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NATIONAL REPORT ON E-COMMERCE DEVELOPMENT IN INDIA

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National report on e-commerce development in India

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Acronyms

B2B	Business to Business
B2C	Business to Consumer
B2G	Business to Government
CAGR	Central Annual Growth Rate
CBDT	Central Board of Direct Taxes
COD	Cash on Delivery
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GMV	Gross Merchandise Value
GST	Goods and Services Tax
ITA-1	Information Technology Agreement
MCA	Ministry of Corporate Affairs
MSME	Micro, Small and Medium Enterprises
PPP	Public Private Partnership
ROC	Registrar of Companies
SEO	Search Engine Organization
SMEs	Small and Medium-sized Enterprises
WTO	World Trade Organizations

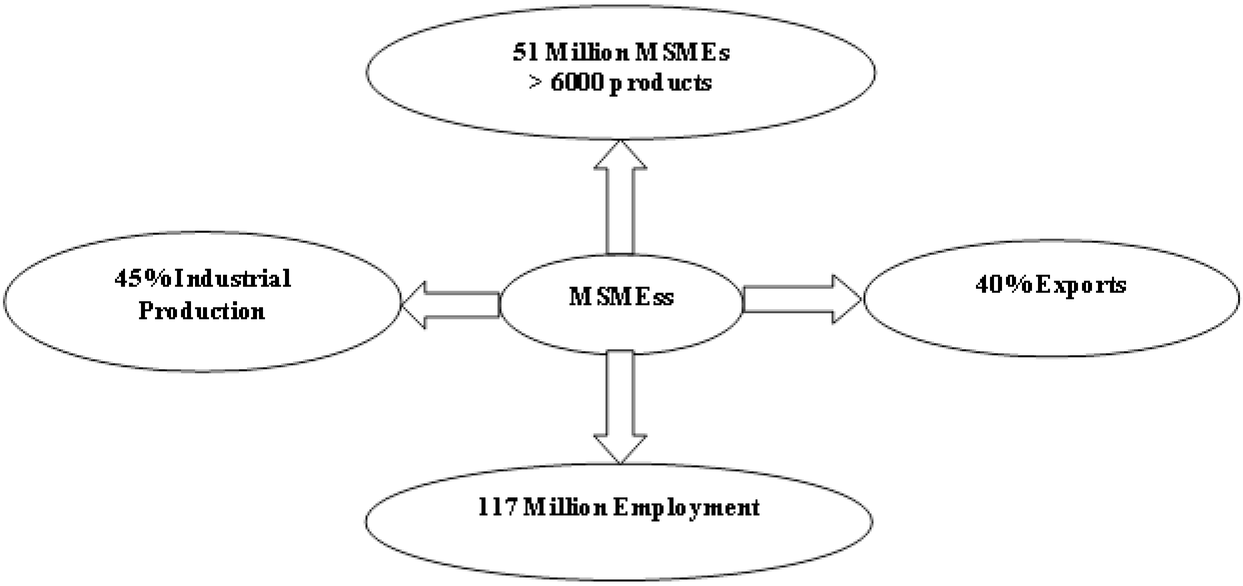
1. Background Information

1.1 MSMEs and E-commerce

MSME Sector in India

As per the latest data available from the Ministry of Micro, Small and Medium Enterprises (MSME), the number of MSMEs in India consist of 51 million units which provide employment to around 117 million people. MSMEs manufacture more than 6,000 products, account for 45% of the total manufacturing output and contribute 40% of total exports from the country. Indian MSMEs are highly diversified in types of businesses and they are spread all over the country across rural and urban areas. A large portion of these MSMEs are in the unorganized sectors which are gradually turning to become registered units with the easing of regulatory requirements.

Figure 1: Micro, Small and Medium Enterprises (MSMEs) in India (2015-16)



Growth of MSME sector in India is critical to meet the national imperatives of financial inclusion and generation of incremental employment in the country. MSMEs also serve as suppliers to the high growth domestic and foreign companies which are investing in the 'Make in India' initiative for the indigenization of various products. MSMEs are becoming part of the business eco-system that enables and continuously supports businesses that provide the appropriate product of right quality with right solutions and services at competitive prices both in domestic and international markets.

Figure 2: SWOT Analysis of MSMEs in India

STRENGTHS

- Significant Contribution to the Indian Economy
- High Employment
- High Export Potential
- Strong Local Brand Image
- Low Operating Costs

WEAKNESSES

- Lack of Adequate Funding
- Lack of Management Skills
- Low Technology Absorption
- Poor Marketing & Branding
- Low Use of Information Technology
- Low Capacity Utilization

OPPORTUNITIES

- India's Positive International Image
- Bilateral & Multilateral Trade Agreements
- International Marketing Support from Export Promotion Councils
- Technology Upgradation Support Govt.

THREATS

- International Competition
- Competition from Domestic Large Enterprises
- Market Demand for Better quality
- Late Payments from Buyers

MSMEs in India are highly fragmented and majority of them are in the unorganized sector but they account for almost 8% of India's GDP in manufacturing.

1.1.1. E-commerce Industry in India

The E-commerce business in India has seen exponential growth over the last decade. This growth is due to many contributory factors, including rapid adoption of technology by Indian consumers, large increases in the number of internet users, new enabling technologies, innovative business models and alternative payment options offered by E-commerce companies. Moreover, the high growth in E-commerce continues unabated, with the sector expecting to witness a steep increase in revenues in the coming years. The E-commerce industry was worth Rs. 351 (5.4 billion US $) billion in 2011 grew at a CAGR of 37% to touch Rs. 1257 billion in 2015, and is estimated to become a Rs. 2,110 billion (31 billion US $) industry by 2016.

It has been reported that MSMEs which adopted advanced level of digital engagement experienced annual revenue growth which was 27% higher than those of offline businesses due to factors such as reduction in marketing and distribution costs, shorter time lag to market, and reduced inventory costs. The leading E-commerce companies in India are also helping to tackle some of the challenges that MSMEs face in adopting E-commerce technologies like assisting

MSMEs in funding, training and adoption of technology and encouraging them to engage with customers on a real-time basis.

Figure 3: E-commerce Statistics of MSMEs

- 27 percent of the Indian MSMEs which are online today use E-commerce
- MSMEs can enter into the E-commerce space with small investment of about 100 US $
- MSMEs using E-commerce record up to 60 to percent reduction in marketing and distribution costs
- MSMEs having adopted E-commerce have reported 27% higher revenue growth than their offline counterparts
- USD100 billion is the projected E-commerce market size in 2020

1.2 Cross-border E-commerce Challenges in India

Last decade has witnessed remarkable developments in E-commerce creating unprecedented opportunities for cross-border trade. The Internet is enabling Micro, Small and Medium-Enterprises ("MSMEs") to access global markets unlike ever before. Studies show that MSMEs that use E-commerce platforms are around five times more likely to export than those in the traditional economy.

Business and commerce conducted traditionally with other countries involves significant costs thereby limiting the ability of MSMEs and businesses in developing economies to benefit from global trade. In an Internet-enabled environment, now these costs can be cut down with speed and efficiency. But the nature and speed of E-commerce led global trade are raising certain other policy frictions. Today's trade rules in many countries largely reflect 20th century patterns of trade and are not well-suited to supporting the growth of E-commerce.

Different national rules on data management, consumer protection and the availability of online information are acting as major impediments to cross border trade-creating new market barriers and pushing up costs for MSMEs which are looking to enter global markets. One precondition for the success and viability of E-commerce is the ability for information to freely and efficiently move across borders without being limited by technical barriers or anti-competitive bottlenecks.

Challenges in the E-commerce Sector in India

E-commerce sectors have been facing multiple challenges in their business operations like taxation issues, incidents of fraud, and issues with cyber security, intense competition and preference for payment in cash (COD) by customers, inadequate infrastructure and low digital literacy. There is no uniform tax structure across various states and there is ambiguity with respect to categorization of offerings into 'goods' or 'services'. Guidelines on taxation of certain transactions like e-wallets, cash on delivery, gift vouchers etc. are not clearly defined. Some of these challenges are expected to be resolved after the implementation of the Goods and Services Tax (GST).

