Review of Issues faced by the
# Indian Express Delivery Industry

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## List of Abbreviations

| | |
|---|---|
| ASSOCHAM | The Associated Chambers of Commerce and Industry of India |
| B2B | Business to Business |
| B2C | Business to Consumer |
| CAGR | Compounded Annual Growth Rate |
| CARE | Credit Analysis & Research Ltd. |
| COD | Cash on Delivery |
| CPO | Check Post Officer |
| CSCMP | Council of Supply Chain Management Professionals |
| CST | Central Sales Tax |
| DOP | Department of Post |
| DTDC | Desk To Desk Courier |
| EDS | Express Delivery Service |
| EICI | Express Industry Council of India |
| ET | Entry Tax |
| Fedex | Federal Express |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| IMF | International Monetary Fund |
| IT | Information Technology |
| JIT | Just In Time |
| LBT | Local Body Tax |
| MPLS | Multiprotocol Label Switching |
| NIC | National Informatics Centre |
| PTL | Point to Load |
| SCM | Supply Chain Management |
| SME | Small Medium Enterprise |
| SMS | Short Messaging Service |
| SUGAM | Simple Uploading of Goods Arrival and Movement |
| TPL | Third Party Logistics |
| TAT | Turn Around Time |
| VAT | Value Added Tax |
| WCO | World Customs Organization |
| WEF | World Economic Forum |
| WTO | World Trade Organization |

## Executive Summary

### Overview

Logistics is defined as 'that part of supply chain management that plans, implements and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements'. For a country like India where overall logistics cost is high when compared with global benchmarks, means that the logistics cost is second only to materials in manufacturing or cost of goods sold in wholesaling or retailing. Although India is an important sourcing country, one of the reasons trade has not lived up to its full potential is due to the sub-par logistics as compared with the global standards.

Express Delivery Services (EDS) refers to the time bound door-to-door transportation and delivery of documents, gifts, parcels, spare parts, reports, samples, pharmaceuticals (temperature controlled logistics), high value fashion items, etc., with seamless integration of Information Technology (IT), providing tracking to the end consumer. The industry size is pegged at approximately Rs.110,000[1] million with the organised portion accounting for 48% of the same.

**Exhibit: Express delivery service market and its composition**
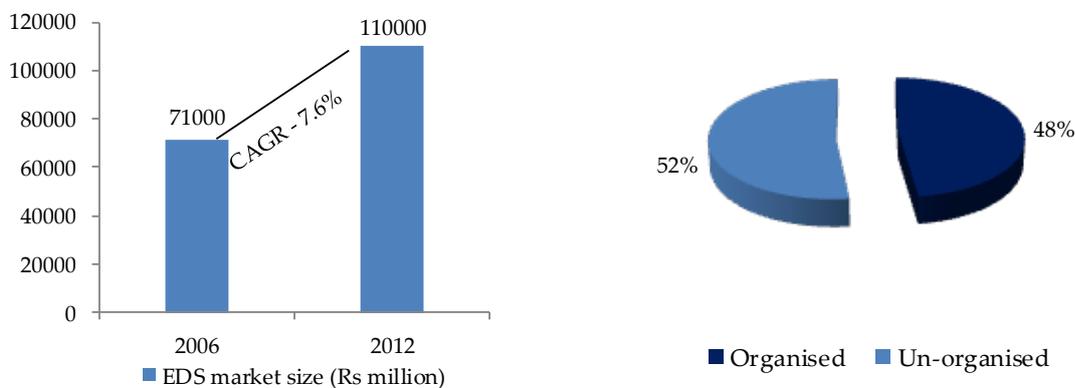


Source: Study of Express Industry in India Report – May 2012  and CARE Research

### Importance of the EDS Industry[2]

➢ Enables users to reduce operating costs by at-least 10%.

➢ Offers employment opportunity to 1.2 million people in India, which is expected to grow to 1.7 million by 2014-15.

➢ Industry is estimated to contribute approximately Rs. 8,000 million (as of FY13) as service tax.

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[1] Study of Express Industry in India – May 2012

[2] Primary survey of industry stakeholders by CARE Research

> Directly/ indirectly contributes to government revenues by way of professional-tax, octroi, cess, surcharge, etc.

The domestic volume pattern for the Indian EDS industry is tilted towards documents. Document shipments weighing less than 300 grams account for about 70% of the volumes of document shipments. The industry follows a hub and spoke model, with a central consolidator the 'Hub', while 'Spokes' provide services through the distribution centres across locations.

Sweeping changes in technology have been impacting the global express delivery industry. While concepts like online trading, net banking, etc, have impacted the volumes of document shipments; e-commerce has made rapid progress in the consumer psyche and has opened new vistas for the EDS industry for handling non-document shipments.

**Challenges**

However, there are various challenges the EDS industry faces across spectrum from the basic infrastructure to regulations and procedures. Based on a short survey, CARE Research has classified the challenges faced by the industry into three broad categories outlined below.

**Exhibit: Key issues identified in the survey**
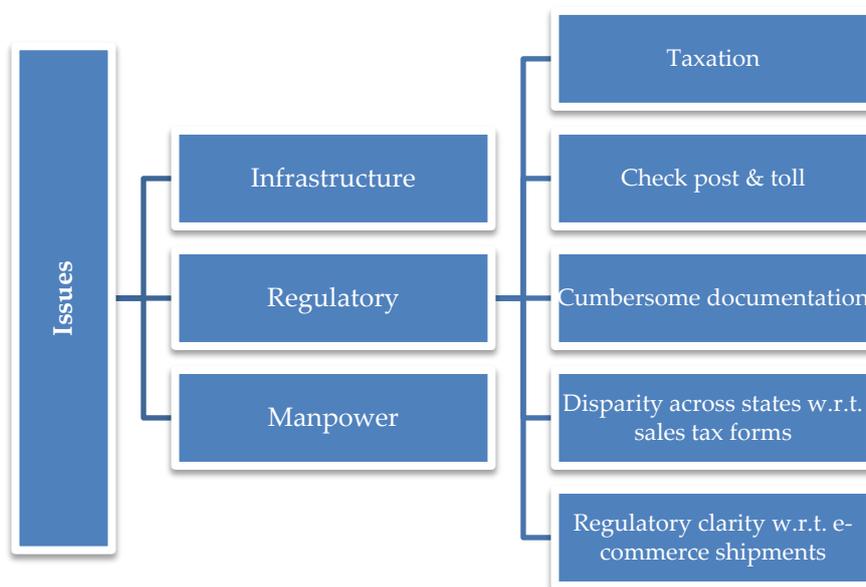


Source: CARE Research

These challenges are further exacerbated by the differing levels of documentation, taxation and regulatory norms across the various states. These issues not only slow the transportation process but also increase the cost of the same.

**Taxation:** India maintains a multiple taxation structure where both the centre & the states have their own jurisdictions defined with respect to taxation of goods and services. Though

the demarcation ensures proportionate division of tax revenues between the central and state governments, complexities arise for the tax payers because of the duality in taxes leading to overlapping and sometimes double taxation on various transactions. Apart from this, there are various charges (like LBT, octroi) which are incurred on movement of goods at the municipal level.

**Cumbersome documentation:** Documentation (like sales tax forms, way bills, permits, transit pass, etc.) is different for different states and sometimes require non-essential details and the carriers / customers have to comply with every step in order to ensure smooth transition and delivery of goods or face a business loss (penalties for later delivery or even loss of future business). Additionally, the complexities arising out of reconciliation with respect to VAT / CST claims make the process slow and prone to mistakes which delay the entire supply chain.

**Check Posts:** The inter-state movement of goods in India is subject to multiple taxes and clearances. A system of check-points has been set up on commercially important roads by various states to keep a vigil over goods vehicles passing through the state so as to ensure payment of taxes, etc. It also helps in capturing data relating to goods movement originating from within the state and also receipt of goods from outside the state. It also facilitates in exit of transit vehicles through the state, to their destinations outside the state with their original consignment.

As a result, there is considerable paperwork involved in inter-state movement of goods. Moreover, there are no common requirements as procedures and requirements vary across states. However good the intentions of the state governments, these check posts in certain states lead to considerable delays and affect overall operations. Improper functioning of some basic infrastructure facilities like IT makes it difficult to file e-documents leading to manual verification and collection of tolls at check posts. Furthermore, some check posts have a time limitation during day and are closed at night which leads to considerable time loss especially to EDS due to their time sensitive nature.

**Regulatory clarity w.r.t. e-commerce shipments:**
The seller is liable to pay the applicable sales tax (central or local)/ VAT due in the state/ location where the seller is located or where the transaction is completed. In case of COD e-commerce transactions, some states like Kerala have argued that as physical transfer of goods has occurred in the receiving states and as the EDS player has collected cash versus delivery of the goods *(similar to the VPP service provided by the India Post in India)*, in effect functioning as the agent of the seller in the State. Consequently, notices have been issued to certain EDS players asking them to pay the necessary dues along with the penalties for delayed payment. EDS players argue that providing COD service is a value added service (service tax is paid on such services) provided by them to the seller and they have not functioned as an agent of the seller and furthermore if any taxes do become payable, it

would be the responsibility of the seller and not that of a logistics service provider. The matter is sub judice in several forums. States like Kerala have been issuing notices to EDS players for the payment of such taxes.

The governments (central/ state) should provide clarity on procedures and simplify the process so that tax revenue is collected appropriately and no transaction faces the burden of being taxed twice in separate states.

**Conclusion**

India is in an excellent position to emerge as an economic super power in the near future due to the increased size and buying power of Indian consumers coupled with a greater exposure to global markets. However, increased growth has also exposed chinks such as inadequate infrastructure and regulatory bottlenecks. To resolve some of the issues identified earlier, indicative interventions include.

Faster implementation of GST

Common documentation and procedures across states

Self-declaration

Reliable and common IT infrastructure across states

Green channel at check posts for faster transit

Legislative clarity

In India, the sector is hobbled by a creaky IT infrastructure which is different across the states, different practices and regulations including documentation across various states and limited coordination between various arms to the government (state/central). On the positive side, all the stakeholders are well aware of the lacunae in the existing tax and regulatory environment in India in this regard and the need to simplify the same. However, the division of legislative authority coupled with the political situation make it a very onerous and cumbersome task. Nevertheless, the need of the hour is for the government to improve infrastructure and take bold steps towards regulatory reform and bring it at par with that of other rising economies.

## 1. Introduction

### What is Logistics?

The word 'logistics' is of French origin. Originally a military term, it refers to the art of transport, supply and quartering of troops. The Council of Supply Chain Management Professionals (CSCMP) defines logistics as 'that part of the supply chain management that plans, implements and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements.'

Contribution of trade to GDP has increased from 17.1% in 1984-85 to 25.5% in 2012-13. Growth in trade has also created demand for good supporting infrastructure at competitive rates. For a country like India where overall logistics cost is high when compared with global benchmark (refer exhibit below), means expenditures of typically 5%–35%[3] of sales for individual companies, depending on the type of business, geographical area of operation, and weight/value ratio of products and materials. Logistics cost is second only to materials in manufacturing or cost of goods sold in wholesaling or retailing.

**Exhibit: Cost of logistics as a percentage of GDP**
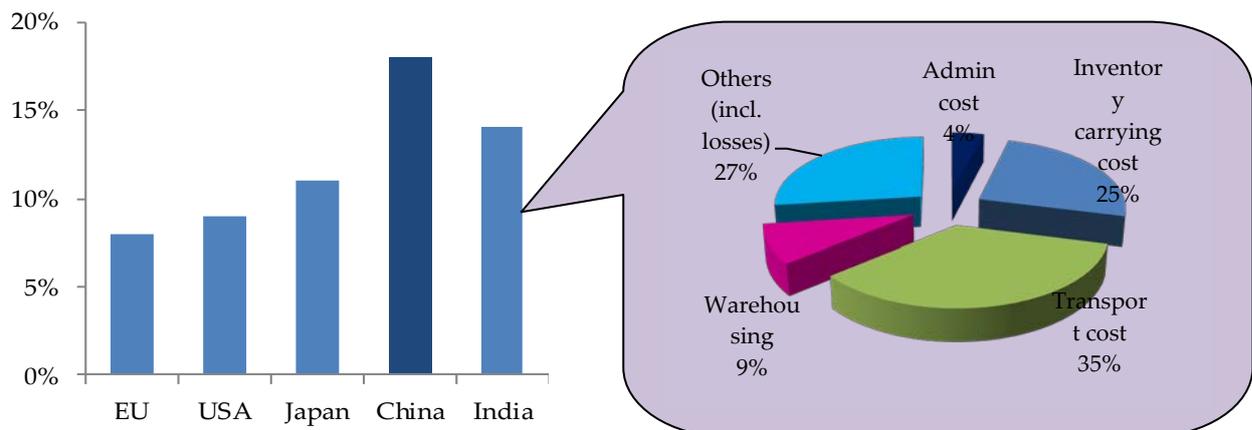


Source: Planning Commission and CARE Research

Although India is an important sourcing country, one of the reasons trade has not lived up to its full potential is due to the sub-par logistics as compared with the global standards.

### What is Express Delivery Service (EDS)?

Express Delivery Services (EDS) refers to the time bound door-to-door transportation and delivery of documents, gifts, parcels, spare parts, reports, samples, pharmaceuticals (temperature controlled logistics), high value fashion items, etc., with seamless integration of Information Technology (IT), providing tracking to the end consumer. The industry which originated in USA during 1960 flourished and went global during 1980's with

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[3] Primary survey of the industry stakeholders by CARE Research

companies across the world opting for Just in Time (JIT) deliveries for products and samples. In developing countries like India, EDS gained a big fillip post the policy liberalisation phase of 1990's which saw MNC's venturing in the country, some radical changes in the transport regulations and freeing up of overall economy.

Furthermore, growth of the industry is being driven by the booming e-commerce market in the country. One of the key requirements for which is an efficient and reliable EDS service which can cater to the needs of the e-tailing companies as well as the users. As per a survey by ASSOCHAM, India's e-commerce market grew a whopping 88% in 2013 to US$ 16 billion riding on booming online retail trends and defying slower economic growth and spiralling inflation.

The industry size is pegged at approximately Rs.110,000[4] million (as of 2012) with the organised segment accounting for nearly 48% of the market. The organised part can be further sub-divided into two categories — air express and ground express. However, the EDS industry currently forms a small part of the entire logistics domain. Nevertheless, it is amongst the fastest growing segment within the logistics industry.

There are more than an estimated 2,500 express delivery players in India. But, only a handful of players are listed public companies with the rest being private limited companies, partnership firms, sole trading entities or family managed business units.

