



## 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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