Proposing a Strategy for Attracting Foreign Direct Investment in Venture Capital Funds

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Received: 2025-03-04 **Reviewed:** 2025-05-25 **Revised:** 2025-06-01 **Accepted:** 2025-06-10 **Published:** 2025-08-11

Abstract

This study proposes a strategy for attracting foreign direct investment (FDI) in venture capital funds. The objective of this research is to identify and analyze the factors that can facilitate or constrain the attraction of foreign investments into venture capital funds. To this end, the study adopts a qualitative approach using the grounded theory methodology. Data were collected through questionnaires and semi-structured interviews with managers and experts active in the venture capital sector. The findings of the research indicate that several key factors directly influence the attraction of FDI. These factors include the economic and financial environment, the legal and regulatory framework, public and private institutions, organizational and managerial culture, access to technology and innovation, barriers and challenges, and the country's brand and image. Among these, the economic and financial environment—particularly economic stability and investment return rates—exerts the most significant impact on attracting FDI. Additionally, a suitable organizational culture and strategic managerial approach within venture capital funds are identified as facilitating factors for attracting foreign investment. Moreover, access to advanced technologies and innovation is also recognized as one of the influential factors in attracting FDI. A comparison of the results with previous research reveals that these findings are consistent with earlier studies, especially regarding the impact of economic stability, transparent regulations, and innovation on attracting foreign investment. This study recommends that managers of venture capital funds and economic policymakers focus on improving economic conditions, creating transparent and supportive legal frameworks, and promoting a culture of innovation and cooperation between public and private institutions. Such measures can enhance the attraction of foreign investments and improve the economic growth and competitiveness of venture capital funds.

Keywords: *Foreign Direct Investment (FDI), Venture Capital Funds, Investment Attraction, Organizational Culture, Innovation, Economic Environment, Legal Framework, Public and Private Institutions.*

How to cite this article:

Azizabadi, A., Vakili Fard, M. R., Moradi, Z., & Keramati, M. A. (2025). Proposing a Strategy for Attracting Foreign Direct Investment in Venture Capital Funds. Management Strategies and Engineering Sciences, 7(1), 1-9.

1. Introduction

The increasing globalization of capital markets, coupled with the growing demand for financing innovative and high-risk ventures, has positioned venture capital (VC) funds as critical instruments in the development trajectories of emerging economies. In this context, attracting foreign direct investment (FDI) into venture capital funds represents a strategic priority for countries aiming to foster innovation, support entrepreneurship, and enhance economic growth. The role of FDI in promoting sustainable economic development has been well-established in the literature, particularly in terms of technology transfer, job creation, and market efficiency [1-3]. However, the intersection between FDI and venture capital, especially in emerging markets, remains a relatively underexplored yet increasingly vital area of research and policy.

FDI provides not only capital inflow but also technical expertise, international market access, and credibility to local ventures [4, 5]. Venture capital funds, on the other hand, play a pivotal role in identifying, mentoring, and scaling high-potential startups that might otherwise struggle to secure funding through traditional financial channels [6, 7]. Therefore, the convergence of FDI and VC can yield synergistic effects, facilitating innovation-led growth in developing economies [4, 8].

Recent shifts in global investment patterns—driven by rapid technological advances, geopolitical uncertainty, and environmental imperatives—have further highlighted the need for adaptive and forward-looking FDI strategies [9, 10]. In this context, government-led VC initiatives have emerged as potent vehicles for channeling foreign investment into critical sectors, particularly in energy, technology, and digital infrastructure [9, 11]. By aligning public capital with private expertise, these hybrid financing models can bridge the gap between domestic policy goals and international investment flows [12, 13].

Nevertheless, attracting FDI into VC funds in emerging economies is fraught with challenges. These include institutional voids, legal uncertainties, limited investor protection, and underdeveloped financial ecosystems [14-16]. A key factor influencing FDI inflow is the regulatory and policy environment, which must strike a balance between incentivizing investors and safeguarding national interests [17, 18]. Countries with stable governance structures and transparent regulatory frameworks have consistently outperformed others in attracting sustainable FDI in venture-oriented sectors [5, 12].

