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Review Paper

GST Reforms and the Changing Economic Contribution of MSMEs: Evidence from Khadi and Village Industries Sector

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Abstract

One of the significant tax reforms in the Indian economic history is implementation of GST Act 2017. The Goods and Services Tax (GST) introduced in India on July 1, 2017 which replaced a complex system of multiple indirect taxes and aimed to create a unified market under the principle of One Nation, One Tax. The Micro, Small and Medium Enterprises (MSME) sector is an instrumental aspect of the Indian economy for employment generation and innovative performance. It constitutes the back bone of the Indian economy. Khadi and Village Industries are significant part of the MSME sector. This study examines the changing economic contribution of Micro, Small and Medium Enterprises (MSMEs), with special reference to the Khadi and Village Industries (KVI) sector under the Khadi and Village Industries Commission (KVIC). The aim of this paper is to assess the impact of GST reforms on performance of Khadi and Village Industries To know whether there is an impact exists or not, the secondary data from Annual Reports of the Ministry of MSME and KVIC for the period 2012-13 to 2024-25 used, the study adopts a descriptive and analytical research design. Key indicators analysed include MSME share in GDP, production, sales, employment generation in the KVI sector, tax framework, and government budgetary support. It is found that GST reforms have significant impact on the performance of Khadi and Village industries. Although transitional compliance challenges emerged, the reforms reinforced by GST 2.0 reform facilitated formalisation, input-tax credit benefits, and improved market integration. The paper also discovers the various challenges faced by KVI.

Keywords: GST Reforms, MSMEs, Khadi and Village Industries, Economic Contribution, Production and Sales Trends, Employment Generation, Budgetary Support, GST 2.0.

Introduction

Micro, Small and Medium-sized Enterprises (MSMEs) are the backbone of the Indian economy[1], responsible for approximately 30% of GDP, 48% of the exports share and employing over 110 million workers[2]. Micro, Small and Medium Enterprises (MSMEs) is contributing substantially to employment generation, industrial output, exports, and inclusive regional development. Traditional segments such as Khadi and Village Industries (KVI), promoted by the Khadi and Village Industries Commission (KVIC), play a unique role by providing livelihood opportunities to rural artisans, particularly women and marginalised communities, with minimal capital investment.

The introduction of Goods and Services Tax (GST) on 1 July 2017 replaced a complex multi-tax regime with a unified, destination-based tax system. The reform aimed to eliminate cascading taxes, simplify compliance, create a common national market, and enhance ease of doing business. While GST offered long-term benefits such as input-tax credit (ITC) and interstate trade facilitation, its initial implementation raised concerns about compliance burdens, especially for micro-enterprises and traditional rural sectors like Khadi and Village Industries that previously enjoyed significant exemptions.

The literature on GST and MSMEs presents mixed findings. Several studies report stability or modest improvement in MSME performance post-GST due to formalisation and transparency[3], while others highlight short-term compliance challenges and liquidity issues for small and rural units[4]. However, sector-specific research on the Khadi and Village Industries remains limited. Most studies focus on aggregate MSME performance or urban clusters, leaving a critical research gap regarding the impact of GST on traditional, rural, labour-intensive sub-sectors operating under KVIC. The present study titled "GST Reforms and the Changing Economic Contribution of MSMEs: Evidence from Khadi and Village Industries Sector" seeks to bridge this gap through a systematic pre- and post-GST analysis.

The study relies exclusively on secondary data sourced from official Annual Reports of the Ministry of MSME and KVIC for the period 2012-13 to 2024-25. Analytical tools include trend analysis, percentage growth rates, pre-post comparative statistics, and graphical representations.

The study reports on the implications of reductions of GST rates on the performance and growth of MSMEs, Khadi and Village Industries operating under the GST Law.

