

## ANSWER WRITING CHALLENGE

GS-3 CH-3, CH-16, CH-10

Q. What are special purpose vehicles? Explain the significance in Indian context. (150 w)

Ans - Special Purpose Vehicle is a dedicated body or an entity created to carry out specific task or channel funds for projects like airports, roads etc. It can be either formed as a single legal entity or a joint venture consortium. It may have independent ownership, management and funding. It must abide by the rules of formation of company laid down in Companies Act. It can sue and be sued in its name.

Benefits of SPV -

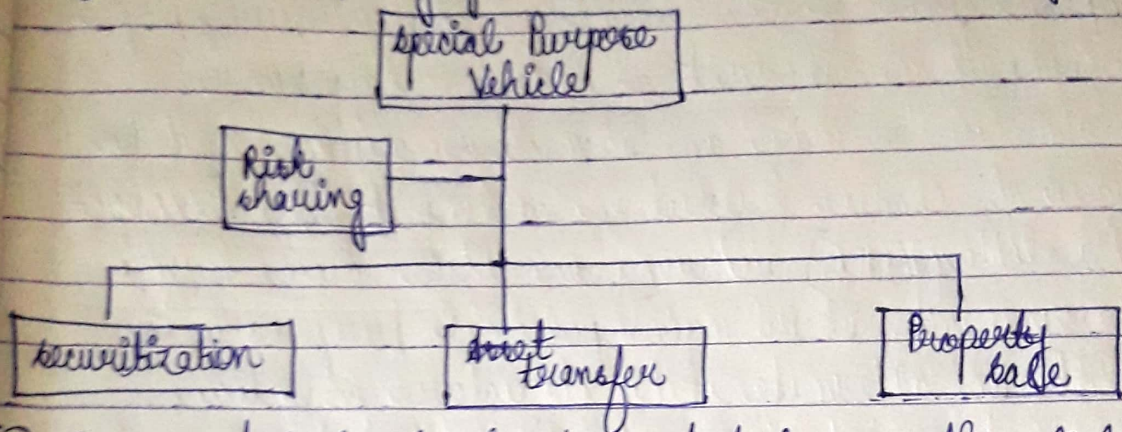
- ① It is formed to raise funds from the market.
- ② Create joint ventures or perform financial transactions.
- ③ Isolates financial risk and have separate legal identity.
- ④ Allows asset securitization without hampering the managerial relationship.

Significance of SPV -

- ① It was laid by P. Chidambaram to fund projects in infrastructure sector.
- ② It will add to availability of long term funds for infrastructure sector projects.
- ③ It helps to separate risk and free up capital due to which SPV and sponsoring company are protected against risks like insolvency.



④ If parent company goes bankrupt, SPV can ~~rely~~ rely on.



⑤ SPVs created by banks to protect loans, other liabilities

⑥ Gijón International Finance Tec (GIFT) City made use of SPV for excellent infrastructure development.

⑦ SPVs effectively engage with citizens through ICTs than local government.

⑧ Vision to provide smart city component in smart city area like water & electricity supply, health & education service etc.

Thus it can be seen as more capitalistic business-oriented entity which also sidesteps the democratic process of local government. It is an attraction for private shareholding. Due to its stable leadership it gets stronger in governance.