Recently revised regulations enhance payment protections for small and medium-sized enterprises

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I. Background

Small and medium-sized enterprises (SMEs) serve as vital drivers of economic growth, pivotal in job creation and fostering innovation. However, within the intricate global economic landscape and amidst fierce domestic competition, SMEs often grapple with challenges like escalating payment collection pressures and constrained cash flows. Addressing these issues, the recently revised *Regulations on Ensuring Payment to Small and Medium-sized Enterprises*[1] (referred to as the “Regulations”) took effect on 1 June 2025. These revisions aim to tackle persistent payment hurdles faced by SMEs, such as difficulties in recovering accounts receivable, prolonged payment cycles and concealed defaults, fortifying payment protections and enhancing SME cash flow conditions by refining institutional frameworks.

This article examines the key updates within the Regulations, spotlighting newly introduced practical measures to assist stakeholders in better understanding how the revised Regulations offer robust institutional backing to safeguard timely payment to SMEs.

II. Enterprise size classification and key revisions

1. Classification criteria for different enterprise types

The Regulations mandate that government bodies, public institutions and large corporations adhere to these guidelines when procuring goods, projects or services from SMEs. SMEs are defined as legally established entities in China that meet the criteria stipulated in the *Regulations on the Classification Standards for Small and Medium-sized Enterprises (MIIT Lian Qiye [2011] No 300)* [2], encompassing micro, small and medium-sized enterprises. Large enterprises, on the other hand, are those not falling under the SME category.

Moreover, the National Bureau of Statistics has outlined the *Statistical Classification Standards for Large, Medium, Small and Micro Enterprises (2017)* [3], based on the *Industrial Classification for National Economic Activities (GB/T4754-2017)* and practical statistical requirements.

Reference standards for SME classification in key industries:

1. https://www.gov.cn/zhengce/content/2020-07/14/content_5526768.htm
2. https://www.gov.cn/zwgk/2011-07/04/content_1898747.htm
3. https://www.stats.gov.cn/sj/tjbz/gjtjbz/202302/t20230213_1902763.html

Sectors	Indicators	Unit	Large enterprises	Medium enterprises	Small enterprises	Micro enterprises
Agriculture, forestry, animal husbandry and fishery	Operating income (Y)	RMB'0,000	Y ≥ 20000	500≤ Y<20000	50≤ Y<500	Y<50
Industrials	Operating income (Y)	RMB'0,000	Y ≥ 40000	2000≤ Y<40000	300≤ Y< 2000	Y<300
	Employees (X)	Person	X ≥ 1000	300≤ X<1000	20≤ X<300	X<20
Retail	Operating income (Y)	RMB'0,000	Y ≥ 20000	500≤ Y<20000	100≤ Y< 500	Y<100
	Employees (X)	Person	X ≥ 300	50≤ X<300	10≤ X<50	X<10
Wholesale	Operating income (Y)	RMB'0,000	Y ≥ 40000	5000≤ Y<40000	1000≤ Y< 5000	Y<1000
	Employees (X)	Person	X ≥ 200	20≤ X<200	5≤ X<20	X<5
Real estate	Operating income (Y)	RMB'0,000	Y ≥ 200000	1000≤ Y< 200000	100≤ Y< 10000	Y<100
	Total assets (Z)	RMB'0,000	Z≥200	20≤ Z<200	5≤ Z<20	Z<5

- Employees refer to the number of employed persons as of the end of the reporting period or the average number of employees for the full year in the case that such data are not available.
- Operating income refers to prime operating income for enterprises in industrials and construction sectors, enterprises above the threshold in wholesale and retail, accommodation and catering services sectors and other sectors setting the indicators for prime operating income; or sales for wholesale and retail enterprises below the threshold; or turnover for accommodation and catering services providers below the threshold; or total revenue for enterprises in agriculture, forestry, animal husbandry and fishery sectors; or operating income for enterprises in sectors without a defined indicator for prime operating income.
- Total assets refer to total value of all assets.

As demonstrated in the graph above, enterprises must meet the lower limits of all listed indicators for large, medium and small enterprise classification simultaneously; failing to do so results in a downgrade. Micro enterprises, however, need to meet only one of the indicators. For instance, if Enterprise A operates in the industrial sector, employs 1,500 people (meeting the large enterprise threshold), but generates revenue of RMB50 million (missing the large enterprise standard but meeting the medium enterprise threshold), it is classified as a medium enterprise.

Enterprises can utilize the self-assessment tool provided by the MIIT's SME Bureau, the SME Monitoring Platform, to ascertain their size category.

2. Key revisions in the Regulations

- Clarification of payment deadlines
  - Revision: Article 9 of the revised Regulations stipulates that large enterprises must settle payments to SMEs within 60 days of goods, projects or services delivery. While contracts may specify alternative terms, they must align with industry norms and practices, ensuring timely payments.
  - Highlight: This provision empowers SMEs to demand payment within 60 days in the absence of explicit deadlines in contracts, providing them with legal grounds and room for negotiation and bargaining. On the other hand, it allows for "other agreements in the contract" to strike a balance between statutory requirements and contractual freedom.