Incidents of distribution of counterfeit goods through E-commerce platform have also been increasing which has added to the woes of both consumers as well as E-commerce companies. This is mainly because of the absence of a trustworthy mechanism which can allow consumers to authenticate sellers or their products. Data/cyber security is another major challenge faced by the players as they deal with huge volumes of customer information, a lot of which is shared with third parties such as logistics providers raising concerns about exploitation by external entities.

Another challenge is payment by customers in cash. Receiving payment in cash (COD) makes the process laborious, risky and more expensive for the companies as their working capital requirement increases. Higher return ratio for goods sold online is also proving expensive and presenting challenges for companies. Incidentally, return percentage of orders in COD is much higher compared to online payments.

The E-commerce industry in India has seen intensified competition in the sector, which in turn has forced companies to adopt aggressive pricing policies, offering heavy discounts to customers and high commissions to vendors and other parties. This has exerted a lot of pressure on the profitability of the companies.

2. Introduction of E-commerce and MSMEs in India

2.1 Impact of E-commerce on Indian MSMEs

Figure 4: MSMEs Classification in India

Definition of MSMEs in India is based on investment in Plant & Machinery / Equipment (since 2006)

Manufacturing Enterprises*

Micro	**Rs. 2.5 million**	**(US$ 37 thousand)**
Small	**Rs. 50 million**	**(US$ 0.75 million)**
Medium	**Rs. 100 million**	**(US$ 1.50 million)**

Services Enterprises**

Micro	**Rs. 1 million**	**(US$15 thousand)**
Small	**Rs. 20 million**	**(US$ 0.30 million)**
Medium	**Rs. 50 million**	**(US$ 0.75 million)**

***	Investment limit in plant and machinery**

****	Investment limit in equipment**

2.1.1 E-commerce Impact on MSMEs in India

MSMEs in India can raise their productivity and deliver products and services to millions of their customers through B2B, B2C and B2G at competitive prices using E-commerce technologies and digital economy. Technology applications such as mobile internet, cloud computing, verifiable digital identify, e-marketing, intelligent transportation and distribution, digital payments, knowledge automation and many other applications have brought substantial economic and strategic benefits to the MSME sector. International business opportunities are created for millions of MSME entrepreneurs by use of E-commerce technologies. Digital technology has helped create a “nation of entrepreneurs” due to the emergence of a large number of E-commerce startups. Business processes are increasingly becoming data-driven and MSMEs are benefitting from the continued expansion of E-commerce in India.

A study by KPMG India (August 2016):

- 85 per cent of the SMEs which adopted E-commerce believe that it is a cost effective medium to grow sales.
- SMEs using Internet for business saw 51 per cent higher revenues and 49 per cent more profit
- 73 per cent SMEs felt that E-commerce enables them to understand their markets better
- 46 per cent SMEs reported increase in business through listings on online marketplaces
- E-commerce enabled SMEs reported 60 per cent to 80 per cent reduction in distribution, marketing and sales spends to get incremental business.

2.2 India's Gross Domestic Product (GDP) & MSMEs' Contribution

Table 1: India's Gross Domestic Product (GDP) & MSMEs' Contribution

Year	Billion US $	Annual GDP growth (%)	MSMEs contribution to GDP	
			Mfg. 8% of GDP*	Services 30%of GDP*
2011	1822.989	6.6	145.84	546.90
2012	1828.985	5.6	146.32	548.69
2013	1863.208	6.6	149.06	558.96
2014	2042.438	7.2	163.40	612.73
2015	2095.398	7.6	167.63	628.62

Source: World Development Indicators (Available up to 2015)
*Derived figures

2.1.2 Share of E-commerce in GDP

- The Indian economy grew by 7% in October-December 2016 and is expected to grow at 7.1% in 2016-17. The E-commerce industry which was worth Rs. 1257 billion in 2015 is estimated to be contributing about 1% of GDP.
- Segment-wise estimates for the share in GDP are also put out by some agencies. The B2C E-commerce segment accounted for 0.16% of India's GDP in 2013 and is estimated to be around 0.20% of GDP in 2016 (Statista.com).

2.3 Key Government and Private Organizations, and Industry Sectors Involved in E-commerce

a) Government Organizations:

E-Portals or websites promoted by the Government of India for E-commerce and compulsory online reservation, applications, payments, auctions, public-procurement. A few examples of such portals are:

1. https://www.ebiz.gov.in

India's Government to Business E-portal

Portal for central services like industrial license, company affairs, PAN[1] and other CBDT (Central Board of Direct Taxes) related services, importer-exporter code, and state services like application of several industrial and other business establishment NOCs[2], MSME[3] registration, allotment of scarce raw-materials like coal.

2. www.gem.gov.in

Procurement of goods by Government

Government e-Marketplace for public procurement of products and services by State and Central Governments, and State and Central Public Sector Undertakings etc.

3. https://www.irctc.co.in

Train & Air Tickets booking

Online platform for reservation of tickets for Indian Railways and Airlines

4. http://www.mca.gov.in

Ministry of Corporate Affairs (MCA) for companies

The online MCA platform is the nodal e-platform for incorporation and other compliances for ROC (Registrar of Companies) registered companies and firms. This website is the gateway to services, guidance, and other corporate affairs related information.

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[1] Permanent Account Number (PAN) is a code that acts as an identification for Indian nationals, especially those who pay Income Tax.
[2] No Objection Certificate.
[3] Micro, Small and Medium Enterprise.

5. https://eauction.gov.in

Auction by Government

Nodal e-auction platform used by the state and central governments of India, state and central public sector undertakings.

6. https://onlineservices.tin.egov-nsdl.com/etaxnew/tdsnontds.jsp

Payment of Income Tax

For online payment of 'Tax Deducted at Source'

b). Private Sector Organizations:

Amazon

Marketplace for E-commerce B2C

US-based Amazon provides small businesses including small stores, pharmacies, mobile retailers, small offices, nursing homes and restaurants a convenient online shopping experience that saves them time and money.

Shopmatic

Technology company for removing the complexities of setting up an E-commerce business

Singapore based Technology Company Shopmatic works by removing the complexities of setting up an E-commerce business.

KartRocket

E-commerce software platform KartRocket empowers SMEs, small retailers and entrepreneurs to start their own online businesses.

Bizongo

It helps with simplifying the sourcing and easy searching of right products.

Industrybuying

A platform for industrial goods and supplies, maintains fully catalogued collection of over 1.5 Lac Units from brands across global geographies where regular buyers are offered credit and the purchasing process is quite straightforward.

Tolexo

A platform for the SMEs, Tolexo provides consumer shopping experience for the largest collection of products needed by businesses, factories, offices and laboratories.

Snapdeal

Founded in February 2010, Snapdeal.com is an online marketplace which claims to have an assortment of 15 million plus products across 500 plus categories from regional, national and international brands and retailers. Snapdeal has partnered with investors and individuals such as Soft Bank, Black Rock, Temasek, eBay Inc., Premji Invest, Intel Capital, Bessemer Venture Partners and Ratan Tata, among others.

Major industry sectors involved in E-commerce are electronics, IT, mobiles, furniture, construction, retails, pharma, textiles, food and agro products, and engineering.

2.3.1 Leading E-commerce Companies under Different Business Models

Figure 5: Leading E-commerce Companies under Different Business Models

E-commerce models	Leading companies*
B2C E-commerce marketplace	Snapdeal.com, Amazon.com, Flipkart.com
B2C E-commerce inventory led	BigBasket.com, FirstCry.com, Zovi.com
B2C E-commerce aggregator	Uber.com, olacabs.com
C2C E-commerce	Cloudacar.com, quickr.com, olx.in
B2B E-commerce	mjunction services limited (metaljunction, coaljunction, buyjunction, cloudBuy.com, tolexo.com, industrybuying.com, power2sme. com, Amazonbusiness.com
Omni-channel Retailers	Shoppers Stop Ltd., Infiniti Retail Limited Croma, Raymond Limited

2.3.2 *Indicative List of Emerging Vertical Specific E-commerce Companies in India*

Figure 6: Indicative List of Emerging Vertical Specific E-commerce Companies in India

