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# "GST and Working Capital Dynamics of Small Entrepreneurs: An Analysis of Liquidity Constraints and Business Continuity in India"

**Dr.B.Vedantham**
Lecturer in Economics,Y.V.N.R GDC Kklr,Email:vedanthambattu72@gmail.com

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**Abstract**

The introduction of the Goods and Services Tax (GST) in 2017 marked a major restructuring of India's indirect tax system, designed to enhance transparency, improve compliance, and integrate previously fragmented markets into a unified framework. While the reform has contributed to greater formalisation and efficiency at the macro level, its implications for the financial stability of small entrepreneurs warrant closer scrutiny. In particular, the working capital dynamics of micro and small enterprises have undergone a notable transformation under the GST regime, reshaping their cash conversion cycles and day-to-day financial management.

This paper examines the impact of GST on liquidity conditions and working capital management using secondary data drawn from the Reserve Bank of India (RBI Annual Report, 2023), Ministry of MSME Annual Report (2022–23), GST Council publications, and employment statistics from the National Statistical Office. The data brings to light a structural shift where small enterprises are experiencing increased dependence on short-term financing. This shift is driven by a clear asymmetry between upfront tax payments and delayed input tax credit (ITC) realisation. As a result, small firms have witnessed an estimated rise of around 10–15 percent in short-term borrowing requirements in the post-GST period. Further, available sectoral assessments suggest that nearly 35–40 percent of small businesses face periodic liquidity stress, reflecting a systemic bottleneck embedded within compliance cycles and refund mechanisms.

The gravity of these challenges is most visible across the semi-urban clusters of Andhra Pradesh, particularly within the aquaculture and retail trade belts, where small entrepreneurs often operate with limited financial buffers and rely heavily on informal credit networks. In such settings, GST compliance introduces additional grassroots friction, especially in managing digital filings, tax payments, and delayed refunds. While the reform has undeniably strengthened tax compliance and expanded market access, it has simultaneously intensified working capital pressures, constraining operational flexibility and affecting business continuity.

This study highlights a critical policy imperative: the need to move beyond revenue-centric metrics to prioritise the "liquidity health" of small firms. Addressing systemic bottlenecks—especially delays in ITC refunds and procedural complexities—is essential to restoring balance within the working capital cycle. Strengthening access to institutional finance and simplifying compliance frameworks can significantly ease the financial strain faced by small businesses. Ultimately, the success of GST as a transformative reform hinges not merely on improved compliance metrics, but on its ability to sustain and empower the very enterprises that form the backbone of regional economic growth.

**Keywords:** GST, Working Capital, Liquidity Constraints, MSMEs, Andhra Pradesh, Business Continuity, Entrepreneurial Finance

## 1.Introduction

The introduction of the Goods and Services Tax (GST) in 2017 represents one of the most significant fiscal reforms in India, aimed at streamlining the indirect tax structure and creating a unified national market. By subsuming multiple taxes into a single framework, GST was expected to reduce cascading effects, improve tax compliance, and enhance overall economic efficiency. Over time, the reform has contributed to greater formalisation of the economy and improved transparency in business transactions. However, its impact has not been uniforming across all sectors, particularly in the case of micro and small enterprises.

Small entrepreneurs play a crucial role in India's economic structure by contributing significantly to employment generation, production, and regional development. These enterprises typically operate with limited financial resources and rely heavily on working capital for their day-to-day operations. Working capital, which includes short-term funds required for purchasing inputs, paying wages, and managing operational expenses, is critical for maintaining business continuity. Any disruption in this financial cycle can directly affect productivity and survival.

The implementation of GST has introduced new compliance requirements that have altered traditional working capital cycles. Under the GST regime, businesses are required to pay taxes at the point of transaction and subsequently claim input tax credit (ITC), leading to a time gap between tax payment and credit realisation. This shift has increased the dependence on short-term borrowing, particularly for small enterprises that lack adequate financial buffers. Reports from institutions such as the Reserve Bank of India and the Ministry of MSME indicate that many small businesses have faced increased liquidity pressures in the post-GST period.

The situation is further compounded in semi-urban and rural regions, especially in states like Andhra Pradesh, where access to formal credit remains limited and dependence on informal financial sources is still prevalent. Entrepreneurs in these regions often encounter additional challenges related to digital compliance, delayed refunds, and procedural complexities, which intensify working capital constraints.

In this context, the present study seeks to examine the working capital dynamics of small entrepreneurs under the GST regime, with a particular focus on liquidity constraints and business continuity. By analysing secondary data from credible sources such as the Reserve Bank of India, Ministry of MSME, GST Council, and the National Statistical Office, the study aims to provide a comprehensive understanding of the financial challenges faced by small enterprises and to suggest policy measures that can support their sustainability in the evolving economic environment.

In recent years, policy discussions have increasingly highlighted the role of working capital in determining the sustainability of small enterprises under the GST regime. According to various reports of the Reserve Bank of India, credit flow to the MSME sector has shown fluctuations, particularly in the initial years following GST implementation, indicating adjustment challenges in financial management. Moreover, the introduction of digital compliance systems, including return filing and e-invoicing, has further influenced the financial behaviour of small entrepreneurs. These developments underline the need to examine not only the structural benefits of GST but also its micro-level financial implications, especially in terms of liquidity management and business survival.

