E-COMMERCE EXPORTS: NO BIG DREAMS WITHOUT BANKING REFORMS

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Global Trade Research Initiative

GTRI Report

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E-commerce Exports:

No Big Dreams without Banking Reforms

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Preface

Unlocking India's e-commerce export potential to $350 billion by 2030 requires addressing banking issues that hinder growth and increase operational costs. To initiate change, both the RBI and banks must shift their mind-set towards treating small-value exports differently from larger ones. This shift is essential to prevent misuse while streamlining processes. Without this fundamental change, any reforms attempted by the RBI and banks will fall short.

The GTRI report has pinpointed specific challenges faced by small firms and offers actionable reforms. It serves as a wake-up call for the RBI, banks, and the government. Failing to implement these suggested reforms will prevent India's e-commerce exports from reaching their full potential

We would be happy to receive your feedback at ajay@centrefortrade.com

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1-Highlights

India's e-commerce exports have the potential to reach $350 billion by 2030, but banking issues hinder growth and increase operational costs.

Small e-commerce businesses often face challenges because banks are not equipped to handle low-value transactions efficiently. Key issues include reluctance to process forex through alternate channels, high processing fees, incorrect purpose code allocation, and limitations in the RBI's EDPMS system.

Solving these issues first requires a mindset change. GTRI calls for a fundamental overhaul of the exporter-bank interface and advocates for a unified Single Window Platform and standardized bank charges.

Banking issues create six main pain points for exporters, including delays in processing forex, high processing fees, incorrect purpose code allocation, and RBI's EDPMS system limitations.

The RBI's EDPMS system faces challenges in tracking exports through different modes, leading to data transfer issues and notices to small exporters for bank faults.

Nine recommended actions by RBI/Banks/CBIC include creating a Single Window Platform, standardizing bank charges, defining time limits for banks, and exempting low-value shipments from monitoring.

Proposed changes aim to streamline e-commerce export operations and reduce the financial burden on small businesses while promoting growth in India's e-commerce sector.

2-Picture this- Blossoming Opportunities

The potential for India's e-commerce exports by small artisans is like a field of wildflowers in full bloom, a breath-taking sight waiting to be discovered by the world.

The banks, while serving the giants, have neglected the small butterflies, hindering their growth with the slow and expensive services they provide.

For India to fully realize its potential in e-commerce exports by small-scale artisans, the banks must undergo a transformation, akin to the towering trees thinning their branches to allow more sunlight to reach the delicate wildflowers.

Only then can the butterflies of small e-commerce exporters rise, displaying their exquisite creations to the world and unleashing India's true potential in the global market.

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3-Introduction

India's e-commerce exports could reach $350 billion by 2030, but RBI/banking issues hinder growth and increase operational costs.

Most banks are not geared to cater to the small packet, low-value e-commerce requiring quick and low-cost processing. They are comfortable catering to exporters who get forex through bank transfer mechanisms. The digital public good revolutions like UPI elude small exporters.

Key issues include reluctance to process forex through alternative channels, high and multiple processing fees, incorrect allocation of purpose codes, limitations in the RBI's EDPMS system, and penalties imposed on exporters for banks' inefficiencies.

To unlock the full potential of e-commerce exports, GTRI calls for a fundamental overhaul of the exporter-bank interface and advocates for a unified Single Window Platform along with standardized bank charges. A dynamic thought process is needed to streamline operations and promote growth in this vital sector of India's economy.

4-India's e-commerce industry

India's e-commerce industry is driven primarily by small businesses that export products valued between USD 25 and USD 1000. The popular items include Handicrafts, Art, Books and Magazines, Ready-made Garments, Festivals, Pooja items, Navratra or Deewali thali, Imitation Jewellery, Gems and Jewellery, Home décor, Ayurveda products, sports goods, prints, specialized food items, etc. These niche products have found a market due to their unique artisanal values.