Verticals	Leading companies*
Online Travel	Makemytrip.com, yatra.com, cleartrip.com, goibibo.com
Online Real Estate	Magicbricks.com, 99acres.com, commonfloor.com, Housing.com
Online Fashion	Jabong.com, Myntra.com, Zovi.com, yepme.com, limeroad.com, Fabfurnish.com, Pepperfry.com,
Online Furniture	urbanladder.com
Online Education	Purple Squirrel Eduventures , Plancess.com
Online Food and grocery	Zomato.com, Foodpanda.in, TinyOwl.com, BigBasket.com, Grofers.com

2.3.3 *An Overview of the B2C Market Players*

Table 2: An Overview of the B2C Market Players

	Amazon India	ebay India	Flipkart	Snapdeal	Shopclues	Paytm
Launched/ Founded	2013	2005	2013	2010	2011	2014
No. of Sellers	50,000+	30,000+	30,000+	200,000+	300,000+	50,000+
Product Categories	35	30+	70	500+	6,500+	500+
No. of Products	30 million	1.1 mil	30 mil	15 mil	35 mil	N/A
Market Share	~15%	<10%	~44%	~32%	<10%	<10%
Profit/Loss (FY14-15)	Loss of INR 17.24 billion (US $ 265 mil)	N/A	Loss of INR 20.00 billion (US $ 308 mil)	Loss of INR 13.19 billion (US $ 203 mil)	Loss of INR 1.01 billion (US $ 16 mil)	Loss of INR 3.72 billion US $ 57 mil)

Recently India's major E-commerce companies like Flipkart, Amazon and Snapdeal spend massive amounts to entice price-conscious Indian consumers, in their bids to dominate the Indian online retail market. Flipkart raised US$ 1.4 billion in funding in April 2017 while was then followed by Amazon's pledge in June 2017 to spend US$ 3 billion in India[4].

The focus on discounts has come down in the E-commerce space and shifted to high quality GMV which gives them better margins and better customer experience. The expectation is that even overseas players such as Amazon and Alibaba will realign their strategies instead of following a competitor approach to acquire customers at all costs, especially in India where customers have shown little brand loyalty.

Presently, the number of products with high discounts has come down by almost 40% since 2014/15. Also, online retailers have consolidated the number of sale events from close to seven events per year to four or five on average. Easing off on discounts was partially forced by companies' investors, who over the last two years have forced them to focus more on unit economics and thereby shoring up their bottom-lines.

3. Current Status of MSMEs & E-commerce development in India

3.1. Current status of MSMEs and E-commerce

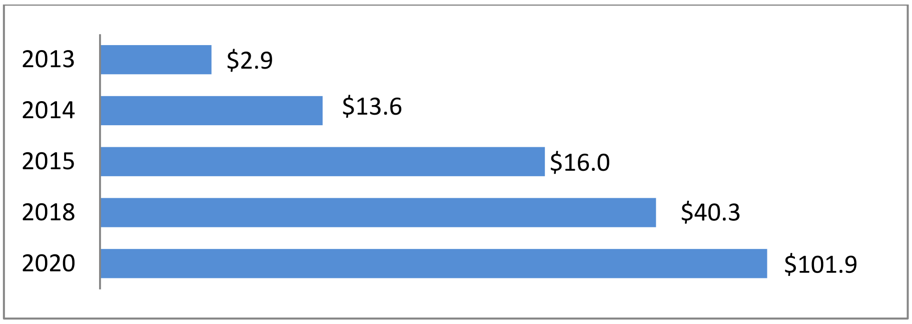
3.1.1 E-commerce Size in India

The E-commerce business is expected to form the largest part of Indian economy with a value of approximately USD 100 billion by 2020. E-commerce is facilitating MSMEs to scale up their operations by providing a means of financing, technology and training. Evolution of technology led innovations such as digital payments, hyper-local logistics, mass customer engagements and digital advertisements have enabled the E-commerce industry to grow speedily.

Within the E-commerce industry, the Gross Merchandise Value (GMV) is an important metric for valuations, especially during the early stages of growth. The majority of B2C E-commerce companies report low profitability even in developed economies and the situation in India is no different. While the GMV is rising, the companies have to suffer an overall loss as the E-commerce companies establish themselves. The GMV for B2C segment in India was approximately USD 16 billion in 2015.

[4] http://www.cnbc.com/2016/06/08/amazon-plans-3-billion-investment-in-india-to-challenge-flipkart-snapdeal.html

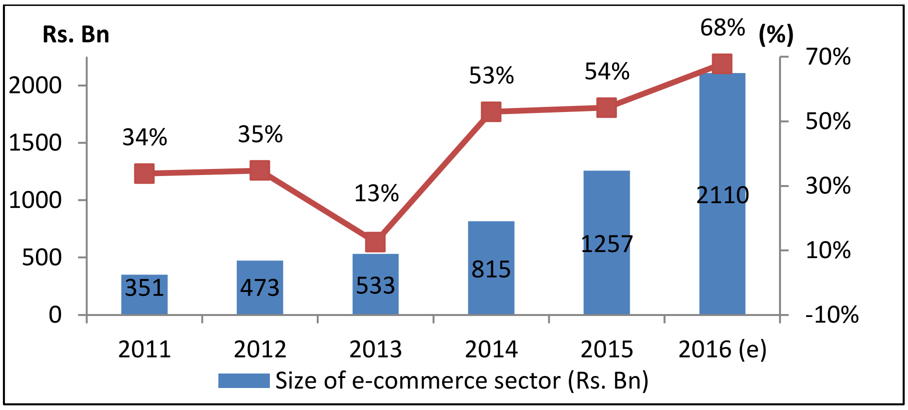
Figure 7: E-commerce size ($ billions) in India



<u>As per another report, the value of E-commerce sector (GMV) in Indian rupees was as under:-</u>

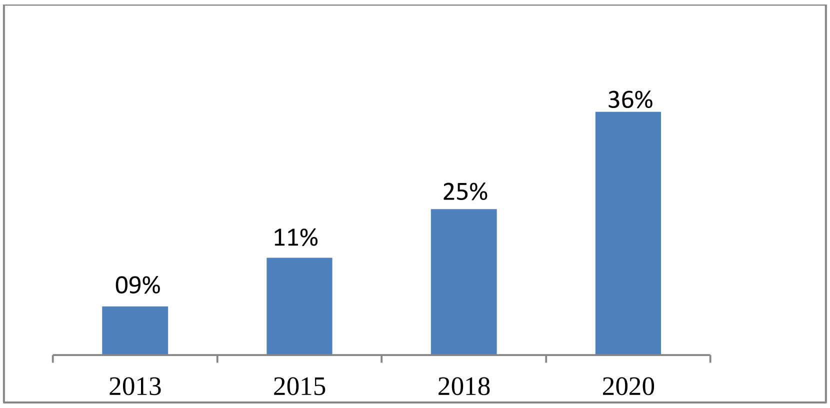
- The size of the E-commerce industry was estimated to be Rs. 2,110 billion by 2016 as per Digital Commerce Report 2015 (IAMAI and IMRB). The industry was worth Rs. 351 billion in 2011 and grew at a CAGR of 37% to touch Rs. 1,257 billion in 2015.

Figure 8: Size of E-commerce sector (2011-2016)



3.1.2 Online Shoppers of Total Internet Users (as a %)

Figure 9: Online Shoppers as %age of total internet users



MSMEs in India have been generally operating in a traditional manner and have been dependent on domestic trading activities. But, with growing rate of internet penetration, MSMEs are also gradually changing their operations to avail the opportunities to trade through E-commerce. A large number of MSMEs is now involved in online transactions. These MSMEs look towards an enhanced customer base and increased profits by using E-commerce technology. MSMEs believe that use of E-commerce will boost their business growth.

3.1.3 Growth of B2B E-commerce in India

The growth of the B2B E-commerce segment is relatively slower compared to the B2C E-commerce segment in India. This is because the entry barriers in the B2B E-commerce are more than those in the B2C E-commerce industry. A B2B E-commerce company has to have a strong business model, long term logistical arrangements with rail, road and ports and also adhere to stringent regulatory and taxation laws. With an aim to tap the huge potential in the B2B E-commerce market in India, apart from the existing B2B companies, leading B2C companies have also started to build their own platforms for small business owners and traders. This is expected to be supported by rising expectations among a growing number of companies buying and selling online and a shift to conduct procurement transactions through the Internet. Understanding this untapped potential of the B2B E-commerce industry, the Government has allowed 100% FDI in B2B E-commerce, which has enabled globally successful B2B E-commerce companies such as Walmart and Alibaba to evince interest in the India B2B E-commerce industry.