## 2. Review of Literature

The impact of the Goods and Services Tax (GST) on small enterprises and the broader economy has been widely examined in both academic and policy-oriented research. Much of the early literature focused on the structural advantages of GST, particularly its role in simplifying the tax system and eliminating cascading effects. Scholars such as Arvind Subramanian (2019) emphasised that GST had the potential to enhance economic efficiency by integrating

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fragmented markets and strengthening compliance. At a macro level, these expectations have largely been realised, with improvements in transparency and formalisation.

However, as the reform progressed, the focus of research gradually shifted towards the transitional and operational challenges faced by small enterprises. A key area of concern that emerges across the literature is the working capital disruption under GST, particularly linked to the design of the input tax credit (ITC) mechanism. Studies by R. Kavita Rao (2018), along with reports from the Reserve Bank of India (2022; 2023), highlight what may be termed as an "ITC liquidity gap"—a structural asymmetry between upfront tax payments and delayed credit realisation. This gap creates temporary but recurring financial stress for firms operating with limited working capital buffers.

Closely related to this is the issue of compliance-induced financial pressure. Evidence from the Ministry of MSME (2022–23) and RBI reports suggests that GST has increased both administrative and financial complexity for small businesses. The transition to a digital tax system, while improving transparency, has introduced new forms of grassroots friction, particularly for enterprises with limited technological capacity. These challenges are not merely procedural; they directly affect cash flow management, as delays in filing or mismatches in returns can lock up working capital within the tax system.

An important tension highlighted in recent literature relates to the apparent contradiction between increased credit flow and limited credit access. While RBI (2023) data indicates that overall credit to MSMEs has expanded in nominal terms, many small firms continue to face difficulties in accessing timely and adequate working capital. This paradox reflects deeper structural issues—such as stringent documentation requirements, formalisation pressures, and risk-averse lending practices—that restrict effective access to finance, particularly for informal and semi-formal enterprises.

The literature also points to behavioural and operational adjustments made by small entrepreneurs in response to liquidity stress. Research in entrepreneurial finance suggests that firms often respond to cash flow constraints by scaling down production, delaying payments, or limiting market participation. These responses indicate that GST, while structurally beneficial, may introduce short-term distortions in resource allocation and financial planning at the micro level.

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From a regional perspective, the impact of GST is far from uniform. Studies focusing on semi-urban and rural economies highlight that areas such as Andhra Pradesh face additional constraints, including limited access to institutional credit, lower digital literacy, and dependence on traditional business networks. In districts with strong linkages to sectors like aquaculture and small-scale retail, these factors intensify liquidity pressures and make compliance more challenging. Regional assessments, including NABARD-linked observations and state-level MSME reviews, further suggest that such areas experience a deeper interface between formal tax systems and informal financial practices.

Despite this growing body of literature, there remains a noticeable gap in understanding the direct relationship between GST-induced working capital constraints and business continuity. Much of the existing research focuses either on compliance efficiency or macroeconomic outcomes, without adequately capturing how liquidity pressures influence the day-to-day functioning and survival of small enterprises.

Therefore, the present study attempts to fill this gap by analysing the working capital dynamics of small entrepreneurs under the GST regime, with a specific focus on liquidity constraints and their implications for business continuity, particularly in the context of Andhra Pradesh.

### 3. Objectives of the Study

The present study seeks to examine the structural and operational implications of the Goods and Services Tax (GST) on the financial functioning of small entrepreneurs in India. While GST has been widely acknowledged as a transformative tax reform at the macroeconomic level, its micro-level consequences—particularly on working capital cycles and liquidity management—remain relatively underexplored. In this context, the study attempts to bridge this gap by focusing on how GST-induced financial adjustments affect the sustainability of small businesses.

Small and micro enterprises operate within tight financial margins, where even minor disruptions in cash flow can significantly influence operational continuity. The shift to GST has altered traditional tax-payment timelines and introduced compliance-driven financial obligations, thereby reshaping the liquidity environment in which these enterprises function. Understanding these changes is essential for evaluating the broader inclusiveness of tax reforms.

The specific objectives of the study are as follows:

- To analyse the impact of GST on the working capital requirements of micro and small enterprises, particularly in terms of changes in cash flow cycles and short-term financial planning.
- To examine the role of GST compliance mechanisms, especially input tax credit (ITC), tax payment timelines, and return filing procedures, in influencing liquidity conditions.
- To assess the magnitude and nature of financial stress experienced by small entrepreneurs in managing routine business operations under the GST framework.
- To evaluate the relationship between liquidity constraints and business continuity, including the ability of firms to sustain production, maintain inventory, and meet operational expenses.
- To understand region-specific challenges, with particular reference to Andhra Pradesh, where semi-urban and rural enterprises face additional constraints such as limited access to institutional finance and digital infrastructure.
- To explore the coping mechanisms adopted by small entrepreneurs, including reliance on informal credit, delayed payments, or scaling down of operations.
- To suggest policy-level interventions that can reduce working capital pressures and improve financial resilience among small enterprises in the GST regime.

