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Risky Business: Assessing the Feasibility of Cross-Border Venture Capital Investments in Conflict Zones

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Keywords

venture capital, conflict zone, investment, FDI, emerging markets, private equity, cross-border, international investment, entrepreneurship

Disciplines

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RISKY BUSINESS: ASSESSING THE FEASIBILITY OF CROSS-BORDER VENTURE CAPITAL INVESTMENTS IN CONFLICT ZONES

By

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Abstract

As venture capital expands in relevance and influence, investors will begin to face inevitable challenges when deciding where and how to allocate VC funding. Though substantial research has been done to evaluate the myriad financial structures of venture capital, the literature on cross-border VC and its applications are quite limited. This paper will assess the barriers to cross-border VC investments into conflict zones, aiming to understand the feasibility of such investments under the modern VC paradigm. Common barriers will be tested against interviews with a range of venture capital investors to understand the relative importance of these barriers and the extent to which venture capitalists aim to mitigate them. Further, the paper will develop concrete insights into the relevant opportunities and risks present in conflict zone VC investments, along with proposed adjustments to the VC investment model that aim to ameliorate the risks. Ultimately, we aim to understand the calculus of venture capitalists and the ways in which conflict zone opportunities are commonly evaluated, allowing future investors to better examine these opportunities under the framework of a dynamic investment model.

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1. Introduction

1.1. Introduction / Definitions

The growing prevalence of technology in modern society has promulgated the surge of a niche alternative asset class – venture capital. A subset of private equity, venture capital (VC) denotes investments directed towards the early-stage growth or development of companies.[1] VC funding is a valuable process in the expansion of technology enterprises, as VCs tend to target young companies operating with negative cash flows in uncertain industries and volatile markets[2]. In doing so, they often take an active monitoring role in the time they hold the investment, aiming to sell their stake for significant gains five to seven years after the initial investment.[3] Thus, the purchase of minority equity stakes in these companies represents a high tolerance of risk on behalf of the VCs relative to most traditional late-stage private equity investments. This yields further questions regarding the ways in which VCs evaluate this risk, namely as it applies to companies with which they lack familiarity.

Before the dot-com boom, VC was almost entirely a locally-focused industry[4], meaning that investors rarely sought opportunities outside of their own geographies. Recently, the industry has witnessed a surge in cross-border investments. Aizenman and Kendall document a rise in cross-border participation in VC deals from 15 percent in the early 1990s to 40 percent in 2007[5], with this figure having grown further since the report. Driving this trend are various factors including heightened globalization, diminishing information asymmetries, and economic changes in

[1] Drover, W., Busenitz, L., Matusik, S., Townsend, D., Anglin, A. and Dushnitsky, G. (2017) A review and road map of entrepreneurial equity financing research: venture capital, corporate venture capital, angel investment, crowdfunding, and accelerators. *Journal of Management* 43(6): 1820– 1853.
[2] Gompers, P. and Lerner, J. (2001) The venture capital revolution. Journal of Economic Perspectives. 15:2.
[3] Ibid.
[4] Cumming, D. and Dai, N. (2010) Local bias in venture capital investments. *Journal of Empirical Finance.* 17:3.
[5] J. Aizenman, J. Kendal. The internationalization of venture capital Journal of Economic Studies, 39 (2012), pp. 488-511

developed economies. Namely, the credit meltdown in the US and the Eurozone is often seen as the primary force that directed VC funds internationally, towards countries like India and China that showed greater stability as the west was reeling from a recession.[6] For the purposes of this paper, a cross-border VC investment describes any early-stage investment made from a for-profit VC based out of a Western polity into another polity. Now, as VC continue to expand their geographic scope, potential opportunities may arise in areas previously overlooked entirely by international investors – conflict zones.

Defined as "regions of war, insurgency, or severe lawlessness," conflict zones represent regions facing political and economic stability that disrupts essential services and domestic business activity. Common characteristics of conflict zones include but are not limited to the imposition of economic sanctions, collapse of aspects of civil infrastructure, and an unstable system of governance and legal procedures.

Despite the high unpredictability associated with conflict zones, these regions continue to house growing enterprises that seek funding at all stages. As a consequence of limited domestic investment infrastructure, these companies are often only able to find meaningful foreign investment from international investors, which the UN describes are being instrumental in stimulating development and post-conflict economic recovery.[7] That being said, myriad barriers exist deterring western investors from deploying funds into conflict zones, ranging from institutional access barriers to more the evaluation of political and corruption risks.

This paper will assess these barriers to understand the potential for cross-border VC investments into conflict zones. Common barriers will be tested against interviews with a range

[6] Bain and Company (2011, 2012, 2013, 2014) "India Private Equity Report"
[7] United Nations (2009). *Report of the secretary-general on the work of the organization*. General Assembly Official Records. Fifty-fourth Session. Supplement, No. 1 (A/54/1).

of venture capital investors to understand the relative importance of these barriers and the extent to which venture capitalists aim to mitigate them.

1.2. Normative Disclaimer

Before proceeding with the analysis, it is essential to note that this paper focuses only on a single side of the VC deal process. Though the paper examines deals purely from the perspective of investors, it is important to recognize that there is an entirely distinct side of the investment process relating to the entrepreneurs and companies receiving investments. This side of the investment process should not be ignored, and investments should not be conducted purely because of the value they provide to investors. This paper focuses the thought processes of VC investors from a financial perspective, though the externalities of these investments on entrepreneurs, emerging economies, and the general population must play a vital role in these investments processes as well.

1.3. Literature Review & Contribution statement

The contribution of this paper can be expressed by examining two gaps in existing literature:

1) Research on cross-border VC activity that does not examine conflict zones specifically
2) Research on conflict zone investments that does not examine VC specifically

In the first category, the bulk of existing research on cross-border VC activity is valuable in elucidating empirical evidence to infer a VC firm's decision-making process in cross-border investments. Namely, the predominantly quantitative research works to reinforce an understanding of general barriers and mitigation techniques for international VC firms, though various factors inherent to conflict zones tend to be ignored in these analyses. These include differentiators like unavoidable political turbulence and economic turmoil that is not necessarily present in other international investments. That being said, the literature helps understand the impact of target and home country development on the *quantity* of investments made. These analyses have found that VC firms tend to avoid investing abroad when presented with more promising investment opportunities in their home country.[8] Further, research shows that target countries housing active capital markets and stock markets tend to witness greater VC capital inflow due to the facilitation of exit opportunities.[9] Quantitative research has also shown that factors like political instability and cross-border differences often deter investors from pursuing foreign opportunities due to subsequent limited returns. Research examining specific conflict zones in detail has yielded the same general takeaway, with papers by Vijaykumar and Chowdhury[10] finding that local conflict had a negative impact on foreign investment quantities in Sri Lanka and Uganda respectively.[11] [12] Further research on VC investment trends has indicated a trend between exchange rate volatility and foreign direct investment in emerging markets. These findings indicate that certain firms are more likely than others to invest internationally, and that these investments are empirically more likely to occur in certain regions. That being said, the application of these findings to conflict zones requires a thorough understanding of the unique political and economic climate in conflict zones and the ways in which they exhibit similarities to other, commonly studied emerging markets. This paper will expand on the existing

8 Schertler, A. and Tykvová, T. (2011) Venture capital and internationalization. *International Business Review* 20(4): 423– 439.

