



May 2014

Establishment of the Japan Fund for the Joint Crediting Mechanism

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CDM	–	Clean Development Mechanism
CMP	–	Carbon Market Program
CO ₂	–	carbon dioxide
DMC	–	developing member country
GHG	–	greenhouse gas
JFJCM	–	Japan Fund for the Joint Crediting Mechanism
JCM	–	Joint Crediting Mechanism
MOU	–	memorandum of understanding
RSDD	–	Regional and Sustainable Development Department
TA	–	technical assistance
UNFCCC	–	United Nations Framework Convention on Climate Change

NOTE

In this report, "\$" refers to US dollars.

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I. THE PROPOSAL

1. I submit for your approval a recommendation for the Asian Development Bank (ADB) to (i) establish the Japan Fund for the Joint Crediting Mechanism (JFJCM) to promote advanced low-carbon technologies in its eligible developing member countries (eligible DMCs), and (ii) administer the JFJCM in accordance with the provisions set forth in this report and the arrangements set forth in the letter of the Government of Japan to the President of ADB (Appendix).

II. BACKGROUND AND RATIONALE

2. **Background.** Asia and the Pacific has a key role to play in addressing global climate change issues. Due to rapid economic growth, the region is becoming a major source of greenhouse gas (GHG) emissions. The region's carbon dioxide (CO₂) emissions accounted for 42.8% of world CO₂ emissions in 2010; this share could reach more than half of world CO₂ emissions in 2035.¹ Decoupling the region's growth from carbon emissions is crucial to the global efforts to mitigate climate change.

3. Considerable investments will be required to enable developing countries to transition to a low-carbon path. With limited public sector financing available, the carbon market needs to be mobilized for low-carbon development. Since 2006, the Clean Development Mechanism (CDM) under the Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC) has supported countries with emission-reduction commitments and promoted the mobilization of low-carbon investments and an emissions trading market.² The CDM entails implementing an emission-reduction project in a developing country for seeking certified emission reductions to meet parts of the commitment under the Kyoto Protocol. In 2012, the 18th Conference of the Parties of the UNFCCC encouraged the parties to develop and implement various approaches using market-based mechanisms to promote and enhance the cost-effectiveness of mitigation actions. A number of approaches has been proposed. For instance, the European Union promotes the Sectoral Crediting Mechanism, which is a baseline-and-credit scheme rewarding GHG emission reductions from a covered sector.³

4. The Joint Crediting Mechanism (JCM) is another new market mechanism the Government of Japan proposed to the UNFCCC in 2011. This is a market mechanism between two countries that follows a structure and procedures similar to the CDM. The JCM implements GHG emission-reduction projects in developing countries⁴ with which Japan has memorandums of understanding (MOUs).⁵ Japan has signed MOUs with eight developing countries in Asia and the Pacific for the development of the JCM,⁶ and plans to expand the list of participating countries.⁷ For implementing the JCM, Japan and each participating country will establish

¹ ADB. 2013. Energy Outlook for Asia and the Pacific. Manila.

² Under the Kyoto Protocol, countries with emissions-reduction or -limitation commitments are known as Annex B parties.

³ The reduction of GHG emissions below a defined baseline level is credited by sector.

⁴ Similar to the CDM, the JCM process includes development of the methodology, preparation of the project design document, validation of the JCM project, registration of the JCM project with the joint committee of two countries, monitoring of data, and verification of reduction in GHG emissions.

⁵ Government of Japan. 2014. Recent Development of The Joint Crediting Mechanism (JCM). http://www.mmechanisms.org/document/20140122_JCM_goj.pdf

⁶ The eight countries are Bangladesh, Cambodia, Indonesia, Lao People's Democratic Republic, Maldives, Mongolia, Palau, and Viet Nam.

