

# InvAsset's Voice



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India's coastline spans over 7,500 kilometers, connecting the country to the rest of the world via the vast expanse of the Indian Ocean. The coastline is not just a natural resource but a gateway to economic growth and development. The Sagar Mala project is an ambitious initiative by the Government of India to utilize this vast coastline and tap into its potential to drive economic growth and development.

The Sagar Mala project, launched in 2015, aims to transform India's coastal economy by developing new ports, modernizing existing ones, and creating port-led industrialization zones. The project's objective is to increase maritime trade, create employment opportunities, and reduce logistics costs. It aims to integrate the coastal communities into the national economy and promote sustainable development.



The project has three main components: port modernization, port development, and port-linked industrialization. The Sagar Mala project is expected to generate a range of benefits for the country. The project will increase maritime trade and improve India's position as a global player in the shipping industry. The project will also create employment opportunities, particularly in the coastal regions.

The project is expected to promote regional development by creating port-led economic zones that will attract investments and generate economic activity. The project will also promote sustainable development by ensuring that environmental concerns are addressed.

However, the project faces several challenges, including funding, land acquisition, and environmental concerns. The project requires significant investment, and the government may need to seek private investment to finance the project fully. The Sagar Mala project has the potential to become a game-changer for India's coastal economy. The project aims to increase maritime trade, create employment opportunities, and promote regional development. However, the project must address the challenges it faces, including funding, land acquisition, and environmental concerns, to ensure that it achieves its objectives fully. If successful, the Sagar Mala project could unlock the potential of India's coastline and transform the country's economy for generations to come.

For implementing the programme, the Sagarmala Development Company (SDC) has been constituted, which will serve as a nodal agency and provide equity support for various special purpose vehicles (SPVs) set up for the projects. It will also be responsible for providing funding window for residual projects and preparing detailed master plans for the Coastal Economic Zones (CEZs) identified under a National Perspective Plan (NPP). The total budget allocation for whole sagarmala project sums upto ₹6 Lakh Crore.

## Sagar Mala Vision

- The broad vision of the Sagarmala program stands on four pillars
- Change how India moves logistically
- Increase competitiveness of the core industry and the manufacturing sector by reducing supply chain cost and time – Increase the volume of trade via inland waterways and coastal shipping
- Create an IT-enabled national multi-modal logistics system
- Develop coastal roads through maritime states for inter-state port connectivity
- Boost development through ports and shipping
- Develop three to four new mega ports – Develop a world-class trans-shipment port with a capacity of more than 10 million TEU
- Create additional capacity of 1,200–1,500 MMTPA by strengthening existing ports
- Develop maritime and manufacturing clusters around the ports – Develop 2–3 port-based smart cities and Coastal Economic Zones
- Create world-class institutions
- Set up Sagarmala Development Company to enable project implementation
- Set up world-class Private Partnership Programs in ports, waterways and connectivity projects
- Develop an Indian Maritime University as a centre of excellence for maritime education – Set up best-in-class maritime services clusters in India
- Empower coastal communities
- Create more than 1 million jobs in maritime and related sectors
- Increase GDP contribution of maritime states and sectors through a comprehensive coastal community development plan

## Need for Sagar Mala

- Logistics cost–saving opportunity of INR 35,000-40,000 Crores per annum: The study estimates the potential to save around INR 35,000-40,000 Crores per annum by optimizing logistics flows for key commodities by 2025.
- Coastal shipping for existing/planned capacities: Water currently contributes less than 6 percent to India's modal mix. China uses its inland waterways to transport raw material and finished goods between Eastern and Western provinces; water contributes 24 percent to China's freight modal mix. Australia carries 17 percent of goods through coastal shipping. In Germany, 11 percent of goods are moved through inland waterways and coastal shipping.



- **New coastal capacities for bulk commodities:** Cement and Steel The traditional mode of setting up bulk capacity in India has been to locate hinterland plants close to raw material reserves. Eighty-five percent of India's steel capacity and almost all of its cement capacity follows this pattern. Coastal capacity, however, offers logistics cost saving, flexibility in sourcing raw material, and better linkages with global markets.