Moreover, the cultural and managerial dimensions of investment attraction cannot be overlooked. Studies show that countries with entrepreneurial cultures, innovation-friendly institutions, and robust human capital are more successful in attracting FDI to their VC ecosystems [7, 19, 20]. Additionally, effective signaling mechanisms—both strong (e.g., intellectual property rights, governance quality) and weak (e.g., entrepreneurial vision, media visibility)—play a significant role in reducing information asymmetry and boosting investor confidence, particularly in digital and tech-based startups [21].

Labor productivity and human capital have also emerged as essential mediators in the VC–FDI nexus. Research in European and transitional economies indicates that venture capital not only contributes to job creation but also enhances labor efficiency and technological competence, thereby attracting further foreign investment [18, 19, 22]. These dynamics are especially relevant in knowledge-intensive industries such as fintech, clean energy, and biotechnology, where the quality of human capital is a critical determinant of success [9, 23].

A growing body of evidence supports the notion that institutional reforms aimed at improving governance, reducing corruption, and ensuring investor protection are prerequisites for attracting FDI into venture capital ecosystems [14, 15]. In this vein, countries like China have demonstrated that a deliberate mix of liberal economic policies, strategic industrial planning, and international diplomacy can yield substantial gains in FDI inflows to VC sectors [12]. Moreover, global case studies show that the presence of successful exits and returns in domestic venture markets serves as a powerful signal for foreign investors [5, 6].

While macroeconomic variables such as GDP growth, inflation, and currency stability remain important predictors of FDI attraction, micro-level dynamics, including sectoral innovation capacity, startup ecosystem maturity, and inter-organizational collaboration, are increasingly relevant in the venture capital context [8, 13]. For example, digital transformation has not only expanded investment opportunities but also required a reevaluation of traditional FDI criteria, especially in terms of platform scalability and data governance [10, 21].

In parallel, the environmental and social governance (ESG) agenda is reshaping the priorities of institutional investors globally. FDI in venture capital is no longer driven purely by financial returns but also by alignment with long-term sustainability objectives [9, 24]. This is particularly evident in sectors like renewable energy, green finance, and climate tech, where government policies and venture capital investments often intersect [10, 24].

The literature also suggests that strong diplomatic relations and international trade agreements positively affect FDI inflows into venture capital by reducing transaction costs and ensuring dispute resolution mechanisms [2, 3]. The availability of bilateral and multilateral support structures, such as double taxation treaties, investment guarantees, and arbitration mechanisms, can further enhance investor confidence and facilitate cross-border capital mobility [25].

In Iran’s context, the potential for attracting FDI into venture capital funds remains significant, particularly in technology-driven and export-oriented sectors. However, leveraging this potential requires a coherent strategy that addresses infrastructural, institutional, and perceptual barriers [16, 25]. These include developing a favorable legal environment, enhancing innovation systems, improving transparency, and fostering global partnerships [8, 13]. The need for inter-sectoral collaboration—linking policymakers, private investors, academic institutions, and international development actors—is paramount for designing viable pathways to attract FDI into Iran's nascent but promising venture capital landscape.

Furthermore, a comparative perspective reveals that successful models of FDI-VC integration in countries like South Korea, Singapore, and Israel provide important policy lessons. These include the establishment of sovereign wealth funds with VC mandates, investment promotion agencies focused on innovation sectors, and public-private innovation hubs that act as intermediaries between global capital and local startups [4, 11, 17].

Finally, the future of FDI attraction in venture capital will likely hinge on digitalization, data-driven decision-making, and regional integration. As global venture markets continue to evolve, countries that proactively position themselves as innovation hubs—through effective branding, strategic incentives, and ecosystem orchestration—are likely to capture a larger share of international investment flows [23, 26].

In sum, attracting FDI into venture capital funds is a multidimensional process shaped by macroeconomic stability, institutional quality, regulatory coherence, innovation capacity, and global integration. The existing body of research clearly illustrates that success in this domain demands not only capital and infrastructure but also strategic vision, governance reform, and coordinated stakeholder engagement [6, 8, 11]. This study seeks to contribute to this evolving discourse by identifying and analyzing the key determinants and policy levers that can enhance Iran's competitiveness in attracting FDI into its venture capital ecosystem.

2. Methodology

This study employs a grounded theory approach. Grounded theory is a qualitative research methodology designed to derive new theories from data and experiences collected from various sources. In this method, the researcher collects data without any predetermined theoretical assumptions and generates new concepts and theories grounded in the data. Essentially, the research begins with real data—without being influenced by prior theories—so as to develop new theories and models within different fields.