⁷ The Government of Japan plans to have agreements with 16 partner countries within 3 years.

bilateral joint committees comprising representatives from both countries. A joint committee (i) develops rules and guidelines for the development of methodologies, validation and verification by third party entities, and monitoring; (ii) registers JCM projects that have been validated by these third party entities; and (iii) notifies each country of the amounts of verified JCM credits to be issued from the registered projects. Japan and each participating country would issue JCM credits based on the notification by the relevant joint committee.⁸ The JCM is flexible and can reflect specific national circumstances, while ensuring a robust methodology, transparency, and environmental integrity. The Government of Japan has started pilot projects for the JCM with the private sector in the countries that signed MOUs in 2013.⁹

5. The JCM prioritizes the introduction of advanced low-carbon technologies that (i) will enable considerable, long-term reduction of GHG emissions; (ii) will make the project more sustainable; and (iii) are proven but not widely used in developing countries. Areas for which JCM financing will be considered include technologies for smart grid, waste to energy, advanced renewable energy systems, and energy efficient infrastructure.¹⁰

6. As a part of the JCM, the Government of Japan intends to make available to ADB ¥1.8 billion on a grant basis during the government's 2014 fiscal year to finance activities supported by ADB and promoting investment in advanced low-carbon technologies.¹¹ The government will demonstrate the effectiveness of the JCM by increasing investment in low carbon technology projects and by using the accrued credits towards Japan's and the participating countries' internationally pledged GHG mitigation efforts.

7. In November 2006, ADB launched the Carbon Market Program (CMP).¹² Part of ADB's broader climate change program, the CMP aims to promote low-carbon projects such as renewable energy, energy efficiency, efficient transport, and other activities that will reduce GHG emissions in Asia and the Pacific. The CMP has three components that provide ADB's DMCs with a comprehensive package of financial, technical, and marketing support for projects potentially eligible under the CDM. The technical support for identifying and developing CDM projects is extended by the Technical Support Facility, while the Asia Pacific Carbon Fund and the Future Carbon Fund—both managed by ADB as the trustee—provide additional financial resources for project development and implementation through the pre-purchase of emission reductions expected to be generated from CDM projects hosted by ADB DMCs. The JFJCM will be a sister component of the CMP that will help ADB support its eligible DMCs through bilateral carbon markets. Therefore, the institutional capacity and expertise developed by ADB through the successful implementation of all three components of its CMP will enable ADB to manage the implementation of the JFJCM.¹³

8. Through the proposed JFJCM, ADB will become the first multilateral development bank to establish a fund for supporting GHG reduction projects under the new carbon financing mechanism. In coordination with the CMP, ADB will have a strong financing mechanism for

⁸ The JCM joint committee will notify the amount of credits to be distributed between Japan and the participating country depending on different factors such as each party's contribution to the project. The JCM is a non-tradable credit mechanism and the JCM credit will be maintained under the JCM registry of each country. Each country can use the JCM credit as a part of its internationally pledged GHG emission efforts.

⁹ For example, small-scale solar power plants in island states, an energy-saving project through efficient heat pumps, and a high-performance biomass power generation project are being implemented.

¹⁰ Energy efficient infrastructure includes waterworks, buildings, and advanced transport systems.

¹¹ The fiscal year of the Government of Japan ends on 31 March.

¹² The program was originally called the Carbon Market Initiative.

¹³ ADB is expected to help recipients equip themselves technically to meet the JCM requirements and register the projects with the JCM joint committee.

GHG reduction projects. The JFJCM will offer incentives for eligible DMCs to introduce advanced low-carbon technologies by helping them overcome the higher initial capital cost through a grant component and/or by buying down the interest of the ADB loan to the project,¹⁴ thus making such projects more sustainable. The JFJCM will be available to support both sovereign and nonsovereign low-carbon investments in participating countries. Private sector institutions and investors are willing to consider financing low-carbon technologies because of the potential long-term sustainability of such investments. Many projects using advanced low-carbon technologies face significant barriers such as high up-front costs (which must be amortized in line with commercial bank norms) and the risk that the technology will not perform up to expectations (because of limited operational experience). Pilot projects could be supported by the JFJCM to demonstrate performance in eligible DMCs and help reduce risk perceptions. In addition, these projects also generate environmental benefits such as reduced air and water pollution. As the JFJCM can help leverage larger private sector investment, the JFJCM will closely support such nonsovereign and private sector projects when possible. Overall, the proposed fund is expected to boost investments to improve energy access, contribute to sustainable development, and support internationally pledged GHG mitigation efforts.

