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**“We are moving towards becoming a five trillion US dollars economy by 2025. We will become 3rd largest consumer market in the World by 2025.**

**Shri Narendra Modi,  
Hon'ble Prime Minister of India**”

The clarion call that was sounded in Davos during the World Economic Forum meet in January 2018 was reiterated and formalised in India's Union Budget for 2019. Currently, India's GDP stands at USD 2.7 trillion. The objective of growing into a USD 5 trillion economy entails achieving annual growth of 11 per cent until 2025. International Monetary Fund (IMF), however, projects that India's GDP will grow at the rate of only 7% in 2019 and 7.2% in 2020. The reason being cited for this downward revision is weak consumer demand.

In order to fulfil the uphill task, realising the desired incremental annual growth of 4 per cent in the country's exports and improved competitiveness of the manufacturing sector are of critical importance, among other aspects. The transportation and logistics industry plays a vital role in accomplishing the same. An efficient

transportation and logistics sector, through multiple touchpoints, can foster greater competitiveness in the primary and secondary sectors of the economy, thereby inducing domestic as well as international demand and driving the overall growth of the economy. For developed and industrialised nations, logistics cost accounts for less than 10% of a country's GDP on average. The transportation and logistics sector in India, however, is much less efficient, accounting for 14% of the country's GDP<sup>1</sup>.