Objectives of the study: i. To assess the share of MSMEs in India's GDP and analyse its contribution before and after the implementation of GST reforms. ii. To analyse the pre-GST and post-GST tax framework applicable to the Khadi and Village Industries sector, including recent GST 2.0 reform. iii. To examine trends in production and sales of Khadi and Village Industries and analyse the changes in pre- and post-GST periods. iv. To evaluate employment generation in the Khadi and Village Industries sector and compare its growth rate before and after GST implementation. v. To identify the major challenges for Khadi and Village Industries in the post-GST reforms.

Review of Literature: Micro, Small and Medium Enterprises (MSMEs) play a vital role in the Indian economy by contributing significantly to employment generation, industrial output, and regional development. The sector is widely regarded as the backbone of India's economic structure due to its ability to promote inclusive growth and entrepreneurship.

Tulja Bhavani[5] studied the significant differences in the growth rates of production, sales, and employment in the Khadi and Village Industries sector.

Karthik, P. and Sahoo N.[2] reported that GST rate reductions had a positive impact on MSMEs, but the degree of benefits varied across segments.

Mora Madasu[3] analysed the performance of MSMEs using secondary data and statistical techniques and found that the share of MSMEs in Gross Value Added (GVA) remained relatively stable in the years surrounding GST implementation, with a slight improvement observed after the introduction of the new tax regime. The study suggests that GST may have contributed positively to MSME performance by promoting formalization and improving the transparency of tax systems.

Another study conducted in the Peenya Industrial Area in Karnataka revealed that GST has had mixed effects on small-scale enterprises. While the reform has improved transparency and reduced tax-related complexities in the long run, businesses initially faced operational challenges related to compliance procedures, dual administration, and taxation mechanisms such as the reverse charge system. These findings suggest that the success of GST reforms depends largely on the capacity of small enterprises to adapt to the new regulatory environment[4].

Mallikarjun and Soni[6] identified multiple operational challenges experienced by MSMEs following the implementation of GST. These challenges include frequent filing of tax returns, complex tax classification procedures, delays in the processing of tax refunds, and the increased cost of hiring professional tax consultants. Such compliance-related burdens can have significant financial implications for small enterprises with limited administrative capacity. For many MSMEs, especially those in traditional sectors, adapting to the digital compliance framework remains a major challenge.

Research by Keerthan, Reddy, and Srilekha[7] further explores that GST has significantly influenced operational costs, compliance patterns, and revenue structures of MSMEs. While some firms have benefited from improved tax transparency and better market access, others continue to face challenges related to compliance complexity and technological adaptation.

Awasthi et al[8]. emphasize that GST has influenced the handicraft sector in multiple ways, including changes in pricing structures, supply chains, and marketing strategies. The reform has encouraged greater transparency and standardization in the sector but has also introduced new compliance requirements for small artisan enterprises.

Most studies examine the overall impact of GST on MSMEs without addressing sector-specific challenges faced by traditional rural industries. This creates a significant research gap, particularly in understanding how GST reforms influence the economic contribution, sustainability, and competitiveness of enterprises operating under the Khadi and Village Industries Commission (KVIC). Given the importance of this sector in promoting rural employment and preserving traditional industries, further research is required to analyze the impact of GST on economic performance and development of Khadi and Village Industries.

Methodology

The present study adopts an analytical and descriptive research design to examine the impact of Goods and Services Tax (GST) reforms on the economic contribution of Micro, Small and Medium Enterprises (MSMEs), with particular reference to the Khadi and Village Industries (KVI) sector in India. The descriptive approach is used to present and summarize the trends in production, sales, employment, and economic contribution of the sector, while the analytical approach helps in evaluating the changes that have occurred in these variables before and after the implementation of GST.

The study is based entirely on secondary data sources. Relevant data have been collected from Annual Reports of the Khadi and Village Industries Commission (KVIC), Annual Reports of the Ministry of Micro, Small and Medium Enterprises (MSME), Government Economic Surveys, and published research articles and academic studies related to the impact of GST on the

MSME sector. The study covers a time period from 2012–13 to 2024–25. This period has been selected to enable a comparative analysis of the pre-GST and post-GST phases. Since GST was implemented in India in July 2017, the data from 2012–13 to 2017–18 represent the pre-GST period, while the data from 2018–19 to 2024–25 represent the post-GST period. This classification allows for a systematic comparison of economic trends before and after the introduction of the GST regime and GST 2.0.

