

Micro and Small Enterprise Vendor / Buyer Contract Compliance Checklist

1. Verify Parties and MSME Status

- Verify legal name, constitution, Permanent Account Number and Goods and Services Tax Identification Number of both parties.
- Obtain and verify the supplier's Udyam Registration details where applicable.
- Confirm that the contract correctly identifies the Micro or Small Enterprise supplier.

2. Define Goods / Services and Commercial Terms

- Clearly define the goods or services, quantity, specifications, quality standards and deliverables.
- Clearly specify price, taxes, delivery terms and other commercial conditions.
- Ensure the purchase order and agreement contain consistent terms.

3. Document Payment Terms Properly

- Payment terms should be clearly agreed **in writing**.
- Specify the payment period and the event from which the period will be calculated.
- Ensure the contractual payment period does not exceed the statutory limit of **45 days** under Section 15 of the Micro, Small and Medium Enterprises Development Act, 2006.
- Avoid payment clauses that make payment dependent on uncertain or indefinite events.

4. Protect Acceptance and Payment Rights

- Clearly define the procedure and timeline for inspection and acceptance.
- Specify valid grounds for rejection.
- Require rejection or objections to be communicated in writing.
- Avoid indefinite inspection, approval or rejection periods that can delay payment.
- Ensure acceptance provisions are consistent with Sections 15 and 16 of the Micro, Small and Medium Enterprises Development Act, 2006.

5. Review Delayed-Payment Interest

- Ensure the contract does not attempt to exclude statutory interest applicable under Section 16.
- Review any contractual interest clause against the statutory interest provisions.
- Recognise that statutory interest for delayed payment is based on **three times the bank rate notified by the Reserve Bank of India**, with compound interest and monthly rests.

6. Review Retention and Payment Withholding

- Identify any retention money or security deduction.
- Specify the amount and release date.
- Clearly define circumstances in which payment can be withheld.
- Review unilateral deduction, set-off and recovery clauses.

- Ensure such provisions do not unnecessarily delay undisputed amounts payable to the Micro or Small Enterprise.

7. Review Price and Change-in-Scope Clauses

- Specify the agreed price and basis for price revision.
- Require written approval for additional work or changes in specifications.
- Clearly provide for additional payment and extension of time for approved variations.
- Do not require additional work without appropriate commercial approval.

8. Review Liability, Indemnity and Warranty

- Check whether liability is capped.
- Identify exclusions from the liability cap.
- Review indemnity obligations.
- Avoid unlimited or disproportionate liability for the Micro or Small Enterprise.
- Define warranty period and defect-remediation obligations.
- Ensure warranty obligations are reasonable and clearly measurable.

9. Review Delivery, Risk and Force Majeure

- Clearly define delivery obligations and timelines.
- Specify responsibility for transportation, insurance and loss or damage.
- Clearly identify when risk and ownership transfer.
- Include appropriate force majeure protection.
- Specify the effect of force majeure on delivery and payment obligations.

10. Review Termination and Cancellation

- Clearly define termination rights and notice periods.
- Specify grounds for termination.
- Provide for payment for goods supplied and services completed before termination.
- Address treatment of work in progress, approved expenses and outstanding invoices.
- Review termination-for-convenience provisions carefully where the Micro or Small Enterprise has incurred committed costs.

11. Review Dispute Resolution

- Specify negotiation and escalation procedures.
- Review arbitration and jurisdiction clauses.
- Ensure contractual dispute-resolution provisions do not improperly restrict statutory remedies available under the Micro, Small and Medium Enterprises Development Act, 2006.
- Where applicable, consider the statutory mechanism for reference to the **Micro and Small Enterprises Facilitation Council** under Section 18.

12. Review Assignment and Receivable Rights

- Check restrictions on assignment of contractual rights and receivables.

- Ensure the contract does not unnecessarily restrict legitimate financing or assignment arrangements.
- Clearly specify whether prior consent is required for assignment.