In terms of reach, the Indian Postal department has the widest coverage with nearly 0.15 million post offices across country. The key distinguishing factors among the Indian Post and most of the organised players is the positioning of the latter as an end to end service provider with customised solutions and heavy emphasis on technology which provides the private sector with better yield and premium customers.

### Importance of the EDS Industry[5]
➢ Enables users to reduce operating costs by at-least 10%.
➢ Offers employment opportunity to 1.2 million people in India, which is expected to grow to 1.7 million by 2014-15.
➢ Industry is estimated to contribute approximately Rs. 8,000 million (as of FY13) as service tax.
➢ Directly/ indirectly contributes to government revenues by way of professional-tax, octroi, cess, surcharge, etc.

In its role as a 'Trade Enabler', the EDS industry transcends boundaries of numbers cited above by facilitating reliable, cost effective and smooth operations to other sectors of the economy. Furthermore, a majority of the employment opportunities provided belongs to

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[4] Study of Express Industry in India – May 2012
[5] Primary survey of industry stakeholders by CARE Research

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unskilled category, engaged mainly with the unorganised segment of the industry, which otherwise would need to seek other low-end jobs or remain unemployed.

EDS can benefit the industry and trade commerce in a number of ways. It can help achieve faster turnaround times by speeding up deliveries of products to manufacturers and consumers more rapidly and reliably. One of the major heads of expense for companies in India are the storage of inventory (raw material, finished goods) etc. EDS can effectively help reduce them and assist companies become more responsive to customer demand by faster delivery turnaround times, thereby reducing the inventory and hence the cost of operations.

The use of EDS would also essentially reduce the cash conversion cycle by decreasing the turnaround time between placing an order to receipt of cash, which will not only help the companies manage their working capital in a better way but also relieve them of the burgeoning debt that most of them are into, in the current scenario. In CARE Research's interaction with the stake holders of the EDS industry, CARE Research has identified that companies in developing countries tend to have about 5x-6x times more inventory in the manufacturing sector vs their developed counterparts. And even if the industry is able to cut the same by even 40%-50%, it could translate into improvement of operational margins by up-to 22%.

*(Findings via primary survey of the industry stakeholders done by CARE Research)*

In order to study and benchmark the practices that cause operational and other bottlenecks that restrict the growth potential and/or increase the transaction costs for the EDS industry, a systematic approach was devised and followed by CARE Research. This approach has been elaborated in the research methodology chapter and the resulting analysis has been presented in the subsequent chapters.

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## 2. Report Methodology

The Express Industry Council of India (EICI), the industry association of the express industry in India, plays a crucial role in driving policies impacting the industry and aims to create a favorable environment by promoting the common interest of its members. EICI interacts with various government departments to represent the industry concerns and facilitate the resolution of such issues. In order to perform its role in a more effective manner, EICI wishes to review the major bottlenecks and benchmark major state practices related to the EDS industry. Consequently, EICI commissioned CARE Research to conduct an independent review of the same.

This chapter aims at elaborating on the relevant research methodology considered by CARE Research to study the EDS industry with an emphasis on showcasing key bottlenecks faced by the players and by benchmarking select state practices. The chapter provides a brief summary of objectives of the study. The chapter also states the limitations and steps undertaken for analyzing the findings of the research methodology adopted by CARE Research.

### Objective

The objectives define the main thrust areas of the study and enable the organizing of the study into defined modules and phases.

- The overall objective of the study involved reviewing the regulatory, operational and other bottlenecks that restrict the growth potential and/or increase the transaction costs for the EDS industry.

- Furthermore, the study would also review and benchmark select different state level practices applicable to the industry with a view to identify possible best practices and put forward certain suggestions that could potentially help overcome the abovementioned bottlenecks.

### Methodology

CARE Research adopted a systematic approach within the course of this study that included secondary research as well as primary interactions with different stakeholders (express companies, end-users and government departments).

**Exhibit: Methodology flow chart**

| Overview | Challenges | Benchmarking |
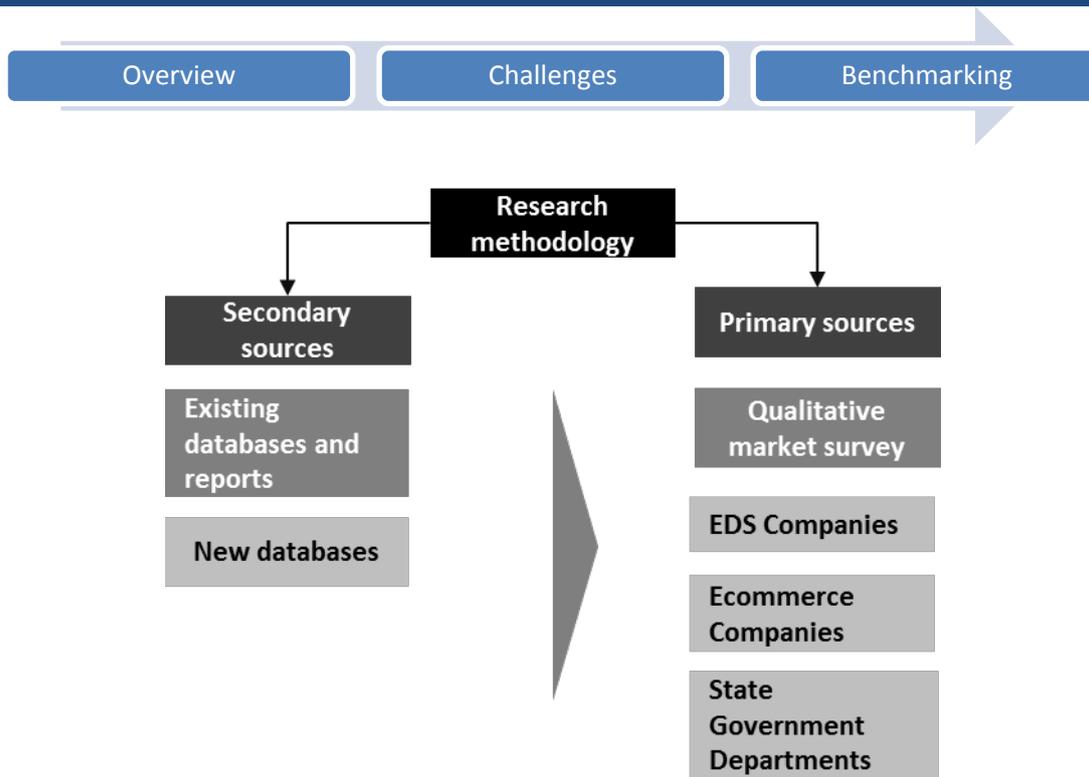


Source: CARE Research

### Secondary Research

The secondary research process concentrated on understanding the industry dynamics, whereby data pertaining to the overall EDS industry, its market size, growth drivers, upcoming opportunities, challenges, etc., were culled out from sources such as journal publications, previously conducted studies and government/ ministries/ departments, etc. This provided CARE Research the initial basis for conducting primary interviews.

### Primary Research

The primary research process involved identifying the population to be surveyed, preparing list of persons to be contacted and drafting questionnaires (discussion guides). For the survey, separate questionnaires were drafted for industry players, users of express service and related government departments.

CARE Research also met with challenges from respondents who did not show interest in either participating in the survey or declined to respond to a few questions in the survey. Some of these respondents were replaced with other participants who depicted interest in participating in the survey. Several state government departments could not be interviewed due to non-response from their side. In all, about nine players offering express delivery services, two major e-commerce players and three state governments departments responded and participated in the primary research process.

Qualitative as well as quantitative information was collected through a series of e-mails and open-ended face-to-face and telephonic discussions with these participants that involved discussing the implications of the various practices and the impact of the same on the industry.

The survey of the industry players was aimed at understanding the industry in detail and comprehending the perception of industry players on major concerns and bottlenecks facing the express industry. The survey of users of express services was intended to understand user perceptions on the express industry and issues faced by them while shipping their products to their customers. The survey of government departments was initiated to understand the importance of existing policies and practices and know their perspective on existing bottlenecks in the system.

The information collected through secondary research as well as primary research was studied to analyse the implications and confirming the hypothesis generated through secondary research. The information was also subjected to modelling to demonstrate the validity and quantum of the impact.

## Limitations

The analysis of the bottlenecks hampering the EDS industry is based on CARE Research's knowledge of the industry, accessible documents made available in the public domain and open ended interactions with industry stakeholders; however the analysis does not construe legal advice.

One of the challenges of the study was difficulty in getting the interview schedule with the different stakeholders related to this industry due to unwillingness of several participants to respond to the survey. Several of these non-respondents may be the key stakeholders for reviewing the bottlenecks. The primary research focused mainly on companies who had pan-India operations. Consequently, significant bottlenecks have been covered, while details on any specific bottlenecks which impact the small/ regional players may not have been adequately represented. This analysis could change due to actions undertaken by various stakeholders, the information on which may not be readily available in the public domain and consequently the final impact could also vary.

Despite these limitations, the review conducted by CARE Research has generated several insights on the bottlenecks hampering the EDS industry.

## 3. Overview of the Express Delivery Services Industry

### Evolution of EDS in India

In India, the first semi-organised form of courier services was the Angadia services, where people carried documents and valuables (like diamonds, gold, and silver) as a part of their 'Ang' or body. A significant portion of their activities was carrying diamonds between cities like Surat, Navsari and Bhavnagar to Mumbai. As trade and industry grew, the need for an organised express delivery service was felt. In fact, foreign companies also started entering the Indian market, mainly through tie-ups with Indian companies. The liberalisation of the Indian economy in the 1990s resulted in an increase in India's trade – both in goods and services. India's international trade has increased more than nine-fold since 1991. The EDS industry in India has undergone significant changes. Family-owned courier businesses have grown and developed into EDS companies providing integrated services.

Express delivery distribution operations are PTL (Part Truck Load) operations for commercial consignments and they are mostly Business to Business (B2B) and have high value. These parcels originate from large and SME customers and can be Cash on Delivery (COD)/account billed or pre-paid. The EDS industry operates on a fixed pickup, cut-off and a fixed schedule for long hauls using a hub and spoke model and have a wide network to cater to multiple destination in the country / international.

> When Express Delivery Service (EDS) players were asked to define themselves, the answer came in the following parts:
>
> 1. We are 'business enablers' since we aid movement of all kinds and sizes of shipments to any destination,
> 2. We provide peace of mind since we provide reliable and time sensitive shipments to any destination
> 3. "We carry emotions" in the form of gifts, medicines, product samples, etc.

With the increasing penetration of the internet in day to day life, right from communication to banking to shopping, etc., EDS' companies have had to undergo radical changes. These players are now witnessing a dramatic increase in the non-document segment of the business. These technological developments have made physical transfer of documents less important, since e-mail is now a widely accepted medium, add to it the growing usage of bank account statements, credit card communications, etc., in electronic form, the document segment is slowly losing its sheen. Conversely through the growing usage of JIT in business operations, increasing advent of outsourcing, samples (medical, legal) and fast growing e-commerce business have become the new thrust areas for EDS players.

## Market overview and segmentation

There are more than an estimated 2,500 express delivery players in India. However, only a handful of players are listed public companies with the rest being private limited companies, partnership firms, sole trading entities or family managed business units and hence there is limited availability of public data. Currently, there are no restrictions in terms of FDI permissible in the express delivery service activity. The industry is pegged at about Rs.110,000 million with the organised segment accounting for nearly 48% of the market. It can be further sub-divided into two service delivery categories — air express and ground express.

**Exhibit: Express delivery service market and its composition**
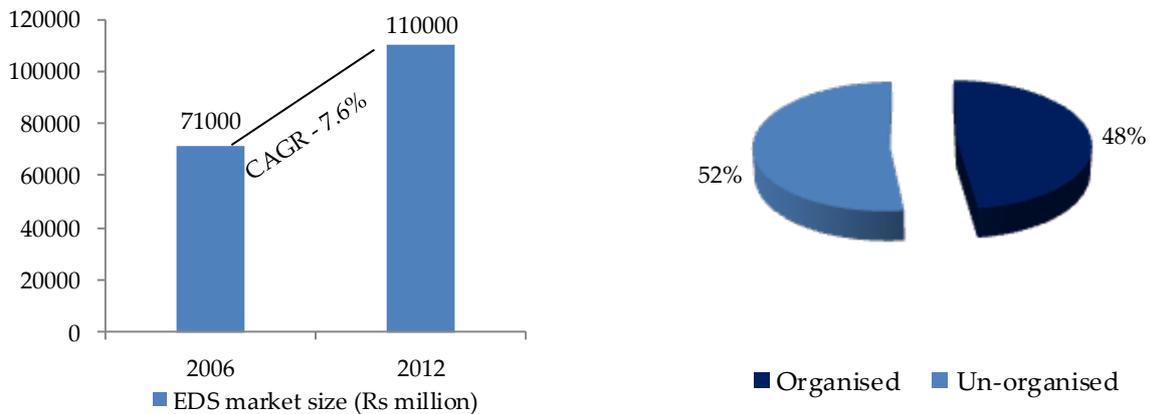


Source: Study of Express Industry in India Report – May 2012  and CARE Research

**Exhibit: Air Express & Ground Express Industry growth (organized segment)**
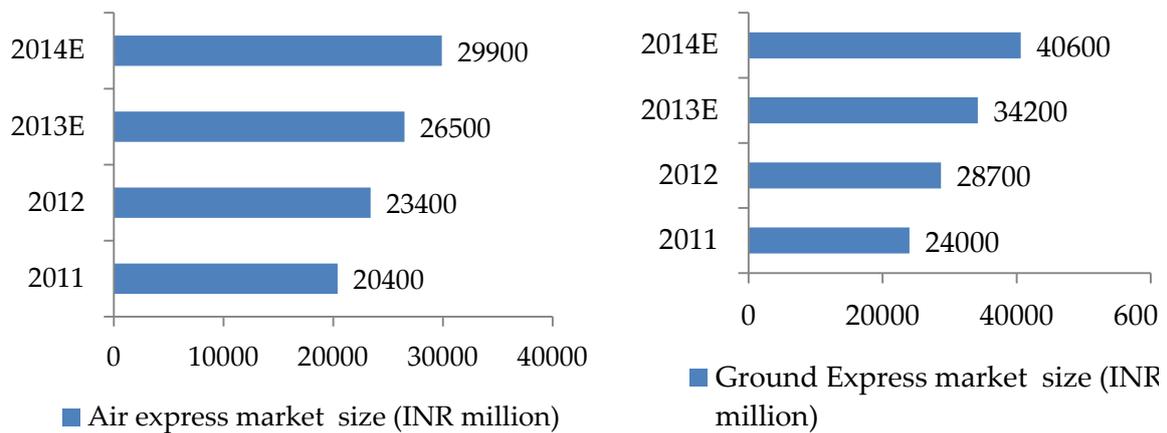


Source: Industry and CARE Research

**Operational model**

The industry follows a hub and spoke model, where sourcing is from multiple locations and there is a central consolidator called the 'Hub', while 'Spokes' provide services through the distribution centres across locations. On a broader scale, hubs are envisaged to take up the managerial responsibilities of enhancing capabilities, ensuring customer satisfaction, adhering to regulatory compliances, establishing uniform standards at the company level with respect to resource management, delivery standards, etc. On the other hand, spokes are expected to cater to the fluctuating business requirements and ensure smooth movement of goods. The model helps companies to gain business insights since they interact directly with the customer on a day to day basis allowing vendors to de-risk their operations and efficiently utilise the capacity in place.

