Impact of Inclusive Finance and Government Support Policies on Entrepreneurial Behaviour

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Abstract:

Entrepreneurship has become a significant catalyst for economic development, employment generation, innovation, and sustainable growth, particularly in developing economies where financial accessibility and institutional support play a crucial role in fostering entrepreneurial activities. The present study investigates the influence of financial inclusion and government support policies on entrepreneurial behaviour, while examining the mediating role of Individual Entrepreneurial Orientation in explaining the relationship among these constructs. The study proposes a comprehensive serial mediation framework to understand how access to inclusive financial services and supportive government initiatives collectively shape entrepreneurial attitudes and behaviours. A quantitative research design was adopted, and primary data were collected from 612 respondents across Karnataka, India, using a structured questionnaire. The collected data were analysed using Structural Equation Modelling (SEM) to evaluate the measurement model, assess the structural relationships, and test the proposed hypotheses. The empirical findings reveal that financial inclusion has a significant positive influence on entrepreneurial behaviour by improving entrepreneurs' access to formal financial services, enhancing financial literacy, reducing perceived financial risk, and increasing confidence in undertaking entrepreneurial ventures. Similarly, government support policies significantly contribute to entrepreneurial behaviour by facilitating financial assistance, business development programmes, skill enhancement initiatives, institutional support, and easier access to credit, thereby creating a favourable entrepreneurial ecosystem. Furthermore, the mediation analysis confirms that Individual Entrepreneurial Orientation significantly mediates the relationship between financial inclusion, government support policies, and entrepreneurial behaviour, indicating that financially inclusive environments and supportive public policies strengthen entrepreneurial orientation, which subsequently encourages opportunity recognition, innovation, proactiveness, risk-taking ability, and positive entrepreneurial actions. The study demonstrates that entrepreneurial orientation serves as an important psychological and behavioural mechanism through which financial inclusion and government interventions translate into enhanced entrepreneurial outcomes. The findings provide valuable implications for policymakers, government agencies, financial institutions, entrepreneurship development organizations, and other stakeholders by emphasizing the need to strengthen inclusive financial systems, expand financial literacy initiatives, simplify access to financial products, and design effective policy interventions that encourage entrepreneurship and economic development. The study also contributes significantly to the existing body of entrepreneurship literature by integrating financial inclusion, government support policies, entrepreneurial orientation, and entrepreneurial behaviour into a unified Structural Equation Modelling framework, thereby addressing an important research gap and providing empirical evidence on the direct and indirect relationships among these variables. The proposed model offers a comprehensive understanding of the institutional and financial factors influencing entrepreneurial success and serves as a valuable

reference for future research, policy formulation, and entrepreneurship development strategies aimed at promoting inclusive and sustainable economic growth.

Keywords: the orientation of the entrepreneur, inclusive finance, government support policies, the behaviour of the entrepreneur etc.

Introduction:

Entrepreneurs drive the economy of any country when they introduce new projects that generate new ideas. They generate employment, address the needs of the market, and provide a wide variety of products and services that solve all problems daily with higher quality. They increase exports, improve the quality of products, and evenly distribute wealth throughout society by modernizing businesses and triggering competition.

However, there are high barriers to entry, not only in the resources and strategies needed to start the business and to fit in the markets, but also in access to cheap finance and markets and the governmental policies. Finance can be considered one of the most significant stumbling blocks particularly in rural India, where finances are expensive and there is low access. In response to this, India spearheaded inclusiveness, whereby it seeks to drag people out of informal lending traps into formal structures that provide them with access to timely, adequate, and inexpensive credit. Research articles such as Nanda and Kour (2016) demonstrate that access to banking can increase welfare, whereas the general financial inclusion can boost growth, power economies, and reduce poverty (Fareed et al., 2016; Sethi and Acharya, 2018).

Inclusive finance focuses on marginalized individuals locked out of formal systems and offers affordable financial services in the form of credit, savings, insurance, and payments. It has become common in the underdeveloped countries such as India where the GDP grows but unemployment remains. The government has prudently ceased the job hunt and created jobs, with start-ups and entrepreneurs booming.

