



Challenges of Contractors Under Contract Labour Regulation Act, 1970

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Abstract

Actors responsible for articulating state policy about low-wage precarious workers on the frontline perpetuate coercion and exploitation in the workplace by tolerating these conditions instead of advocating for the enforcement of labor market norms. The paper analyzes permissiveness in compliance, deterrent, and intelligence strategies used by regulators and enforcement agencies to substantiate this position. The essay elucidates the constraints of existing labour market regulatory methods that monitor noncompliance, restrict deterrent efforts to certain sectors, and prioritize information sources for law enforcement above labour market enforcement. This contribution analyzes enforcement agency personnel and regulatory players, who are challenging to engage, but play a pivotal role in the design of labor market regulation policy at the forefront.

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I. Introduction

The Contract Labour (Regulation and Abolition) Act, 1970, created a crucial legal framework for safeguarding workers in emerging countries, especially in India. The Act was established to govern the employment of contract labor across many sectors and to avert exploitation by guaranteeing improved working conditions, equitable salaries, and social security measures. Nearly five decades post-implementation, contractors and principle employers have significant hurdles in adhering to its rules while sustaining operational efficiency. This research paper analyzes the many obstacles faced by contractors under the Contract Labour Regulation and Abolition Act, 1970, and investigates the legislative, operational, and social aspects of these limitations.

II. Legislative Structure and Extent of the Statute:

The Contract Labour Act pertains to companies and contractors employing 20 or more contract workers, necessitating thorough registration, licensing, and welfare measures for such employment. The Act's primary aim was to provide a legislative safeguard to avert the systematic exploitation of contract workers who often occupy precarious roles in the labor market. The law established dual duty systems, wherein both the principal employer and the contractor have duties to contract workers, resulting in complex accountability frameworks that need meticulous navigation and ongoing compliance efforts. Notwithstanding the Act's protective purpose, its execution has exposed considerable enforcement deficiencies and structural constraints. Research suggests that while the Act offers legal protection theoretically, enforcement is deficient owing to insufficient knowledge, inconsistent inspections, and contractor misconduct. This regulatory paradox where law is intended to safeguard workers but fails to fulfill its protective aims in practice constitutes a key problem that contractors must confront while striving to adhere to legal obligations.

III. Challenges in Implementation and Compliance

a) Weak Enforcement Mechanisms

A significant difficulty contractors have is the inadequacy of enforcement tools intended to guarantee adherence to the Contract Labour Act. The regulatory structure is hindered by inconsistent inspections conducted by government bodies tasked with overseeing contractor activity. This erratic supervision fosters a milieu in which compliance is optional rather than obligatory, since contractors encounter ambiguous repercussions for non-compliance. Contractors operating in areas with inadequate enforcement capability find themselves confronting little incentives to maintain complete compliance with all legislative obligations, notably with wage payments, working hours, and safety standards. The obstacles of enforcement beyond simple limitations in regulatory

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capability. Systemic dysfunction occurs throughout labor law enforcement systems, necessitating fundamental adjustments to enhance efficacy. Government inspectorates responsible for overseeing contractor compliance often lack enough financial resources, technical proficiency, and manpower required to perform thorough and consistent inspections of all registered contractors. The paucity of resources results in many contractors functioning with less oversight, fostering an environment where some contractors may prioritize cost savings above employee wellbeing and adherence to regulatory standards.

b) Lack of Awareness and Knowledge Gaps

Contractors have significant difficulties due to insufficient understanding of their legal responsibilities under the Act. Numerous contract workers are oblivious to their rights, exacerbating the issue by diminishing external pressure for contractor adherence. This reciprocal ignorance generates an information imbalance that disadvantages vulnerable workers and permits contractors to function with an inadequate comprehension of their regulatory obligations. The intricacy of labor regulation, along with regular revisions and varied interpretations by various state and central agencies, engenders ambiguity over the specific duties contractors are required to meet. Educational programs aimed at increasing knowledge among contractors are inadequate and uneven across areas. Numerous contractors, especially those in small and medium firms, lack access to dependable information about their duties related to registration processes, welfare provision requirements, salary determination methods, and occupational safety regulations. This information deficit often results in inadvertent non-compliance, whereby contractors may breach regulatory requirements not through purposeful wrongdoing but due to a sincere misapprehension of their legal responsibilities.