To analyze the collected data, various statistical and analytical tools have been employed. These include percentage growth rate analysis, which helps measure year-to-year changes in key economic indicators; trend analysis, which is used to observe long-term patterns and movements in production, sales, employment, and economic contribution; and comparative analysis, which enables the comparison of the pre-GST and post-GST periods. In addition, graphical representations such as charts and graphs are used to visually present the trends and variations in the data, thereby facilitating better interpretation and understanding of the findings.

Results and Discussion

The implementation of the Goods and Services Tax (GST) in 2017 in India has significantly altered the operational landscape for Micro, Small, and Medium Enterprises (MSMEs), including the Khadi and Village Industries (KVI) sector. To understand the Khadi and Village industries performance after implementation of GST, the analysis is structured around the key themes as tax rates before and after GST and their impact on performance of Khadi and Village Industries.

The Paradigm Shift from Old Wine to New Bottle: Goods and Services Tax introduced in 2017 which replaced multiple indirect taxes with a unified tax system but certain structural features and administrative challenges of the earlier regime continue to exist. India had a fragmented indirect tax structure consisting of several central and state levy taxes such as CENVAT, Excise duty, State VAT, Services Tax. The cascading effect and Complex compliance were the major drawbacks of earlier indirect tax structure. GST introduced to overcome these barriers. The following table shows the rate of taxes on Khadi and Village Industries before and after GST introduction.

In 2017 at the time introduction of GST the exemption to the SSI sector being drastically reduced from the Rs.150 lakh to Rs. 20 lakh, the exemption cover enjoyed by many of the Khadi Institutions (KIs) has been removed. KIs were mandated to obtain registration under GST and also pay GST on various Khadi products which is 5%. The products of the Village Industries sector were either taxed at 0-14.30% before-GST and post-GST the same products attract tax at 12-28%[8]. The 56th GST Council Meeting held in September 2025 introduced sweeping, next generation reforms that is GST 2.0. This reform represents a structural recalibration aimed directly at easing the compliance burden and boosting the profitability of MSMEs in general and Khadi and Village Industries in particular. The GST on products of Village Industry products is reduced from 12% and 18% to 5% and Crafts from 28% to 12%. GST 2.0 introduced a uniform 5% GST on textiles and yarns. A uniform 5% rate makes production significantly more viable, boosts export competitiveness, and helps the industry return to sustainable profitability.

Table-1: Tax Rates Pr-GST and Post-GST[9].

Industry Segment	Pre-GST (Avg. VAT/ Excise)	Post-GST (Initial 2017)	GST 2.0
Khadi Fabric	0%	0% (Fiber) / 5% (Apparel)	0% (Hand-spun) / 12% (Ready-made)
Village Industry (Food)	0% - 5%	12% - 18%	5% (Rationalized)
Village Industry (Craft)	2% - 12%	12% - 28%	12%

MSME Sector and Economic Contribution: MSME Sector (Micro, Small, and Medium Enterprises) play a pivotal role in driving entrepreneurial growth and fostering business innovation. By diversifying across sectors, MSME cater to both domestic and global market demands with a wide range of products and services. These enterprises are instrumental in generating significant employment opportunities at a lower capital cost compared to large industries. The role of MSME and contribution to India's GDP is a follow:

Table-2: Contribution of MSMEs in Country's Economy[10].

