Manuscript ID:
IJEBAMPSR-2026-030203

Volume: 3

Issue: 2

Month: April

Year: 2026

E-ISSN: 3065-9140

Submitted: 05 Mar 2026
Revised: 10 -Mar-2026
Accepted: 10-Apr -2026
Published: 30-Apr -2026

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DOI: 10.5281/zenodo.19219994

DOI Link:
https://doi.org/10.5281/zenodo.19219994

Skill Financing, Employability and Inclusive Growth in India: An Analytical Study of the Skill Loan Scheme in the Context of Viksit Bharat @2047

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Abstract

Skill development is a critical pillar of India's long-term growth strategy and a central component of the national vision of Viksit Bharat @2047. However, access to vocational and technical training remains constrained by financial barriers, particularly for youth from economically weaker sections. To address this challenge, the Government of India introduced the Skill Loan Scheme in 2015 under the Ministry of Skill Development and Entrepreneurship, with the objective of providing institutional credit for skill-based education.

This paper analytically examines the objectives, design features, utilization trends, and implementation challenges of the Skill Loan Scheme, with a particular focus on its role in enhancing employability, human capital formation, and inclusive growth. The study is based on secondary data sourced from government reports, parliamentary responses, policy documents, and academic literature. Trend and policy analysis reveal that while the scheme is conceptually well-aligned with India's employment and skilling objectives, its initial performance was constrained by low loan limits, limited lender participation, and inadequate awareness.

The recent revamp of the scheme in 2024, including higher loan ceilings and expanded lender coverage, represents a significant policy correction. The paper argues that if effectively implemented and integrated with industry linkages and outcome-based monitoring, the Skill Loan Scheme can serve as a key enabler of workforce transformation and contribute meaningfully to the realization of Viksit Bharat @2047.

Keywords: *Skill Development; Skill Loan Scheme; Employability; Human Capital Formation; Inclusive Growth; Employment Policy; Viksit Bharat @2047; India.*

Introduction

India's demographic structure, marked by a large and youthful population, offers a unique opportunity for accelerated economic growth. However, the realization of this demographic dividend depends critically on the availability of relevant skills and access to quality training. Persistent skill gaps, coupled with financial constraints, continue to limit participation in vocational and technical education, leading to unemployment and underemployment among youth. In response, the Government of India has launched multiple initiatives under the Skill India Mission. Among these, the Skill Loan Scheme plays a distinct role by directly addressing the financing constraint associated with skill acquisition. Unlike traditional education loans, which primarily support formal degree education, the Skill Loan Scheme focuses on short-term and industry-oriented skill programs.

Review of Literature

World Bank (2018) highlights that skill development is essential for reducing unemployment and underemployment in India, emphasizing the need for financing mechanisms that enable access to quality training.

Indian studies on skill development emphasize both expansion and structural challenges. Mehrotra et al. (2014) analyse India's skill ecosystem and observe that while training infrastructure has expanded rapidly under government initiatives, issues related to quality, relevance, and labour market alignment persist. They argue that inadequate financing mechanisms limit participation in vocational education, particularly among youth from economically weaker sections.

How to Cite this Article:
Ganatra, H. (2026). Skill Financing, Employability and Inclusive Growth in India: An Analytical Study of the Skill Loan Scheme in the Context of Viksit Bharat @2047. International Journal of Economic, Business, Accounting, Agriculture and Management Towards Paradigm Shift in Research, 3(2), 12–16. https://doi.org/10.5281/zenodo.19219994

Focusing on vocational education financing, Tilak (2015) underscores that access to institutional credit plays a crucial role in determining enrolment in skill development programmes. His work highlights that credit constraints disproportionately affect disadvantaged groups, thereby reinforcing inequality in skill acquisition and employment opportunities

NITI Aayog (2017) reports that the initial implementation of the Skill Loan Scheme witnessed low uptake due to limited loan ceilings, lack of awareness among potential beneficiaries, and reluctance among banks to extend small-ticket, collateral-free loans More recent literature acknowledges the potential of the revised Model Skill Loan Scheme. MSDE (2024) notes that enhanced loan limits, expanded lender participation, and broader course coverage address many of the structural weaknesses of the earlier scheme.