9 Groh, A.P., von Liechtenstein, H. and Lieser, K. (2010) The European venture capital and private equity country attractiveness indices. *Journal of Corporate Finance* 16(2), 205– 224.

10 Chowdhury, M. (2011). The Determinants of Entrepreneurship in a Conflict Region: evidence from the Chittagong Hill Tracts in Bangladesh, *Journal of Small Business & Entrepreneurship*, 265-181

11 Vijayakumar, S. (2012). Growth and issues of small and medium enterprises in post-conflict Jaffna Sri Lanka. *International Journal of Trade, Economics and Finance* 3 (3)

12 Tsounis, N. and Vlahvei, A. 2012. The Impact of Exchange Rate Volatility on Foreign Direct Investment in Iran. *Procedia Economics and Finance.*

work by pairing it with interview insights to ground this empirical research in concrete expressions of VC decision-making processes.

In the second category, the literature on conflict zone investment often ignores VC as a specific asset class, instead focusing more broadly on FDI. This is primarily driven by the recent prevalence of VC as a newer investment model, along with the general scarcity of VC investments in these regions. That being said, substantial literature has focused on the impact of subsidiary and joint venture formation in conflict zones, often noting that locating in a conflict zone is a highly risk endeavor likely to cause substantial disruptions.[13]

The aforementioned gaps in existing literature are both primarily driven by the lack of existing VC investments in conflict zones. It is precisely for this reason that this paper aims to shed light on these potential investments, using a combination of interview insights with existing empirical literature to understand how these opportunities ought to be evaluated.

1.4. Presentation of Research Question

This paper ultimately aims to demonstrate:

i) Whether value can be extracted by venture capitalists through investments in conflict zones

ii) The barriers that hinder the extraction of this aforementioned value, and

iii) How these barriers can be overcome through adjustments of the traditional VC due diligence framework

[13] Henisz, W. J. (2000). The institutional environment for multinational investment. Journal of Law, Economics, and Organization, 16(2): 334–364.

2. Insights from Venture Capitalists

2.1. Interview Design

Interviews were conducted in a semi-structured format to allow for free-flowing conversation and to adjust based on a respondent's specific background. The questions were generally guided by a questionnaire consisting of both open-ended and specific questions. Some of these questions involved, but were not limited to:

1. When evaluating investment opportunities in conflict zones, what barriers are most prevalent from a VC's perspective?
2. How does the composition of your LP base impact the types of investments that you can make and your firm's level of risk tolerance? Does your fundraising team keep this in mind when raising institutional funds?
3. How have you found the competition / bidding wars to be in conflict zones? Do you generally face less competition from outside investors than you would in other regions?
4. Post-investment, how have you found working with management teams in conflict zones?
5. Given the barriers discussed, what measures does your firm tend to take to overcome these barriers and successfully execute an investment?

It is important to note that interview respondents would often discuss other matters not directly prompted by the questions, yielding interviews with varied topics of focus. Often, this occurred as respondents focused more on matters they found to be particularly salient and relevant to their respective work. Nonetheless, these interview insights remain tremendously valuable through both the individual responses provided by the respondents, along with a comparative analysis of responses between respondents driven by their variation in backgrounds and investment strategies.

2.2. Respondent Profiles

A total of 12 respondents were interviewed in this study. Respondents consisted of:

- The founder of an American venture capital firm with over 2,500 previous investments across 75 countries,
- A partner at a fund specializing in small-to-medium sized enterprises in Eastern Europe, with a specialized focus on post-conflict regions,
- The Chief Investment Officer of an impact investment fund focusing on venture capital investments in Latin America,
- A partner at a venture capital firm specializing in emerging markets,
- The founder of a British venture capital f,irm with over 50 previous investments focused on the Middle East and North Africa
- Four lower-level investment analysts / associates at US-based impact-focused venture capital firms, each firm having invested into multiple emerging markets,
- Three investors at varying venture capital firms (not impact investors), all focusing predominantly on Western markets and having made a small number of investments in conflict zones and post-conflict zones.

All respondents had some level of experience executing and overseeing investments in conflict zones and/or post-conflict zones. Further, all respondents held this experience at for-profit venture capital firms consisting of a diversified LP base. In sum, the interview respondents held experiences evaluating investment opportunities across conflict zones in Africa, South America, Eastern Europe, South Asia, and the Middle East, covering over 100 countries. Examples of these conflict zone regions include Kenya, Egypt, Venezuela, Georgia, Palestine, and Ukraine. Most respondents also had experience in a broad set of cross-border investments beyond conflict zones, and were also able to use these insights to drive their responses to more general questions.

2.3. Overview of interview responses

The interview responses provided a highly varied overview of myriad venture capitalists' perspectives on conflict zone investments. Respondent's analyses of conflict zone investments often varied based on the aspects of their specific fund (namely, the number of investments they complete, whether it is an impact-focused fund, the fund's home country, and the experience of founders in conflict zones.) Responses and claims made in the interviews were analyzed in conjunction with existing literature on cross-border venture capital and conflict zone investing to ground the respondents' assertions and evaluate them in the context of the respondent's specific background. From here, insights were ultimately derived to address the paper's research questions.

2.4. Discussion of notable themes arising from interviews

2.4.1. High-volume venture capitalists tend to have a higher risk tolerance than other investors, resulting in a greater willingness to pursue conflict zones investments.