3.1.4 Rise in Internet Users Giving Fillip to E-commerce

In 2014, the number of internet users in India stood at around 280 million and it was estimated that the number would rise to around 640 million by 2019. An increase of almost 70 million Internet users in a year is very significant. The rise of mobile internet users is also expected to touch 457 million by 2019. Comparing this with the projected growth, the E-commerce in India by the year 2020 is expected to touch USD 100 billion.

3.1.5 Mergers and Acquisitions in E-commerce Industry

E-commerce companies in India have also witnessed consolidation in the past 2-3 years. Larger E-commerce companies have been acquiring smaller companies to either diversify their product range or to enhance business operations. Such mergers and acquisitions have mainly centered on companies in the logistics, payment solutions and digital advertising areas. It is estimated that a total of 930 M&A deals with a cumulative value of USD 26.3 billion took place in India in

2015, of which, 259 deals worth USD 2.43 billion pertained to the E-commerce industry. Also, many strategic deals took place in the hyper-local, food-tech and real estate listing segments.

3.1.6 Private Equity/Venture Funding of E-commerce Companies in India

Private equity and venture fund investments reached an all-time high in 2015 at USD 20 billion in India. The key sectors that saw investments were Information Technology with 666 deals worth USD 4.49 billion, followed by consumer goods with 280 deals worth USD 4.69 billion. The majority of these investments have been concentrated in e-tailing (70% of investment), followed by online classifieds (17%) and lastly online travel and taxi (9%). This aggressive drive comes at a point when capital is becoming scarce for top venture-backed online retail companies. There is also a reduction in the dependence on discounts as a growth strategy. Investors are currently focusing on start-ups that may scale slowly but have sound fundamentals and strong business models. In essence, these start-ups should have the ability to survive any scenario. Therefore, investors today are interested in start-ups in sectors like health care and education which, by the nature of their offerings, will provide sustainable models and create legacy firms.

3.2 Contribution of MSMEs and E-commerce to the Development of the Country

The E-commerce sector in India is projected to reach USD100 billion by 2020 and USD300 billion by 2030 and is already changing the way MSMEs operate in India.

By adopting E-commerce, MSMEs shall achieve significant advantages such as increased revenues and margins, improved market reach, access to new markets, cost savings in marketing and communication, customer acquisition and improved customer experience.

Although MSMEs in India may or may not have an online presence, 43 per cent participate in online sales in India. The Indian regulators, industry bodies and E-commerce players recognize the challenges faced by MSMEs and are doing their bit to enable thousands of MSME sellers to explore a new channel for marketing, sales and customer service.

3.2.1. Major Contributory Factors to the Growth of E-commerce Industry in India

a. Faster Adoption of New Technology

Faster adoption of new technologies like the internet and smartphones has been one of the biggest drivers of E-commerce in India. About 402 million people in India are presently using the Internet. The number is further expected to reach 500 million users by 2017.

It is estimated that by June 2016, the number of mobile internet users in India was 371 million.

b. India Fastest Growing Economy

India is amongst the fastest growing economies globally and higher income levels have made India one of the fastest-growing consumer markets in the world. Rising disposable income, changes in lifestyle and shopping patterns are some of the factors that have proved instrumental in driving the E-commerce industry in India.

c. Innovating Easy-to-use Technologies

The E-commerce companies in India have been focusing on developing new applications suitable for mobiles/smart phones, enabling users to make online transactions through their devices with ease. Mobile applications have also assisted companies to enhance their geographical outreach and increase their communication level with the end-users through exchange of regular service updates and messages.

In addition, digital advertisements have also enabled E-commerce players to reach out to a wider audience/customers. Similarly, adoption of Search Engine Optimization (SEO) as an internet marketing strategy has also helped E-commerce companies improve their search engine rankings.

d. Choice of Payment Options

While E-commerce companies in India offer various payment options, most of the players have been offering ‘cash-on-delivery’ option to customers, despite incurring higher administration costs on account of such transactions as this is the most preferred mode of payment among consumers. Digital payment products and electronic wallets have also been launched to ease the payment process in E-commerce transactions.

4 Government Initiatives in Driving E-commerce & MSMEs

4.1 Key Government Initiatives and Implementation Status

4.1.1 Government Flagship Initiatives for Development of E-commerce

Government has undertaken several initiatives to boost the E-commerce sector in India. It has been leveraging E-commerce digital platforms to organize traditionally offline markets, even for agricultural produce. Amongst others, it has launched an e-market platform to connect farmers with *mandis*[5] of various states to sell agro-commodities online. The government’s flagship initiatives such as Digital India, Start-up India, Make in India and Skill India also contribute to the growth of E-commerce industry.

[5] Vegetable markets.

In March 2017, the government permitted 100% Foreign Direct Investment (FDI) in online retail of goods and services under the ‘marketplace model’ to legitimize existing businesses of the E-commerce companies in India and to attract more foreign investments in the sector. A marketplace model is an information technology platform run by an E-commerce entity on a digital and electronic network to act as a facilitator between buyers and sellers. 100% FDI is also allowed in B2B E-commerce in India. However, FDI is not permitted in the inventory based model of E-commerce, which is applicable to companies that own inventories of goods and services and sell directly to consumers using online platforms.

Other major flagship initiatives of the Government are:-

i. **Digital India:** One of the highly ambitious and biggest ever conceived projects is ‘Digital India’ which focuses on transforming India in to a digitally empowered and knowledge economy. The three key areas that have been identified are to build digital infrastructure as a core utility, enable government citizen services on demand and digital empowerment of citizens

ii. **Start-up India:** This program intends to build a strong eco-system for nurturing “innovation” and “exponential start-ups”. The government of India has taken steps such as providing funding support through a “Fund of Funds” (with a corpus of INR 100 billion); (1.5 billion US $) ‘Start-up India hub’, a single point contact for the start-up ecosystem, tax exemptions for the initial three years and faster exit for start-ups .

iii. **Make in India:** Aimed at India’s industrial development, the key steps taken by the government of India are improving the business environment and enabling manufacturing, and allowing FDI in key sectors. Key pillars of this program are ‘research and innovation’ and ‘ conducive business environment’

iv. **Skill India:** To bridge the shortage of skilled manpower, the government of India has set a target to train 400 million people under the new ‘National Policy for Skill Development’ by 2022.

4.1.2 Government of India Policy on Foreign Investment in E-commerce in India

As per the Government of India’s FDI Policy, FDI up to 100% was permitted under automatic route in Business to Business (B2B) E-commerce. FDI in B2C E-commerce is permitted only in following circumstances:

i. A manufacturer is permitted to sell its products manufactured in India through E-commerce retail.

ii. A single brand retail trading entity operating through brick and mortar stores is permitted to undertake retail trading through E-commerce.

iii. An Indian manufacturer is permitted to sell its own single brand products through E-commerce retail. The Indian manufacturer would be the investee company, which is the owner of the Indian brand and which manufacturers in India, in terms of value, at least 70% of its products in house, and sources, at most 30% from Indian manufacturers.

In order to provide clarity to the extant policy guidelines for FDI in the eE-commerce sector have been formulated by the government of India, which have been notified as below:

Definitions:

i. **E-commerce-** E-commerce means buying and selling of goods and services including digital products over digital and electronic networks.

ii. **E-commerce Entity-** E-commerce entity means a company incorporated under the Companies Act 1956 or the Companies Act 2013 or a foreign company covered under section 2 (42) of the Companies Act, 2013 or an office, branch or agency in India as provided in section 2 (v) (iii) of FEMA 1999, owned or controlled by a person resident outside India and conducting the E-commerce business.

iii. **Inventory-based model of E-commerce-** Inventory based model of E-commerce means an E-commerce activity where the inventory of goods and services is owned by E-commerce entity and is sold to the consumers directly.

iv. **Marketplace-based model of E-commerce-** In the marketplace based model, an EE-commerce entity provides an information technology platform on a digital & electronic network to act as a facilitator between buyer and seller.

Extent of Foreign Direct Investment in E-commerce:

i. 100% FDI under automatic route is permitted in marketplace model of E-commerce.

ii. FDI is not permitted in inventory based model of E-commerce.

