

# INWORK and GOVERNANCE

## Policy Brief No. 6



International  
Labour  
Office  
Geneva

---

## Nothing more permanent than temporary? Understanding fixed-term contracts

---

by Mariya Aleksynska and Angelika Muller \*

*The increasing recourse to fixed-term contracts of employment warrants greater understanding of the reasons and consequences of their use for enterprises, workers, and labour markets. This policy brief highlights the most important findings of recent analysis of this topic and reviews international, regional and national legal frameworks for regulating fixed-term contracts. In doing so, this brief draws on the ILO's comparative advantage of combining economic research with labour law expertise, especially in the area of employment protection legislation.*

### 1. What are fixed-term contracts of employment?

Fixed-term contracts of employment (hereafter FTCs) are contractual employment arrangements between one employer and one employee characterised by a limited duration or a pre-specified event to end the contract between them. Together with project-based, casual employment, and temporary work through private employment agencies, fixed-term contracts represent special forms of temporary dependent employment. As such, they are distinct from regular employment that is open-ended, “permanent”, or “of indefinite duration”.

Available data on the incidence of FTCs suggests significant variation in their use across countries, ranging from under 5 per cent in Honduras and Kazakhstan to 30 per cent in Chile (Figure 1). Figure 2 further shows that, between 2003 and 2011, the incidence of FTCs increased in numerous countries, though some also witnessed a decline. The largest increase was observed in European countries (especially the Netherlands and Italy), which have been experiencing a rise in overall temporary employment since the 1980s. With the outburst of the recent economic and financial crisis in 2008, however, many FTCs were not renewed. As a result, the trend of rising temporary

---

\* Mariya Aleksynska (INWORK) and Angelika Muller (GOVERNANCE). Supportive guidance and comments from Janine Berg and Youcef Ghellab, as well as excellent research assistance by Friederike Eberlein are gratefully acknowledged.

employment was either mitigated (as in France and Germany) or reversed (as in Spain). In Morocco, the incidence of FTCs more than doubled over the past decade, albeit from a low initial level. While in this country only 5.6 per cent of workers have a written fixed-term contract, 63 per cent of workers, regardless of the duration of their employment relationship, actually have no contract at all – a situation common to many countries with large informal economies. Young, low-skilled, and female workers are usually over-represented amongst workers with fixed-term contracts (ILO, 2015).

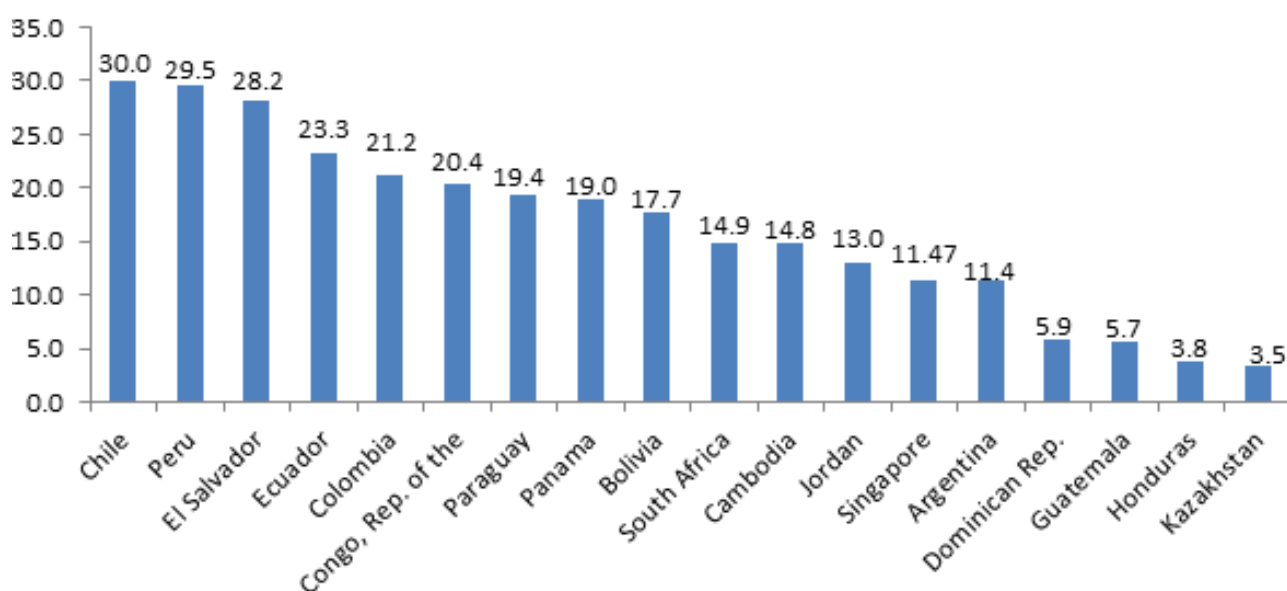
## 2. Reasons for growing recourse to FTCs