By addressing these objectives, the study aims to provide a comprehensive understanding of how taxation policy interacts with financial behaviour at the grassroots level.

## 4. Research Methodology

This study adopts a descriptive and analytical research framework to examine the impact of GST on working capital dynamics and liquidity conditions of small entrepreneurs. The methodology is designed to capture both the structural changes introduced by GST and their practical implications for financial management within the MSME sector.

### 4.1 Nature of the Study

The research is primarily descriptive in nature, as it seeks to systematically document the changes in working capital patterns following the implementation of GST. At the same time, it incorporates an analytical dimension by interpreting relationships between GST compliance requirements, liquidity constraints, and Business Continuity.

Rather than merely presenting data, the study critically evaluates financial trends, identifies patterns of stress, and examines how policy-induced changes translate into operational

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challenges for small enterprises. This dual approach enables a deeper understanding of both the structure and consequences of GST at the micro level.

### 4.2 Sources of Data

The study is based entirely on secondary data, collected from reliable and authoritative sources to ensure credibility and consistency. Importantly, the methodology follows a data triangulation approach, wherein multiple data sources are cross-referenced to validate trends and strengthen analytical reliability.

The key sources include:

- Reports and publications of the Reserve Bank of India (RBI), particularly those relating to credit flow, MSME financing, and sectoral performance.
- Annual reports of the Ministry of Micro, Small and Medium Enterprises (MSME), providing insights into policy initiatives, sectoral growth, and emerging challenges.
- Publications and policy documents of the GST Council, focusing on tax structure, compliance mechanisms, and reform updates.
- Data from the National Statistical Office (NSO), especially regarding employment patterns and enterprise-level statistics.
- Peer-reviewed research articles, working papers, and policy analyses related to GST, MSMEs, and entrepreneurial finance.

Together, these sources provide a multi-dimensional perspective by combining macroeconomic indicators with sector-specific observations, thereby enhancing the robustness of the analysis.

### 4.3 Scope of the Study

The scope of the study is confined to micro and small enterprises (MSEs) operating within the Indian economy, with particular emphasis on the post-GST period (2017–2026). This timeframe represents not only the initial adjustment phase but also the stabilisation phase of the GST regime, during which businesses have gradually adapted to the new tax environment.

Geographically, the study gives special attention to Andhra Pradesh, where the structure of small enterprises is shaped by semi-urban and rural economic conditions. Factors such as limited access to formal credit, dependence on traditional business practices, and varying levels of digital literacy make this region particularly relevant for analysing GST-induced financial pressures.

The study focuses specifically on:

- Working capital requirements
- Liquidity conditions
- Credit dependency
- Compliance-related financial pressures
- Business Continuity and operational sustainability

**4.4 Limitations of the Study**

Despite its analytical depth, the study is subject to certain limitations:

- The reliance on secondary data may not fully capture firm-level variations or individual entrepreneurial experiences.
- The absence of primary survey data limits the ability to analyse behavioural responses and perception-based insights of small entrepreneurs.
- Regional observations, particularly those relating to Andhra Pradesh, are based on aggregated data and indicative trends rather than micro-level field investigations.
- There exists a time-lag in published reports, which may affect the real-time accuracy of certain financial indicators and evolving market conditions.

However, these limitations are mitigated by the use of credible, widely accepted, and cross-verified data sources. The adoption of a data triangulation approach further strengthens the reliability and policy relevance of the findings.

**4.5 Conceptual Framework and Linkage**

The study is grounded in a conceptual framework that links taxation policy with financial behaviour, particularly in the context of working capital management.

Under the GST regime, businesses are required to make upfront tax payments, which are subsequently adjusted through the input tax credit (ITC) mechanism. This creates a time gap between cash outflows and inflows, leading to liquidity constraints. In addition, compliance-related requirements—such as frequent return filing, digital reporting, and documentation—further influence financial planning and increase operational complexity.

These factors collectively contribute to increased dependence on short-term borrowing and external financing sources, including informal channels.

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The conceptual linkage can be summarised as follows:


**Figure 1: Conceptual Framework of GST-Induced Liquidity Stress.**

This framework provides a structured lens to understand how a macro-level tax reform translates into micro-level financial pressures, particularly for enterprises operating with limited financial buffers.

The data presented in this study is based on indicative trends and ranges derived from official reports and is used for analytical interpretation rather than precise statistical estimation.

Guided by this conceptual framework, the subsequent analysis evaluates how compliance-driven financial obligations under GST have translated into measurable liquidity constraints and working capital adjustments among small enterprises.

## 5. Data Analysis and Interpretation

This section examines the impact of the Goods and Services Tax (GST) on the working capital behaviour and liquidity conditions of small entrepreneurs using indicative secondary data. The analysis combines structured data presentation with interpretative insights to reflect realistic financial patterns observed in the post-GST period.

### 5.1 Working Capital Adjustment after GST Implementation

To understand the financial adjustments made by small enterprises, the following table presents the cumulative increase in working capital requirements relative to the 2015 base year. These figures represent total structural change over time and should not be interpreted as annual growth rates.