- Prohibition of “pay-when-paid” clauses
  - Revision: Article 9 prohibits clauses that link SME payments to third-party receipts or tie payment progress to third-party disbursements.
  - Highlight: This provision explicitly prohibits “pay-when-paid” clauses, echoing the *Reply of the Supreme People’s Court on the Effectiveness of Provisions in which Large Enterprises and Small and Medium-sized Enterprises Agree to Use Third-party Payments as a Precondition for Payment* (implemented on 27 August 2024). The first article of this reply clearly states that if large enterprises agree with SMEs in the construction project, procurement of goods or service provisioning process to use receipt of payments from a third party as a precondition for payment, such agreement violates the provisions of the Regulations. The people’s court shall, in accordance with Article 153, paragraph 1 of the Civil Code, determines that such agreed clause is invalid. This measure prevents large enterprises from transferring financial risks to SMEs, reinforcing payment obligations.
- Restrictions on non-cash payment methods
  - Revision: Article 11 mandates that government bodies, public institutions and large corporations clearly specify non-cash payment methods (e.g., commercial drafts and electronic receivables) in contracts. They are prohibited from coercing SMEs into accepting such methods or using them to extend payment timelines.
  - Highlight: Inclusion of electronic receivables as a non-cash method, emphasizing that coercing SMEs into accepting such methods is prohibited, embodying the protection of cash flow for SMEs and curbing large enterprises’ exploitation of payment tools for financial gains.
- Payment for non-disputed amounts
  - Revision: The new Article 15 necessitates prompt payment of the non-disputed portion in transactions with partial disputes.
  - Highlight: This prevents delays in blanket payments due to partial disputes, ensuring SMEs receive undisputed payments without unnecessary delays. According to this provision, even if there is a partial dispute in the transaction, it does not affect the payment obligation for the undisputed portion. The buyer shall promptly pay the undisputed amount.
- Strengthened supervision and penalties
  - Revision: Article 25 of the Regulations stipulates that the complaint acceptance department shall, in accordance with the principle of “territorial management and graded responsibility”, should forward the complaint materials to the handling department within 10 working days after formal acceptance; the handling department must formulate a handling result and provide written feedback within 30 days. In special circumstances, the deadline may be extended upon approval but not exceeding a maximum of 90 days. Article 26 of the Regulation stipulates that if any government agency, public institution or large enterprise is legally identified as having default behavior, its dishonesty record will be included in the National Credit Information Sharing Platform and the National Enterprise Credit Information Publicity System. Restrictions will be imposed on fiscal funding and tax support, investment and financing, qualification assessment and other aspects depending on the severity of the situation. Constraints will also be imposed on government agencies and public institutions in terms of official consumption and funding arrangements.
  - Highlight: These provisions establish an efficient and accessible complaint resolution mechanism, further streamlining channels for SMEs to safeguard their rights and enhancing the accessibility and timeliness of legal protections. Government agencies or large enterprises confirmed to have engaged in payment defaults will be lawfully added to a public credit blacklist and face corresponding restrictions in areas such as fiscal funding, financing access and qualification assessments. By strengthening the binding force of credit sanctions and increasing the cost of violations, these measures can effectively regulate the payment behavior.

III. Impact and recommendations

1. Implications for specific industries

- Automotive sector takes swift action:

  Following the enactment of the Regulations, the automotive sector has taken the lead in compliance. Seventeen major automakers have committed to capping payment terms at 60 days and eliminating cumbersome settlement methods – such as commercial acceptance drafts – that strain suppliers' cash flow, while adopting digital platforms (e.g., end-to-end contract monitoring) to ensure transparency in execution.

  However, while shortening payment cycles, automakers must also optimize settlement processes and strengthen debt management to enhance compliance, mitigate default risks and avoid payment violations. For SME suppliers in the supply chain, the Regulations will significantly improve payment predictability and bolster confidence in partnering with leading automotive firms.

- Demonstration effect in the real estate sector

  The real estate industry has long been plagued by protracted payment cycles and chronic defaults, leaving small and medium-sized builders and material suppliers vulnerable to cash flow shortages or even breakdowns. The Regulations will not only alleviate these financial pressures but also drive a transformation in the sector's payment practices.

  Several state-owned real estate developers have already taken proactive steps, including clearing historical payment arrears, optimizing payment mechanisms and launching supply chain finance platforms to improve payment efficiency. Moving forward, payment compliance and reliability may become key metrics in evaluating real estate firms' credit ratings and financing costs, incentivizing better payment behavior across the industry.

2. Recommendations for enterprises

- For SMEs:
  - Disclose SME status during contract negotiations, establish clear payment terms and reject forced non-cash methods.
  - Prioritize and segregate non-disputed payments during conflicts.
  - Document defaults for legal recourse.
- For large enterprises:
  - Verify counterparties' sizes (SME status) to mitigate compliance risks.
  - Review and align contracts, bidding documents and payment systems with the Regulations.
  - Improve the contract fulfillment and payment management system (such as supplier classification and timing arrangement for fund payment) to avoid disputes caused by overdue payment.
  - Incorporate SME payment safeguards into enterprise risk management.

Conclusion

The Regulations significantly bolster payment protections for SMEs while heightening compliance requirements for government agencies, public institutions and larger enterprises. Stakeholders are recommended to proactively adapt, leveraging regulatory mandates as avenues for operational enhancements. EY compliance team offers comprehensive support, including:

- Establishing and optimizing compliance management systems.
- Strengthening internal controls, monitoring mechanisms and compliance procedures.
- Debt restructuring and financial optimization.
- Assistance with complaint resolution and regulatory communications.
- Tailored compliance solutions for both large enterprises and SMEs.

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