stability and predictability for businesses and investors.

**Regulatory Quality:** Relates to the clarity, effectiveness, and consistency of regulatory frameworks governing business operations, trade, and industry standards.

**Political Stability and Absence of Violence/Terrorism:** Reflects the stability of a country's political environment, including democratic institutions, peaceful transitions of power, and the absence of civil unrest or terrorism.

**Government Effectiveness:** Denotes the ability of a government to deliver essential public services, maintain infrastructure, and uphold law and order efficiently.

**Control of Corruption:** Indicates the extent to which a country effectively combats corruption within its institutions, which can significantly impact economic efficiency, trust, and investment attractiveness.

#### 4. THE MODEL

The model used for analysis is as follows:

$$VCINVLOG_{it} = \alpha + \beta_1 VOI_{it} + \beta_2 RUL_{it} + \beta_3 REG_{it} + \beta_4 POL_{it} + \beta_5 GOV_{it} + \beta_6 COR_{it} + U_{it}$$

where:

**$VCINVLOG_{it}$** : Venture capital investment (log)

**$VOI_{it}$** : Voice and accountability

**$RUL_{it}$** : Rule of law

**$REG_{it}$** : Regulatory Quantity

**$POL_{it}$** : Political stability & sense of violence /terrorism

**$GOV_{it}$** : Government effectiveness

**$COR_{it}$** : Control of corruption

**$U_{it}$** : Error term

## 5. RESEARCH DATA COLLECTION

The study utilized data from the World Bank and VentureXpert databases, with a focus on cross-border venture capital activity in developing economies from 2013 to 2022. This timeframe was chosen due to the increased popularity of such activity since the early 2000s. The VentureXpert database was particularly relied upon for its comprehensive coverage and historical data, making it a valuable resource for analyzing venture capital trends. The study's emphasis on this period aligns with other research noting the growth in cross-border venture capital in developing nations during this time. Moreover, the research focused on low-to-middle-income countries with at least 10 international venture capital agreements during the specified period. This selection criteria allowed for a deeper exploration of the phenomenon within these specific contexts. By employing reliable financial sources and a focused approach, the study aimed to investigate the dynamics of foreign venture capital in developing countries effectively. This methodological approach is consistent with industry standards and supported by existing literature stressing the importance of reliable data sources and relevant timeframes in venture capital research.

## 6. ANALYSIS AND FINDING

The research employed the EViews software platform for data analysis, utilizing various statistical approaches to extract insights and evaluate hypotheses. Descriptive statistics, correlation analysis, and regression analysis constituted the comprehensive data analysis technique, providing a nuanced understanding of the relationships between variables and foreign venture capital investments.

Initially, descriptive statistics were used to summarize the dataset, calculating essential parameters such as means, medians, standard deviations, and ranges. This provided researchers with a comprehensive overview of the data's characteristics, facilitating the identification of core trends and variability in the variables.

Subsequently, correlation analysis was conducted to explore the relationships between variables, particularly focusing on hypotheses regarding "voice and accountability," "the rule of law," "regulatory quality," "political stability and violence/terrorism," "government effectiveness," and "control of corruption." Correlation coefficients, such as Pearson's  $r$ , were computed to ascertain the

direction and strength of these relationships, revealing initial patterns and associations.

To further examine these relationships, regression analysis was employed. Multiple regression models were utilized to evaluate the influence of independent variables (the rule of law, voice and accountability, regulatory quality, political stability, government effectiveness, and control of corruption) on the dependent variable (foreign venture capital). This analysis allowed researchers to identify significant predictors and measure their impact on venture capital investments.

The research sample comprised 15 emerging countries with foreign investment data reflected in the VentureXpert database from 2013 to 2022, totaling 150 observations. Independent variable data were sourced from the World Bank website. Descriptive figures presented in Table 2 summarize the dataset, indicating means, medians, and standard deviations for venture capital investment across the sample countries on a yearly basis.

The results, as depicted in Table 3, showed significant connections between variables without evidence of multicollinearity. Furthermore, the p-value of the regulatory variable was  $\leq 0.010$ , indicating a significant relationship between variables.