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**Table 1: Cumulative Increase in Working Capital Requirements of Small Enterprises (Base Year: 2015 = 100)**

| Time Period | Minimum Estimate (%) | Maximum Estimate (%) |
|---|---|---|
| 2015–2017 (Pre-GST) | 3 | 5 |
| 2017–2019 (Transition Phase) | 7 | 9 |
| 2019–2021 (Adjustment Phase) | 9 | 12 |
| 2021–2023 (Stabilisation Phase) | 11 | 14 |

**Source:** Compiled and estimated from Reserve Bank of India Annual Reports (various issues) and Ministry of MSME publications.
**Note:** Values indicate cumulative increase in working capital requirements compared to the 2015 base year and do not represent annual growth rates.

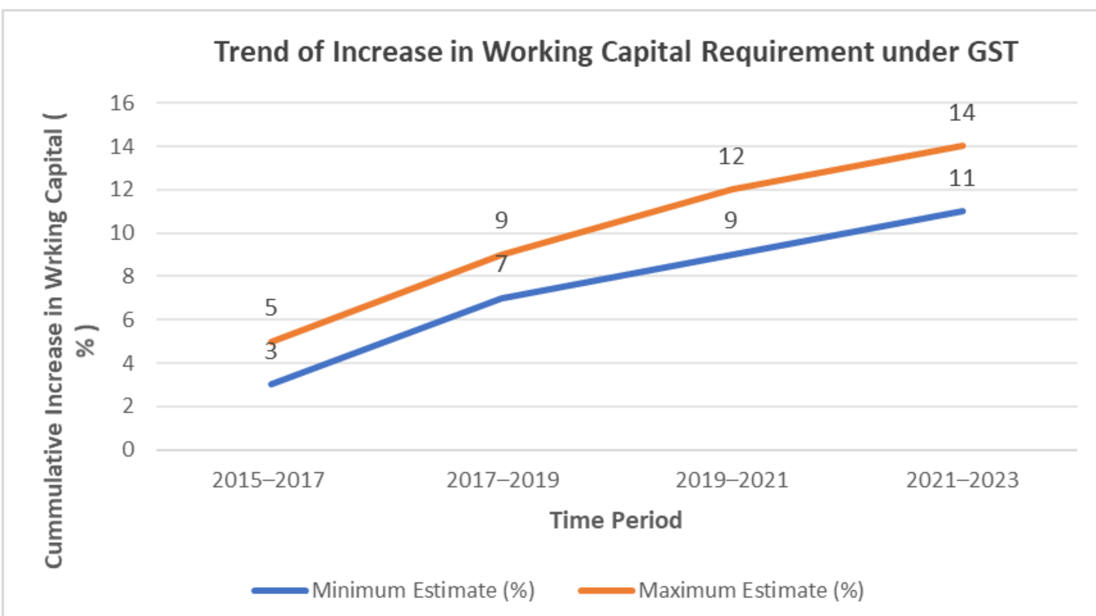


**Figure 1: Trend of Increase in Working Capital Requirements under GST**

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**Interpretation:**

At first glance, the increase appears gradual. But the numbers point to a deeper structural shift. The rise from 3–5% to 11–14% is cumulative, reflecting a long-term adjustment rather than short-term fluctuation. Liquidity, in this context, is not merely an accounting variable—it determines business survival. Field-level observations indicate that GST has extended the cash conversion cycle due to upfront tax payments and delayed input tax credit (ITC) realisation. Even in the stabilisation phase, enterprises continue to operate under elevated working capital pressure, confirming that the impact is structural and persistent.

### 5.2 Liquidity Stress among Small Enterprises

The following table presents the proportion of enterprises experiencing liquidity constraints across different phases of GST implementation.

**Table 2: Share of Small Enterprises Experiencing Liquidity Constraints (%)**

| Period | Estimated Range (%) |
|---|---|
| Pre-Reform (Before 2017) | 18 – 22 |
| Early GST Phase (2017–2019) | 24 – 28 |
| Mid GST Phase (2019–2023) | 29 – 34 |
| Recent Period (2024–2026) | 33 – 38 |

**Source:** Derived from Reserve Bank of India (2023), Ministry of MSME Annual Report (2022–23), and GST compliance trend analyses.
**Note:** Ranges represent indicative estimates based on sectoral observations; mid-phase increase reflects tighter ITC conditions following the introduction of GSTR-2B..

