

Investor Behavior in Venture Capital Investment: An Analytical Study of Georgian and Central-Eastern European Startup Markets

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ABSTRACT:

This research paper investigates venture capital investor behaviors within the startup ecosystems of Georgia and Central Europe, providing comparative analysis of these markets. Utilizing a mixed-methods approach, the study integrates qualitative and quantitative data derived from questionnaires distributed to VC investors in both regions. Detailed diagrams visualize critical trends and patterns, enhancing the understanding of investor behavior. The findings reveal distinct investment preferences, regulatory landscapes, and other details in each region. Georgian investors, often navigating an emerging market with limited infrastructure and networks, display cautious investment behavior, prioritizing stable returns and market potential. In contrast, Central-Eastern European investors benefit from more mature ecosystems, demonstrating higher risk tolerance and a greater focus on innovative ventures. Key factors driving investment choices include market potential, innovation levels, startup industry, and regulatory frameworks. The study highlights how these elements interact to influence investor confidence and preferences. For instance, while Central-Eastern European investors are motivated by Innovative Technologies and market size, Georgian investors are more influenced by government incentives and emerging market opportunities. By understanding these behaviors, this paper offers valuable insights for entrepreneurs, policymakers, and investors. It aims to enhance the startup ecosystem in both regions, providing a foundation for more informed and strategic investment decisions. This analysis contributes to the broader discourse on global VC trends, emphasizing the critical role of regional contexts in shaping investor behavior and their implications for emerging markets.

Keywords: Venture Capital, Startups, Startup Ecosystem, Georgian Startup market, Investors

1. Introduction

The dynamics of venture capital (VC) investment have a significant impact on the growth and innovation within startup ecosystems. Understanding investor behavior is crucial for developing a supportive environment for startups, particularly in emerging markets such as Georgia and Central-Eastern Europe. These markets share similarities, and Georgia's aspirations to join the European Union make this analysis particularly relevant. This study aims to reveal the patterns and motivations of VC investors in these regions, drawing on newly gathered data to provide a comprehensive analysis.

The research focuses on understanding the patterns and motivations that guide VC investors in Georgian and Central-Eastern European startup markets. By examining factors such as market potential, regulatory landscapes, economic conditions, and investor

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preferences, this study seeks to illuminate the decision-making processes behind VC investments.

Previous studies underscore the importance of these factors in influencing VC activities globally. Market size, technological readiness, and regulatory stability are critical determinants that shape investor behavior and impact the development of startup ecosystems (Gompers & Lerner, 2004; Bruton, Fried, & Manigart, 2005). Besides, some recent researches has shown that sustainable venture capital plays a key role in startup success, indicating the growing trend towards socially and environmentally responsible investments (Bocken, 2015; Jeong et al., 2020). Moreover, the global financial crisis and subsequent market conditions have changed investor strategies, especially under financial limitations (Conti et al., 2019).

By investigating these aspects within the context of Georgia and Central-Eastern Europe, this research aims to identify both common trends and distinctive features in VC investment strategies. Through a comparative analysis of these two regions, this paper intends to highlight best practices, challenges, and opportunities for stakeholders involved in VC investment. Insights gleaned from this study can inform entrepreneurs seeking funding, policymakers crafting supportive frameworks, and investors optimizing their strategies to navigate and capitalize on the evolving VC landscape in emerging markets.

Ultimately, this research contributes to a deeper understanding of how VC investment influences innovation and economic development in Georgia and Central-Eastern Europe. By shedding light on investor behavior and its underlying drivers, this study aims to understand a supporting environment for sustainable growth and integration of these regions within the global VC ecosystem.

2. Literature review

The venture capital landscape has been extensively studied, with a focus on the determinants of investment behavior and the impact on startup growth. Gompers and Lerner (2004) highlight the cyclical nature of venture capital, emphasizing the importance of economic conditions, market potential, and investor experience in shaping investment decisions. Bruton, Fried, and Manigart (2005) expand on this by examining how institutional frameworks and cultural factors influence venture capital activities globally. Research on the role of subsidies in attracting venture capital further highlights the importance of government support in startup development, particularly in emerging markets like Georgia (Berger & Hottenrott, 2021).

In recent years, there has been growing interest in sustainable venture capital, where investment decisions are increasingly driven by environmental considerations (Bocken, 2015). Studies also suggest that VC investment strategies are significantly influenced by external economic pressures, such as the 2008 financial crisis, which caused a shift towards more conservative, risk-tended approaches in capital allocation (Conti et al., 2019). Similarly, technological factors have been identified as key drivers of startup valuation, influencing the decision-making process for venture capitalists, especially in sectors with rapid innovation (Hidayat et al., 2022).

Recent studies have also delved into regional differences, revealing that while Central Europe has seen a steady increase in venture capital investments due to improved

regulatory environments and growing market opportunities (Groh, Liechtenstein, & Lieser, 2010), Georgia's venture capital market remains still under development, characterized by unique challenges such as limited investor networks and regulatory burdens (Abuselidze & Beridze, 2018; Kvesitadze, 2019; Slobodanyk & Abuselidze, 2021; Vasylieva et al., 2021).

Further contributions to the literature include research by Kaplan and Strömberg (2001), who provide insights into the mechanisms of venture capital financing and control structures, highlighting how these mechanisms vary across different economic contexts. Additionally, Lerner and Nanda (2020) explore the relationship between venture capital and innovation, illustrating how regional policies and market dynamics can either foster or hinder technological advancements. These studies underscore the importance of understanding local conditions and their influence on venture capital flows.

