POLICY CONSENSUS CENTRE

POLICY BRIEF

Addressing Payment Reconciliation Challenges for Indian E-commerce Exporters

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1. Background

In recent years, India’s export landscape has experienced significant growth, with micro, small, and medium enterprises (MSMEs) playing a pivotal role. This growth is further bolstered by the rise of e-commerce platforms, which have empowered over one lakh MSMEs to export goods worth almost USD 16 billion in 2023-24. The surge in MSME exports through e-commerce underscores the sector’s vital role in India’s economic growth and its integration into global trade networks.

However, as e-commerce export volumes grow, ensuring the smooth flow and reconciliation of payments becomes increasingly crucial. Payment reconciliation is the accounting process of verifying that the payments received or made by a business match the corresponding invoices or bills issued. This involves cross-referencing internal financial records with external statements from banks, credit card companies, and other financial institutions to ensure accuracy and completeness. For MSME exporters, particularly those exporting through e-commerce, effective payment reconciliation is particularly vital in managing cash flows, avoiding financial discrepancies, and complying with regulatory requirements.

2. Exports Through E-commerce

Indian MSME exports through e-commerce has the potential to reach USD 100 billion. Of the current cohort of e-commerce MSME exporters, almost 75-80 per cent of the exporters have invoice values less than USD 10,000. This accounts for only 4 per cent of the total value of export revenue. Even though the majority of these exporters are small value exporters, the compliance requirement on them is similar to that of larger exporters, thereby increasing compliance costs and burden.

Indian exporters and small traders utilising e-commerce platforms specifically face several challenges in payment reconciliation including high charges, variance in billed and realised amounts, and in onerous paperwork. For instance, the Reserve Bank of India's (RBI’s) Export Data Processing and Monitoring System (EDPMS), designed to track export payments and reconciliation, although a step in the right directions, continues to present several challenges that hinder efficient processing. Additionally, banks often impose high processing fees and deduct penalties, further complicating the reconciliation process. These challenges are particularly pronounced for MSMEs, which may lack the resources to navigate these complexities effectively.

In order to understand these complexities and challenges, and to find possible solutions, Policy Consensus Centre organised a Webinar under Chatham House Rules, on 7th

March, 2025. The Webinar was attended by multiple stakeholders including representatives from RBI, MSME associations, chartered accounts, exporters, and academicians.

3. Current Challenges Faced by E-commerce Exporters

Typically MSMEs who export through e-commerce and small value exporters. It is therefore important to understand the compliance requirements from their point of view, and minimise the same to improve their competitiveness in global markets. Some of these challenges are as follows.

1. Based on a circular issued by RBI on 28th November, 2024, all banks were advised to close shipping bills under USD 1,000. While this was certainly a welcome move, exporters continue to face several challenges.
2. While some banks are not charging a fee for the regularisation of these shipping bills, many banks, mostly private banks, are asking for hefty fees, ranging from INR 200 to INR 2,000 per shipping bill, placing a significant cost burden on exporters. On the other hand, there are also exporters who have managed to close their bills for no fee. The process is therefore extremely different and bank dependent. Currently, each exporter is also allocated an Authorised Dealer (AD) bank and switching from one AD bank to another to save on fees, is extremely difficult. Given the high charges, there is significant profit erosion for many of the exporters.
3. In some cases, there have been penalties that amount to almost INR 12 lakhs on regularisations, which have been debited from the exporter's accounts directly. In most of these cases, the average value of the shipping bill is only between USD 60 to USD 80.
4. Furthermore, the banks are also asking for a Chartered Accountant (CA) certificate for every shipping bill that needs to be closed. In t urn the CA is also charging anywhere between INR 5,000 to INR 10,000 per certificate, sometimes even more.
5. Currently exporters are allowed a variance of 25 per cent between their invoice value and their realisation amount. While this may work in the case of traditional B2B exports, business realities of e-commerce exports are different. For instance, for a shipping bill of USD 100, USD 15-20 goes to the marketplace or platform as a fee, USD 6-8 on marketing and other paraphernalia, and USD 12-14 on logistics and warehousing. Hence, the actual amount that the exporter receives is after all these deductions are made from the invoice value. In almost all cases, the variance between the invoice value and realisation value is far greater than the currently permitted 25 per cent.

6. In order to reconcile and close these shipping bills, the paperwork that is asked of exporters from banks is cumbersome. In many cases, the paperwork has to be self-attested, signed, and counter signed, making the process extremely time consuming. If it is not paperwork, banks also ask for detailed excel sheets, with micro details such as the name and country of the consumer, their country, invoice number, shipping numbers, and airway bill numbers, to name a few. This process is also equally time consuming.
7. Paperwork on the variance can potentially be provided by the platform or marketplace, however this is not accepted by banks since these are considered international records, even though the audit trail is rigorous and electronically available.
8. With e-commerce exports, there is no certainty on when the goods will be sold. As per RBI rules, unsold inventory must be brought back into the country within nine months of initial shipping date. For e-commerce, the cost of bringing back the inventory can incur very costs, to the extent where liquidating the 100 per cent of the stock, or deep discounting the stock, can be more cost effective. The current procedures do not account for this causing furthermore pain points at the time of reconciliation and bill closing.
9. Some of the export bills are sometimes not reflected on EDPMS. If e-commerce exporters use reputed courier services through CSB V then it is reflected in EDPMS> However, if the product is sent as a docket, it does not get reflected. This means that sometimes, the sometimes, the exporter also has excess foreign exchange in comparison to what it recorded on EDPMS, posing significant reconciliation challenges for the exporter.
10. Another significant challenge for e-commerce exporters is with regard to third party payments. Often, exporters may ship their goods to one marketplace and raise the invoice accordingly. However, depending on which platform consumers use, the order or sale of the product may take place through another platform. In such a situation, while the exporter's initial invoice would have the name of the first platform, the payment for the goods may come from another platform (third party). This can also be the case for payments made to or from third party logistics (3PL) providers.