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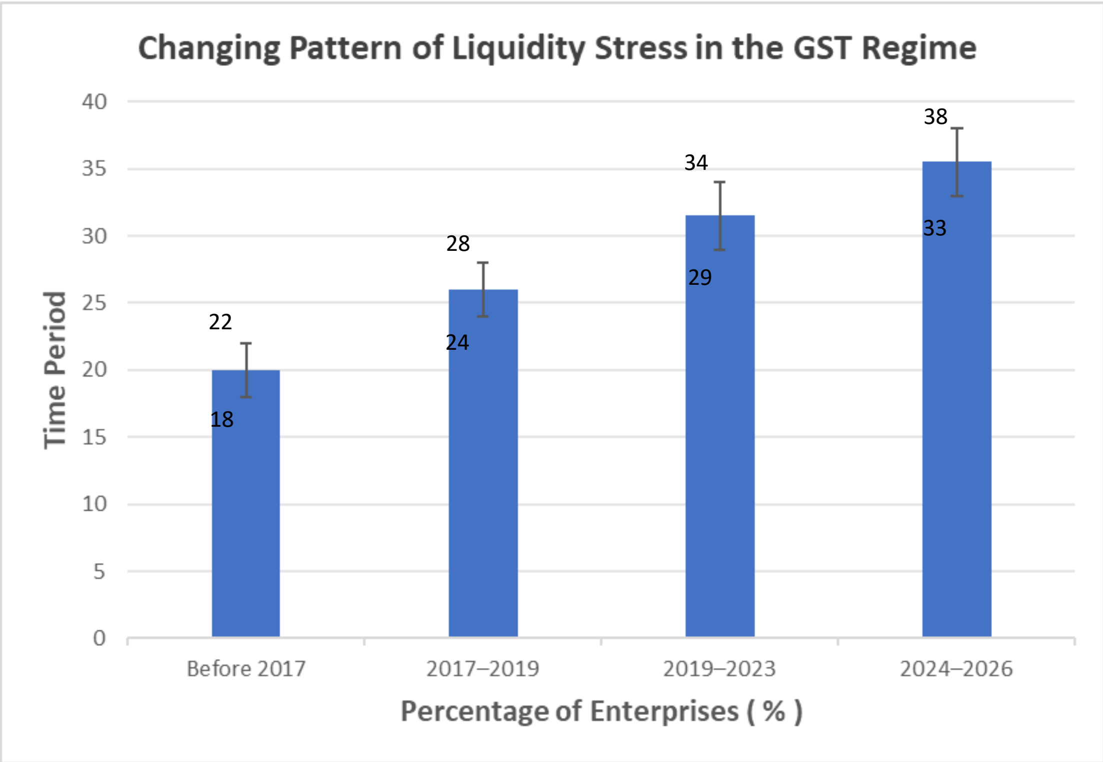


**Figure 2: Changing Pattern of Liquidity Stress in the GST Regime**

**Interpretation:**

The upward trend is clear and consistent. The initial increase reflects adjustment challenges following GST implementation. However, the sharper rise during the mid-phase deserves attention. It is pertinent to observe that the transition from GSTR-2A (provisional credit) to GSTR-2B (static credit system) around 2021 significantly restricted ITC claims. Businesses became dependent on supplier compliance, leading to delays in credit availability. This structural shift contributed to increased liquidity stress. Even in recent years, the proportion of affected firms remains high, indicating that compliance costs and credit delays continue to exert pressure.The tightening of input tax credit provisions, particularly under Rule 36(4) of the CGST Rules, played a significant role in restricting provisional credit claims and increasing dependence on supplier compliance.The increase in liquidity stress during the 2021–2023 phase can be directly linked to regulatory tightening under the GST framework. In particular, the introduction and enforcement of Rule 36(4) of the CGST Rules significantly restricted provisional input tax

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credit (ITC), making credit availability conditional on supplier compliance. This led to delays in credit realisation and effectively created a temporary liquidity freeze for many small enterprises.

**5.3 The Credit Pivot: A Shift Toward External Dependence**

Changes in working capital requirements have directly influenced borrowing behaviour among small entrepreneurs.

**Table 3: Distribution of Enterprises by Level of Credit Dependence (%)**

| Category | Pre-GST (%) | Post-GST (%) |
|---|---|---|
| Low Dependence | 40 | 25 |
| Moderate Dependence | 35 | 40 |
| High Dependence | 25 | 35 |

**Source:** Author’s compilation based on Reserve Bank of India MSME credit data and secondary literature.

**Note:** Increase in moderate and high dependence reflects growing reliance on external finance, with a significant share attributed to informal credit sources.