Fixed-term contracts have always existed in labour markets and serve important purposes. They provide flexibility to enterprises to respond to changes in demand, replace temporarily absent workers, or evaluate newly hired employees before offering them an open-ended contract. FTCs may also be an

attractive employment option for workers. They can provide a possibility to enter or reintegrate into the labour market, to gain work experience, to develop skills, and to expand social and professional networks. They may also be preferred by some workers over permanent contracts, for example, when work is combined with education.

The increased recourse to FTCs has been prompted by several developments. In numerous European and Latin American countries, fixed-term contracts were introduced through legislative changes in the 1980s and 1990s, initially as transitory measures, with the hope of counteracting the negative employment consequences of the recessions and boosting employment creation. Initially limited to young workers entering labour markets, FTCs have been further extended to other categories of workers in some countries, such as Portugal or Spain.

**Figure 1. Incidence of workers with FTCs as per cent of wage employees, in selected countries; latest available year**



Source: Argentina: data for 2011 (SEDLAC); Bolivia: 2004 (ECLAC); Cambodia: 2011 (LFS); Chile: 2014 (INE); Colombia: 2012 (GEIH); Congo: 2009 (CNSEE); Dominican Republic: 2005 (ECLAC); Ecuador: 2005 (ECLAC); El Salvador: 2010 ( SEDLAC); Guatemala: 2012 (ENEI); Jordan: 2010 (ILO DWCP); Honduras:2007 (EPHPM); Kazakhstan: 2014 (Decent Work Country Profile); Panama: 2005 (ECLAC); Paraguay: 2005 (ECLAC); Peru, 2011 (ENAH0); South Africa:2014 (QLFS ); Singapore: 2012 (MOM).

In addition to such legal changes, enterprises have grown to rely more heavily on FTCs contracts to respond to organizational and technological changes, as well as increased competition as a result of globalization, which has accentuated the need to rapidly adjust to fluctuations in demand. The growing use of FTCs is also linked to changing patterns of business structures along the “core-periphery” pattern, as firms increasingly resort to non-standard employment relationships (FTCs being among them) for parts of production cycle not relevant to their core business (Collins, 1990). Lastly, fixed-term contracts may imply lower wage and non-wage costs, thus being more attractive to employers than employment contracts of indefinite duration.

Available data on the reasons for choosing the fixed-term type of employment shows that in Denmark, France, Norway, Sweden, Switzerland, and the UK, about 20 per cent of all workers with a fixed-term contract reported having held this contract because they did not want to have a permanent job. At the same time, the percentage of workers who held a temporary job because they could not find a permanent job ranges, in European countries, from 30 per cent in Iceland and 40 per cent in the Netherlands to over 90 per cent in Portugal, Greece, and Spain (OECD, 2014).

**Figure 2. Trends in FTC in Selected Countries, around 2002 and 2012**



Note: Workers with FTC as per cent of all wage employees.

Source: for OECD countries – data for 2003 and 2011, OECD Employment Outlook (2013); Ukraine: State Statistics of Ukraine, “Labour of Ukraine”, data for 2004 and 2011; Morocco: Direction de la Statistique, data for 2004 and 2011; Guatemala: ENEI and ECLAC, data for 2002 and 2012.

### 3. Key policy challenges

Challenges with the growing recourse to FTCs arise when engagement into fixed-term employment is an involuntary choice for workers, when transiting into regular employment is compromised, or when working conditions between workers with FTC and with permanent contracts differ.

