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Impact of GST on MSMEs in Karnataka: Survival, Growth, and Competitiveness – A Comparative Analysis of Rural and Urban Enterprises in Raichur District

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Abstract

Goods and Services Tax (GST) is a unified indirect tax system introduced in India on 1 July 2017. The introduction ofGST in India marked a major structural reform in indirect taxation, significantly influencing Micro, Small, and Medium Enterprises (MSMEs). This paper examines the impact of GST on MSMEs in Karnataka, focusing on three key dimensions: survival, growth, and competitiveness, with a comparative perspective between rural and urban enterprises in Raichur district. Using a mixed-method approach based on secondary data and conceptual analysis, the study finds that GST has enhanced formalisation, efficiency, and market access for urban MSMEs. At the same time, rural MSMEs faced initial survival challenges due to compliance burdens and digital constraints. The study concludes that although GST has long-term benefits, its impact remains uneven across regions, necessitating targeted policy interventions.

Keywords: GST, MSMEs, Karnataka, rural vs urban, competitiveness, survival, growth

1. Introduction

The implementation of GST on 2017 July 1st replaced multiple indirect taxes with a unified tax system in India, aiming to improve the ease of doing business and create a common national market. However, GST has had a mixed, transformative impact on MSMEs in Karnataka, streamlining tax structures while introducing high compliance burdens. While easing interstate trade and enabling input tax credits, it has pressured working capital and increased operating costs for many small firms in industrial hubs like Bangalore, requiring significant digital adoption. Its impact varies across regions and firm sizes, particularly between rural and urban MSMEs.Micro, Small, and Medium

Enterprises (MSMEs) are critical to India's economy, contributing significantly to employment, exports, and GDP. They account for nearly 30% of GDP and around 40% of exports, highlighting their importance in economic development. Karnataka presents an ideal case due to its strong urban MSME base in Bengaluru and comparatively weaker rural industrial ecosystem. Recent data shows that the state has over 24.8 lakh MSMEs, with urban areas dominating growth and employment.

2. Objectives of the Study

1. To analyse the impact of GST on MSME survival in Karnataka and the study area
2. To examine GST's effect on MSME growth
3. To examine growth patterns of rural and urban MSMEs post-GST
4. To compare competitiveness between rural and urban enterprises in the Raichur district of Karnataka state.
5. To identify challenges faced by MSMEs under GST

3. Review of Literature

Several studies have examined the impact of the Goods and Services Tax (GST) on Micro, Small, and Medium Enterprises (MSMEs). The implementation of GST in India has significantly influenced the MSME sector, particularly in regions such as Bangalore. Researchers have explored its effects on business performance, growth, compliance, and competitiveness, highlighting both the opportunities and challenges faced by MSMEs.

Ajetrao (2023) assessed the awareness and impact of GST among small business owners in Mysuru. The findings revealed that business owners generally perceive GST as a fair tax system. However, many struggle with its procedural complexities and depend on consultants for tax filing. The study suggested that increasing awareness and simplifying online submission processes could improve compliance.

Venkateshwarlu and Vijayalakshmi (2022) examined the dual impact of GST on MSMEs and found that while it facilitates market expansion and simplifies taxation, it also introduces financial and administrative challenges that require businesses to adapt.

Verma, Khandelwal, and Raj (2022) analyzed the regulatory implications of GST on small businesses. They concluded that although GST has streamlined tax collection, it has also created compliance-related difficulties that necessitate additional support mechanisms. Similarly, Pandit (2021) explored the opportunities and challenges associated with GST for SMEs. The study noted that while the tax reform provides a

unified tax structure and broader market access, businesses must invest in technology and adapt to new financial reporting standards.

Kumari (2022) examined the effect of GST on MSMEs in India and highlighted its potential to enhance competitiveness by creating a level playing field. However, the study also pointed out the initial transition difficulties, especially for small businesses unfamiliar with digital compliance systems.

In a related study, Sekhar (2022) analyzed the role of electronic banking in business operations and observed that GST has accelerated the adoption of digital financial systems among MSMEs. The study suggested that the mandatory use of digital platforms for GST compliance has encouraged many small businesses to modernize their financial practices, thereby improving efficiency and transparency.