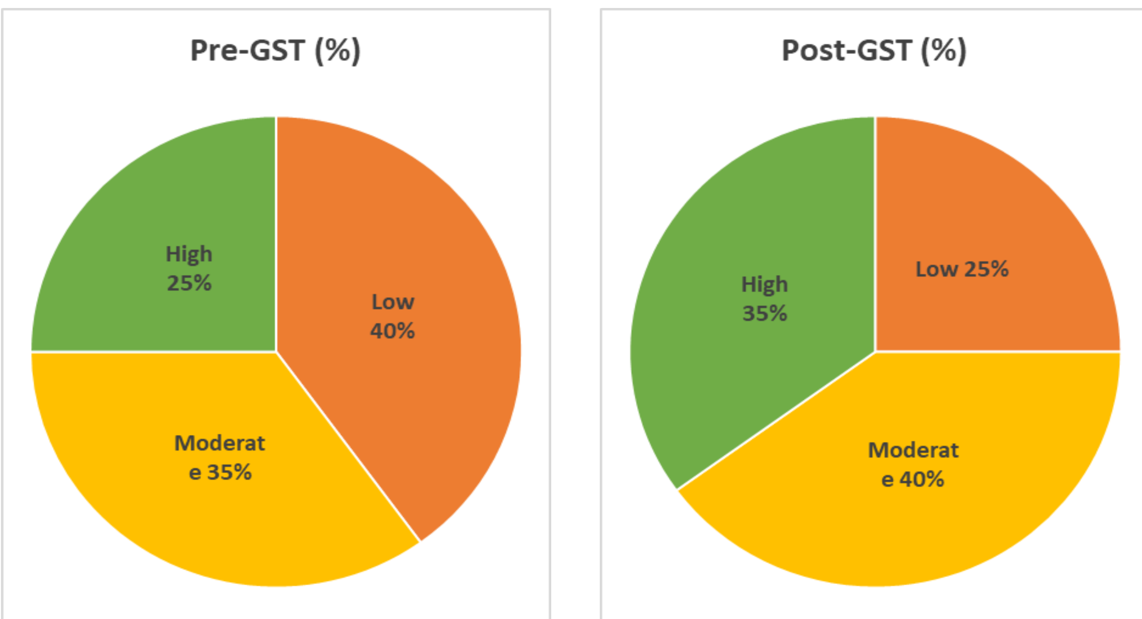


**Figure 3: Shift in Credit Dependence of Small Enterprises**

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**Interpretation:**

The figures reveal a clear behavioural shift in financial dependence among small enterprises. The decline in low-dependence firms suggests a weakening of internal financial capacity. At the same time, the rise in moderate and high dependence categories indicates an increasing reliance on external borrowing. It is important to note that this transition does not necessarily reflect improved access to institutional credit. Field-level observations indicate that a substantial portion of this borrowing originates from informal sources. This creates a structural imbalance: GST has expanded the demand for working capital financing, but the formal financial system has not proportionately deepened its outreach. The result is a credit gap that pushes smaller firms toward costlier and less secure sources of finance.

**5.4 Operational Impact of Liquidity Constraints**

Liquidity stress has direct implications for day-to-day business operations.

**Table 4: Business Adjustments due to Working Capital Constraints (%)**

| Type of Adjustment | Estimated Share of Enterprises (%) |
|---|---|
| Supplier Payment Delay | 28 – 34 |
| Inventory Reduction | 22 – 27 |
| Production Cut | 18 – 23 |
| Informal Borrowing | 32 – 41 |

**Source:** Estimated using MSME sector studies, field-level observations, and reports of National Statistical Office.

**Note:** Percentages indicate approximate proportion of enterprises adopting each strategy under liquidity stress conditions.

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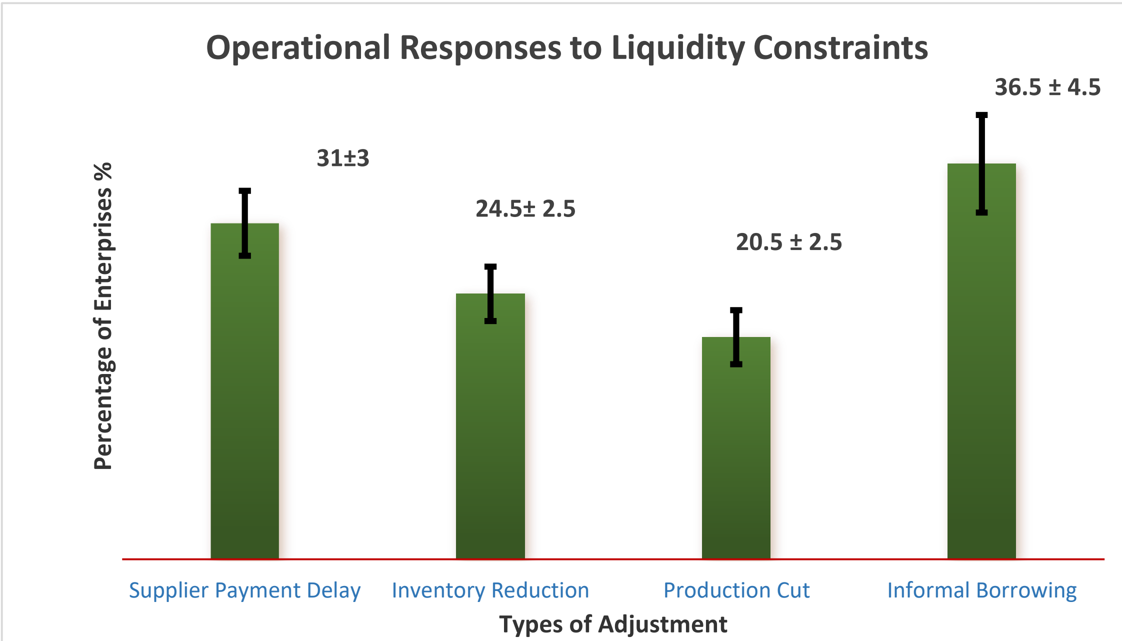


**Interpretation:**

The data shows that liquidity constraints extend beyond financial records into operational decisions. Increased dependence on informal borrowing is the most prominent response, reflecting limited access to formal credit. Delays in supplier payments indicate stress transmission across the supply chain. Reductions in inventory and production highlight cautious business behaviour under financial uncertainty. These adjustments suggest that GST-induced liquidity pressures have tangible effects on business continuity and efficiency.Additionally, provisions such as Section 16(2) of the CGST Act, which require payment to suppliers within 180 days to retain ITC eligibility, have further intensified working capital pressures by accelerating cash outflows irrespective of business liquidity conditions.

