

PAY FOR PERFORMANCE TOOLKIT

Key Distinctions of Pay for Performance Contracts

CONTRACT ELEMENTS	PAY FOR PERFORMANCE	TRADITIONAL AGREEMENTS*
Definition of Performance Outcomes	Performance Metric: A consistent performance metric documented in a written protocol uses measurements linked to conservation goals to determine habitat quality. The same performance metric is used to compare multiple projects using different conservation actions.	Flexible Metrics: If defined, metrics may be uniquely selected for each project. When common metrics are defined for multiple projects, the specific assessment methods may not be formally defined and the linkage between metric and conservation goals may not be clear.
	Metrics Define Value: The performance metric is used to determine the conservation value of all projects, integrating landscape and site quality considerations with the quantity of the project.	Metrics Inform Value Only: Performance metrics may be used for administrative reporting purposes but are not typically used to define the conservation value of the project.
	Quantitative Result: Performance metrics represent a unit of environmental benefit, which may be described as credits, and are incorporated into contract terms.	Narrative: Performance milestones are typically descriptive of actions rather than of achieving environmental benefit.
Payment Terms	Outcome-Based: At least some portion of payments are linked to achieving verified conservation outcomes using the performance metric.	Action-Based: Payments reimburse project proponent for expenditures or completion of actions.
Monitoring, Reporting, and Verification	Monitoring & Reporting: Monitoring is contractually required and used to determine payment or need for remedial actions. Project results are reported using the units or credits defined by the performance metric.	Monitoring: Monitoring may be required, but typically is not used to determine payment or remedial action. Results are frequently not consistently reported beyond the contract manager.
	Ongoing Verification: Occurs initially when construction is complete and throughout the stewardship term, and is typically conducted by a person that is not the project proponent.	One-Time Verification: In some, but not all cases, verification of action-based performance milestones occurs when construction is complete.
Management Plan	Binding: Incorporated into contract and used as basis to calculate long-term management costs, and payments linked to ongoing performance.	Non-Binding: May be asked for, but typically not incorporated into formal contract terms.
	Specific: Establishes minimum actions that will be taken throughout the contract term and potential additional actions to ensure conservation outcomes are generated and maintained throughout the contract term.	Non-Specific: Typically, no provision that require implementation of specific actions beyond the first 3- to 5-year period covered by the contract.
Long-Term Stewardship	Informs Payment: May be integrated as part of contract and payment schedule with responsibility delegated to project proponent.	Lacks Financial Incentive: While long-term stewardship is potentially addressed in contracts, commitments are typically not enforced beyond the 3- to 5-year period covered by the contract.
Remediation	Basis for Action: If performance outcomes fall below a defined threshold, project proponent writes and seeks approval for a remediation plan. Future funding linked to project may be reallocated to other projects and penalties may apply.	Lacks Incentive for Action: Expectation to correct significant issues if identified, but typically the buyer has no ability to meaningfully compel project proponent to take remedial action.

*Traditional Agreements refers to grant agreements and cost-plus contracts.