4. Recommendations for Consideration

In the recent Budget, the Finance Minister repeatedly laid emphasis on de-regulation and ease of doing business. In the spirit of de-regulation and ease of doing business, concomitant with the larger macroeconomic objectives of increasing Indian exports as a whole, and particularly through e-commerce, it is necessary to make Indian exports more competitive. For exporters this would mean reviewing and reducing compliance

costs and burdens, using emerging technology effectively, and integrating existing processes of various stakeholders to make the entire process of exports and payment reconciliation as seamless as possible. Some of the recommendations that emerged particularly for easing payment reconciliation, for RBI's consideration are as follows.

1. India must set de-minimis levels for export bills. Below these levels, no regulatory compliance or at the least, very low regulatory compliance should be mandated. This principle is also espoused by the World Trade Organisation (WTO) Trade Facilitation Agreement, albeit for different reasons. However, the principle is the same.
2. Policymakers and regulators have an obligation to ensure that compliances are fulfilled, however, instead of resorting to onerous processes they must look to modern governance principles that are based on data analytics and exception management. India's income tax department has also demonstrated the possibility of espousing such data analytical systems for better governance.
3. This principle of data analytics and exception management must be complimented by enforcing deterrent penalties.
4. The regulatory framework must do away with small fixed charges because MSME's do not have the capacity to absorb such charges due to their low transaction value. Any loss of any revenue to the ex-chequer will be negligible.
5. Based on e-commerce business realties and business practices and charges, the variation limit for bill closing must be increased from its current 25 per cent to 50 per cent. This will allow greater levy for exporters and significantly ease their biggest pain point.
6. In order to minimise the cost of compliance for exporters, a tiered slab approach to the reconciliation fee may also be considered for amounts exceeding the de-minimis level.
7. Furthermore, the required paperwork for reconciliation must be made significantly less cumbersome. Data points that are required by the banks must be easily and readily available to exporters instead of having to rely on statements from logistics providers, platforms, and CAs for every bill.
8. In the recent Budget, there was an announcement of Bharat Trade Net, where reconciliation can take place. A process can be created whereby, if the couriers go through CSB V, a token can be generated on a blockchain enabled system, where the transaction can be settled. Enabling blockchain technology in reconciliation will help enormously. Since all audit trails and paperwork is available electronically, linking systems must be envisaged for ease of compliance.
9. Ideally, the preferred solution to the compliance burden would be to introduce a single annual foreign exchange reconciliation statement, which could be in

April. These could also be audited once by a CA who can certify any deductions that are present to explain the variations.

10. Exporters can also undertake their compliance process based on a Letter of Undertaking (LOU) that they can issue based on the data that is available with the banks. This should be possible, since exporters are already provided certain approvals for export.
11. The current process for reconciliation must be amended to explicitly take into account higher liquidation of inventory in the case of e-commerce. This process must be more streamlined.
12. Similarly, a new methodology must also be considered to allow for third party payments for e-commerce exporters.

5. Way Forward

Regulations are always a step behind market realities. It is therefore the responsibility of industry stakeholders to constantly engage with policymakers to make them aware of business processes and realities. Going forward, any new policy that is created on payment reconciliation must not only take into account feedback from exporters and MSMEs, but must also engage with other stakeholders, such as, e-commerce platforms, air express courier companies, customs, and other pertinent regulators to integrate systems and data for a more seamless regulatory approach. Lower compliance burden will be the first step towards propelling India's exports through e-commerce.

POLICY CONSENSUS CENTRE

About Policy Consensus Centre (PCC)

The Policy Consensus Centre (PCC), founded by Ms. Nirupama Soundararajan and Mr. Arindam Goswami, emerges with a distinct mission: to conduct impactful policy research and drive policy transformations. Our focus encompasses pivotal sectors crucial for India's advancement, along with those that have been underexplored. In the intricate landscape of India, divergent opinions often hinder consensus-building for policymakers amidst diverse stakeholders.

PCC stands dedicated to comprehensive, evidence-driven research, promoting inclusivity and rigor. Our objective resides in cultivating accord among stakeholders through independent, data-centric analysis, a catalyst for meaningful policy shifts. In a climate where some research entities avoid unconventional subjects, PCC remains resolute in advocating thorough exploration across all sectors. Our belief underscores the necessity to scrutinize seemingly unconventional domains, an approach vital for identifying accurate risks and formulating sound policies.

PCC champions the synergy of economic rationale and empirical data, pivotal in fostering consensus and enabling effective policymaker engagement. In essence, PCC embodies a pioneering spirit committed to navigating uncharted territories, propelling well-informed policy decisions for India's holistic growth.

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