### 5.5 Regional Variation: Semi-Urban Perspective

The impact of GST is more pronounced in semi-urban and rural regions where financial and digital infrastructure is relatively weaker.

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**Table 5: Regional Financial Constraints among Small Enterprises (%)**

| Constraint | Estimated Range (%) |
|---|---|
| Institutional Credit Access | 45 – 55 |
| Informal Finance Dependence | 40 – 50 |
| ITC Refund Delays | 30 – 40 |
| Digital Compliance Issues | 35 – 45 |

**Source:** Compiled using data from Ministry of MSME, GST Council publications, and regional economic observations.

**Note:** ITC-related delays are influenced by provisions such as Section 16(4) of the CGST Act and invoice matching requirements under GSTR-2B.

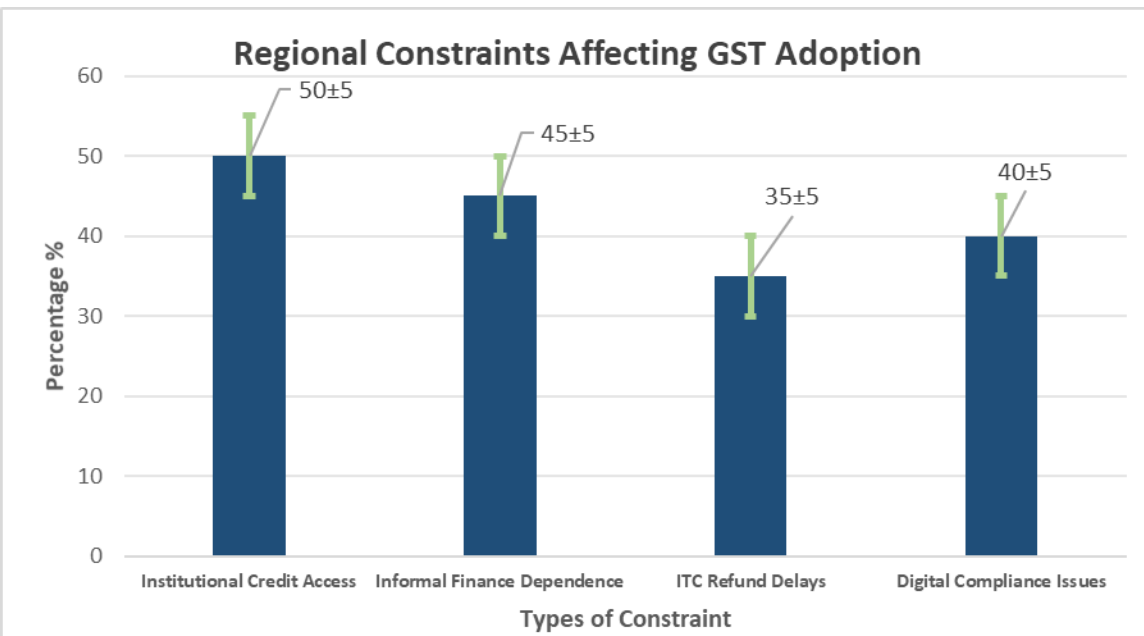


**Figure 5: Regional Constraints Affecting GST Adaptation**

**Interpretation:**

The figures reveal a layered and region-specific challenge. Limited access to institutional credit

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emerges as the most critical constraint, forcing enterprises to rely on informal financial sources. It is important to connect these findings with regulatory provisions. Under Section 16(4) of the CGST Act, input tax credit must be claimed within a specified time limit. Additionally, the GSTR-2B system requires strict invoice matching, making credit availability dependent on supplier compliance.In semi-urban clusters such as Kaikaluru in Krishna district, small traders often face practical challenges in GST compliance due to inconsistent internet connectivity, limited access to professional tax assistance, and dependence on manual record-keeping practices.

From a local perspective, these issues are clearly visible in semi-urban regions such as parts of the Krishna district, where small businesses in aquaculture and retail sectors have faced difficulties adapting to digital compliance systems. Delays in ITC refunds and procedural complexities further intensify liquidity constraints. These findings confirm that GST impacts are uneven and more severe in regions with limited institutional support.

### 5.6 Synthesis of Findings: The GST Paradox

The overall analysis points toward a structural transformation in the financial dynamics of small enterprises.

Working capital requirements have increased cumulatively. Liquidity stress has expanded across phases. Credit dependence has shifted upward—often toward informal sources. Operational adjustments reflect defensive strategies rather than growth-oriented decisions.

This leads to a broader paradox. GST has successfully achieved its macroeconomic objectives of formalisation and transparency. Yet, at the micro level, it has introduced persistent liquidity pressures for small enterprises.

The challenge, therefore, is not the reform itself, but its transmission. Without timely refund mechanisms, simplified compliance procedures, and improved access to institutional finance, the benefits of GST may remain unevenly distributed.

## 6. Key Findings of the Study

The analysis of GST and its impact on working capital dynamics brings out a set of deeply interconnected financial realities that shape the everyday functioning of small entrepreneurs.