Other Conditions:

i. Digital and electronic networks will include networks of computers, television channels and any other internet application used in automated manner such as web pages, extranets, and mobiles.

ii. Marketplace E-commerce entity will be permitted to enter into transactions with sellers registered on its platform on B2B basis.

iii. E-commerce marketplace may provide support services to sellers in respect to warehousing, logistics, order fulfillment, call center, payment collection and other services.

iv. E-commerce entity providing a marketplace will not exercise ownership over the inventory, i.e. goods purported to be sold. Such an ownership over the inventory will render the business into inventory based model.

v. An E-commerce entity will not permit more than 25% of the sales through its marketplace from one vendor or their group companies.

vi. In marketplace model goods/services made available for sale electronically on the website should clearly provide the name, address and other contact details of the seller. Post sales and delivery of goods to the customers and customer satisfaction will be the responsibility of the seller.

vii. In the marketplace model, payments of sale may be facilitated by the E-commerce entity in conformity with the guidelines of the Reserve Bank of India.

viii. In marketplace model, any warrantee/guarantee of goods and services sold will be responsibility of the seller.

ix. E-commerce entity providing marketplace will not directly or indirectly influence the sale price of goods or services and shall maintain level playing field.

x. Guidelines on cash and carry wholesale trading as given earlier in the FDI Policy will be applied on B2B E-commerce.

Subject to the conditions of FDI policy on services sector and applicable laws/regulations, security and other conditions, sale of services through E-commerce will be under automatic route.

4.1.3 GST for Growth of E-commerce

The Government of India is going to undertake a big taxation reform by way of introducing a Goods and Services Tax (GST) which is expected to enhance the growth of E-commerce. GST will enforce a single comprehensive indirect tax regime that will be applicable across all states on the supply of goods and services. The implementation of GST is expected to subsume all taxes like the central excise duty, service tax and additional customs duty at the central level and VAT, CST, entry tax etc. at the state level. GST will enhance operational efficiency of the E-commerce industry in many ways like:

- Transparency and simplification of taxes across the borders in India
- Elimination of the incidence of double-taxation and improvement in the efficiency of supply chain.

Logistics service providers can leverage seamless hub-and-spoke models for delivery resulting in lower costs and fewer bottlenecks. Warehouses can be set-up keeping in mind business objectives rather than for reduction in incidence of tax.

4.2. Recommendations for Improvement of E-commerce Status of MSMEs

As a result of the initiatives taken by the government, the country can soon become the fastest growing E-commerce market in the world as both the number of Internet users as well as the number of online shoppers/users is expected to grow in coming years. While in India only about 25% of the Internet users buy or sell goods and services online, it is nearly 55% in China. This indicates the huge growth potential of the Indian E-commerce sector. Moreover, with growth of the Indian economy and subsequent improvement in the per capita income in future, aspirations of Indian consumers will increase which will have a positive impact on E-commerce sales.

Guidelines of the Government, their Impact and Recommendations

Guidelines of Govt. of India	Impact & Recommendations
Definition for E-commerce entity – DIPP has clearly defined "marketplace" and "inventory" based models of E-commerce	• Existing E-commerce companies will have to re-look at their business models to ensure compliance with the guidelines issued. The companies are asking for further relaxations in the marketplace model
100% FDI is allowed in the marketplace model via the automatic route	• Owing to certainty with regard to FDI in E-commerce marketplace and conditions to be fulfilled, foreign companies will be more open to investing in Indian E-commerce marketplace • There have been no amendments in this area and the Government continues to reduce and allow FDI in B2B E-commerce. There is need to reduce heavy discounts that were used previously
E-commerce marketplace model cannot influence sale price	• There is need to create a level playing field between offline and online sellers
E-commerce entity will not permit more than 25% of the sale from its marketplace model from one vendor or their group companies	• Currently many E-commerce companies are depending on sellers that contribute at times greater than 40-50% of their sale. They will now have to restructure the sales process to look at options such as on-boarding multiple merchants to ensure the 25% threshold. E-commerce companies are asking for further relaxations.
In marketplace model goods/services made available for sale electronically on website should clearly provide the name, address and other contact details of the seller	• The entire onus of quality and originality of goods delivered rests on the seller. Market places want to establish their brand identities.

The post sales delivery of goods, customer satisfaction, warranty / guarantee of goods and services sold will be responsibility of the seller	• It brings clarity on responsibility for counterfeits, after sales services, warranty, guarantee, etc. on E-commerce platforms. It requires enacting special laws relating to E-commerce. • The E-commerce marketplace model may provide support services to sellers with respect of warehousing, logistics, order fulfillment, call center, payment collection and other services. However, primary responsibility remains with the seller
FDI in not permitted in inventory based model of E-commerce	• This is to provide a level playing field for large offline retailers. E-commerce industry is demanding FDI in this model also.

5. The Main Bottlenecks Hindering E-commerce & MSMEs Development in the Country

5.1 Challenges Faced by E-commerce Companies

E-commerce companies, especially MSMEs in India, have been facing certain problems which are adversely affecting their growth. Based on feedback received from various stakeholders in the E-commerce industry, one of the major challenges reported is the lack of trust about E-commerce vendors and the issue of disputes resolution. These concerns include counterfeiting, inadequate governance measures and inadequate data security.

Counterfeit Products

The E-commerce platforms are proved to be used for distribution of banned and counterfeit goods. This can happen when certain suppliers/distributors introduce counterfeit products in the supply chain alongside genuine products, making it difficult for E-commerce companies to detect counterfeits. Further, since the onus of ensuring product quality, authenticity and packaging rests on the sellers, the E-commerce companies, which act primarily as aggregators, are often unable to proactively detect counterfeits or inferior/faulty products that may be sold to customers via their networks.

Due Diligence Checks Issues

While some of the leading E-commerce marketplaces have already established protocols to know their customers to help identify unscrupulous sellers, at times, the information obtained from sellers as part of these procedures can be misleading. For instance, while PAN numbers may be sought from sellers, there is no process to ensure that duplicate PAN numbers are not in use. Also, information pertaining to credentials of the seller such as market reputation, physical verification of the seller's premises, track record in ensuring product quality, litigation history, relationship check indicating conflict of interest and political interests is not available fully, which can jeopardize the business process.

Regulatory Issues

FDI in retail trading and particularly in E-commerce companies has been a matter of great debate across the country. Different organizations and trade bodies/governments have differing views on the subject. The retail sector has largely been protected for small companies which may not receive funding through FDI. However, there are views that FDI in E-commerce for retail will also benefit MSMEs, which can receive funding from abroad. The E-commerce companies have largely been pressing for 100% FDI in retail trade (whether single brand or multi-brand), with no special restriction on transacting through E-commerce. Through the recently released press note, the government has taken a step in this direction by allowing FDI in E-commerce for the single brand retail trading in certain circumstances. Further, some organizations are of the view that retail trade should be categorized by the item sold and not based on single/multi brand for the purpose of regulating FDI. As the FDI policy did not explicitly refer to the marketplace model, there were concerns whether the same is recognized and FDI permitted for entities engaged in such models. This issue has recently been resolved by the government which clarified the terms 'eE-commerce' and 'marketplace-based model of eE-commerce'.

There have also been concerns that the E-commerce organizations functioning as online marketplaces are actively involved in predatory pricing. However, the recent press note has clarified that the online marketplace companies with FDI can only engage in support activities such as warehousing and logistics, and they cannot influence the pricing of products.

5.1.1 Broad Overview of Challenges Faced in the E-commerce Ecosystem

Table 3: Broad Overview of Challenges Faced in the E-commerce Ecosystem

Scaling up operations and profitability	• B2C E-commerce companies have raised and infused capital from investors to scale up their operations. However, from profitability perspective, the losses have grown faster than sales. Majority of the companies indulge in giving heavy discounts for customer acquisition leading to the absence of long-term sustainable business models
Tax framework	• Due to the absence of a uniform tax structure, States have adopted different tax frameworks and Inter-State goods movement is a challenge. It not only increases operational and compliance cost but also delays timely delivery of goods. This issue will get rested with the introduction of Goods & Services Tax.
Counterfeit goods	• There is an increasing incidence of cyber thefts and payment thefts in the industry today. Additionally, supply of fake, counterfeit products by the merchants on the platform are on a rise
Highly technical barriers to market entry	• The B2B E-commerce ecosystem currently is highly fragmented with fewer companies due to factors such as the requirement of domain expertise, detailed knowledge of product features and specifications.
Lack of robust technology integration	• Users are likely to be using standalone systems prior to adopting B2B E-commerce for handling inventory and orders. Integrating existing systems with B2B E-commerce is critical, but is usually not implemented efficiently for sharing information and selling online
High costs associated with complex logistics requirement	• The challenge in delivering orders quickly and efficiently often depends on the size, scale and location; it demands the use of specialist freight services increasing the cost of delivery considerably.