In terms of transiting from FTCs to regular employment, available evidence shows that, in Europe, yearly transitions ranged, in 2010, from 5.6 per cent in France to 38 per cent in Germany (Table 1). At the same time, workers with FTCs had a significantly higher rate of transition into unemployment or into inactivity as compared to regular workers, suggesting less stability in work or income for workers on FTCs when compared with workers on contracts of indefinite duration.

This situation can be partly explained by the fact that FTCs typically offer a lower level of protection to workers in terms of termination of their employment, as generally no reasons are to be provided by the employer to justify the end of the employment relationship, beyond reaching the end date of the fixed-term contract. With the exception of common law countries, such as Tanzania or the United Kingdom, where case law recognised that in some cases workers may have reasonable expectations for their FTCs to be renewed, usually the end of FTCs signifies the end of the employment relationship. In an economic downturn, employers also tend to first adjust the workforce by not renewing temporary contracts.

On a macroeconomic level, having a high share of workers on FTCs means that, in an economic downturn, economic adjustments happen disproportionately at the expense of temporary workers. For example, in the last quarter of 2008, in Spain, 2.5 per cent of permanent workers lost their jobs, compared

with 15 per cent of workers on fixed-term contracts. In other countries (Ireland 2011-2012; Bangladesh 2010; Republic of Korea in the aftermath of the financial crisis of 1998), economic downturn led to increased hiring on very short temporary contracts which substituted permanent hires, as a means of keeping labour costs flexible. As a consequence of both scenarios, volatility of both employment and unemployment in labour markets employing sizeable shares of fixed-term workers is high. In turn, more volatile labour markets also increase the volatility of public budgets, both because there is more volatility in employment among contributors and in the number of unemployed claiming unemployment benefits. The key challenge for policy-makers is thus the minimization of both unequal risk-sharing between various labour market actors and of its negative consequences, at the micro and at the macro levels.

**Table 1. Empirical evidence on labour market transitions of workers with FTCs**

Country	Period	Countries
1) Austria, Belgium, Italy, Ireland, Greece, Finland, France, Portugal, Spain, UK	2004	<b>To permanent jobs:</b> range from 12%-13% in Portugal and France, to around 47% in Great Britain, Ireland, and Austria
2) France	2010	<b>To permanent jobs:</b> 5,6% <b>To unemployment:</b> FTC: 9% (permanent workers: 0,9%) <b>To inactivity:</b> FTC: 8,9% (permanent workers: 1,9%)
3) Germany	2010-2011	<b>To permanent jobs:</b> 38% <b>To inactivity and unemployment:</b> 18% <b>Remain in FTC work:</b> 41%
4) The Netherlands	1988-2000	<b>To permanent jobs:</b> 38% <b>To unemployment:</b> FTC: 21% (permanent workers: 18%) <b>To inactivity:</b> FTC: 6% (permanent workers: 3%)
5) Spain	2001-2011	<b>To permanent jobs:</b> 5-7% over the period, with a maximum of 17% in 2005 <b>To unemployment:</b> FTC: 7-17% (permanent workers: 0,8-2% over the period) <b>To inactivity:</b> FTC: 4-7% (permanent workers: 1-2%)

Source: 1) Boeri, 2011; 2) Le Barbanchon and Malherbet, 2013; 3) Eichhorst and Tobsch, 2013; 4) De Graaf-Zijl, Van den Berg and Heyma, 2011; 5) Garcia-Serrano and Malo, 2013.

Strategies for minimizing such unequal risk-sharing are all the more needed where inequalities between workers with fixed-term and open-ended contracts exist in terms of social security entitlements, such as unemployment insurance. These can arise from de jure exclusion of temporary workers from such entitlements, or from de facto eligibility conditions, such as earning thresholds or minimum contribution periods that fixed-term workers do not meet. As a result, workers with FTCs may not only face higher risk of unemployment, but also be less protected during unemployment spells.

Another challenge lies in addressing the earnings inequality between regular and FTC workers. Empirical evidence suggests that, in some cases, wage premiums for fixed-term employment exist. For example, they are found among temporary engineers and technicians, nurses, IT programmers, and high-paid workers in the US (Theodore and Peck, 2013). However, wage penalties for workers with FTCs are more wide-spread, ranging from 30 to 60 per cent of wages of regular workers in developing countries, and between 1 to 34 per cent in developed countries (ILO, 2015). These differences are due to i) unequal treatment of temporary workers; ii) probationary nature of some FTCs and employers' screening of workers' abilities; iii) shorter tenure of temporary workers; and iv) exclusion of temporary workers from some corporate benefits, such as regular bonuses. On a macroeconomic level, growing recourse to FTCs with lower pay may thus contribute to rising wage inequality (Cazes and De Laiglesia, 2015).