5-Three shipping options for small value, small packet items

Most firms use Courier Mode as it is more economical, hassle-free and has faster clearance time. The courier firm files a Courier Shipping Bill (CSB-V) in such cases. A large number of firms use the Post Office route to save money. The firm files a Postal bill of exports. Few firms use the Cargo Mode to avoid later bank/RBI reconciliation hassles. The exporter files a detailed shipping bill and pays extra for customs processing. Large shipments use this mode. Many banks support firms that ship using this mode and only receive money through normal banking channels.

6-Mindset change must precede the reforms.

Both RBI and Banks want small-value exports to follow all the processes developed for large exporters with many barriers to check misuse like flight of capital out of India. Given that e-commerce exports are currently under $5 billion, these concerns are unwarranted, and rules could be significantly relaxed. This change is vital for encouraging more people to participate in e-commerce exports. Without it, any reforms by RBI and banks will be ineffective

7- Six pain-points at the Bank and RBI

Banking issues hinder growth, increase operational costs, and discourage small businesses from entering the global market. Six key pain points affecting many exporters are:

Banks

1-Reluctance to process forex received through alternate channels: Banks are happy to process forex received through bank transfers but reluctant to process forex received through foreign currency cheques, payment gateways like PayPal, credit cards, Western Union, cash receipt when buyer selects item live in the retail shop. Banks delay crediting forex received in a firm's account when payments are received through such channels. This affects cash flow and hampers business operations.

2-High processing fee: Banks charge money multiple times at different stages for the same small-value shipment. Essential charges include charges for submitting shipping bills (Rs. 80 to Rs. 2000) at the time of forex realization (1-to-2.5% of value), intermediary bank charges during forex transfers (USD 10 to USD 55 per transaction), penalties for bills pending at EDPMS (Rs 100 per shipping bill per month) etc. Exporters must also pay charges for SWIFT inward Remittance. These include charges of the consignee's local bank, correspondent banks, intermediary banks, GST on currency conversion, and GST on bank charges imposed by the AD bank.

Most charges are fixed for a transaction irrespective of value. The bank charges can exceed 50-60% of the shipment value. This makes e-commerce exports commercially unviable.

3-Neglect in allocating Purpose Codes: Banks allocate purpose codes for each remittance but frequently issue incorrect codes. For example, purpose code P0103, meant for advance payments, is often assigned even when exports have already occurred and the firm has submitted proof. Incorrect allocation of purpose codes by banks leads to reconciliation problems, EDPMS pendency issues, and issuance of notices and fines on exporters.

RBI

4-RBI's EDPMS system for small exporters needs improvement. RBI tracks export payments and reconciliation through its Export Data Processing and Monitoring System (EDPMS). EDPMS monitored exports made only through the Cargo mode until 2022. In 2022, it also started monitoring exports taking place through courier mode. GTRI estimates that the number of small shipments (via CSB-V using ECCS handles) may exceed other shipments (going through cargo mode using ICEGATE). This may create data transfer issues from the Express cargo clearance system (ECCS) that processes courier (CSB V) exports to RBI and from the bank to RBI. Current EDPMS does not reflect all CSB-V bills; many are missing from the system.

5-RBI notices to small exporters for the fault of banks. Inefficient record-keeping by banks results in penalties imposed on small exporters, causing financial distress. This situation arises when the RBI EDPMS indicates shipping bills as pending realization, even though firms have submitted all the required documents to the bank. Banks often take months to respond to requests from small exporters for updating EDPMS records, especially in cases where payments have been received through payment gateways or credit cards. The RBI issues show-cause notices to these firms and threatens punitive actions.

The bank imposes a penalty of Rs—100 per shipping bill listed as pending in EDPMS per month. If, for a particular firm, approximately 400 shipping bills remain pending for more than six months, the bank deducts Rs. 40,000 per month without prior notice, accumulating to Rs. 4.8 lakhs annually.

While integrating courier shipments with EDPMS, RBI should have issued notices to banks to process payments received through alternate channels faster.

EDPMS reconciliation problems force many exporters to ship through cargo mode even though they must shell out an extra processing fee (About Rs 650 plus GST for a packet value of $100) for filing a six-page long shipping bill and suffering a two-day delay.

The RBI system is new and evolving, and the value of shipments is low. There is hardly any fear of flight of capital. Instead of issuing notices, RBI may like to improve banking practices concerning small exporters.