1. MoRTH

## India GDP (USD trillion)

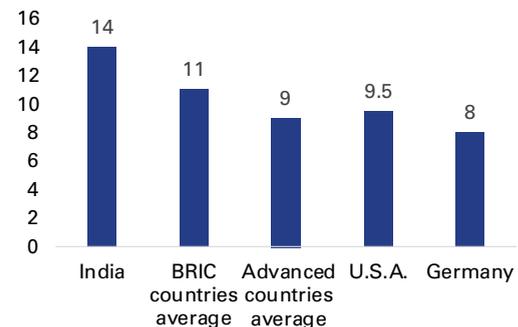


Source: Economic Times, 8th September 2019

## Nexus between demand, efficient transportation and logistics sector and sectors of the economy

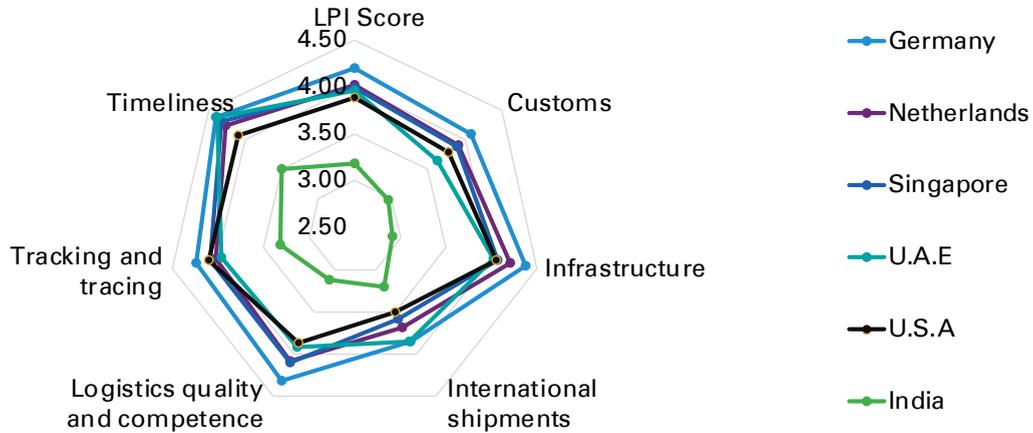


## Logistics cost as a percentage of GDP



Source: KPMG Analysis

## LPI score component comparison

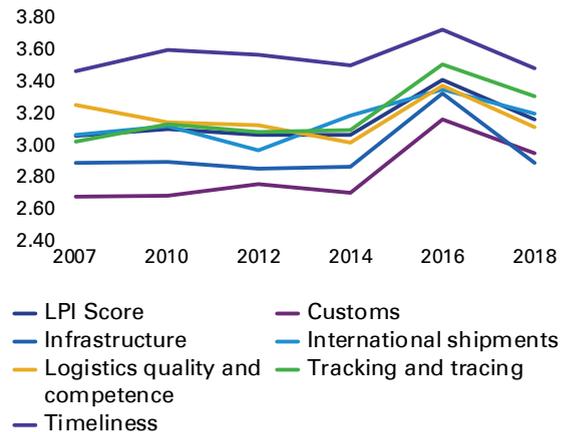


Source: World Bank, KPMG Analysis

India has consistently ranked low in the Logistics Performance Index<sup>2</sup> (LPI) published annually by the World Bank. The LPI aims to objectively measure the logistics sector performance of countries across the world.

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## India LPI score evolution



Source: World Bank, KPMG Analysis

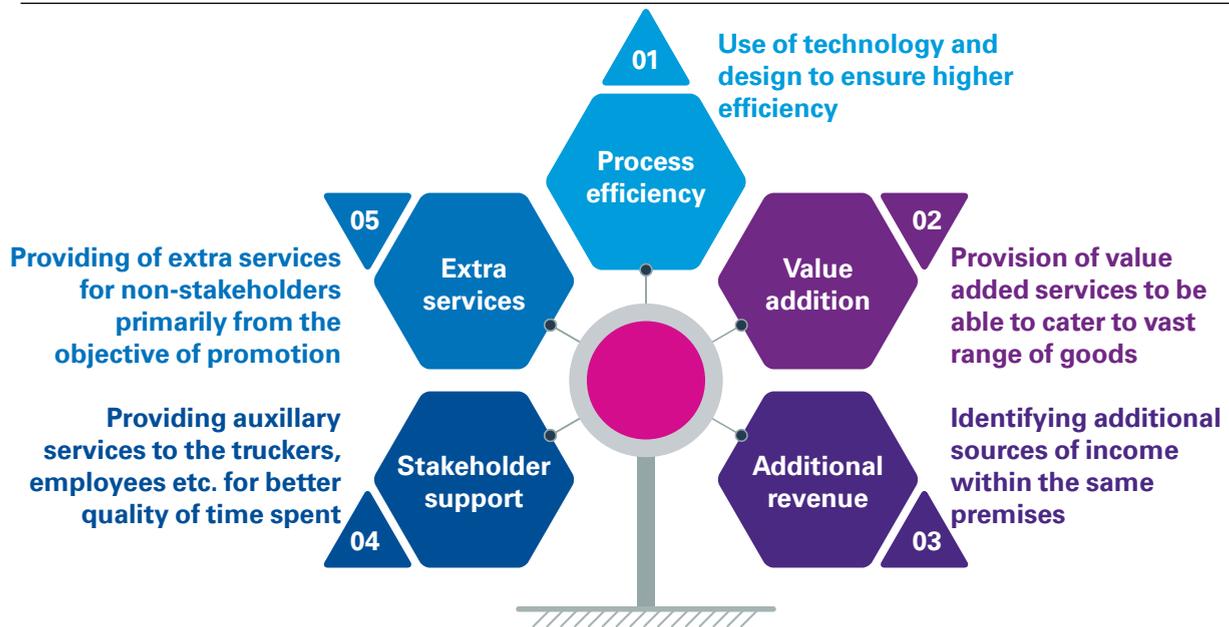


India's low LPI score is primarily the result of infrastructural inefficiencies in the logistics sector. Thus, augmentation of the country's logistics infrastructure, in line with production and consumption bases, is the need of the hour.

A major cause for infrastructural inefficiencies and high logistics costs in India is the sub-optimal modal mix. The country's current modal mix (road 60%, railways 31% and waterways 9%) is very different from the global norm (25% to 30% share of road, 50% to 55% share of railways, and 20% to 25% share of waterways)<sup>3</sup>.