Moreover, research by Chemmanur, Krishnan, and Nandy (2011) discusses the impact of venture capital on the performance of portfolio companies, indicating that experienced venture capitalists can significantly enhance startup growth and success rates. Keeping a competitive advantage, cutting expenses associated with operations, and enhancing customer service all depend on investing in chatbot technology (Abuselidze and Meladze, 2024; Abuselidze and Zoidze, 2024). This is particularly relevant for emerging markets like Georgia, where the presence of experienced investors is limited.

In the context of Central Europe, studies by Aylward (2004) and Jeng and Wells (2000) highlight the critical role of government policies and EU integration in stimulating venture capital activities. These policies have created a more favorable investment climate, attracting both domestic and international investors. In Comparison, Kvesitadze (2019) notes that Georgia faces distinct challenges, such as a lack of comprehensive support structures for startups and inadequate legal frameworks that can limit investment.

This literature review underscores the need for a nuanced understanding of investor behavior in these distinct regions, as it is shaped by a complex interplay of local and global factors. Furthermore, the evolving nature of venture capital contracts and their role in aligning interests between investors and startups, as explored by Ewens, Gorbenko, and Korteweg (2022), provides valuable insight into how contractual structures influence investment behavior. By building on these foundational studies, this paper aims to provide a detailed comparative analysis, offering insights into the specific drivers and barriers faced by venture capital investors in Georgian and Central-Eastern European startup markets. Understanding these dynamics is crucial for developing strategies to enhance the venture capital ecosystems in these regions, ultimately fostering greater innovation and economic growth.

3. Methodology

This study uses a mixed-methods approach to comprehensively analyze investor behavior in both Georgian and Central-Eastern European startup markets, particularly in the following countries: Poland, Lithuania, Latvia, Estonia, Czech Republic, Hungary. Combining qualitative and quantitative data ensures a thorough examination of the complexities involved in venture capital investment decisions. The primary data source consists of a detailed questionnaire distributed to venture capital investors across the

regions of interest. This questionnaire was made to gather comprehensive information on investors' basic investment profiles, preferences, risk preferences, decision-making processes, and perceptions of market conditions.

Quantitative data collected through the questionnaire was aimed for statistical analysis to uncover trends, patterns, and correlations in investor behavior. Meanwhile, qualitative responses underwent thematic analysis to extract deeper insights into the motivations, attitudes, and strategic considerations that guide investment decisions. This dual approach not only provides a holistic view of investor behavior but also enriches the understanding of how startup environment nuances and regulatory frameworks influence investment practices in these markets.

The research includes a diverse range of respondents from both Georgia and Central-Eastern European countries, ensuring a representative dataset that captures the breadth of perspectives within the venture capital community. By comparing and contrasting investor behaviors across these distinct regions, the study aims to uncover unique drivers and barriers to venture capital investment. This methodology enables a nuanced exploration of the factors shaping the venture capital landscape in emerging markets, offering valuable insights for entrepreneurs, policymakers, and investors seeking to navigate and optimize their strategies in these dynamic environments.

4. Results and Discussion

4.1 Investor Behavior Analysis in Georgian Startups

In order to analyze the financing of startups with venture capital, it is necessary to understand the behavior of investors in the Georgian market in general, their attitude and views on the startup environment, and other data, according to the investment companies in the Georgian market. In order to achieve the mentioned goal, a study was conducted in which Georgian startup companies participated. Questions such as: in how many Georgian companies have venture capital investments been made? How much have they invested in the last 5 years? What stage of funding do they prefer? What factors influence venture capital financing? What areas are they interested in? How do they evaluate the Georgian startup environment? Does the existing legal framework support the implementation of venture capital investment and what should be changed? What do Georgian Startups lack in the process of attracting investments? etc.

Currently, there are not many investment companies in the Georgian market (according to Crunchbase there are 16 investors, including individuals), which should be improved, it is desirable to have more investors in the Georgian market for a better analysis, however, as of today, feedback from the interviewed investors was received from only 6 investors, whose Based on the analysis, the following was determined:

Today, a large part of Georgian companies have invested in up to 10 companies (83%), others (16.7%) in more than 10 companies, which is shown in the diagram below.

In how many companies have you invested venture capital?

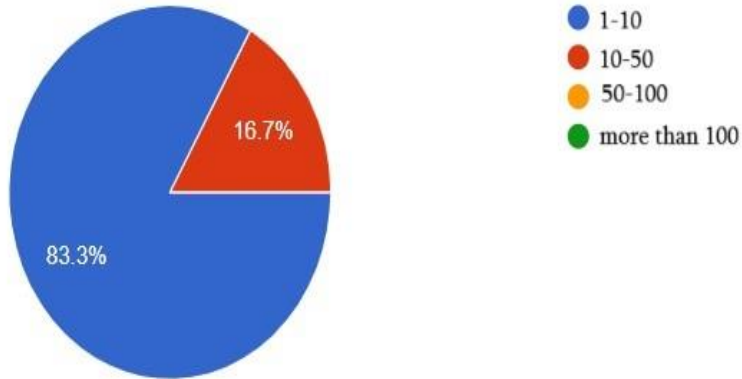


Figure 1. The number of startups financed by Georgian investors

Source: Made by authors, from Crunchbase database, 2024.