9. This paper provides the operating framework and general arrangements for the utilization and administration of the JFJCM. Specific guidelines will be drawn up based on this operating framework, which will define the detailed procedures and arrangements for JFJCM.

III. OBJECTIVE AND SCOPE

A. Objective

10. The objective of the JFJCM is to provide grants and technical assistance (TA) to encourage the adoption of advanced low-carbon technologies in ADB-financed and administered sovereign and nonsovereign projects utilizing the JCM. The use of advanced low-carbon technologies will increase the sustainability of the ADB-financed and administered projects. The use of grants under the JFJCM will demonstrate the effectiveness of the new market mechanism and provide a source of additional funding to eligible DMCs. The JFJCM will also offer the opportunity for recipients to engage in projects with strong development characteristics and long-term climate-change mitigation benefits.

B. Scope and Activities

11. The JFJCM may finance grant components of investment projects and stand-alone grant investment projects, grants for reducing interest or other expenditures of investment projects, TA projects, direct charges, and any other activities the Government of Japan and ADB agree upon to reduce the cost of the advanced low-carbon technologies. The JFJCM will also use its resources to provide technical support to the recipients in meeting the requirements of the JCM.

12. **Grant.** Grant components of sovereign investment projects and stand-alone sovereign grant investment projects will finance goods, works, equipment, plants, consulting services, and other expenses.

¹⁴ "Buying down" involves the use of a capital grant to defray the aggregate reduction of interest rate payments across the life of the loan. This process effectively results in a concessional loan (i.e., with reduced interest rate) where the capital is provided through ordinary capital resources.

13. For nonsovereign operations, grants may be used to buy down a portion of the interest margin of a loan to make the loan concessional in support of the project's deployment of advanced low-carbon technologies in accordance with ADB's nonsovereign lending policies and procedures.¹⁵

14. **Technical assistance.** The JFJCM will also support TA projects for project preparation, capacity development, and research and policy advice to eligible DMCs for JFJCM investment projects. TA projects may be designed to facilitate the replication of best practices. In addition JFJCM will also support capacity development TAs in those ADB DMCs that have initiated discussions with Government of Japan for entering into an MOU or agreement for the development of JCM.

15. JFJCM grants and TA will also be used to prepare and validate the project design document, register the JFJCM projects with the relevant JCM joint committee, and monitor and verify GHG emission reductions of the JFJCM projects under the JCM scheme.

16. **Direct charges.** The JFJCM will also be used for direct charges to finance project- and operations-related expenses, such as workshops and surveys directly related to the operation of the JFJCM. Direct charges do not include ADB's administration costs as provided under paragraph 33 of this document.

IV. ELIGIBILITY CRITERIA

17. The eligible DMCs (i) for receiving JFJCM grant for the investment projects mean governments of those DMCs that have at the time of financing an MOU or agreement with the Government of Japan for the development of JCM; and (ii) for receiving JFJCM grant for TAs include, in addition to the countries aforementioned in sub-para (i) those ADB DMCs that have initiated discussions with Government of Japan for entering into an MOU or agreement for the development of JCM. Nonsovereign projects in eligible DMCs can receive JFJCM grants for the investment projects and JFJCM TAs. The eligible DMCs will be listed in the JFJCM guidelines and updated from time to time.