Development of Multi Modal Logistics Parks (MMLP) at strategic locations to enable efficient inter-modal freight movement and formalised interface between logistics service providers, service users and regulators is expected to bring about significant efficiencies in India's logistics infrastructure, providing a much-needed impetus towards driving logistics costs to less than 10%<sup>4</sup> of the country's GDP.

### Characteristics of modern MMLPs



Source: World Bank, KPMG Analysis

3. Draft National Logistics Policy 2018

4. PIB



The concept of logistics parks is not new to India. The Indian Railways has played a crucial role in promoting multimodal transportation in India since the 1960s, when the first steps towards standardisation of container freight and development of Inland Container Depots (ICD) were taken. Standardised ISO containers were introduced in the 1970s and, in 1981, Indian Railways moved the first ISO container inland to the country's first ICD at Bengaluru. In 1988, CONCOR was established as an offshoot of Indian Railways to take over the existing network of seven ICDs. Since then, CONCOR has grown into a network of more than 70 ICDs while a total of more than 300 ICDs form a part of the multimodal transport infrastructure in India.

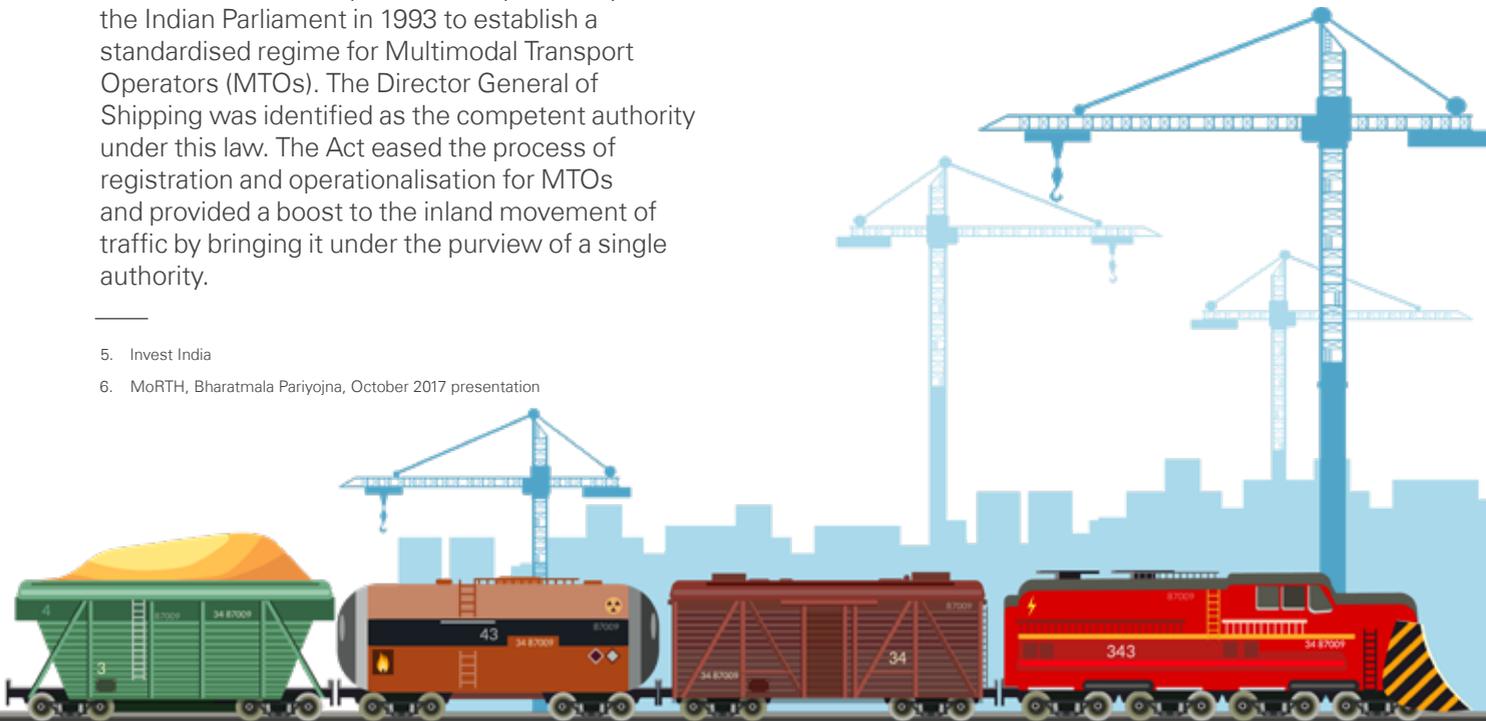
The Multimodal Transport Act was passed by the Indian Parliament in 1993 to establish a standardised regime for Multimodal Transport Operators (MTOs). The Director General of Shipping was identified as the competent authority under this law. The Act eased the process of registration and operationalisation for MTOs and provided a boost to the inland movement of traffic by bringing it under the purview of a single authority.