c) Financial Burden of Compliance

Contractors subject to the Act have substantial cost burdens due to compliance obligations. The registration and licensing processes impose costs that many small and medium-sized contractors consider onerous. In addition to initial registration, contractors must invest in maintaining compliance infrastructure, which includes administrative systems for record-keeping, salary disbursement methods, and documentation of working conditions. These expenses are especially burdensome for contractors in labor intensive industries like construction, where profit margins are slim and operations are defined by project-based engagements. The need to provide welfare amenities, including medical benefits, safety apparatus, and social security payments, significantly increases contractor expenses. Contractors must reconcile these obligatory expenditures with competitive market forces, since non-compliant rivals may undermine pricing by circumventing these costs. This engenders a "race to the bottom" dynamic, wherein conforming contractors encounter competitive disadvantages relative to those prepared to flout regulatory mandates. As a result, several contractors indicate that compliance costs substantially affect their profitability and competitive sustainability.

d) Dual Accountability and Ambiguous Responsibilities

The Act creates dual accountability frameworks in which both the principal employer and the contractor are responsible for worker welfare and adherence to regulations. This structure engenders legal uncertainty and practical misunderstanding over the exact responsibilities of each party. Contractors often navigate the tension between the expectations of principal employers and legal mandates, encountering possible responsibility for infractions that may come from principle employer choices or entrenched industry practices.

This unclear definition of obligations generates problems in which contractors may be liable for violations they cannot avert owing to acts of the major employer or contractual limitations. Moreover, the issue of contractor misconduct remains a persistent difficulty. Certain contractors intentionally evade Act rules by using informal employment arrangements, fragmenting worker groupings to bypass the 20-worker level, or participating in deceptive documentation techniques. The malpractices of select contractors erode the integrity of the whole contracting system and pose difficulties for complying contractors who must function under the same regulatory framework that allows non-compliant entities to encounter minimal repercussions.

e) Occupational Health and Safety Challenges

i. Inadequate Safety Standards Implementation

Contractors face substantial challenges in implementing adequate occupational health and safety measures as mandated by the Act and related regulations. Many contracting operations, particularly in construction and manufacturing sectors, involve hazardous work environments requiring specialized safety protocols and equipment. Contractors must comply with occupational safety standards while often operating under cost constraints that limit their ability to invest in comprehensive safety infrastructure.

The implementation of safety measures is complicated by the informal nature of many contracting arrangements, wherein workers may not receive proper training on hazard recognition, safety procedures, and use of protective equipment. Contractors struggle to ensure consistent implementation of safety standards across diverse work sites and changing worker compositions. The resource requirements for comprehensive occupational

health programs including safety training, medical surveillance, hazard assessment, and emergency response procedures represent additional financial burdens that contractors must manage while maintaining operational viability.

ii) Health and Safety Enforcement Gaps

Despite the existence of regulatory frameworks addressing occupational safety in contract labour arrangements, enforcement remains inconsistent and inadequate in many jurisdictions. Contractors may operate with inadequate safety measures due to weak inspection regimes and limited consequences for safety violations. The challenge of ensuring health and safety becomes particularly acute in sectors where contract workers represent a significant portion of the workforce and where hazard exposures are substantial. Contractors face uncertainties regarding specific safety standards applicable to their operations, given variations in regulatory requirements across different jurisdictions and sectors.

f) Wage Payments and Social Security Issues

i) Delayed and Withheld Wages

One of the most persistent challenges contractors faces involves wage payment obligations. Contract workers frequently experience delayed wage payments, representing a significant breach of the Act's provisions requiring timely compensation. These delays arise from various causes, including delayed payments from principal employers to contractors, cash flow difficulties facing contractors, and in some cases deliberate withholding of wages to ensure worker retention or to extract financial benefits.

The wage payment challenge is particularly acute in sectors characterized by project-based work, such as construction, where contractor compensation is contingent on project milestone payments from principal employers. When principal employers delay payments to contractors, the financial strain cascades to contractors, who then face difficulties meeting their wage obligations to contract workers. This creates a situation wherein contractors may be technically violating wage payment requirements through no direct fault of their own but due to systemic delays in the payment chain.

ii) Social Security Coverage Deficiencies

The Act mandates provision of social security benefits to contract workers, including access to health insurance, disability benefits, and retirement provisions. Contractors struggle to fulfill these obligations effectively due to the complexity of social security systems and the costs associated with comprehensive coverage. Many contractors, particularly in small and medium enterprises, lack the administrative infrastructure and financial resources to navigate social security enrollment procedures and maintain ongoing compliance with benefit contribution requirements.

The challenge of ensuring adequate social security coverage becomes especially problematic for mobile contract workers who move between different contractors or projects. These workers face discontinuities in coverage, gaps in contribution records, and difficulties accessing accumulated benefits. Contractors may find themselves unable to provide continuous social security coverage due to the temporary nature of contract employment and workers' mobility across different employment arrangements.

g) Principal Employer-Contractor Relations and Liability Concerns

i) Conflicting Commercial Pressures

Contractors operate under intense commercial pressures from principal employers who seek to minimize labour costs and maximize operational flexibility. These commercial pressures often conflict with regulatory requirements mandating adequate wages, working conditions, and worker protection measures. Principal employers may establish contracting arrangements specifically to reduce costs by utilizing contract labour rather than directly employing permanent workers, thereby shifting compliance responsibilities to contractors while exerting downward pressure on contract labour costs.

