UNIVERSITY OF EASTERN FINLAND

OUTCOMES-BASED CONTRACTING

POLITIIKKA SUOSITUS / POLICY BRIEF

Outcomes-Based Contracting: Financing Early Action and Long-Term Public Value

Summary: Public systems often underfund early action because costs are immediate while benefits arrive later and across different budgets. Outcomes-based contracting links payment to verified results and can align public authorities, providers, funders, evaluators and communities around shared outcomes. It works best for complex, multisectoral problems with measurable outcomes and strong orchestration. Effective use depends on clear governance, reliable data, risk adjustment, independent evaluation, community participation and long-term political commitment.

1. **Define the public outcome first; choose the contractual or financial instrument afterwards.**
2. **Use the model when long-term value is substantial, cross-sector and credibly measurable.**
3. **Fund orchestration, baseline data, risk adjustment, evaluation, co-design and trust before launch.**
4. **Pool payments across beneficiaries, keep complexity proportionate, and plan for continuity and scale.**

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Why Early Action Is Structurally Underfunded?

The financing gap

Public systems often underfund early action because costs are immediate while benefits emerge later. Prevention, mental health support, youth development, healthy ageing and labour-market inclusion can create substantial long-term public value, but that value may appear beyond the annual budget cycle or in another institution's accounts. This creates a "*nameless beneficiary problem*", because prevention protects people before harm is visible, and a "*wrong pocket problem*", because the organisation paying today may capture only part of the later benefit.

OECD data show that prevention represented around 3% of health spending across OECD countries before the COVID-19 pandemic; the temporary pandemic increase had largely receded by 2023. The challenge extends beyond healthcare because education, employment, housing, food environments, physical activity, culture and community services also shape health and functional capacity. Separate budgets and accountability systems make coordinated early action difficult even when the long-term case is strong (OECD, 2025; McDaid & Park, 2016).

What outcomes-based contracting changes?

Outcomes-based contracting links payment to predefined and verified results rather than to inputs, activities or service volume. It can take the form of performance-based procurement, pooled outcome funds, public-private outcome alliances, Special Purpose Vehicles, blended finance or impact bonds. Its purpose is not the financial structure itself, but the alignment of public authorities, providers, funders, evaluators and communities around outcomes that matter.

The model is strongest when four conditions are present: inaction has material long-term human and public costs; plausible interventions can improve the trajectory; outcomes can be measured credibly within a useful timeframe; and an orchestrator can align providers, budgets, data and incentives. Without orchestration, the contract can reproduce fragmentation. With it, outcomes-based contracting can support coordinated system change.

Finland's KOTO Social Impact Bond illustrates the potential. Its evaluation reported EUR 4,500 higher earned income, EUR 1,330 more taxes paid, EUR 1,340 less in transfers received and average public-sector savings of EUR 2,670 per participant compared with the control group. The example also shows why employment outcomes should distinguish entry into work from sustained and meaningful participation (Karinen et al., 2024).

The model is not suitable everywhere. Investor-funded structures can add legal, financial and evaluation complexity, while simpler public outcome contracts or pooled funds

may achieve the same purpose with lower transaction costs. The structure should be proportionate to the problem, the evidence and the system's governance maturity.