As for the total number of investments made in the last five years, the data show a significant and varied scale of activity in the Georgian market. Investors were surveyed to determine the amount of venture capital investment they have made during this period. The majority of respondents indicated that they invested up to 1 million dollars. Notably, one company reported investing over 1 million dollars, highlighting a substantial commitment to the market.

This data is clearly illustrated in Figure 2, which provides a visual representation of the investment distribution. The variation in investment amounts reflects the diverse strategies and risk appetites of different investors. Smaller investments up to 1 million dollars are likely aimed at early-stage startups and emerging businesses, offering opportunities for high growth and innovation. In contrast, the larger investment over 1 million dollars may be directed towards more established companies with proven business models and significant growth potential.

Total invested venture capital in the last five years

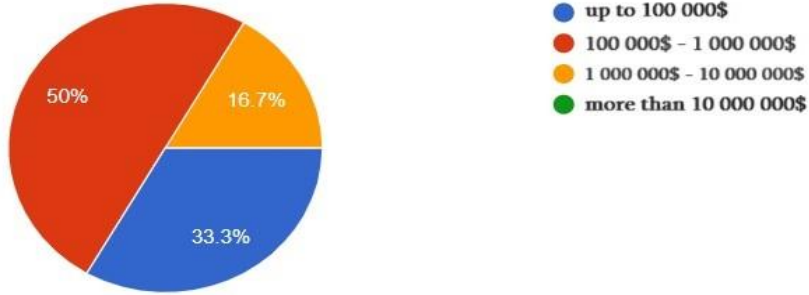


Figure 2. Investment made during the last 5 years by Georgian investors

Source: Made by authors, from Crunchbase database, 2024.

According to the mentioned results, as can be seen on the chart the majority of investors (50%) have invested between \$100,000 and \$1,000,000 in the last 5 years, 33% have invested up to \$100,000, and 17% have invested between \$1,000,000 and \$10,000,000. At first glance, this information is not favorable, however, for the Georgian market, this data is acceptable at this stage, if we take into account that the total amount of investment financed during the last 5 years is \$16,000,000.

For the analysis of investor behavior, it is important to understand what factors influence the investment of venture capital in Georgian startups, which became clear as a result of the survey, and the answers turned out to be quite interesting, which is shown in the Figure 3:

Which factors make impact on your decision for venture capital investment?

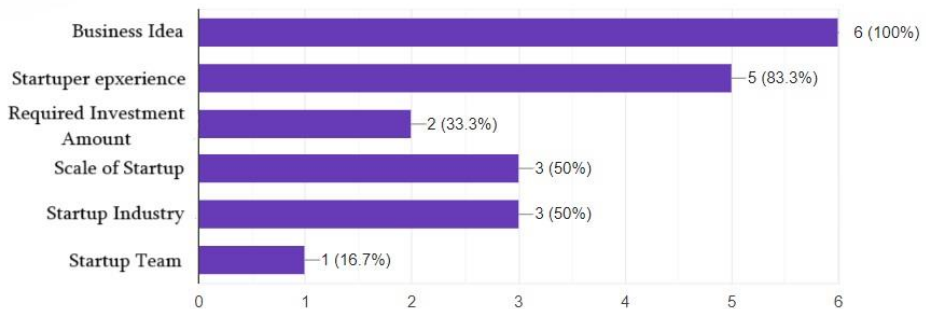


Figure 3. Factors influencing venture capital investment for Georgian investors

Source: Made by authors, from Crunchbase database, 2024.

100% of the surveyed investors believe that the most important factor for a venture capital investment is the business idea, the next most important factor (83%) is the experience of the startup, and half of the surveyed investors believe that the scale of the startup and Startup industry also play an important role.

Also, it was analyzed what areas investors are interested in for investment, and the mentioned data is shown in Figure 4.

Which industries are you mostly interested in when making venture capital investment?

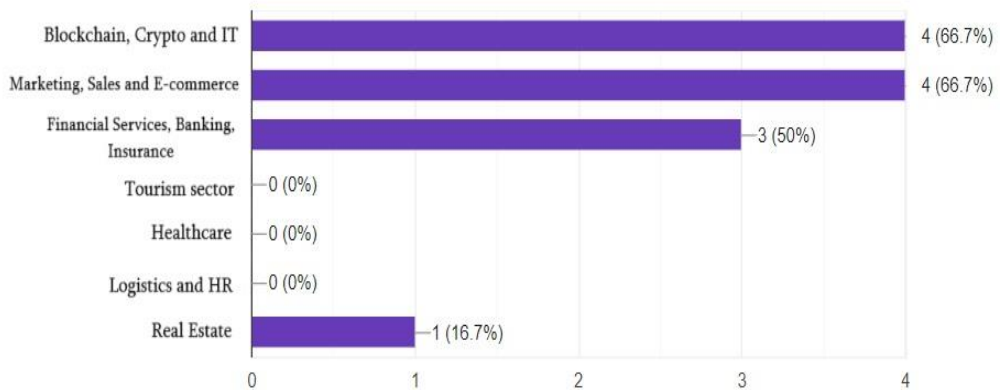


Figure 4. The most attractive areas for Georgian investors in startups

Source: Made by authors, from Crunchbase database, 2024.

