

Partnership Agreement

Between the Ministry of Water and Energy of the Federal Democratic Republic of Ethiopia and the Norwegian Ministry of Foreign Affairs of the Kingdom of Norway on

"Increasing Access to Sustainable Energy and Reduced Greenhouse Gas Emissions in Rural Areas through the Use of Renewable Energy and Energy Efficiency"

I. PREAMBLE

The Ministry of Water and Energy of the Democratic Republic of Ethiopia ("Ethiopia"), and the Norwegian Ministry of Foreign Affairs of the Kingdom of Norway ("Norway"), both partners in the international Energy+ Partnership, hereinafter referred to as the "Participants":

recognizing that the adverse impacts of climate change and the need for reliable, affordable and sustainable energy are two of the largest challenges facing the world in the 21st Century and that renewable energy and energy efficiency provide means to both increase energy access and to reduce emissions of greenhouse gases relative to agreed baselines;

recognizing the Sustainable Energy for All initiative launched by the United Nations Secretary-General, with the goals of providing universal access to modern energy services for by 2030; doubling the global rate of improvement in energy efficiency by 2030; and doubling the share of renewable energy in the global energy mix by 2030;

recognizing that access to reliable, affordable and sustainable energy service is essential to eradicate poverty, and improve employment opportunities, health and education services, gender equity, climate resilience, reduce indoor and local air pollution, and therefore enhance overall standards of living;

recognizing Ethiopia's Climate Resilient Green Economy (CRGE) Strategy that outlines how to protect Ethiopia from the adverse effects of climate change and to build a sustainable economy;

recognizing the joint communiqué between Ethiopia, Norway and the United Kingdom focusing on joint collaboration on international climate change policy and support for Ethiopia's CRGE, declared in Durban on the 8th of December 2011;

noting that Ethiopia and Norway are parties to the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol. Furthermore, that Ethiopia has submitted voluntary national appropriate mitigation actions (NAMAs) to be implemented by 2020 to the UNFCCC;

recognizing the decision in Durban on a work plan on enhancing mitigation ambition under the UNFCCC to reduce the significant gap between the aggregate effect of parties' mitigation pledges in terms of global annual emissions of greenhouse gases by 2020 and aggregate emission pathways consistent with having a likely chance of holding the



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increase in global average temperature below 2 degrees Celsius above pre-industrial levels;

hereby establish in support of the joint communiqué a Partnership aimed to increase access in Ethiopia to sustainable energy and to reduce emissions of greenhouse gases from the energy sector (hereinafter called the "Partnership").

II. PURPOSE OF THE PARTNERSHIP

Through provision of payment by results the Partnership will assist Ethiopia to achieve universal access to sustainable energy by 2030 and reduce emissions of greenhouse gases from the energy sector. The Partnership will seek to build over time an overall approach to the energy sector on renewable energy and energy efficiency policy so that the Partnership will contribute to achieving the targets set in CRGE.

III. GENERAL APPROACH AND PRINCIPLES

The Partnership will be based on the following basic Energy+ principles:

- *Sectoral approach*: The long term goal is to develop cooperation between Ethiopia and the Energy+ Partnership, including Norway that addresses the whole energy sector to promote transformational change. Initially the cooperation is foreseen to focus on key energy sub-sectors.
- *Payment by results*: The Energy+ Partnership intends to provide payment by results based on achieved outcomes in terms of increased access to sustainable energy and reduced emissions of greenhouse gases relative to business-as-usual baselines.
- *Results-based financing*: The Energy+ Partnership will demonstrate the use of results-based financing approaches, alongside other mechanisms, to stimulate private and public investment and innovation to help deliver outcomes listed above.
- *Enabling environment to leverage private and commercial investments*: The Energy+ Partnership intends to provide best-practice support on the design and implementation of policy measures, strengthening institutions and improving governance to incentivize commercial investments that would in turn increase access to sustainable energy and to reduce emissions of greenhouse gases relative to business-as-usual baselines.
- *Phased approach*: The Energy+ approach will be implemented in three phases, flexibly applied, to develop an enabling environment for energy-related initiatives: i) support for strategic planning (e.g. low emission and energy sector strategies and investment plans), and institutional, policy and regulatory measures, where needed; ii) support to implement the required plans, policies, institutional and regulatory measures and incentive mechanisms for transformative change, and to build the necessary capabilities (including measurement, reporting and verification (MRV)) to enable the implementation of results-based financing programs, and other mechanisms, designed to stimulate markets, build capacity, encourage innovation, and catalyze investments; iii) provision of payment by results according



to the outcomes delivered by way of access to sustainable energy and reduced emissions of greenhouse gases relative to business as usual baselines.