The power asymmetry between principal employers and contractors creates conditions wherein contractors must accept unfavorable commercial terms to secure work opportunities. When principal employers demand labour services at rates insufficient to cover costs of regulatory compliance, contractors face dilemmas between accepting below-viability contracts or losing business opportunities entirely. This economic reality forces many contractors to operate at margins where full regulatory compliance becomes financially impossible, creating structural conditions that perpetuate non-compliance.

ii) Liability and Legal Uncertainties

Contractors face legal uncertainties regarding their liability exposure under the Contract Labour Act, particularly regarding situations where principal employers fail to fulfill their statutory obligations. The Act establishes joint and several liability provisions in many instances, meaning that both contractors and principal employers may face legal liability for violations affecting contract workers. However, the practical allocation of liability often

remains ambiguous, creating situations wherein contractors may be held accountable for violations originating from principal employer decisions or policies.

The potential for cascading liability creates significant legal risks for contractors. If contract workers suffer injuries, wage theft, or other harms, contractors may face legal proceedings even when the violations resulted from principal employer actions or resource constraints. This liability exposure incentivizes contractors to maintain conservative operational practices, avoid risk, and potentially implement overly restrictive measures that may negatively affect worker productivity and contractor business viability.

h) Sectoral Variations and Industry-Specific Challenges

i) Construction Sector Challenges

The construction industry presents particularly acute challenges for contractors operating under the Act. Construction work involves substantial occupational hazards, project-based employment patterns, and geographical mobility of workers. Contractors in construction face challenges in maintaining consistent compliance across multiple project sites, each with different environmental conditions, hazard profiles, and principal employer expectations. The project-based nature of construction work creates discontinuities in employment, complicating the provision of continuous social security coverage and making verification of worker compliance status difficult.

Additionally, construction contractors face challenges from extensive subcontracting arrangements, wherein multiple layers of contractors operate within complex hierarchies, each bearing ostensible responsibility for worker welfare while lacking direct control over many work conditions. This multi-tiered structure creates diffused accountability, wherein responsibility for worker protection becomes fragmented across multiple actors, none of whom controls all relevant aspects of work organization.

ii) Manufacturing and Other Sectors

Contractors in manufacturing sectors face different but equally substantial challenges, including requirements for complex occupational health and safety protocols in environments with chemical hazards, machinery hazards, and ergonomic risks. Contractors must ensure contract workers receive adequate training and supervision in hazardous work environments while managing compliance with multiple regulatory frameworks addressing workplace safety, environmental protection, and industry-specific standards.

Service sector contractors, including those providing domestic work, security services, and cleaning services, face challenges arising from informal work arrangements, difficulties in monitoring work conditions, and substantial power imbalances between contractors and employing households or businesses. The informal nature of many service sector contracting arrangements complicates regulatory compliance and creates vulnerabilities wherein workers may experience exploitation with limited oversight or worker awareness of rights.

i) Administrative and Bureaucratic Challenges

i) Registration and Documentation Requirements

Contractors face substantial administrative burdens in fulfilling registration and documentation requirements established by the Act. Registration processes require submission of detailed information regarding contractor operations, contract worker numbers, working conditions, welfare arrangements, and supervisory structures. These requirements vary across different state jurisdictions, as labour falls within concurrent legislative authority in India, creating situations wherein contractors operating across multiple states must navigate diverse registration procedures and maintain separate documentation for each jurisdiction.

The documentation requirements impose ongoing administrative obligations requiring contractors to maintain detailed records of worker employment, wages paid, benefits provided, and safety measures implemented. Contractors, particularly those in small and medium enterprises, often lack administrative infrastructure and expertise to maintain these records efficiently. The burden of documentation compliance diverts resources from operational activities and represents a source of stress for contractors who may face penalties for documentation deficiencies even when substantive compliance with worker welfare requirements exists.

ii) Coordination Between Multiple Authorities

Contractors must coordinate compliance with requirements established by multiple regulatory authorities operating at different administrative levels—central government agencies, state labour departments, district-level inspectorates, and municipal authorities. These multiple authorities may establish divergent or conflicting requirements, creating compliance ambiguities wherein contractors struggle to understand which authority's interpretation of regulatory requirements should take precedence. Coordination failures between different regulatory agencies result in inconsistent enforcement and unpredictable compliance expectations.