It is clear that Georgian investors prefer Blockchain, Cryptocurrency (66%) and marketing/e-commerce fields (66%), followed by the financial sector/banking services (50%) and one investor's preference was Real Estate.

While making Venture Capital Investment, it is also important to analyze which stage of investment Georgian investors prefer. According to the survey on the stages of venture capital investment in the Georgian startup market, investors show a clear preference for early-stage funding. The chart indicates that half of the respondents prefer to invest at the pre-seed stage, while the other half favor the seed stage. This balanced interest in the earliest phases of startup development highlights a strong commitment to nurturing innovative ideas from their inception. By focusing on pre-seed and seed investments, venture capitalists are providing crucial support to new ventures, helping them to develop their products, refine their business models, and achieve initial market traction. This trend reflects a proactive approach to fostering entrepreneurship and stimulating economic growth within Georgia's emerging startup ecosystem (Figure 5).

Which stage of investment you prefer for investing venture capital?

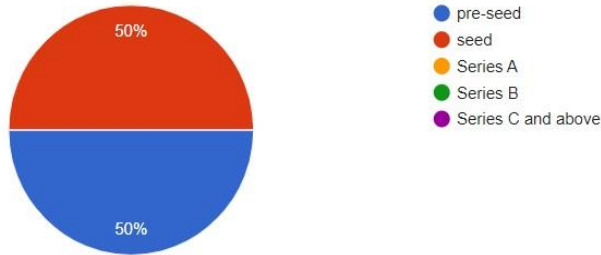


Figure 5. Stages of Investment preferred by Georgian investors
 Source: Made by authors, from Crunchbase database, 2024.

Also, it was surveyed and analyzed how investors would evaluate the Georgian startup environment, and the results indicate a bad startup environment, which can be clearly seen in the Figure below:

How Would You Rate Georgian Investment Environment?

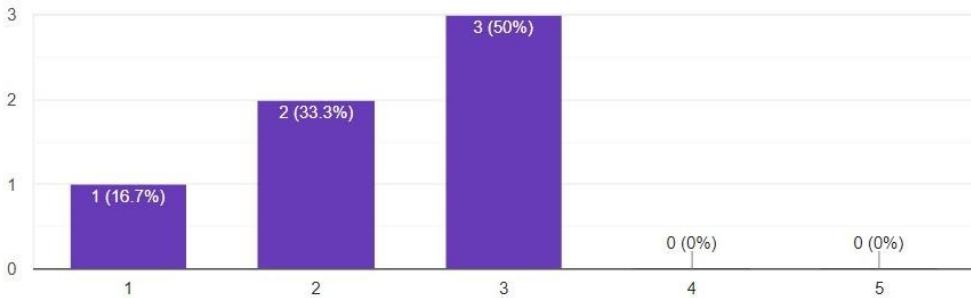


Figure 6. Evaluation of Georgian investment environment
 Source: Made by authors, from Crunchbase database, 2024.

As a result of the survey, it is clear that half of the investors consider Georgian Investment Environment unfavorable, and in particular, for half of the surveyed investors, the Georgian investment environment deserves 3 points out of 5, a third believes that it is 2 points, and a sixth believes that it is 1 point, which is a bad indicator.

In addition to the attitude of investors towards startups, it was also investigated whether the existing legal framework support investors for investment and what would be changed in it. And as a result of the research, half of the interviewed investors believe that the mentioned legal framework contributes to the implementation of venture capital investment, while half believe that it is not enough for the existence of a good investment environment.

Does the existing legal framework support you to invest in venture capital?

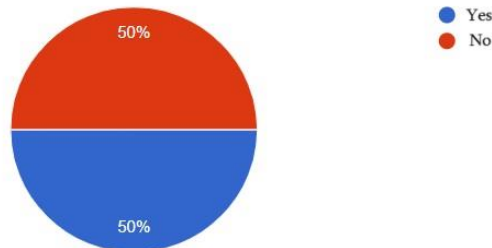


Figure 7. The role of the existing legislative base in Georgia
 Source: Made by authors, from Crunchbase database, 2024.

And to the question of what changes they would like in the legal framework to create a better investment environment, the following answers were received:

- Tax benefits and investment banks;
- More benefits for startups, less taxation and more campaigns;
- Less taxation and attractive investment environment for foreigners, favorable for the direct investor.

It is clear from the answers that the biggest problem that is not favorable for the investor is taxation, which needs to be modified and create a startup environment that is more favorable for the investor and the startup (Abuselidze, 2020; Abuselidze & Gogitidze, 2020; Abuselidze et al., 2024).

In order to analyze investor behavior, to understand why they do not invest more, it was necessary to understand their attitude towards startups, what do startup companies lack in the process of attracting investments, and what advice they would give them, to which following answers were received:

- Less experience and non-competitive business idea. It is desirable to have more competitive business ideas and a good pitch to interest the investor;
- Vision of the future and less ambitions.

As a result of the mentioned research, it is clear that the Georgian startup and investment environment is still in the stage of development and therefore requires changes, both in terms of taxation, and in terms of interest and more motivation of startups, which can be achieved over time, taking into account the recommendations.