**The hub and spoke model**

**Exhibit: The hub and spoke model**
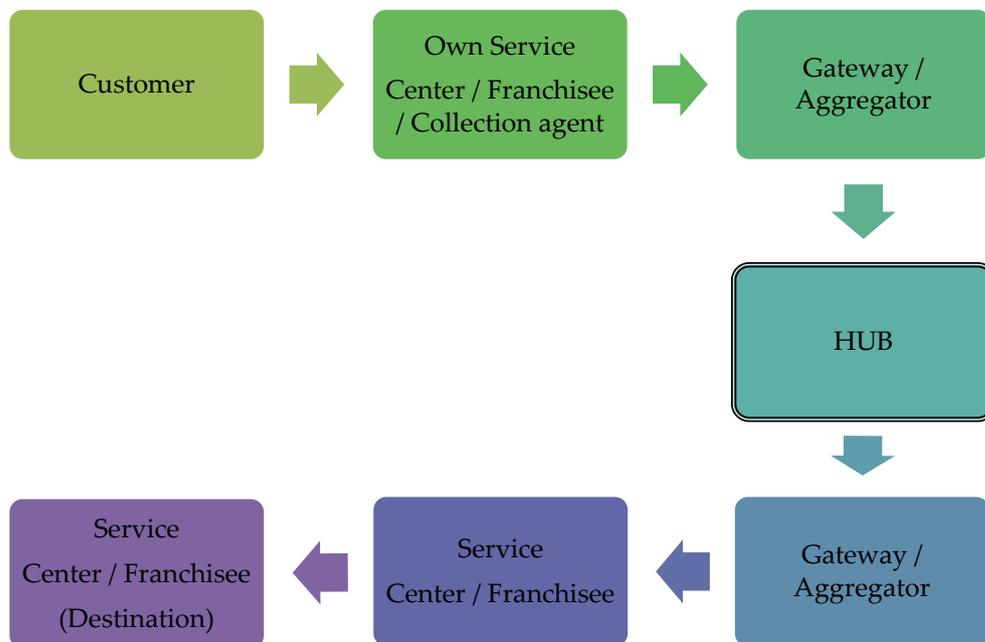


Source: CARE Research

Within the above framework, while certain players (like Blue Dart, First Flight, Aramex) operate largely with owned networks, some players such as DTDC, Professional Couriers and others function largely on support of franchisees with limited investment in owned networks. Most of the players prefer a blend of owned and franchisee network to expand their coverage. On the other hand, the players of unorganised segment largely apply barter model to enhance their coverage. Most of the larger players have an integrated network in place for enabling them to handle time sensitive express delivery services efficiently.

## 4. Challenges facing the EDS Industry

This chapter analyses select issues facing the EDS industry. The chapter first lays out in brief, the overall infrastructure shortcoming of the logistics sector in India. The chapter then presents and analyses the findings of the survey conducted by CARE Research amongst select EDS companies, e-commerce companies and government departments. The chapter then presents case studies of a few states which highlight the actions undertaken by these states to resolve these issues and what type of activities still remains to be undertaken.

### Difficult to conduct business in India

When any player (domestic / foreign) plans to set up operations in a country, one of the major factors considered is the ease of doing business in the country. And on this count India fares very poor. As per the World Bank report for 2014, India ranks 134 (among 189 economies). A table below compares India against a select list of countries. The ranking is based on a ten pointer system where one of the key parameters is "Trading across borders" which basically encompasses the logistics and transportation issues.

| Ease of doing business | | | | |
|---|---|---|---|---|
| Topics | US | UK | China | India |
| Starting a Business | 20 | 28 | 158 | 179 |
| Dealing with Construction Permits | 34 | 27 | 185 | 182 |
| Getting Electricity | 13 | 74 | 119 | 111 |
| Registering Property | 25 | 68 | 48 | 92 |
| Getting Credit | 3 | 1 | 73 | 28 |
| Protecting Investors | 6 | 10 | 98 | 34 |
| Paying Taxes | 64 | 14 | 120 | 158 |
| Trading Across Borders | 22 | 16 | 74 | 132 |
| Enforcing Contracts | 11 | 56 | 19 | 186 |
| Resolving Insolvency | 17 | 7 | 78 | 121 |
| **Ease of Doing Business Rank** | **4** | **10** | **96** | **134** |
| Source: World Bank and CARE Research | | | | |

### India scores poorly on logistics parameters

Roads carry nearly 60% of country's freight and close to 85% of total passenger traffic[6]. This over dependence on road freight movement results in huge logistics cost of nearly 14% as a percentage of GDP for India which for developed countries is in the range of 7-9%, while for other developing nations' ranges between 9-11% except for China where it is 18%. Given below are the key logistics parameters for any business to flourish in a country and how India fares on the world stage.

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[6] Ministry of Road Transport and Highway

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| Key parameters for business performance | |
| --- | --- |
| **Efficiency Indicators** | **India Ranking (out of 155 countries)** |
| Logistics Performance Index | 46 |
| Infrastructure* | 85 |
| Overall quality of roads* | 84 |
| Logistics quality and competence | 38 |
| Tracking and tracing | 54 |
| Timeliness | 44 |
| Source: Logistics Performance Index - The World Bank (2012) | |
| *Source: WEF Global Competitiveness Report -2013 (for 148 countries) | |

Furthermore, in a study done by WEF in India, in which respondents selected the five most problematic factors for doing business in their country, the findings reiterated inadequate infrastructure, bureaucracy and tax regulations as top hindrances to do business in India.

| Problem factors for doing business |
| --- |
| Inadequate supply of infrastructure |
| Corruption |
| Policy instability |
| Inflation |
| Tax rates |
| Foreign currency regulations |
| Insufficient capital to innovate |
| Crime and Theft |
| Source: WEF and CARE Research |

This not only signifies that there is a lot room for improvement, but also that efficient policy decisions need to be taken to build quality infrastructure. India's current logistics infrastructure is inadequate to serve even the existing trade needs. There are various challenges the EDS industry faces across spectrum right from the basic infrastructure to regulations and bureaucracy. Based on a short survey, CARE Research has classified the challenges faced by the industry into three broad categories outlined below.

**Exhibit: Key issues identified in the survey**
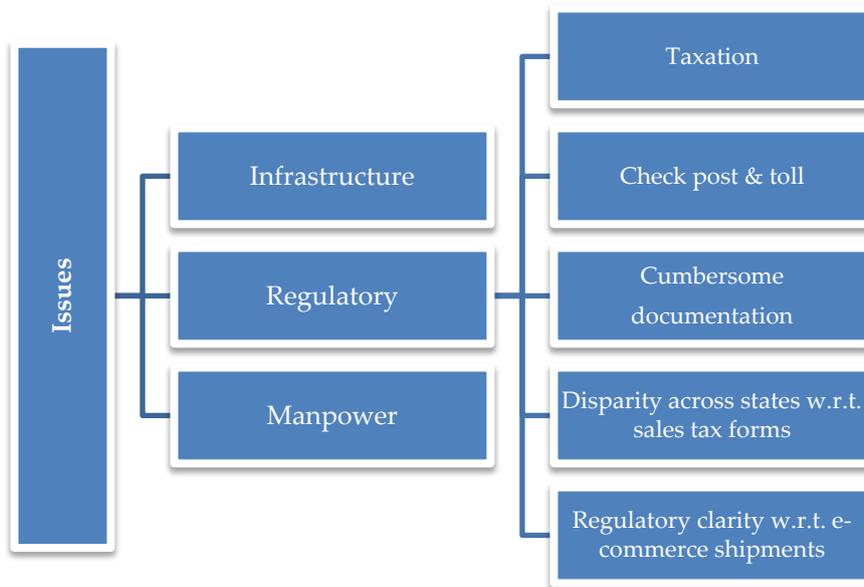


Source: CARE Research

## Regulatory

Throughout the value chain of a delivery service where a product passes from one state to another, there are a lot of regulatory procedures and checks, documentation, etc., that have to be undertaken by a customer and the EDS operator. There are also road permits, transit pass, etc., that a carrier has to manage while undertaking both inter-state as well as intra state transport. The check and balances are there with a specific purpose; however issues occur over the way these policies are implemented/ not implemented.

The current policies and regulation pertaining to VAT were implemented based on studies of Indian manufacturing practices and logistics along with the best practices in the developed nations prior to 2010. However in the present scenario, quite a few of these policies act as an obstacle instead of facilitating trade since the fundamental structure and nature of business has evolved exponentially. However, despite the attempts to update the system and clear hurdles with new reforms such as GST (implementation already delayed significantly), easing of bottlenecks, etc., lacunae still exist in the system and some of which were collected during our survey and have been highlighted below.

## a. Multiple Taxation

India maintains a multiple taxation structure where both the centre & the states have their own jurisdictions defined with respect to taxation of goods and services. Though the demarcation ensures proportionate division of tax revenues between the central and state governments, complexities arise for the tax payers because of the duality in taxes leading to overlapping and sometimes double taxation on various transactions. Apart from this, there are various charges (like entry tax, octroi) which are incurred on movement of goods at the municipal level.

To complicate matters further, every state has its own discretion (some states do not charge this tax, while others do) towards levy of Entry Tax (ET) which ranges from 1% – 5% for entry of notified goods. These taxes contribute directly to the supply chain cost of the goods for the end consumer as there are no credits that can be set off against them. Furthermore, every state has multiple check posts or entry points along national highways to monitor movement of goods and prevent tax erosion.

| Disparity in regulations across states | | | |
|---|---|---|---|
| State | Entry tax | Inbound VAT Entry Form | Outbound VAT Form |
| Andhra Pradesh | No | Yes | Yes |
| Andaman Nicobar | No | NA | NA |
| Arunachal Pradesh | Yes | Yes | NA |
| Assam | Yes | Yes | Yes |
| Bihar | Yes | Yes | Yes |
| Delhi | No | Yes | NA |
| Gujarat | No | Yes | Yes |
| Haryana | No | No | No |
| Himachal Pradesh | Yes | Yes | No |
| Jammu & Kashmir | Yes | Yes | NA |
| Jharkhand | NA | Yes | Yes |
| Karnataka | No | Yes | Yes |
| Kerala | No | Yes | Yes |
| Madhya Pradesh | No | Yes | Yes |
| Maharashtra | Yes* | NA | NA |
| Manipur | NA | Yes | Yes |
| Meghalaya | NA | Yes | Yes |
| Mizoram | NA | Yes | NA |
| Nagaland | NA | Yes | Yes |
| Orissa | Yes | Yes | Yes |
| Punjab | Yes | No | No |
| Rajasthan | Yes | Yes | Yes |
| Sikkim | No | Yes | Yes |
| Tamil Nadu | NA | NA | No |
| Tripura | NA | Yes | Yes |
| Uttar Pradesh | NA | Yes | NA |
| Uttaranchal | No | Yes | NA |
| West Bengal | Yes | Yes | Yes |
| Note: * Octroi applicable in certain areas | | | |
| Source: Respective State government websites and CARE Research | | | |

The expected GST regulation might have the ability to standardize legislations and smoothen out operations; however question marks still remain on its effective implementation as it has already been delayed significantly.

**b. Cumbersome Documentation**

Documentation (like VAT forms, way bills, permits, transit pass, etc.) is different for different states and the carriers / customers have to comply with every step in order to ensure smooth transition and delivery of goods or face a business loss (penalties for later delivery or even loss of future business). Additionally, the complexities arising out of reconciliation with respect to VAT / CST claims make the process slow and prone to mistakes which delay the entire supply chain. Some of these issues have been detailed below:

- One of the most important documents for a carrier is the Transit pass (e.g., in Mumbai N form for Octroi), which is basically a document that enlists essential parcel details passing through a particular state and destined for another state. A carrier has to obtain authorisation from consignees /recipients to open N form on their behalf. Though the document is necessary, it creates an issue for the carriers since they have to mention the vehicle number in advance, which is transporting the said parcels (for various state forms requirement, refer annexure). This not only slows down the transportation process but also does not account for parcel consolidation, vehicle break down or any other natural calamity during transit, since these transit pass has an obligatory requirement to be opened and closed at the predefined check posts mentioned in the transit pass. Also, the policy needs to be reviewed to incorporate some flexibility in case of allowing vehicles to enter and exit from any check post instead of fixing them right at the start, which will give flexibility to operators /carriers to choose the best way possible (depending on particular situation) to their destination.

- An EDS player carries thousands of parcels of every day and filling up different types of forms for the two types of products, i.e., one for consumption in state and others for transit becomes a cumbersome task and invites unintentional documentation errors. This ultimately leads to a vicious cycle of correcting it online (through e-kiosk or other possible means) and holding up the entire vehicle at the check post, thereby delaying delivery of all parcels being carried by that particular vehicle.

- Many state governments have implemented online systems for customers to themselves upload parcel details and generate airway bills which are then given to a carrier for transportation. Even though the process sounds easy, it creates confusion when multiple permits are being generated by customers for same products or one permit is used on multiple products mostly on account of consignors negligence; and since there is no system in place to verify if the permits/ way bills have been used, the carriers have to face delays on ground due to checks at the check posts and they being questioned on customers behalf.

- To obtain a transit pass, carriers have to enter all shipment details down to every parcel. Most of the states have an e-governance system in place. However, at the

check post, they have to manually enter the shipment details on to an electronic system, which is merely a replication of the manual process into an IT-based system without any integration of sub-processes. Instead what would help the industry is an efficient system which would automatically pick the required details once manifest is uploaded and map it across check posts. So there is no need to re-enter the details at check post and hence decreases chances of errors.