Because workers with FTCs may be reluctant to join trade unions out of fear that their contract may not be renewed, they also have a relatively lower ability to exercise their voice in the workplace, either individually or as part of collective representation. Depending on the collective bargaining system, these workers may also be excluded from collective bargaining coverage (see Ebisui, 2012 for examples).

Last but not least, employers may have fewer incentives to provide training when the employment relationship is not long enough to compensate the training costs. For example, in Spain, while 40 per cent of permanent employees received training paid by their firms in 2006, only 23 per cent of temporary employees did (Bentolila, Dolado, and Jimeno, 2011). As a result, both upgrading of workers' skills and improvements in the productivity of the enterprise may be compromised.

#### **4. How are fixed-term contracts regulated?**

The legal framework for regulating fixed-term contracts embraces international, regional, and national sources of regulation, which aims at preventing recourse to temporary employment when it is not justified by the nature of the work, potentially leading to abusive practices.

##### **4.1 International and regional sources of regulation**

The Termination of Employment Convention, 1982 (No. 158) and its accompanying Termination of Employment Recommendation, 1982 (No. 166) are the main ILO standards whose provisions provide regulatory guidance on fixed-term contracts. Their main provisions are reflected in labour laws of many ILO Member States.

In respect with Convention No. 158 (Art. 2(2)), countries may exclude the following categories of employed persons from all or some of the provisions concerning termination of employment at the initiative of the employer:

- (a) workers engaged under a contract of employment for a specified period of time or a specified task; or
- (b) workers engaged on a casual basis for a short period.

Convention No. 158 in its Article 2(3) adds that adequate safeguards are to be provided against recourse to contracts of employment for a specified period of time whose aim is to avoid the protection resulting from the Convention.

Recommendation No. 166 (Article 3(2)) details examples of legal rules to prevent any abusive recourse to FTCs. It may be done by:

- (a) limiting recourse to contracts for a specified period of time to cases in which, owing either to the nature of the work to be effected or to the circumstances under which it is to be effected or to the interests of the worker, the employment relationship cannot be of indeterminate duration;
- (b) deeming contracts for a specified period of time, to be contracts of employment of indeterminate duration;
- (c) deeming contracts for a specified period of time, when renewed on one or more occasions, to be contracts of employment of indeterminate duration.

As an example of regional sources of regulation, the most detailed instrument is the European Union Council Directive 99/70/EC of 28 June 1999 concerning the framework agreement on fixed-term work concluded by the European Trade Union Confederation (ETUC), the Union of Industrial and Employers' Confederations of Europe (UNICE) and the European Centre of Enterprises with Public Participation (CEEP). The Caribbean Community (CARICOM) also adopted in 1995 the Model Law on Termination of Employment, which was based on the ILO standards and included provisions regulating the use of fixed-term contracts.