5. Invest India

6. MoRTH, Bharatmala Pariyojna, October 2017 presentation

CONCOR exercised a monopoly over multimodal transport until the early 2000s, when private companies were licenced to operate their own freight trains. Subsequently, while various public and private sector operators such as Hind Terminals, DP World, Adani Logistics and CWC have delved into the multimodal logistics arena, the sector remains unorganised<sup>5</sup>.

To enhance the efficiency of the Indian logistics sector, optimise inter-modal mix, provide impetus to organised warehousing and associated logistics activities and remove bottlenecks in the supply chain, the Indian government announced the development of MMLP under the Bharatmala Pariyojana. The proposed network of logistics parks is expected to reduce logistics costs by around 25%<sup>6</sup>.

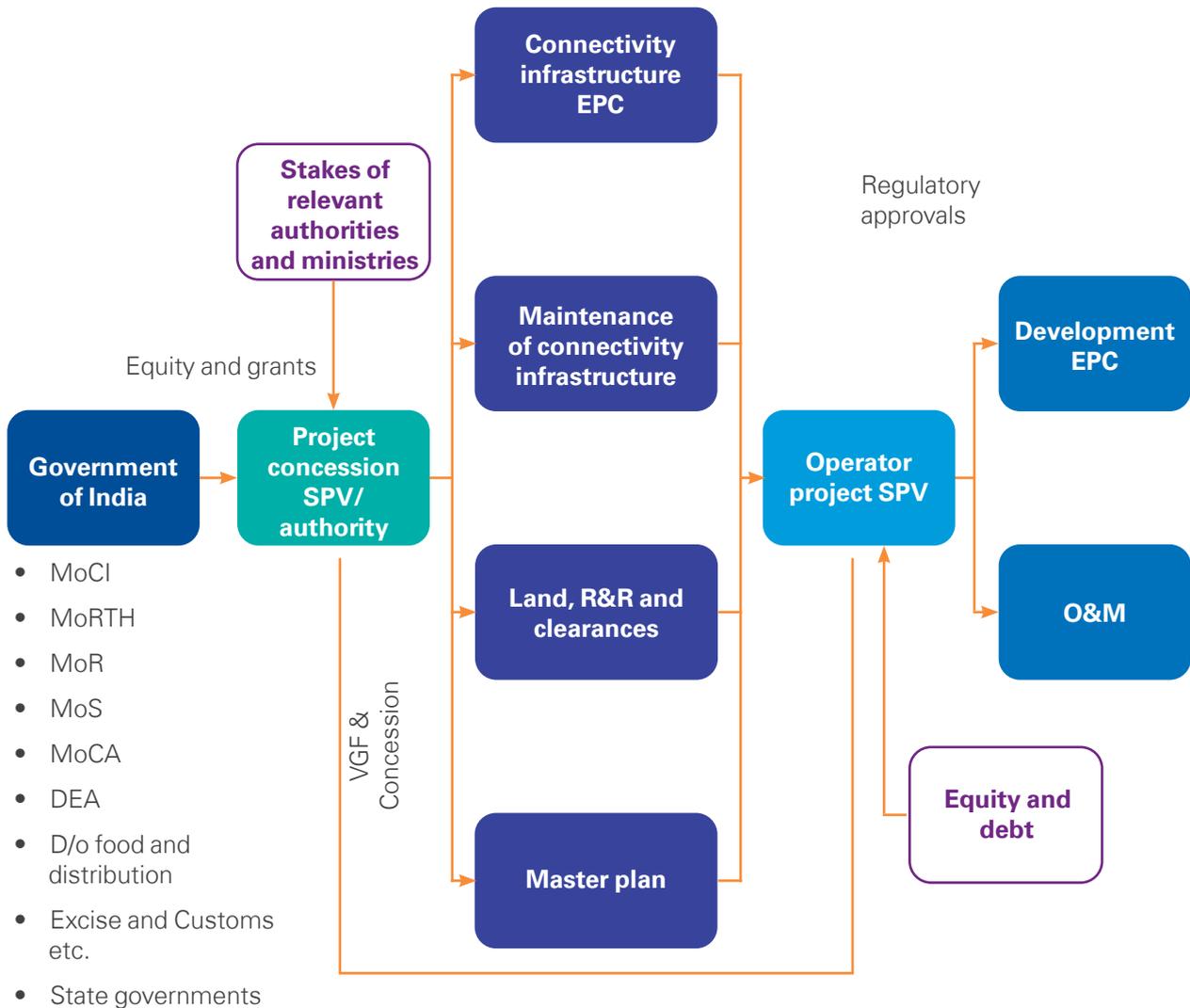






The preferred mode of implementation for MMLPs is through the Public-Private-Partnership (PPP) model. Complex inter-dependencies are created

due to the involvement of a large number of stakeholders in the development and operations of MMLPs in India as depicted below.



Due to absence of a nodal agency, over 50 different approvals<sup>7</sup> are required from various Central and state ministries in order to develop and operate an MMLP.

The existing model for MMLP development thus is expected to create wasteful inefficiencies in logistics operations, which will do nothing to

benefit the ultimate end user of logistics services – large industries, traders and MSMEs. The need of the hour is creation of a single corporatised body under the Central government tasked with ensuring smooth functioning of logistics parks in the country. This has been identified by the government and notified in the draft national logistics policy.

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7. Ministry of Commerce and Industries



