India's 2024 Budget Unveils Bold Plans for Job Creation and Skill Empowerment

The government in its Union Budget 2024 has unveiled a renewed commitment to boosting employment in the formal sector, through a suite of targeted schemes.

Share

By Mr. Vinay Joy, Partner, Khaitan & Co. and Ms. Srishti Ramakrishnan, Principal Associate, Khaitan & Co. | 13th Aug, 2024

The budget highlights a strategic push for skill development through enhanced collaborations between industry leaders and state governments, aiming to align workforce capabilities with market demands.

The focus is slated to be on providing employment-linked incentives, boosting women's participation in the workforce, aiding MSMEs, and promoting skill development, all aimed at making a substantial improvement in the country's employment landscape. Three of the five flagship schemes will be primarily administered through the Employee Provident Fund Organisation (**EPFO**), designed to drive workforce formalization by incentivizing both employers and employees.

Scheme A – *First Timers*: The initial scheme is set to encompass all sectors within the formal economy, offering a one-month wage subsidy to new hires in the organized sector who earn up to INR 1,00,000 per month. The subsidy will be disbursed in three instalments, subject to a cap of INR 15,000 overall. Employees are required to complete a compulsory online financial literacy course to qualify for the second instalment. Employers will be required to repay the subsidy if the new employee's tenure concludes within 12 months, although it is not yet clear whether this applies to both termination by the employer and voluntary resignations by the employee.

Scheme B – *Job creation in the manufacturing sector*: The second scheme targets employees in the manufacturing sector, aiming to offer financial support to both employers and employees for EPF contributions for new employees during the initial four years of their employment. Eligible employers include corporate entities and non-corporate entities with a three-year history of making EPFO contributions. To qualify, employers must hire either 50 new workers or 25% of their previous year's EPFO employee count, whichever is lower. The incentive, distributed over four years, will be shared equally between the employer and employee - 24% of wages (capped at INR 25,000 per month) in the first two years, 16% in the third year, and 8% in the fourth year. Employers must sustain the increased employment level throughout the scheme's duration to continue receiving benefits. Employees must be directly employed by the entity and have a monthly salary of up to INR 1,00,00 to qualify, provided they are enrolled in EPFO. As with the first scheme, employers must reimburse the subsidy if a new hire leaves within 12 months of joining.

Scheme C – *Support to Employers*: The third scheme is designed for employers who expand their workforce beyond the previous year's baseline by at least two employees (for those with fewer than 50 employees) or five employees (for those with 50 or more). This increase must be sustained and applies to positions with salaries up to INR 1,00,000 per month. New hires under this scheme do not have to be new to EPFO. For two years, the government will reimburse employers up to INR 3,000 per month for each additional employee, based on their EPFO contributions from the previous year. Employers creating over 1,000 jobs will receive quarterly reimbursements and can continue to benefit from this subsidy into the third and fourth years at the same rate as provided for in Scheme B. This subsidy is additional to the benefits provided under Scheme A but does not apply to employees covered under Scheme B.

All three schemes will be operational for a period of two years.

Scheme D on the other hand will upskill 20 lakh youth over five years by modernizing 1,000 industrial training institutes (ITIs) through central, state, and industry collaboration. **Scheme E**, meanwhile, aims to offer internships to one crore youth at 500 leading companies.

Apart from the above, to boost female workforce participation, the government will partner with the industry to create women's hostels and crèches, alongside launching targeted skill programs and expanding market access for women-led self-help groups.

The government plans to boost entrepreneurship with financial aid and tax incentives for start-ups and MSMEs, while increased MGNREGA funding will improve rural employment. The creation of "plug and play" industrial parks in 100 cities and twelve parks under the National Industrial Corridor Development program aims to drive industrial growth and create millions of jobs.

On the whole, while these initiatives offer promising support, the practicalities of their implementation (such as the specifics of refund conditions and the integration with existing EPF frameworks) remain to be clarified. The effectiveness of these measures will depend on meticulous execution and robust coordination between government and industry players. While each of the Schemes are useful, Scheme D, if implemented well, may be the most useful as the need of the hour for India is to have an adequately skilled workforce and equipping the ITIs for this is an easy way to implement this. As more details emerge, it will be crucial for stakeholders to closely monitor progress to ensure that the anticipated benefits are fully realized and effectively reach the intended beneficiaries.