Rigid procurement processes in large corporates	• Large corporates have stringent procurement and approval processes for buying goods in bulk which restricts their procurement teams to buy on B2B E-commerce platforms
Cash on Delivery (CoD) as a mode of payment	• Customer’s preference for CoD increases the chances of returns, locking up working capital for both the marketplace and sellers.
Network and bandwidth dependency	• Access to E-commerce platforms through desktops, mobiles, and other devices are dependent on the network bandwidth
Merchant’s lack of online experience	• Small merchants are uncomfortable and unfamiliar with technology and need to be trained on the use of E-commerce technology
Digital payment transaction failure	• Due to lack of high-speed bandwidth and inefficacies in payment gateway technology, the E-commerce industry is facing high transaction failure rates leading to customers dissatisfaction
Dependence on Telecom Operators for rural penetration	• E-commerce companies, that want to expand into tier 2 & 3 cities are dependent on the Telecom Operators to roll out 3G/4G services into such areas for connectivity
Reverse logistics	• Currently, reverse logistics is highly inefficient which results in high inventory and increased costs
High cost of customer acquisition	• Intense competition and heavy discounting has resulted in customer acquisition and retention costly for E-commerce companies.

5.1.2 Challenges for Micro, Small and Medium Enterprises – MSMEs

Unskilled staff	• MSMEs cannot afford high-skilled staff to mandate E-commerce operations such as product upload, online marketing, shipment and after sales service etc.
Lack of expertise in peripheral activities	• The MSMEs lack expertise in peripheral activities where they seek the support of E-commerce platforms and logistics partners such as managing inventory, handling invoicing and providing consumer insights
Technology integration and perception gap	• MSMEs are not well versed with E-commerce technology frameworks and business operations
Lack of training	• Lack of training for doing E-commerce transactions is a critical roadblock for the migration to online platforms
Different pricing models across platforms	• MSMEs have to deal with different pricing models of different platforms, which tend to become an operational challenge. They also have to deal with multiple platforms as often one platform might not adequately cover the areas as per their requirement.
High cost of finance	• Access to finance is difficult from banking system due to lack of collaterals and stringent documentation requirements
Mobile apps by platforms	• There is an increasing focus on mobile applications which gives an advantage to big merchants who can afford the cost of developing a mobile app, something smaller merchants find much difficult to do.
Preference for credit	Historically "Credit" is a preferred mode of payment in offline trade where generally the payment is made 30 days after receipt of goods. In B2B E-commerce however, payment will have to be made upfront or at most CoD will be accepted.

5.1.3 Critical Barriers to MSMEs' Growth Opening up Avenues for E-commerce

Table 4: Critical Barriers to MSMEs' Growth Opening up Avenues for E-commerce

For new MSME Enterprises	Technology	Financing	Marketing and Exports
• Institutional bottlenecks for startups and non-availability of adequate resources. • Restrictive Govt. policies • Inadequate risk appetite • Not enough entrepreneurial skills	• Technological gaps in manufacturing sector • Shortage of advanced and Nano-Tech facilities	• Inadequate low cost funding/capital • Conventional financial models • Inadequate Credit Rating tools	• Absence of digital marketing tools and technology. • Lack of product segmentation knowledge and promotional methods • Lack of adequate focus on IPRs and related laws • Absence of effective procurement models for Central and State-owned Public Sector Units. • Inadequate application of tools for efficiency enhancement in MSMEs

5.2 Potential solutions and recommendations

Potential solutions and recommendations to the above problems are the following:

(i) The government should establish a mechanism for easier access to resources to help MSMEs growth through E-commerce. This should include targeted capacity building programs for MSMEs looking to expand their operations through E-commerce including through global Internet platforms.

There is need to further simplify and expedite the clearance of E-commerce shipments through targeted customs, tax, and market access measures. Such measures would aim to support the growth of self-employed entrepreneurs and MSMEs by facilitating the delivery of small shipments directly to consumers. These measures could include:

a. Establishment of a small number of harmonized tariff codes for low-value items
b. New disciplines to enable simplified processing of low value shipments - including establishment of a baseline *de minimis* threshold for low value/low risk goods.
c. Provisions to enable electronic submission of customs documents prior to arrival to allow for an automated risk assessment and pre-arrival processing and immediate release/clearance.
d. Provisions to encourage the use of electronic payments for customs duties.
e. Government should establish customs and duties application and programming interfaces that can be incorporated into any E-commerce website.
f. Measures to simplify returns processes, certificates of origin and duty drawback procedures.
g. Provisions to mandate advanced rulings on any applicable treatment for duties and taxes.
h. Disciplines to simplify the collection of duties (including GST/VAT) by providing multiple options around account based periodic payments.
i. Disciplines to ensure secure and restricted use of data captured by Customs and other regulatory bodies. Such provisions should focus on the way data is captured and transmitted in the commercial world.
j. Establishing a globally consistent program for "trusted E-commerce shippers" incorporating customs facilitation.
k. Developing rules on transparency to provide MSMEs information they need to sell online, including: certification/licensing, registration and standards requirements.
l. Establishment of market access and national commitments for E-commerce service providers, including: retail, on-line platforms, transportation, logistics, warehousing, delivery, electronic payments and other related services.
m. Encouraging information sharing between government agencies and the private sector to better manage trade compliances.

(ii) A technology platform which should function as a multi-dimensional gateway for facilitating MSMEs of all BRICS countries should be established to access all relevant and desirable information for cross-border trade, investment regulations, investor contacts, venture funding, legal, taxation and logistic help & procedures etc. This technology platform should encompass all G2G, B2G, B2B and B2C trade and partnership avenues. The strength of such a platform should lie in the multiple and wholesome ways it can empower and provide confidence for inter BRICS countries trade and commerce.

(iii) The proposed initiative would require creating awareness and building capacities of the intended participants for the E-commerce marketplace. It is therefore suggested that an Industry Alliance should build draft model code for E-commerce enabling legal, fiscal and operational matters so as to bring uniformity and simplicity, which would lead to scalability of operations of the participants.

(iv) Based on best practices of E-commerce within the BRICS nations, a robust and efficient model code of E-commerce platform should be built.

(v) Development of data bank of E-commerce companies and other stakeholders for exchange of information among MSMEs of BRICS countries for business-development, technology transfer, funding options, exploring joint-ventures and investment opportunities.

6. Policy Recommendations

6.1 Government's Role and Recommendations

6.1.1 Introduction of Dedicated E-commerce Laws

India does not have a dedicated 'Data Protection and Privacy Law'. These requirements are partially being addressed from the application of provisions of other general laws in the country.

It is therefore necessary that dedicated laws for the growth of E-commerce are promulgated including the laws for Cyber security, Data protection and Privacy laws to give a boost to the growth of E-commerce in the country and to avoid unnecessary litigations.

a. Increase Internet Penetration

At the heart of the E-commerce lies the ability to not just stay connected online but also to do so at a fast speed. India ranks relatively lower when compared to its Asian counterparts, the U.S. and China in respect of availability of Internet speed. Additionally, many parts of rural India are yet to receive broadband connection. While efforts have been made in this direction, the Government plans to facilitate Internet connectivity for over two lac Gram Panchayats. Public Private Partnership (PPP) projects in this area should be implemented for enhancing the reach of Internet to rural parts of India.

b. Seamless Integration Between Government Departments and Agencies

An integrated and coordinated approach is needed between different government agencies such as policy-makers, Income Tax, Sales Tax, VAT, Excise, and Registrar of Companies to ensure faster turnaround, efficiency and transparency for all stakeholders in the E-commerce ecosystem. With instances where one state is levying a flat entry tax on all E-commerce consignments and the other state imposing restrictive trade practices on E-commerce companies, it gives wrong messages. The government should ensure a uniform regulatory and tax structure across the states to prevent such instances from dampening the growth of E-commerce in India.

c. Faster Implementation of Initiatives

The government has already launched several initiatives such as Digital India, Skill India, Make in India and Start-up India. Faster implementation of these initiatives would have a positive impact on the route of E-commerce industry.

d. Regular Consultations with Stakeholders

A consultative approach with periodic interactions with all stakeholders, trade bodies and industry associations will help in building a uniform and favorable E-commerce ecosystem.

