Investors’ Perspective on Determinants of Foreign Direct Investment in Wind and Solar Energy in Developing Economies – Review and Expert Opinions

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Abstract—
Foreign direct investment (FDI) in renewable energy projects in 2015 has reached more than 10% of the total green-field FDI worldwide, and developing economies were increasingly at the forefront of these investments. However, there are few studies that focus on the FDI in this emerging sector. Understanding determinants behind the location decisions of the FDI would lead to creating a better investment climate and further facilitate worldwide deployment of renewable energy technologies. Thus, this paper identifies the determinants of FDI in wind and solar energy in developing economies based on a literature review and semi-structured interviews. Factors that are identified through the literature review are categorized into the following categories: institutional environment, macroeconomic environment, natural conditions, and renewable energy policies. Semi-structured interviews were conducted with experts from multinational corporations that are active in FDI in wind and solar energy. Based on these interviews, 18 factors that could be considered as important determinants are selected and presented along with expert opinions. The experts’ opinions suggest strong importance of renewable energy policies when compared to traditionally argued determinants of FDI including macroeconomic environment, institutional environment and natural conditions. Among traditionally argued determinants, exchange rate stability is suggested to be one of the most important factors considering the positioning of investments in solar and wind energy in most of the companies’ investment portfolios.

Keywords—
Wind energy; solar energy; foreign direct investment; determinant; developing economy; policy

1. INTRODUCTION
By approaching renewable energy as part of their industrialization process, developing economies are transitioning from enduring carbon-based economies, dependent on non-renewable sources of electricity such as coal, natural gas and oil to clean-energy economies. In the process they are generating employment, enhancing energy security, and avoiding burdens on the balance of payments. In 2015, the aggregated investment in renewable energy in developing economies reached USD 156 billion, exceeding that in developed economies for the first time in history (REN21, 2016). However, since the energy demand growth in developing economies is so rapid, fossil fuels still play a significant role in meeting this rising demand, and the forecast shows annual emissions will continue increasing for some time in the developing economies (IEA, 2016). The term “developing economies” indicates countries listed as developing economies on the International Monetary Fund’s World Economic Outlook Report (2016).

In order to accelerate the transformation from carbon-based economies, technologies need to be transferred properly, and financial resources need to be allocated in a suitable manner. In this regard, for numerous developing economies, foreign direct investment (FDI) serves as an indispensable source of capital and an important channel for introducing more productive technology and techniques. The importance of private finance, especially FDI for developing countries, was also well recognized at the 21st Conference of the Parties
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