	Year	Share of MSME in GDP (in %)
Pre-GST Period	2012-13	29.94
	2013-14	29.76
	2014-15	29.39
	2015-16	28.77
	2016-17	28.9
	2017-18	29.75
Post-GST Period	2018-19	30.27
	2019-20	30.50
	2020-21	27.30
	2021-22	29.60
	2022-23	30.10
	2023-24	30.10

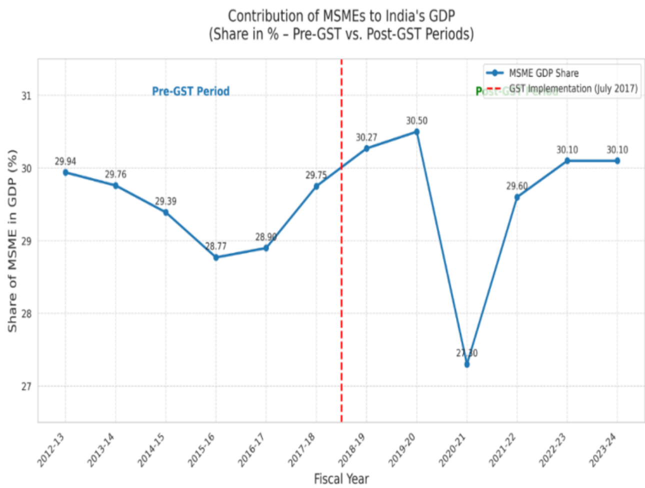

Figure-1: Contribution of MSMEs in Country's Economy[10].

Figure above presents the annual share of Micro, Small and Medium Enterprises (MSMEs) in India's Gross Domestic Product (GDP) over the 12-year period from 2012-13 to 2023-24, clearly segmented into pre-GST (2012-13 to 2017-18) and post-GST (2018-19 to 2023-24) regimes.

During the pre-GST era, the MSME share in GDP exhibited pronounced volatility. The period opened with a high of 29.94% in 2012-13, followed by a sharp decline to 29.76% in 2013-14. Thereafter, the share stabilised within a relatively narrow band of 28.77%–29.75% for the remaining four years.

This initial volatility underscores the pre-GST challenges of fragmented indirect tax regimes, multiple compliance layers, and cascading effects that arguably constrained MSME growth and formalisation.

After implementation of GST, the MSME GDP share displayed greater stability. The average contribution moderated slightly to 29.64% a marginal decline of 1.04 percentage points relative to the pre-GST mean. However, this modest shift must be interpreted against the backdrop of sustained national GDP expansion and improved tax compliance.

The post-GST series begins with modest growth (30.27% in 2018-19 rising to 30.50% in 2019-20), followed by a temporary contraction to 27.30% in 2020-21explicitly attributable to the COVID-19 shock and the associated national GDP contraction of –5.8%. Recovery was swift, with the share rebounding to 29.60% (2021-22) and stabilising at 30.10% for both 2022-23 and 2023-24.

Production of Khadi and Village Industries: Khadi activity is widely regarded as a powerful tool for generating employment opportunities for rural artisans at their doorstep with minimal capital investment. Following India's independence, the productivity of Khadi and Village Industries became a profound symbol of nationalism. Consequently, Khadi transcended its identity as mere fabric to become is presentation of freedom and self-reliance.

Village Industry means any industry located in a rural area that produces any goods or renders any service with or without the use of power in which the fixed capital investment per head of an artisan or a worker does not exceed Rs.1.00Lakhs in plain areas and Rs. 1.50 lakhs in hilly areas or such other sum maybe by notification in the official gazette, be specified from time to time by the Central Government[10].

The production of Khadi and Village Industries has shown a consistent upward trend over the years. The sector has experienced significant expansion due to government initiatives, technological improvements, and increasing consumer awareness regarding sustainable products.

After the introduction of the Goods and Services Tax, the sector benefited from improved interstate trade and simplified tax structure. Production growth indicates increasing formalization and better market integration. Khadi and Village sector has witnessed consistent growth in both production and sales over the years.

Table-3: Production of Khadi and Village Industries (Pre-GST Period)[11].