18. The following eligibility criteria must be met by any investment project that applies for funding from the JFJCM (more specific criteria for eligible projects will be included in the JFJCM guidelines):

- (i) The project is financed exclusively with JFJCM grant or with JFJCM grant together with ADB or ADB-administered funds¹⁶.
- (ii) The project includes a component adopting advanced low-carbon technologies that can reduce GHG emissions considerably in the long term. The advanced low-carbon technologies for the project must have a proven implementation and operation record, and its technical effectiveness and GHG emission reduction capacity must be established.
- (iii) Recipients of JFJCM grants agree to meet the requirements of the JCM and apply to the joint committee of the JCM for JCM credits (footnote 4).
- (iv) In addition to GHG emission reduction, the project also benefits the recipient country through (a) a reduction of environmental pollution, including air or water pollution, solid waste treatment, or conservation of natural resources; and/or (b)

¹⁵ Buying down a loan's interest margin or spread was one of the innovative financing mechanisms endorsed by the Board in March 2012 as part of the Expanded Scope and Use of Clean Energy Financing Partnership Facility Resources. This use of a grant is similar to the provision of a concessional loan.

¹⁶ Additional funding is also eligible for the JFJCM.

other social economic benefits, including increased job creation opportunities and better access to basic infrastructure.

- (v) The project has high demonstration potential for the replication and scalability in the country and/or elsewhere in the regions.
- (vi) Such other criteria as detailed in the JFJCM guidelines, which will be updated from time to time.

19. The TA project will be selected based on the criteria that it will contribute directly to (i) project preparation, capacity development, and research and policy advice to eligible DMCs for JFJCM investment projects; (ii) capacity development on JCM of those ADB DMCs that have initiated discussions with Government of Japan for entering into an MOU or agreement for the development of JCM; (iii) facilitating the replication of best practices; and (iv) meeting JCM requirements (footnote 4).

20. The eligible investment projects will be consistent with such other criteria as the Government of Japan and ADB may agree upon.

V. GRANT CONTRIBUTION

21. The Government of Japan will provide to ADB, on an untied basis, an initial grant contribution of ¥1.8 billion in one installment after the Board approves this report. Upon mutual agreement, the government and ADB may adjust the indicative disbursement and/or increase the grant contribution based on progress achieved and funding needs.¹⁷ The grant contribution under the JFJCM will be held, administered, and invested at the discretion of ADB and will be accounted for separately.

VI. IMPLEMENTATION

A. Fund Management Structure

22. **Fund management.** ADB's Regional and Sustainable Development Department (RSDD) will establish a fund secretariat and manage the JFJCM. RSDD will prepare the JFJCM guidelines in consultation with the relevant departments and the Government of Japan.¹⁸ The director general of RSDD will designate the fund manager who will serve as the focal point for technical matters. The JFJCM secretariat, with the assistance of consultants engaged under the JFJCM, will manage the fund in accordance with the JFJCM guidelines.¹⁹

23. A technical advisory group with representatives from the relevant communities of practice (agriculture, energy, transport, urban, water, and environment) will be constituted to oversee, review applications made by operations departments, and make recommendations on funding from the JFJCM.²⁰ The climate change steering committee, chaired by the director general of RSDD and comprising directors general of operations departments, will endorse the draft recommendation.

¹⁷ The subsequent yearly grant contributions will be provided at a time mutually agreed between the Government of Japan and ADB, and subject to the necessary approvals by the Diet of Japan.

¹⁸ The JFJCM guidelines will include the procedures for the use of the grant and its implementation in sovereign and nonsovereign operations.

¹⁹ For example, preparation of annual work programs, facilitation of fund application, staff capacity building in identifying suitable advance low-carbon technology, screening funding applications, financial reporting on the fund, and monitoring and evaluation.

²⁰ Membership will be reviewed from time to time and adjusted appropriately.

24. The Office of Cofinancing Operations will facilitate contributions to the JFJCM and serve as the official channel of communication for financial matters related to the JFJCM.