#### **4.2 Comparative overview of national legal frameworks on fixed-term contracts**

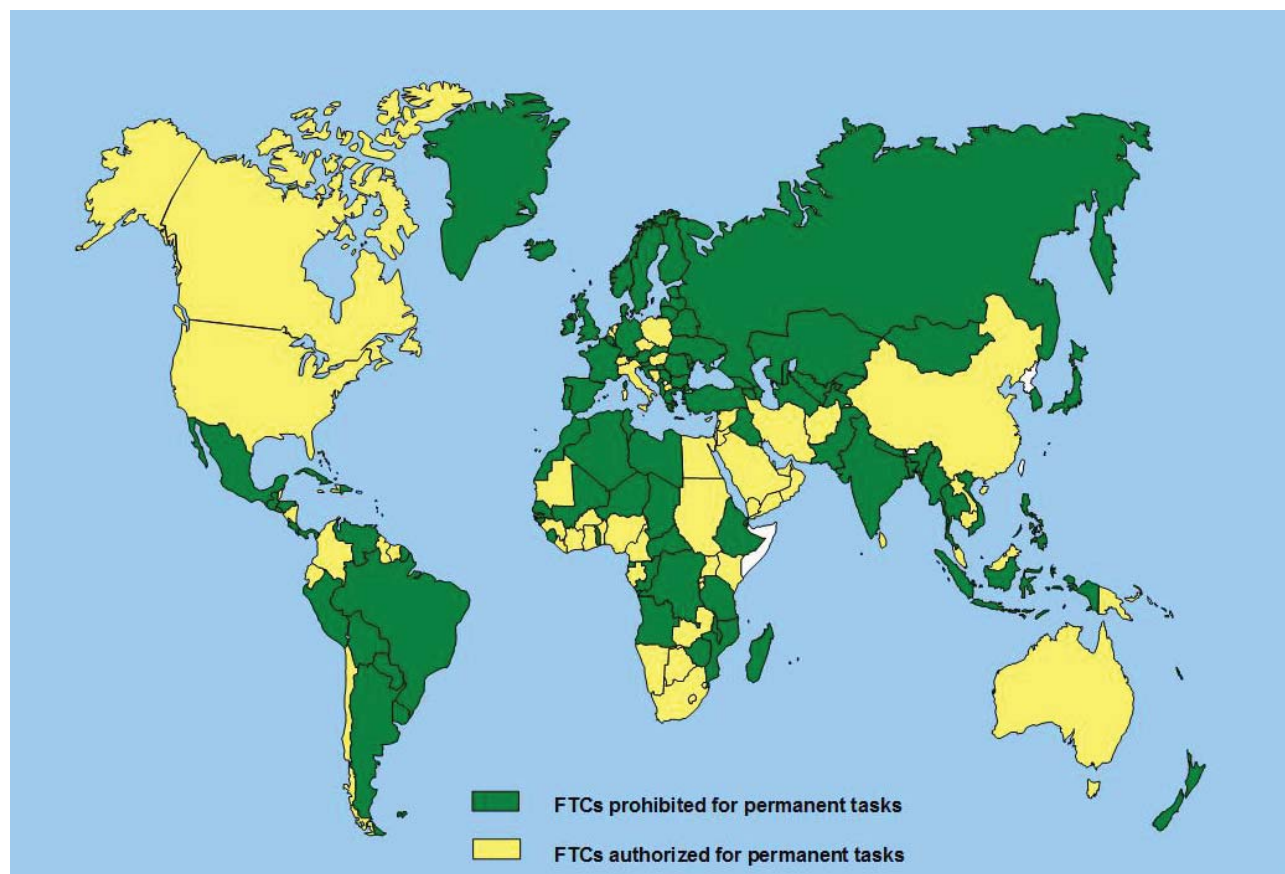
In the majority of countries, fixed-term contracts are regulated by specific legal provisions, while in some countries (such as the European Nordic), such forms of employment are governed by collective agreements at national, sectorial, and company levels. A relatively common

sanction for breaching legal requirements is to convert the fixed-term contract to a contract of unlimited duration.

The comparative overview of national labour laws shows that many countries have adopted different approaches to prevent abusive recourse to FTCs. Three major safeguards are:

- Prohibition of FTCs for permanent tasks. In more than half of 187 countries on which information is available, the law limits the use of FTCs to tasks of temporary nature. In other words, FTCs are prohibited for objectively permanent work (Figure 3).
- Limitation of the number of successive FTCs. As shown in Table 2, the legal framework of some countries contains such limitation of successive FTCs.
- Limitation of the cumulative duration of FTCs. This is the rule most frequently used in national labour laws. The comparative analysis shows that around 60 per cent out of 193 countries with available information limit the cumulative duration in the range from 1 to 10 years. Half of the examined countries use limitations of 2, 3, 4 and 5 years (see Table 3).

**Figure 3. Legal prohibition of the use of fixed-term contracts for permanent tasks**



Source: Muller, 2015 (forthcoming) with data from ILO EPLex, World Bank Doing Business Database and national labour laws.