Year	Production of Khadi (in Crores)	Production of Village Industry (in Crores)
2012-13	761.93	23262.31
2013-14	811.08	25298.00
2014-15	879.98	26689.39
2015-16	1065.60	33424.62
2016-17	1520.83	41110.26
2017-18	1626.66	46454.75
Total	6666.08	196239.3
Post- GST Period		
2018-19	1963.30	58130.34
2019-20	2324.24	65343.07
2020-21	1904.49	70330.66
2021-22	2558.31	81731.62
2022-23	2915.83	93040.84
2023-24	3206.24	105091.67
Total	14872.41	473668.2

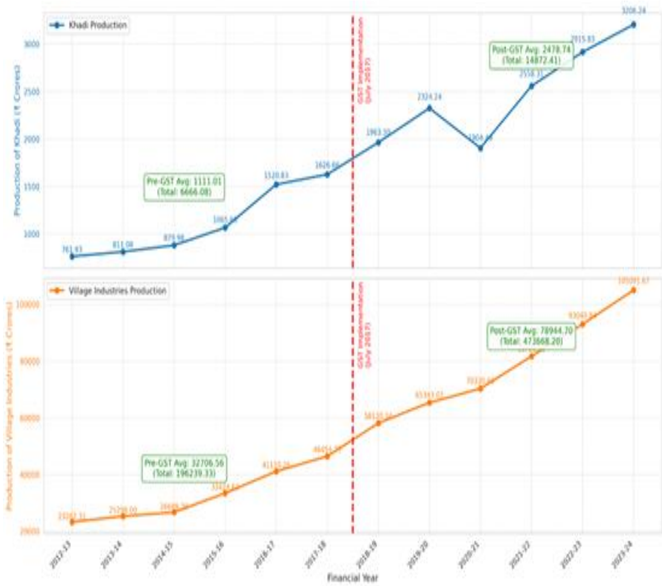

Figure-2: Production of Khadi and Village Industries (Pre-GST Period)[11].

Above figure presents the annual production values (Rs. Crores) of Khadi and Village Industries from 2012-13 to 2023-24, segmented into pre-GST (2012-13 to 2017-18) and post-GST (2018-19 to 2023-24) periods.

In the pre-GST period, Khadi production averaged Rs.1,111.01 crore (cumulative Rs.6,666.08 crore), rising from Rs.761.93 crore in 2012-13 to Rs.1,626.66 crore in 2017-18. Village Industries production averaged Rs.32,706.56 crore (cumulative Rs.1,96,239.33 crore), growing from Rs.23,262.31 crore to Rs.46,454.75 crore. Both sub-sectors exhibited consistent growth, yet remained constrained under the earlier fragmented indirect tax regime.

Post-GST, production of Khadi output rose to an average of Rs.2,478.74 crore (cumulative Rs.14,872.41 crore), while Village Industries surged to Rs.78,944.70 crore (cumulative Rs.4,73,668.20 crore). The post-GST period shows stronger year-on-year growth rates and greater resilience. A temporary dip in Khadi production to Rs.1,904.49 crore in 2020-21 reflects the COVID-19 pandemic impact.

The percentage growth rate shows that the total production of Khadi increased from Rs.6666.08 crore in the pre-GST period to Rs.14872.41 in the post-GST period. It shows that an increase of 123.1%. This upward trend shows that the GST regime may have contributed market integration and enhanced growth opportunities for MSMEs in the Khadi sector.

Sales Performance of Khadi and Village Industries: Khadi and Village Industries activities serve as a vital source of livelihood for rural an durban populations, including spinners, weavers, and other artisans across the country. The Sales Performance of Khadi and Village Industries reflect their significant and sustained growth. Sales of Khadi and Village Industries have grown significantly in recent years. Marketing initiatives, digital platforms, and government promotional programs have contributed to this growth. The GST regime has reduced tax cascading effects, thereby improving price competitiveness of products in national markets.

Khadi and Village sector has witnessed consistent growth in both production and sales over the years.

Table-4: Sales of Khadi and Village Industries (Pre-GST Period)[11].