Achieving increased access to sustainable energy and to reduce emissions of greenhouse gases will require a committed, coordinated and sustained response from the Participants, leading to radically scaled-up investment and service delivery. In their cooperation Participants will:

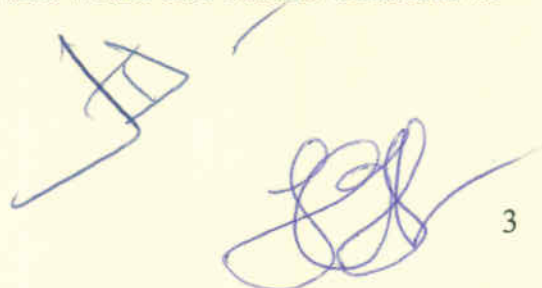
- Building on a learning-by-doing approach develop a MRV system to enable robust measurement, reporting and verification of results, outputs, outcomes and impact and allowing for improvement over time.
- Establish coordination and tracking systems, i.e. registry, for energy investments compatible with the UNFCCC registry.
- Be fully transparent regarding financing, support from other donors, actions and results.
- Give all relevant stakeholders, including local communities and civil society, and in particular women, subject to national legislation, and where applicable, international instruments, the opportunity of full and effective participation in energy sector planning and implementation.
- Encourage other members of the international Energy+ Partnership to join the Partnership.
- Ensure that all investments and activities implemented under the auspices of the Partnership will comply with national, and relevant international, social and environmental commitments, standards and practices.
- Ensure coordination with other climate change and access to energy initiatives.
- Ensure that the Partnership is based on national development plans, energy or climate policies and plans, the Energy+ Guiding Principles, and is aligned with relevant methodologies or guidelines of the UNFCCC.

IV. SCOPE OF THE COOPERATION

The initial scope of the Partnership is to contribute to increased access to sustainable energy in rural areas and to reduce emissions of greenhouse gases relative to agreed business as usual baselines.

The Partnership will support the implementation of Ethiopia's NAMA "*Electricity Generation from Renewable Energy for Off-grid Use and Direct Use of Renewable Energy*" submitted to the UNFCCC in 2010.

The long term scope of the Partnership is to contribute to implementing the Vision and Strategy of Ethiopia in building a climate resilient green economy through sector-wide deployment of sustainable energy technologies that would also reduce emissions of greenhouse gases.



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V. PHASES OF THE COOPERATION

The Partnership will be implemented in three phases. The ambition is to implement the first two phases from 2012 to 2015 and to start the implementation of Phase III in 2016 depending on the outcome of the annual review.

A. PHASE I - READINESS ACTIVITIES - 2012-2013

In Phase I, Participants will undertake the required preparatory steps for increasing access to sustainable energy in rural areas. As part of the readiness activities Ethiopia will undertake the following activities:

- 1) Completion of the "Fuel-Efficient Stoves Implementation Plan" by the end of 2012.
- 2) Preparation of a comprehensive off-grid investment plan by the end of 2013.
- 3) Designation of a CRGE unit of the Ministry of Water and Energy by the end of 2012 in order to lead the coordinated preparation and implementation of energy sector investment plans.
- 4) Establishment of an energy dialogue forum with relevant development partners by the end of 2012.
- 5) Designing, establishment and operationalization of the CRGE Facility as a mutually agreed financial mechanism for channelling and administering financial support consistent with internationally recognized environmental, social, and fiduciary safeguards by the end of 2012.
- 6) Development of appropriate quality standards for renewable energy technologies in rural areas by the end of 2013.
- 7) Establishment of national and sub-sectoral, as appropriate, business as usual (BAU) baselines for the provision of payment by results for increased access to sustainable energy and reduced emissions of greenhouse gases from energy use in rural areas by the end of 2013.
- 8) Develop a system for measuring, reporting and verifying progress on increased access to sustainable energy and reduced emissions of greenhouse gases relative to the agreed-upon national baselines. The MRV system for emission reductions should be based on the 2006 IPCC Guidelines and, where relevant, take into account methodologies developed under the Clean Development Mechanism (CDM). The MRV system should further be a part of the national GHG inventory system and contribute to Ethiopia's reporting obligations to the UNFCCC. Proxy indicators may be used for measuring and reporting progress relative to the baselines for the purpose of providing payment by results, in accordance with Article X of this agreement. A plan for the necessary MRV capacity building activities should be developed by the end of 2013.
- 9) Establish a national registry to support the scaling up and delivery of climate change investments by providing regular, up to date information about investment needs in the energy sector and about available technical and financial resources seeking attractive investments and partners. By the end of 2013 the registry should be operational and focus on the information and knowledge management and



