Annex: Detailed steps for calculating results based payments under the Indonesia-Norway forest partnership

Basis

The basis for developing the results based payment model is Indonesia's UNFCCC FREL dated November 2016. The reporting will follow consistent methodologies as this FREL. However, as described in the MRV Protocol document, a few additions and modifications to this FREL will be included in the bilateral results based payment results based payment model (from here on referred to as the "results based payment baseline").

Reference period

The reference period used for calculating the Results based payment Baseline will be based on the years 2006/2007 – 2015/2016.

Activities, pools and gases included in the results based payment baseline

The following performance indicators will be included in the first results based payment baseline under the partnership:

1) Emissions from deforestation
2) Emissions from forest degradation

Data and methodology for the above performance indicators should conform to Indonesia's FREL.

Emissions from decomposition of deforested peatlands, and emissions from peat fires, will be measured and reported on using the best available methods and data, and the goal is to phase also these performance indicators into the bilateral results based payment model over time.

Improvements to data and methodology, as well as the inclusion of additional activities, pools and gases (e.g. emissions from peat decomposition of peatlands outside of forests), are encouraged over time provided that these improve completeness, comprehensiveness, and accuracy. Such improvements should be specified in an MRV improvement plan that prepares for results based payment baseline updates in line with point 2.6 of the MRV protocol.

Results based payment Baseline & included performance indicators

The FREL period of 2006/2007 – 2015/2016 for the deforestation and forest degradation performance indicators forms the basic results based payment baseline against which results are calculated.

Peat decomposition and emissions from peat fire shall be measured and reported, but not included as a performance indicator in the first reporting period under the partnership. Plans shall be made to include peat decomposition and peat fire emissions in the results based payment model over time. Even though peat fire emissions are not part of the results based payment model from the start, a proxy approach for measuring reduced emissions from peat fires will be piloted and reported on (see below).

Treatment of statistical uncertainty, reversal risk, and possibly other risk factors, and inclusion of Indonesia's ambition

A conservative, simplified and grouped mechanism for accounting for statistical uncertainty, leakage and permanence risk, and reflecting Indonesia's ambition, will be used.

- Emission reductions relative to the agreed results based payment baseline is reported.
- From the reported emission reduction results, the following set-asides/deductions will be made to determine the maximum number of emission reductions Indonesia can be rewarded for by Norway and other financiers:
    o 20% to reflect the risk of uncertainty in estimates;
    o 0% is deducted to reflect risk of leakage (due to national level accounting);
    o 15% is deducted to reflect Indonesia's ambition to reduce national GHG emissions
- The deducted volumes cannot be rewarded or bought by other financiers.

As systems are developed over time and policies and strategies are put in place to reduce permanence risk, leakage risk, and statistical uncertainty, the set aside factor can be reduced.

For the first reporting period under the Indonesia-Norway agreement, the total set aside factor of 35 % will be applied.

Peat Fire emission proxy reporting

Years of extreme emissions from peat fires are treated differently depending on normalcy or extreme events. Two separate peat fire emission baselines are calculated, separated by a threshold of extremity.

The two peat fire baselines are calculated accordingly:

Years of extreme peat fire emissions, where emissions are more than 2 standard deviations above the mean, are excluded. This process is repeated until no extreme years are found. The result is the normal peat fire year baseline. This approach is consistent with guidance from the IPCC.

The average annual emissions in the extreme years identified in this process form the basis for the extreme year baseline. Future yearly peat fire emission results that exceed the 2 standard deviations threshold (i.e. are above extreme peat fire threshold) are treated as extreme events and results are calculated against the extreme peat fire baseline. As an additional requirement, the extreme peat fire baseline shall only be used if the year in question is classified as an El Nino episode as defined by NOAA.