- **Reduce time to export by five days:** On an average, exporting a container from its hinterland in India takes 32 days, compared to 26 days taken by China, adjusted for same distance. The transit times also varies by up to five days, forcing exporters to keep a higher buffer time. The inventory cost thereby saved is estimated at INR 5,000-6,000 Crores per annum by 2025.

- **Reduce average container export cost by INR 1,000-1,500 per container (2 percent of current cost):** The study finds that on a per tonne km basis, the cost differential between India and China is not significant. China, however, has a lower overall container exporting cost due to lower lead distances. The study finds two opportunities to optimize export costs by INR 1,000-1,500 per container. At projected 25 million TEU volume under the "business-as-usual" scenario, it would save India INR 2,000-3,000 Crores per annum by 2025.

- **Imperatives for the implementation of initiatives:** Other than specific imperatives for each commodity, there are three overarching next steps:

1. **Aggregator for facilitating coastal shipping:** Given the low liquidity of coastal shipping market in India and small parcel-size for industries other than coal, an aggregator will be necessary to consolidate the coastal shipping supply chain. The Ministry of Shipping can take the lead in either setting up or appointing such an aggregator body.

2. **Capacity augmentation and efficient operations at relevant ports:** Finally, existing and new ports should align their capacity expansion plans in line with the projected increase in coastal shipping volumes. Where needed, they could provide a dedicated berth for coastal shipping. Ports could also plan for adequate storage capacities at origin-destination ports; bunkering facility and reduced taxes (baseline to Fujairah prices) to encourage ships to bunker within Indian waters; and adequate ship- repairing facilities.



## Components of Sagarmala

The Sagar Mala project is an ambitious initiative by the Government of India to transform India's coastal economy by developing new ports, modernizing existing ones, and creating port-led industrialization zones. The project has three main components: port modernization, port development, and port-linked industrialization.

### 1. Port Modernization:

The first component of the Sagar Mala project is port modernization. The project aims to upgrade the existing ports by introducing modern technology, improving infrastructure, and streamlining operations. This will lead to increased efficiency and reduced turnaround times. The modernization will include various initiatives, such as the construction of mechanized berths, deepening of channels, construction of container terminals, and automation of cargo handling operations.

The modernization efforts will help the ports to meet international standards and compete with the best ports in the world. This component of the project will not only make the existing ports more efficient and cost-effective but also help reduce logistics costs and provide better connectivity.

### 2. Port Development:

The second component of the Sagar Mala project is port development. The project aims to develop new ports in areas with high potential for maritime trade. The project will identify the locations and assess the feasibility of new ports. The project will also develop the necessary infrastructure such as access roads, rail links, and storage facilities.

The objective of this component is to increase the number of ports in India and enhance the country's capacity to handle cargo. The development of new ports will also lead to the creation of new jobs and opportunities for local communities. The development of new ports will also promote regional development by creating new economic zones and attracting investments.

### 3. Port-Linked Industrialization:

The third component of the Sagar Mala project is port-linked industrialization. The project aims to create a port-led economic zone by developing industries that are linked to the ports. This will create job opportunities and promote regional development. The project will also provide support for skill development and training to ensure that the local population benefits from the project.

The objective of this component is to promote the development of industries that are directly linked to the ports, such as shipping, logistics, and warehousing. The project will also promote the development of industries that are indirectly linked to the ports, such as manufacturing, processing, and assembly. The development of port-led industrialization zones will not only create new job opportunities but also provide a boost to the local economy.

### 4. Coastal community development:

It includes the creation of fishing ports and fish processing plants, as well as coastal tourist initiatives and community skill development.



## Current Status

- As of now, around 121 out of 574 projects planned under the Sagar Mala initiative have been completed, with nearly 200 more projects currently under execution.

- The master plans for all 12 main ports have been finalized, including 92 expansion projects that will enhance the port capacity by 712 million tonnes per year in the coming decades.

- The redevelopment of two major ports, Wadhwan in Maharashtra and Paradeep in Odisha, is also underway. Seven out of sixteen fishing harbors planned under the initiative have already been constructed in locations like Talai and Chettuva in Kerala, Virakwada in Maharashtra, Poompuhar in Tamil Nadu, Amadalli and Malpe in Karnataka, and Chinnamuttom in Tamil Nadu.

- In 2019, the project's focus was on enhancing the port's capability to handle liquid cargo such as crude oil, petroleum products, and naphtha.