4.2 Investor Behavior Analysis in Central-Eastern European Countries' Startups

In order to analyze the financing of startups with venture capital, it is also necessary to understand the behavior of investors in the markets of Central-Eastern European countries, their attitudes and views on the local startup environment and other data that influence the formation of the startup environment in Central-Eastern European countries. In order to achieve this goal, a study was conducted, where investors established

in Central-Eastern Europe, from countries such as Poland, Latvia, Litva, Estonia, Czech Republic, Hungary, who play a major role in the development of the startup environment in the market, took part. For the comparative analysis, the same questions as in the Georgian market were investigated, namely: in how many companies have venture capital investments been made? How much have they invested in the last 5 years? What stage of funding do they prefer? What factors influence venture capital financing? etc.

In the survey many large investment companies took part, such as:

- DFR Inwestycyjny;
- SpeedUp Venture Capital Group;
- Lemonade stand;
- Czech Founders VC;
- Satus Starter;
- Purple Ventures, etc.

As a result of the research, big differences between Georgian and Central-Eastern European investors were revealed. First of all, among the scale of investors, which can be clearly seen in the diagram obtained as a result of the research:

In how many companies have you invested venture capital?

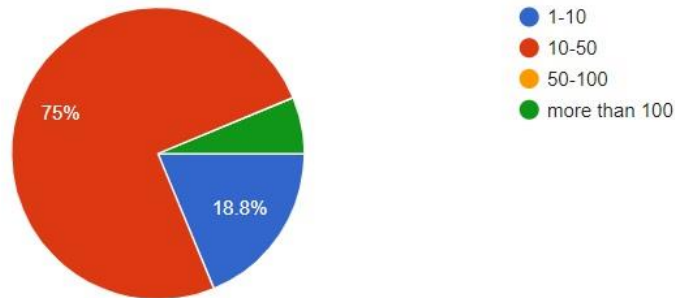


Figure 8. The number of startups financed by investors Central-Eastern European countries
Source: Made by authors, from Crunchbase database, 2024.

A large part of foreign investors (75%) have invested in up to 50 companies, and 6% in more than 100 companies, which indicates that foreign investors are more interested in startups and invest more in startups, as they have capability to do so.

Also, the scale of investments made by investors from Central-Eastern Europe is interesting, in particular, the majority of investigated companies (75%) have invested up to \$10,000,000, and 25% have invested more than \$10,000,000 (Figure 8), that indicates on their scale, how developed this investment companies are and how much they are interested in investing venture capital.

Total invested venture capital in the last five years

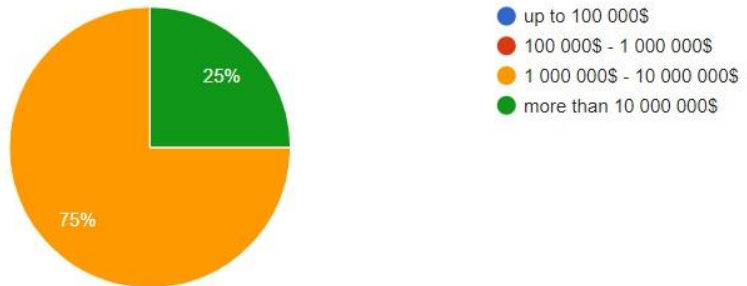


Figure 9. Investment made during the last 5 years by investors from Central-Eastern European countries
Source: Made by authors, from Crunchbase database, 2024.

Also, it is important to understand the factors affecting the venture capital financing of Central-Eastern European investors, what influences them in the implementation of the investment, which was also reflected in the research results and shown in the diagram (Figure 9).

Which factors make impact on your decision for venture capital investment?

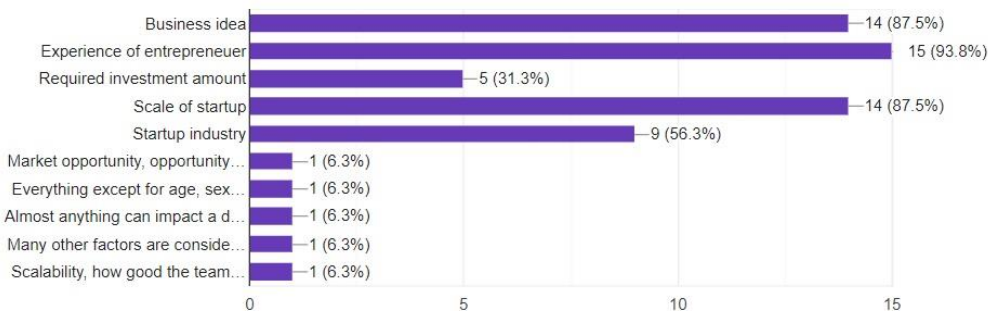


Figure 10. Factors influencing venture capital investment for investors from Central-Eastern European countries
Source: Made by authors, from Crunchbase database, 2024.

According to the results of the mentioned research, the vast majority (93.8%) of the interviewed investors believe that the experience of the startup has the greatest influence on their decision, followed by the business idea and the scale of the startup (87.5%).

Also, it is important to understand the priorities of Central-Eastern European investors, in which direction they are more interested in investing, which was clearly revealed in the results of the research and are shown in the diagram below (Figure 10).

Which industries are you mostly interested in when making venture capital investment?