25. Activities to be supported by the JFJCM will be identified, designed, processed, approved, and implemented in accordance with applicable ADB policies, procedures, and guidelines, including consulting services and procurement, disbursements, gender equality, social and environmental safeguards, public disclosure, anticorruption and governance, financial management, and reporting.

B. Investment Projects and Technical Assistance under the Fund

26. **Business process.** A JFJCM grant for an investment project will be proposed by operations departments in cooperation with eligible DMC governments, public institutions, private sector entities, and/or other organizations. A JFJCM grant for TA projects will be proposed by RSDD and the operations departments.

27. The operations departments will be responsible for project identification, due diligence, grant administration, and project evaluation as part of their annual work programs, and will follow ADB's operational policies, business process, and guidelines.

28. The operations departments will submit grant proposals to the JFJCM secretariat. In line with the approved eligibility criteria and the JFJCM guidelines, the secretariat will initially screen the grant proposal; the technical advisory group will review the proposal and provide its draft recommendation. The climate change steering committee will endorse the draft recommendation. The Office of Cofinancing Operations will send the recommendation with the application to the Government of Japan for funding approval at such intervals as shall be agreed upon with the government.

29. For each investment project, the government will approve the JFJCM grant amount before ADB's Board of Directors approves the investment project, including the JFJCM grant component. For each TA project, the government will approve the JFJCM grant amount before the approval by the designated authority in ADB. Direct charges will be approved by the fund manager in accordance with the JFJCM guidelines.

30. **Procurement of goods, works, and consulting services.** Goods, works, and other services related to advanced low carbon technologies under the JFJCM will follow ADB member country procurement eligibility restriction. The selection and engagement of consultants under the JFJCM will be carried out in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Procurement of goods, works, and other services under the JFJCM will be carried out in accordance with ADB's Procurement Guidelines (2013, as amended from time to time).

31. **Disbursement.** The grant components of investment projects and stand-alone grant investment projects under sovereign operations will be disbursed in accordance with ADB's Loan Disbursement Handbook (2012, as amended from time to time) as well as detailed arrangements agreed upon between the recipient and ADB. TA projects will be disbursed in accordance with *Technical Assistance Disbursement Handbook* (2010, as amended from time to time) and/or other applicable disbursement procedures and detailed arrangements agreed upon between the recipient and ADB. The grant for buying down a portion of the interest margin of a loan of the non-sovereign project and the direct charges will be disbursed in accordance with the procedure designated in JFJCM Guidelines.

VII. ADMINISTRATIVE ARRANGEMENTS

32. ADB will exercise the same care in the discharge of its functions under the JFJCM as it exercises with respect to its own affairs, and will have no further liability to borrowers or other third parties in respect of the contributions.

A. Administration Cost

33. As the Government of Japan and ADB have agreed, ADB will use part of the JFJCM (together with any interest earned thereon) to cover all direct and additional costs²¹ incurred for the administration and management of the JFJCM, including the cost of external audits incurred in the fund administration (e.g., monitoring and evaluation expenses to ensure the fund is used as requested by the Government of Japan).²²

B. Record and Accounts

34. ADB will maintain records and accounts in accordance with its relevant procedures to show expenditures financed by the JFJCM. ADB, through the fund secretariat, will provide the Government of Japan with periodic reports on the utilization of the JFJCM and the activities financed by the JFJCM. ADB will maintain records and accounts of the JFJCM, and prepare annual financial statements, which will be audited annually by ADB's external auditors.

35. ADB, through the fund secretariat, will provide the Government of Japan with an annual report that analyzes the progress made by the JFJCM-funded projects toward the expected results, including GHG emissions reductions, and the work program for the coming year.

36. The Government of Japan and ADB will hold annual consultations to set the strategic directions for the JFJCM and review the progress achieved with support from the JFJCM.