- The government is also planning to introduce a Port Communications Systems App to ensure better collaboration among stakeholders. Discussions are underway to integrate the Sagarmala and Bharatmala Pariyojana projects.



Paradeep Port in Odisha



Wadhwan Port in Maharashtra

- Budgetary funds for the initiative have primarily been used for smaller projects such as constructing fishing harbors and skill training, while the major initiatives are mostly reliant on private financing.

- The Union Budget for 2020-21 has reduced the funding for the Sagar Mala initiative, allotting only Rs. 297 crore out of a total of Rs. 1 lakh crore for infrastructure development. This is in contrast to the Rs. 550 crore allocated in the previous year, despite the actual investment demand of Rs. 4 lakh crore.

- The 2020-21 budget also includes the corporatization of a significant seaport and its listing on the stock exchange, as well as the development of Jal Vikas Marg on the NW-I and the Dhubri-Sadiya inland canal.

- The Government of India has set up a National Technology Centre for Ports, Waterways and Coasts (NTCPWC) under the Sagarmala programme at a cost of Rs 77 crore. The NTCPWC, located at IIT Chennai, will be inaugurated by the Union Minister for Ports, Waterways and Waterways Sarbananda Sonowal on April 24, 2023, according to an official statement. The NTCPWC will be the technological arm of the ministry and develop cutting-edge solutions to address the various challenges faced by the sector. The institute will have world-class capabilities to undertake 2D and 3D investigations of research and consultancy nature for the port, coastal and waterway sector across various disciplines.

## Recent Developments

- The Sagarmala Development Company Limited is working with potential aviation operators to execute the Sagarmala Seaplane Services(SSPS).

- The Sagarmala Development Company Limited is implementing an ambitious project that was announced in January 2021.

- Prospective airline operators are launching the project using a Special Purpose Vehicle (SPV) framework.

- Facilitation of more efficient and convenient travel around the country.

- Remote Location Connectivity – The distant sites would be easily accessible and interconnected thanks to seaplane services under the hub and spoke paradigm.
- Boost tourism - The SSPS will connect a number of isolated religious and tourist sites. It will also contribute to the economic growth of rural areas.

## Project Timeline

| Moving Averages Days | Simple Moving Average                                                                          |
|----------------------|------------------------------------------------------------------------------------------------|
| August 2003          | Project announced by the then PM Atal Bihari Vajpayee.                                         |
| March 2015           | The project gets cabinet approval.                                                             |
| July 2015            | Indian Port Rail Corporation Limited (IPRCL) gets incorporated for implementing the programme. |
| April 2016           | NPP released by the PM.                                                                        |
| September 2016       | Government announces the incorporation of the Sagarmala Development Company.                   |
| April 2023           | Government inaugurates National Technology Centre for Ports, Waterways and Coasts (NTCPWC)     |

## Road Ahead

- Since the maritime industry requires long-term and reliable finance, the government should establish a special "Maritime Development Fund."
- The control of garbage entering coastal regions from big river systems is required.
- These have an impact not only on the coastal community and maritime ecosystems, but also on the human food chain.
- According to recent studies, reducing plastic inputs from top polluted rivers' catchment areas can significantly reduce garbage discharge into the ocean.
- Existing environmental programs such as Swachh Bharat and the National Mission for Clean Ganga (NMCG) must be integrated into the Sagarmala project, which involves riverine infrastructure development.
- India needs to find international and domestic partners that can assist make Sagarmala more sustainable and inclusive.
- Increased financing is required for the benefit of the local fishing community. Traditional livelihoods must be protected while community growth and development are encouraged.
- Increased modernization is required, with a focus on sustainability.

