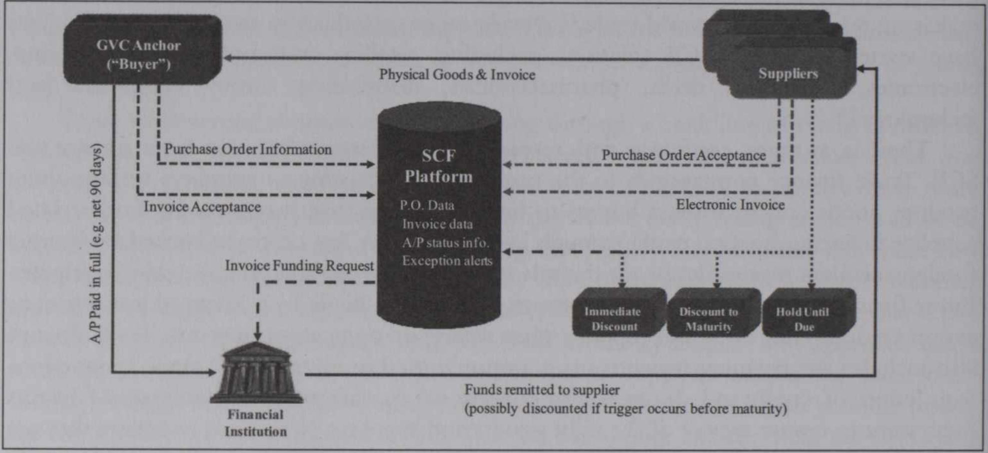
GVC anchor acts as the trigger that allows suppliers to request an early discounted payment. Once the financial institution receives the request for payment, it can process and transfer the funds to a supplier's bank account in as little as twenty-four hours. At the maturity date of the accounts receivable, the GVC anchor pays the financial institution directly.

Figure 3. Supplier Payment Program



Source: Export Development Canada

Financial institutions participating in supplier payment programs will normally use the face value of the invoice to perform their discounting calculations. This results in greater liquidity being made available to suppliers compared to factoring (where pre-payments are frequently capped at 80 per cent of the invoice amount) or operating lines of credit provided by banks (typically limited to 75 to 90 per cent of the value of accounts receivable, depending if the buyer is domestic or foreign and whether the receivables are insured).

Using the approved invoice as a trigger (i.e. *post-shipment* arrangement) is more common than using the purchase order (i.e. *pre-shipment* arrangement). In this last case, the goods may not yet have been produced by the supplier which results in the financial institution taking on additional risk. The GVC anchor may also make changes to its original purchase order, which adds complexity and increases the risk of disputes between the GVC anchor and its suppliers. Purchase-order-based supplier payment programs are therefore usually reserved for well-established trading relationships.

In order for supplier payment programs to generate cost savings, the GVC anchor's credit rating must be stronger than that of participating suppliers. To date, such programs have normally involved investment grade GVC anchors that have a cost of capital at least 3 percentage points lower than their suppliers. The example presented in Box 1 below illustrates how the cost savings generated by supplier payment programs can be calculated and used by GVC anchors to extend payment terms, extract pricing concessions or get the supplier to support greater levels of inventory - in all cases without causing the supplier's financial condition to deteriorate.

Interestingly, in the aftermath of the financial crisis, GVC anchors began implementing supplier payment programs with the primary motive of stabilising the financial health of upstream GVC members. In other words, these GVC anchors were prepared to let suppliers reap most or all of the financial gains associated with the use of