matching functions. The national registry should be compatible with the UNFCCC registry under development.

- 10) Agreement on a system for independent verification of increased access to sustainable energy and reduced emissions of greenhouse gases in rural areas as a basis for determining the maximum level of annual payments under subsequent Phases by 2013.
- 11) Convening an annual energy sector business forum to initiate a dialogue with national and international private sector representatives as a basis for identifying opportunities and potential barriers for investments in the energy sector in Ethiopia.
- 12) Development of results-based financing options and channelling modalities to incentivize private sector operators that are committed to avail renewable energy and efficiency technologies, including for fuel-efficient stoves, for the rural market by the end of 2013.
- 13) Development of a comprehensive plan of action for the renewable energy sector and for energy efficiency by the end of 2013.

Norway will:

- 1) Contribute funds to Ethiopia for 2012 through the CRGE Facility to start implementing the identified above deliverables provided that such Facility is acceptable to Norway and that a contribution agreement is established, ref Article VI.
- 2) Subsequent funding will be based on payment by results and the conditions set forth in Article VI.

B. PHASE II - IMPLEMENTATION 2014 - 2015

Phase II will be initiated in 2014, with a shared aspiration to be completed by the end of 2015. The aim of Phase II is to provide payment by results for increased access to sustainable energy and reduced emissions of greenhouse gases in rural areas through the implementation of policies and measures adopted to bring about transformative change, including through enhanced commercial investments. The payments will also be used to leverage resources from the international carbon market. The level of maximum annual payment by results will be determined by the Participants based on the ex-ante agreed proxy indicators for measuring results against targets.

Ethiopia will in the Implementation Phase:

- a. Receive annual payment by results for independently verified increase in access to sustainable energy and reduced greenhouse gas emissions relative to the agreed-upon baselines. Methodology and proxy indicators will be specified in a separate document, as specified in Article X, jointly prepared by the Participants by the end of 2012.
- b. Start necessary measurement, reporting and verification of progress in accordance with the MRV system developed in Phase I, and follow up actions to facilitate further improvements in the MRV system, as identified during Phase I.



- c. Develop a carbon market programme using existing or future mechanisms to attract carbon revenues by the end of 2015.

Norway will:

- a) Provide payment by results for 2014 deliverables focusing primarily on enabling policies and measures as identified in Phase I and Phase II deliverables. Payments for subsequent years will be based on deliverables in terms of both verified increase in access to sustainable energy and reduced emissions of greenhouse gases in rural areas by the use of proxy indicators. The level of maximum payments will depend on Ethiopia's delivered results as measured against the agreed upon BAU baselines or a temporary use of indicators. Methodology and approach for determining the maximum level of payments will be specified in a separate document, as specified in Article X, to be jointly prepared by the Participants.
- b) Channel funding for Phase II through the CRGE Facility.

C. PHASE III - PAYMENT BY RESULTS

The shared aspiration of the Participants is to initiate Phase III from year 2016, based upon independently verified results achieved in year 2015 in terms of increased access to sustainable energy and reduced emissions of greenhouse gases. In Phase III, a national mechanism for payment by results will be implemented, including:

- a) Ethiopia will receive annual payment by results for independently verified increase in access to sustainable energy and reduced emissions of greenhouse gases relative to the agreed-upon BAU baselines, as specified in Article X, to be jointly prepared by the Participants.
- b) Norway and other Energy+ Partners having joined the Partnership channel payment by results through the CRGE Facility, provided that such Facility is acceptable to Norway and that a contribution agreement is established, ref Article VI.