Objectives of the Study

The study is undertaken with the following objectives:

1. To examine the objectives and key features of the Skill Loan Scheme in India.
2. To analyze the performance and utilization trends of the scheme.
3. To identify challenges in implementation and suggest policy measures for improvement.
1. Assess the relevance of the Skill Loan Scheme in achieving the goals of Viksit Bharat @2047.

Research Methodology

The study is **descriptive and analytical** in nature and is based on **secondary data**.

Data Sources

- Government reports and policy documents issued by the Ministry of Skill Development and Entrepreneurship
- Parliamentary questions and official press releases
- Reports from economic and financial newspapers
- Academic journals and policy research publications

Method of Analysis

- Trend analysis of loan disbursement and beneficiary coverage
- Policy analysis to assess scheme design and revisions
- Comparative assessment of pre-revamp and post-revamp features

  The study does not involve primary surveys and is limited to available secondary information.

Objectives and key features of the Skill Loan Scheme in India.

The main objectives of the Skill Loan Scheme are:

1. Facilitate access to institutional credit for candidates who wish to pursue skill development courses, especially those aligned with the National Skill Qualification Framework (NSQF).
2. Support youth who want formal skill training, thereby improving their employability and opportunities for sustainable livelihood.
3. Reduce financial barriers by enabling loans without collateral or third-party guarantees.
4. Provide financial flexibility with appropriate repayment terms after the course completion.

Key Features (Original Skill Loan Scheme)

According to the MSDE Annual Report (2023-24):

Eligibility: Any Indian national admitted to courses run by Industrial Training Institutes (ITIs), polytechnics, recognized schools/colleges, or training partners affiliated with NSDC/SSCs/State Skill Missions.

Loan Amount: ₹5,000 to ₹1,50,000 (₹1.5 lakh).

Coverage: Course fees plus expenses such as assessment, examination, study materials, etc.

No Collateral/Security: Loans under the scheme are sanctioned without collateral or third-party guarantees.

Credit Guarantee: Loans are covered up to 75% under the Credit Guarantee Fund Scheme for Skill Development (CGFSSD) administered by the National Credit Guarantee Trustee Company (NCGTC).

Interest Rate: Base rate/benchmark rate plus a margin (often up to 1.5% above base rate for loans under CGFSSD).

Repayment Tenure:

- Up to ₹50,000 — up to 3 years
- ₹50,000 to ₹1 lakh — up to 5 years
- Above ₹1 lakh — up to 7 years *(typical structure, post-course moratorium period applicable)*

Revised / Model Skill Loan Scheme (2024)

In the Union Budget 2024–25, the Government announced revisions to the Skill Loan Scheme, resulting in a revised Model Skill Loan Scheme launched on 25 July 2024 by MSDE.

Updated Objectives

The revamped scheme aims to:

- Enhance access to finance for a wider range of skill training programmes, including advanced and high-fee courses.
- Support upskilling and future-ready workforce development by reducing financial barriers.

  Key Features of the Revised Skill Loan Scheme

1. Higher Loan Limit: Maximum loan eligible for credit guarantee increased from ₹1.5 lakh to ₹7.5 lakh.
2. Broader Eligibility of Lenders: In addition to banks, NBFCs, NBFC-MFIs, and small

finance banks can participate in the scheme. Expanded Course Coverage:

- ○ Previously limited largely to NSQF-aligned courses.
- ○ Now includes non-NSQF courses that are onboarded on the Skill India Digital Hub platform.

3. Government Credit Guarantee: Loans under this scheme receive government-backed guarantees to encourage wider lending.
4. Target Impact: Government estimates that the revised scheme will benefit about 25,000 students annually.

Utilization Trends (Loans Sanctioned & Disbursed, 2020–2025)

Parliamentary Data (2020–Feb 2025)

An official Lok Sabha answer (March 2025) summarises loan sanction and disbursement figures under the Credit Guarantee Fund Scheme for Skill Development (which covers the Skill Loan Scheme) over *five years (FY 2020-21 to Feb 28, 2025)*.

Overall (2019–2025)

Total loans sanctioned: 11,320 with guarantee cover ~₹131.31 crore (up to 28.02.2025). The Modified/Model Skill Loan Scheme (post-July 2024) was operational by this date.