A common issue discussed in interviews was that of the venture capitalists' risk tolerance, as this often served as the basis for their investment decisions. Of the 12 respondents, four of their firms can be classified as being "high-volume" VC firms, denoting the fact that they aim to make over 50 investments per year. Four of the five respondents classified under this category noted that their firms do not view conflict zone opportunities substantially differently from other investments, and that they will not exclude an opportunity immediately because it is located in a conflict zone. One such respondent noted that "most of our investments are going to zero anyways," and given the high-volume investment model of the firm, one investment has a negligible impact in the broader context of a large fund. The one high-volume VC respondent who noted that their firm tended to avoid conflict zones cited the firm's LP base as the primary reason. This respondent suggested that the LPs of the fund – consisting primarily of pensions and institutional investors who seek strong, consistent returns – would not tolerate the high inherent risk associated with conflict zones and would instead pull their money out of the fund. When questioned about their LP base, the pro-conflict zone high-volume venture capitalists explained that their LPs primarily consist of high-net-worth individuals and personal investors as opposed to large institutions.

In contrast, five of the seven venture capitalists working at low-volume firms noted that they view *all* conflict zone opportunities negatively, purely due to the regions in which they are based. These investors provided various diverse explanations for their hesitance, as opposed to the single explanation regarding LPs that was presented by the high-volume investor whose firm opposed conflict zone investments. For impact investors, these reasons revolved around the fact that the institutional barriers in conflict zones often prevented their target firms from achieving their desired impact. For non-impact investors, these hesitations were rooted in myriad pragmatic barriers like political risk and corruption, further explored in Section 4 of this paper. One investor noted the reputation of their firm as motivation for this hesitance, noting that they "don't want to be seen as the super risky investors who only invest in the craziest companies".

2.4.2. It is generally difficult to earn a commercial rate of return in a conflict zone, though the few profitable investments tend to generate a significant positive return.

All interview respondents noted the limited financial upside associated with conflict zone investment opportunities. This includes both respondents whose firms focus on emerging markets, along with firms who are agnostic to geography. Reasons cited for seeking this commercial rate of return include the inherently competitive nature of VC funds and the desire to secure future funding. One respondent noted, “we can’t invest in politically unstable regions and then expect to go raise our next fund with that investment on our track record.”

Despite the lower probability of earning a commercial rate of return in conflict zones, most respondents noted that attractive opportunities in conflict zones can be found at a lower valuation than in other regions. Of the eight respondents who made this point, seven of them cited “limited access to capital” as a driver of these compressed valuations, noting that these entrepreneurs often have fewer opportunities to raise capital and therefore seek valuations below their intrinsic. Five of these investors also cited a “lack of bidding wars” as a driver. In most North American VC deals, a number of firms will send bids to the company, after which the company will choose the best bid (often the one presenting the highest valuation). In conflict zones, however, the limited number of both domestic and foreign investors makes bidding wars quite rare, allowing VCs to provide lower valuations. One respondent with experience across emerging markets noted, “we’re never competing in these regions, so we can get in at really attractive valuations without needing to invest resources into marketing ourselves and doing complex deal structures.” The impacts of these low valuations on the VCs’ ultimate decision on whether or not to invest ultimately came down to the firm's frequency of investment and focus. All five high-frequency VC investors noted that these low valuations incited them to pursue past investments in conflict zones. On the other hand, when asked about these valuations and bidding wars, only one of the seven low-frequency investors suggested that this factor could single-handedly encourage an investment, with the rest presenting the barriers to investment as outweighing this valuation advantage.

2.4.3. Investors with specialized experience in conflict zones are better-equipped to address the barriers presented in these regions.

The respondents' wide array of experience across conflict zones and emerging markets generally allowed for a comprehensive overview of the previous experiences required to incite comfortability with conflict zone opportunities. Of the eight investors whose firms focus on emerging markets, six noted that their firms have comprehensive measures in place to mitigate risk in these regions that they apply to their conflict zone investments. These included the use of a specialized in-house legal team, business connections across various regions, and relationships with political entities in these regions. One investor whose firm focuses on impact investments in Latin America noted, "our legal team knows these markets inside and out, so nothing takes us by surprise. We know how to structure complex deals that you couldn't even find in the US." This specialized experience helps to address the institutional barriers in these regions, aiding in the VCs' diligence process and allowing them to pursue investments more comfortably.

Of the four investors whose firms focus on a diversity of regions (i.e. no specific market or set of markets), three noted that their lack of familiarity with a conflict zone region often elongated diligence processes and caused the termination of potential deals. Regarding a highlydiligenced opportunity in Syria, one such investor explained, “we really wanted to invest in them, but every day we would learn something new about the market that just made investing impossible. It seemed like we had to deal with a different state agency every day, and after a certain point we just decided it wasn’t worth the hassle.” A lack of familiarity with conflict zone markets can be especially challenging, given the instability of political and legal structures and the inherent difficulty of predicting changes in foreign investment policies. The one geography-agonistic firm who described limited hesitations in these regions noted that their firm has “multiple local branches and investors across four continents,” meaning that they could still familiarize themselves with numerous international geographies despite being headquartered in the United States.

2.4.4. Entrepreneurs in conflict zones tend to be easier to work with, driven by the scarcity of capital and their desire to maintain strong relationships with investors.

All respondents had previous experience with entrepreneurs in conflict zones, and each investor noted that they were able to maintain strong working relationships with these entrepreneurs throughout the duration of these investors. Common characteristics of these entrepreneurs included high levels of motivation and ambition, along with a desire to partner with the VCs as opposed to merely receiving a monetary investment without harnessing investors’ value-add potential. One investor with experience in both conflict zones and traditional western markets noted that “these entrepreneurs usually want the opportunity to scale and expand beyond their conflict zone, and the best way to accomplish this is by getting the support of an international investor.” Given the scarcity of capital in conflict zones and the limited number of international investors, companies who have relationships with foreign VCs are generally inclined to work harder to preserve these ties.

2.4.5. Post-conflict zones are much more promising areas for investment than conflict zones, as they have comparable entrepreneurial ecosystems with substantially less risk.

Three of the interviewees had previous experience in both post-conflict zones and conflict zones, all noting that they would much rather pursue an opportunity in a post-conflict zone to mitigate risks. Namely, they noted that the advantages provided in conflict zones (highly-motivate entrepreneurs, low valuations, limited bidding wars) can be found in nearly equal amounts in both conflict zones and post-conflict zones. The crucial distinction, however, as one investor noted is that "there is some semblance of stability that we can rely on. Countries that have just been through heavy conflict want more than anything to maintain order instead of going back to conflict." These insights suggest that post-conflict regions provide an insurance of stability that is rare in conflict zones.

