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UPSC

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Indian Economy : Chapter 26

Investment Models

UPSC Samagra Book Series (Hinglish)



By- Rishav Sharma Sir



Investment — Money is exchanged for better returns

$$\text{GDP} = C + I + G + NX$$

$$I = \text{GDP} - (C + G + NX)$$

1. Domestic Investment Model
2. Public Investment Model
3. Private " 

```
graph TD; A[Private] --- B[Domestic]; A --- C[FDI / FII];
```

Topic : Issues in Infra Financing



- ❖ Long gestation period – Higher risks
- ❖ Excessive dependence on Banks for financing
- ❖ Asset Liability mismatch
- ❖ Questionable role of Credit Rating Agencies
- ❖ Issues in Public Private Partnership Model
- ❖ Untapped pension/ insurance funds



Public Private Partnership

- legal contract $\left\{ \begin{array}{l} \text{Govt} \\ \text{Private} \end{array} \right.$

- PPP Projects - Regulated by Dept. of Economic Affairs,
Min. of Finance

Topic : Public Private Partnership Model



- ❖ PPP is a long term contract between a public sector organisations and a private sector company
- ❖ It is an arrangement between government and private sector for the provision of public assets and/or public services

vaibhav

Private

Risk/Model	Financing Risk	<u>Toll Collection</u> Risk	Operations and Maintenance Risk
<u>Build Operate Transfer</u> BOT Model	Contractor	Contractor	Contractor
Annuity Model	Contractor	Government	Contractor
BOT-VGF Model	Both Contractor and Government	Contractor	Contractor
<u>Engg. Procurement Construction</u> EPC Model	Government	Government	Government
<u>HAM Model</u>	Both Contractor and Government	<u>Government</u>	<u>Contractor</u>



- 40% pass \rightarrow Govt
- Annuity

Topic : Capitalist Economy



What markets can do

Markets can...

- Keep prices in check
- Use resources efficiently
- Encourage innovation
- Increase consumer choice
- Create wealth
- Maximize aggregate welfare

Markets cannot...

- Provide public goods
- Prevent abuse of monopoly power
- Internalize externalities
- Overcome information asymmetry
- Distribute wealth equitably
- Ensure ethical practices

What markets cannot do

Topic : Importance of PPP



- ❖ **Long term partnership:** PPP ensures the long term partnership to deliver assets and services to the public at a concessional rate
- ❖ Increases **efficiency** of the infrastructure projects by means of long term collaborations between private and public sectors
- ❖ **Increases cooperation:** between public authorities and the world of business, ensuring funding, management and maintenance of infrastructure built
- ❖ Transfer Risk, **increases competition** and maintain value of public assets

Topic : Problems with PPP

- ❖ **Disputes:** PPP projects have been stuck in issues such as disputes in existing contracts, non-availability of capital and **regulatory hurdles related to the acquisition of land**
- ❖ **Record:** Indian government has a poor record in regulating PPPs in practice
- ❖ **Crony Capitalism:** Metro projects become sites of crony capitalism and a means for accumulating land by private companies
- ❖ **Performance:** Across the world PPPs are facing problems, performance of PPPs has been very mixed according to study conducted by various research bodies.

Topic : Problems with PPP

- ❖ **Political intervention:** It is also argued that PPP is mere a “language game” by governments who find it difficult to push privatization, or when politically it is difficult to contracting out
- ❖ Loans: Loans for infrastructure projects are believed to comprise a large share of the **non-performing asset portfolio** of public sector banks in India
- ❖ In many sectors, PPP projects have turned into conduits of crony capitalism. Many PPP projects in infrastructure sector are run by “**politically connected firms**” which have used political connections to win contracts.

Topic : Problems with PPP

- ❖ **Higher cost:** PPP firms use every opportunity for **renegotiating contracts** by citing reasons like lower revenue or rise in costs which becomes a norm in India
- ❖ **Public resources:** Frequent renegotiations also resulted into drain of larger share of public resources
- ❖ **Opportunistic behaviour:** These firms create a **moral hazard** by their opportunistic behavior.



Topic : Vijay Kelkar Committee and NITI Aayog

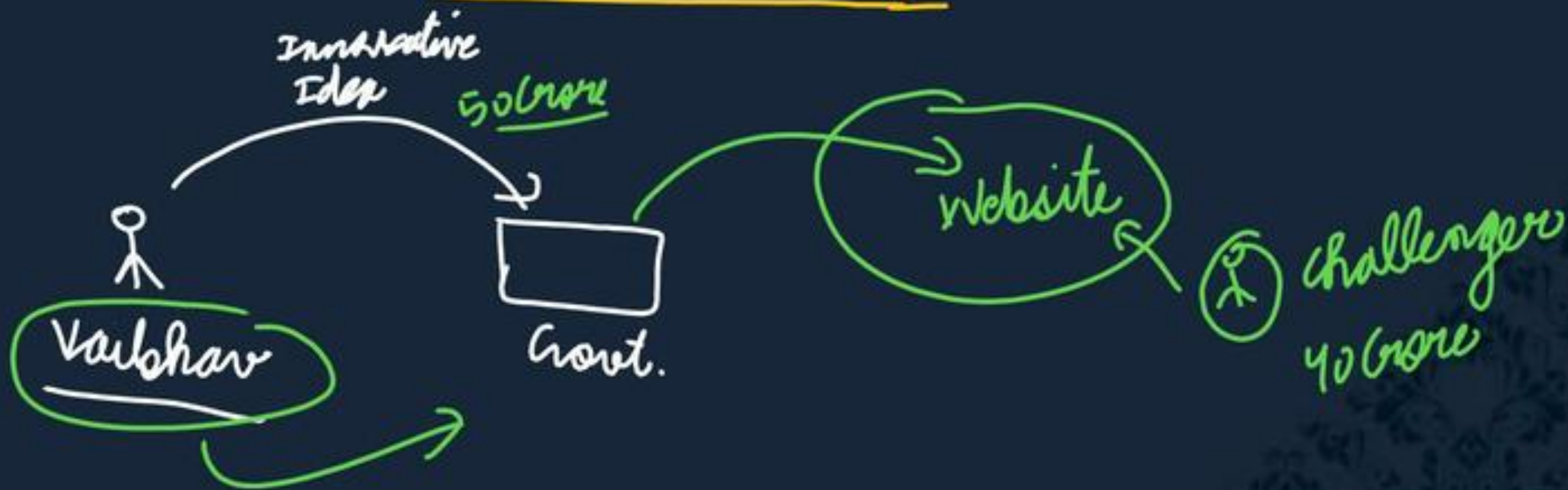
- ❖ Development of **Bond Market**
- ❖ Amend the **Prevention of Corruption Act, 1988** to distinguish between genuine errors in decision-making and acts of corruption
- ❖ **InVIT** – Infrastructure Investment Trusts
- ❖ Govt support through VGF Scheme

Kelkar Committee

- 'One Size Fits All Approach'
- Prevention of Corruption Act — Genuine Mistakes

- Quick Dispute Resolution Mechanism
- IPRC \rightarrow Infrastructure PPP Project Review Committee
- IPAT

Swiss Challenge



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