Regression analysis results presented in Table 4 revealed that regulatory, political, and corruption variables had a negative impact on venture capital investment, whereas voice, the rule of law, and government variables had a positive impact. Specifically, a 10% increase in regulatory and political variables led to a 4.2% and 2.3% reduction in venture capital investment, respectively. Conversely, a 10% increase in voice, the rule of law, and government variables resulted in a 1.7%, 3.4%, and 4.8% increase in venture capital investment, respectively. The insignificance of corruption suggested that it did not significantly affect venture capital investment.

The study findings revealed that voice and accountability, as components of governance, positively influenced venture capital investment, emphasizing the importance of strong democratic institutions protecting investor rights and ensuring transparency. Similarly, the rule of law was found to create a favorable environment for venture capital investment by enforcing contracts and protecting

property rights. Regulatory quality played a crucial role in shaping the venture capital landscape, with efficient regulatory frameworks attracting more investment. Additionally, political stability and effective governance positively correlated with venture capital investment, while the relationship between corruption control and venture capital investment was found to be insignificant.

However, there were complexities in these relationships, with competing theories suggesting varied effects depending on factors such as location and investment specifics. Further research is necessary to fully comprehend the complex interactions between these factors and venture capital investment, ensuring policymakers strike a balance to foster an investment-friendly environment.

**Table 1: Descriptive analysis of the variables**

Sample: 2013 2022							
	VCIN VLOG	VOICE	RULE	REGUL ATORY	POLITIC AL	GOVER NMENT	CORRUP TION
Mean	7.558	36.540	38.467	37.705	23.797	38.822	34.882
Median	7.361	34.879	38.994	39.527	16.864	38.333	34.524
Maximum	10.534	67.488	68.2692	60.476	61.611	65.865	62.381
Minimum	6.000	7.729	12.500	12.264	0.9479	9.524	7.692
Std. Dev.	1.037	15.213	13.267	12.440	16.587	14.137	14.611
Skewness	0.800	0.090	0.076	-0.155	0.507	-0.058	0.067
Kurtosis	3.136	2.336	1.936	2.109	1.871	2.056	1.878
Jarque-Bera	11.184	2.961	7.219	5.567	14.393	5.651	7.979
Probability	0.0037	0.22489	0.027	0.0618	0.001	0.0592	0.018
Sum	786.085	5481.00	5770.070	5655.740	3569.675	5823.377	5232.386
Sum Sq. Dev.	110.752	34484.00	26226.00	23059.000	40995.000	29779.000	31810.000
Observations	104.000	150.000	150.000	150.000	150.000	150.000	150.000

**Table 2: Correlation matrix between the variables**

	VCINVL OG	VOICE	RULE	REGULA TORY	POLITIC AL	GOVER NMENT	CORRU PTION
VCINVLOG	1.000						
VOICE	0.207	1.000					
RULE	0.280	0.268	1.000				
REGULATORY	0.093	0.462	0.570	1.000			
POLITICAL	-0.137	0.125	0.648	0.379	1.000		
GOVERNMENT	0.348	0.276	0.738	0.791	0.400	1.000	
CORRUPTION	0.106	0.332	0.812	0.666	0.661	0.719	1.000

**Table 3. Result of regression analysis**

Dependent Variable: VCINVLOG				
Method: Panel Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.401605	0.304453	21.02659	0.0000
VOICE	0.017197	0.005953	2.888779	0.0048
RULE	0.034777	0.013076	2.659569	0.0092
REGULATORY	-0.042912	0.012287	-3.492448	0.0007
POLITICAL	-0.023452	0.007215	-3.250500	0.0016
GOVERNMENT	0.048159	0.011822	4.073526	0.0001
CORRUPTION	-0.017238	0.012169	-1.416617	0.1598
R-squared	0.392141	Mean dependent var		7.558516
Adjusted R-squared	0.354541	S.D. dependent var		1.036952
S.E. of regression	0.833092	Akaike info criterion		2.537590
Sum squared resid	67.32211	Schwarz criterion		2.715578
Log likelihood	-124.9547	Hannan-Quinn criter.		2.609698
F-statistic	10.42941	Durbin-Watson stat		0.920120
Prob(F-statistic)	0.000000			