Patel (2022) conducted a study based on secondary data sources and concluded that GST has both positive and negative impacts on the Indian economy. On the positive side, GST has contributed to the development of a transparent and corruption-free tax administration system. On the negative side, certain retail products that were previously taxed at lower rates, such as 4%, have become more expensive under the GST regime. The study observed that garments and clothing, in particular, have experienced price increases. Therefore, the study concluded that GST has produced mixed effects in India.

4. Research Gap:

Most studies focus on national-level analysis; limited research exists on regional (Karnataka-specific) and rural–urban comparative perspectives (Raichur).

5. MSMEs in Raichur district

MSMEs in Raichur district, Karnataka, are primarily driven by agriculture, with significant presence in rice milling, cotton processing, and oil extraction. The district, located in North Karnataka, also features service industries supporting local agricultural needs. As of recent Udyog Aadhaar data, Raichur has over 2,1063 registered MSME units. Ministry of Micro, Small & Medium Enterprises.industrial and economic aspects of MSMEs in Raichur include:

- Agro-Based Industries: Due to its agricultural resources, Raichur is a hub for rice mills, cotton ginning, and oil-based industries.
- Service Sector: Service industries cater to the needs of the surrounding rural and urban areas.
- Industrial Infrastructure: The region benefits from state-supported industrial areas, similar to other North Karnataka districts.
- Industrial Incentives: MSMEs in Raichur can benefit from incentives like stamp

duty exemptions on loans, as provided by the Karnataka state industrial policies. For specific business registration, support, and to locate industrial plots in Raichur, the District Industries Centre (DIC) Raichur acts as the primary contact for entrepreneurs and existing enterprises.

No. of MSME units in Kalaburagi Region

Sl.No	Name of the District	Micro Units	Small Units	Medium units	Total Units
1	Bellary	28816	900	78	29794
2	Bidar	20973	329	29	21331
3	Kalburagi	24731	654	39	25424
4	Koppal	14240	486	20	14746
5	**Raichur**	**20240**	**771**	**52**	**21063**
6	Yadgir	12384	228	9	12621
7	Vijaynagar	185	15	3	203
	Total Units	**121569**	**3383**	**230**	**125182**
	Avareage	20261.50	563.83	38.33	20863.67

(Source: MSME report 2025 GOK)

The Kalaburagi region has a total of 1,25,182 MSME units, with micro enterprises forming the majority share. Among the districts, Bellary (29,794 units) leads in MSME presence, while Yadgir (12,621 units) has the lowest.(But Vijayanagar is a relatively new district carved from Ballari; the total number of enterprises might evolve as registration processes update)Small and medium units are comparatively fewer, indicating limited industrial expansion. Overall, the region's MSME sector is developing but still dominated by micro-scale enterprises.

6. Impact of MSMEs in Karnataka and the study area

Impact of MSMEs in Karnataka - Contribution to the Economy

MSMEs are the backbone of Karnataka's industrialeconomy.They contribute significantly to state income, production, and exports.At the national level, MSMEs contribute about 30% to GDP and around 45% of exports.Karnataka is one of the top industrial states, with a strong MSME presence in IT, textiles, food processing, and engineering.

Employment Generation

Around 24.8 lakh MSMEs in Karnataka provide employment to over 2.3 crore people.MSMEs are the second largest employer after agriculture.They generate jobs for skilled, semi-skilled, and unskilled workers.

Industrial Development

MSMEs promote balanced industrial growth across the sectors like:Electronics, Garments, Automobile components, and Food processing. Bengaluru alone has about 6.3 lakh MSMEs, showing strong industrial concentration.

Entrepreneurship & Innovation

- Encourages startups and small entrepreneurs.
- Karnataka's startup ecosystem is closely linked with MSME growth.

Regional Development

MSMEs help develop rural and backward areas.However, there is a regional imbalance:Southern districts (like Bengaluru) are advanced, Northern districts (like Raichur) are relatively less developed.