VI. NORWEGIAN FINANCIAL CONTRIBUTIONS

Norway will provide funds for the period 2012 - 2016 to the implementation of the Partnership. Funds will be committed and channelled through a contribution agreement to be established between the Participants and the CRGE Facility, provided that such Facility is acceptable to Norway and that a contribution agreement is established.

In 2012 funds will be provided upfront, cf Article 5A 1-13, for Ethiopia's implementation of enabling activities to ensure that Ethiopia will be able to enter into a payment by results program from 2013 and onwards.

The level of annual payment by results for phases II and III will be decided by Norway based on independently verified results achieved the preceding year in both increased access to sustainable energy and reduced emissions of greenhouse gases relative to the agreed-upon BAU baselines. Methodology and approach for this will be prepared



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jointly by the Participants in a separate document, as specified in Article X. Annual payments will be subject to appropriations from the Norwegian Parliament.

VII. DISBURSEMENTS

Disbursements from Norway to the CRGE Facility will be regulated in the contribution agreement. Disbursements from Norway based on payment by results to the CRGE Facility for the exclusive financing of the Partnership will be regulated in the contribution agreement and shall be made as reimbursement of audited expenditures incurred during the preceding year. Ethiopia shall as a rule submit annual requests for reimbursements demonstrating that verified results and documented expenditures have resulted in increased access to sustainable energy and reduced greenhouse gas emissions relative to the agreed upon BAU baselines in rural areas. When determining the amount to request, Ethiopia shall take into account income from all sources as well as any accrued interests. The Independent Review Group, cf Article IX, will as part of its mandate undertake the review of annual documented expenditures.

VIII. JOINT CONSULTATION GROUP

The Participants will establish a Joint Consultation Group to contribute to the effective implementation of this Partnership. The group will consist of points of contacts for both Ethiopia and Norway, and other members of the international Energy+ Partnership joining the Partnership.

Terms of reference and rules of procedure for the Joint Consultation Group will be agreed during its first meeting based on a draft prepared by Ethiopia by taking into account the requirements set under the grant management rules and procedures of Norway. The Joint Consultation Group will convene Annual meetings for the Partnership to ensure effective implementation of the Partnership based on its terms of reference.

IX. INDEPENDENT REVIEW

The Participants will set criteria that will also take into account the importance of building national capacity and, based on these criteria, designate an Independent Review Group who will undertake the annual review on the deliverables of agreed indicators based upon terms of reference approved by the Joint Consultation Group. The Independent Review Group will report to the Joint Consultation Group. Its' reports will be public.

X. DETAILS AND AMENDMENTS TO THE PARTNERSHIP

The details of this Partnership will be further described in a separate document, to be developed jointly by the Participants by the end of 2012, detailing the deliverables in this Partnership Agreement. The document shall include:

- a) A process and timeline for agreeing on the national and sub-sectoral BAU baselines for access to sustainable energy and emissions of greenhouse gases



for the provision of payment by results, as well as clear conditions for revising the baselines.

- b) Details on the agreed-upon initial metrics and indicators for measuring and reporting progress on increased access to sustainable energy and reduced emissions of greenhouse gases in rural areas relative to the baselines.
- c) Methodology and approach to determine the maximum level of payment by results, including the use of proxy indicators, for Phase II.
- d) A process and timeline for agreeing on a system for independent verification of increased access to sustainable energy and reduced emissions of greenhouse gases as a basis for determining the maximum level of annual payment by results under Phase III.
- e) Other requirements according to the Participants' rules and regulations.

This Partnership Agreement may be amended at any time by the mutual written consent of the Participants.

XI. ENTRY INTO FORCE AND TERMINATION

This Partnership Agreement shall enter into effect upon signature. This Partnership Agreement may be terminated at any time by either of the Participants, by written notification, through diplomatic channels.

Done in duplicate in Rio de Janeiro on the 65st June, 6456, in the English language.



Ministry of Water and Energy
Federal Democratic Republic of Ethiopia



Ministry of Foreign Affairs
Kingdom of Norway