of the credit gap faced by small companies - by removing information asymmetries, and by capturing positive externalities.

1. *Information asymmetry.* In this case, the bank lacks sufficient credit information to extend financing to all suppliers and sub-suppliers in the GVC. Without adequate financial information for suppliers in the GVC, banks tend to restrict financing to a small number of large suppliers where detailed credit info is easier to obtain. The end result is restricted access to credit, and more stringent payment and delivery terms across the entire value chain. However, when a GVC anchor or buyer takes on the risks of its suppliers, the informational asymmetry is effectively removed as the bank now only has to understand the credit risk of the buyer. This allows the lender to extend credit to multiple suppliers selling to an identified buyer within a GVC.
2. *Positive externalities.* A positive externality exists when the bank's costs of establishing a SCF platform outweighs its own benefits, which leads the bank to restrict any development of a SCF platform, even though third parties would benefit. Presently, SCF services are offered to GVC anchors and a limited number of larger suppliers. Many of Canada's smaller suppliers and sub-suppliers would benefit from a SCF program through lower financing costs, lower administrative costs, and increased sales. But the SCF service is "under-produced" because a common platform is not available to a wider number of suppliers. This is a case where the bank's "private" benefits do not justify their costs, thereby leading to an undersupply of the good in question, and reducing the "social" benefits to third parties. With a SCF platform available to more suppliers, the demand for such service is created, which allows the cost savings to be captured by more of the GVC participants.

There appears to be a SCF gap in Canada given that more suppliers are likely to use SCF programs if given the opportunity. SCF programs accessible to a larger number of upstream suppliers (i.e. tier 2 and 3) can help address credit market imperfections, and potentially increase the supply of credit to smaller companies. A common platform where financial information on GVC buyers and suppliers can be accessed easily by SCF providers would reduce information asymmetries, and reduce bankers' apprehension in extending credit and other payment terms to a larger number of GVC participants.

The size of the Canadian customer base that is currently able to meet the eligibility criteria for SCF support is small. This limits the scale economies required for most financial institutions to justify the cost of establishing a comprehensive range of SCF programs for the benefit of Canadian exporters and their suppliers. The lack of scale raises the cost of these programs, effectively creating a barrier for financial institutions (whether Canadian or foreign) to expand their financial services in this space. The end result is a small number of SCF providers operating in Canada, which creates an oligopolistic situation that reduces the availability of SCF products for Canadian companies that are members of GVCs.

Given the relatively smaller number of GVC anchors and tier-1 suppliers in Canada, offering SCF programs further upstream along GVCs (i.e. to more sub-suppliers) can provide the necessary critical level of revenues to financial institutions to justify the cost of establishing and maintaining a SCF infrastructure. Economic theory argues that banks and financial service providers need a customer base of sufficient size in order to diversify and reduce risk. Although the majority of new customers in a GVC are likely to be small sub-suppliers and carry relatively more risk, spreading this risk across a larger pool of