**Table 2. Number of successive FTCs authorized by law**

Number of successive FTCs authorized by law	Countries
1 FTC	Bulgaria
2 FTCs	Brazil, Cameroon, Chile, China, Comoros, Democratic Republic of Congo, Estonia, France, Gabon, Indonesia, Madagascar, Niger, Senegal, Saudi Arabia, Spain, Venezuela, Vietnam
3 FTCs	Czech Republic, Greece, Luxembourg, the Netherlands, Romania
4 FTCs	Germany, Belgium, Portugal, Slovakia

Source: Muller, 2015 (forthcoming) with data from ILO EPLex, World Bank Doing Business Database and national labour laws.

**Table 3. Maximum legal duration of FTCs, including renewals**

Maximum duration of FTCs, including renewals	Countries
1 year and less	Chile, Guinea-Bissau, Pakistan*, Panama, Serbia, Sierra Leone, Venezuela, Zimbabwe*
2 years	Bolivia, Bosnia and Herzegovina, Brazil, Burkina Faso*, Cambodia, Central African Republic, Republic of Congo, Djibouti, Côte d'Ivoire, Ecuador, Equatorial Guinea, France*, Germany, Guinea, Iceland, Republic of Korea, Lebanon*, Luxembourg, Madagascar, Maldives, Mauritania, Montenegro*, Morocco*, the Netherlands*, Palau, occupied Palestinian territories, Senegal, Slovakia, Slovenia*, Spain, Sweden, Thailand, Venezuela
3 years	Algeria, Angola, Belgium, Bulgaria, Colombia*, Comoros, Croatia, Cuba, Czech Republic, Greece, Indonesia, Italy, Japan*, Latvia, Liberia*, Myanmar, Panama*, Portugal, Romania, São Tomé and Príncipe, Saudi Arabia*, Timor-Leste
4 years	Benin, Cameroon, Chad, Democratic Republic of Congo, Gabon, Georgia, Germany, Ireland*, Libya, Malta, Niger, Norway, Sudan, Togo, Tunisia, United Arab Emirates*, United-Kingdom*
5 years	Argentina, Armenia, Azerbaijan, Bahrain, Belarus*, Cape Verde, Costa Rica*, Finland, Honduras, Hungary, Japan, Jordan*, Kuwait, Kyrgyz Republic, Lithuania, Macedonia (FYR), Moldova, Mongolia*, Paraguay, Peru, Qatar, Romania, Russian Federation*, Senegal*, Syria, Tajikistan, Turkmenistan, Uzbekistan
6 years	Mali, Mozambique, Portugal, Viet Nam
10 years	China, Estonia, Switzerland*, Czech Republic (9 years)
No legal limits for the maximum duration of fixed-term contracts	Afghanistan, Albania, Antigua and Barbuda, Australia, Austria, Bahamas, Bangladesh, Barbados, Belize, Botswana, Brunei Darussalam, Burundi, Canada (federal), Cyprus, Denmark, Dominica, Dominican Republic, Egypt, El Salvador, Eritrea, Ethiopia, Fiji, Gambia, Ghana, Grenada, Guatemala, Guyana, Haiti, Hong Kong (SAR, China), India, Iran, Iraq, Israel*, Jamaica, Kazakhstan, Kenya, Lao, Lesotho*, Malawi, Malaysia, Marshall Islands, Mauritius, Mexico, Namibia, Nepal, New Zealand, Nicaragua, Nigeria, Oman, Papua New Guinea, Philippines, Poland, Rwanda, Samoa, Seychelles, Singapore, Solomon Islands, South Africa*, Sri Lanka, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sri Lanka, Suriname, Swaziland, Tanzania, Thailand, Tonga, Trinidad and Tobago, Turkey, Uganda, Ukraine, United States, Uruguay, Vanuatu, Yemen, Zambia

Note: For countries marked with “\*”, specific comments and assumptions are provided in Muller, 2015 (forthcoming).

Source: Muller, 2015 (forthcoming) with data from ILO EPLex, World Bank Doing Business Database, and national labour laws.



## 5. Policy options for regulating FTCs

As fixed-term employment is growing, its regulation must balance the employers' needs to have recourse to this type of employment, and the need to lessen workers' vulnerabilities associated with fixed-term work. Specifically, it is important to ensure that temporary workers enjoy equality and non-discrimination in terms of wages, social benefits, training, and access to collective bargaining; that they transit smoothly to regular jobs when desired; and that they do not carry a disproportionate burden of labour-market adjustments in terms of employment and income.