Year	Sales of Khadi (in Crores)	Sales of Village Industry (in Crores)
2012-13	1021.56	26818.13
2013-14	1081.04	30073.16
2014-15	1170.38	31965.52
2015-16	1510.00	40384.56
2016-17	2146.60	49991.61
2017-18	2510.21	56672.22
Total	9439.79	235905.2
Post- GST Period		
2018-19	3215.13	71076.96
2019-20	4211.26	84664.28
2020-21	3527.71	92213.65
2021-22	5051.72	110363.51
2022-23	5942.93	128686.56
2023-24	6496.01	149177.12
Total	28444.76	636182.08

The above table depicts the annual sales values (Rs. crores) of Khadi and Village Industries from 2012-13 to 2023-24, with a 2024-25 estimate, segmented into pre-GST (2012-13 to 2017-18) and post-GST (2018-19 to 2023-24) periods.

In the pre-GST period, Khadi sales averaged Rs.1,573.30 crore (cumulative Rs.9,439.79 crore), rising steadily from Rs.1,021.56 crore in 2012-13 to Rs.2,510.21 crore in 2017-18. Village Industries sales averaged Rs.39,317.53 crore (cumulative Rs.2,35,905.20 crore), growing from Rs.26,818.13 crore to Rs.56,672.22 crore. Both sub-sectors showed consistent upward trend under the fragmented pre-GST tax regime.

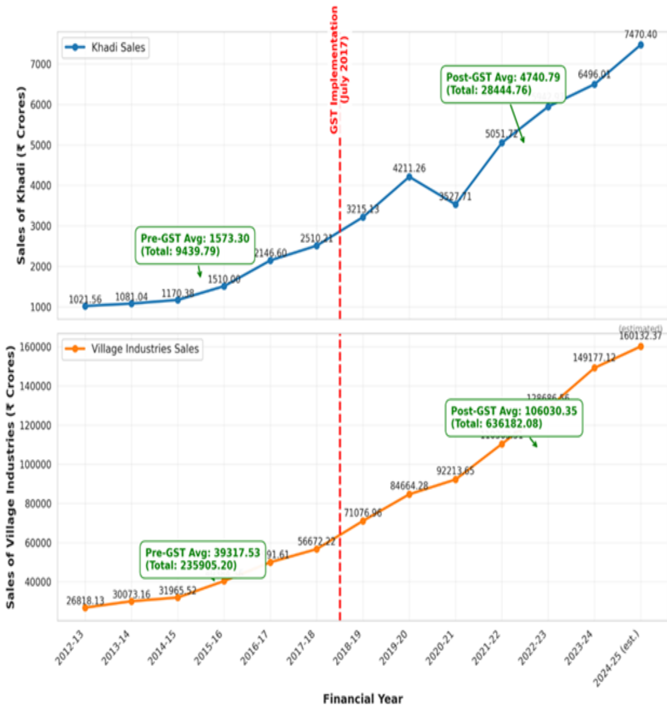

Figure-3: Sales of Khadi and Village Industries (Pre-GST Period)[11]

Post-GST, sales accelerated significantly. Khadi sales rose to an average of Rs.4,740.79 crore (cumulative Rs.28,444.76), while Village Industries surged to Rs.1,06,030.35 crore (cumulative Rs.6,36,182.08 crore). The post-GST period exhibits stronger year-on-year growth and greater resilience. A temporary dip occurred in Khadi sales (Rs.3,527.71 crore in 2020-21), reflecting COVID-19 disruptions, yet Village Industries continued expanding (Rs.92,213.65 crore), underscoring differential resilience.

The percentage growth rate of the total sales of khadi industries increases 280.5% and village industries increases 237.6% from Pre-GST period total sales to Post-GST period total sales. This substantial growth indicates that the KVI sector experienced significant expansion in the post-GST period. This improvement is because of improved tax structure, better supply chain efficiency, removal of cascading effect and increased market access.

Employment Generation in Khadi and Village Industries: Khadi and Village Industries activities serve as a vital source of livelihood for rural and urban populations and industries provide employment opportunities in rural areas, particularly for women and marginalized communities. The sector has demonstrated a strong capacity to generate employment with relatively low capital investment[11].

The growth in production and sales has resulted in increased employment opportunities in rural industries.

