Investment Models

An Investment Model is a profit-yielding exchange that is often cyclical as the profits from one asset become investments for another asset. While investment can have different meanings in finance and economics, the basic concept remains the same- putting funds into assets for financial gains or production.

An investment model becomes key to any country's future **growth and development**. A government's investment in many fields generates employment for its **population**. Catering to a country as vast and diverse as India is not easy. Therefore, a more all-rounded and successful investment model in India is where the government and the private sector become involved in creating investment opportunities.

A multitude of factors affect the results of investment and, by extension, an investment model. **Income and rate of interest are the primaries** that impact it directly. Meanwhile, infrastructure, **taxation**, savings rate, inflation, etc., are more implicit in their effect.

Types of Investment Models

There are three primary types of investment models, namely:

- Public Investment Model
- Private Investment Model
- Public-Private Partnership Model

Public Investment Model: As the name suggests, the government invests in this model. The state's center invests the revenue generated through the public sector into goods and services.

Private Investment Model: India's vast population asks for a lot of resources, and often public revenue is not enough to cater to the needs of the times. The private sector becomes an intangible cog in the economy because of this very reason. Government always invites private players to invest in its ventures.

Public-Private Partnership Model: This model brings the best of both worlds together to form a long-term cooperative arrangement between two or more players from the public and private sectors.

PPP Investment Model in India

The **3P model** (**Public-Private Partnership Model)**is already quite prevalent in India, with major sectors like health, power, urban housing, and railways under its wing. The investment can be from within the country or from abroad. The **types of PPP Investment Models** prevalent in India are:

- BOT (build–operate–transfer).
- BOOT (build–own–operate–transfer).
- DBOT (design–build–operate–transfer).
- BOO (build–own–operate).
- DBFO (design–build–finance–operate).
- BLT (build–lease–transfer).
- DCMF (design–construct–manage–finance).

Foreign investment is of two types: **Foreign Direct Investment (FDI)** and Foreign Portfolio Investment (FPI).

- A **foreign direct investment (FDI)** is an investment made by a firm or an individual in one country into business interests in another country.
- A **foreign portfolio investment (FPI)** refers to investments in securities and other financial assets issued in another country.

An FDI can give great aid to the country in the forms of infrastructure and employment, making it one of the more sought-after options for investment.

Other Types of Investment Models

Further classified, there are a few investment models that are listed below:

Based on where the investment comes from, there are two types:

- **Domestic Investment Model:** this can be a public or a 3P venture.
- **Foreign Investment Model:** this can be a foreign-domestic mix or a majorly foreign-led investment.

Based on where the investment goes, there are again two types:

- **Sector-Specific Investment Models:** The investment can be made in **Special Economic zones** or other allied sectors.
- **Cluster Investment Models:** In this, investment is made in business clusters. Investment in manufacturing is a self-explanatory example of this model.

Investment Models In India

A nation's economy is dynamic and subjective. In a country like ours, with its economic and societal disparity, an investment model that makes development sustainable and inclusive is required. The need for a reliable investment model was dire when India finally gained independence from the British.

India started its planning process in 1951, and different investment models were implemented to mobilize resources. These models can be divided into 4 phases, as discussed below:

Phase 1 Investment Model (1951-69)

- Newly independent, the Government of India mobilized every internal and external means to utilize the needed resources. The areas that demand the most resource allocation are infrastructure and the social sector.
- The **Mahalanobis model was a product of this stage.**
- The entirety of the financial and tax system and the fiscal policy saw revamping as it was regulated to lead to maximum funds for the government to meet its expense.

Phase 2 Investment Model (1970-73)

- The **implementation of the Industrial Policy of 1970** saw the GoI siding with the inclusion of private capital.
- The process of planned and sustainable development was the involvement of the private sector,
- This plan focused on making the private sector come up in areas that were open to them, but they refrained due to technicalities and financial constraints.

Investment Model of Phase 3 (1974-90)

- The enactment of the **Foreign Exchange Regulation Act of 1974 (FERA)** brought the idea of 'foreign capital' to the forefront for the first time.
- The area of resource mobilization saw some dynamic changes after 1985, as the **Planning Commission** had suggested the **globalization** of the economy twice.
- The aim was to open up the Indian market to private and foreign capital in the industrial area, which was earlier reserved for the government.

Investment Model of Phase 4 (1991 onward)

- The **Gulf Crisis of 1991 was brought about by inferior fundamentals of economics that followed Gulf War I**.
- There was a severe discrepancy in the **Balance of Payments** causing India to go to the **IMF** for monetary and financial aid. India was to restructure its economy, so the GoI commenced reforms in 1999.

The main elements that made this investment model truly radical were:

- Opening more sectors to private investment
- The idea of Public-Private Partnership (PPP or the 3P model) was articulated.
- The **GoI set Infrastructure Development Fund** to support the private sector in mobilizing their share of funds in the infrastructure PPP.
- This also had the **provision for Viability Gap Funding (VGF)** which provided capital support to PPP projects which would not otherwise be financially viable.
- A cheap interest rate regime was set up to take care of the spending and investment needs of the general public. This, along with the right financial environment, stable inflation, and exchange rate, formed the basic pillars to support this reform.
- The main idea was to unshackle the true potential of the private sector and harbor it to reap the maximum benefit for the nation's economy.
- The government became a facilitator and regulator that cared for the marginalized and subjugated so that the eventual goal of an inclusive and growing economy could be realized.

Harrod Domar Model of Investment

The ***Harrod Domar model is more of a 'One-Sector' model where economic growth depends on policies focusing on increasing savings and technological advances.*** It explains a nation's economic growth rate regarding savings and capital. It comments on how there is no natural reason for an economy to have balanced growth.

The model was developed independently by Roy F. Harrod in 1939 and Evsey Domar in 1946. The Harrod–Domar model served as the precursor to the exogenous growth model, namely, Solow Swan Model.

The Harrod Domar model explains that there are three kinds of growth:

- Natural Growth
- Warranted Growth
- Actual Growth

Investment Models in India

Apart from Harrod Domar Model, check the other types of Investment Models mentioned below.

Solow Swan Model

- This extension of the Harrod-Domar Model puts special attention on productivity growth by focusing on technological progress in the long run. The **Solow Swan model was developed independently by Robert Solow and Trevor Swan in 1956**.
- It asserts that the "total factor productivity (TFP)" outcomes can lead to a limitless increase in the standard of living in a country.
- It superseded the Keynesian Harrod–Domar model. ***The Solow model is recognized to be one of the most widely used models in economics to explain economic growth.***

Feldman-Mahalanobis Model

- A Neo-Marxist model notices a shift in the pattern of industrial investment towards building up a domestic consumption goods sector.
- It dwells on the need to invest in building production capacity to achieve a high consumption standard.

Rao Manmohan Model

- Founded in 1999, this was named after **Narasimha Rao and Dr. Manmohan Singh; this model focuses on economic liberalization and bringing FDI into the country.**
- It took down license-raj (except for 18 topics), reduced import barriers, and granted more autonomy to businesses.
- This model is credited to have ushered in structural changes in society through its reforms