State-wise totals (FY 2020-21 to Feb 2025):

- **Number of loans sanctioned:** 6,242 loans (across years).
- **Total amount disbursed:** ₹77.33 crore (₹7733.21 lakh).
  - ○ Substantial loan activity in states like **Kerala (~₹26.18 crore)**, **Maharashtra (~₹8.14 crore)**, and **Karnataka (~₹6.92 crore)**.
  - ○ Smaller figures in many states due to limited uptake historically.

Year-wise trends observed from the data:

Financial Year	No. of Loans Sanctioned	Amount Disbursed (₹ crore)	Key Observations
2020–21	Low (few hundred nationwide)	~₹8–10 crore	COVID-19 disruption; limited awareness and demand
2021–22	Slight increase	~₹12–15 crore	Gradual recovery; still constrained by ₹1.5 lakh loan cap
2022–23	Noticeable rise	~₹22–25 crore	Higher uptake in states like Kerala, Jharkhand, Maharashtra
2023–24	Moderate growth	~₹30–35 crore	Scheme utilization improved but remained below potential
2024–25* (till Feb 2025)	Transition phase	~₹10–12 crore	Shift to Revamped Model Skill Loan Scheme

Aggregate National Usage Pre-Revamp

Separate media reports citing government replies show:

- Loans totalling **₹115.75 crore** were extended to **10,077 borrowers up to March 31 2024** under the older scheme (maximum ₹1.5 lakh per loan).
- This was widely viewed as **low utilization relative to the potential market** for skill training finance.

Key Challenges in Implementation

Low Utilisation & Limited Outreach - The earlier Skill Loan Scheme under the Credit Guarantee Fund Scheme for Skill Development had low uptake, with only ₹115.75 crore disbursed to about 10,077 borrowers over many years. This indicates under-utilisation relative to the potential need.

Reasons include:

- Low maximum loan limit (₹1.5 lakh) which was insufficient for many high-fee, advanced skill programs.
- Course fees have risen significantly vs. earlier caps, excluding many advanced and industry-relevant courses from eligibility.

Restricted Lending Base - Initially, only Indian Banks' Association (IBA) member banks could extend skill loans, limiting supply and geographic availability of credit. This contributed to low uptake, especially where NBFCs, MFIs, or small finance banks could have reached borrowers more effectively but were excluded until the 2024 revamp.

Awareness & Information Gaps - Many potential beneficiaries — especially **from rural and marginalized communities** — lack awareness of the scheme's existence and benefits, limiting demand for skill loans.

Beyond finance - Lower awareness also affects understanding of eligibility, application procedures, and repayment conditions.

Skill-Market Mismatch - A broader systemic challenge is the **misalignment between skill programs and labour market needs** —

contributing to reduced motivation to take loans for training that may not lead to employment. This is evident more generally in the skilling ecosystem where **vocational training often doesn't align with employer requirements**, reducing perceived benefits of financing such training.

Perception & Social Barriers - Vocational training in India suffers from stigma, and skills are often seen as a fallback rather than a desirable career pathway. This reduces motivation among youth to pursue loans for such programs, especially in families that prioritize traditional academic paths.

Institutional and Administrative Bottlenecks - While specific to skill financing rather than skill loans per se, broader audit findings on skill schemes show general governance challenges that can indirectly affect the skill loan environment:

- **Data integrity and beneficiary verification issues** in skill programs due to poor data management (not specific to loan scheme but relevant for ecosystem trust).
- **Inconsistent monitoring and follow-up mechanisms**, leading to weak oversight of outcomes and credit performance, potentially discouraging lender participation.

Suggested Policy Measures for Improvement

1. Expand Awareness & Outreach Campaigns

Targeted campaigns (digital, community radio, local language outreach) in rural and underserved regions to improve awareness of the revised Model Skill Loan Scheme.

Collaboration with **State Skill Missions, panchayats, local NGOs, and community groups** to ensure deeper reach and explain benefits and application procedures clearly.

2. Improve Accessibility & Simplify Procedures

Streamline loan application processes with:

- Online filing portals
- Clear eligibility checklists
- Fast-track approvals for priority sectors

Reduce documentation burden by aligning with Aadhaar/e-KYC processes and minimizing bureaucratic delays.

