

Regulatory Simplification and Financial Inclusion in India's Sustainable Entrepreneurship Agenda

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ABSTRACT

India's regulatory architecture has long been seen as both a shield and a stumbling block for entrepreneurial activity. This paper examines the relationship between regulatory simplification and financial inclusion within the context of India's sustainable entrepreneurship agenda. Drawing on institutional theory and market-imperfection frameworks, the paper argues that unnecessary regulatory complexity functions as a structural barrier that keeps marginalised entrepreneurs, particularly those operating micro and small enterprises, from accessing formal financial services. It also argues that reforms which trim this complexity, without dismantling necessary oversight, can widen financial access and, in doing so, support a more socially and environmentally responsible entrepreneurial ecosystem. The paper reviews the evolution of India's regulatory landscape since 2014, with attention to key reforms such as the Insolvency and Bankruptcy Code, the Pradhan Mantri MUDRA Yojana, and the Pradhan Mantri Jan Dhan Yojana. It situates these reforms within the broader sustainable entrepreneurship literature, and identifies the conditions under which regulatory simplification actually reaches the entrepreneurs who need it most. The paper concludes that while reform has progressed, implementation gaps and entrenched information asymmetries continue to limit the full effect of these changes on ground-level financial inclusion.

Keywords: Regulatory simplification, financial inclusion, sustainable entrepreneurship, India, institutional theory, MSME, informal sector

INTRODUCTION

Anyone who has tried to start a small business in India knows the paperwork does not end. From registrations and no-objection certificates to tax filings and sector-specific licences, the administrative burden on entrepreneurs has historically been substantial. This burden does not fall equally. A technology startup in Bengaluru with legal support and investor backing absorbs it differently than a woman running a weaving cooperative in rural Odisha or a first-generation entrepreneur operating a micro-food-processing unit in Bihar. For the latter groups, regulatory friction is not a mild inconvenience but a genuine barrier that shapes what is possible.

Financial inclusion, meaning the extent to which individuals and enterprises have access to useful and affordable financial products and services, is closely tied to this regulatory environment (World Bank, 2014). Where regulations make it difficult or expensive to formalise a business, entrepreneurs stay informal. And where they stay informal, banks and formal credit institutions largely stay out. The result is a self-reinforcing cycle that limits both the growth of small enterprises and their capacity to operate along sustainable lines.

India has, particularly since 2014, undertaken a series of regulatory reforms designed to lower compliance costs, speed up business processes, and make formal financial services more accessible. Some of these reforms, such as the introduction of the Insolvency and Bankruptcy Code (IBC) in 2016, the consolidation of labour laws into four codes, and the Jan Dhan Yojana's drive to open bank accounts for

the unbanked, have received considerable scholarly and policy attention. Yet the question of whether these reforms collectively support a sustainable entrepreneurship agenda, one that integrates social equity, environmental responsibility, and economic viability, has received less systematic treatment.

This paper takes up that question. It does not try to resolve it definitively. Rather, it examines the mechanisms through which regulatory simplification affects financial inclusion, and traces the implications of that relationship for sustainable entrepreneurship in the Indian context. The argument is not that less regulation is automatically better, but that regulation of the right kind, calibrated to the realities of small and micro enterprises, can create the conditions under which sustainable entrepreneurship becomes a more realistic option for a broader range of people.

THEORETICAL FRAMEWORK

Institutional Theory and the Regulatory Environment

The most useful starting point for this paper's analysis is North's (1990) institutional framework. North defined institutions as the rules of the game in a society, the formal and informal constraints that shape human interaction. In his account, institutions determine the incentive structure of an economy, and by extension, the direction of entrepreneurial effort. When formal institutions, such as property rights, contract enforcement, and regulatory systems, are efficient and accessible, entrepreneurs can direct energy toward productive activity. When they are costly, opaque, or selectively accessible, much of that energy goes into navigating the institutional environment itself.

Bruton et al. (2010) extended this institutional perspective to entrepreneurship research and argued that the formal institutional context, including legal systems and regulatory regimes, shapes entrepreneurial entry, growth, and exit in ways that neither market-based nor purely cultural explanations can fully capture. Their synthesis is relevant here because it connects macro-level regulatory choices to firm-level behaviour in a way that is empirically testable and policy-relevant.

Gnyawali and Fogel (1994) identified the regulatory environment as one of the key dimensions that determines whether conditions are favourable for entrepreneurship. Their framework included government policies and procedures, socioeconomic conditions, entrepreneurial and business skills, and financial and non-financial assistance. The regulatory dimension in their model includes the ease of entry into markets, access to information, and the degree to which government policies facilitate or obstruct venture creation. Their work foreshadowed much of the subsequent debate over business climate reforms.

Sustainable Entrepreneurship: A Working Definition

Sustainable entrepreneurship, as Cohen and Winn (2007) and Dean and McMullen (2007) defined it, is entrepreneurial activity that accounts for social and environmental externalities and actively works to reduce or eliminate market failures in these domains. It is not the same as corporate social responsibility, which is often peripheral to business strategy. Sustainable entrepreneurship, by contrast, treats sustainability concerns as central to the business model.

Cohen and Winn (2007) argued that market imperfections, including uninternalised externalities and information asymmetries, are precisely the conditions that create entrepreneurial opportunities for sustainable ventures. Dean and McMullen (2007) took this further by showing that reducing ecological degradation can itself be a source of entrepreneurial profit, particularly where regulatory and market incentives align with environmental goals. Schaper (2002) introduced the term *ecopreneurship* to describe the specific intersection of ecological concerns and entrepreneurial activity, though the concept of sustainable entrepreneurship now covers a wider social and institutional terrain.

For the purposes of this paper, sustainable entrepreneurship refers to ventures that, by design or by consequence, contribute to social equity, operate within ecological limits, and pursue economic viability over the long term. Financial inclusion becomes relevant to this agenda because access to formal credit, insurance, and payment systems allows small entrepreneurs to invest in cleaner technologies, build more resilient supply chains, and participate in formal markets where social and environmental standards are more likely to apply.

Financial Inclusion and Entrepreneurial Outcomes

The relationship between financial inclusion and entrepreneurship is empirically well-documented. Beck et al. (2007) found that financial development disproportionately benefits lower-income groups by lowering the external financing constraints that prevent small firms from growing. Morduch (1999) examined microfinance's role in providing financial access to the poor and noted that, while results are mixed, access to credit is associated with higher levels of self-employment and small business activity. Allen et al. (2016) showed that formal account ownership, the most basic form of financial inclusion, is significantly shaped by the cost and complexity of account-opening procedures, which are themselves regulatory in nature.

Klapper et al. (2006) provided direct evidence that entry regulation is a barrier to entrepreneurship. Looking at firm entry data across a sample of countries, they found that countries with higher regulatory barriers to entry have less firm creation, lower aggregate productivity, and larger informal sectors. These effects are most pronounced in industries that, absent regulatory constraints, would normally see high rates of new firm formation. The implication is direct: regulatory complexity does not just impose costs on existing firms but also prevents new firms from forming in the first place.

Ayyagari et al. (2007) documented the globally dominant role of small and medium enterprises in employment creation, particularly in developing economies. In India's case, the MSME sector accounts for a large share of GDP and an even larger share of employment, making the financial and regulatory conditions for small enterprise formation a matter of national economic importance (Ministry of Micro, Small and Medium Enterprises [MSME], 2022).

REGULATORY LANDSCAPE IN INDIA: EVOLUTION AND REFORM

The Pre-Reform Context

India's regulatory environment for businesses was shaped for decades by a legislative architecture that grew in layers rather than by design. The Inspector Raj, a colloquial term for the elaborate system of inspections, certifications, and licences that businesses had to satisfy, was not simply bureaucratic inefficiency. It was the product of a developmental state model that assumed close regulation of private enterprise was necessary for equitable growth. Whatever its merits in the 1950s and 1960s, the model had, by the early 2000s, become a source of considerable deadweight loss.

The World Bank's Doing Business reports tracked this over time. India's ranking on the Ease of Doing Business Index improved substantially during the 2010s, moving from 142nd in 2014 to 63rd in 2020 (World Bank, 2020). This improvement reflected real changes: faster company registration, online tax filing systems, single-window clearance initiatives, and the introduction of a goods and services tax that replaced a tangle of overlapping levies. But ranking improvements at the aggregate level can obscure how reforms reach, or fail to reach, the smallest enterprises and the most economically marginalised entrepreneurs.

Key Reforms and Their Relevance to Financial Inclusion

Several reforms of the past decade stand out as directly relevant to the financial inclusion question. The Pradhan Mantri Jan Dhan Yojana, launched in August 2014, was a mass financial inclusion programme

that opened zero-balance bank accounts for previously unbanked individuals. By doing so, it addressed one of the most fundamental regulatory and institutional barriers to financial inclusion: the requirement for documentary proof of address and identity that excluded large portions of the population from formal banking. By linking account opening to Aadhaar-based identity verification, the programme considerably simplified the process of entering the formal financial system.

The Pradhan Mantri MUDRA Yojana, launched in 2015, established the Micro Units Development and Refinance Agency to provide credit to micro and small enterprises that had no access to formal bank credit. The scheme created three lending categories, Shishu, Kishore, and Tarun, calibrated to the stage and size of the enterprise. Its significance lies not just in the credit it extended but in the implicit regulatory recognition that small entrepreneurs needed a formal channel that did not require the collateral or documentation that mainstream banking demanded.

The Insolvency and Bankruptcy Code of 2016 represented a structural reform of a different kind. By creating a time-bound and predictable process for the resolution of distressed firms, it reduced one of the most significant regulatory risks that lenders faced when extending credit to small enterprises. When creditors have a credible exit mechanism, they are more willing to lend, which in turn improves access to credit for borrowers who would otherwise be seen as too risky (World Bank, 2020). The IBC thus affects financial inclusion indirectly, by improving lender confidence rather than by directly simplifying access.

The consolidation of India's labour laws into four broad codes, announced in stages between 2019 and 2020, is another reform whose implications for financial inclusion and small enterprise development are not straightforward. On one hand, simplification of compliance requirements reduces the administrative cost for small employers. On the other, critics have raised concerns that some of the consolidation trades worker protections for regulatory ease, which could have negative implications for the social dimension of sustainable entrepreneurship.

Financial Inclusion in India: Status and Structural Gaps

India's progress on financial inclusion over the past decade is real but uneven. The Global Findex Database 2017 found that 80% of adults in India had an account at a financial institution, a significant increase from 53% in 2014 (Demirgüç-Kunt et al., 2018). This increase was largely attributable to the Jan Dhan Yojana. However, account ownership and active account use are not the same thing. A substantial proportion of accounts opened under Jan Dhan remained dormant, which means the formal channel existed but was not actually being used for transactions, savings, or credit access.

For entrepreneurs specifically, the gap between formal bank account ownership and access to business credit remains large. Most micro and small enterprise owners who have a bank account still cannot access a term loan or working capital credit at formal interest rates. The reasons are structural. Banks, operating under prudential norms and with limited capacity to assess the creditworthiness of informal or semi-formal businesses, continue to rely on collateral and audited financial statements as proxies for creditworthiness. Entrepreneurs who cannot provide these, typically those at the bottom of the income distribution and those in rural areas, remain outside the credit frontier.

Prahalad (2004) made the broader point that the commercial potential of low-income markets is systematically underestimated because conventional business and financial models are not designed for them. His argument applies directly here. The financial needs of micro-entrepreneurs are not well-served by the product designs, documentation requirements, or credit appraisal methods that conventional banking developed for middle-class and corporate clients. Regulatory simplification that does not also address these product-level mismatches will have limited effect on financial inclusion at the margin.

Morduch (1999) noted that microfinance institutions emerged precisely because formal banks failed to serve low-income entrepreneurs. In the Indian context, microfinance has indeed played a significant role in reaching underserved populations, particularly women in self-help groups. But microfinance, as typically structured, provides small, short-term credit at relatively high interest rates. It is not a substitute for the range of financial services, including savings products, insurance, and medium-term credit, that small entrepreneurs need to grow and to invest in more sustainable production methods.

REGULATORY SIMPLIFICATION AS A CATALYST: MECHANISMS AND LIMITS

How Simplification Affects Financial Inclusion

The pathways through which regulatory simplification can improve financial inclusion for small entrepreneurs are several. First, simplifying business registration and formalisation reduces the cost of operating formally, which in turn makes formal financial services accessible. A business with a registration, a tax identification, and a formal bank account is a customer that banks can lend to. One without these is not, regardless of the business's actual economic activity or creditworthiness.

Second, reducing licence and compliance burdens lowers the effective cost of running a small business, which improves the cash flow position of micro-entrepreneurs and thus their debt-servicing capacity. A micro-entrepreneur who spends two days a month navigating tax compliance has two fewer days for productive activity and two more days of lost income. In an enterprise operating at thin margins, this matters. Regulatory simplification that returns those two days, through digital filing systems, consolidated compliance windows, or exemptions for the smallest enterprises, directly affects viability.

Third, and perhaps most importantly, simplification of documentation requirements for account opening and credit access directly lowers the barrier to financial inclusion. The Demirgüç-Kunt et al. (2018) analysis of Findex data found that the cost of accounts and distance to financial service providers were the most frequently cited barriers to account ownership globally, but documentation requirements were significant particularly in South Asia. Reforms that allow alternative documentation or biometric verification, as the Aadhaar-linked approach has done in India, address this barrier at its source.

Limits and Risks of Simplification Strategies

Regulatory simplification is not a costless intervention, and it is important to be clear about its limits. Not all regulation is unnecessary friction. Labour standards, environmental norms, food safety regulations, and financial consumer protection rules all serve purposes that go beyond administrative convenience. Simplification that weakens these protections may improve the ease of doing business in a narrow sense while making entrepreneurial ecosystems less just and less sustainable in a broader sense.

Klapper et al. (2006) found that entry regulation has asymmetric effects: it harms small, productive firms while protecting incumbents. But the same logic does not apply to all regulation. Environmental and social regulations, if well-designed, internalise externalities that the market would otherwise ignore. Treating these in the same category as genuinely redundant licence requirements would be a mistake that simplification-focused reform programmes have sometimes made.

A second limit is implementation. Regulatory reform on paper does not always translate into changed behaviour on the ground. In India's federal system, many regulatory decisions are made at the state level, and the quality of implementation varies enormously. A small entrepreneur in Tamil Nadu faces a different regulatory reality than one in Uttar Pradesh, even after central-level reforms. This implementation heterogeneity means that national-level reform statistics can overstate the actual change in conditions for the median small entrepreneur.

A third limit is capacity. Financial inclusion through regulatory simplification presupposes that entrepreneurs are aware of the simplified procedures and are able to use them. In practice, awareness is low among first-generation entrepreneurs, those with limited literacy, and those in regions with poor digital infrastructure. The digital-first approach that many recent reforms have taken, while efficient for those who are digitally connected, can inadvertently exclude those who are not. This is not an argument against digital reform but an argument for complementing it with outreach and capacity-building that regulatory reform programmes have not always provided.

SUSTAINABLE ENTREPRENEURSHIP AND THE REGULATORY ENVIRONMENT

Why Sustainable Entrepreneurship Needs Financial Inclusion

The connection between financial inclusion and sustainable entrepreneurship runs in both directions. On one side, sustainable entrepreneurship often requires upfront investment in cleaner technologies, better inputs, or more responsible supply chains, all of which require capital. A small entrepreneur who cannot access formal credit at reasonable rates is, in most cases, unable to make these investments. The choice between an older, cheaper, and more polluting production process and a newer, more expensive, and cleaner one is often made by financial constraints rather than by preference or awareness.

Cohen and Winn (2007) showed that sustainable entrepreneurial opportunities often arise precisely from the market failures that keep conventional firms from adopting socially or environmentally responsible practices. But exploiting those opportunities requires capital, and capital access depends on the financial system's ability and willingness to lend to unconventional ventures. Where financial inclusion is low and where regulatory complexity keeps small enterprises informal, the sustainable entrepreneurship market remains thin.

Dean and McMullen (2007) made the additional point that regulatory regimes shape which entrepreneurial opportunities are recognised and pursued. When environmental regulations are clear, enforced, and credible, they create entrepreneurial opportunities in clean technology, waste management, and sustainable agriculture. When they are vague or weakly enforced, the entrepreneurial incentive to address environmental problems is diminished. Regulatory simplification that strengthens environmental enforcement, even while reducing administrative burden in other domains, can thus actively support sustainable entrepreneurship.

The Informal Sector Problem

One of the most persistent features of India's entrepreneurial landscape is the size of the informal sector. The majority of India's micro and small enterprises operate outside the formal regulatory and financial system, not because their owners prefer informality, but because the costs of formalisation have historically exceeded the benefits. When formalisation is expensive, documentation-heavy, and slow, enterprises stay informal. And when they stay informal, they cannot access formal credit, cannot participate in government procurement markets that require GST registration, and cannot build the kind of track record that makes future credit easier to access.