Most small firms consist of just one or two individuals. When they receive RBI or bank notices freezing their credits, the business owner or partners must divert their attention from the business to fulfil regulatory requirements.

6-Inaccessibility of EDPMS Information: RBI issues notices to exporters for EDPMS defaults but does not give them direct access to view their records. Exporters must rely on banks/DGFT for critical data, leading to unnecessary delays and complications.

8-Reform agenda: Nine action points for RBI/Banks/CBIC

1-Create a Single Window (SW) Platform for e-commerce and small-value shipments. Integrate RBI, banks, Customs, DGFT, India Post, courier companies and the exporter. This platform should cover all realization methods other than bank transfers. The exporter should be able to conduct all transactions online. SW will automate the EDPMS reconciliation process.

2-Standardize Bank Charges: High processing fees and multiple charges at different stages of exporting hurt small businesses the most. Banks should charge a one-time fee for each shipment instead of further charges at various stages. The government could subsidize these fees to ease the financial burden on small exporters.

3-RBI to define a time limit for banks to complete all small export-related requests. An easy mechanism should also be devised in which if an exporter is facing problems with the AD Bank and the bank is not responsibly handling the matter or unnecessarily delaying things, the exporter can escalate the issue and resolve the matter.

4- Exempt shipment value up to USD 1000 per shipment from monitoring till SW is implemented. The forex impact will be US$2 billion annually. The exemption may be reviewed/ withdrawn after five years. This will reduce pressure from RBI, Banks as well as risk in cost involved in EDPMS closure. In most developed countries, import shipments of value $800-1500 are free from import duty and payment monitoring.

5- Move from shipment basis reconciliation to ITR-type annual reconciliation for small value shipments till SW is implemented. Many small firms deal with 1000 low-value invoices, making reconciliation a cumbersome process for exporters and banks.

6- Raise the export realization variation limit from 25% to 100%. The RBI guidelines require that the amount received in the seller's account match the value declared in the shipping bill to close the entry on the EDPMS portal. E-commerce exporters often may initially claim a shipping bill value based on anticipation rather than actual sales. They may later choose to discount their products or face returns, which can lead to significant variations between the declared value and substantial remittances. The amount remitted to exporters is often post-deduction of platform fees, further complicating the matching of values and meeting the 25% variation limit. It is restraining in the context of low-value e-commerce sales with price uncertainty and potential returns. RBI may scrap the variation limit or accept proof or receipts explaining the difference between the shipping bill value and inward remittance. It may raise the export realization variation limit from 25% to 100%.

7- Extend the timeline for EDPMS closure from the current nine months to 24 months. For many shipments sold over an extended period, it may be impossible to reconcile the payments within the 9-month timeframe. The entire process must be completed within nine months, from shipping bill generation to completion. This timeline can be challenging for exporters, especially in pre-loaded shipments that may be sold over an extended period.

8- Redesign the courier shipping bill to reflect correct payment terms. Buyer and seller may agree to different shipping or payment terms. For example, the shipper may charge money using 'DDP' mode. DDP stands for "Delivered Duty Paid". It describes a type of shipping where the seller pays all costs associated with delivering the order to the end customer. This includes customs clearance plus any taxes that need to be paid. However, many buyers may not be willing to pay for freight import duties, etc. For clarity, such differences are recorded in cargo shipping bills and must be included in the courier shipping bill.

9-RBI should issue a protocol that must be followed by banks for freezing credit of small exporters. Today banks freeze credit without giving notice to firms. This goes against natural justice. Also this causes financial crunch, making it difficult for small firms to run business.

The brief is prepared by Ajay Srivastava

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About Global Trade Research Initiative

GTRI aims to create high-quality and jargon-free outputs for governments and industry on issues related to trade, technology and investment from the perspective of development and poverty reduction.

Mr Ajay Srivastava is the co-founder of GTRI. He took VRS from the Government of India in March 2022. He is an Indian Trade Service officer with experience in trade policy making, WTO and FTA negotiations. He did MBA from Indian School of Business.

Feedback

Your feedback on this report is most welcome. Please email at ajay@centrefortrade.com.

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