Table-5: Employment Generation in Khadi and Village Industries[11].

Year	Employment in Khadi (in Lakh Person)	Employment in Village Industry (in Lakh Person)
2012-13	10.71	114.05
2013-14	10.98	119.4
2014-15	11.06	123.19
2015-16	11.07	126.76
2016-17	4.56	131.84
2017-18	4.65	135.71
Post- GST Period		
2018-19	4.96	142.03
2019-20	4.97	147.76
2020-21	4.97	154.09
2021-22	4.97	162.64
2022-23	4.98	172.14
2023-24	4.99	182.32
2024-25 (estimated)	5.00	191.05

The Table represents the annual employment generation (Lakh Persons) in Khadi and Village Industries from 2012-13 to 2023-24, with a 2024-25 estimate, segmented into pre-GST (2012-13 to 2017-18) and post-GST (2018-19 to 2023-24) periods.

In the pre-GST period, Khadi employment averaged 8.84 lakh persons and Village Industries employment averaged 125.16 lakh persons rising steadily from 114.05 lakh to 135.71 lakh.

Post-GST, Khadi employment stabilised at an average of 4.98 lakh persons and Village Industries employment accelerated to an average of 164.58 lakh persons. This sustained expansion in Village Industries underscores job creation even during the 2020-21 pandemic years.

Budgetary Support to Khadi and Village Industries: The Government of India allocates budget outlays for carrying out the Khadi and Village Industries activities in the form of “Khadi Gramodyog Vikas Yojana Grants”, includes the followings: a. The budgetary allocations under “Khadi Vikas Yojana (KVY) Grant” are meant for various activities of the KVY components. b. The budgetary allocations under “Gramodyog Vikas Yojana

(GVY) Grant" are meant for various activities of the GVY components. c. The budgetary allocations under "Khadi Grant" are meant for Administrative/ establishment expenditure like Pay, TA, Contingency Expenses, Pension, etc[11].

The details of funds provided from Budgetary Sources (Khadi Gramodyog Vikas Yojana) during the Pre-GST and Post-GST Period are given in the Table-6.

Table-6: Budgetary Support to KVIC in Crore[11].

Pre-GST Period				
Year	Allocation(R.E)		Funds Released	
	Plan	Non-Plan	Plan	Non-Plan
2012-13	1543.79	162.85	1466.20	160.85
2013-14	1395.67	219.28	1204.88	218.23
2014-15	1452	229.09	1384.4	227.31
2015-16	1579.65	244.71	1520.49	244.18
2016-17	1647.4	258.74	1591.08	258.74
2017-18	2149.37	237.71	1886.07	237.71
Total	9767.88	1352.38	9053.12	1347.02
Post-GST Period				
2018-19	3085.78	-	3200.65	-
2019-20	3086.5	375.2	3078.78	375
2020-21	2736.87	437.11	2145.46	305.73
2021-22	3356.82	379.74	3285.55	378.74
2022-23	3083.72	335	3077.39	332.8
2023-24	3481.16	287.57	3479.84	287.56
Total	18830.85	1814.62	18267.67	1679.83

The table presents the budgetary allocation and funds released to the KVI sector by Ministry of MSME during Pre-GST and Post-GST periods. During the Pre-GST period (2012-13 to 2017-18), the total plan allocation amounted to Rs. 9767.88 Crore while non plan allocation was Rs.1352.38 crore. The actual funds released during this period were Rs.9053.12 crore under plan expenditure and Rs.1347.02 crore under non plan expenditure.

During the Post-GST period (2018-19 to 2023-24), the total plan allocation amounted to Rs. 18830.85crore while non plan allocation was Rs.1814.62 crore. The actual funds released during this period were Rs.18267.67crore under plan expenditure and Rs.1679.83 crore under non plan expenditure.

A comparison between the two period reveals that plan allocation doubled in the post-GST period, this indicating a strong policy emphasis on strengthening the KVI sector. The trend results that the period following the implementation of GST witnessed greater fiscal support and policy focus on KVIC. This increased budgetary support highlights the Government support to strengthen MSMEs as a driver inclusive economic growth in the post-GST regime.