Literature Review

Studies consider inclusive finance a driver of entrepreneurship, making it easier to get credit and start firms and expansion (Charfeddine and Zaouali, 2022). **ScienceDirect** Government policies According to the policies of financial assistance, regulations, etc., influence the entrepreneurial motivation and success in business by facilitating entry (International Entrepreneurship and Management Journal, 2024). **Springer Nature Link** The core work by Springer Nature is associated with financial access to the reduction of poverty, savings accumulation, and broadened economic functions, creating indirect routes to new business ventures (IMF, 2020). **IMF eLibrary** IMF eLibrary Digital finance also contributes to closing funding shortfalls at home, and it creates innovation and business (Finance Research Letters, 2023). **ScienceDirect** The boost of ScienceDirect Regionally is bright in low-entry industries, which are conditioned by local institutions and markets (MDPI). **MDPI**

The Purpose of Inclusive Finance.

Inclusive finance introduces low-cost financial products, such as savings, loans, insurance, payments, into underserved groups and integrates them into the formal financial system and reduces dependence on expensive informal lenders.

It combats poverty by enabling families to cope with risks, smooth expenditure and finance health or education. To the entrepreneurs and MSMEs, it is the key to credit, creation of jobs through the spawning and the motor of growth. It gives the women financial strength, giving them a voice. Besides, it enhances stability through expanded deposits and enhanced resource flows. Geographic and cost barriers are crashing through fintech and digital tools to make accessibility more efficient towards sustainable development.

The Government Support Policy role.

Governments promote growth and fairness by using specific fiscal, monetary, and regulatory instruments to promote businesses lives across the board.

Such policies support MSMEs, farms, and startups through finance, technology and market access. Health, education, food aid, cash transfers Welfare programs reduce poverty and improve lives. During recessions they stabilize demand and protect employment. They also create innovation, develop infrastructure and train skills towards future growth. They develop resilient economies by leading the way in terms of inclusiveness, digital transformations and green policies.

Research Methodology

This research inquiry employs a quantitative, explanatory research design that speculates on the role of inclusive finance and government policies on entrepreneurial behaviour moderated by Individual Entrepreneurial Orientation (IEO). The respondents surveyed comprised 612 Karnataka respondents who were given a five-point Likert scale questionnaire that included finance access, policy support, orientation and behaviour. Analysis was impelled by Structural Equation Modelling (SEM), and Confirmatory Factor Analysis (CFA) was used to validate the model of measurement.

Results and Discussion

Reliability checks show strong internal consistency across constructs, with Cronbach's Alpha above 0.70—Perceived Risk of Ordering Finance (PROF) scoring highest. CFA confirms factor loadings over 0.50, with Composite Reliability (CR) and Average Variance Extracted (AVE) beating thresholds for convergent validity. Discriminant validity holds, as AVE square roots top inter-construct correlations and exceed Maximum Shared Variance (MSV). Model fit is solid ($\chi^2/df = 3.545$; CFI = 0.895; GFI = 0.861; AGFI = 0.871; RMSEA = 0.062), affirming both measurement and structural models. Inclusive finance and policies directly and indirectly boost entrepreneurial behaviour. Mediation via IEO underscores how they build traits like innovativeness, proactiveness, and risk appetite, turning mindsets into action. This aligns with prior work stressing finance, policy, and behaviour's intertwined roles in entrepreneurship.

Cronbach Alpha Reliability

	Constructs	No. of. Items	Cronbach's Alpha
1	Knowledge of Inclusive Finance (KIF)	6	0.725
2	Intention to Use Inclusive Financial Services (IIFS)	3	0.838
3	Perceived Government Financial Support Services (PGFSS)	3	0.800
4	Perceived Policy Supports (PS)	3	0.727
5	Perceived risk of ordering finance (PROF)	4	0.973
6	Perceived benefits of ordering finance (PBOF)	5	0.733
7	Individual Entrepreneurial orientation (IEO)	4	0.797
8	Entrepreneurial Behaviour	3	0.758

The reliability analysis shows that the constructs related to knowledge, intentions, and policy/government support demonstrate acceptable to strong internal consistency. Knowledge of Inclusive Finance (KIF) (α = 0.725) and Perceived Policy Supports (PS) (α = 0.727) fall within the acceptable range, indicating moderate but dependable reliability. Intention to Use Inclusive Financial Services (IIFS) (α = 0.838) and Perceived Government Financial Support Services (PGFSS) (α = 0.800) both show strong reliability, suggesting that respondents have consistent perceptions about their intention to use financial services and the support mechanisms provided by the government.