13. Review Confidentiality and Intellectual Property

- Define confidential information.
- Clearly specify ownership and permitted use of intellectual property.
- Identify ownership of designs, drawings, technical information, software and other deliverables.
- Ensure intellectual property obligations correspond to the actual scope of work.

14. Review Tax and Statutory Compliance

- Clearly allocate responsibility for applicable taxes, withholding and statutory compliances.
- Ensure invoice and tax documentation requirements are clearly stated.
- For buyers, separately review the tax consequences of delayed payments to Micro and Small Enterprises under **Section 43B(h) of the Income-tax Act, 1961.** I

15. Final Contract Approval

Before signing or issuing the contract:

- Confirm payment terms.
- Confirm acceptance provisions.
- Confirm delayed-payment interest provisions.
- Review retention and set-off clauses.
- Review liability and indemnity.
- Review warranty obligations.
- Review termination rights.
- Review dispute-resolution provisions.
- Review Micro, Small and Medium Enterprises Development Act, 2006 compliance.
- Obtain legal and commercial approval for high-risk clauses.

DOCUMENTS REQUIRED

Sr. No.	Document Category	Documents / Records Required
1	Party & Registration	Udyam Registration Certificate, Permanent Account Number, Goods and Services Tax Registration Certificate, Certificate of Incorporation / Partnership Deed / Constitution Document, Authorisation of Signatory
2	Contract & Commercial	Master Agreement, Purchase Order, Work Order, Quotation, Commercial Offer, Scope of Work, Price Schedule, Technical Specifications, Delivery Schedule, Terms and Conditions
3	Contract Changes	Amendments, Addendums, Change Orders, Written Approvals, Revised Commercial Terms

4	Supply & Acceptance	Invoices, Delivery Challans, Goods Receipt Records, Acceptance Certificates, Inspection Reports, Service Completion Certificates, Quality Reports
5	Payment & Accounting	Vendor Ledger, Statement of Account, Payment Records, Bank Statements, Credit Notes, Debit Notes, Retention Records, Set-Off / Deduction Statements, Outstanding Payable Ageing
6	Correspondence & Notices	Email Correspondence, Written Objections, Rejection Notices, Payment Follow-ups, Demand Notices, Contractual Notices
7	Legal & Dispute	Legal Review, Contract Approval Note, Dispute Notices, Micro and Small Enterprises Facilitation Council Correspondence, Conciliation Records, Arbitration Documents, Orders / Awards, Settlement Agreements
8	Tax & Compliance	Tax Deduction Records, Tax Invoices, Section 43B(h) Working, Applicable Statutory Compliance Records
9	Closure & Review	Final Settlement Statement, Payment Proof, Contract Closure Record, Outstanding Liability Confirmation, Management / Legal Review

NOTES

- **Forty-five-day ceiling:** A written agreement with a Micro or Small Enterprise cannot provide a payment period exceeding forty-five days under Section 15.
- **Acceptance is critical:** The contract should clearly establish the acceptance or deemed-acceptance mechanism because it affects the statutory payment timeline.
- **Statutory interest:** Contractual terms should not be used to improperly waive or reduce statutory interest under Section 16.
- **Payment withholding:** Clauses permitting unlimited withholding, deductions or set-off should be specifically reviewed.
- **Liability:** Unlimited liability, broad indemnities and excessive warranty obligations are key contractual risks for Micro and Small Enterprises.
- **Termination:** The agreement should protect payment for goods already supplied, services already performed and legitimate costs incurred before termination.
- **Disputes:** A contractual arbitration clause should be reviewed together with the statutory dispute-resolution mechanism under Section 18.
- **Tax:** Section 43B(h) is a **buyer-side income-tax consideration** for sums payable to Micro and Small Enterprises beyond the time specified in Section 15.
- **Financial reporting:** Companies should also consider applicable trade-payable and Micro and Small Enterprise ageing disclosures under the Companies Act, 2013 and applicable accounting requirements.
- **Core Objective:** Protect the Micro and Small Enterprise against payment delays, excessive liability, unfair deductions, termination and recovery risks