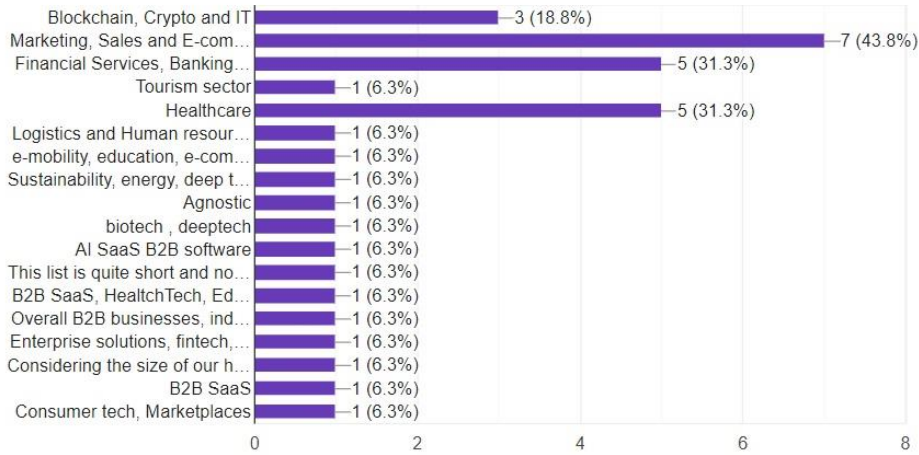


Figure 11. The most attractive areas for Investors from Central-Eastern European Countries in startups
 Source: Made by authors, from Crunchbase database, 2024.

Foreign investors show a significant interest in various sectors, with marketing and e-commerce leading the way at 43.8%. This is followed closely by financial services and banking, along with healthcare, each garnering the attention of 31.3% of investors. Blockchain, cryptocurrency, and other IT-related fields attract 18.8% of the investment interest. Additionally, a notable portion of investors is keen on addressing contemporary challenges, such as artificial intelligence, renewable energy supply, and other cutting-edge technologies. The interest in these modern technologies underscores a broader trend towards sustainability and innovation. Investors are increasingly looking for opportunities that not only promise financial returns but also contribute to solving global challenges. This shift reflects a growing recognition of the importance of aligning investment strategies with long-term societal and environmental goals.

While making Venture Capital Investment, it is also important to analyze which stage of investment Central-Eastern European investors prefer. According to the survey on the stages of venture capital investment in Central-Eastern European countries, investors show varied preferences for funding stages. The chart reveals that 6.3% of respondents prefer investing at the Series A stage, while a significant 43.8% focus on the seed stage. Additionally, 31.3% also favor the seed stage, indicating a strong overall inclination towards early-stage investments. Furthermore, 18.6% of investors prefer both seed and pre-seed stages, highlighting their willingness to support startups from the very beginning. This distribution underscores a robust commitment to early-stage ventures, with a particular emphasis on the seed stage, reflecting an active effort to foster innovation and growth in the region's startup ecosystem, this results can clearly be seen in Figure 12.

Which stage of investment you prefer for investing venture capital?

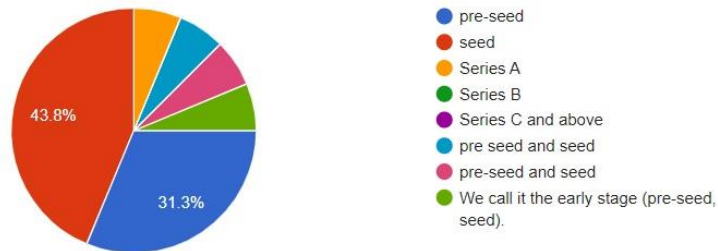


Figure 12. Stages of Investment preferred by investors from Central-Eastern European Countries.
Source: Made by authors, from Crunchbase database, 2024.

Moreover, the legal and regulatory environment plays a crucial role in facilitating or hindering investment. An analysis of the local legal framework reveals that 81.3% of investors believe that their country offers a supportive legal framework conducive to investment. Conversely, 18.8% feel that their legal environment does not adequately support the implementation of venture capital investments. These perceptions can significantly impact investment decisions, as a favorable legal framework can enhance investor confidence and promote economic growth (Figure 12).

Does the existing legal framework support you to invest in venture capital?

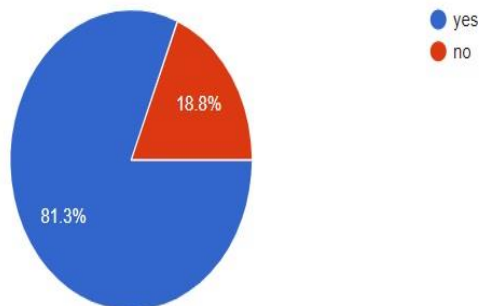


Figure 13. The role of the existing legislative base in Central-Eastern European Countries
Source: Made by authors, from Crunchbase database, 2024.

As a result, the question was raised as to what investors would like to change in the existing legal system to obtain a better investment environment, to which we received the following answers:

- Tax benefits for investors;
- Investment opportunities for pension funds;

- Presence of more investment banks;
- More unicorns;
- More investments at the Series A stage.

Finally, it was necessary to find out the investor's opinion about startups, what problems they face in the search for venture capital, what shortcomings they have and what advice they would give them to achieve success. As a result, the research revealed the following answers:

- Greater awareness of venture capital funds and an assessment of the situation from an investor's point of view;
- Lack of a clear strategy for company values and product development;
- Experience of startups;
- Lack of ambition;
- Concreteness, to attack one's own speech in a short period of time;
- More awareness in finding venture capital and presenting a competitive business idea;
- Potential revenues and strategy of growth.

The opinion of investors about startups is very important, so that startups understand what mistakes they should not make in the process of seeking venture capital, before presenting their business idea.

4.3. Comparative analysis and key findings

During the comprehensive analysis of investors from Georgian and Central-Eastern European countries, several notable differences were revealed. These differences span various aspects of their investment behaviors and preferences, highlighting distinct characteristics and strategies in their respective venture capital markets. The disparities observed are quite significant and reflect the unique economic landscapes, market maturities, and investment philosophies common in these regions. Specifically, the analysis uncovered variations in the scale of startups funded, the stages of investment preferred, the factors considered most important when making investment decisions, and the sectors that attract the most interest. These insights provide a deeper understanding of how venture capital operates differently in Georgia compared to Central-Eastern Europe, offering valuable perspectives for both investors and policymakers aiming to foster startup growth in these areas. Let's see differences in each part:

1. Firstly regarding the scale of startups funded by investors, most of the Georgian investors have financed up to 10 startups, and most of the Central-Eastern European investors have financed up to 50 startups, and some more than 100. As for the number of financially funded startups, over the last 5 years, Georgian investors have financed a total of 1,000,000, while Central-Eastern European investors have invested at least 1,000,000 dollars, and some have invested more than 10,000,000 in startups. The differences in both the number of startups funded and the amount of financial investment highlight the varying stages of development and investment strategies in these regions. Georgian investors seem to be taking a more conservative approach, likely reflecting less developed venture capital market, while Central-Eastern

European investors are more aggressive, indicating a mature and dynamic investment landscape.

2. There is also a notable difference between the interests of investors when it comes to making venture capital investments, particularly in terms of their priorities. Most Georgian investors place the highest importance on the business idea itself, considering it the cornerstone of their investment decision. They believe that a strong, innovative idea is critical to a startup's potential for success. Following the business idea, they value the experience of the startup team, acknowledging that seasoned entrepreneurs can better navigate the challenges of building a new venture. On the other hand, the majority of Central-Eastern European investors prioritize the experience of the startup team above all else. They contend that a team's proven track record and expertise are essential for executing a business plan effectively and scaling the business. After experience, they consider the business idea and the potential for scaling the startup as important factors. This difference underscores a more cautious and experience-driven approach in Central-Eastern Europe compared to the idea-centric perspective in Georgia.
3. Regarding the fields of interest among investors from these regions, there are both similarities and differences. A significant number of Georgian investors are particularly enthusiastic about Blockchain and Cryptocurrency, attracted by the disruptive potential and rapid growth of these technologies. They also show a strong preference for marketing and sales, recognizing the crucial role these areas play in driving business growth and customer acquisition. In contrast, Central-Eastern European investors prioritize marketing and sales as well, but their next major focus is on the financial sector and banking. This preference is likely due to the ongoing fintech revolution and the opportunities it presents for innovation and profitability within the financial services industry. Despite these differences, both regions show a keen interest in sectors that promise high returns and significant growth potential, albeit with varying focal points reflecting their unique market dynamics and investor priorities.
4. The differences and similarities can also be seen in venture capital investment stages between the Georgian market and Central-Eastern European countries. In Georgia, investors are evenly split between the pre-seed and seed stages, with each stage attracting 50% of the investment interest. This demonstrates a strong focus on the earliest phases of startup development. In contrast, the Central-Eastern European market shows a more diversified approach. While a notable 43.8% of investors favor the seed stage, 31.3% also invest at this stage, and 18.6% spread their investments across both seed and pre-seed stages. Additionally, 6.3% of investors in Central-Eastern Europe prefer the more advanced Series A stage. This comparison highlights that while both regions prioritize early-stage investments, Central-Eastern Europe exhibits a broader distribution across different stages, reflecting a more varied investment strategy. This diversity in investment preferences suggests a more mature venture capital ecosystem in Central-Eastern Europe, with a readiness to support startups beyond their initial phases of development.
5. There is also a difference in the support of the legal framework, most of the Georgian investors believe that the Georgian legal framework does not help in the

implementation of investment, while a large part of the Central-Eastern European investors believe that the local legal framework helps them in the implementation of investments. And when asked what they would change in the existing legal framework, Georgian investors focused only on tax incentives, while Central and Eastern European investors believe that, in addition to tax incentives, there should also be more investment banks, pension funds should have the opportunity to invest, and promotion should be more Late in the funding stage.

6. And lastly about the attitude of investors towards startups, their shortcomings and advice, there are similarities, in particular, both Georgian and CEE investors believe that startups should have more experience, more ambition and a competitive business idea, in addition CEE investors They believe that startups should be more informed about venture capital, should think from an investor's point of view, should have a clear strategy for developing their business, and should be able to present their pitch to an investor in a short period of time.

The existing differences allow us to conclude that there is a substantial gap in terms of experience between Georgian investors and their Central-Eastern European counterparts. Central-Eastern European investors have worked with a larger number of startups, reflecting a broader and more varied portfolio. This extensive experience in investing has enabled them to develop a deeper understanding of market dynamics and startup growth trajectories. Consequently, their areas of interest are more diversified and sophisticated, encompassing a wider range of industries and investment stages.