In this research, grounded theory is applied to analyze the data and to explain strategies for attracting foreign direct investment (FDI) in venture capital funds. The research process follows the classic grounded theory stages, including open coding, axial coding, and selective coding. In this process, the core concepts and codes are extracted from the data and then synthesized into a comprehensive and structured theory that can contribute to a better understanding of the FDI attraction process.

Stages of Data Analysis Using Grounded Theory:

1. **Open Coding**: At this stage, the data are carefully examined, and all relevant information is identified. The interview or questionnaire responses are converted into codes, each representing a specific concept.
2. **Axial Coding**: This stage involves linking the open codes and extracting main themes and concepts. Relationships among different codes are identified and classified.
3. **Selective Coding**: In this stage, the key and central concepts directly related to the research problem are selected from among the previously identified codes and concepts. These concepts are then integrated into a theoretical framework and a general model for explaining FDI attraction strategies in venture capital funds.

The statistical population of this study consists of specialists, managers, and experts in the field of venture capital funds, investors, and institutions involved with foreign investment in Iran. Additionally, individuals active in startups and innovative companies—due to their influential role in attracting foreign investments into venture capital funds—are also considered part of the statistical population.

Given the qualitative nature of the study, non-random and purposive sampling methods will be used to select participants. Purposive sampling enables the researcher to select individuals with specific and relevant knowledge or experience concerning the research topic.

Data Collection Tools used in this research include semi-structured interviews, document and record reviews, and specialized questionnaires. These tools are designed to gather accurate information from participants.

1. **Semi-Structured Interviews**: These interviews allow the researcher to pose core research questions in an open-ended manner and collect detailed responses from interviewees. This tool is particularly suitable for grounded theory research, as it enables the acquisition of rich, in-depth data

that might not emerge through structured or closed-question formats.

2. **Specialized Questionnaires**: These questionnaires are designed to collect both qualitative and quantitative data concerning the characteristics and requirements of FDI attraction. The questionnaires include both open and closed questions and specifically focus on identifying barriers, opportunities, and effective strategies for attracting investment.
3. **Document and Record Analysis**: In this phase, documents related to governmental policies and programs, internal reports from venture capital funds, and successful or failed experiences in FDI attraction are analyzed. These documents may include reports, scholarly articles, economic development plans, and policies related to FDI and venture capital funds.

To analyze the data collected from interviews and documents, qualitative data analysis methods were used with the assistance of NVivo software. This software helps the researcher in coding the data and identifying the main concepts and patterns. After data coding, the analysis results will be presented in the form of theoretical interpretations and conceptual models aimed at developing FDI attraction strategies in venture capital funds.

Finally, the data analysis will be conducted qualitatively and comparatively to identify influential factors in attracting foreign investment and to propose the necessary strategies for improving this process.

3. Findings and Results

To investigate the strategy for attracting foreign direct investment (FDI) in venture capital funds, various components and dimensions that may influence the analysis and formulation of such strategies were collected from interviews. The main and sub-components are presented as follows:

Economic and Financial Environment

• *Economic Stability*: The influence of the country's macroeconomic conditions on attracting foreign investment.

• *Interest Rates and Return on Investment*: The impact of interest rates and potential returns on investors' decision-making.

• *Diversity of Financial Resources*: The availability of various financial resources and funding mechanisms.

• *Government and Fiscal Policies*: The effect of government fiscal policies (such as taxes, subsidies, and new regulations) on venture capital funds.

Legal and Regulatory Framework

• *Legal Transparency*: The clarity and transparency of laws related to foreign investment.

• *Legal Security*: Guaranteeing legal rights of investors and protecting intellectual property.

• *Simplicity and Speed of Processes*: Facilitating administrative procedures for attracting FDI into venture capital funds.

Public and Private Institutions

• *Governmental Support*: Government support in policymaking and resource allocation for venture capital funds.

• *Collaboration Between Public and Private Institutions*: Cooperation in creating legal infrastructures and facilitating investment processes.

• *Regulation and Oversight of Funds*: Governmental regulation and oversight of venture capital fund activities.

Organizational and Managerial Culture

• *Innovation Culture*: Support for innovation and risk-taking culture in organizations and funds.

• *Efficient Management*: The presence of experienced and competent managers in venture capital fund management.

• *Strategic Approach*: Strategic approaches to establish and manage venture capital funds and attract foreign investors.