Findings: This study has examined the impact of GST reforms on the economic contribution of MSMEs with focused evidence from the Khadi and Village Industries sector. The empirical analysis, supported by time-series data, trend charts, and pre-post comparative statistics, yields several findings that align with all research objectives.

The findings indicate that the share of MSMEs in India's GDP exhibited greater stability after GST implementation. In the pre-GST period (2012-13 to 2017-18), the share averaged 29.42% with notable volatility, declining from 29.94% in 2012-13 to 28.77% in 2015-16 before a modest recovery. Post-GST (2018-19 to 2023-24), the average rose marginally to 29.64%, showing reduced fluctuations except for the temporary contraction to 27.30% in 2020-21 due to COVID-19, followed by swift recovery and stabilization at 30.10% in 2022-23 and 2023-24. This shift reflects improved tax compliance and operational predictability amid national GDP expansion.

Analysis of the pre- and post-GST tax framework reveals a paradigm shift from a fragmented indirect tax regime characterized by cascading effects and complex compliance to a unified GST system. At introduction in 2017, the SSI exemption threshold was reduced from Rs.150 lakh to Rs.20 lakh, eliminating coverage for many Khadi institutions and imposing 5% GST on Khadi products and 12-28% on Village Industry items (versus 0-14.3% pre-GST averages). The GST 2.0 reforms of September 2025 rationalized rates to 5% for Village Industry food products and textiles/yarns, and 12% for crafts, easing compliance burdens, enhancing profitability, and improving export competitiveness for the Khadi and Village Industries sector.

Trends in production and sales of Khadi and Village Industries demonstrate accelerated post-GST growth. Cumulative Khadi production rose 123.1% from Rs.6,666.08 crore pre-GST to Rs.14,872.41 crore post-GST, with average annual output increasing from Rs.1,111.01 crore to Rs.2,478.74 crore. Village Industries production grew approximately 141% cumulatively (Rs.1,96,239.3 crore to Rs.4,73,668.2 crore). Sales growth was even stronger: Khadi sales increased 280.5% cumulatively and Village Industries 237.6%, with both sub-sectors showing stronger year-on-year momentum and resilience after the 2020-

21 COVID-19 dip. These gains suggest that GST unification improved interstate trade, eliminated cascading effects, and supported greater market integration and formalization.

Employment generation in the sector presents a mixed picture. Village Industries employment expanded from an average of 125.16 lakh persons pre-GST to 164.58 lakh post-GST, indicating sustained job creation even during the pandemic year. Khadi employment, however, stabilized at an average of 4.98 lakh persons post-GST following a structural drop, reflecting possible reclassification or sector-specific adjustments while still contributing to rural livelihoods at low capital intensity.

The major challenges for Khadi and Village Industries in the post-GST reforms include the initial loss of tax exemptions, mandatory registration, and higher effective tax rates on certain products, which increased compliance costs for small rural units[12]. Seasonal production patterns, regional heterogeneity, and external shocks such as COVID-19 further amplified vulnerabilities. Under GST taxes must be paid before receiving refunds which in result delayed input tax credit can affect liquidity.

However, doubled budgetary support under Khadi Gramodyog Vikas Yojana (plan allocation rising from Rs.9,767.88 crore pre-GST to Rs.18,830.85 crore post-GST) and the GST 2.0 rate rationalization have mitigated these issues, underscoring the need for continued targeted assistance to sustain inclusive growth in the sector.

Conclusion

In conclusion, the Goods and Services Tax (GST) reforms have acted as a catalyst for the modernisation and resilience of the Khadi and Village Industries sector, reinforcing its vital role in rural employment, inclusive growth, and sustainable development. The evidence presented in this paper provides strong empirical support for further policy measures that build on the strengths of GST while addressing remaining challenges faced by traditional MSMEs in Khadi and Village Industries.

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