

Regulation of Fixed-Term Employment: A Pivotal Step towards Employment Growth, Workforce Flexibility and Enhanced Social Security

Fixed-term contracts (FTCs) have always played a significant role in labour markets, serving both employers and workers in unique ways. For enterprises, FTCs offer the flexibility to adapt to fluctuating market demands, manage workforce requirements during employee absences, or assess the suitability of newly hired individuals before transitioning them to permanent roles. For workers, these contracts can act as a stepping stone into the labour market, providing opportunities to gain valuable experience, enhance skills, and build professional networks. In certain cases, FTCs are even preferred over permanent positions, particularly by those balancing work with education or other personal commitments. The growing reliance on FTCs reflects broader economic and societal shifts, including the evolving nature of work, technological advancements, and the increasing need for agility in workforce management.

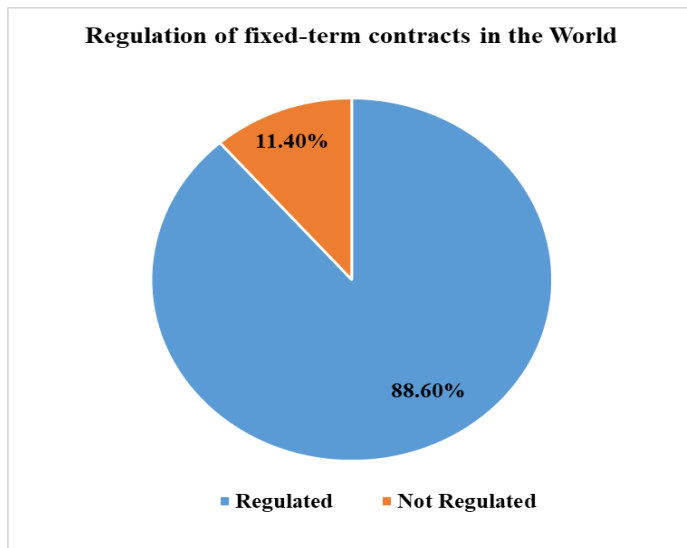
Fixed-term contracts (FTCs), initially introduced to facilitate the entry of young workers into labour markets, have gradually been extended to encompass other groups of workers in several countries. While these contracts provide flexibility to employers and industries in managing workforce demands, they often come at the expense of worker security. Compared to contracts of indefinite duration, FTCs typically offer limited protection regarding termination of employment and access to social benefits, raising concerns about equity and fairness in labour practices. To address these challenges, there is an urgent need for balanced regulations that align the flexibility sought by employers with the security needs of workers engaged in FTCs. Many nations have taken steps to regulate FTCs, ensuring they are neither exploitative nor detrimental to long-term workforce stability. According to the latest data from the ILO's Employment Protection Legislation Database (EPLex, 2024), out of 114 countries, 92% of the countries reviewed under the Termination of Employment Convention, 1982 (C. 158), and the Termination of Employment Recommendation, 1982 (R. 166), permit and regulate fixed-term contracts, while only 8% refrain from adopting such regulations.

Regulation of Various Aspects of FTC: A Global Overview

The various aspects regulated include- **a)** valid reasons/ justifications for engaging an employee on FTC, **b)** Maximum Number of successive FTCs, and **c)** maximum cumulative duration for successive FTCs (in months). The table below provides an overview of the regulation of various aspects of contract labour at the global level.

Regulation of Fixed Term Contract in the World

India's approach to Fixed Term Employment (FTE) aligns with global trends highlighted by

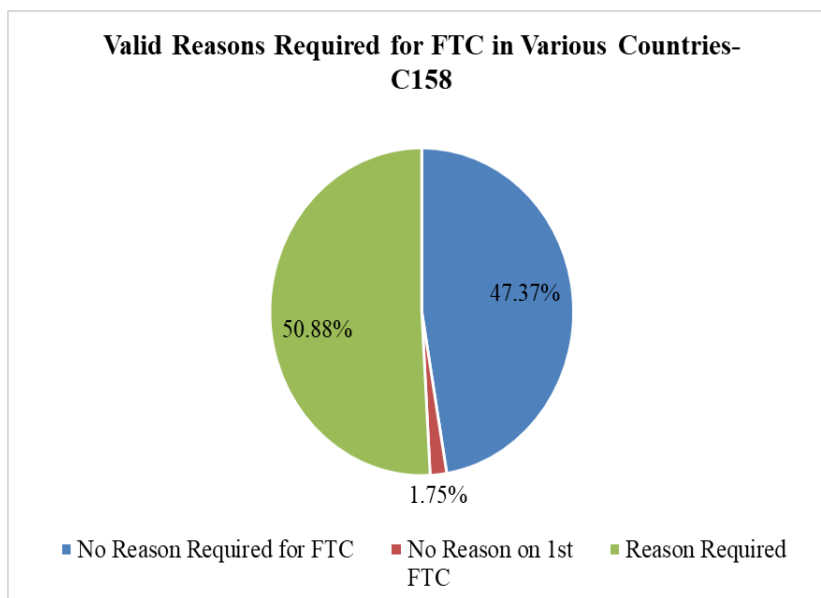


the ILO's EPLex database. Among the 187 ILO member countries, 114 have ratified the Termination of Employment Convention, 1982 (No. 158) and its accompanying Recommendation No. 166, reflecting a commitment to regulating employment terms. Notably, 88.60% of these countries enforce regulations governing Fixed Term Contracts