Access to Technology and Innovation

• *Research and Development (R&D)*: The impact of R&D expenditures on the growth of venture capital funds and attraction of FDI.

• *Development of New Technologies*: The role of technology and innovation in attracting foreign investments.

• *Startup Ecosystem*: The presence of a supportive ecosystem for startups and innovation in attracting FDI.

Domestic and International Market Potential

• *Size of Domestic Market*: The scale and capacity of the domestic market to adopt new technologies and innovative services.

• *Access to International Markets*: Economic and trade relations with foreign countries and access to international markets.

• *Market Competitiveness*: The competitive ability of domestic firms and venture capital funds against international rivals.

Barriers and Challenges to Attracting FDI

• *Political and Economic Risks*: The effect of political risks and economic instability on attracting investment.

• *Regulatory and Legal Challenges*: The presence of complex and non-transparent regulations in the investment process.

• *Cultural and Social Barriers*: The cultural and social factors affecting the attraction of foreign investment in venture capital funds.

Country Brand and Image

• *International Image of the Country*: The effect of the overall international perception of the country on attracting FDI.

• *Attraction of Skilled Human Resources*: The impact of foreign investment on developing skilled human resources and improving managerial competencies.

• *International Relations*: Diplomatic and economic relations with other countries in facilitating FDI.

Support for Startups and Innovation

• *Entrepreneurship Education and Training*: The role of education and training in entrepreneurship in attracting foreign investments.

• *Investment Opportunities in Startups*: The potential of venture capital funds to attract investors to innovative startups.

• *Financial and Legal Support for Startups*: Governmental and non-governmental support policies for startups to create a favorable environment for investment attraction.

Communication with Foreign Investors

• *International Networking*: The existence of communication networks and collaboration between venture capital funds and international investors.

• *Building Trust*: Establishing trust between foreign investors and venture capital funds in emerging markets.

• *Marketing and Fund Promotion*: Promotional and marketing activities to introduce venture capital funds to foreign investors.

Global Market Influence

• *Impact of Global Crises and Fluctuations*: The influence of global economic and political crises on the process of attracting foreign investment.

• *Globalization and International Competition*: The effects of globalization and international competition on venture capital funds and FDI attraction.

• *Emerging Market Potential*: Investment opportunities in emerging markets and expansion of venture capital fund activities in these markets.

Investment Marketing and Promotion

• *Advertising Campaigns*: The effect of advertising strategies and branding on attracting foreign investment.

• *Image Enhancement Programs*: Programs aimed at enhancing the image and communicating the advantages of investing in venture capital funds.

• *Communication Between Funds and Investors*: Effective communication channels between funds and foreign investors to boost international investments.

These components generally refer to the various dimensions of the foreign direct investment (FDI) attraction process in venture capital funds and emphasize the importance of factors such as the economic environment, legal and regulatory frameworks, organizational culture, human resources, innovation, and transparency. These factors not only influence the attraction of foreign investments but can also contribute to the creation of a favorable environment for the development of venture capital funds and facilitate the FDI process in Iran and other developing countries.

To classify the components of FDI attraction in venture capital funds, the identified variables can be categorized based on causal, contextual, strategic, and consequential factors, as shown in the table below:

Table 1. Identified Research Components

Components	Causal Factors	Contextual Factors	Strategic Factors	Outcomes
1. Economic and Financial Environment	- Economic stability	- Interest rates and return on investment	- Diversity of financial resources	- Strengthening foreign investment - Economic growth and competitiveness
		- Government fiscal policies	- Government and fiscal strategy	
2. Legal and Regulatory Framework	- Legal transparency	- Legal security	- Simplicity and speed of procedures	- FDI attraction - Improved business

