



Paving the way for Madhya Pradesh as a Logistics Hub

Abstract

Under the inspirational leadership of the hon'ble Prime Minister of India. India's standing and impression as a country have changed and improved in many ways. It is just a matter of time before the world starts to perceive India as a global growth engine thanks to initiatives like Atmanirbhar Bharat, Gati Shakti, Make in India, Production Linked Incentive Schemes (PLI), and National Logistics Policy. India is going to play a vital role in global growth, the role that was once filled by countries like China and Japan.

In order to become global growth engine, the logistics and warehousing sector would be crucial for India. Further, to enable and promote such transition and for achieving Government's vision of a \$ 5 trillion economy. Madhya Pradesh needs to foster an environment that fosters cutting-edge technology, capacity building and alluring benefits for the logistics industry, all of which will further support the State in its development.

Keywords: Logistics, Growth, Trade, Transportation Economy, Industries.

JEL Classification: M00, O40, F19, R4900, O140

Madhya Pradesh Rajya NITI Aayog policy briefs are prepared on specific policy issues on contemporary social, economic and governance issues for policymakers. This Policy brief has been developed under the guidance of C.E.O Madhya Pradesh Rajya Niti Aayog (MPRNA), Shri B.S Jamod. The author also thanks Advisor MPRNA, Shri Deepak Asai for valuable support and guidance. This Policy Brief is written by Shri Abhiuday Jha, Senior Consultant, Madhya Pradesh Rajya NITI Aayog.

*Views are personal. Usual disclaimers apply.

Logistics as an industry entails the management of transportation from raw materials to finished goods and the efficiency of the sector is the bedrock for a fast-growing economy like India. Movement of goods across the country and beyond its borders has created opportunities for millions of Indians. In terms of efficiency, India lags far behind in comparison with other BRICS countries. The average logistics cost per GDP amongst BRICS countries is 11 percent, however, in case of India, the cost share per GDP is 14 percent¹. This high cost of logistics in the country is due to the under-developed material handling infrastructure, fragmented warehousing facilities, involvement of multiple regulatory bodies, lack of seamless movement of goods across multiple modes and absence of integrated IT infrastructure. India's low logistics performance has also been attributed to lack of advanced technology and poor optimization of supply chain drivers such as modern transportation, information, and warehousing.

Globally, Ease of doing Business (EoDB) and Logistics Performance Index (LPI) are the some of the key metrics which are relied upon by the companies and businesses in choosing a country for their capital investments. LPI is one such measure through which the world bank ranks countries based on their annual logistics performance. As per the 2023 LPI (Logistics Performance Index) report², India ranked at 38th position. Compared with the previous year, India's rank has improved on major indicators like the efficiency of logistics infrastructure, customs, tracking and tracing etc. As a result, this has led to improvement in

its rank from 44th in the year 2018³.

An improvement in logistics ecosystem has become a cornerstone for achieving Government's vision of a 5 trillion \$ economy. Government of India has prioritised development of a robust, cost-efficient, and high-quality logistics ecosystem which will be a judicious blend of technology, regulation, standardisation, and highly skilled human resource. Only with such adaptation it is estimated that it would lead to a decrease in 10 percent⁴ of the logistics cost. This would help in an increase of approximately 5%-8% per cent exports of the country. Therefore, improving logistics and improving the efficiency of the sector has huge implications for both domestic trade and international trade as well. The transportation and logistics sector in India has always been resilient and has always adapted to emerging trends despite many challenges and bottle necks.

GATI SHAKTI AN ENABLER FOR THE SECTOR

The logistics industry in India is finally expanding after two tumultuous years. One of the major pushes has been the 'Gati Shakti' masterplan. Some of the highlights related to the supply chain sector are dedicated freight corridors, enhanced connectivity, digital warehouses etc. The master plan is a joint effort of 16 ministries of government of India. Gati Shakti will help in improving the connectivity and make Indian business more competitive which will lead to reduction in the overall logistics cost by great margin. Few other reforms which would support in moulding the vision are Make in India,

Production Linked Incentive Schemes (PLI) and National Logistics Policy.

Madhya Pradesh has started implementing the initiatives rolled out under Gati Shakti. Further aligned its schemes which are product specific for example the cold storage facilities developed in Special Economic Zones (SEZ) Indore, command and control centers to ensure efficient traffic control, 24 integrated border check points are upcoming in the State, setting up Multi Modal Logistics Park (MMLP) at Indore and Bhopal which would be established under Bharatmala parijojana of government of India etc.⁵ Such initiatives would result in reducing the cost of logistics and its related infrastructure. This will help the State in achieving its goal of becoming the Nation's logistics powerhouse.

OVERVIEW OF MADHYA PRADESH'S LOGISTICS CAPABILITIES

Given Madhya Pradesh's geographical location and connectivity with rest of India. The State has a great deal of potential to develop into an ideal location for an Indian logistics hub. Between the year 2015-16 and 2021-22⁶, Madhya Pradesh GSDP has increased at a CAGR⁷ (in rupee terms) of 11.14 per cent. Further, the State government has also allocated Rs. 1,237 Crore (US\$ 168.83 million) for the magnificent Madhya Pradesh investment attraction scheme under the Department of Industrial Policy and Investment Promotion (DIPIP) and Rs. 480 crore (US\$ 65.51 million)⁸ for industrialization infrastructure development.

Madhya Pradesh has made conscious efforts to expand its connectivity and speed of transport with neighboring States through

road and railways connectivity. With the development of Chambal expressway which is underway, Indore-Jhabua (NH-53) and bypass roads around Indore, Bhopal and other big cities are being developed to increase the speed of transport within and outside the State. In addition to this the Gwalior-Jhansi (NH 75), Mangawan (Rewa)-Uttar Pradesh boarder (NH27), Seoni-Maharashtra boarder (NH7)⁹ etc. are being developed to improve the connectivity with neighboring States for better market accesses. Further, looking at the rising demand and increasing movement of goods there are five clusters which are been demarcated based on the cargo movements. They are namely (i) Northern Cluster– This cluster includes various future projects like Delhi-Nagpur Industrial Corridor, North-South State Road Corridor, North-South Freight Corridor and Chambal Expressway. (ii) Central Cluster–This cluster includes dedicated freight corridor, Delhi-Nagpur industrial corridor, Indore-Visakhapatnam industrial corridor and some State investment corridors. (iii) Western Cluster – This cluster includes projects such as industrial hubs with port connectivity and the future Delhi-Mumbai Industrial Corridor and some State investment corridors. (iv) Eastern Cluster – This cluster includes cities like Jabalpur and Katni which have the potential to showcase industrial and future logistics of consumption. (v) South Cluster - The North-South Dedicated Freight Corridor will have a huge impact. The first phase of this cluster is expected to complete by year 2031, which will be beneficial in the adjoining places of Itarsi⁹. In addition, to improve road connectivity, there are effort to strengthen the railway connectivity as well. Some of the important

projects of western central railways are under implementation such as electrification of Itarsi-Manikpur section (510 Kms); new lines on Lalitpur-Khajuraho-Panna-Satna section (283 Kms), Rewa-Sidhi-Singrauli section (165 Kms) & on Ramganjmandi-Bhopal section (262 Kms); doubling of Katni-Singrauli section (261 Kms), Bina-Kota section. (282 Kms) & Satna-Rewa section (50 Kms) and tripling project of Bina-Habibganj-Barkheda-Budni-Itarsi section (total 242 Kms). These changes will add pace to the movement of goods and create an ease for people in the State & to the rest of the country⁹. The State provides a well-established ecosystem which supports logistics, figure 1 showcases existing logistical capabilities within Madhya Pradesh.





	A road network of 3,65,045 KMs (as per RBI handbook for Indian States, 2022) ¹⁰
	5140 KMs railway network (as per RBI handbook for Indian States, 2022) ¹⁰
	Installed power capacity of 25385 MW (as per RBI handbook for Indian States, 2022) ¹⁰
	5 Commercial airports - Bhopal, Jabalpur, Indore, Khajuraho, Gwalior (Ministry of Civil Aviation, GOI) ¹¹

Figure 1: Existing logistics capabilities of Madhya Pradesh

DIPIP has been at the forefront of promoting industrial growth by offering a gamut of incentives for various sectors to promote rapid

industrialization within the State. The State hosts the Global Investors Summit (GIS) once in two years, with an aim to boost investment in Madhya Pradesh. The seventh edition of the event, held in January, 2023 received 15,42,550 intents for investment which is estimated to create 28,93,320 employment opportunities¹². The State is also creating a conducive logistics ecosystem which will promote trade and commerce. The focus on logistics and connectivity is very important for landlocked States like Madhya Pradesh. Presently there are 6 Inland Container Depots (ICD) located majorly near cities such as Indore, Ratlam, Gwalior and Bhopal. The average size of an ICD in the State ranges from 7 to 15 acres with 1,29,628 operational capacity (in TEUs handled)¹³. ICDS plays an important role in the exports from the State. All these ICDs cater to large parts of Madhya Pradesh and act as self-contained custom stations providing customer-centric support, shipping bills and all other activities related to acceptance and thus promoting exports of the State. However, there is a need to set up ICDs in the eastern part of the State where a large number of industrial areas are located. The share of exports from ICD (Malanpur, Mandideep, Pithampur) has increased from 13 per cent in the year 2014-15 to 18 per cent of the total exports of Madhya Pradesh in the year 2020-21, with a total value of \$1163 million¹⁴. The mapping of the Madhya Pradesh corridor, expressway, and regions which gives the bird eye view of the State's strategic location can be seen in Figure 2.

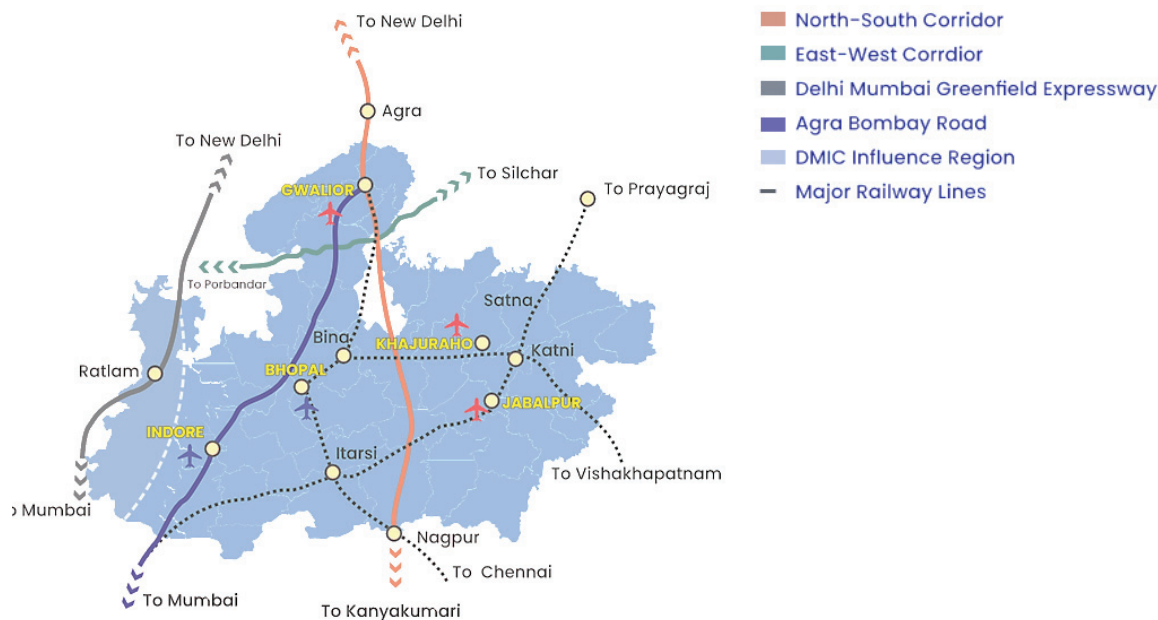


Figure 2: Strategic location of the State

Source: Department of Industrial Policy and Investment Promotion, Government of Madhya Pradesh

The logistics ecosystem in Madhya Pradesh is still governed by conventional infrastructure and practices. However, there is a need for adaption of best practices from other States and further, take advantage of National Schemes and project. This would help Madhya Pradesh in transforming itself as a logistics hub for the country.