The constructs capturing perceptions of finance in terms of risk and benefits also display robust results. Perceived Risk of Ordering Finance (PROF) shows an exceptionally high alpha (α = 0.973), demonstrating near-perfect reliability and a very coherent view among respondents about financial risks. Perceived Benefits of Ordering Finance (PBOF), with an alpha of 0.733, indicates acceptable reliability, showing that benefits are recognized consistently as a distinct dimension though slightly less strong compared to risk perceptions.

Finally, the constructs reflecting entrepreneurial attributes and behaviours demonstrate solid internal consistency. Individual Entrepreneurial Orientation (IEO) (α = 0.797) reflects strong reliability in capturing attributes such as innovativeness, proactiveness, and risk-taking. Entrepreneurial Behaviour (EB), with an alpha of 0.758, also shows good reliability, confirming that respondents consistently reflect entrepreneurial actions. Overall, all eight constructs cross the acceptable threshold ($\alpha \geq 0.70$), ensuring that the measurement model is sound, with PROF emerging as the strongest, while KIF and PS are moderately reliable yet adequate for further analysis.

CFA Results

The results confirm that the measurement model demonstrates adequate construct validity. Convergent validity was assessed using composite reliability (CR) and average variance extracted (AVE). All constructs reported CR values above the recommended cut-off of 0.70 (ranging from 0.724 to 0.973) and AVE values greater than 0.50 (ranging from 0.539 to 0.900). This indicates that the constructs explain more than half of the variance of their respective indicators and exhibit strong internal consistency (Fornell & Larcker, 1981; Hair et al., 2019).

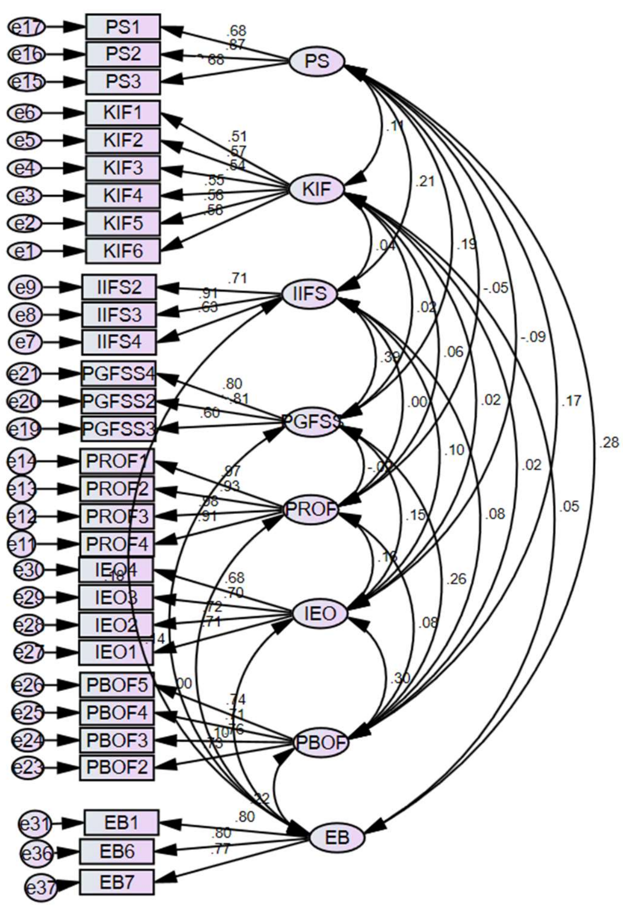
Discriminant validity was examined using both the Fornell–Larcker criterion and maximum shared variance (MSV). The square root of AVE for each construct was greater than the inter-construct correlations, confirming that each construct is more strongly related to its own measures than to other constructs. Furthermore, the AVE of each construct exceeded its corresponding MSV value (e.g., IIFS: AVE = 0.753 > MSV = 0.151; PGFSS: AVE = 0.675 > MSV = 0.151), thereby meeting the requirement for discriminant validity (Fornell & Larcker, 1981; Hu & Bentler, 1999).