				environment through transparency
3. Public and Private Institutions	- Governmental support	- Public-private institutional cooperation	- Regulation and oversight of funds	- Improved investment environment - Increased foreign investment
4. Organizational and Managerial Culture	- Innovation culture	- Efficient management	- Strategic approaches	- Improved fund performance - Development of innovative, competitive organizations
5. Access to Technology and Innovation	- R&D expenditures	- Development of advanced technologies	- Startup ecosystem	- Increased innovation and technological advancement - Enhanced FDI process
6. Domestic and International Market Potential	- Domestic market size	- Connectivity to international markets	- Market competitiveness	- Increased sales and investment returns - Strengthened international engagement
7. Barriers and Challenges to FDI	- Political and economic risks	- Regulatory and legal challenges	- Cultural and social barriers	- Reduced FDI attractiveness - Lower economic growth rates
8. Country Brand and Image	- International image of the country	- Attraction of skilled human capital	- International relations	- Enhanced global reputation - Greater investment inflow
9. Support for Startups and Innovation	- Entrepreneurial education and training	- Investment opportunities in startups	- Financial and legal support for startups	- Startup growth and innovation - Improved investment environment
10. Communication with Foreign Investors	- International networking	- Building trust between domestic and foreign investors	- Marketing and promotion of funds	- Greater attraction of foreign investors - Facilitated investment processes
11. Global Market Influence	- Impact of global crises and fluctuations	- Globalization and international competition	- Potential of emerging markets	- Increased global interactions - Investment attraction from emerging markets
12. Investment Marketing and Promotion	- Advertising campaigns	- Image enhancement programs	- Communication between funds and investors	- Increased visibility of venture capital funds - Strengthened international market presence

- **Causal Factors**: These refer to elements that directly create or enhance conditions for attracting foreign investment, such as economic conditions, political stability, and legal transparency.
- **Contextual Factors**: These refer to underlying conditions that indirectly affect investment attraction, including organizational culture, cooperation between public and private institutions, and startup support.
- **Strategic Factors**: These involve the decisions and strategies adopted to attract foreign investment and strengthen venture capital funds, such as strategic management approaches and the development of advanced technologies.
- **Outcomes**: These represent the results and implications of enabling conditions and adopted strategies, ultimately leading to increased FDI attraction, enhanced innovation, and the development of venture capital funds.

4. Discussion and Conclusion

The findings of this study have revealed a multidimensional framework of components that influence the attraction of foreign direct investment (FDI) into venture capital (VC) funds in emerging economies, with a focus on Iran. These components—ranging from economic and financial stability to legal frameworks, technological innovation, investor relations, and marketing strategies—highlight the complex, interwoven nature of factors necessary for effective FDI attraction. The analysis showed that causal factors such as economic stability, policy clarity, and financial diversity serve as foundational drivers, while contextual and strategic factors—such as organizational culture, startup support, and international networking—enhance and shape the FDI environment. These elements collectively contribute to outcomes such as increased innovation capacity, enhanced investor confidence, and growth in venture capital ecosystems.

One of the most significant findings from the study is the centrality of macroeconomic stability and financial return rates in determining investor behavior. This aligns with previous research indicating that economic performance and predictability are the primary considerations for FDI decisions in venture-intensive sectors [1, 4, 8]. The data show that investors prioritize environments where inflation, interest rates, and currency volatility are under control, and where the expected rate of return on capital remains competitive. In line with this, countries that provide diverse financial instruments and supportive fiscal policies tend to attract higher volumes of FDI in venture activities [9, 11].

Legal and institutional clarity was also identified as a decisive factor in the attraction process. This supports the findings of Marjanović, who emphasized that legal transparency and effective enforcement of intellectual property rights are indispensable in building trust among foreign investors [14]. The presence of simplified administrative processes and clearly defined ownership structures enhances investor perception of security, which in turn facilitates greater inflows into venture funds [12, 17]. The study also highlighted the need for harmonized collaboration between public and private sectors, echoing previous work suggesting that institutional synergy improves the operational landscape for investment and reduces bureaucratic resistance [13, 15].

In terms of strategic factors, organizational culture and managerial capacity were found to significantly influence the attractiveness of domestic venture capital funds to foreign investors. Countries with cultures that support innovation, risk-taking, and agile decision-making are better positioned to cultivate thriving VC ecosystems [6, 20]. Moreover, the presence of competent fund managers who understand international investment standards and risk management practices was seen as critical to securing and maintaining investor confidence [4, 7].

Technological innovation and access to cutting-edge research and development (R&D) infrastructures were additional pivotal elements that emerged from the analysis. This reflects the arguments by Du et al., who noted that government-backed venture capital is most effective when linked with innovation-driven sectors such as alternative energy and green technologies [9]. The findings reaffirm that foreign investors are drawn to countries where startups demonstrate high growth potential, strong intellectual property portfolios, and a scalable technology base [21, 23]. Moreover, the existence of robust startup ecosystems—characterized by incubators, accelerators, and collaborative R&D networks—was positively correlated with FDI inflows into venture funds [19, 22].