There is a need to reach consensus on a domestic E-commerce policy like location of serves to effectively respond to a proposal of multilateral discipline in E-commerce.

Under Information Technology Agreement (ITA-1), India has agreed to abolish tariffs on hardware, which went against its domestic electronics manufacturing industry. “If large chunk of future business is going to happen through E-commerce, giving up the right to impose tariffs in future may go against India’s domestic players and eliminate a source of revenue. So, the country should reconsider this stand while negotiating on E-commerce in the international forums.

e. Accreditation and Rating of E-commerce Entities

There are a large number of heterogeneous E-commerce entities operating at various levels with non-uniform systems hindering possibilities of sustainable cross-border trade. Therefore, in the interest of bringing credibility to such E-commerce entities, a mechanism to provide accreditation and/or rating should be developed or facilitated by the government. This shall encourage confidence building among users by bringing in standardization of procedures, quality in service delivery and overall homogeneity in expectations across buyers and sellers in the country.

In order to achieve the desired standardization for the above said objectives, a designated facilitating and hand holding agency needs to be created in the country which should create online-systems with proper forward and backward linkages to enable the adherence of a standard model code for E-commerce.

6.2 WTO's Declaration on Global E-commerce and Recommendations

The Declaration on Global Electronic Commerce was first adopted by the WTO's Second Ministerial Conference in May 1998, urging WTO members to establish a comprehensive work programme to examine all trade-related issues arising from global E-commerce. Ministers also agreed to continue their practice of not imposing customs duties on electronic transmissions until their next session - the temporary moratorium on eE-commerce. The moratorium has been extended at subsequent ministerial conferences including at the Nairobi Ministerial in 2015. The US now wants to convert the temporary moratorium into a permanent one which needs to be fully deliberated upon by seeking opinion of all affected countries.

Rethinking de minimis thresholds – Modalities and Capacity Building

Ministerial decision and associated guidance is necessary towards a multilateral effort to raise the 'de minims' threshold. This decision would represent a "package-based trade" equivalent to traditional efforts to reduce tariffs to promote world trade. A 'de minimis' change will promote package-level trade, which is almost exclusively a form of MSME trade, whereas traditional tariff cuts have promoted trade by large international enterprises. With a higher 'de minimis' threshold, government agencies will no longer expend resources to assess the low value parcels. As a result, they will no longer collect taxes and duties on low value parcels and thus will receive less revenue. These agencies will, however, benefit from freed-up resources. The net effect on government revenues from raising the 'de minimis' threshold will largely depend on what agencies decide to do with these surplus resources. To support a particular developing country in this transition, WTO should provide recommendations and technical support to assist such countries in utilizing these additional resources to protect government revenues.

In addition, there is an opportunity for WTO members to establish a balanced package of measures to promote an open, trusted and secure Internet, which would drive down transaction costs and frictions for businesses trading online. Given that a large share of international data flows which is critical to the success of E-commerce, efforts to tackle impediments to E-commerce should not only focus on business-to-consumer barriers to sale, but also business-to-business transactions.

Various WTO measures could play a significant role in building consumer trust in E-commerce for promoting an online ecosystem in which MSMEs can thrive. Specific measures recommended are:

a. Guidelines on cross-border consumer protection standards and dispute settlement mechanisms to build consumer trust and confidence in cross border eE-commerce.

b. Disciplines to promote technological innovation to enhance online security and reliability based on broadly agreed industry guidelines.

c. Restrictions on customs duties for digital literary products to ensure that customs duties do not impede the flow of music, video, software and games.

d. Setting up a WTO rule to ensure free flow, storage, and handling of all types of data across borders. Exceptions to this rule could be allowed under applicable privacy or security regulations and limited to public policy objectives.

6.2.1 Issues for Forthcoming WTO Meeting

It is reported that proposals on two controversial issues-rules for E-commerce and frameworks for MSMEs are likely to be deliberated at the WTO's eleventh ministerial meeting in Buenos Aires in 2017. The first proposal is reported to have been circulated by the US, the European Union, Japan, Switzerland and Australia, which calls for an appropriate intellectual property framework for MSMEs to share their technologies in global value chains and contribute to innovation.

According to the proposal, MSMEs rely on intellectual property frameworks that are able to protect expressions of new ideas, inventions, provide economic benefits and promote follow-on innovation. Under the title, 'Intellectual Property and Innovation: Inclusive Innovation and MSME Collaboration', it is argued that MSMEs require transparent and predictable intellectual property rules for transfer, sharing and creation of knowledge, ideas, or technology. Since intellectual property rules provide a framework for the ownership, protection and use of ideas and information created through a partnership, the WTO members must share their specific national experiences of inclusive innovation and MSME collaboration; in particular, how intellectual property frameworks and innovation policy or programs have assisted MSMEs.

The second proposal, reportedly floated by 14 developing countries, called for kick-starting discussions on electronic commerce and development at the WTO. This proposal, suggested four issues for immediate discussions—trade facilitation and E-commerce, infrastructure gaps to enable E-commerce, access to payment solutions and online security.

Last year, a majority of developing countries including India had insisted that discussions on E-commerce must take place on the basis of the 1998 'Work Program on Electronic Commerce', under which members must first examine all trade-related issues relating to global electronic commerce. In the face of 'digital divide' and 'knowledge gap' the developing and poorest countries had argued that there should not be any move to launch negotiations on E-commerce at this juncture.

It is, therefore recommended that with the right global policies in place, there should be an opportunity to unleash a new era of 'inclusive trade': one in which all companies regardless of size, sector or location can benefit from equal access to the global trading system; in other words, a trading system in which MSMEs are empowered to drive the transition to a fairer, more inclusive and robust world economy. Therefore, WTO members should give active consideration to launching new talks on a holistic package of trade disciplines, rules and assistance to boost MSME E-commerce with an overriding objective to promote inclusive growth.

Such an agreement should establish a global ecosystem that enables small businesses to access global markets by leveraging new technologies.

It is recommended that any new WTO package should also encompass capacity building resources for developing economies including the targeted assistance to ensure that MSMEs can get online and expand their business through E-commerce.

India has objected to the push from some members of the World Trade Organization (WTO) to make E-commerce rules one of the deliverable agendas in the upcoming 11th WTO Ministerial meeting in Argentina. It has simultaneously started preparing for a national-level policy on key issues under discussion. The Government has stated that while India would like to be part of the discussion and set the agenda on global rules on E-commerce, the country has to first domestically resolve the right approach that it should be taking and with domestic consensus on contentious issues.

6.3 Policy Recommendations for Private Sector

6.3.1 Cyber Security and Cyber Law Due Diligence

Banks and companies all over the world are vulnerable to sophisticated cyber-attacks and they also lack adequate cyber security set up. It is necessary that all banks and companies in the government as well as private sector strictly carry out cyber security due diligence and cyber law due diligence. Cyber security issues of E-commerce business should be effectively managed by the government and E-commerce companies.

Mobile cyber security is also very week in India. Therefore, the private sector must take due care in dealing with mobile E-commerce.

6.3.2 Training and Skill Development

E-commerce has already become an attractive destination for budding entrepreneurs and MSMEs. This has generated both blue-collar and white-collar employment opportunities in India. Further, functions such as logistics, analytics, pricing, inventory management, transportation, and last-mile delivery are unique and highly specialized. Lack of skilled manpower in these areas is one of the bottlenecks faced by the E-commerce industry. To address this challenge, joint programmes by the private and government sector would be instrumental to ensure a steady flow of trained talent that has the ability to quickly adapt to the dynamic growth phases experienced by this industry. Towards institutionalizing this recommendation, strategic alignment between the central and state governments is imperative to strengthen this talent development initiative. For example, E-commerce private players could feed into the 'Skill India' initiative of the government to make it more industry relevant while the state governments identify potential talent pockets in their area of influence to feed the raw potential into this programme.