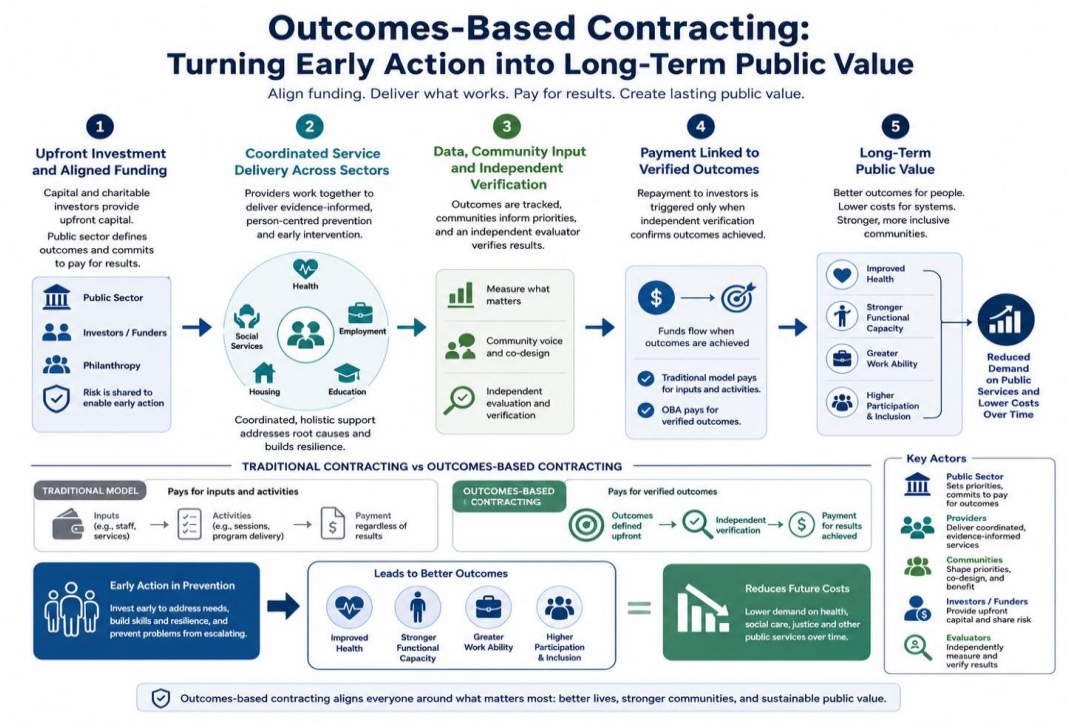

Figure 1. Outcomes-based contracting: turning early action into long-term public value.

A practical decision test

Define the target population, causal pathway, public value, data requirements and delivery ecosystem before selecting the contract. Then use the least complex structure capable of achieving and verifying the desired outcome.

Table 1. When outcomes-based contracting is a good fit.

Fit test	Long-term value	Measurement	Fragmentation	Capacity
Use OBC when	Material human and public costs	Outcomes are verifiable	Benefits span sectors	Strong orchestrator and data
Use another approach when	Value is weak or unclear	Outcomes cannot be defined fairly	Public duty must be unconditional	Governance or transaction costs are excessive

Table 2. Structural options and trade-offs.

Structure	Capital	Adaptability	Best fit	Main limitation
Impact bond / fund	External or blended	High	Complex multi-provider programmes	Higher legal and investor complexity
SPV / pooled model	Public, pooled or mixed	Medium-high	Stable or cross-sector partnerships	Needs strong joint governance

Policy Actions for Responsible Use

1. **Begin with the need and the outcome, not the instrument.** Identify the undesirable trend, affected population and likely trajectory without action. Define the outcome that matters and why the current system does not achieve it. Only then choose the mechanism. Impact bonds, SPVs, outcome funds, pooled payments, procurement reform or ordinary public programmes should be selected because they fit the problem.
2. **Fund orchestration and pre-contract design.** Build a theory of change, baseline, data model, governance, provider roles, community participation and trust before payment terms are finalized. The orchestrator needs authority to adjust delivery when evidence shows weak performance. Modelling and co-design are core implementation infrastructure and should be funded as such.
3. **Build data, risk adjustment and independent evaluation before launch.** Outcome payments require confidence in the baseline, target population, data sources and verification method. Risk adjustment should prevent cherry-picking and reflect relevant differences in baseline risk and need. Administrative data should be combined with lived-experience evidence so measurable results remain connected to meaningful improvement.
4. **Pool payment where value crosses sectors.** Preventive outcomes can benefit healthcare, municipalities, employers, social insurance, education, families and communities at the same time. Pooled outcome funds or alliances can align these beneficiaries around a shared result. Financing should also recognise community co-investment in time, trust, local knowledge and informal coordination.
5. **Measure public value broadly and adapt delivery.** Fiscal savings should be combined with health, quality of life, functional capacity, work ability, participation, equity, independence and lived experience. QALYs and DALYs can be complemented by Productivity-Adjusted Life Years (PALYs) when productive capacity is relevant. Dashboards and AI-supported coordination can strengthen learning but should not replace transparent governance and professional judgement.
6. **Design for continuity, scale and proportionate complexity.** Long-term outcomes may take five to ten years or more, so models need administrative ownership, legal continuity, multi-year commitment and a scale-up pathway. Successful pilots should connect to ordinary commissioning, procurement reform, expanded funds or regional replication. Use simpler performance-based contracts when complex investor structures do not justify their transaction costs, and support replication through shared guidance and technical assistance.

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Disclosure of Generative AI Use

Generative AI tools were used to support grammar and language review, refine the tone and clarity of selected paragraphs, and assist with image creation. All AI-assisted outputs underwent multiple rounds of review and revision. The authors reviewed and approved all final content of the report