ADDRESSING THE CHALLENGES IN THE STATE

Madhya Pradesh do not have a separate Logistics policy for the State but the sector and its incentives are covered under the industrial investment policy which was amended in the year 2018. In this regard relevant policy guidelines for the sector are been issued which may be assessed from department's website. In addition to existing facilities, State needs to create an environment that supports adaption to advance technologies, training and capacity building, attractive benefits in

the logistics sector. These changes would help create new and improved opportunities in the coming year. Some of the constant challenges which the State and the stakeholders are facing are mentioned below.

- **High cost of movement and repositioning:** The State incurs extremely substantial costs for the movement and repositioning of the containers. As a result, it raises the overall cost of logistics and further reduces the competitiveness of State export pricing about the neighbouring States.
- **Underdeveloped material handling infrastructure:** Unorganized warehousing landscape dominated by small warehouses, lack of cold storage facilities and an absence of value-added services. The State also lack single-user facilities with the absence of proper racking facility in warehouses.
- **Lack of parking facility for trucks:** Unavailability of truck terminals and resting places for drivers.

Such bottleneck creates an overall impact on national level logistics sector rankings of States. Mainly on Logistics Ease Across the Different States (LEADS) an annual ranking exercise conducted by Ministry of Commerce and Industry, Government of India. Madhya Pradesh is ranked 17th on the 2021¹⁵ index compared to the 9th on the 2019 index¹⁶. Previously, States/UTs were ranked based on their logistics ecosystem. However, for the LEADS 2022 there was a shift from one uniform ranking and all the States/UTs were grouped in clusters based on their geographical profile. Categories are namely (i) Landlocked

(ii) Coastal (iii) North-eastern region and (iv) Union Territories. To grade each of the above-mentioned categories they were further divided into three level i.e. (a) Achievers (States which have shown exemplary logistics ecosystems with exceptional infrastructure and transparent regulatory processes) (b) Fast Movers (States who are moving towards becoming Achievers by notifying progressive policy and legislatives initiatives along with new infrastructure projects) and (c) Aspirers (States which have initiated their journey towards logistics ease and excellence by adopting national best practices)¹⁷.

Table 1: LEADS 2022 landlocked cluster performance

	ACHIEVERS (90-100%)						FAST MOVER (80-90%)		ASPIRER (<80%)		
	Uttarakhand	Himachal Pradesh	Haryana	Punjab	Telangana	Uttar Pradesh	Madhya Pradesh	Rajasthan	Bihar	Chhattisgarh	Jharkhand
Road Infrastructure											
Rail Infrastructure											
Terminal Infrastructure											
Warehousing Infrastructure											
Modal Logistics Services											
Quality of Services at terminals											
Reasonableness of prices of logistics services											
Timeliness-transportation services											
Track and trace cargo movement											
Safety/security of cargo											
Promoting incentivizing facilitating											
Ease of obtaining all approvals											
Ease of entry											
Issues related grievance redressal											

Source: Logistics Ease Across the Different States (LEADS) report 2022.

In the LEADS 2022 report, Madhya Pradesh has been graded as Fast Mover within the Landlocked cluster¹⁷. Table 1, shows the States grouped performance in landlocked clusters and their respective performance on various parameters. The State has rated highest in Quality of Road and Terminal Infrastructure. Further, it scores above average across indicators related to Quality of Infrastructure except for Warehousing infrastructure, rated above average on all indicators under Reliability of Logistics Services except for Modal Logistics Services and Track and Trace of Cargo movement. To take a leap from traditional practices Madhya Pradesh needs development of action-oriented strategies along with Modern technologies interventions.

POLICY RECOMMENDATION

Improvement in institutional framework will solidify the mechanism of taking decisions. Further, it will create excellence in logistics management and its aligning sectors. The below-mentioned recommendations will introduce laws and acts which bring excellence in logistics management. This may further create an overall improvement and increase the efficiency of the logistics sector. Some of the adoption can be (a) *Granting logistics parks as infrastructure and priority status*: This may help in credit extension and easy loans from banking institutions at competitive rates which will lead to cost reduction. (B) *Formulating digital platform/ website for logistics*: Availability of information at a single interface where policy information/ incentives, regulations and related documents for transportation are mentioned

with sample documents. Further, the facility to upload documents, applications digitally and approval in the same manner as well.