# Cutting through complexity





There are various examples within India where governance of activities involving specialised operations have been assigned to an authority, which brings in the knowledge base and coordination capabilities for the concerned activities. The governance structure for several such authorities have evolved over time to be in sync with the requirements of the sector and mandate. Software Technology Parks of India (STPI), an autonomous society set up by the Ministry of Electronics and Information Technology (MEITY), was incorporated with the objective of encouraging, promoting and boosting software exports from India. The National Highway Authority

of India (NHAI) was created as a statutory body through the NHAI Act, 1988, by an act of Parliament as an alternative for the Centre to take over the development and maintenance of the national highway system. The Land Ports Authority of India (LPAI) was set up under the aegis of the Ministry of Home Affairs to facilitate trade across the land borders of the country. The Airports Authority of India (AAI) was established by an act of Parliament in 1994 for creating, upgrading, maintaining and managing civil aviation infrastructure in India. For the sake of illustration, we will delve deeper into the governance structure and mandates of LPAI and NHAI.

### Case study of Land Ports Authority of India (LPAI)

India has international land borders extending for a total of more than 15,000 kilometres with Afghanistan, Bangladesh, Bhutan, China, Myanmar, Nepal and Pakistan. There are several designated entry and exit points along these borders for the movement of persons, goods and vehicles. The existing infrastructure at these crossing points is inadequate and the discharge of sovereign functions at the points is not coordinated. No single agency is responsible for dispensing the required government functions, including those of security, immigration, customs, plant and animal quarantine, and for the provision of support facilities such as warehousing, parking, banking, and foreign exchange bureaus.

Concerned by these inadequacies, the Committee of Secretaries in 2003

recommended establishment of Integrated Check Posts (ICPs) at major entry points on India's land borders. These ICPs would house all the regulatory agencies such as Immigration, Customs and Border Security together with support facilities in a single complex equipped with all the modern amenities and serve as a single window facility as is prevalent at airports and seaports. An Inter-Ministerial Working Group (IMWG), comprising representatives of the NSCS, ministries of external affairs, finance, commerce and road transport and highways, intelligence bureau, SSB and state governments, was constituted to recommend the nature and structure of an autonomous agency to undertake this task. IMWG considered various alternatives and recommended a statutory authority as the most suitable model for an agency to oversee and regulate construction, management and maintenance of ICPs.

The Committee of Secretaries considered the report of the IMWG on 27 April 2005, approved the approach suggested by the IMWG and proposed setting up of LPAI. The Cabinet Committee on Security (CCS) in turn approved the creation of LPAI in a meeting held on 23 November 2006. It also approved the establishment of ICPs at 13 locations in two phases and set up an Empowered Steering Committee (ESC) under the Department of Border Management as an interim authority until the LPAI came into being<sup>8</sup>.

The board of LPAI is constituted by representatives from the Ministry of Home Affairs (nodal ministry), the Ministry of External Affairs, the Ministry of Defence, the Legislative Department, the Department of

Agriculture and Cooperation, the Central Board of Excise and Customs, the Department of Commerce, the Ministry of Railways, the Ministry of Road Transport and Highways, chief secretaries of participating state governments, representatives of worker associations and trader groups apart from officio-members of the authority<sup>9</sup>.

LPAI is mandated, inter alia, to plan, develop, construct, manage and maintain ICPs, regulate functions of various agencies working at such check posts, establish necessary service facilities and coordinate with the concerned ministries and departments of the Government of India, along with any other agencies involved with regulating the entry and exit of passengers and goods.

### Case study of National Highway Authority of India (NHAI)

NHAI, which was set up by an act of the Parliament, namely the NHAI Act 1988, has been entrusted with the responsibility of the national highway development, which, along with other minor projects, has vested in it 97,991 km<sup>10</sup> of national highways for development, maintenance and management. It was established to provide the Central government with direct control over execution of national highway projects throughout the country.

NHAI's mandate includes<sup>11</sup>:

1. Develop, maintain and manage the national highways and any other highway entrusted to it by the government
2. Survey, develop, maintain and manage highways vested in, or entrusted to it
3. Construct offices or workshops and establish and maintain hotels, motels, restaurants and rest-rooms at or near the highways vested in, or entrusted to it

8. LPAI website

9. Notice published by Ministry of Home Affairs, 24 February 2012

10. MoSPI (2015 data)

11. 19th report by Committee On Public Undertakings

4. Construct residential buildings and townships for its employees
5. Regulate and control the plying of vehicles on the highways vested in or entrusted to it for proper management thereof
6. Develop and provide consultancy and construction services in India and abroad and carry on research activities in relation to the development, maintenance and management of highways or facilities thereat
7. Provide such facilities and amenities for the users of the highways vested in, or entrusted to it, as are in the opinion the authority, necessary for the smooth flow of traffic on such highways
8. Form one or more companies under the Companies Act, 1956, to further the efficient discharge of the functions imposed on it by this Act
9. Engage, or entrust any of its functions, to any corporation or corporate body owned or controlled by the government
10. Advise the Central government on matters relating to highways
11. Assist, on such terms and conditions as may be mutually agreed upon, any state government in the formulation and implementation of schemes for highway development
12. Collect fees on behalf of the Central government for services or benefits rendered under section 7 of the National Highways Act, 1956, amended from time to time, and such other fees on behalf of state governments on such terms and conditions as may be specified by such state governments;

NHAI has a three-tier structure: the headquarters, the Regional Offices (ROs) and the Project Implementation Units (PIUs). The authority consists of a chairman and not more than six full-time and six part-time members. The part-time directors consist of representations from secretaries from MoRTH, Department of Expenditure and Department of Economic Affairs; Director General (road transport) and Special Secretary (MoRTH). Furthermore, two part-time (non-government) members are to be appointed from the professionals having knowledge or experience of financial management, transportation planning or any other relevant discipline.



