

Interim payments: managing part payments on long-running projects with confidence

An interim payment is a part payment on a delivery or contract for work not yet fully rendered, usually made after measurable project progress or agreed milestones. In industrial procurement it is common above all for capital goods, plant construction, toolmaking and long-running manufacturing orders. It stabilises the supplier's liquidity while at the same time giving the buyer a control mechanism over performance and progress. Those who cleanly regulate terms, securities and inspections in the contract significantly reduce the risk of supplier default.

Key facts

- An interim payment is a part payment offset against the final price for partially rendered performance.
- Typical amount in practice: 10 to 50 per cent of the order value, often staggered by milestones.
- Interim payments are offset against the final invoice and must not be counted twice.
- An interim invoice should always be based on a verifiable level of performance.
- Security instruments such as advance payment guarantees, letters of credit or retention of title limit the risk of prepayment.
- Interim payments and down payments are not legally identical: a down payment is based on the order value, an interim payment on the performance rendered.

Definition: interim payment

An interim payment is a part payment on an overall contract made by the buyer before the total contractual performance has been fully rendered and invoiced. The legal basis under German law of contracts for work and services is the interim invoice, by which the contractor may claim a reasonable payment for partial performance already rendered. In commercial law and general terms of delivery, part payments are frequently regulated differently, so the wording of the contractual documents is decisive.

Distinction from the down payment

Down payments and interim payments are often used synonymously in practice, but technically they differ. A down payment is a fixed percentage of the order value and falls due at the start of the contract regardless of the actual level of performance. An interim payment, by contrast, is measured against the progress or the value of the performance actually rendered and generally requires a verified level of performance.

Typical use cases in B2B procurement

Interim payments occur mainly where suppliers bear a high burden of upfront financing: in mechanical and plant engineering, for special tools, foundry and injection moulding tools, in EMS manufacturing with long lead times, and for construction work on plant premises. Intermediate payments are also common on long-running series orders with expensive upstream materials such as semiconductors or

stainless steel alloys. They compensate the supplier's capital tie-up in the procurement logistics chain and are frequently combined with delivery schedule optimisation measures in order to synchronise order quantities and payment flows.

Methods and approach: agreeing interim payments effectively

A workable interim payment arrangement is not created only at the contract-closing stage but already in the bidding and negotiation phase. Decisive factors are clear milestones, verifiable performance evidence and a defined offsetting mechanism against the final invoice. The more precise the agreement, the lower the potential for disputes over partial performance or delays.

Defining milestones and levels of performance

Proven in practice is staggering according to objectively verifiable events: design release, material purchasing with receipts, manufacturing progress, factory acceptance or readiness for dispatch. For each milestone, the contract should stipulate the share, the due date and the evidence requirement. A structured questionnaire for tenders already helps in the bidding phase to systematically establish bidders' eligibility for interim payments and financing situation.

Verification before release

Every disbursement should be preceded by a documented review: comparison of the declared level of performance with manufacturing and project schedules, where applicable intermediate acceptance or photographic and video evidence, and examination of the interim invoice for taxes, discounts and price basis. For critical suppliers, the review can be linked to a credit check of the supplier carried out in advance in order to detect early warning signs before further payments are made.

Combining contractual safeguards

Interim payments should never stand alone. Common combinations are advance payment guarantees or sureties in the amount of the prepayment, transfer of ownership of semi-finished parts and upstream materials, repayment agreements in the event of non-delivery, and contractual penalties. For international projects, jurisdiction provisions such as the jurisdiction clause are also relevant, since the enforceability of repayment claims depends heavily on the chosen law and court.

Key KPIs and financial effects

Interim payments affect liquidity, value creation dates and payment flows on both sides. Buyers should make these effects measurable and incorporate them into supplier evaluation and cash management. Typical benchmarks vary by industry; the following orders of magnitude serve as guidance and must be examined on a case-by-case basis.

Key figures

Key figures are the share of interim payments in the order value, the time between payment and performance (capital tie-up days), the rate of milestone evidence submitted on time, and the amount of the advance payment in relation to the agreed security. Anyone pursuing accounts-payable term optimisation should map interim payments explicitly within the payment term structure, as they significantly alter the effective payment period.

Planning payment flows

Interim payments belong in procurement and liquidity planning, particularly where several capital investment projects run in parallel. Clean automatic account assignment in accounts payable accounting avoids allocation errors and enables the correct offset against the final invoice. Bonus agreements at the end of the project should also remain offsettable against open interim payment balances.

Risks and controls

The core risk of the interim payment is total default: the supplier has received the money but does not deliver, or not in accordance with the contract. Further risks are duplicate invoicing, overstated levels of performance, difficulties in realising unfinished products, and the insolvency of the contractor. Controls and securities reduce these risks to a manageable level.

Financial and legal safeguarding

Proven instruments are guarantees (e.g. a first-demand payment guarantee in the amount of the payment made), letters of credit for international business, project monitoring through invoice verification against receipts, and proprietary security over upstream materials. Before concluding the contract, an up-to-date supplier credit check is recommended; where there are signs of financial distress, a bow-tie analysis can help prepare default scenarios and countermeasures in a structured way.