Overall, the measurement model establishes both convergent and discriminant validity, confirming that the constructs—Knowledge of Inclusive Finance (KIF), Intention to Use Inclusive Financial Services (IIFS), Perceived Government Financial Support Services (PGFSS), Perceived Policy Supports (PS), Perceived Risk of Ordering Finance (PROF), Perceived Benefits of Ordering Finance (PBOF), Individual Entrepreneurial Orientation (IEO), and Entrepreneurial Behaviour (EB)—are measured reliably and validly.

CFA Factor Loadings:

Loading Path			Estimate
KIF6	<---	KIF	0.579
KIF5	<---	KIF	0.56
KIF4	<---	KIF	0.547
KIF3	<---	KIF	0.544
KIF2	<---	KIF	0.574

KIF1	<---	KIF	0.513
IIFS4	<---	IIFS	0.63
IIFS3	<---	IIFS	0.912
IIFS2	<---	IIFS	0.715
PROF4	<---	PROF	0.914
PROF3	<---	PROF	0.979
PROF2	<---	PROF	0.928
PROF1	<---	PROF	0.972
PS3	<---	PS	0.679
PS2	<---	PS	0.87
PS1	<---	PS	0.675
PGFSS3	<---	PGFSS	0.596
PGFSS2	<---	PGFSS	0.811
PGFSS4	<---	PGFSS	0.805
PBOF2	<---	PBOF	0.734
PBOF3	<---	PBOF	0.759
PBOF4	<---	PBOF	0.706
PBOF5	<---	PBOF	0.737
IEO1	<---	IEO	0.711
IEO2	<---	IEO	0.721
IEO3	<---	IEO	0.7
IEO4	<---	IEO	0.684
EB1	<---	EB	0.803
EB6	<---	EB	0.8
EB7	<---	EB	0.765



Model Fit

Chi-square/ df	CFI	AGFI	GFI	RMSEA	P Close
<5	>0.80	>.80	>.80	<0.1	<0.05
3.545	0.895	0.871	0.861	0.062	0

Conclusion:

This paper assessed the influence of the policies of inclusive finance and government support on entrepreneurial behaviour, and Individual Entrepreneurial Orientation (IEO) was selected as a serial mediating variable. Based on the data gathered among 612 respondents in Karnataka, India, and utilizing Structural Equation Modelling, the study gives powerful empirical data on the effect of financial and policy interventions on the results of entrepreneurship.The results verify that inclusive finance has a strong positive impact on the levels of knowledge, intention to use financial services, and perception of financial gains and a low level of perceived financial risk among entrepreneurs. Policies such as government support which are in the form of financial aid and policy incentives further boost the confidence of the entrepreneurs and access to formal financial systems. All these make the entrepreneurial environment more conducive.Significantly, the mediation analysis confirms that Individual Entrepreneurial Orientation is a vital factor in transforming the financial access and policy support to actual entrepreneurial behaviour. Entrepreneurs who are exposed to inclusive financial services and enabling policies have increased innovativeness, proativeness and risk taking behavior, which then translate into positive entrepreneurial behavior. This emphasizes the fact that financial inclusion and government support goes beyond resource limitations to entrepreneurial attitude and behavioural reactions.In general, the research adds to the body of literature on entrepreneurship by bringing together the inclusion finance, government support policy and entrepreneurial orientation into one explain framework. The results have a good implication on policymakers and practitioners as emphasis on financial inclusion programs and policy support systems may enhance sustainable entrepreneurship and inclusive economic development.

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