Having a legal framework aimed at limiting the abusive recourse to fixed-term contracts is important in this respect. Additional policy responses need to be further linked to country-specific reasons behind the growth of FTCs. For example, if FTCs are mainly used to limit the costs associated with the termination of regular contracts, when those are excessive, then reviewing through tripartite social dialogue the legislation regulating the use of FTCs and the termination of regular contracts may be necessary. If FTCs are mainly used to decrease wage-related costs or used as a screening device, promoting and enforcing non-discriminatory principles and the principle of equal pay for work of equal value is particularly important. Examples of such advancements include the EU Council Directive 99/70/EC of 28 June 1999 on fixed-term work, or collective bargaining developments, for example, in Japan.

More broadly, offering workers on FTCs the possibility to get access to permanent contracts will contribute to make labour markets more inclusive. These efforts can also be complemented by specific policies that improve social protection coverage of fixed-term workers, for example, by lowering minimum contribution periods or promoting systems in which social security entitlements are cumulated from one contract (and employer) to another, as is the case, for example, with portable severance pay in Austria.

## References

- Bentolila, S., J. J. Dolado, and J. Jimeno, 2011. Reforming the insider-outsider labor market: The Spanish experience. IZA DP No. 6186.
- Boeri, T., 2011. Institutional reforms and dualism in European labour markets. In Card, D. and O. Ashenfelter (Eds), *Handbook of Labor Economics*, Vol. 4b.
- Cazes, S., and J. de Laiglesia, 2015. Temporary contracts and wage inequality. In: Berg (Ed.), *Labour Markets, Institutions and Inequality. Building Just Societies in the 21st Century*. (Geneva, ILO).
- Collins, H., 1990. Independent Contractors and the Challenge of Vertical Disintegration. *Oxford Journal of Legal Studies*, Vol. 10, pp. 353-380.
- De Graaf-Zijl, Marloes, Gerard J. van den Berg, and Arjan Heyma, 2011. Stepping stones for the unemployed: The effect of temporary jobs on the duration until (regular) work. *Journal of Population Economics*, 24, pp. 107–139.
- Ebisui, M., 2012. Non-standard workers: Good practices of social dialogue and collective bargaining. ILO Dialogue Working Paper 36, (Geneva, ILO).
- Eichhorst, W., Tobsch, W., 2013. Has atypical work become typical in Germany? Country case study on labour market segmentation. *Employment Working Paper*, No. 145. (Geneva, ILO).
- García-Serrano, C.; Malo, M.A., 2013. Beyond the contract type segmentation in Spain. Country case study on labour market segmentation, *Employment Working Paper* No. 143 (Geneva, ILO).
- ILO, 2015. Report for a Tripartite Meeting of Experts on Non-standard forms of employment. (Geneva, ILO).
- Muller, A., 2015 (forthcoming). Fixed-term contracts: Global overview of labour laws. (Geneva, ILO).
- Le Barbachon, T., Malherbet, F. 2013. An anatomy of the French labour market. Country case study on labour market segmentation, *Employment Working Paper*, No. 142 (Geneva, ILO).
- OECD, 2014. *OECD Employment Outlook*. (Paris, OECD).
- Theodore, N., Peck, J., 2013. Selling flexibility: temporary staffing in a volatile economy. In (Eds): Fudge, J., and K. Strauss (eds). *Temporary Work, Agencies, and Unfree Labor*, Routledge, New York.





**Further information:**

Inclusive Labour Markets, Labour Relations  
and Working Conditions Branch (INWORK)

International Labour Office  
4, route des Morillons  
CH-1211 Geneva 22, Switzerland

Tel: +41 22 799 6754  
Fax: +41 22 799 8451  
E-mail: [inwork@ilo.org](mailto:inwork@ilo.org)  
[www.ilo.org/inwork](http://www.ilo.org/inwork)

Governance and Tripartism Department  
(GOVERNANCE)

International Labour Office  
4, route des Morillons  
CH-1211 Geneva 22, Switzerland

Tel: +41 22 799 7035  
Fax: +41 22 799 8749  
E-mail: [dialogue@ilo.org](mailto:dialogue@ilo.org)  
[www.ilo.org/dial](http://www.ilo.org/dial)