4. Conclusions

Based on the comprehensive analysis of venture capital (VC) investor behavior in both Georgian and Central-Eastern European startup markets, several key conclusions can be made, shedding light on the characteristics and dynamics of these regions' investment landscapes. which is important for better understanding for Georgian Startup ecosystem and what should be changed. These key findings include:

1. Investment Scale and Strategy:
 - Georgian investors demonstrate more cautious approach, with a majority focusing on smaller-scale investments and they prefer early-stage funding, mostly at the pre-seed and seed stages. This shows a still developing venture capital ecosystem and unmaturred startup market in Georgia, which is a long-term process.
 - In contrast, Central-Eastern European investors show a more aggressive investment strategy, financing a larger number of startups and deploying significantly higher amounts of capital, often exceeding millions of dollars. Their broader investment portfolio spans various stages, indicating a more mature and diversified market.
2. Investment Preferences and Priorities:
 - Georgian investors priorities are more innovative business ideas and market potential when making investment decisions. They value stability and potential market growth, showing a need for stronger infrastructure and supportive regulatory frameworks.
 - Central-Eastern European investors prefer more experienced startups and having better startup teams. They prioritize business idea, business scalability and market

readiness, working with an ecosystem that is more developed, has greater institutional support, and has good management.

3. Sectoral and Industry Focus:

- Georgian investors show a notable interest in sectors like Blockchain, Cryptocurrency, and marketing/e-commerce. These sectors demonstrate their interest in new technologies and strong growth potential, even in spite of challenging market conditions and regulatory obstacles.
- Central-Eastern European investors are mostly interested in sectors such as financial services, banking, and healthcare, also, emerging technologies like artificial intelligence and renewable energy. Their focus shows a more diversified and industry-specific investment approach.

4. Regulatory Environment:

- The Georgian venture capital market faces challenges related to regulatory frameworks, as can be seen from research less supportive compared to Central-Eastern Europe. In order to create a more favorable investment climate, investors in Georgia support tax incentives and enhanced legal frameworks. Specifically, for investors supportive regulations, such as, startup-visa should be established for foreign investors and profit tax should be demolished, or should be low than usual (15%).
- In contrast, Central-Eastern European countries benefit from more helping regulatory environments, with investors suggesting enhancements such as increased access for pension funds, more investment banks, and broader incentives to attract larger-scale investments.

5. Startup Ecosystem Development:

- Both regions underscore the importance of enhancing the startup ecosystem through targeted policies and strategic interventions from government, making their ecosystem more attractive. Georgian investors indicate for the need of greater startup awareness, improved legal frameworks, and developed support structures to stimulate growth of startup ecosystem.
- Investors from Central-Eastern European countries take advantage of their more advanced ecosystems to support startups at different phases of development and to encourage innovation. Their experience shows the importance of strong institutional structures and proactive strategies for attracting venture capital investments, even in long-term period.

Based on the findings and conclusions made from the research on venture capital investor behavior analyses in Georgian and Central-Eastern European startup markets, the following recommendations can be given:

1. Enhancing Regulatory Frameworks:

- To make it easier for startups to launch and run their operations, simplified regulatory processes and lower administrative barriers should be established. Encouraging local and foreign venture capital investments by implementing tax breaks and optimizing legal barriers.

2. Strengthening Investor Networks and Infrastructure:
 - Build strong networks of investors by encouraging cooperation between domestic and foreign investors. Provide channels for information exchange and networking to raise the profile of Georgian startups.
 - Invest in infrastructure that supports startup growth, such as co-working spaces, accelerators, and incubators that provide essential resources and mentorship.
3. Promoting Entrepreneurial Education and Support:
 - Increase the availability of entrepreneurial education programs to help startups understand venture capital processes, develop better business models, and meet investor expectations. Offer workshops, training sessions, and mentorship opportunities to build the capabilities of entrepreneurs.
 - Encourage successful entrepreneurs and industry experts to mentor emerging startups, providing guidance and developing a culture of innovation and risk-taking.
4. Encouraging Sector Diversification:
 - Promote investments in a diverse range of sectors beyond IT and fintech, such as renewable energy, Aggrotech, AI and sustainable agriculture, that solve global problems making it more attractive for investors. Highlight the potential of these sectors to attract specialized investors and stimulate economic growth.
 - Support the development of sector-specific innovation hubs that encourage collaboration and attract investments in emerging industries.
5. Facilitating International Partnerships:
 - Strengthen ties with international venture capital firms and angel investors by organizing networking events, investment forums, and exchange programs. Establish partnerships that provide Georgian startups with access to global markets and additional funding sources.
 - Develop Georgia's strategic position as a gateway between Europe and also Asia to attract cross-border investments and improve international collaborations.
6. Solving Funding gap:
 - To assist early-stage companies overcome the funding deficit, specific funding mechanisms should be developed, such as venture funds backed by the government, low-interest loans, grants, and initial funding to assist firms during their necessary early stages. As soon as Georgia is still developing country, additional measures, such as international partnerships, foreign grants, loans are necessary to support Georgian startups and foster innovation.
 - Promote venture capital investments by regional financial institutions by providing financial solutions that are specifically designed to meet the needs of entrepreneurs.

Implementing these recommendations will require collaborative work of government, industry organizations, investors and educational institutions to create a supportive environment for venture capital investments. By addressing regulatory barriers, such as introducing targeted tax incentives, like lowering profit tax and establishing startup-visa, promoting sector diversification, and enhancing investor confidence, also providing educational mentorship for investors and startupers, both Georgia and Central-

Eastern European countries can establish healthy startup ecosystems that drive innovation, economic growth, and job creation across the regions.

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