# The proposed institutional structure for MMLPs





The success of models such as that of authorities like the LPAI, NHAI etc. provides precedence for solving the complex issue of ascertaining the right institutional structure for the governance of MMLPs. The suggested option is constitutionalising 'MMLP Authority of India' (MMLPAI), which will have the requisite expertise for overseeing the day-to-day operations of MMLPs and act as a facilitator between the concerned stakeholders.

Under this model, MMLPAI, a corporatised body under the central government, would be the nodal authority responsible for all MMLPs nationally.

This model has several advantages when compared to non-corporatised government-owned models. Both sector and corporate governance can be improved through the separation of regulatory functions and operational responsibility for MMLPs and the model enables formation of an independent corporate board and management structure in line with good corporate governance principles. Clarity and transparency in the Key Performance Indicators (KPI) for MMLPs will enhance performance assessments. Since the corporate entity will be fully responsible for its financial performance and long-term capital planning, there will be greater management incentives for improving efficiency, performance and responsiveness to consumer needs. This will also unlock a higher degree of freedom in raising capital from the market.

The suggested responsibilities of MMLPAI are:

1. Develop, own and operate MMLPs and associated infrastructure on behalf of the Government of India
2. Conduct requisite surveys and consultation activities from time to time for introducing industry best practices and efficient planning of the infrastructure
3. Facilitate private sector participation to the extent possible
4. Regulate and control the operations and development of MMLPs in India
5. Facilitate interaction between the responsible ministries and respective state governments
6. Establish BIS standards for various types of MMLPs
7. Ensure standardisation to enhance operational efficiency
8. Encourage operational safety
9. Advise the Central government on matters relating to MMLPs
10. Reduce investment costs through improved construction and efficient financing of the mandated infrastructure
11. Promote shift to greener and cheaper modes
12. Advocate the well-being of all stakeholders including truck drivers
13. Set up an industry- and investor-friendly MMLP certification framework
14. Design and implement schemes and programmes to promote logistics services and MMLPs

15. Form one or more companies under the Companies Act, 1956 to further the efficient discharge of the functions imposed on it by this Act
16. Develop and provide consultancy and construction services in India and abroad and carry on research activities in relation to the development, operations, maintenance and management of MMLPs or any associated facilities.

