

Case Studies and Policy Changes

Asian Development Bank Increases Funds for Producers of Critical Medical Supplies

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Original post [here](#).

On March 12, the Asian Development Bank (ADB) said it would make \$200 million available to companies that make and distribute medicines and medical supplies to fight the coronavirus.

The ADB will disburse this aid through its Supply Chain Finance Program, which was originally developed in 2012 to “unlock financial resources caught in the supply chain.” Suppliers were sometimes waiting for up to six months to receive payment from buyers, and the SCFP provides short-term funding so they don’t have to wait (see [here](#), pp. 3).

The primary objective of the SCFP is to ensure that, as demand increases for medical equipment and other critical products to fight the coronavirus, suppliers will be able to expand their production without encountering any supply-chain related disruptions.

The SCFP provides financing to suppliers in developing countries that are experiencing cash-flow difficulties and unable to access financing elsewhere. Traditionally, these businesses, which are normally small and medium-sized enterprises (SMEs), faced two obstacles in obtaining financing: weak financials and lack of collateral (see [here](#), pp. 5). The financing is obtained through partner financial institutions (PFIs), who receive predetermined amounts of money from the ADB and then lend it to suppliers.

The program requires PFIs to contribute funding equal to or greater than the amount that the ADB provides to the supplier (see [here](#), pp. 3). After receiving the commitment to pay for the goods from buyer, the supplier asks the PFI for the money they would have received from the buyer, and the PFI finances the transaction so the supplier experiences no disruption. At the invoice date, the buyer would pay the PFI, who then remits the ADB’s part of the financing (and fees) back to them. In the event of default, the ADB shares the losses with the PFI servicing the loan, up to a maximum exposure of 50%, but never exceeding the PFI’s amount. The ADB can either loan funds directly to PFIs or provide assistance in the form of a guarantee; the term of either can be up to 180 days. Thus, the facility could provide upwards of \$400 million in financing in one year. With full loss-sharing from PFIs, this amount could be as high as \$800 million annually (see [here](#)).

Steven Beck, the ADB’s head of Trade and Supply Chain Finance, stated that they were working to map out “the entire supply chain for these types of goods, including the companies that are involved at each and every component phase” so that investors would be able to support companies at all steps of the supply chain (see [here](#)). Additionally, he stated that there would be a substantial increase in the capacity of the ADB’s [Trade Finance Program](#) in the near future.

The SCFP takes a buyer-centric approach, assisting suppliers that are often considered “unbankable” by examining the credit ratings and financial strength of their regular counterparties, which are often large, corporate buyers. Suppliers can now receive much cheaper financing since the SCFP’s risk evaluation methods emphasize the strength and longevity of supply chain relationships between businesses. (see [here](#); [here](#), pp. 5).

Suppliers must be from developing member countries, have minimum 2-year relationships with any buyers they associate with, and have a “solid production and delivery track record.” Buyers can be located domestically or internationally and are required to be at least BB rated (or equivalent). PFIs are required to have a global credit rating of at least A- and a supply chain finance portfolio rating of at least BB, conduct sound risk management practices, have a default rate of less than two percent on their supply chain portfolio, and report at least quarterly to the ADB about their SCFP activities. PFIs would receive varying amounts of funds from the SCFP based on their “risk appetite[s], presence in [Developing Member Countries], and monitoring capabilities.” However, the ADB stated that it would “seek to include as many PFIs as practicable” (see [here](#), pp. 5).

The SCFP is similar in structure to the Automotive Supplier Support Program (ASSP) created by the U.S. during the Global Financial Crisis. Suppliers of automotive goods found it more difficult to obtain credit due to the precarious financial positions of and uncertainty surrounding GM and Chrysler. The ASSP used bankruptcy-remote Special Purpose Vehicles (SPVs)—funded jointly by the U.S. Treasury, GM, and Chrysler—to purchase receivables from suppliers so they would experience no supply-chain disruptions. In this case, the SPVs served essentially the same function as PFIs do for the SCFP, though the SPVs had to take any losses first, whereas PFIs jointly share any losses (up to a 50%) with the ADB. For further discussion on the ASSP, see the [YPFS case](#).