Furthermore, all five respondents from impact-focused investment firms supported opportunities in post-conflict regions due to the positive social impacts that domestic entrepreneurship can have on a region's recovery and growth prospects. Impact investors' mandate combines both social impact and financial returns, meaning that the potential for an investment to contribute to its local economy can play a major role in driving the "impact" portion of these theses. One investor cited the example of an investment conducted in the Niger Delta region after the Nigerian Civil War, suggesting that "the region finally became stable, and companies were beginning to pop up left and right. The people are highly educated and ambition was strong, but nobody wanted to start a tech company in the middle of a Civil War. Once the war was over, it finally made sense to set up shop in Nigeria." In post-conflict regions, there is also less of a need for risk mitigation tactics like relationships with local lawyers and politicians, as the regions are significantly more stable than conflict zones. An investor whose firm focuses primarily on post-conflict regions in Eastern Europe noted that "there are so many less barriers and bureaucratic hurdles to cross in a post-conflict zone, since the governments know they need our support to recover from the conflict."

The aforementioned themes are further explored in Sections 3-5 of this paper, coupled with existing literature and case studies to better understand the opportunities and barriers associated with investments into conflict zones.

3. Overview of Investment Opportunities in Conflict Zones

3.1. Analysis of entrepreneurial ecosystems in conflict zones

3.1.1. Overview

It is essential to note that entrepreneurial ecosystems in conflict zones can take myriad forms. The structure and development process of a conflict-torn nation's entrepreneurial landscape is driven by various factors including the extent of conflict in the region, education rates, quality of life, and political support for private enterprise. Thus, it is impossible to make sweeping generalizations regarding start-ups in conflict zones. That being said, this paper uses case studies of Nigeria and Afghanistan to examine 1) the differences between conflict zones based on factors relating to the conflict and 2) difference based on factors relating to governmental policy, in order to ultimately understand the scalability and growth potential of these opportunities.

In countries facing conflict conflict zones, evidence shows that employment rates are higher in the conflict areas themselves as opposed to the non-conflict regions within the same country.[14] Furthermore, studies have increasingly found that private economic activity and specifically entrepreneurship is relatively unchanged (and often tends to increase) in the aftermath of conflicts.[15] Reynolds et al. categorized entrepreneurship in emerging economies into two types: necessity entrepreneurship and opportunity entrepreneurship.[16] Necessity entrepreneurship is described as the development of small businesses in the absence of employment opportunities. Often found in impoverished regions, necessity entrepreneurship lacks the potential for scalability due to the lack of support infrastructure.[17] Opportunity entrepreneurship, on the other hand, describes businesses established for the purpose of fulfilling a specific need with the ultimate aim of expansion and growth.[18] Scholars generally agree that entrepreneurship in emerging markets follows the "necessity" type. In regions facing violent conflict, self-employment is generally higher, though the activities in which these individuals engage are lower-quality activities with limited potential for growth.[19] To elucidate the varying forms of entrepreneurship in conflict zones, this paper uses case studies of Afghanistan

[14] Iyer, S. & Santos, I. (2012). The Employment Challenge in South Asia's Conflict Zones. *World Bank*.
[15] Menon, N. and Rodgers, Y. (2013). War and Women's Work: Evidence from the Conflict in Nepal. *Journal of Conflict Resolution,* 5 (August)
[16] Reynolds, P.D., Camp, S.M., Bygrave, W.D., Autio, E., Hay, M., (2001). GEM Global Entrepreneurship Report, 2001 Summary Report, London Business School and Babson College.
[17] Ibid.
[18] Ibid.
[19] Acs, Z. J., Audretsch, D. B., (2003). *Handbook of Entrepreneurship Research*. Kluwer Academic Publishers, Dordrecht.

(necessity-based) and Nigeria (opportunity-based) to understand the factors promoting entrepreneurial activity.

3.1.2. Case Study: Afghanistan

Afghanistan has been ravaged extensively by conflict since the early 1980s. Conflict has generally been scattered across the region. As a consequence, the conflict has imposed significant economic burdens on the region, serving as a "major impediment to development"[20]. A World Bank study found that companies based out of Afghanistan had little to no external exports and faced high costs associated with governmental relations, bribes, and access to financing.[21] These economic impediments on large corporations in addition to the lack of sustainable employment opportunities have incited a growth in local entrepreneurship. A study by Carli et al. found a significant positive correlation between violent conflict and entrepreneurship in Afghanistan.

A study by UNU-Wilder found entrepreneurship to serve as a "coping strategy" in Afghanistan, allowing citizens to fund means of generating income when employment opportunities are scarce.[22] This can be classified under the "necessity-based" form of entrepreneurship under Reynolds' framework. Afghanistan's necessity-based entrepreneurship subsequently yields "risk-averse" business development, wherein entrepreneurial ecosystems consist of service-based enterprises that use limited technology and have no promise of scaling.

20 Ward C., Mansfield, D., Oldham, P. and Byrd, W. (2008) Afghanistan Economic Incentives and Development Initiatives to Reduce Opium Production, Kabul: DFID. *World Bank.*
21 Ibid.
22 Ciarli, T., Di Maio, M., and Langlotz, S. (2014). Difficult Relationships: Conflict, Entrepreneurship and Economic Development. *University of Sussex*.

Afghanistan has an absence of formal domestic institutions that provide funding or loans to entrepreneurs, meaning that the growth-focused entrepreneurship generally sought by cross-border venture capitalists is nearly impossible to attain.[23] Though entrepreneurship is abundant in Afghanistan, with nearly 9% of Afghan households relying on small businesses as a source of income, the form of entrepreneurship is not conducive to external VC funding.[24]

3.1.3. Case Study: Nigeria

The area surrounding the Niger Delta has face a tremendous amount of conflict incited by terrorist group Boko Haram. Since 2013, over 15 million Nigerians have been severely affected by Boko Haram's conflict.[25] This conflict has incited widespread poverty and unemployment in Northern Nigeria.[26] According to the World Bank's Doing Business Report, Nigeria ranks 138th among 192 countries for starting a business. Further, the nation is commonly regarded as a highly corrupt state wherein external investors and companies have to engage in bribes simply to conduct business in the region.

Despite the aforementioned conflict, Nigeria is one of Africa's entrepreneurial hubs. Two interview respondents with experience across the Middle East and Africa specifically cited Nigeria as being one of the countries that their firm extensively evaluates when sourcing investment opportunities. The Nigerian market is filled largely with opportunity-based entrepreneurs (as per Reynolds' framework), resulting in more attractive opportunities for VCs.

[23] Ibid.
[24] Ibid.
[25] Vittozzi, K. (2016). Abducted by Boko Haram: Femi's Story. *Unicef.* https://www.unicef.org/stories/abducted-boko-haram-femis-story.
[26] Akov, E.T. (2012) "Democracy and Ethno-Religious Conflict in Nigeria: A Study of the 2008 Violent Disturbances in Jos North Local Government Area of Plateau State". *University of Benin, Nigeria.*

Notably, the Nigerian tech start-up ecosystem has already produced three exits over USD $100M.[27] This has been caused in part by governmental support, with the Nigerian government having invested in start-up accelerators across the country, aiming to drive job creation.[28] Furthermore, Nigeria has a very young population, with nearly two thirds of the country being under the age of 25. Most importantly, the conflict in Nigeria takes place in the poor, rural regions surrounding the Niger Delta, whereas urban areas like Lagos and Abuja are more distanced from the violent conflict and face less of the economic ramifications.

In stark contrast to Afghanistan, Nigeria's entrepreneurial ecosystem is more growth-based and active, receiving substantially greater attention from foreign investors. This can be linked back to limited geographic scope of the nation's conflict and the government's efforts to incentivize entrepreneurship.

3.2. Investment opportunities in conflict zones

The common major advantage of pursuing investments in conflict-torn economies discussed by interview respondents focused on capturing value from undervalued firms. They discussed the fact that limited access to capital in conflict zones encourages entrepreneurs to accept low valuations to secure funding. Further, entrepreneurs in these regions often value international VC investment more than domestic investment as it creates greater opportunities to expand into western markets and mitigate volatility associated with their home countries. Thus, investors are often able to purchase equity stakes at lower valuations, thereby augmenting the rate of return

[27] OC&C, (2018). Tech Entrepreneurship ecosystem in Nigeria. https://www.occstrategy.com/media/1307/tech-eship-in-nigeria.pdf
[28] Ibid.

they can receive from the investment's success.[29] From the calculus of a venture capitalist, they will only enter a foreign market if it poses some compensating advantage over the VC's local market that makes it profitable.[30] In conflict zones, the compressed valuations of investment opportunities serve as this compensating advantage. One respondent cites their firm's previous investment into an Egyptian company which was founded at the height of the Arab Spring. They noted that the political environment caused the firm's valuation to plummet, but simultaneously incited VC investment as a result.

Furthermore, investors often work to draw a distinction between areas in which political conflict is confined and the entire region in general. One interview respondent noted an investment pursued in Egypt, wherein the company was based out of a business hub in Cairo that was separated from the regions of conflict in other parts of the country. Studies show that when conflict is isolated to a specific area, it is less likely to pose risks towards firms located elsewhere.[31] During the Algerian civil war, for instance, the majority of foreign ventures and subsidiaries were unaffected as they were based in the southern part of the country and distanced from the conflict zone in northern Algeria.[32]

Prior experience is also a major factor driving a firm's desire to pursue these opportunities. Interview respondents with more experience executing investments into conflict zones showed less resistance to future opportunities, whereas investors with only a few investments in these regions presented them as "one-off cases" that were unlikely to reoccur. One respondent with investment experience across 75 countries and various conflict zones noted that their firm's legal

[29] Hacioglu U., Dincer, H., Erkan, I. (2012). Economic Approach to Conflict Issue: Invesment in Post-Conflict Situation in International Business. *International Journal of Business Administration* 3:5
[30] Markusen, J. (1995). The Boundaries of Multinational Enterprises and the Theory of International Trade. *The Journal of Economic Perspectives*. 9:2, 169-189.
[31] Berman, J. (2000). Boardrooms and Bombs. Strategies of Multinational Corporations in Conflict Areas, in: *Harvard International Review*, 22(3), 28-32.
[32] Ibid.

department has become increasingly equipped to deal with institutional hurdles and legal investment barriers. This falls in accordance with a study by Delios and Henisz which found that MNEs with prior experience in conflict zone may perceive conflict events as political risk and minor fluctuations, as opposed to a deterrence from investing altogether.[33]

Given that VCs hope to make astronomical returns on a small portion of companies in their portfolio, undervalued opportunities can be instrumental in driving their returns. One respondent stated that “most of our investments will likely fail anyways, so we would rather shoot for a few home runs where we can get in for a low valuation”. This respondent manages a VC firm making dozens of investments on a weekly basis. On the other hand, a respondent from a VC investment fund making 2-5 investments per month noted that they cannot afford for their investments to fail regularly, and that their desire to break even on most opportunities encourages them to avoid most conflict zones.

3.3. Investing under post-conflict conditions

Often, governments of post-conflict states will facilitate these investments through incentive programs drawing international investment. In transition economies, these forms of investment help expedite a country’s recovery process and technological development[34].

One respondent whose firm focuses primarily on post-conflict zone investments noted that a transition economy poses significant advantages over a conflict zone as it houses a functioning government, more robust capital markets, and the potential for VCs to gain a first-mover advantage in the region. Thus, the opportunities in these regions remain undervalued,

[33] Delios, A., & Henisz, W. J. 2003. Political hazards and the sequence of entry by Japanese firms. *Journal of International Business Studies*, 34(3): 227–241.
[34] Bennett, J. (2002). Multinational Corporations, Social Responsibility and Conflict. *Journal of International Affairs*, 55:2, pp. 393-410.

though now there is a greater opportunity for the VC to extract this value through an exit into a flourishing market. [35] These exit opportunities are vital for VCs are they enable them to recycle funds into new investments and follow-on investment while encouraging institutional investors to continue providing capital for these funds. All but one of the respondents noted “likelihood of a successful exit” as one of the VC’s key priorities when evaluating investments, with every non-impact focused investor noting it as their *top* priority. The aforementioned post-conflict investor noted that his firm’s focus on transition economies has yielded net positive returns on over 50% of investments, whereas most VC firms expect positive returns on roughly 30% of their portfolio[36]. He attributes this trend to a combination of undervalued opportunities and ripe capital market development in the 5-10 years following the initial investment.