Supplier management and sourcing

Interim payment demands are also an indicator of a supplier's financing structure. Very high advance payment demands combined with weak creditworthiness are a warning sign and, in the worst case, can lead to a bidder complaint or exclusion from ongoing tenders. Alternatively, the risk can be mitigated by bundling in a purchasing cooperation, by additional sources of supply, or by price calculation using clean-sheet costing, which makes the supplier's upfront financing costs transparent.

Process controls in the order management system

In the operational ordering process, interim payments should be managed as a separate document type with offsetting logic. Order process optimisation here means: fixing milestones in the order text, linking the release workflow to the technical inspection function, and automatically offsetting open balances against final invoices. This keeps the payment balance per order traceable at all times.

Current developments

Volatile commodity prices, long lead times and high interest rate levels have increased the importance of upfront financing arrangements in recent years. Many suppliers are demanding higher or more frequent interim payments, while buyers, faced with increased default risks, are demanding strict securities. Digitalisation has meanwhile made the monitoring of levels of performance and payment flows considerably easier.

Growing upfront financing pressure in supply chains

Rising upstream material costs and capital tie-up over long procurement cycles mean that advance and interim payments are becoming a standard point of negotiation. Buyers are responding with risk-adjusted models: higher interim payments only against equivalent guarantees, staggering by progress rather than flat down payments, and closer cooperation with the treasury function.

Digitalisation of interim payment processing

Digital project platforms, shared manufacturing trackers and automated invoice workflows make levels of performance verifiable earlier and more reliably. Content enrichment and structured item master data also support the precise specification of milestone services in order texts. At the same time, interest in standardised supplier ratings is growing; approaches such as the EcoVadis rating are increasingly being incorporated into the financial and credit assessments of suppliers.

Typical metrics

Interim payment share of order value: 10–50 %

Common industry benchmark; higher rates only against securities

Milestone evidence rate: > 95 %

Proportion of evidence submitted on time and in a verifiable form

Capital tie-up period: as low as possible

Days between the interim payment and the performance rendered in return

Open interim payment balance per order: €0 after final invoice

Remaining amount must be fully offset against the final invoice

Practical example

A medium-sized machinery manufacturer commissions a toolmaker to produce an injection moulding tool worth around €400,000. The toolmaker demands a 40 per cent advance; instead, the buyer negotiates a staggered structure: 15 per cent after design release, 15 per cent after submission of the material purchase receipts and 10 per cent after intermediate acceptance. Each interim payment is only released against a factory report and documentation, and the total sum is secured by an advance payment guarantee of the same amount. In the event of delay, payment is deferred; in the event of non-delivery, there is a repayment claim under the guarantee.

- Contractually fix milestones with an evidence requirement instead of paying a flat advance
- Agree an advance payment guarantee in the amount of the cumulative interim payments
- Link the release workflow to technical inspection and documentation
- Automatically offset open balances against the final invoice

Conclusion

The interim payment is an established instrument for balancing the burden of upfront financing between buyer and supplier. It pays off for buyers when the level of performance, the evidence and the offsetting are precisely regulated and the payment is secured by guarantees or ownership provisions. Without these controls, the liquidity benefit for the supplier quickly turns into a default risk for the buyer. Those who consistently integrate interim payment rules into tenders, contracts and the ordering process gain planning certainty on both sides. Where in doubt, contract design and tax treatment should always be professionally reviewed.

Frequently asked questions

What is an interim payment in simple terms?

An interim payment (progress payment) is a part payment on an overall order made before the service

has been fully rendered. It is based on the value of the partial performance already delivered and is later offset against the final invoice. In procurement, it is common for machinery, plant and tooling with long manufacturing lead times.

What is the difference between a down payment and an interim payment?

A down payment (advance payment) is a fixed percentage of the order value and falls due at the outset, regardless of the progress of performance. An interim payment, by contrast, is measured against the actual, verifiable level of performance and usually falls due after milestones. Both are offset against the final invoice, but they differ in the basis of assessment and the level of verification required.

What is the maximum amount an interim payment may be?

There is generally no legally fixed upper limit in the B2B sector; the amount is a matter of negotiation. In practice, interim payments typically range between 10 and 50 per cent of the order value, staggered according to levels of performance. Higher rates should only be granted against equivalent securities such as guarantees or sureties.

Must an interim invoice include VAT?

VAT questions must be examined on a case-by-case basis and depend on the place of supply and the specific arrangement. In practice, interim invoices frequently show the applicable tax rate on the invoiced partial amount, and the offset against the final invoice should be documented cleanly. Binding statements should be clarified through tax advice on a case-by-case basis.

How can a buyer protect themselves against default on interim payments?

Proven instruments are advance payment guarantees or sureties in the amount of the payment made, provisions on ownership of upstream materials and intermediate products, and clear repayment agreements for the event of default. These are supplemented by a credit check of the supplier before the order is placed and a documented review of each stage of performance before release. For international orders, the place of jurisdiction should also be clearly regulated in the contract.

When is an interim payment due?

The due date results from the contractual agreement, typically upon receipt of a verifiable interim invoice after a defined milestone has been reached. Without a contractual provision, the contractor may, under the law of contracts for work and services, demand a reasonable interim payment for partial performance already rendered. Buyers should therefore always expressly stipulate the due date, the evidence requirement and the verification periods.