(FTCs), ensuring clarity and security for both employers and employees, and the remaining 11.40% have no regulatory provision in this regard.ⁱ

In India, the adoption of Fixed Term Employment regulations under the Industrial Relations Code, 2020 will strengthen its position in the global workforce framework. These measures promote flexibility in hiring while safeguarding workers' rights, aligning with international best practices. By bridging the gap between unregulated employment and secure contractual work, India fosters a balanced and progressive labour market, contributing to its broader economic goals.

Valid Reasons Required for FTC in Various Countries



Global trends in the regulation of fixed-term contracts (FTCs) and offers valuable insights relevant to India's evolving employment policies. According to the database:ⁱⁱ

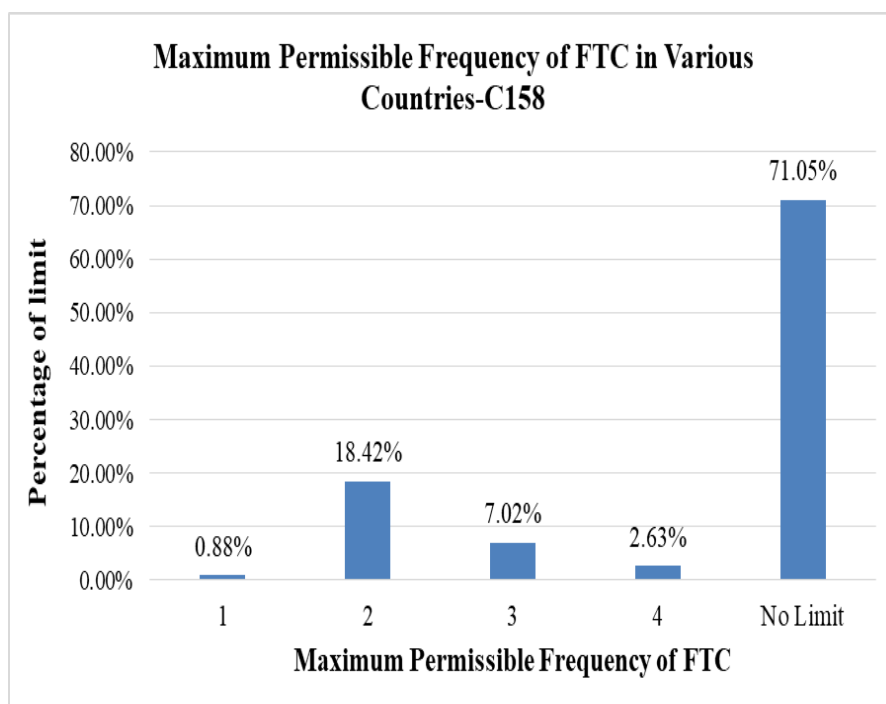
- 50.88% of countries do not mandate employers to provide any reason or

justification for hiring employees on fixed-term contracts.

- 1.75% of countries require justification only for the first fixed-term engagement.
- In 47.37% of countries, employers are legally obligated to provide justification for hiring on FTCs.

Maximum Permissible Frequency of FTC in Various Countries

It has been found that 71.05% of countries impose no limits on the number of successive Fixed-