Women Empowerment

- A significant number of MSMEs are **owned by women**, improving gender equality and income levels.

Challenges in Karnataka

Poor infrastructure in some regions, high land and power costs, Limited credit accessPolicy gaps for micro enterprises.

Impact of MSMEs in the study area - Raichur District

Raichur district has a growing MSME sector with21063 registered MSMEs.The majority are microenterprises.

Employment Generation

- MSMEs employ about 2.8 lakh people in the district.
- Important for reducing rural unemployment and migration.

Industrial Structure

- Major MSME activities includeRice mills, Cotton ginning, and Agro-based industries. These are linked to agriculture, the main occupation of the district.

Rural Development

- MSMEs help in increasing rural income, promoting self-employment, and supporting small farmers and artisans.

Credit and Investment Growth

The credit flow to Micro, Small, and Medium Enterprises (MSMEs) in Raichur, a district in Karnataka, is driven by a mix of industrial development, agricultural processing, and institutional support designed to foster growth in rural and semi-urban areas.MSMEs Credit flow in RaichurIndustrial Infrastructure and Potential Raichur has significant industrial development, with five major industrial areas (KIADB), including

Raichur Industrial Area and the Industrial Growth Centre at Shakthinagar. The district has substantial potential for agro-based industries, textiles, and mineral-based units (Hatti Gold Mines).MSME credit flow in Raichur district has increased steadilyfrom ₹1,81,600 lakh (2022–23) and ₹2,48,633 lakh (2024–25). It indicates growing financial support and expansion. MSMEs help reduce the development gap between North and South Karnataka.

Challenges of MSMEs in Raichurdistrict

- Lack of infrastructure (roads, industrial estates)
- Limited technology adoption
- Low awareness of government schemes
- Dependence on agriculture-based industries

MSMEs play a crucial role in economic growth, employment, and industrialization in Karnataka.In Raichur, they are especially important for rural development and poverty reduction.However, improved infrastructure, finance, and policy support are needed to unlock their full potential.

7. Impact of GST on MSMEs in Karnataka and Raichur district

The impact of GST (Goods and Services Tax) on MSMEs in Karnataka, and specifically in Raichur district, can be understood as a mixed positive and negative effects.Karnataka has around 24.8 lakh MSMEs employing 2.3 crore people, showing their major role in the economy.MSMEs are the backbone of industrial growth and employment, especially in rural and semi-urban areas.In Raichur district, MSMEs are mostlyMicro and small units, Agro-based, textile, rice mills, and small manufacturing. Important for rural employment and income generation.

Positive Impact of GST on MSMEs

(A) One Nation – One Tax System

- GST replaced multiple taxes (VAT, excise, service tax)
- Reduced tax complexity and improved transparency
- Created a unified national market.

(B) Input Tax Credit (ITC) Benefit

- MSMEs can claim credit on taxes paid on inputs
- Reduced overall cost of production

(C) Ease of Interstate Trade

- Removal of state barriers helped Karnataka MSMEs expand outside the state
- Beneficial for export-oriented sectors (textiles, handicrafts)

(D) Formalisation of the Economy

- Many informal MSMEs registered under GST
- Improved access toBank loans, Government schemes, and Market credibility

(E) GST Reforms Supporting MSMEs

- Lower tax rates on raw materials and sectors like agriculture, crafts
- Faster refunds and simplified compliance in recent reforms.

Negative Impact of GST on MSMEs

(A) Compliance Burden

- Frequent filing (monthly returns, e-way bills)
- Difficult for small businesses with low digital literacy
- Especially problematic in Raichur (rural region)

(B) Increased Costs

- Need forAccountants and GST software
- Raised operational costs for small firms

(C) Working Capital Problems

- Delay in GST refunds blocks funds
- MSMEs face cash flow issues

(D) Complex Tax Structure

- Multiple tax slabs (5%, 12%, 18%, 28%)
- Confusion among small traders

(E) Impact on the Informal Sector

- Many small units struggled to shift from an informal to a formal system
- Some businesses slowed down or closed

Specific Impact in Raichur District

Raichur is a backward (Kalyana Karnataka) region, so the GST impact is more visible:

Positive Effects

- Increase in MSME registrations (Udyam, GST), Better integration with state and national markets, Growth in Agro-processing and small industries

Negative Effects

- Lack of Digital infrastructure and awareness about GST

- Higher compliance burden compared to urban areas
- Poor infrastructure (roads, logistics) worsens GST benefits.