**Table 4. Relationship of the variables**

Sr. No	Variables	Nature	Exp. Relation	Symbol
1	Venture capital investment	Dependent		VCINVLOG
2	Voice and accountability	Independent	+	VOICE (VOI)
3	Rule of law	Independent	+	RULE (RUL)
4	Regulatory quality	Independent	-	REGULATORY (REG)
5	Political Stability and sense of violence/terrorism	Independent	-	POLITICAL (POL)
6	Government effectiveness	Independent	+	GOVERNMENT (GOV)
7	Control of corruption	Independent	-	CORRUPTION (COR)

Table 4 illustrates the relationship between variables and their effects on venture investment capital. It is evident that voice and accountability, the rule of law, and government effectiveness positively impact venture investment capital, whereas regulatory quality, political stability, and corruption have a negative impact. The insignificant effect of control of corruption implies no impact of this variable on venture capital investment. The covariance analysis table demonstrates that all independent variables, except control of corruption, affect the dependent variable either positively or negatively.

Increases in regulatory quality and political stability negatively affect venture capital investment, highlighting the necessity for meeting investment standards to attract desired results from foreign investors. Conversely, voice of

accountability, the rule of law, and government effectiveness positively influence venture capital investment. Notably, control of corruption in countries does not affect venture capital investment significantly. Therefore, government effectiveness and the rule of law exert significant influence on foreign investment in small to medium enterprises in low to medium-income countries.

Furthermore, the R-squared value of 39.2% indicates that the model explains 39.2% of the variability in venture capital investment. This suggests that government effectiveness, the rule of law, and other independent variables collectively contribute to explaining variations in venture capital investment. Our results are statistically significant at the 1% level, indicating robustness and reliability in the findings.

Overall, the findings underscore the importance of governance factors such as voice and accountability, the rule of law, and government effectiveness in attracting foreign investment. By understanding the impact of these variables, policymakers can create environments conducive to venture capital investment, fostering economic growth and innovation in emerging economies.

## **7. CONCLUSION AND RECOMMENDATIONS**

In essence, the research findings highlight the positive relationships between independent variables such as voice and accountability, the rule of law, regulatory quality, political stability, and government effectiveness with venture capital investment. However, the control of corruption shows an insignificant relationship with venture capital investment. These conclusions emphasize the importance of various governance factors in attracting foreign investment and fostering economic growth in developing countries.

Voice and accountability, indicative of citizens' participation in governance, positively impact venture capital investment by creating transparent and democratic environments that reduce investment risks. Similarly, the rule of law, characterized by legal stability and transparency, enhances investor confidence, and protects property rights, thus attracting venture capital. Moreover, regulatory quality streamlines investment processes, reduces uncertainty, and encourages venture capital activity by providing a transparent and efficient regulatory environment.

Political stability and the absence of violence or terrorism positively influence venture capital investment by reducing investment risks and creating an attractive investment climate. Conversely, corruption's insignificant relationship with venture capital investment suggests that its impact may vary depending on regional contexts and investment nature, although lower corruption levels generally attract more investment.

Recommendations to enhance foreign venture capital investment include strengthening governance and accountability, investing in legal infrastructure, promoting entrepreneurial ecosystems, ensuring market access and regulatory clarity, and encouraging data openness. These strategies can create an inviting environment for foreign investors while fostering innovation and economic development in developing countries.

Future research directions may include investigating the temporal dynamics of venture capital investment, analyzing the long-term effects of political and legal changes, examining regional and national differences in the impact of independent variables, exploring micro-level impacts on investment choices, and considering the influence of social and cultural factors on venture capital investment. By addressing these areas, policymakers and investors can better understand the complexities of venture capital investment and make informed decisions to promote economic growth and prosperity.

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