- A major issue being faced on ground at the check post is the ambiguous definition of products or goods being transported. For e.g., watches are included in the electronics section irrespective of whether they are digital or chronograph. Ideally, only digital ones should be included in electronics and hence the tax should be payable as per that category. However in the current scenario, all watches have to pay tax as prescribed for electronics segment. As a result, for carriers whose parcels have paid taxes as per different category understanding are held up and have to wait till the mistake is rectified by paying the applicable tax as per the official at check post.

### c. Check Posts

The inter-state movement of goods in India is subject to multiple taxes and clearances. A system of check-points has been set up on commercially important roads by various states to keep a vigil over goods vehicles passing through the state so as to ensure payment of taxes, octroi, etc. It also helps in capturing data relating to goods movement originating from within the state and also receipt of goods from outside the state. It also facilitates in exit of transit vehicles through the state, to their destinations outside the state with their original consignment.

As a result, there is considerable paperwork involved in inter-state movement of goods. Moreover, there are no common requirements as procedures and requirements vary across states. However good the intentions of the state governments, these check posts in certain states lead to considerable delays and affect overall operations. The basic purpose of a check post is to monitor movement of goods, ensure payment of applicable taxes and prevent smuggling. While it does not directly act as an obstacle but in their process of adhering to regulatory practices / rules, they tend to be one of the biggest hindrances in movement of goods. Improper functioning of some basic infrastructure facilities like IT makes it difficult to file e-documents leading to manual verification and collection of tolls at check posts. Some check posts do not have a backup system in place if the servers are down and refrain from following manual process saying it would be double work when the system is up. Furthermore, some check posts have a time limitation during day and are closed at night which leads to considerable time loss especially to EDS due to their time sensitive nature.

Consequently, even though the level of basic infrastructure has generally improved over the period of years given the investment made in the road sector, given issues at check posts and the variable quality of the roads, the overall speed of travel still remains low at 35-40

kilometres per hour. As a result, the daily coverage of truck in India is merely about 400 km per day as against 700-800 km in the US.

- For e.g., in Kerala (Walayar check post) – it takes roughly 8 hrs for vehicle clearance, provided all the data is as per regulatory requirement. If there are any errors in the data entry, modification of the same consumes another about 8-10 hrs, since the transporter has to go back again to the e-kiosk, stand in a line to rectify error and come back to check post for physical validation. Ultimately causing a delay of nearly 18 hrs for a carrier.

- In CARE Research's interaction with different players in the industry, CARE Research found that on any route across India, consisting of a toll plaza, average stoppage delay is 3-6 hours, which is a considerable percentage of their total travel time. Similarly CARE Research's findings show that depending on the region a transporter is travelling in, the waiting time at toll plazas and especially check posts could run into 30%-50% of their total travel time.

- So roughly if we take about 3 million vehicles passing through check post in a year, the delays listed above result in a loss of nearly Rs.25,000 million. Add to this another Rs.200,000 million which is the cost of additional fuel consumption in India due to poor condition of roads and various delays caused. *(Reference – Facilitating Trade & Global Competitiveness –ICRIER (2012))*

## d. Legislative clarity for e-commerce shipments

Central and state legislations governing goods transportation have not kept pace with the explosive growth of e-commerce and due to the absence of uniform taxation policies between states i.e. GST, e-commerce shipments face significant hurdles while delivery consequently impacting the EDS players.

The seller is liable to pay the applicable sales tax (central or local)/ VAT due in the state/ location where the seller is located or where the transaction is completed. The issue with e-commerce transactions when the buyer is in State A and the seller is in State B with the online portal functioning as a facilitator. Since the transaction has been completed with a seller based in State B; applicable central sales tax along with Entry Tax, if any, of State A would be due on the transaction. Online transactions are of two types, COD i.e. Cash on Delivery transactions or Prepaid. In case of COD transactions, some states like Kerala have argued that as physical transfer of goods has occurred in the receiving states as the EDS player has collected cash versus delivery of the goods (similar to the VPP service provided by the India Post in India), in effect functioning as the agent of the seller in the State. Consequently, notices have been issued to EDS players asking them to pay the necessary dues along with the penalties for delayed payment EDS players argue that providing COD service is a value added service (service tax is paid on such services) provided by them to the seller and they have not functioned as an agent of the seller and that the notional ownership in the goods has already passed in the seller's state where appropriate taxes have been paid and that there are no further taxes due and furthermore if any taxes do become

payable, it would be the responsibility of the seller and not that of a logistics service provider. The matter is sub-judice in several forums.

The governments (central/ state) should provide clarity on procedures and simplify the process so that tax revenue is collected appropriately and no transaction faces the burden of being taxed twice in separate states.
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In CARE Research's discussion with various EDS companies, CARE Research also identified the following issues to be of major concern:

- Improper functioning of IT infrastructure: States which do have them face frequent server break downs, especially in West Bengal, North Eastern India, etc. Problems arise because these states do not have a proper back up system in place to grant clearance if the IT servers are down. They do not resort to manual process saying the system is automated and hence ask carriers to wait till the servers are up and running. This time could sometimes run into couple of days.

- Lack of green channel for EDS players: EDS is time sensitive and often carries some very important parcels like test samples, lifesaving drugs, results, medical shipments, etc., which hold its importance only when delivered on time. Comparing EDS with cargo/bulk services results in marring its significance to the end customer. Hence, an express delivery clearance lane / green channel (even at an additional cost) for express delivery services would enable to serve the purpose and intent of the said shipments for the user.

- There is a huge disparity in the understanding of documentation required that is mentioned in the rules versus that on ground (at check posts). In CARE Research's interaction with players, we were cited several instances where the carriers were asked by the staff at check posts to get documentation as per the old format, even if new amendments were made to the rules. Only on communication by a higher level official of the respective department do the ground personnel agree for the provided documents. Such instances occur due to lack of communication with respect to amended rules especially in states like Bihar where this duality is profound.

- Another major problem that was highlighted during the survey was the detainment of entire vehicle even if 1-2 parcels have doubtful documentation. An EDS player carries hundreds of parcels in a particular shipment. Now before reaching the check post, the carrier is required to upload the manifest details online via the state government website with a motive to save time once the vehicle reaches there. However on checking (at check post) if even a single parcel which does not satisfy the documentation requirement or if any minor detail is misrepresented, then the entire vehicle containing hundreds of parcels is held

back. However, this stoppage results in time wastage and not to mention the loss of revenue and importance of the said product for the parties involved.

- Some states impose penalties on co-branded/ painted vehicles deeming them to be improper while other states do not impose any such penalties, ideally, a common procedure should be applied uniformly across all states.

| Some State specific issues | | |
|---|---|---|
| **State** | **Problem** | **Impact** |
| West Bengal | • IT infrastructure often down due to server issues, no backup plan to clear vehicles during this time. | • Sometimes the system is down for 2-3 days at a stretch.<br>• Manual process for clearance is not followed saying since there is an IT system in place; it would be double work when the system is operational.<br>• The government of WB has called for an Expression of Interest (on 9/2/2014) for modernisation of check posts. |
| Kerala | • Walayar check post lacks adequate computerisation and handling terminals, leading to congestion.<br>• The IT infra in place is often faced by challenges due to server break downs.<br>• Ambiguous classification of items<br>• EDS companies asked to pay tax on COD E-commerce shipments. | • Since it is the main entry point between Tamil Nadu and Kerala, long queue of waiting vehicles causes delays up-to 20 hrs.<br>• Lack of resources at check post to handle these volumes, causes delay in clearing the vehicle at check post.<br>• For e.g. watches irrespective of digital / chronograph are included in the electronics sections. Hence if a player has included them in mechanical device would cause problem at the check post since it calls for different documentation and tax. Furthermore this mistake needs to be corrected through e-kiosks located away from check post, reaching there and rectifying the mistake causes a delay of 4-5 hrs. |
| Maharashtra | • Trucks have to wait for long hours to pay Octroi (Mumbai) and get their N forms checked and verified. | • Any issue leads to correction to be done which entails delay of nearly 2-3 hrs. |
| Orissa & J&K | • Major check posts close at 7 p.m. and reopens next day at 8 a.m.<br>• In Orissa, mechanical tax collected from the vehicles is an additional burden to transporters. | • Since there is no clearance at night the traffic is essentially held up till the next morning resulting in long waiting hours and delays in clearance. |
| Himachal Pradesh & Punjab | • There is an inefficient computerised mechanism in place.<br>• Delay in processing of the documents. | • Time taken for movement of goods has increased due to lack of separate lanes for EDS and other infrastructure constraints.<br>• Regulations require every shipment wise form filling which consumes up-to 6-8 |

| State | | |
|---|---|---|
| | | hrs, since the volume are huge in case of EDS. |
| Bihar | • At check post detention and delay of the vehicles has become a daily issue.<br>• TP closing for trans-shipment through the state also is an issue to be addressed since the state asks for all shipment details being transported, which is not required by any other state.<br>• E-form verification access is not available, and hence carrier is unable to verify if the unique identifier number is correctly provided by customer. | • For any discrepancy noticed by the check post authorities vehicles are held for more than 48 hrs for physical verification.<br>• Since there is no way to verify e-form at the transporters end, in case of discrepancy, it's the carrier who is held responsible and has to spend hours to get it corrected. |
| Assam | • Multiple forms are introduced for different transactions.<br>• TP process is complex.<br>• Check posts do not function during night. | • Multiple forms create confusion in attaching the applicable form.<br>• State entry check post cause much delay in processing the documents.<br>• Ultimately increases the Turnaround Time (TAT) of the vehicle. |
| Gujarat | • Limited clarity over the classification of goods and services | • Vague definition of goods and services, hence there is confusion over the category to which a particular item belongs to and hence the associate tax related to it. So if a player has included the item in a different list and paid taxes as per that list, it causes discrepancy and delays the clearances till the appropriate taxes are paid. |
| Madhya Pradesh | • TP process is okay at awb level however it takes 2-3 minutes to upload one awb. | • As a result entry into the state causes delay and detention of the vehicles. |
| Tripura | • Sales tax clearance process for both incoming and outgoing requires endorsement at sales tax office prior to delivery. | • Without endorsement delivery is not permitted. Since these offices are located away from check posts it consumes a lot of time to reach there and get the document endorsed. |

Source: Primary survey with industry players done by CARE Research

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## Infrastructure

The basic requirement for logistics industry, especially the EDS segment is the quality of infrastructure which propels smooth functioning of deliveries. However currently, we lack the availability of standard infrastructure and procedures, thereby leaving the industry players to struggle with a poor framework. As a result of this inadequacy, many retailers who depend on EDS for their geographical reach and distribution to end customers are left handicapped and lose out on business opportunities.

In CARE Research's interaction with the stake holders of the industry, CARE Research identified certain facts with respect to the infrastructure status in India. A comparison of the same is given below[7].

| India | China | Developed countries |
|---|---|---|
| Poor infrastructure; Unorganised distribution network | Better infrastructure with set models; higher emphasis on emerging distribution channels and set up like organised retailing. | Well-developed infrastructure, up to date distribution channels with collaborative models. |
| Very high government involvement – usually disruptive (bureaucracy, red tapeism, corruption, too many tedious clearances) | Supportive government involvement – with investor friendly policies. | Little government involvement since policies & measures are in place to guard a nation's interest. |
| Highly unorganised markets – with many small regional players | A fair share of the market belongs to the organised players. This gives rise to a highly competitive market and asks for consolidation going ahead. | Largely an organised market, with intense completion and modern distribution set up. |
| Low levels of automation; Lower emphasis on data analytics | Medium levels of automation, slowly approaching sophisticated supply chain capabilities. | Highly automated industry. Good use of data analytics. Sophisticated systems in place. |
| Poorly developed 3PL, 4PL logistics model | Higher reliance on 3PL and 4PL players. | A good blend of modern techniques will well established 3PL and 4PL players. |
| Source: Facilitating Trade & Global Competitiveness –ICRIER- 2012 and  CARE Research | | |

Though over the past decade or so India has witnessed substantial investment being routed to infrastructural developments, still the results are not as they were expected except for growth in road networks, whose quality is still questionable. A lot of projects which are touted to change the face of infrastructure in India are either stuck in clearance jungle or are running way behind their completion schedule. Other facilities such as warehouses, cold chain storages, logistic hubs, etc., are all under developed or are in the pipeline. The ones which are there hardly cater to the requirement emanating from various sectors.

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[7] Facilitating Trade and Global Competitiveness –ICRIER – 2012

### a. Roads

Currently, India has an extensive road network of 4.6 million km with a road density of around 1.42 (km/square km), higher as compared with 0.4 (km/square km) in China and 0.67 (km/square km) in USA. However, despite being the second largest in the world, the Indian road network is inadequate as the growth has not been commensurate with the growth in the number of vehicles in the country. The number of vehicles in the country grew at a CAGR of around 10% during 2001-2011 as compared with a CAGR of 3.4% registered in the road length addition.

| Comparison of essential parameters | | |
|---|---|---|
| Efficiency indicators in road transportation | India | Global |
| Average truck speed (in km/ph) | 20–40 | 60–80 (developed countries) |
| Average truck distance covered in a year (kms) | 60,000–1,00,000 | 4,00,000 – 6,00,000 |
| Average truck distance per day (kms) | 250–400 | 500 (BRICS) 700 – 800 (US & Europe) |
| Total length of expressways (kms) | ~1000 | 74,000 (China) |
| Source: EY and CARE Research | | |

The average speed of freight vehicles on Indian roads is a paltry 20-40 kmph as against 60-80 kmph in developed countries. The leading causes being the poor quality of roads and waiting time at toll plazas and check posts during long travel (interstate) of freight vehicles on. Common sights today at any check post is a long queue of vehicles (trucks) waiting to gain clearance to cross a particular boundary. The process of which involves document verification, physical checking of parcels, filling form as per regulatory directives etc. For eg, a Delhi-Mumbai route has roughly about 20 stops (nearly 15 toll posts) on which average stoppage delay is 3-6 hours, which is a considerable percentage (rough estimate 40%) of their total travel time. This results in huge loss of revenue on account of lower asset utilization and loss due to fuel wastage costing the company, consumers and ultimately the exchequer.

### b. Air

Use of Scheduled passenger Flights by Express delivery services to deliver parcels are known as Air Express operators. With JIT and global out sourcing models gaining roots in India, there is an increased demand for air cargo logistics business. However, the Indian air logistics space has its own set of problems right from in-ordinate dwell times to lengthy clearance process (due to complicated regulatory processes) to missing / damaged cargo to untrained human resource, etc.