6.3.3 Standardize the Procurement Process for Public Procurement of Goals and Services

A process whereby PSEs and private sector companies are selected using bids or tenders to ensure that the public sector and the public exchequers get the best service possible, should be enforced. This will benefit the B2B E-commerce companies.

6.3.4 Scoring Database

A consultative approach with participation from all stakeholders in the E-commerce industry should be encouraged to come up with a scoring database of customers and sellers. Stakeholders should determine key scoring parameters based on previous online shopping behavior of buyers. Similarly, scoring can be assigned to merchants based on their quality of products delivered. The scoring mechanism will discourage the abuse and fraud instances from both buyers and sellers.

6.3.5 Localization of Data and its impact on MSMEs

It is accepted that MSMEs rely on an efficient, reliable and cost-effective Internet ecosystem enabled by online platforms and service providers. Adequate availability of information and data relative to E-commerce operations should be available locally. These data localization measures should not add significant costs for additional data management and compliance or for installing local facilities and power etc. Localization of data may be good for security issues but its overall impact should not increase the cost of doing business online for MSMEs.

7. Analysis of engagement of SMEs in India in E-commerce business based on the feedback received through questionnaire

A questionnaire was sent to more than 200 SMEs to obtain their feedback with regard to their business operations through the usage of various E-commerce tools. Based on the feedback received from 47 of these SMEs who responded to the questionnaire and discussions held with a number of other units, following results can be drawn:-

1. Wherever there are comparatively younger employees, they prefer to conduct their business operations through E-commerce, more particularly in the areas of purchases, distribution, payments and receipts.

2. a With regard to legal form of SMEs, 30% of those responded sole proprietorship units. Only 5% are partnership firms whereas 53% of them are either private limited or limited companies. Rest of them belongs to other legal forms.

2. b 74% of SMEs which responded, are reported to be engaged in one or the other type of E-commerce i.e. either in B2B or B2C or B2G or a combination of them as per the breakup given below:

   a. 50% of SMEs are engaged in B2B.
   b. 38% of SMEs are engaged in B2C.
   c. 13% of SMEs are engaged in B2G.
   d. 21% of SMEs reported engaged in B2B and B2C both.
   e. 13% of SMEs reported engaged in B2B and B2G both.
   f. 6% of SMEs reported engaged in B2B, B2C and B2G i.e. all three of them.
   g. Only two SMEs reported engaged in B2B, B2G, and external trade.

(Separate % ages have been worked out for each type of E-commerce in which SMEs are engaged. For example, if a unit is working in B2B and B2C both, it is covered in both segments).

3. The feedback received from SMEs pertained to almost all the sectors covered in the questionnaire, thus, representing a cross section of industries and services which makes the feedback quite representative.

4 & 5. Information as reported by SMEs in the questionnaires.

6. With regard to the question of the impact of current economic situation on E-commerce business of SMEs, it appears there has not been much impact on them as only two units reported positive impact and one of them mentioned as negative. Majority of them did not report any impact- positive or negative.

7. Share of E-commerce income in the total revenue has been reported from 0 % to as high as 70% with an average of 5.49% of all SMEs which responded to the questionnaire. It indicates that the level of penetration of SMEs into E-commerce business is very low and there is tremendous scope for its expansion.

8. 38% of SMEs reported that they are members of National and International Associations out of which, only 6% reported international membership.

9. With regard to 'Profitability' of their ventures, following is the outcome:

   a. 57% of SMEs reported 'Profitable'
   b. 4% of SMEs reported 'Very Profitable'
   c. 21% of SMEs reported 'Scarcely Profitable'

Hence 82% of SMEs responded their ventures to be profitable between 'Scarcely Profitable and Very Profitable'. Only 4% of SMEs reported 'Not Profitable and rest of them did not report anything.

10. Major factors on the market influencing the position of SMEs are reported as:

   a. 30 percent SMEs reported 'Decrease in selling price'.
   b. 40 percent of them reported 'Increase in purchasing prices, changes of the costs'.
   c. 17 percent reported 'The appearance of new products'.
   d. 25 percent SMEs reported 'The appearance of new technologies / processes'.
   e. 40 percent of them reported 'The appearance of new competitors'.
   f. 8 percent SMEs reported 'Import, substitution as the factor'.
   g. 6 percent reported 'Lacking export abilities'.
   h. 19 percent of SMEs reported 'The appearance of new laws regulating operation'.

i. 23 percent of them reported ‘The appearance of new laws concerning taxation’.
j. 8 percent mentioned ‘Other factors like labour cost changes etc.’

11. Taxes payable by SMEs are reported as:

a. 45 percent units reported paying ‘Corporate Tax.
b. 25 percent reported paying ‘Partners Income Tax’
c. 72 percent of them reported paying ‘VAT’.
d. 17 percent reported paying ‘PAYE / National Insurance’.
e. None of the units reported paying ‘Construction Industry Scheme Tax’.
f. 34 percent reported paying ‘Customs Duties (Import/Export duties)’.
g. 55 percent reported paying ‘Excise Duties’.
h. 10 percent reported paying ‘Environmental Taxes’.
i. 30 percent reported paying ‘Property Tax’.
j. 34 percent reported paying ‘Insurance Premium Tax’.
k. 12 percent SMEs reported paying ‘Other Taxes like Service Tax, Dividend Distribution Tax’.

12. With regard to partnership with counter parts in BRICS countries only one of the respondents reported having partnership with China, whereas, all others reported in negative.

13(i). Means of logistics adopted by the respondent SMEs are:

a. 57 percent of the respondents reported using ‘National means of logistics’ with the following break up:
b. 25 percent of them use Trucks and other local means of transportation
c. 19 percent of them use National couriers like Blue Dart, Trackon, Superfast Cargo, BHL etc.
d. 13 percent reported using electronic means of transfer of their services to their customers
e. 38 percent of respondents reported using international means of logistics with following breakup:
    - 8 percent use DHL
    - 6 percent use UPS
    - 19 percent use Fedex
    - and 4 percent use other means

Fedex is reported as preference of majority of users of international means.

13(ii). The choice amongst ‘Modes of Payment’ is reported as:

a. Only 15 percent respondent reported using Paypal, Google wallet or other International modes of payment mentioned in the questionnaire.
b. Out of remaining, 45 percent reported using other local payment channels and Banks to make their payments.

14. With regard to Government’s incentive provided for E-commerce, only 4 SMEs responded with following inputs:

a. Exports are exempt from duty
b. Duty drawback allowed
c. Incentives vary from product to product
d. Tenders downloads allowed free of cost
e. Rebate on making payments through electronic means.

15. Problems faced by companies in cross border E-commerce are reported as:-

a. Less interaction
b. Customs harassment & inspection problems
c. Government’s policies
d. Competition and taxes
e. Cost of logistics
f. Sales & marketing
g. Lack of funds
h. Outstanding payments from clients
i. Lack of low cost capital
j. Lack of incentives for exporters
k. Lack of digital marketing
l. Documentation / sources
m. Non-availability of quality raw materials and technologies.

16. Suggestions given by the respondent for improving the E-commerce government policies in order to overcome the challenges are listed below:

a. Government should promote E commerce and Exports with innovative and profitable schemes for the Textile Industry.
b. Reduce burden of tax & paperwork
c. Govt. should spread awareness
d. Should facilitate connect with multiple international portals.

e. Single inventory control system.
f. More relaxations should be offered to Indian Startups
g. The Government must provide a suitable environment for business. Relax taxation, introduce user friendly methods of filing and create safety nets.
h. Government must provide subsidies to enhance E-commerce.
i. Taxation clause should have more clarity. Double taxation policies while importing license or software, be removed.
j. Support for Regional Associations
k. Focus more on services and help in resoling problem of finance.
l. Nature of business being Small & Medium enterprises, advanced, state of the art ERP System cannot be implemented for both viability & E-commerce usage
m. Government should make bankers to pass on the schemes to MSMEs without hassles and time limits.
n. Reduce duty on efficiency/productivity increasing equipment. Faster and easier customs clearance.
o. Government needs to bring in proper laws governing E-commerce particularly in authenticating communications. Insurance companies need to bring in policies to cover losses in net transactions.
p. Create trust among people to motivate them to purchase online.

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