4. Barriers to VC Investing in Conflict Zones

4.1. Institutional barriers

Douglass North defines institutions as “rules of the game in society” or “human-devised constraints that shape human interaction”.[37] In absence of these rules, economies tend to witness poor legal enforcement and heightened corruption, thereby deterring market participants from participating in these institutions.[38]

Every (12/12) interview participant voluntarily cited “poor legal systems” as a salient barrier from pursuing VC investments in conflict zones. Effective legal systems are essential in ensuring

[35] Gompers, P. & Lerner, J., (2001). The Venture Capital Revolution. *Journal of Economic Perspectives.*15:2.
[36] Ibid.
[37] North, D. (1990), Institutions, Institutional Change and Economic Performance, Cambridge: Cambridge University. Press.
[38] Burnett et al. (2016). Using institutional theory to analyse hospital responses to externa demands for finance and quality in five European countries. *Journal of Health Services Research & Policy* 21(2) 109-117.

proper investment execution and the subsequent presence of strong internal capital markets. In an analysis of IPO exits for an American firm's investments in East Asian portfolio companies, legality has been highly positively correlated with the probability of such an exit taking place.[39] Furthermore, efficient legal systems have been shown to mitigate information asymmetries between investors and entrepreneurs.[40] One respondent noted that a lack of a functioning legal system often prevents the VC from enforcing their rights as part of the investment agreement. This manifests in the form of being unable to "exercise voting rights, realize profits on the investment, and negotiate their stake in follow-on investments". Venture capital investments are often followed with future rounds of funding that can result in the compression of an initial investor's equity stake. Thus, the ability to enforce the right of first refusal and the various voting class structures is of utmost importance for VCs.

The role of institutional barriers has commonly been expressed in existing literature through the notion of "transaction costs". Williamson & Winter categorize transaction costs into three kinds: search and information cots, bargaining and decision costs, and policing and enforcement costs.[41] In the specific context of VC investing, all aforementioned transaction costs are relevant, with policing and enforcement costs being most salient in conflict zones.[42] Respondents noted that the turbulent political environments make it difficult to predict whether a start-up will be legally permitted to even operate in the near future.

[39] Cumming D., Fleming, G., Schwienbacher, A. (2006). Legality and venture capital exits, *Journal of Corporate Finance* 12: 214-245.
[40] Ibid.
[41] Williamson O. & Winter, S. (1993). The Nature of the Firm: Origins, Evolution, & Development. *Oxford University Press*.
[42] Ibid.

Transaction costs for foreign venture capital firms are empirically shown to be higher than those for domestic investors, due to the investors' limited knowledge of the foreign institutions.[43] In conflict zones, these costs are exacerbated by political instability and uncertain legal conditions. As one respondent with experience in Eastern Europe notes, "in lots of these revolutionary states, the laws of today are entirely different from the laws of tomorrow". This heightens transaction costs by requiring VCs to be especially thorough when bargaining with entrepreneurs, researching the legal landscape, and regularly checking in with the portfolio company.

4.2. Rule of Law

The World Justice Project defines the Rule of Law with four universal principles: Accountability, Just Laws, Open Government, and Accessible Justice.[44] According to the World Bank, "rule of law is essential to economic development"[45]. Studies have shown that judicial strength and adherence to rule of law are important drivers of foreign direct investment (FDI).[46] Strong, effective courts provide stable assurance to investors that their ownership rights can be recognized without the need for additional legal intervention. In conflict zones which face exorbitant amounts of inherent political risks, a strong legal system helps improve overall stability and create a climate of predictability for investors worried about access to capital and financial returns.[47] Furthermore, the rule of law ensures a meaningful separation between a

[43] Joshi, K. (2016), 'Economics Of Venture Capital Industry In India: An Analysis Of The Macro Ecosystem And Micro Decision Making', Department of Management Studies, Indian Institute of Science.
[44] World Justice Project. *What is the Rule of Law? https://worldjusticeproject.org/about-us/overview/what-rule-law*
[45] Samuels, K. (2006). Rule of Law in Post-Conflict Countries, *World Bank*.
[46] Staats J. & Biglaiser, G. (2012). Foreign Direct Investment in Latin America: The Importance of Judicial Strength and Rule of Law. *International Studies Quarterly*, 56:1, pp. 193-202.
[47] Ibid.

country's judicial and executive branches, thereby limiting the risk of political corruption and malfeasance in the time of conflict.

Three interview respondents noted the absence of rule of law and subsequent bureaucratic hurdles as a deterrence from pursuing conflict zone investments. All three respondents noted that successful VC investments in emerging markets need to be structured and planned in accordance with a strong legal system that allows for unique payout and compensation structures to be implemented. Furthermore, two of these respondents discussed rule of law as a valuable tool in mitigating corruption and political malfeasance and ensuring effective use of cross-border investments, with one investor noting, "we can't, in good conscience, invest in a country where we have no idea where our money is going. If the courts can't be trusted to back us and our entrepreneurs, we can't trust that our investment is getting to where it needs to be."

Furthermore, for companies whose business model depends on a proprietary technology, property laws are essential in ensuring a competitive advantage in their market. Aggregate-level studies find that property right protections play a major role on the investment strategies of foreign investors, and that regions with stronger property rights are more likely to receive foreign investments for technology-driven enterprises.[48]

4.3. Political risk

One of the inherent risks associated with conflict zones surrounds the threat of political instability and political violence in the host country. Conflict can impact a VC investment both directly and indirectly. Directly, civil strife or war may directly hinder the operations of a VC-backed company. One respondent focusing on impact investments in South America noted that

[48] Li, Q. & Resnick, A. (2003). Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries, *International Organization*.

"even non-violent protests were enough to derail one of our portfolio companies for the year." Indirectly, conflict can impact a host country's operations through government intervention. Li argues that governments engaged in domestic or international conflict often increase capital controls and enact tax hikes.[49] This deters future investment flows, limits the potential expansion of the company, and makes exit opportunities increasingly difficult.[50] Though political risk was not directly mentioned by any respondent who was directly questioned about investment barriers, many responses mentioned the inherent issues of conflict and political turbulence as limitations for start-ups in the host nations, and subsequent deterring factors for venture capitalists.