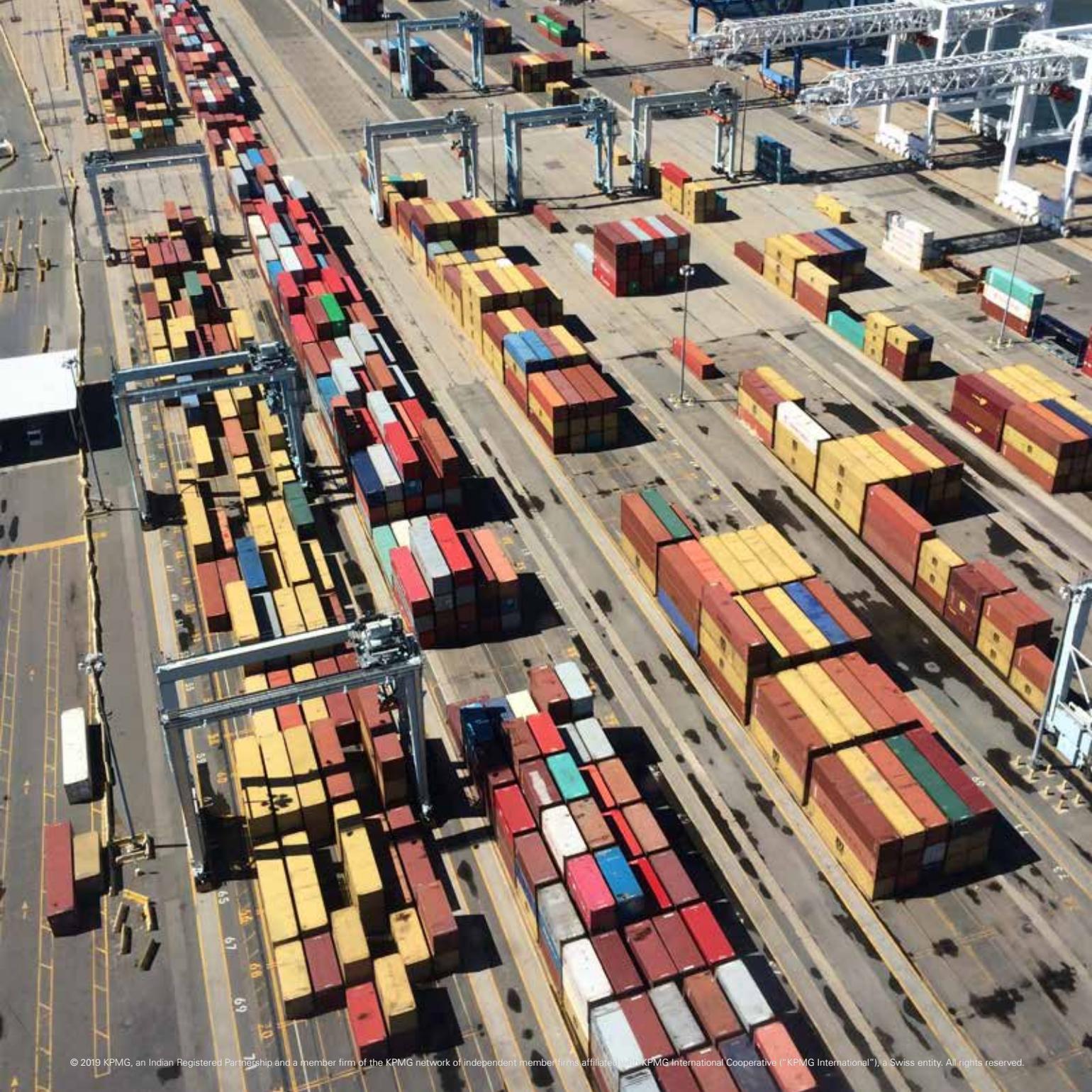
So as to ensure that the MMLP Authority is empowered to carry out all its functions, it is proposed that the body is set up under the Ministry of Commerce and Industry, whereby active facilitation between stakeholders and consultation with industrial entities can be ensured. The board of MMLPAI may comprise the following:

### Proposed governance structure for MMLPs in India

Sr. No.	Representation	Representative
1	Nodal ministry	Head of Logistics division, MoCI as chairperson
2	Executive function	Member finance and member technical
3	Modes of transport/ Implementing agency	Representatives (one each) from MoRTH, MoR, MoS, MoCA not less than the rank of joint secretary
4	Agricultural business	Representative from the Ministry of Agriculture and Farmers' Welfare not less than the rank of joint secretary
5	Excise and customs	Chairperson of Central Board of Excise and Customs
6	Industrial policy	Representation from DIPP (secretary)
7	Planning	Representation from designated member of NITI Aayog
8	State government	Representation from respective state governments (secretary or designated official)

MMLPAI is expected to either carry out the development and operation works by itself or agree on a suitable entity for public-private partnership, in which case the authority would become the single point of contact for the private partner,

subsuming every touch point with state and Central governments. MMLPAI is also expected to be provided with the required regulatory autonomy to carry out its function as an authority.



# Conclusion

MMLPs are expected to play a significant role in catapulting the potential of the logistics sector in India to more than USD215 billion by FY 2020-21. This can help push India towards becoming a USD5 trillion economy by FY 2024-25. Given the complexities involved in the efficient operation and regulation of MMLPs, constituting a specialised authority for oversight, regulation and facilitation of such parks in India is crucial for realising the true potential of the sector and the economy.

Based on our discussions with industry stakeholders, and our research, we recommend that the Department of Logistics, MoCI, as the custodian of the logistics sector, moves to establish an appropriately enabled statutory and regulatory framework to be implemented under the aegis of a future MMLP authority.





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