The fragmentation of regulatory authority creates situations wherein contractors may be simultaneously subject to inspections by different agencies with varying interpretations of statutory obligations. This administrative fragmentation imposes transaction costs on contractors as they navigate bureaucratic processes and attempt to ensure compliance with multiple regulatory frameworks. Contractors report that interactions with regulatory

agencies are often characterized by lack of clarity regarding specific compliance expectations, creating situations wherein contractors implement measures they believe satisfy requirements only to face penalties for inadequacy.

j) Impact of Contract Worker Vulnerabilities

i) Worker Exploitation and Contractor Liability

Contractors face pressures arising from vulnerabilities of contract workers themselves, who often lack awareness of their rights and possess limited bargaining power. This worker vulnerability creates conditions wherein contractors who wish to maintain competitive viability face temptations to engage in exploitative practices—wage theft, hour manipulation, safety violations—that reduce costs but violate the Act's protective provisions. The presence of exploitative competitors creates "race to the bottom" dynamics wherein compliant contractors face competitive disadvantages.

Additionally, contractors face risks of being held responsible for worker vulnerabilities they did not create. If contract workers lack awareness of their rights or fail to report violations, contractors may not face immediate legal consequences despite operating at margins where formal compliance is difficult. However, when contract workers eventually access legal remedies—through labour courts, workers' compensation agencies, or civil society organizations—contractors may face retroactive liability for violations accumulated over extended periods.

ii) Worker Mobility and Continuity Issues

Contract workers frequently move between different contractors and projects, creating challenges for contractors in maintaining comprehensive records and ensuring continuous benefit coverage. This worker mobility complicates verification of employment status, creates gaps in social security coverage, and makes it difficult for contractors to maintain complete information regarding worker employment histories across multiple employers. The transient nature of contract employment means contractors struggle to establish stable relationships with contract workers and face difficulties in organizing workplace-level worker protection initiatives.

IV) Recommendations for Addressing Contractor Challenges

i) Policy and Regulatory Reforms

To address the substantial challenges contractors face, policymakers should consider regulatory reforms that improve clarity, reduce administrative burdens, and establish more proportionate compliance requirements. Streamlining registration procedures, harmonizing state-level variations in requirements, and establishing clear compliance standards would reduce uncertainty and administrative costs facing contractors. Creating simplified compliance frameworks for small and medium-sized contractors would acknowledge capacity constraints while maintaining protective objectives.

Establishing dedicated contractor support services, including advisory services providing technical assistance on compliance requirements, would help reduce implementation challenges arising from knowledge gaps. These services could be provided through contractor associations, industry groups, or government agencies and would focus on practical guidance regarding specific compliance obligations.

ii) Strengthening Enforcement Mechanisms

Enhancing the capacity and resources available to labour inspectorates would improve consistency of enforcement and reduce opportunities for non-compliance. Increasing inspectorate staffing, providing specialized training on contract labour regulations, and establishing regular inspection schedules would create more predictable regulatory environments. Technology-based compliance monitoring systems could reduce inspection costs while improving coverage.

Establishing collaborative relationships between principal employers, contractors, and labour authorities could facilitate more effective enforcement through information sharing and coordinated compliance efforts. Multi-stakeholder initiatives bringing together representatives of contractors, workers, principal employers, and government agencies could identify practical solutions to implementation challenges while maintaining worker protection objectives.

iii) Addressing Principal Employer Accountability

Strengthening accountability of principal employers for contract labour practices would address power asymmetries that currently force contractors to operate under unfavorable commercial terms. Legal frameworks should establish clear principal employer obligations and meaningful consequences for violations, including liability for wage theft, safety violations, and inadequate benefit provision by contractors they engage. Making principal employers jointly liable for contractor compliance failures would create incentives for principal employers to provide sufficient resources and establish supportive contractual relationships enabling contractor compliance.

V. Conclusion

Contractors operating under the Contract Labour (Regulation and Abolition) Act face substantial and multifaceted challenges arising from weak enforcement mechanisms, knowledge gaps, financial burdens, ambiguous accountability structures, and conflicting commercial pressures. These challenges create structural conditions wherein full regulatory compliance becomes difficult, particularly for small and medium-sized contractors operating in competitive markets with thin profit margins. While the Act establishes protective objectives addressing worker exploitation and unsafe working conditions, its implementation has failed to achieve these goals effectively, with enforcement remaining weak and widespread non-compliance persisting.

Addressing these challenges requires comprehensive reforms encompassing strengthened enforcement, improved contractor support, clarified regulatory requirements, and enhanced principal employer accountability. Such reforms must balance protective objectives with recognition of contractor capacity constraints and economic realities. Without substantive reforms addressing these structural challenges, contractors will continue operating in environments characterized by regulatory ambiguity, weak accountability, and conflicting pressures that make effective compliance difficult and incentivize non-compliance. Ultimately, effective protection of contract workers requires not only regulatory frameworks addressing contractor obligations but also systemic reforms ensuring adequate enforcement, contractor support, and principal employer accountability for contract labour practices.

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