4.4. Corruption

One third (4/12) of all respondents explicitly cited corruption as being their number one concern with conflict zone investments. One impact investor noted that "these investments [often] require you to work with warlords and oligarchs," and another stated that "the systems just weren't built for foreign investment." There is extensive literature citing the impacts of corruption on foreign investment. Studies of this type generally find that host-country corruption has a negative impact on inward FDI due to firms facing predation by the government, limited security on physical and intellectual property, and the necessity of costly transactions with unreliable agents.[51] Dreher and Gassebner suggest that corruption is often a necessary means to an end in emerging economies. This includes processes like acquiring a license to operate,

[49] Li, Q. (2006). Foreign Direct Investment and Interstate Military Conflict. *Journal of International Affairs* 62:1.
[50] Clague et al., (1996). Property and Contract Rights in Autocracies and Democracies. *World Bank*.
[51] Al-Sadig, A. (2009). The Effects of Corruption on FDI Inflows. *Cato Journal*. 29:2.

winning contracts, and overcoming tedious bureaucratic processes.[52] This effect has been consistently observed in investment firms along with MNCs pursuing joint ventures or subsidiaries in regions facing corruption.[53]

Furthermore, aside from the risk posed by the target country itself, firms interfacing with corrupt governments through investments face potential backlash from western authorities as well. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions along with the United States Foreign Corrupt Practices Act aim to reduce corruption by encouraging sanctions against bribery in international business transactions. Their criteria include FDI carried out by firms based in companies that have adopted the Convention. One respondent who runs a US-based impact investment fund focused on Eastern Europe notes that, even though his efforts are ultimately altruistic and beneficial to the countries in which his firm invests, he avoids all interactions with the country's governments in light of the FCPA. Empirical studies support this idea, finding that investors from the US and other countries that implemented the Convention reduced their investments into corrupt countries.[54] Once firms encounter any enforcement effort by the US government and are sanctioned, they do not undertake future investments into countries in which they previously invested.[55] For a VC firm often looking to make follow-on investments and portfolio monitoring actions in these countries, the risk of a sanction would inevitably diminish their ability to generate value from these investments, potentially deterring the investment altogether.

[52] Dreher, A. & Gassebner, M. (2013). Greasing the wheels? The impact of regulations and corruption on firm entry. *Public Choice* 155:413

[53] Drabek, Z. and Payne, W. (2002). The Impact of Transparency on Foreign Direct Investment. *Journal of Economic Integration*. Vol. 17.

[54] Cuervo-Cazurra, A. 2008. Better the devil you don't know: Type of corruption and FDI in transition economies. *Journal of International Management*, 14(1): 12-27.

[55] Graham, B. & Stroup, C. (2015). Does Anti-bribery Enforcement Deter Foreign Investment? *Applied Economic Letters* 23:1.

With respect to the technology firms themselves, research shows that corruption harms the use of technologies available to these firms and the potential efficiency gains they can derive from existing innovations. As a consequence, start-ups in corrupt states become unable to evolve and expand at the same rate as start-ups in other countries. This encourages VCs to allocate their limited capital to domestic opportunities that can better leverage technology and evolve in uncertain economic environments.

4.5. Analysis of conflict zone investment barriers

Responses to the semi-structured interview accompanied with analyses regarding each respondent’s background and their respective firm’s investment focus allows for the following insights and takeaways:

1) Political and economic risks deter virtually all investors from evaluating opportunities in certain conflict zones where the instability is widespread and poses salient impacts on entrepreneurial activity.
2) If conflict is isolated in specific regions and/or the investment opportunity is deemed feasible in spite of political risk, legal hurdles and bureaucratic corruption serve as the subsequently most impactful barriers.
3) The limited legal institutions present in conflict zones can deter inexperienced investors from pursuing opportunities in these regions – a factor exacerbated by the need to often work with corrupt regimes that lack rule of law and standard legal processes.
4) VCs with specialized experience in specific conflict zones (geography-specific impact investors and small enterprise assistance funds, for instance) can best adapt to these barriers by tapping into their network and connections in the region.

5. Proposed Adjustments to the Traditional VC Model

Opportunities in conflict zones present high risk and limited probability of upside. That being said, various efforts can be taken by a VC to mitigate this risk. Thus, VCs would benefit from adjusting their traditional sourcing, diligence, and execution frameworks when presented with promising conflict zone opportunities. These risk mitigation tactics are most valuable for older, more experienced investment firms. As evidenced by interview respondents, older firms have more established connections and prior experience in certain regions, allowing them to adjust their investment model with greater flexibility and foresight. As evidenced in Section 3.1, however, conflict zones can vary tremendously, meaning that these proposed adjustments should be tailored to the specific situation that a given conflict zone presents.

5.1. Specialized Sourcing

The first adjustment VCs ought to make when initially approaching conflict zone opportunities takes place at the **sourcing** level. Namely, VC firms can adjust their sourcing model to search for companies with high levels of transparency and lower information asymmetries, thereby mitigating the aforementioned risks associated with these barriers. The traditional VC sourcing model plays an instrumental role in the firm's returns, with studies finding that sourcing has greater importance than VC value-add in determining an investment's success.[56] The value of sourcing can be attributed to both the quality and quantity of sourcing efforts. Firms that place a greater emphasis on sourcing, spending more time on these activities and the expansion of their network, tend to observe greater success in their investments.[57]

[56] M. Sørensen. (2007). How Smart is Smart Money? A Two-Sided Matching Model of Venture Capital. *The Journal of Finance*. 62:2.
[57] Ibid.

Furthermore, the quality of sourcing plays a role in isolating a VC's investment targets and criteria. The *quality* component of the VC sourcing model can benefit most from adjustments to accommodate conflict zones. Sorensen finds that there is an explicit trade-off between sourcing quantity and quality[58], though this trade-off can prove beneficial for investors in unfamiliar regions. One interview respondent with a geographically diverse portfolio noted, "when we look at these unstable regions for the first time, our sourcing standards are going to be much higher than they would be for North America and Western Europe." In order to minimize information asymmetries and prevent legal and political risks from interfering with investments, VCs should source for investments in conflict zones with limited asymmetry. The mentioned interview respondent provided examples of potential factors that mitigate these asymmetries, like "the founder having experience with foreign investors, the company maintaining operations outside the conflict zone, or the firm even employing an experienced, international legal team."