To begin with, the study clearly shows that the increase in working capital requirements is not a short-term adjustment but a structural shift. What initially appeared as a transitional burden during the early phase of GST has now become a continuing financial condition. The requirement of paying taxes upfront, along with delays in receiving input tax credit (ITC), has lengthened the cash flow cycle. For small businesses that operate with limited reserves, this has created a persistent strain on liquidity.

Another important finding is the steady intensification of liquidity stress over time. The share of enterprises experiencing financial pressure has increased significantly compared to the pre-GST period. This indicates that the issue is not confined to a particular phase of implementation but has become embedded in the financial behaviour of small firms.

The study also captures a clear shift in financial dependence patterns. Small entrepreneurs are increasingly relying on external sources to bridge working capital gaps. However, this shift does not reflect improved access to formal finance. Instead, a large portion of borrowing continues to come from informal channels. This “shadow banking interface” highlights a critical paradox—while GST promotes formalisation, it indirectly pushes firms toward informal financial practices due to liquidity constraints.

At the operational level, the impact of these constraints is visible in day-to-day business decisions. Entrepreneurs are not focusing on expansion or long-term investment. Instead, they are adopting defensive strategies such as delaying supplier payments, reducing inventory levels, and scaling down production. This reflects a clear transition from growth orientation to survival-based functioning.

Regional disparities further deepen these challenges. The impact is more pronounced in semi-urban and rural areas of Andhra Pradesh, particularly within aquaculture and retail trade belts, where small entrepreneurs face additional constraints such as limited access to institutional finance, lower digital familiarity, and infrastructural gaps. In such settings, GST compliance—being digital and documentation-intensive—adds another layer of difficulty.

Overall, the findings point to a dual-layered impact of GST. While it has improved transparency and efficiency at the macro level, it has simultaneously intensified financial pressure at the micro-enterprise level. This creates a structural imbalance that needs careful policy attention.

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## 7. Policy Implications and Suggestions

The findings of the study underline the need for a more balanced and context-sensitive policy approach that aligns macro-level objectives with ground-level realities.

One of the most critical areas that requires attention is the functioning of the input tax credit mechanism. Delays in credit realisation directly disrupt the working capital cycle. Ensuring faster, more predictable, and transparent refund systems can significantly ease liquidity pressure. Introducing mechanisms such as provisional or partial credit access could provide immediate relief to small businesses.

Simplification of GST compliance is equally important. While digitalisation has improved transparency, it has also increased the compliance burden for small entrepreneurs with limited technical capacity. Simplified return formats, reduced filing frequency for micro-enterprises, and the establishment of local facilitation centres can make the system more accessible and inclusive.

Access to institutional finance remains a major concern. Strengthening credit outreach, especially in semi-urban and rural areas, is essential. Expanding collateral-free loan schemes, improving last-mile banking connectivity, and ensuring timely disbursement of working capital loans can reduce dependence on informal credit sources.

Capacity building is another key area. Many small entrepreneurs struggle not due to resistance but due to lack of awareness and technical knowledge. Regular training programs focusing on GST compliance, digital tools, and basic financial management can enhance their ability to adapt to the system more effectively.

From a regional perspective, policies must be tailored to local conditions. Semi-urban and rural economies require targeted interventions such as improved digital infrastructure, stronger banking networks, and localized institutional support.

Finally, there is a need for better coordination between policy design and implementation. Strengthening the linkage between tax authorities, financial institutions, and small enterprises can help bridge procedural gaps and improve the overall effectiveness of GST as a reform.

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## 8. Conclusion

The Goods and Services Tax represents a major milestone in India's economic transformation, aiming to create a unified, transparent, and efficient tax system. Its role in promoting formalisation and improving compliance is significant. However, as this study highlights, its impact at the micro level presents a more complex picture.

The central issue is not the intent of GST, but its operational implications on working capital cycles. The requirement of upfront tax payments, combined with delays in ITC realisation, has reshaped the liquidity environment for small enterprises. For businesses operating with thin financial margins, even minor disruptions in cash flow can have serious consequences.

What emerges clearly from the analysis is a structural paradox. On one hand, GST strengthens macroeconomic efficiency and system transparency. On the other hand, it creates persistent liquidity pressures that affect the day-to-day functioning of small businesses.

This imbalance becomes more visible in regions like Andhra Pradesh, where infrastructural and institutional limitations amplify the challenges. Entrepreneurs in these areas are not only adapting to a new tax regime but are also navigating deeper structural constraints that influence their ability to sustain and grow.

This study therefore highlights a critical policy imperative: the need to move beyond revenue-centric evaluation and focus on the "liquidity health" of small enterprises. The success of GST should not be judged solely by compliance rates or tax collection figures, but by how effectively it supports the financial sustainability of the businesses that form the backbone of the economy.

In conclusion, GST has the potential to act as both a reform and a catalyst for inclusive growth. However, achieving this requires continuous policy refinement with a strong emphasis on easing liquidity constraints, improving access to institutional credit, and simplifying compliance mechanisms. Only then can the benefits of GST fully reach the grassroots level and contribute to balanced and sustainable economic development.

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