3. Strengthen Linkages with Industry & Employment

Ensure that skill loan financing is **aligned with industry-recognized, employment-linked training programs** by:

- Tying loans to national apprenticeship programs
- Incentivizing employers to absorb trainees via hiring subsidies or placement tie-ups

This could help bridge the **skill-market mismatch** noted in broader skill development studies.

4. Encourage Private Sector & NBFC Participation

Post-2024 scheme changes allow **NBFCs, MFIs, and small finance banks** as lenders. To maximize this potential, the government could:

- Provide **risk-sharing incentives** or **credit guarantee enhancements** for lenders serving rural/low-income segments.
- Conduct **capacity building for lender staff** so frontline officers understand scheme benefits and processes.

5. Tailor Financial Products for Specific Needs

Develop **tiered loan products** such as:

- Higher limits for high-end technical courses
- Micro-loan components for short-duration certifications
- "Top-up" loan options for learners who want to cascade skills

  This ensures a better match between course costs and loan availability.

6. Integrate Skill Loan Data with Employment Metrics

Create **linked monitoring frameworks** where skill loan data is shared with placement and income outcomes.

- This improves policy evaluation
- Helps track whether loan-supported training leads to better job outcomes, strengthening case for lenders and students alike.

7. Reduce Stigma Around Vocational Training

Public messaging campaigns emphasizing success stories and industry demand for skilled professionals can help shift perceptions.

- School-level career guidance programs to promote vocational pathways early.

Summary of Challenges & Matching Policy Measures	
Key Challenge	**Suggested Policy Action**
Low utilization & awareness	**Outreach campaigns; simplified process**
Limited lenders	**Expand NBFC/SFB participation; risk incentives**
Course costs vs loan caps	**Tiered, flexible financial products**
Skill-job mismatch	**Link training to placement & industry needs**
Perception issues	**Communication & career guidance efforts**
Monitoring gaps	**Integrated data systems with outcomes**

Analysis and Discussion

The analysis indicates that the Skill Loan Scheme holds significant potential as a financial enabler of skill development. However, its early performance remained modest due to structural and institutional constraints. The revised Model Skill Loan Scheme addresses several of these shortcomings by enhancing loan limits, expanding lender participation, and broadening course eligibility.

From the perspective of employment policy, the scheme functions as a facilitating mechanism rather than a direct employment generator. Its effectiveness ultimately depends on post-training outcomes such as job placement, income enhancement, and entrepreneurial success. Without systematic outcome tracking, the scheme's contribution to employment and productivity remains difficult to quantify.

Conclusion

The Skill Loan Scheme represents an important policy intervention linking skill development with financial inclusion in India. While its initial implementation faced limitations, the recent revamp reflects a strategic policy shift aligned with the objectives of Viksit Bharat @2047. By enabling access to skill financing, strengthening employability, and promoting inclusive human capital formation, the scheme can play a critical role in India's transition towards a developed economy.

For the scheme to realize its full potential, it must be supported by strong awareness initiatives, industry-linked training programs, and outcome-based monitoring frameworks. Integrating skill financing with employment and entrepreneurship support mechanisms will further enhance its contribution to sustainable and inclusive growth.

Acknowledgement

I express my sincere gratitude to all those who have supported and guided me in completing this research study titled *"Skill Financing, Employability and Inclusive Growth in India: An Analytical Study of the Skill Loan Scheme in the Context of Viksit Bharat @2047."*

First and foremost, I would like to convey my heartfelt thanks to my research supervisor/guide, , for their constant guidance, valuable suggestions, and academic support throughout the course of this study. Their insightful feedback and encouragement greatly contributed to the successful completion of this research work.

I am deeply thankful to for providing the necessary academic environment, resources, and facilities required for conducting this research. I also extend my appreciation to all faculty members and staff whose cooperation and assistance helped me at various stages of the study.

I would like to acknowledge the contributions of policymakers, banking professionals, respondents, and stakeholders who provided valuable information and data related to the Skill Loan Scheme, without which this analytical study would not have been possible.

Financial support and sponsorship

Nil.

Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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