The Jan Dhan Yojana and MUDRA scheme have both contributed to pulling some of this activity into the formal system. The GST, for all its initial compliance complications, has created an incentive for formalisation by requiring enterprises above a certain threshold to register and file. But the informal sector remains large, and a significant share of its participants are entrepreneurs for whom the current regulatory environment, even after reform, still does not tilt decisively toward formalisation.

For sustainable entrepreneurship, this is a serious problem. Informal enterprises are harder to reach with environmental standards, labour norms, or social accountability expectations. They are also harder to

support through targeted financial or technical assistance. Regulatory simplification that makes formalisation genuinely easier and cheaper, not just faster on paper, is therefore a prerequisite for building the kind of inclusive sustainable entrepreneurship ecosystem that policy documents in India have called for.

POLICY IMPLICATIONS

The analysis in this paper suggests several directions for policy that follow from the relationship between regulatory simplification, financial inclusion, and sustainable entrepreneurship.

First, regulatory reform aimed at small enterprises should be evaluated not just by its effect on aggregate ease-of-doing-business metrics but by its effect on the smallest and most marginalised entrepreneurs. This requires disaggregated data on who is actually benefiting from reform and who remains outside the formal system. The Findex data (Demirgüç-Kunt et al., 2018) and the MSME Ministry's own reports (MSME, 2022) provide some of this, but state-level and sector-level granularity is still thin.

Second, financial products for small entrepreneurs need to be redesigned alongside regulatory reform. Simplifying the regulatory environment for business registration is necessary but not sufficient if the financial products that entrepreneurs then try to access are still designed for borrowers with audited accounts, hard collateral, and urban addresses. The MUDRA programme pointed in the right direction, but its credit volumes and product range need to be expanded significantly if it is to reach the full scale of the gap.

Third, the environmental and social dimensions of entrepreneurship support should be integrated into financial inclusion programmes. Credit guarantee schemes, interest subvention programmes, and capacity-building grants could all be calibrated to reward enterprises that adopt sustainable practices. This is already done in limited ways through schemes for renewable energy or organic farming, but a more systematic integration would send clearer signals to entrepreneurs about the direction that regulatory and financial support is heading.

Fourth, digital-first regulatory reform needs to be accompanied by physical infrastructure and literacy investments. A regulatory simplification that assumes broadband access and smartphone literacy will not reach the entrepreneur running a small food-processing unit in a village with unreliable electricity. Parallel investments in digital infrastructure and outreach through self-help groups, common service centres, and rural banking correspondents are part of what makes simplification actually simple for those who need it most.

CONCLUSION

The question this paper started with was whether regulatory simplification in India supports a sustainable entrepreneurship agenda through its effect on financial inclusion. The answer is: partly, and under conditions that are not always met.

Regulatory simplification does reduce barriers to formalisation and can improve access to formal financial services for small entrepreneurs. Several of India's recent reforms, the Jan Dhan Yojana, the MUDRA scheme, the IBC, and the Aadhaar-linked documentation simplification, have moved in this direction with demonstrable effects on financial inclusion metrics. The theoretical framework drawn from North (1990), Bruton et al. (2010), and the sustainable entrepreneurship literature of Cohen and Winn (2007) and Dean and McMullen (2007) provides a coherent account of why and how this linkage works.

But the conditions under which simplification actually reaches the entrepreneurs who need it most, those in informal sectors, rural areas, and economically marginalised communities, are demanding. Implementation gaps, digital exclusion, product-level mismatches in financial services, and the sheer size

of India's informal sector all limit the effect of reform at the margin. A regulatory agenda that takes sustainable entrepreneurship seriously needs to close these gaps, not just tick the ease-of-doing-business boxes.

There is also the question of what kind of regulation is being simplified. Removing redundant licence requirements is different from weakening environmental or labour standards. The sustainable entrepreneurship literature is clear that well-designed regulation, particularly where it internalises environmental and social externalities, creates rather than destroys entrepreneurial opportunity. India's regulatory reform programme has not always drawn this distinction carefully, and future reform efforts would do well to make it explicit.

The research agenda that follows from this paper is reasonably clear. More work is needed on the distributional effects of regulatory reform at the firm level. More work is needed on the specific financial product gaps that keep small entrepreneurs from translating formal account ownership into productive credit access. And more work is needed on the conditions under which regulatory and financial inclusion reforms actually support environmentally and socially responsible entrepreneurship, rather than simply expanding the volume of small business activity regardless of its sustainability profile.

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