The role of domestic and international market potential also received strong validation in this study. Investors tend to favor countries with sizable internal markets and trade linkages that allow them to scale innovations globally [3, 10]. Indeed, the findings suggest that countries integrated into global value chains, or those participating in regional economic agreements, experience enhanced FDI inflows due to improved market access and reduced trade barriers [2, 8].

Barriers such as political and economic instability, lack of regulatory clarity, and socio-cultural frictions were reported as consistent deterrents for FDI in VC sectors. These findings align with the existing body of research which posits that emerging markets must address governance risks and reduce uncertainties to become viable investment destinations [15, 18]. In particular, ambiguous legal environments and cumbersome regulatory procedures were found to slow down the due diligence processes and inflate transaction costs, ultimately reducing the attractiveness of venture capital funds to foreign entities [17, 25].

The importance of the national brand and country image also emerged as a significant, albeit often overlooked, factor. Countries with a positive international reputation and track record in innovation, political stability, and investor protection were more successful in attracting FDI to VC funds [2, 3]. Additionally, investor perceptions are shaped by the visibility and success stories of local startups, which serve as informal benchmarks of return potential and systemic maturity [4, 6].

The study also emphasized the necessity of proactive marketing and international networking by domestic VC funds. Participation in global startup expos, technology fairs, and international finance summits was found to significantly enhance visibility and engagement with potential investors [11, 26]. Similarly, trust-building measures—such as transparent fund governance, third-party auditing, and real-time performance reporting—were viewed as essential tools to reduce perceived risks and encourage long-term capital commitments from foreign stakeholders [5, 21].

Environmental, social, and governance (ESG) factors also play an increasing role in investment decisions, particularly for institutional investors. This study's results corroborate the growing influence of sustainability considerations on FDI patterns, especially in venture capital funds that target renewable energy, healthtech, and climate resilience sectors [9, 24]. Integrating ESG benchmarks into fund operations not only attracts capital from impact-focused investors but also improves long-term performance through better stakeholder alignment [10, 16].

In summary, the results of this study reveal a comprehensive and nuanced picture of the enablers and obstacles shaping FDI attraction to venture capital funds. They validate prior research while also offering contextual specificity relevant to Iran and similar emerging economies.

Successful attraction strategies require a systemic approach that addresses foundational macroeconomic and legal structures, while also leveraging innovation ecosystems, governance reforms, and global partnerships.

Limitations

Despite its contributions, this study has several limitations. First, the qualitative design, while suitable for exploratory research, restricts the generalizability of findings. The participant pool was limited to key stakeholders in the Iranian context, which may not reflect broader regional or global dynamics. Additionally, the use of semi-structured interviews introduces subjectivity, as interpretations may be influenced by both researcher and respondent biases. The dynamic nature of FDI inflows, influenced by geopolitical events and global economic fluctuations, also limits the temporal validity of findings. Finally, the absence of quantitative modeling means that causal relationships between variables could not be statistically tested.

Suggestions for Future Research

Future research should consider adopting a mixed-methods approach that integrates quantitative econometric modeling with qualitative insights to examine the causal relationships between legal, economic, and technological factors and FDI inflows into VC funds. Longitudinal studies could track the evolution of investment patterns over time and across multiple emerging markets for comparative insights. Furthermore, more granular studies focusing on sector-specific dynamics (e.g., healthtech, fintech, greentech) could provide targeted recommendations for policymakers and investors. Cross-national research, especially involving countries with successful VC ecosystems, would also enrich understanding of best practices and scalable policy interventions.

Suggestions for Practice

Policymakers should prioritize the creation of transparent legal frameworks, stable economic environments, and institutional partnerships to enhance FDI attractiveness. Domestic venture capital funds must build their international brand presence through proactive marketing, global networking, and strategic partnerships. In parallel, efforts should be made to strengthen the startup ecosystem through education, incubation support, and innovation incentives. Finally, integrating ESG metrics into fund management and aligning venture investment strategies with national development goals will position emerging economies as competitive, future-ready investment destinations.

Authors' Contributions

Authors equally contributed to this article.

Acknowledgments

Authors thank all participants who participate in this study.

Declaration of Interest

The authors report no conflict of interest.

Funding

According to the authors, this article has no financial support.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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