37. The JFJCM arrangement between ADB and the Government of Japan, as set forth in the letter (Appendix), will be terminated by either party with 3 months prior written notice to the other party when the purpose of the JFJCM is considered to have been fulfilled. Upon the termination of the JFJCM arrangement, the use of any residual funds (including investment income of such funds) will be determined through consultations between the Government of Japan and ADB.

VIII. RECOMMENDATION

38. I recommend that the Board approve

- (i) the establishment of the Japan Fund for the Joint Crediting Mechanism to promote advanced low-carbon technologies in Asian Development Bank's developing member countries; and
- (ii) the administration by Asian Development Bank of the Japan Fund for the Joint Crediting Mechanism in accordance with the provisions set forth in this report and the letter from the Government of Japan to the ADB President (Appendix).

Takehiko Nakao
President

29 May 2014

²¹ Additional costs include the cost of staff resources in implementing the JFJCM.

²² ADB. 2009. R189-09: *Review of the Asian Development Bank's Service Charges for the Administration of Grant Cofinancing from External Sources*, Manila will not apply to JFJCM.

ARRANGEMENT LETTER

___June 2014

Mr. Takehiko Nakao
President
Asian Development Bank

Dear Mr. President:

I have the honor to refer to the New Support Program Enabling “Leapfrog” Development announced by the Minister of the Environment in Japan at the Second East Asia Low Carbon Growth Partnership Dialogue Meeting on 18 May 2013 to utilizing the Joint Crediting Mechanism (JCM) to leapfrog and transform cities or regions into low-carbon societies.

With Asia’s role in the world economy growing, carbon dioxide (CO₂) emissions from Asia are having an increasing environmental impact. Asia’s share in global greenhouse gas emissions could increase from 42.8% in 2010 to more than half of world CO₂ emissions in 2035 and decoupling the region’s growth from carbon emissions is inevitable. Infrastructure in developing countries needs to be made more sustainable through the advanced low-carbon technologies.

The Government of Japan is promoting the JCM as a new carbon market mechanism that complements the United Nations Kyoto Protocol Clean Development Mechanism (CDM). Japan has signed bilateral document on the JCM with eight developing countries in Asia and the Pacific, which can reflect national circumstances while ensuring environmental integrity at the same time, to expand the possibility of more low-carbon infrastructure projects in developing countries.

We have the further honor to inform you that the Government of Japan intends to make available to the Asian Development Bank (ADB) the Japan Fund for the Joint Crediting Mechanism (JFJCM) in an amount of ¥1.8 billion on a grant basis during the government’s 2014 fiscal year for the financing of activities supported by ADB, including technical assistance (TA) and the grant for the investment projects related to promoting the investment of the advanced low carbon technologies.

We hope that such investment projects and activities would make good use of Japan’s experiences, know-how, and technologies in this field. It is expected that additional contributions will be made to ADB for the same purpose, subject to the budgetary approvals by the Diet of Japan.

The Ministry of the Environment in Japan (MOEJ), which is in charge of international cooperation regarding the climate change, will be the representative of the government for JFJCM implementation.

Concerning the provision of the JFJCM, I have the honor to propose the following arrangements:

A. The Fund Contribution

1. MOEJ will provide 1.8 billion Yen (¥1,800,000,000) as an untied grant contribution to ADB.
2. MOEJ will deposit the first contribution of the JFJCM to ADB in an amount of ¥1.8 billion into a Japanese yen account in the name of ADB at the Bank of Japan within the Government of Japan's 2014 fiscal year (ending 31 March, 2015). The funds in the account will be transferred to an US dollar interest-bearing account specified by the ADB (the dollar account, together with the yen account, collectively referred to as the accounts) at the discretion of ADB. The subsequent yearly grant contributions will be provided at a time MOEJ and ADB agree upon, and subject to the necessary approvals by the Diet of Japan.
3. The resources of the JFJCM may be freely exchanged by ADB into other currencies to meet expenditures for the objectives of the JFJCM. Any fees and charges relating to the purchase of such currencies shall be paid out of the resources of the JFJCM.
4. ADB may invest and reinvest the funds in the JFJCM account pending their disbursement to the relevant recipients. ADB will exercise the same care in investing the JFJCM proceeds as it does for its own funds. This will increase the capability of the JFJCM to support other projects in the future. Any income earned in respect of any investment and reinvestment, as well as any interest earned in respect to the accounts, will be credited to the accounts and used for the purposes of the JFJCM.