As per the industry players, one of the primary reasons for a high dwell time in India is due to customs processing of 100% cargo through airport terminal and not taken to consignee or forwarder's location under bond for later clearance. Delays also occur on account of late submission of the necessary documents, mis-classification of goods, etc. The dwell time

further increases due to lack of 24*7 operations. In case of exports, most of the dwell time can be attributed to airlines booking and accepting cargo much ahead of flight departure. Free period of 48 hours to airlines allows them to hold cargo at the airport terminal much before departure time of their flights.

### c.  Railways

Indian Railways is one of the world's largest railway networks comprising 115,000 km of track over a route of 65,436 km and 7,172 stations. In 2013-14, the railways carried approximately 8,425 million passengers annually or more than 23 million passengers daily and 1050.18 million tonnes of freight.

However, freight movement in India is dominated by roads due to historical under-investment by the railways. Further, most high density corridors have become over saturated as route kilometres have grown at a CAGR of 3% and track kilometres, incorporating additional lines on existing routes, have grown at a CAGR of 6.6%. During the same period, freight and passenger traffic has grown at a CAGR of nearly 54%.

Rail transport is constrained due to the limited availability of parcel holds on trains, high freight costs and non-visibility of firm delivery lead times. This in turn leads to limited usage of rail as a transportation mode for express delivery. Despite the above challenges, rail transport has the potential to emerge as a major mode of transport, especially non-document (bulk) shipments between cities.

As per industry estimates, rail cargo could be up to 45% cheaper than air-cargo on select routes. This is especially important for the e-commerce industry which predominantly uses the most expensive air cargo for order fulfilment. A judicial mix of road-rail and air could reduce the cost of delivery, while sustaining the delivery timelines.

Railways have gathered momentum after the recent Railway budget FY15, which introduced designated pickups at select railway stations for ecommerce companies. However, clarity is yet to emerge on what "pick up centres" would mean and who would be picking up the goods – ecommerce/ EDS players or the end-consumer. Full clarity would only emerge once the rules and policies are notified in detail. However, the railways seem to be emerging as a major cost effective mode of transportation for the ecommerce/ EDS players.

**Manpower**

Since the industry is largely unorganized with numerous small and regional players, it is characterized by inefficient management with disorderly skillsets which make it difficult to implement standard operating procedures in this sector. The organized players, who are offering integrated services at a pan-India level, are facing an acute shortage of skilled labour in the sector. The industry is considered an unattractive career option and fails to attract skilled manpower and this is especially critical in the case of integrated logistics providers[8].

The key skill gap areas as highlighted by National Skill Development Corporation Reports for Transportation, Logistics industry are:

- Inadequate knowledge of procedures, paper-work for inter-state movement, taxation related aspects, etc.
- Inadequate ability to ensure the training of personnel employed with them, leading to no incremental skill improvement and thus no motivation to perform better at the existing profile.
- Experienced drivers or helpers move up the ladder to become supervisors and this set of personnel is still characterized to a large extent by the skill issues seen in drivers.
- Driver and helpers are mainly characterized by a large illiterate workforce that has inadequate formal training, lack or no knowledge of applicable octroi, VAT, etc. leading to inadequate availability of trained drivers.

The activities of the express industry are labour intensive. The spending on manpower is the second largest cost element for the industry. However, availability of manpower is becoming an issue of concern for the industry. The high intensity of work makes the industry relatively unattractive for the labour force. Furthermore, the availability of trained manpower is a concern, especially at middle level of operations. The above issues affect the industry by increasing the costs of operations, reducing efficiency of operations, increasing the need for capital investments and by posing a threat to the growth of the industry. Training of human resources in the logistics & warehousing sector is critical to bridging the current gap. Resources need to be trained in different systems and components used by companies dealing in logistics, to provide branded customer service.

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[8] Human Resource and Skill requirement in the Transportation, Logistics, Warehousing and Packaging Sector

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## Case Studies

In order to understand the effect of check post modernisation efforts and other steps taken up by various states, CARE Research has compiled a few case studies representing the effect and possible benefits derived out of such implementation. In CARE Research's interaction with stakeholders, Karnataka emerged as a key state who has efficiently implemented check post modernisation policy. Kerala on the other hand, in-spite of implementing some policies, still has issues to be sorted. Lastly, we have discussed West Bengal, which had a lot of issues to grapple with but is working on sorting them out and is now on track towards modernising its check posts.

### a.  Karnataka

Commercial Taxes Department in Karnataka set up check posts on commercially important roads with a purview to keep vigil over goods vehicles passing through the state and to ensure payment of taxes on corresponding transactions. They had to capture data relating to goods movement originating from within the state and also receipt of goods from outside.

### Delivery notes

- The earlier system for declaration of commercial taxes comprised of dealers issuing self-notes of the transactions they have entered into with other parties. Since there was a possibility to manipulate these notes to suppress information related to actual transaction, CTD introduced a system to declare the same on department-issued notes, the utilization of which could then be monitored and accounted for.

- As a result, specialized notes called "Delivery Notes" (DNs) came into picture for proper accounting of bulk transaction by dealers which were done through trucks.

**Exhibit: The manual process for goods movement**

Dealer obtains DNs from CTD on payment of fixed fees →
Department issues DNs in triplicate. The first copy for surrender at check-post; second for carrying along with the truck and third for retention by the dealer. →
The DNs submitted at check posts are checked for correctness against goods carried. Original of the two DNs was collected by check post officer ↓

A dealer to obtain new set of DNs was required to file a 'Utilisation statement' of last issued DNs. ←
Paper copies are stored in offices for record and were used for verification against the details in the monthly returns filed. This involved storage of records in CTD offices. ←
The original is sent back to the jurisdictional VAT Office for sorting and filing in dealer records.

↓
Any discrepancy in the sale/purchase quantum declared via the DNs and the transaction details declared in the monthly return would imply evasion of tax, and would require CTD to initiate action.

Source: Government of Karnataka - Commercial Taxes Department and CARE Research

**Key challenges - High volumes**

The sheer volumes involved in these transactions made it impossible to do needful filing and cross verification. Karnataka had 18 static check posts and several mobile check posts. At some of the busy check posts as many as 3,000 trucks are reported per day. To aggravate the problem further, each truck would carry as many as 20 different consignments. Thus, a normal check post would get about 12,000 to 15,000 documents per day. Hence, for such huge volumes, any meaningful verification in terms of sorting and filing of DNs into corresponding dealer files and cross-verification with return filed was impossible for the deployed staff. This resulted in long waiting times and huge delays in clearing the goods vehicles at check posts.

**Exhibit: Check posts rendered in-effective**
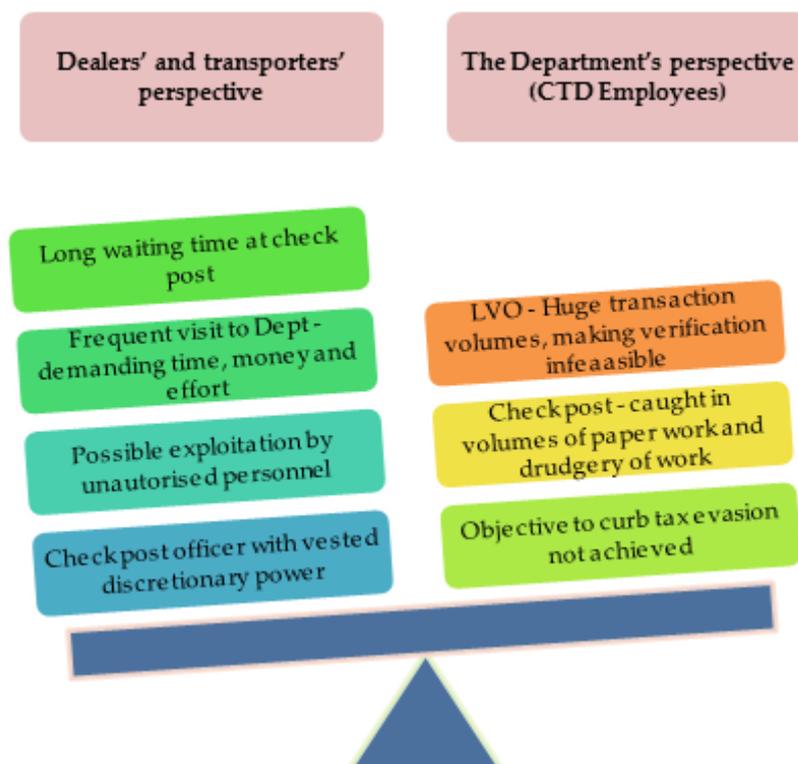


Source: Government of Karnataka - Commercial Taxes Department and CARE Research

**Need for the initiative:**

To grapple with above problems, the CTD tried a new approach to reduce the hardships of the trading community and ensure better tax compliance. The key drivers of new initiative were as follows:

**Exhibit: Check posts rendered in-effective**

| FROM | TO |
|------|-----|
| Department as regulator | Department as a Service Provider |
| Frequent visits by dealers | All services at doorsteps |
| Policing by the Department | Self Policing by Dealers |
| Paper based information | Electronic Transactions |
| Avenues for corruption | Transparent system |
| Long delays at Check post | Decreased time for transaction at Check post |
| Old paradigm – Post event confirmation | New paradigm - Pre event / real time confirmation |
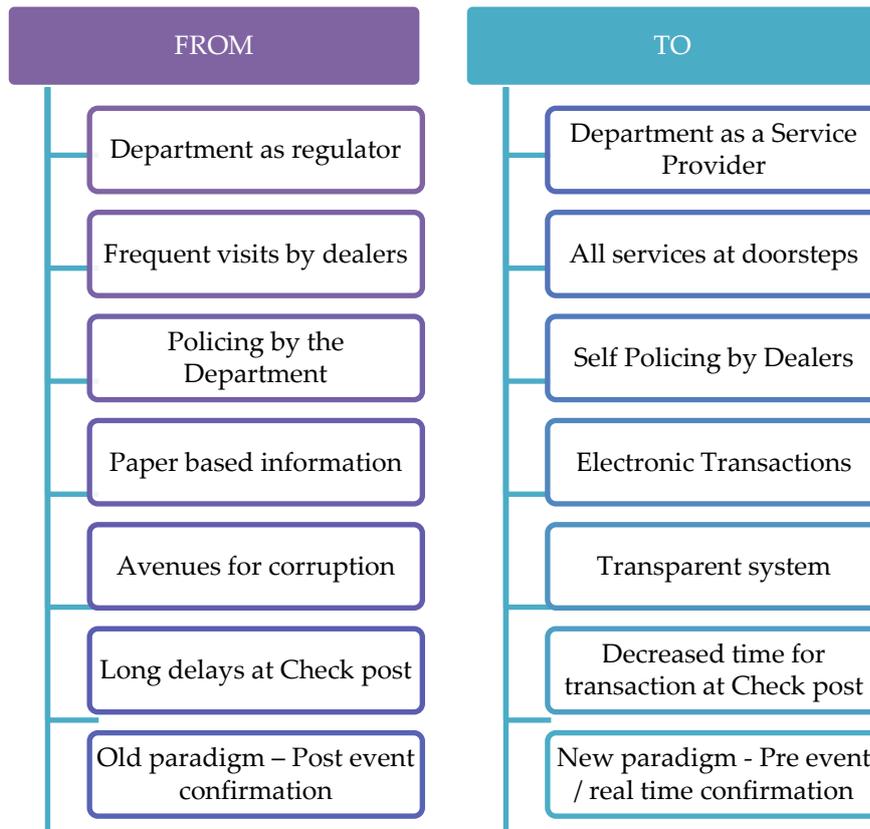
Source: Government of Karnataka - Commercial Taxes Department and CARE Research

### A reformist new Initiative: Self-declaration

The new initiative was based on the idea that a dealer would first issue an invoice and later duly incorporate all the invoices in his/her return and accounts. Thus, the entire tax administration was geared towards making the dealer to issue the invoice first and then ensure that invoice was reflected in his books of accounts, ending up in remittance of tax to the government.

The dealer would upload the details of each bulk transaction to a central 'Server' through the internet and once uploaded, the 'Server' would automatically generate a document similar to DN with a unique number. This unique number could accompany the goods vehicle as a proof of having uploaded the details of the transaction. Such a system would by itself guarantee that once a document is issued, there could be no avenue of non-accounting by the dealer.

**Exhibit: The revised process after the e-SUGAM introduction**

### e-SUGAM / m-SUGAM Generation – Online Process
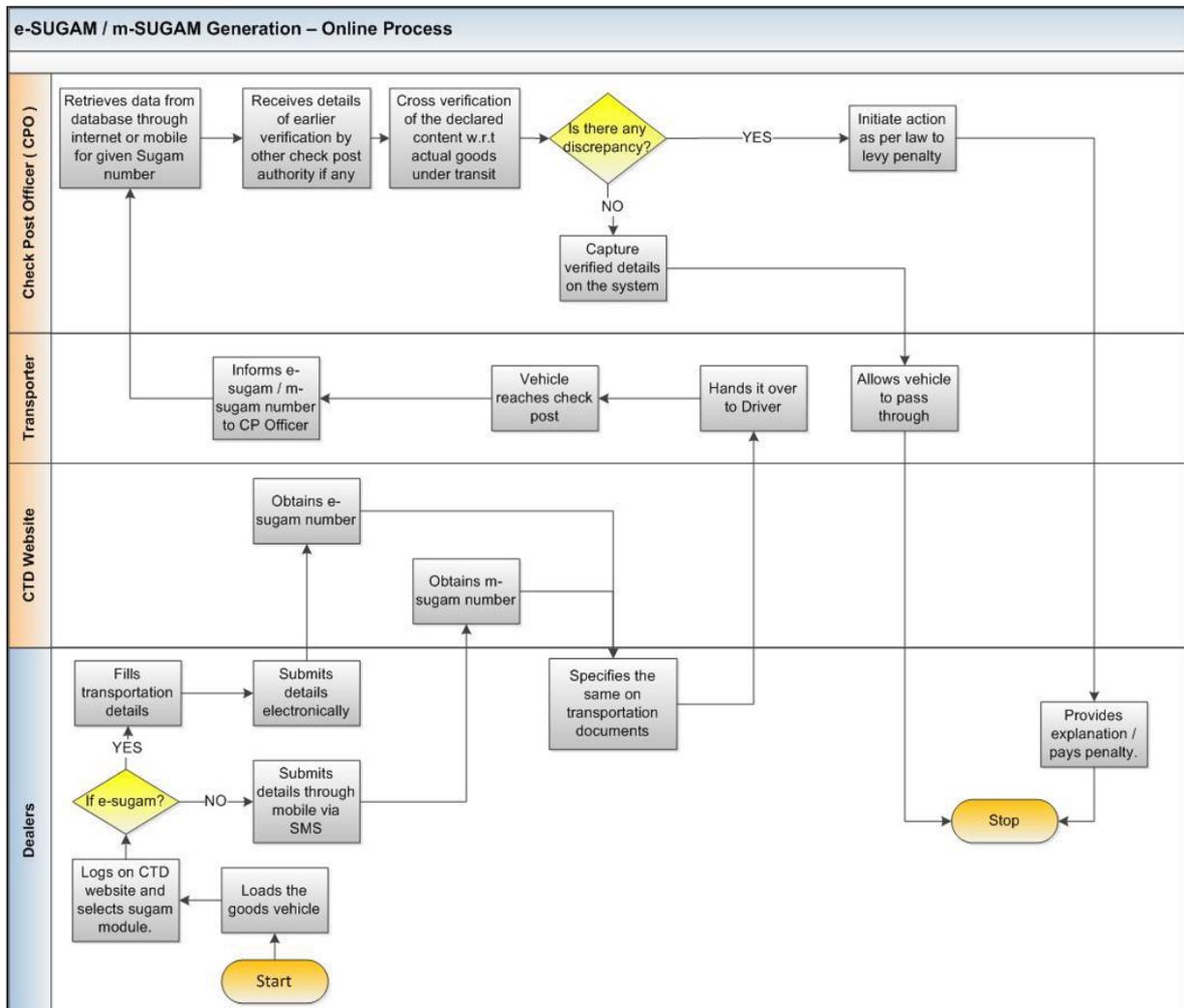


Source: Government of Karnataka - Commercial Taxes Department and CARE Research

- The enforcement officers are also no longer required to carry voluminous documents for cross verification to the dealers' premises. Rather, they can obtain dealer-wise information on the system and carry printout of only the doubtful transactions and cross verify the same.