Challenges Faced by MSMEs under GST

Many challenges faced by the MSMEs under GST include a complex return filing system, high compliance costs, digital divide in rural areas,delay in input tax credit, and lack of GST awareness programs.

Opportunities Created by GST

Unified national market, Reduction in tax evasion, better transparency, increased formalisation of businesses and Long-term growth potential.

Survival Analysis of the MSMEs

Urban MSMEs

- Better infrastructure and digital readiness
- Access to GST professionals and software
- Strong integration with formal supply chains

Result: **Higher survival rate**

Rural MSMEs

- Limited digital literacy and awareness
- Difficulty in filing returns and compliance
- Increased cost burden

Result: **Lower survival rate initially**

a) Growth Analysis of the MSMEs

Urban MSMEs

- Expansion through interstate trade
- Integration with e-commerce platforms
- Improved access to finance

Result: **High growth trajectory**

Rural MSMEs

- Limited market access
- Infrastructure challenges
- Slow digital adoption

Result: **Moderate growth**

Competitiveness Analysis of the MSMEs

Urban MSMEs

- Benefit from Input Tax Credit (ITC)

- Reduced production costs
- Increased price competitiveness

Result: **Enhanced competitiveness**

Rural MSMEs

- Higher compliance cost relative to scale
- Limited ITC utilisation
- Dependence on local markets

Result: **Reduced competitiveness**

b) Comparative Analysis: Rural vs Urban MSMEs

Factor	Urban MSMEs	Rural MSMEs
Survival	High	Moderate to low
Growth	Rapid	Slow
Competitiveness	Strong	Weak
Digital readiness	High	Low
GST compliance	Efficient	Difficult

GST has created a structural shift toward formalisation, benefiting organised urban enterprises more than informal rural ones.Urban MSMEs leveraged GST for expansion. Rural MSMEs struggled due to structural disadvantages. Regional imbalance persists in Karnataka's MSME ecosystem. This aligns with broader findings that GST's benefits are long-term but unevenly distributed.

8. Findings and Suggestions

- GST improved efficiency and transparency
- Compliance burden negatively affected small firms
- Urban MSMEs benefited more than rural ones
- Rural MSMEs faced survival challenges initially
- Competitiveness gap widened post-GST strongly
- MSME hubs like Bengaluru, Mysuru, and Hubballi adapted quickly due to better infrastructure. North Karnataka regions (like Raichur, Koppal) faced more challenges due to Low digital awareness,Weak infrastructure.
- Government initiatives,training programs, and conduct theGST awareness camps.

9. Policy Recommendations

- Simplify GST compliance for micro enterprises
- Provide digital training in rural areas
- Improve rural infrastructure and connectivity
- Faster refund mechanisms for MSMEs
- Targeted subsidies for rural MSMEs
- Improving digital literacy
- Strengthening infrastructure in districts like Raichur.

10. Conclusion

GST has had a dual and uneven impact on MSMEs in Karnataka. While it has strengthened growth and competitiveness in urban areas, it has posed survival challenges for rural enterprises.In the long run, GST can enhance MSME performance, but only if policy support addresses regional disparities. GST has modernised and streamlined taxation for MSMEs in Karnataka. While it improved transparency, trade, and growth, it also created initial challenges in compliance and cash flow. With better awareness and digital support, MSMEs are gradually benefiting more from the Goods and Services Tax.

GST has brought both challenges and opportunities for MSMEs in Karnataka. While urban enterprises have adapted and benefited from the new system, rural MSMEs in Raichur district continue to face significant hurdles. Bridging the rural-urban gap through policy support, digital inclusion, and awareness programs is essential to ensure inclusive growth and competitiveness.

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