Even though technology has ubiquitous roll in improving the logistics sector. The technology penetration in this area is still very low in Madhya Pradesh. In this regard, technology can be an indispensable tool for the growth of logistics sector. Such implementation will further improve last-mile connectivity and increase the operational efficiency. However, the sector needs to stay updated with emerging trends in technology and also adopt such smart enforcement measures. One such initiative can be (C) *Installation of Automatic Number Plate Recognition (ANPR) system*: ANPR system captures vehicle image, number plate, and type of vehicle identified, using RFID or AI. ANPR allows cross-checking of number plates and names as specified in the e-way bill, from a central database. ANPR cameras have the capability of Self Detecting several Violations and processing challans from District Control Rooms set across the State.

India aims to become a \$5 trillion economy by year 2026-27¹⁸. The contribution which logistics and warehousing sector would play can't be overlooked. With the introduction of the Gati Shakti scheme by the Hon'ble Prime Minister of India. It is clear that the role of logistics sector will play a vital role in achieving the target. Therefore, this rapidly expanding sector will need professional expertise and interventions which are results-oriented. This will necessitate the presence of qualified professionals. This will cater to the rising demand for qualified human

resources. To support this, State may launch a short-term (*D*) training program for logistics and warehousing for both technical and non-technical professionals. In this regard, multiple logistics & warehousing innovation centre may be set up within the State. This would also help the State in adapting leading practices in the sector globally. One such Centre of Excellence

(CoE) which has already started its course at Devi Ahilya Vishwavidyalaya (DAV)¹⁹, Indore in which 5000 professionals will be trained annually. As per the MoA (Memorandum of Agreement) in October, 2021 the centre will run this in collaboration with the Logistics Sector Skill Council, an autonomous body of the Government of India.

READINGS

¹India's logistics sector big opportunity for investors - The Economic Times (indiatimes.com)

²https://lpi.worldbank.org/sites/default/files/2023-04/LPI_2023_report.pdf

³<https://openknowledge.worldbank.org/server/api/core/bitstreams/628a4f9d-7faa-54bf-97b0-f6080c6d46cd/content>

⁴<https://www.ibef.org/research/newstrends/logistics-market-seen-growing-10-5-a-year-to-reach-us-215-bn-by-2020-study>

⁵<https://invest.mp.gov.in/wp-content/uploads/2023/01/Logistic-and-Warehousing-1.pdf>

⁶<https://www.ibef.org/states/madhya-pradesh-presentation>

⁷<https://www.ibef.org/states/madhya-pradesh-presentation>

⁸<https://www.ibef.org/industry/madhya-pradesh-presentation>

⁹Chapter 6_Trade, Investment and Connectivity.pdf (mpplanningcommission.gov.in)

¹⁰Reserve Bank of India - Publications (rbi.org.in)

¹¹<https://pib.gov.in/PressReleasePage>

¹²MPES 2022-23_English.pdf (mpplanningcommission.gov.in)

¹³pib.gov.in/PressReleaselframePage.aspx?PRID=1813611

¹⁴https://mpplanningcommission.gov.in/MPES%202022-23_English.pdf

¹⁵LEADS-2021-Report_Final.pdf (commerce.gov.in)

¹⁶LEADS-2019.pdf (logistics.gov.in)

¹⁷https://dpiit.gov.in/sites/default/files/LEADSReport2022_13October2022.pdf

¹⁸India Trillion Economy: India to be USD 5 trillion economy by FY2026: CEA Anantha Nageswaran - The Economic Times (indiatimes.com)

¹⁹Brochure_Centre-of-Excellence-in-Logistics.pdf (dauniv.ac.in)

Madhya Pradesh Rajya NITI Aayog

First Floor, C Wing, Vindhyachal Bhawan, Bhopal, Madhya Pradesh-462004

Telephone : 0755-2551456, 2551564, 2551135

Email : spb@nic.in | **Website :** www.mpplanningcommission.gov.in | @mpniti