B. Objectives of Japan Fund for the Joint Crediting Mechanism

5. The objective of the JFJCM is to provide grants and TA to encourage the adoption of advanced low-carbon technologies in ADB-financed and administered sovereign and nonsovereign projects utilizing the JCM. The use of advanced low-carbon technologies will enable considerable and long-term reduction of GHG emissions and make the projects more sustainable and financially viable with low operational and maintenance costs. These advanced low-carbon technologies, which will be described in further detail in the JFJCM guidelines, should be proven but not widely used in developing countries. In addition, the JFJCM will offer the opportunity for recipients to engage in projects with strong development characteristics and long-term climate change mitigation benefits.
6. **Sovereign projects.** The JFJCM will be used to provide investment grants to fully or partially finance ADB sovereign projects promoting JCM through adoption of advanced low carbon technologies in those developing member countries (DMCs) that have signed a bilateral document for the JCM with the Government of Japan to promote the JCM.
7. **Nonsovereign projects.** Proceeds of the JFJCM will be used to buy down a portion of the interest margin (determined on a case-by-case basis) of ADB loans to borrowers, which will apply to the JCM in accordance with nonsovereign lending policies and procedures of ADB where no sovereign guarantee is provided. For the avoidance of doubt, the beneficiaries of such assistance are borrowers and project end-users and beneficiaries in DMCs. The project of the borrower will be located in DMCs that have signed a bilateral document with the Government of Japan to promote the JCM.
8. The JFJCM will also support TA projects and other expenses for project preparation, capacity development, and research and policy advice including the activities for meeting JCM requirements in those developing member countries (DMCs) that have signed a bilateral document or initiated consultation for signing of the bilateral document for the JCM with the Government of Japan for the JCM.

9. The JFJCM will be used to support eligible goods, equipment, works, plants, and consulting services and other expenses in the components that introduce advanced low-carbon technologies and innovative know-how in accordance with the JFJCM guidelines. A list of the eligible countries and the eligible categories of the technologies will be provided in the JFJCM guidelines.

C. Management of the Fund

10. ADB, acting as a trustee, will hold and administer the fund resources in accordance with its relevant policies and JFJCM guidelines.

11. During each year of JFJCM implementation, ADB will identify and propose investment projects, including sovereign and nonsovereign, and/or TA for financing and send the application to seek MOEJ's approval for financing of such projects using the JFJCM, subject to ADB's applicable policies, procedures, and guidelines including disclosure of confidential information.

12. Recipients of the JFJCM grant for the investment projects will be requested to register the JFJCM projects with the relevant JCM joint committee, which is a governing body for JCM implementation, consisting of the representatives of Japan and a participating county, and to deliver the issued credits to the Government of Japan and a participating country depending on different factors such as each party's contribution to the project. ADB will provide support to the recipients to register the JFJCM projects and meet the requirements of the JCM.

13. For sovereign projects, ADB as an administrator of the JFJCM will enter into an agreement or agreements, as appropriate according to its relevant grant regulations, with the recipients of grant from the JFJCM. For nonsovereign projects, borrowers will acknowledge the assistance received from MOEJ in the finance documents.

14. Upon approval of the project or TA to be financed or cofinanced by the JFJCM, ADB will be (i) responsible for the administration of such a project or TA; (ii) carry out such administration in accordance with its normal procedures and standards, and with the same degree of care as it uses in the administration of its own funds; and (iii) take all necessary and appropriate actions to accomplish the purposes of the project or TA.