5.2. Domain Specialization

Beyond the sourcing stages, investors can better ensure feasibility by harnessing **domain specialization** techniques in conflict zones. Specifically, by focusing the firm's research and analysis efforts on specific regions and sectors, the investors can better evaluate an opportunity under the context of its home country. Research has shown that domain specialization through heightened research can be an instrumental risk management tool for VCs pursuing cross-border investments[59]. With respect to the barriers presented in *Section 3* of this paper, domain specialization can be valuable in mitigating both information asymmetries and the consequences

58 Ibid.
59 Joshi, K. (2016), 'Economics Of Venture Capital Industry In India: An Analysis Of The Macro Ecosystem And Micro Decision Making', Department of Mangement Studies, Indian Institute of Science, Bangalore, India

of governmental corruption. As evidenced through interview findings, investors with prior experience in conflict zones exhibited less hesitance towards investing in these regions, as the informational barriers for these opportunities were less salient. An impact investor with investments focused on South America noted, “we know the Colombian and Venezuelan markets inside and out – nothing surprises us at this point.” Instead of pursuing a wide array of opportunities across myriad conflict zones, investors are better off isolating specific regions and developing an expertise in these areas before investing. This can be accomplished best by highly-established VC firms whose existing connections and diligence frameworks can be more easily adapted to accommodate a new sector specialization model.[60]

5.3. Value-Add Adjustments

Upon completion of the initial investment, VCs can alter their value-add processes to better accommodate conflict zone environments. Generally, VCs play a major role in shaping the management of their portfolio companies[61], helping structure the board of directors[62], hire outside managers, and facilitate the professionalization of start-ups[63]. These value-add opportunities are limited and more difficult in conflict zones with unpredictable political and economic environments. One interview respondent with investment across over 100 geographies mentioned, “we want to have constant, regular interactions with our companies. If they’re based in a country that we can’t access for political reasons, that becomes pretty challenging.” Thus, VCs cannot merely apply the traditional aforementioned value-add recipe used regularly for

[60] Cumming & Dai, 2010
[61] Amornsiripanitch, N., Gompers, P., Xuan, Y. (2016). More than money: venture capitalists on boards. *The Journal of Law, Economics, and Organizations*. 35:3.
[62] Lerner, J. (1995) Venture Capitalists and the Oversight of Private Firms. *The Journal of Finance*. 50:1.
[63] Kaplan, S., Stromberg, P. Characteristics, Contracts and Actions: Evidence from Venture Capitalist Analyses. *The Journal of Finance*. 59:5.

domestic investments. Instead, the investors should focus on *strategic* monitoring and advice, in place of *operational* monitoring. As the respondent mentioned, regular operational monitoring is unpredictable and can be interrupted due to political instability. Therefore, allocating these same resources towards strategic value-add can allow VCs to work alongside portfolio companies and provide value where it is most needed, while avoid information asymmetries and political risks.[64]

To further enhance value-add opportunities, VCs can utilize a mechanism of **isomorphism** to provide value to their portfolio companies in conflict zones, namely by helping the firm expand into more stable markets. Isomorphism can serve as a valuable tool in easing the expansion process for start-ups and subsequently maintaining stability in a VC's portfolio.[65] This can either take place through slow expansion and integration into foreign markets, or through fully relocating the company into the developed markets altogether.[66] This mechanism can alleviate the risks associated with information asymmetries (as mentioned above) and political instability. With regards to political instability, the extent to which a firm is impacted by political risk depends on their direct exposure to economic activities of the region.[67] By distancing the portfolio company's activities from the conflict zone, the VC firm can ease the risk of governmental instability interfering with the start-up's customer and supplier interactions.

To ensure this consistent level of value-add while simultaneously mitigating direct exposure to the conflict zone, foreign VCs can pursue co-investment opportunities with local

64 Pruthi et al. (2007). Human Capital and the Internationalization of Venture Capital Firms. *International Entrepreneurship and Management Journal*. 3(1)
65 Makaela, M. & Maula, M. (2008). Cross-border venture capital and new venture internationalization: An isomorphism perspective. *An International Journal of Entrepreneurial Finance,* 7:3.
66 Cumming et al., (2009). Corporate Relocation in Venture Capital Finance. *Entrepreneurship Theory and Practice*.
67 Ghosal, V. & Loungani, P. The Differential Impact of Uncertainty on Investment in Small and Large Businesses. *The Review of Economics and Statistics*. 82:2.

VCs when conducting the investment. In doing so, cross-border investors can ensure that they remain exposed to the financial potential that the portfolio company possesses, without needing to deal with legal and bureaucratic processes with which they are unfamiliar. This involves outsourcing much of the company's monitoring and value-add efforts to a domestic firm with increased familiarity with the ecosystem and political landscape. This mechanism has shown to be valuable in facilitating successful investments when investors are unfamiliar with the host country's ecosystem.[68] In the case of Israel, venture programs were created using co-investments from prominent American, European, and Israeli investors.[69] This allowed foreign firms to access the Israeli markets, while the local investors were tasked with directly managing the investments. These co-investment programs have allowed Israel's entrepreneurial ecosystem to flourish, and for foreign investors to participate in this process.[70]

6. Conclusion / Takeaways

As venture capital continues to expand as an asset class and start-ups become increasingly global, cross-border venture capital will become vital in shaping the future of technology. In the controversial regions known as "conflict zones," foreign investment can play a major role in shaping these areas. Conflict zones can be a ripe zone for investment opportunity, allowing investors to invest in highly promising companies at low valuations, especially in regions like Nigeria where conflict zones are isolated. Interviews with venture capitalists indicate that myriad barriers exist that deter investors from pursuing cross-border investments in conflict zones, with

68 Makaela, M. & Maula, M. (2008). Cross-border venture capital and new venture internationalization: An isomorphism perspective. *An International Journal of Entrepreneurial Finance,* 7:3.
69 Bradley, W. et al. (2019). Cross-border Venture Capital Investments: What is the Role of Public Policy? *Journal of Risk and Financial Management*
70 Ibid.

corruption and institutional/legal barriers being the most salient. These barriers are less impactful for investors with prior experience in conflict zones, with geographically-focused impact investors facing less barriers as they pursue these opportunities. For less-experienced investors, those who pursue myriad investments through high-volume portfolios can best take on this risk. Ultimately, in order to mitigate this risk, investors ought to take a dynamic approach to VC investing by adjusting their sourcing and value-add model to accommodate companies in conflict zones and mitigate the aforementioned political risk.

Further research can be done to empirically evaluate companies based in conflict zones, and their relative risk compared to companies in developed nations. This can involve quantitative research evaluating financial risk models, along with qualitative research that aims to understand how VCs make decisions in politically unstable regions. Through this research, VCs can become best equipped to source and evaluate start-ups in conflict zones, ultimately making this inherently "risky business" more effective and predictable.