- Verification – The check post or mobile check post officer while verifying the e-SUGAM from the computer system can view the critical data of a dealer who has generated the SUGAM and also the other dealer who receives the goods.

- The registration details like date of registration, status, commodity dealt in, place of business, etc., details of turnover declared for the last six months, number of SUGAM obtained, turnover involved in SUGAM and comparison of turnovers as declared in the return vis-a-vis as available in the SUGAMs obtained, etc., are instantly available. With the help of which the check post officer can verify the credentials of the dealer.

- In case of any discrepancy he / she can initiate appropriate action, either on his own or through officers in the Enforcement / Audit wings.
- Cancellation of SUGAM number - The system also provisioned for a dealer to be able to cancel a generated SUGAM number, in case it had an error or was not required due to any reason.

**Use of e-SUGAM in reporting, analysis and dashboards**

Post automation of goods movement process (inward and outward); the information is captured dealer-wise in an electronic format. This enabled the department to generate a series of statistical and analytical reports on an instantaneous basis. Furthermore, these reports have the option of drill down or analysis across several parameters such as location, officer, dealer, time period, etc. These reports help the department to monitor for tax compliance and evasion.

**Awareness building**

For effective implementation of e-SUGAM, the acceptance by target audience (four Lakh+ dealers and the tax practitioners) was very important.

**Environment Building via Support to dealers**

- Administrative instructions were issued by the commissioner that any truck had e-SUGAM, it should not be detained or penalized for technical errors.
- The dealers were advised periodically about the features of e-SUGAM and how to prevent misuse e-SUGAM.

**Awareness Building - Seminars and Workshops**

The department carried out multiple awareness building and familiarization sessions for dealers and tax practitioners by way of WORKSHOPS. These were organized all over the state. The dealers were advised that they could approach any office of the department to learn or clarify any aspect of e-SUGAM. The intent of the workshops was threefold –

- To communicate and train dealers / tax practitioners on change
- To resolve any issues with respect to the initiative, and
- To receive any suggestions/ feedback.

**Capacity Building**

- **Training to officers and staff -** Impart week long class room based training on the e-SUGAM initiative and basic computer skills to all officers and officials.
- Nodal officers of the rank of Deputy Commissioners of Commercial Taxes were nominated in each division. These were officers who had better knowledge of the IT initiative. They acted as mentors for their colleagues. These officers, who were trained by the head office, then imparted the training to staff in their LVOs/VSOs.

## M-Governance – Mobile-based SUGAM

- **Need -** For the benefit of the dealers who did not have easy access to computers and the internet, the department introduced an alternate method for obtaining SUGAM number via mobiles.

- **Process -** This mobile based system requires the dealers to request for SUGAM number from the department by sending six critical parameters through an SMS to a designated mobile number. Once the SMS is received, the system validates the details received and returns a SUGAM number along with date of generation via an SMS. The dealer can then share this number with the transporter, who can show it at the state check posts.

## Implementation strategy – Phase-wise approach

Exhibit: Implementation strategy
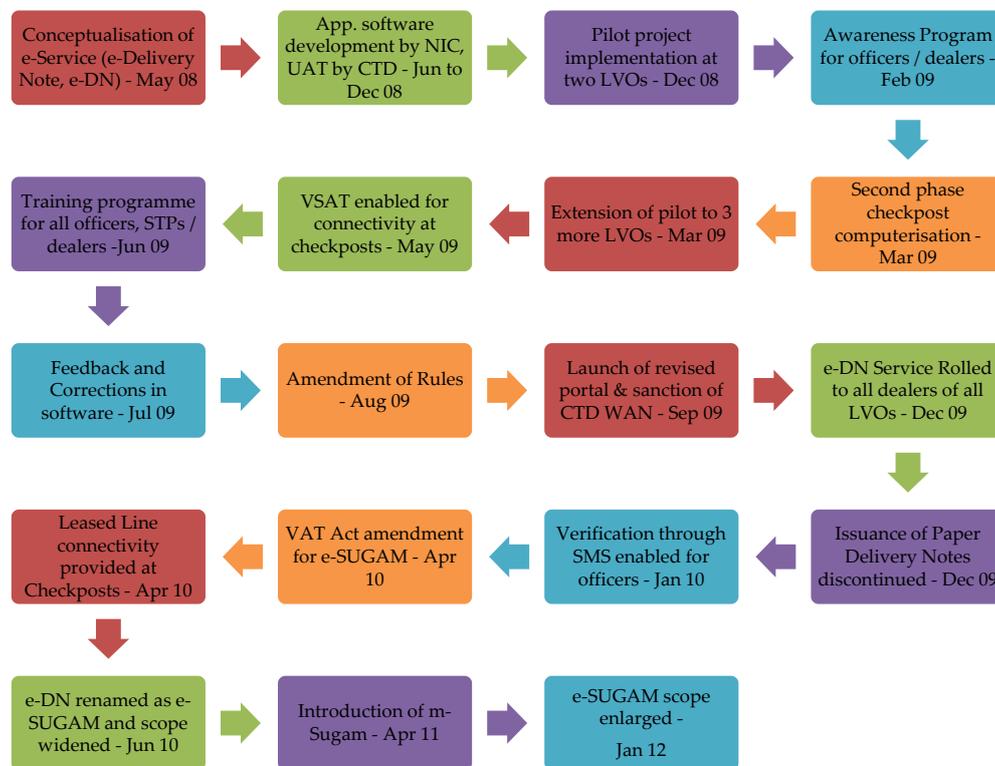


Source: Government of Karnataka - Commercial Taxes Department and CARE Research

## Results & Benefits

- Dealers are no longer required to visit the tax offices to obtain the delivery notes.
- About 15,000 visits saved per day.
- Transparency in system. Minimized scope for corruption in new system.
- Long delays at check posts done away with.
- Collection of documents no longer required, there is an automatic capture and filing of voluminous data – which hitherto was impossible.
- With the online system and electronic data monitoring, verification by the check post officer has eased.

- The availability of instantaneous analytical tools and MIS reports has enabled the department to perform stringent and regular monitoring; enforce higher compliance to tax laws; initiate action against dealers trying to evade tax.

**Tax collection post e-SUGAM (not attributed to e-SUGAM only).**

Exhibit: **Quarter on Quarter Tax Collection before refund (in Rs. crores)**
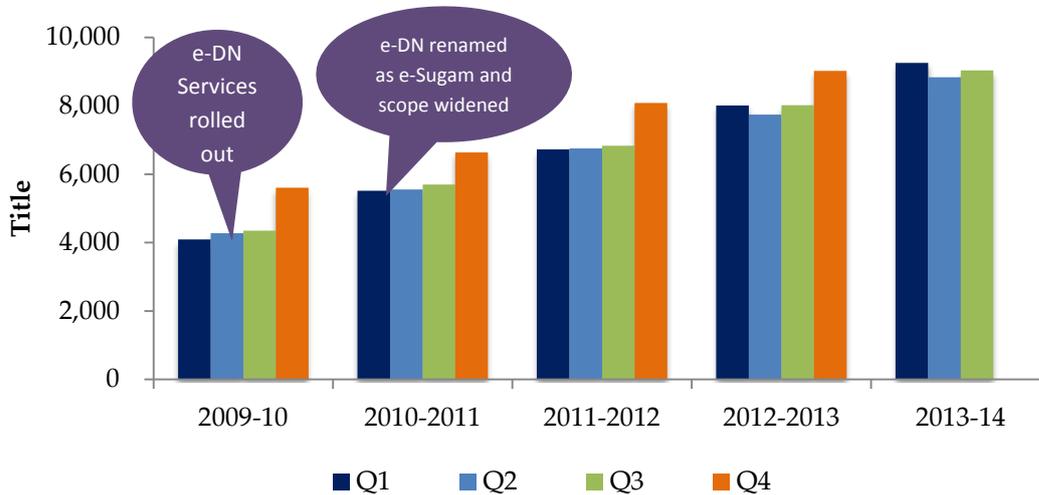


Source: Government of Karnataka - Commercial Taxes Department and CARE Research

**Key learning's from the project**

- Handholding of external stakeholders is necessary in terms of awareness building, communication, trainings, etc.
- Preparing the employees on the change is required - trainings on new skills / new process, official notifications, equipment & IT support
- Constant evolution and open to end user feedback is necessary for sustainability to handle on ground / local challenges.
- Initial support to end users quickens adoption - Phased roll out (limited list of commodities), partial form filling, etc.

**Replicability:**

The system has already been replicated and in use in the following states –

| S. No. | State | Implemented in | Implemented by |
|--------|-------|----------------|----------------|
| 1 | Bihar | June 2012 | TCS Ltd |
| 2 | Manipur | April 2012 | NIC |
| 3 | Mizoram | April 2012 | NIC |
| 4 | Nagaland | April 2012 | NIC |
| 5 | Tripura | April 2012 | NIC |

**b. Kerala**

Though the Kerala government has taken initiatives to modernize check posts, there are some loop holes in the process due to which there are still time delays at the check posts. Before the initiative, check post clearance at Walayar check post would consume at-least 24 hours since there were no efficient systems in place. Apart from time delays, there were also issues related to corruption which were troubling the carriers at check post. Hence to resolve the issue, the Government of Kerala initiated a "Corruption Free Walayar Check Post" policy in 2007. Though problem of corruption has largely being taken care of, but the delays still persist and now stand at close to 10 hours.

**Corruption free Walayar Check Post**

Corruption free Walayar check post was a concerted and phased programme of the Government to reform the deplorable state of Walayar check post where cargo vehicles and traffic have experienced significant problems. The programme was inaugurated by the Chief Minister of Kerala at Walayar in March 2007. In the first phase, all the old practices in the check post were scrapped one by one. The time required for each type of vehicle to pass through the check post was streamlined and was to be strictly observed in practice. The long waiting hours of vehicles were to be thus reduced. Details of cargo vehicles were to be passed on to sales tax offices without delay. Redeployment of employees and rearrangement of procedures were undertaken".

Policies implemented:
- The check post received a new team of handpicked officers.
- Half-a-dozen new counters.
- New protocol for functioning to check corruption and increase turnover time.
- With the addition of the new counters, the total number of counters at the check post went up to 12.
- Every vehicle that entered the check post area issued a token and required to remain in the queue.
- No vehicle other than those arriving for inspection parked in the check post area. Unauthorised parking on the road before the check post is not allowed. Only the staff at the check post and staff of the vehicles reaching the check post area have entry into the area.
- Stern action taken against middlemen, who go by the name 'declaration party'. An official helpline set up inside the check post area to help the vehicle staff.
- A dedicated power line drawn from Malabar Cements Limited to ensure proper lighting at the check post.
- Vehicles eligible for tax exemption will have 'green channel' facility. The National Highway passing through the check post will be repaired immediately. Necessary police assistance made available from the local armed reserve camp".

- The practice of leaving the satellite check posts unmanned at the Walayar check post ended and dedicated staff deployed.

Due to the above initiatives, the wait time at the Walayar check post has reduced significantly, but still remains high when compared to the other check posts. However, wait time is now inconsistent with some shipments take a long time (10-12 hours) while other require lesser time (4-5 hours).