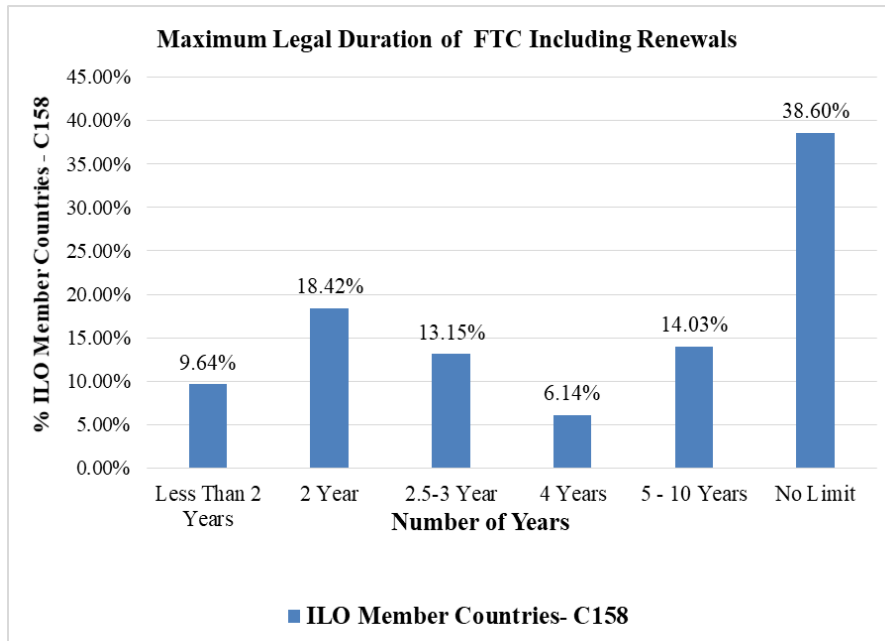


Term Contracts (FTCs), and India aligns with this trend by not restricting the successive renewal of FTCs. However, in the remaining 28.95% of countries, regulations cap the permissible number of successive FTCs, typically ranging from 1 to 4 renewals. ⁱⁱⁱ

This distinction highlights a global divergence in labour contract policies. In India, the absence of such a limit reflects flexibility for employers and workers, especially in industries where temporary and project-based employment is prevalent. However, it also raises concerns about job security and the potential misuse of FTCs in lieu of permanent contracts. Balancing flexibility with safeguards for workers is critical, as the Indian labour market continues to evolve under the framework of the new labour codes, which aim to harmonize the interests of both employers and employees.

Maximum Legal Duration of FTC including Renewals

Regarding the maximum cumulative duration of Fixed-Term Contracts (FTCs), it has been 38.60% of the 114 countries that have ratified ILO Conventions C-158 and Recommendation



R-166 impose no limit on the cumulative period of successive FTCs, including renewals. India follows a similar approach, allowing employers flexibility in determining contract durations. On the other hand, 14.03% of these

countries have a limit in the range of 5 to 10 years, while the remaining 47.37% impose stricter limits, capping the duration at less than 5 years for engaging employees on an FTC basis. In the Indian context, this provision aligns with the country's evolving labour market needs, promoting employment generation while providing flexibility to industries in hiring practices.^{iv}

Position of Fixed Term Contract Regulation in India

The provision for Fixed-Term Employees (FTEs) has long been embedded in Indian labour laws, originating under the Industrial Disputes Act, 1947. In 1984, an important amendment (Central Act No. 49 of 1984) refined the scope of the term “retrenchment” under Section 2(oo)(bb), explicitly stating that the non-renewal of a fixed-term contract does not constitute retrenchment. This clarification helped establish a legal framework for FTEs while also setting boundaries on employers' obligations when contracts lapse.

With the introduction of the Labour Codes, a more structured approach has been adopted to address the potential exploitation of contractual workers. FTEs are now entitled to wage parity, ensuring they receive similar pay, benefits, and working conditions as their regular counterparts. Furthermore, the Labour Codes have expanded the social security net by granting FTEs eligibility for benefits like Gratuity on a pro-rata basis, even if they do not meet the

standard five-year service requirement. This regulatory evolution underscores India's commitment to fostering a fairer labour ecosystem. By institutionalizing equitable treatment for FTEs, the government aims to strike a balance between providing workforce flexibility to employers and ensuring dignity, security, and equality for contractual workers.

This system caters to both employees and employers, offering a balanced approach. For employees, particularly those preferring flexible arrangements in sectors like education, IT, and export-driven industries, FTEs offer job stability, competitive pay, and the flexibility to align work tenure with personal or professional needs. For employers, FTE regulations allow for direct hiring tailored to specific project or operational requirements, enhancing workforce efficiency and reducing reliance on intermediaries. This shift can lead to cost savings by eliminating contractor fees and improving employment quality through direct oversight and compliance with labour standards.

From an industry perspective, FTEs encourage businesses to revisit their outsourcing strategies, favoring in-house hiring over contractor-based models. By addressing long-standing issues of wage disparity and worker exploitation under contractor systems, FTEs ensure fair compensation and standardized working conditions. This alignment with ethical employment practices not only benefits workers but also strengthens organizational reputation and compliance with legal frameworks. The regulation aligns seamlessly with broader labour reforms, such as the Occupational Safety, Health and Working Conditions (OSH) Code. Section 57 of the OSH Code mandates that core activities cannot be outsourced, compelling industries to employ workers directly. This provision further integrates FTEs into the fabric of workforce management, fostering a preference for direct employment models over traditional regular employment in sectors with fluctuating demand patterns.

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ⁱ **Source of Data:** ILO- EPLex database (<https://eplex.ilo.org/fixed-term-contracts-ftcs/>)

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