## Port-led Development and India

- The notion of 'port-led' development is crucial to the program's success.
- This type of development focuses on 'logistics-intensive sectors,' that is, companies where transportation accounts for a significant amount of overall expenses or where timely logistics is critical to success.
- Ports play a critical part in India's economic development, since they handle 95 percent of the country's commercial trade by volume.
- Several ports, such as the Jawaharlal Nehru Port Trust and the Hazira Port, have evolved into specialised commercial activity and growth centres.
- Despite India's large coastline and strategically located ports, many of them are struggling owing to infrastructure and operational inefficiencies.
- Last-mile connection is a key hindrance to seamless cargo transit in India. For goods transportation, a large majority of Indian freight (87 percent) uses road and rail networks.
- The limited road and rail connectivity between the centres of production and consumption cause 'idle time' during the conveyance of these items to the port
- Despite its numerous advantages such as being safer, cleaner, and cheaper, waterways account for just 6% of India's modal split.
- Its economic impact may be shown by looking at its modal share in nations like China (47%) Japan (34%), and the United States (34%). (12.4 percent).
- The use of waterways to carry industrial goods such as steel, coal, iron ore, and cement may save the centre a lot of money.

### The Sagarmala Programme

The reduction of logistics cost for EXIM and domestic trade with minimal infrastructure investment

#### Port-led Development

##### Port Modernisation

- Capacity Augmentation
- New ports
- Efficiency improvement

##### Port Connectivity

- New road, rail connectivity
- Up-gradation of roads, railway
- Coastal Shipping
- Inland water transport
- logistics parks

##### Port-led industrialisation

- Industrial clusters
- Coastal Economic Zones
- Maritime Clusters

##### Coastal Community Development

- Skill development
- Coastal tourism projects
- Development of fishing harbors, fish processing centers

Potential logistics cost savings of INR 35,000 to 40,000 crores per annum by 2025

- The savings will be put to good use by the centre for much-needed development along the beaches.
- Increased logistics costs result in greater costs for products and services moved through it.
- For example, 90 percent of coal is delivered by rail, and the consequent rise in transportation costs has an impact on manufacturing businesses and exporters' competitiveness.
- As seen by China's 'Port-led Policy,' which places large industrial zones along its coast, putting industrial centres closer to ports would be advantageous.
- As a result, although having a minimal cost per tonne kilometre (between India and China).

## Challenges

- According to an analysis by ICRA, the Sagar Mala project is facing hindrances due to delayed investment mobilization and inadequate financial support.
- Additionally, creating a conducive business environment with clear incentives to attract private sector participation remains a challenge.
- Opposition from fishing communities and environmental organizations has also been encountered in certain regions, leading to legal actions such as the Karnataka High Court halting the development of the Karwar Port due to concerns raised by local fishermen.
- The Coastal Regulation Zone Notification was modified in 2018, designating Sagarmala and Bharatmala as "strategic projects," which exempted them from the CRZ's regulations.
- While this is beneficial for the Sagarmala program, it has negative implications for the fragile coastal ecology, as land in ecologically sensitive CRZ-I zones can be reclaimed for highways and other infrastructure projects.
- Reports of increased pollution from industrial clusters and faster coastline erosion due to Sagarmala projects have also surfaced.
- Port development requires extensive excavation into the sea, which results in the destruction of productive fishing grounds and the undermining of jetties, leading to limited parking space for small artisanal boats and erratic fishing harvests. This negatively impacts fishing communities, which are already suffering from the adverse effects of mineral handling industries and groundwater depletion.
- Furthermore, the allocation for the project's coastal community development pillar has been less than ideal, leading to concerns among fishing communities that the project may result in displacement and negatively impact their industry.
- The COVID-19 pandemic has significantly impacted the trade initiatives underpinning the Sagarmala scheme, necessitating the creation of new plans such as Maritime Vision 2030.
- Fishermen believe that the project intends to privatize the sea and displace them from their communities, further exacerbating the challenges faced by coastal communities.

## Conclusion

The Sagarmala program is a bold and ambitious initiative that aims to transform India's logistics sector. The program is expected to boost economic growth, create jobs, and improve the quality of life for millions of Indians.

The program has the potential to make India a global leader in maritime trade and logistics. It will also help to reduce pollution and improve the environment. The program is facing some challenges, but the government is committed to implementing it successfully. The government is working to address the challenges facing the program and is confident that Sagarmala will be a success.

With intensive and simplified port operations and coastal community development, the Sagar Mala Project has the potential to increase India's GDP. It has already supplied residents in 72 districts across the coastal area with growth, jobs, and basic necessities. By 2035, it is expected that all of the Sagarmala Project's goals would be met. The administration has been tremendously successful in attaining its objective so far, with the Program progressing at a quick pace every day, and we have great faith in its talents, strength, and power.

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