**The situation today:**

| Issue | Impact |
|---|---|
| • Walayar check post lacks adequate computerisation and handling terminals, leading to congestion.<br>• The IT infra in place is often faced by challenges due to server break downs.<br>• Ambiguous classification of items. | • Since it is the main entry point between Tamil Nadu and Kerala, long queue of waiting vehicles causes delays up-to 20 hrs.<br>• Lack of resources at check post to handle these volumes, causes delay in clearing the vehicle at check post.<br>• For e.g. watches irrespective of digital / chronograph are included in the electronics sections. Hence if a player has included them in mechanical device would cause problem at the check post since it calls for different documentation and tax. Furthermore this mistake needs to be corrected through e-kiosks located away from check post causing a delay of 4-5 hrs. |

Exhibit: Problems faced at check post in Kerala
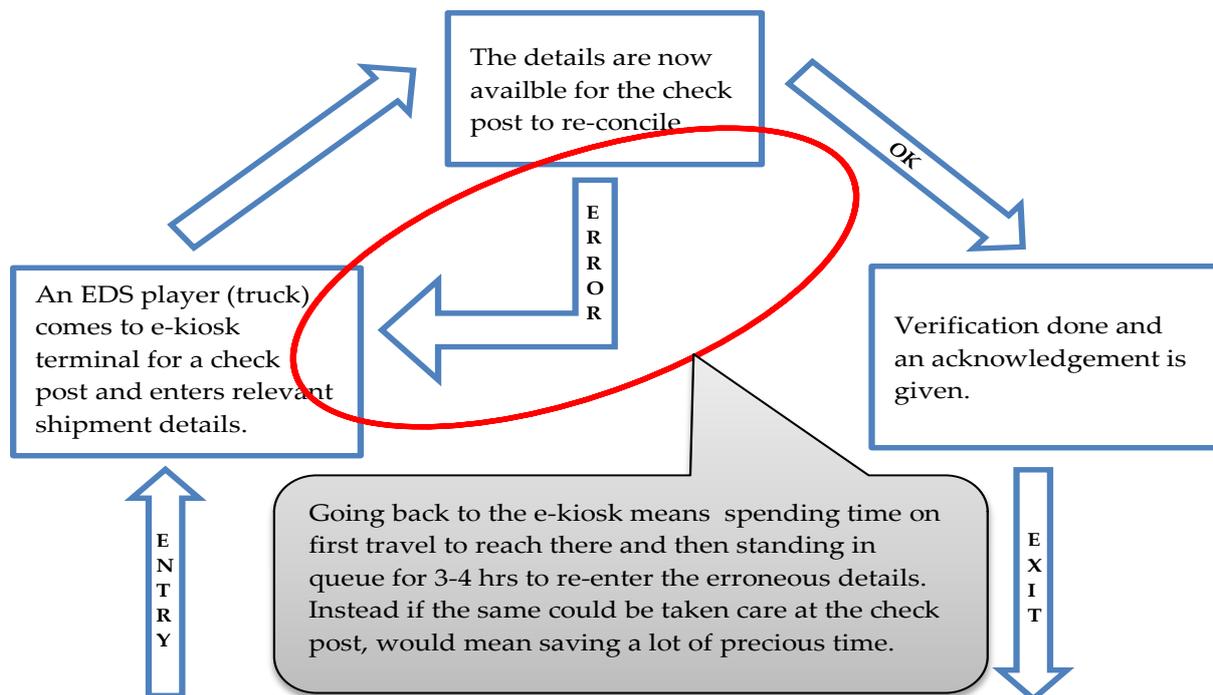


Source: CARE Research

The problem with current system lies in 1) reaching the check post which consumes nearly 4-5 hours since there is a long queue of vehicles and 2) in case of modification / error rectification (as shown in the figure above), where a player has to go back again to the e-kiosk, which is located away from the check post, stand in a line again and then rectify the mistake and finally come back to the check post for validation. This process consumes nearly

6-8 hours. Furthermore, if there is any documentation error for a parcel the entire vehicle is held up resulting in valuable time loss for transporters and late delivery to end consumers.

A recent issue which has arisen in Kerala is on the treatment COD shipments in the booming e-commerce industry.

Kerala Government has argued that as physical transfer of goods has occurred in the receiving states and as the EDS player has collected cash on physical delivery of the goods *(similar to the VPP service provided by the India Post in India)*, in effect functioning as the agent of the seller in the State, local and not central sales tax is due on such transactions. Consequently, Kerala government has issued notices to EDS players asking them to pay the necessary dues along with the penalties for delayed payment.

EDS players argue that providing COD service is a value added service (service tax is paid on such services) provided by them to the seller and they have not functioned as an agent of the seller and furthermore if any taxes do become payable, it would be the responsibility of the seller and not that of a logistics service provider. The matter is sub judice in several forums.

The governments (central/ state) should provide clarity on procedures and simplify the process so that tax revenue is collected appropriately and no transaction faces the burden of being taxed twice in separate states.

### c. West Bengal

The state has come a long way since being one of the most problems prone state in terms of clearance, check post issues, documentation etc. to being the one who has implemented some key reformist initiatives like charging 1% entry tax on B2C products. However, this being said the state has its own share of problems to deal with and is consistently taking steps to solve on a regular basis.

**Current Situation**

| Issue | Impact |
|---|---|
| • IT infrastructure often down due to server issues, no backup plan to clear vehicles during this time. | • Sometimes the system is down for 2-3 days at a stretch. <br> • Manual process for clearance is not followed saying since there is an IT system in place; it would be double work when the system is operational. <br> • The government of WB has now called for an Expression of Interest (on 9/2/2014) for modernisation of check posts. |

**New Initiative taken by the government**

- To handle the problem of frequent server break down and long down time to get them back on, the state government has replaced all the seven year old servers with updated ones and has ensured that IT system is now reliable and runs smoothly.
- The state has shown its far sightedness by implementing special amendments for courier and EDS segment which include[9]:
  - ➤ Players who are registered with WB state (sales tax administration) have a facility to upload the waybill in their own format.
  - ➤ Unregistered players have to upload the way bill in the format prescribed by the state.
  - ➤ No 100% checking of all the vehicles for courier / EDS companies. Only a sample check done.
- Earlier, the state had a major impediment for B2C and E-commerce trade, since the general rules. As a result most of the times the vehicle was held up owing to discrepancy in regulatory compliance.
- However to overcome the situation, the government initiated self-declaration for the segment and laid down a policy to pay a 1% entry tax on declared value of e-commerce shipments for the carriers.

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[9] Primary Survey done by CARE Research

The quest for improvement continues as an expression of interest for modernisation of the existing check post of Commercial Tax Directorate, Government of WB has been issued on February 9, 2014. The objectives of the project include:

- Effective monitoring of movement of commodities / vehicles in and out of West Bengal.
- Automated check-post operation for increased transparency and efficiency of the system.
- Arrest revenue leakage through use of modern technologies.
- To stream line, co-ordinate and monitor activities related to check post.
- Increased monitoring and control of goods vehicles to ensure compliance with laws.
- Effective enforcement related activities, effective enforcement of taxes while minimizing inconvenience and delays to traffic on the highway.

The exact modalities would be finalised after the LOI is issued and the implementation schedule would follow the same.

## 5. Benchmarking of Select State Policies

Moving ahead from the discussion on the various bottlenecks affecting the industry, this chapter benchmarks select practices of various states which affect the EDS industry. The analytical framework has been constructed around the existing EDS value chain. Accordingly, the chapter begins with a representation of the EDS value chain. The chapter subsequently presents the analysis/ implications of the key regulations across the EDS value chain.

**Exhibit: Value chain of EDS process**
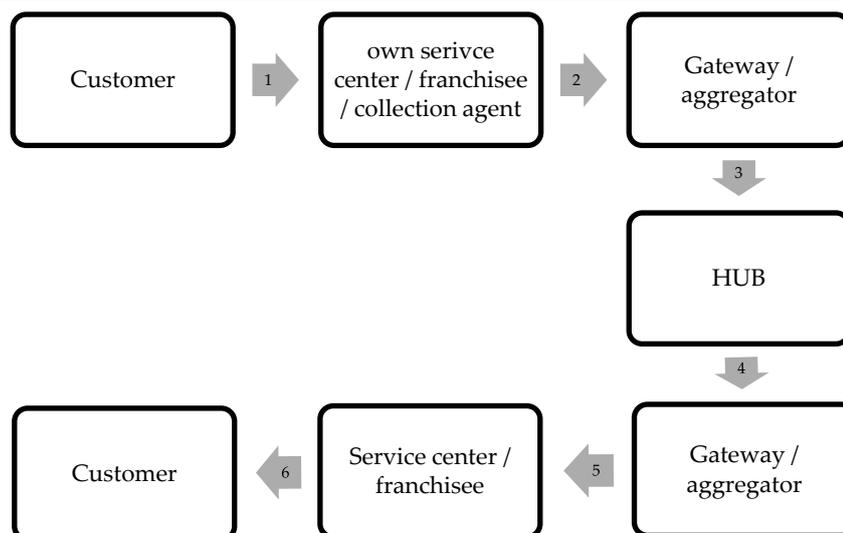


Source: CARE Research

### a. Data Collection

This is where the consignor interacts with the EDS service provider for the first time to send the shipment to the desired destination (stage 1). The process involves collection of data by the service provider (transporter / EDS player) and filling out forms describing essential details about the consignee and shipment. A broad overview of the data sought by various states is given below:

| Exhibit: General data requirement state-wise (sales tax) | | | |
|---|---|---|---|
| **State / particulars** | **Consignor Details** | **Consignee Details** | **Product details** |
| UP | Y | Y | Y |
| Mizoram | Y | Y | Y |
| Rajasthan | Y | Y | Y |
| Orissa | Y | Y | Y |
| Jharkhand | Y | Y | Y |
| Karnataka | Y | Y | Y |
| Kerala | Y | Y | Y |
| Gujarat | Y | Y | Y |
| Chhattisgarh | Y | Y | Y |

| | | | |
|---|---|---|---|
| AP | Y | Y | Y |
| MP | Y | Y | Y |
| Bihar | Y | Y | Y |
| Maharashtra | Y | Y | Y |
| JK | Y | Y | Y |
| Assam | Y | Y | Y |
| Haryana | Y | Y | Y |
| WB | Y | Y | Y |
| Delhi | Y | Y | Y |
| Source: Respective state government form and CARE Research | | | |

The rationale for collecting the above information is to ensure that the valuation of product being shipped is correct and the applicable sales taxes are captured. For this purpose, the consignor provides the sales tax invoice, buyer tax ID no, description, value and taxes paid receipt, etc. Listed below in tabular format are the details which are taken from the seller with respect to a particular state where the shipment is destined for.

| Exhibit: State-wise detailed data requirement (sales tax) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| State / form details | TIN | Name & add. of consignor | Name & add. of seller | Name & reg no of consignee | Description | Weight | Qty | Value | Bill/ cash memo/ challan / tax invoice no & dt |
| UP | Y | Y | NA | NA | Y | Y | Y | Y | Y |
| Mizoram | NA | Y | Y | Y | Y | NA | Y | Y | Y |
| Rajasthan | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Orissa | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Jharkhand | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Karnataka | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Kerala | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Gujarat | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Chhattisgarh | Y | Y | NA | NA | Y | Y | Y | Y | Y |
| AP | Y | Y | NA | NA | Y | Y | Y | Y | Y |
| MP | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Bihar | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Maharashtra | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| JK | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Assam | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Haryana | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| WB | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Delhi | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Source: Respective state government sales tax form and CARE Research | | | | | | | | | |

Though the process seems straightforward and simple; any wrong data entry could snowball into a bigger problem for carrier with the entire transport vehicle being detained at the check post for a single parcel resulting in loss of time and valuable resource, not to mention the delay in delivery schedule of the goods to end consumers, ultimately affecting the company's brand and reliability factor. At this point in time, the primary data collection and entry has taken place and if everything fits as per requirement, the product is accepted by the EDS player for delivery at said location. The acceptance of product could happen from any location like a company owned outlet, a franchisee location, a collection agent, a scheduled pick up etc. Once in custody, the parcel is now sent to the local gateway or aggregator centre for further processing / delivery (stage 2).

While most of the states have a standard practice in place, not much problems are created here since the details sought are common and mandatory; however it is the management, processing and availability of updated data (i.e., electronic upload) at the check posts and sales tax office where bottlenecks are created. Some states like Assam (still follows a manual entry system), Bihar, Orissa, WB (have recently upgraded systems, so it should solve the problem in the interim), etc., face frequent server break down and do not have a backup system in place. This delay sometimes extends into days to get the system back up and process the vehicle into the state.

## b. Taxes

For a parcel / shipment to reach its destination, carriers have to cross different state boundaries, which call for a number of procedures to be followed with respect to sales tax, entry tax and VAT. This is where the information taken from stage 1 comes into picture along with some more detailing required from the transporter's side. However, every state has its own set of requirement with respect to detailing in sales tax / VAT form which creates more room for errors since the sheer volume of parcels is multiplied by different forms for different states.

While some states ask for sales tax form, there are others who do not. Similar is the case with respect to entry tax, hence a carrier has to be very careful in collating the documents for a particular shipment in accordance with the state it is destined for as non-compliance could invite penalties or delays or both. The general requirements prescribed by different states are given below:

| Exhibit: policy requirements state-wise | | | | | |
|---|---|---|---|---|---|
| State | Shipper Details | VAT Entry form requirement – inbound | VAT Form requirement – outbound | Entry tax / octroi | Declaration form |
| AP | Yes | Yes | Yes | No | No |
| Assam | Yes | Yes | Yes | NA | No |
| Bihar | Yes | Yes | Yes | Yes | No |
| Chhattisgarh | Yes | NA | NA | No | No |
| Delhi | Yes | Yes | NA | No | Yes |
| Gujarat | Yes | Yes | Yes | No | No |
| Haryana | Yes | No | No | No | No |
| Jharkhand | Yes | Yes | Yes | NA | No |
| JK | Yes | Yes | NA | Yes | No |
| Karnataka | Yes | Yes | Yes | No | Yes |
| Kerala | Yes | Yes; Form required for commercial inbound shipments; however 8F /8FA is required for entry through surface or air, respectively, For non-commercial shipments Form 16 is required. | Yes | No | No |
| Maharashtra | Yes | NA | NA | Yes | Yes |
| Mizoram | Yes | Yes | NA | NA | Yes |
| MP | Yes | Yes | NA | No | No |
| Orissa | Yes | Yes | Yes | Yes | No |
| Rajasthan | Yes | Yes | Yes | Yes | Yes |
| UP | Yes | Yes | NA | NA | No |
| WB | Yes | Yes | Yes | Yes | No |
| Source: Respective state government form and CARE Research | | | | | |

Add to this entry time restrictions for carrier's trucks across metros, makes the movement of shipment very difficult at times. To tide over this problem, carriers usually break down the truck load of shipment into smaller one and transport them via small vans.

The process at this stage begins by transporter loading the goods vehicle at his warehouse / hub (stage 3), post which the carrier logs on to the destination state's website and fills in the required details. In case of obtaining a transit pass, the carrier logs onto the respective state site to upload the manifest of the vehicle. While the process is mandatory and people across the value chain accept its importance, it is the detailing of these requirements where states differ from one another and can make the process easy or difficult. Given below are the key differences in data requirement at the state level *(please note the data obtained in Stage 1&2 is retrieved here and entered on to the state government website to generate relevant forms).*

| State | Name & add of transporter / carrier | Service provider no | Carrier / truck no | Name & add of driver | Driver licence no | Sign of vehicle driver | valid up to | Mode of transport | Rail receiving point / bill of lading |
|---|---|---|---|---|---|---|---|---|---|
| UP | Y | Y | Y | Y | Y | Y | Y | | |
| Mizoram | | | | | | | Y | Y | Y |
| Rajasthan | Y | | Y | | | | | | |
| Orissa | Y | | Y | | | | | | |
| Jharkhand | Y | | Y | | | | | Y | Y |
| Karnataka | Y | | Y | | | | | | |
| Kerala | Y | | Y | | | | | | |
| Gujarat | Y | | Y | Y | Y | Y | Y | Y | Y |
| Chhattisgarh | Y | Y | Y | Y | Y | Y | Y | | |
| AP | Y | Y | Y | Y | Y | Y | Y | | |
| MP | Y | | Y | | | | | Y | Y |
| Bihar | Y | | Y | | | | | Y | Y |
| Maharashtra | Y | | Y | | | | Y | | |
| JK | Y | | Y | | | | | | |
| Assam | Y | | Y | | | | | | |
| Haryana | Y | | Y | | | | | | |
| WB | Y | Y | Y | | | | Y | | |
| Delhi | Y | | Y | | | | Y | | |

*Exhibit: key differences in data requirement at the state level*

Source: Respective state government form and CARE Research

While product, consignee and consignor detailing remains similar across states, it is the transporter detailing that every state has different set of requirements (as shown in the table above). While some of the data is necessary, a few of them need to be given a second though about its purpose of existence. This not only creates extra burden in terms itemizing un-necessary details but also creates room for errors (causing detention at the check post and delays).