15. Activities under the project or TA to be supported by the JFJCM will be identified, designed, processed, approved, and implemented by ADB in accordance with ADB's applicable policies, procedures, and guidelines, including consulting services and procurement, safeguards, financial management and reporting, disbursement, advanced contracting and retroactive financing, anticorruption and governance, and public disclosure.

16. The JFJCM will have a technical advisory group comprising representatives from the relevant communities of practices of ADB, which will provide advice on technical issues relating to the projects proposed for funding.

D. Procurement

17. Consulting services and procurement to be financed by the JFJCM will follow ADB's Guidelines on the Use of Consultants (2013, as amended from time to time), and ADB's Procurement Guidelines (2013, as amended from time to time), respectively.

18. The procurement of goods, equipment, services, and consultants under the contract financed or cofinanced by the JFJCM will take into account the advantage of the advanced low-carbon technology.

E. Administration Fee

19. ADB may use part of the fund (together with any interest earned thereon) to cover the direct and additional costs incurred for the administration and management of the JFJCM, including costs of monitoring, evaluation, and dissemination of the fund and the cost of external audits incurred in the fund administration.

F. Exchange of Information

20. ADB and MOEJ recognize that effective collaboration depends upon open, comprehensive, and regular exchange of information at the institutional level. They agree to make the following arrangements:

- (i) Report
 - (a) ADB will submit to MOEJ an annual progress report on the performance of the fund.
- (ii) Consultation
 - (a) MOEJ and ADB will meet once a year after this arrangement enters into force to review and discuss the progress administrative matters, and other details of the fund.
 - (b) From time to time, at the request of either party, MOEJ and ADB will consult with each other on matters arising out of the present arrangement. Moreover, ADB will promptly inform MOEJ of major changes or developments affecting the activities financed out of the JFJCM, including, inter alia, amendments to agreements; significant reallocation of funds; suspension, termination or cancellation of disbursements; and of any event that interferes, or threatens to interfere, with the successful implementation of such activities.
 - (c) MOEJ will provide the information regarding advanced low-carbon technology and know-how, including the producers and experience to ADB.
- (iii) Confidentiality
 - (a) MOEJ will only use the information regarding sovereign and nonsovereign projects obtained from ADB for the purposes of grant approval and implementation review, and will not disclose such information to any third parties unless ADB and MOEJ agree disclosure of such information.

G. Records and Accounts

21. ADB will (i) maintain separate records and accounts in respect of the funds deposited in and withdrawn from the accounts; (ii) prepare annual financial statements, which will be audited by ADB's external auditors for each fiscal year of ADB when the funds remain in the accounts; (iii) prepare terminal financial statements audited by ADB's external

auditors following termination of the JFJCM; and (iv) furnish a copy of the report of such audit to MOEJ.

H. Termination

22. The JFJCM will be reviewed in 5 years in terms of performance and fulfillment of its purpose.

23. This arrangement will remain in force until it is terminated by either MOEJ or ADB upon 3 months prior written notice to the other party.

- (i) If this arrangement is terminated, such termination will not affect any commitment made by ADB with the recipients concerning the JFJCM and ADB may continue to make withdrawals from the fund account in respect of such commitments (including withdrawals for related costs of ADB) as if this arrangement had not been so terminated;
- (ii) Upon termination of this arrangement and subsequent liquidation of the JFJCM-financed activities, the use of any residual funds, including investment incomes of the fund will be determined through consultations between MOEJ and ADB.

I have further the honor to propose that the present note and your confirmation of the foregoing arrangement shall be regarded as constituting an agreement between the Government of Japan and ADB, which will enter into force on the date of your confirmation.

Sincerely yours,

Kazuhiko Koguchi

Executive Director for Japan

Confirmed:

Asian Development Bank

By:

Takehiko Nakao
President

Date: