



Mains Practice Question

Q. Discuss the various investment models prevalent in India, highlighting their features, advantages, and challenges. How can these models be made more inclusive and sustainable? **(250 Words)**

24 Apr, 2024 GS Paper 3 Economy

Approach

- Begin the answer by introducing the Investment Models.
- Discuss the various investment models prevalent in India, highlighting their features, advantages, and challenges.
- Analyze how these models can be made more inclusive and sustainable.
- Conclude as per the requirement of keywords.

Introduction

Investment is crucial for economic growth and development. Various investment models are prevalent in India, each with its own features, advantages, and challenges. These models play a significant role in shaping the economy and can be made more inclusive and sustainable with strategic interventions.

Body

Types of Investment Models:

- **Foreign Direct Investment (FDI):**
 - **Features:** Involves a foreign entity establishing a business or acquiring a substantial stake in an existing Indian enterprise.
 - **Advantages:** Infusion of capital, technology transfer, and job creation.
 - **Challenges:** May lead to dependency, loss of sovereignty, and cultural dilution.
 - **Example:** Walmart's acquisition of Flipkart in 2018.
- **Public-Private Partnership (PPP):**
 - **Features:** Collaboration between the government and private sector for infrastructure development and service provision.
 - **Advantages:** Risk-sharing, efficient resource allocation, and timely project completion.
 - **Challenges:** Complexities in contract management, regulatory hurdles, and profit-sharing disputes.
 - **Example:** Delhi Airport's modernization under PPP.
- **Venture Capital and Private Equity:**
 - **Features:** Investment in startups or small businesses with high growth potential.
 - **Advantages:** Support for innovation, job creation, and access to expertise.
 - **Challenges:** High-risk nature, lack of immediate returns, and limited focus on social sectors.
 - **Example:** Sequoia Capital's investment in Byju's.
- **Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs):**
 - **Features:** Investment vehicles that pool funds from investors to invest in infrastructure or real estate projects.
 - **Advantages:** Liquidity, diversification, and income generation.

- **Challenges:** Market dependency, regulatory constraints, and asset quality risks.
- **Example:** IRB InvIT Fund's investment in road projects.

Making Investment Models More Inclusive and Sustainable:

▪ **Inclusivity:**

- **Access to Capital:** Simplified procedures and financial literacy programs for small investors.
- **Risk Mitigation:** Insurance schemes and government guarantees for investments in critical sectors.
- **Skill Development:** Training programs to enhance employability in industries attracting investments.

▪ **Sustainability**

- **Environment Impact Assessment:** Stringent norms to ensure investments do not harm the environment.
- **Social Impact Assessment:** Evaluating projects' effects on local communities and ensuring fair compensation.
- **Technology Integration:** Encouraging investments in sustainable technologies and renewable energy such as Green Hydrogen and Electric Vehicles etc.

Conclusion

India's investment models play a pivotal role in economic development. By addressing their challenges and promoting inclusivity and sustainability, these models can become more effective in driving growth and development.

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