This is where states like Karnataka, Maharashtra, Rajasthan and Gujarat fare well in terms of a good and robust system in place backed by appropriate IT network. If we look at the demographics, these states have to offer we will notice that they have done a good job at streamlining the entire process. For e.g., we have Gujarat and Maharashtra which are highly industrialized as compared with the other states but have a good system in place which allows seamless movement of goods. Going against the general practice, some states like Rajasthan, Gujarat & Maharashtra do not have any check posts within their limits (except for cities in Maharashtra where they levy Octroi and Local Body Tax (LBT) payment) and instead depend on the MIS tool at hand, Sales Tax filing, etc., to reconcile with vendors and

consumers for tax / VAT payment. This results in a hassle free movement of goods in the state without hampering delivery schedules of the transporter, ensuring more business and better asset turnover ratio.

c. **Check Posts**

It is at this stage where all the documents collected, data captured, etc., are checked and verified with the parcels being carried in the truck. Any mistake / error in loading data on the site / obtaining a form / wrong document being carried could mean loss of valuable time and vehicle being detained. We have tried to further categorize the problems faced at check post and in the end presented a best practice case being followed by Karnataka.

    a. **Sample check vs full physical verification.**

        On one hand, we have states like Rajasthan who have no check post policy. These states depend on the strong IT infrastructure together with returns filing and MIS tool at their disposal to catch hold of merchants trying to evade tax. On the other hand, we have West Bengal which has a sample check policy to deal with the issue of tax evaders. However, Maharashtra has come out recently with a draft notification *(which has been put on hold)* on check posts which have created some doubts on the clarity on some of the provisions in the notification.

    b. **Entry into state documentation**

        Every state has its own set of requirements when it comes to documentation, its detailing, no. of copies required and format etc. While these requirements spread across the spectrum of sales tax form / VAT form, there are some state who require additional documentation for entry tax form (Refer "Exhibit: policy requirements state wise" in benchmarking chapter point b).

        Though necessary, when dealing with huge volumes of shipments by multiple carriers for multiple states, the process becomes very complex with significant room for errors. Again the detailing of these documents is at the discretion of an individual state.

| Exhibit: key differences in data requirement at the state level | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **State** | **Name & add of transporter / carrier** | **Service provider no** | **Carrier / truck no** | **Name & add of driver** | **Driver licence no** | **Sign of vehicle driver** | **valid up to** | **Mode of transport** | **Rail receiving point / bill of lading** |
| UP | Y | Y | Y | Y | Y | Y | Y | | |
| Mizoram | | | | | | | Y | Y | Y |
| Rajasthan | Y | | Y | | | | | | |
| Orissa | Y | | Y | | | | | | |
| Jharkhand | Y | | Y | | | | | Y | Y |
| Karnataka | Y | | Y | | | | | | |
| Kerala | Y | | Y | | | | | | |
| Gujarat | Y | | Y | Y | Y | Y | Y | Y | Y |

| State | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Chhattisgarh | Y | Y | Y | Y | Y | Y | Y | | |
| AP | Y | Y | Y | Y | Y | Y | Y | | |
| MP | Y | | Y | | | | | Y | Y |
| Bihar | Y | | Y | | | | | Y | Y |
| Maharashtra | Y | | Y | | | | Y | | |
| JK | Y | | Y | | | | | | |
| Assam | Y | | Y | | | | | | |
| Haryana | Y | | Y | | | | | | |
| WB | Y | Y | Y | | | | Y | | |
| Delhi | Y | | Y | | | | Y | | |
| Source: Respective state government form and CARE Research | | | | | | | | | |

While the highlighted states above represent the ones who require least level of detailing, Karnataka and Rajasthan have managed to streamline their processes with respect to seamless movement of goods, Karnataka on the back of good IT support infrastructure and Rajasthan on the back of thorough channel checks and reconciliation techniques. While others (except Delhi, Maharashtra, Gujarat), in-spite of having such a detailed requirement list are still struggling to attain a decent level of seamless movement across check posts.

c. **Check post IT infrastructure**

While all states have moved to an online platform, only a selected few have been able to achieve a seamless integration of their entire network. Not only the IT systems but on ground personnel handling them also play a critical role in deciding whether a check post can successfully handle the volumes or not and if yes, how quick are they in granting clearance to the one who deserve. The table below shows a comparative of the existing IT network.

| Exhibit: A comparative of existing IT network and associated infra across states | | | | |
|---|---|---|---|---|
| **State** | **Online based system** | **Integration across check posts** | **Trained Manpower at check post** | **Physical Infrastructure** |
| UP | NA | Y | Poor | NA |
| Mizoram | Y | Y | NA | NA |
| Rajasthan | Y | NA | NA | Good |
| Orissa | Y | Y | Poor | Poor |
| Jharkhand | Y | NA | NA | NA |
| Karnataka | Y | Good | Well trained | Good |
| Kerala | Online entry via e-kiosk | Consumes time in case of rectification of errors | Y | Good |
| Gujarat | Y | Y | NA | Good |
| Chhattisgarh | Y | Y | NA | NA |
| AP | Y | Y | Poor | Poor |
| MP | Y | Y | NA | NA |
| Bihar | Y | Poor | Poor | Poor |
| Maharashtra | Y | Good | Y | Good |
| JK | Y | Y | NA | NA |

CARE Research
A division of CARE Ratings

| Assam | Manual entry | Poor | Poor | Poor |
|---|---|---|---|---|
| Haryana | Y | Y | NA | NA |
| WB | Y | Poor, but have recently upgraded their systems. | Poor | Poor, but have initiated work towards modernizing them. |

Source: Primary research

If we were to map best practices undertaken for providing easy movement of goods, Karnataka emerges as the leader with implementation of e-SUGAM (Simple Uploading of Goods Arrival and Movement) scheme. The online facility works as follows:

Exhibit: Problems faced at check post in Kerala

Dealers / transporters (EDS) upload details of goods being transported onto the departments website while dispatching or receiving the goods.

Obtain a unique number as a proof of uploading such transport details.

The unique number thus obtained shall be produced before the check post / enforcement officer.

In case of non compliance for any parcel, the check post issues a Goods Detention Note (GDN), which allows the transporter to take rest of the parcels further into the state except the one in question which is allowed to be stored at the transporters warehouse till the issue is resolved.

Source: Kerala Government and CARE Research

The facility not only helps in reducing stoppage time at check post but smoothens out the entire value chain. This way if a vendor has promised a scheduled delivery to a consumer, he can be assured of promise being kept. *(For detailed description of the process refer Karnataka case study).*

Key benefits of the scheme are as follows:

- Convenience to dealers and hassle free movement of vehicles through check posts.
  - Easier methods for declaration of goods movement.
  - Reduce time spent at check posts and detention of vehicles.
  - Anytime anywhere service availability.
- Increasing Department Efficiency
  - Provide congenial environment for improving tax compliance by dealers.
  - Enable faster processing of data furnished by the dealers.
  - Easier identification of attempts of tax evasion.
  - Achieve efficient resource utilization.

- Transparency
  - ➢ Have check on discretionary powers vested with the officers.
  - ➢ Removal of need for unauthorized agents.
  - ➢ Eliminate scope for corruption at check posts.

## 6. Conclusion and Recommendations

India is in an excellent position to emerge as an economic super power in the near future due to the increased size and buying power of Indian consumers coupled with a greater exposure to global markets. Further, globalisation and liberalisation has brought significant benefits to the Indian economy which has resulted in an enhanced rate of growth in the economy and therefore the logistics industry. Further, new emerging sectors such as e-commerce are significantly dependent on the EDS industry and any factors which hamper EDS operations whether taxation or infrastructure related also negatively affect these sectors. However, they have also exposed chinks such as inadequate infrastructure and regulatory bottlenecks. To resolve some of the issues identified in the earlier sections, certain indicative recommendations have been proposed.
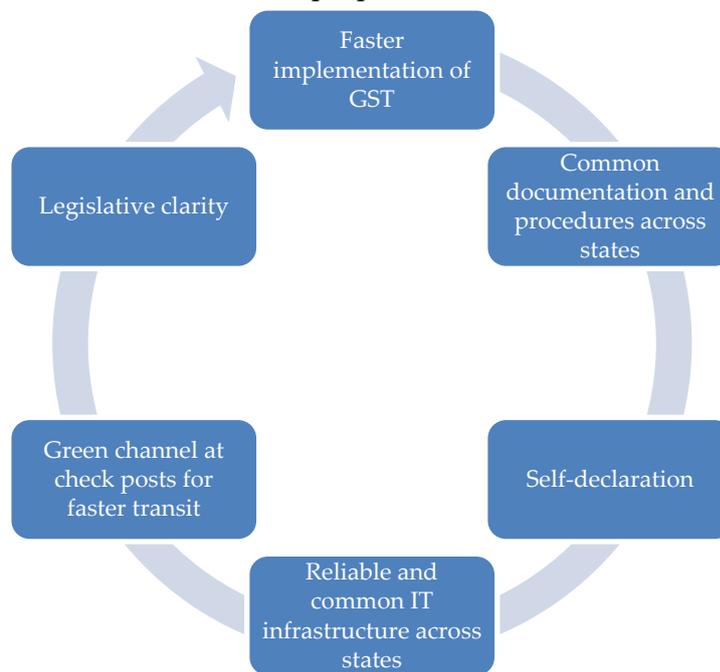


a.  **Faster implementation of GST:** One of the major problems being faced by the EDS industry today are multiple taxes. Implementation of the much awaited GST is expected to solve this problem by introducing only one level of taxation across country. The GST has been under discussion for a number of years. GST would provide a uniform tax structure by moving from an origin-based model to consumption-based one. GST might come as a breather and help with the standardization, simplification and automation of compliance requirements associated with the trading and movement of goods, especially inter-state movement of goods. One of the most important benefits GST has to offer the EDS industry is the automation of most of the compliance requirements (including forms/permits/way bills, etc.), thereby reducing the cost and effort for the industry. Furthermore, GST would also reduce the need for check posts and improve efficiency of operations for the EDS players by reducing delays and documentation requirements. However, it is essential that the governments (state/ central) decide on a common ground on the GST structure and proceed with implementation of the same.

b. **Common documentation and procedures across states:** Common documentation would ensure uniformity of data across states which would help erase the errors made while filling different form for different states. As a result, the officials at various check posts refer to a common set of detailing and hence the verification process eases out thereby granting clearance to the carriers in far lesser time. An associated activity to the common documentation is clear classification of goods and services. This will not only impart clarity on the part of players as to how much tax has to be paid on the said product but also result in easy clearance at the check posts, since all are aware of the product demarcation and allied taxes.

c. **Self-declaration:** In nearly all the states, goods transit has to be accompanied by significant documentation such as waybills, challans, etc. Such paperwork needs to be filled up manually and needs to be carried along with the goods. Even in states where waybills, challans etc., has been computerised, intervention is required to release the online waybill/permit.

In the self-declaration model, items are moved based on a computerised self-declaration (with the details of the items) which is available to the government authorities for review. Such self-declaration can be checked for accuracy during the assessment and further a sample check could also be carried out of trucks to ensure compliance. Consequently the self-declaration model simplifies the transit of goods and should ideally be adopted across the board.

d. **Reliable and common IT infrastructure across states:** One of the key requirements to ease bottlenecks in the EDS system is the extensive use of IT-based platforms, which calls for a robust and reliable IT infrastructure to be in place. For this, not only the hardware & software would have to be up-to-date but the people handling such systems also have to be educated about their operations and handling. This way, the entire value chain would be aware of the available facilities and the system would reduce paperwork, encourage faster processing and reduce errors and lower disputes on requirements and taxes.

Check post automation coupled with training and enhanced regulatory knowledge for officers stationed at the check posts could also ensure speedy clearance of goods.

Furthermore, goods movement is also hampered as origin states do not have visibility towards dealers in the buying states triggering the demand for manual intervention (physical copies of various forms) for ensuring compliance. Regardless of the outcome or the timeline of the GST implementation, connectivity between states would streamline processes and reduce the requirements of manual intervention.

e. **Green channel at check posts for faster transit:** EDS is a time sensitive business which offers guaranteed pickup and delivery times. Add to this the importance of these

shipments which range from reports to medical samples to life saving drugs, etc., a green channel (faster processing albeit at a higher charge) at check posts could be implemented so that they do not waste valuable time in clearances and the parcels could serve their purpose within time.

f. **Legislative clarity:** Central and state legislations governing goods transportation have not kept pace with the explosive growth of e-commerce and due to the absence of uniform taxation policies between states i.e. GST, e-commerce shipments face significant hurdles while delivery consequently impacting the EDS players. Furthermore, regulations remain equivocal about documentation requirements and resultantly are open to interpretations at check posts usually with deleterious consequences such as random delays and possible detentions. The governments (central/ state) should provide clarity on procedures and simplify the process.

Along with the physical infrastructure, logistics players including EDS companies are an essential component of the infrastructure domain. In India, the sector is hobbled by a creaky IT infrastructure which is different across the states, different practices and regulations including documentation across various states and limited coordination between various arms to the government (state/central).

On the positive side, all the stakeholders are well aware of the lacunae in the existing tax and regulatory environment in India in this regard and the need to simplify the same. However, the division of legislative authority coupled with the political situation make it a very onerous and cumbersome task.

Nevertheless, the need of the hour is for the government to improve infrastructure and take bold steps towards regulatory reform and bring it at par with that of other rising economies. A definitive road map for the implementation of GST may provide significant immediate relief to issues associated with inter-state commerce.

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