funds for an additional 85 days in order to finance the mismatch between the time when suppliers are paid and the moment when sold goods are paid for raises costs for firms and for GVCs. For example, if a Canadian supplier needs to finance a gap of CAD 1 million through its bank line of credit for an additional 85 days, then the incremental interest charges it will need to pay will amount to CAD 9,315 assuming that this supplier borrows at Prime + 1.25% and that the Prime rate is 2.75% (CAD 1 million * 4% * 85 days / 365 days = CAD 9,315). Keeping all other factors constant, if a foreign competitor has a shorter cash conversion cycle, it should be able to offer its products at lower prices and/or be more profitable than the Canadian supplier. This is all the more true if we consider that financing costs can represent as much as five per cent of a company's total cost of goods sold.[12]

There exist several alternatives to borrowing through a bank line of credit in order to finance the cash shortfall that normally characterizes the cash conversion cycle. For instance, the Canadian supplier in the example above could try to receive cash more quickly by offering discounts to buyers if they pay faster or by selling some or all of its accounts receivable at a discount to a factoring company.[13] The problem with these two solutions is that they are generally more costly than borrowing from a bank.[14] Another alternative available to our supplier would be to replicate the buyer's behaviour: that is pay its own suppliers later and request that they hold inventory longer. This approach often produces a domino effect as each subsequent tier of suppliers adopts the same cost-shifting strategy. Since higher financing costs usually get reflected in higher product prices, the end result is a less competitive GVC. The risk of supplier failure within the GVC also rises as the cash conversion cycle of lower-tier suppliers (that typically have a more constricted and costly access to cash) gets extended.

As can be observed, opportunities abound to increase the efficiency of financial supply chains embedded within domestic, regional and global value chains. In response, leading trade finance banks and technology service providers have been developing creative financing solutions and platforms to accelerate and optimize financial flows within GVCs.[15] These solutions and the electronic trade platforms that often act as their backbone are commonly referred to as "supply chain finance" or "supply chain financing" solutions.[16]

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[12] Source: FinListics Solutions, as quoted in Bob Dyckman, "Integrating supply chain finance into the payables process" *Journal of Payments Strategy and Systems*, 3(4), 2009, p. 314.

[13] A factoring company (or "factor") are institutions specialized in purchasing, at a discount, some or all of a company's accounts receivable.

[14] For example, if a supplier offers a 2% discount to a buyer if it pays on day 10 as opposed to day 30, then the cost of financing associated with getting cash 20 days earlier will be 36.9% per annum. If, instead, the supplier sells its accounts receivables to a factor and pays a 1% fee then, assuming that the factor pays the supplier on day 5 and that the receivable is payable on day 30, the cost of financing associated with getting cash 25 days earlier will be 14.7% per annum.

[15] Technology service providers facilitate the process of exchanging purchase orders, invoices, payments and related documents and help integrate this information between buyers, sellers and financial institutions. Orbian, Demica, Bolero, Global SCF and PrimeRevenue are examples of technology service providers active in the field of supply chain finance.

[16] It is worth noting that the development of SCF solutions is not a new phenomenon. For example, paper-based discounting programs that generate similar cash flow improvements and financing cost reductions as supplier payment programs (described in the next section) have existed for at least two decades (on this point, see Marcus Hughes, "The Best Kept Secrets in Supply Chain Finance" *GTNews*, June 26, 2007). During the 1990s, and more so during the past decade when value chains