Department for Energy Security & Net Zero

Blended finance products

The table summarises the four different types of blended finance products.

Category	Instrument	Description
Creative grants	**Conditional grant**	A grant that is deployed with attached conditions, for example matched funding from the private sector, or it is paid out in tranches only when conditions are met.
	Repayable grant/soft loans	A grant which becomes repayable (in part or in full) if certain conditions attached to the grant are met.
	Convertible grant	A grant which converts to an equity stake or loan upon reaching pre-agreed conditions.
Contingent liabilities	**Guarantee**	An agreement to fulfil repayment for all or part of a financial instrument in the event of non-payment or loss of value. Guarantees cover the risk that a borrower doesn't repay their obligations.
	Indemnity (insurance)	Financial coverage for all or part of the losses of the insured under certain circumstances. Indemnities cover the risk that certain events materialise (rather than a borrower not repaying their obligations).
Financial transactions	**Debt (direct)**	Debt is a loan that must be repaid (unlike repayable grants, which may not have to be repaid unless certain conditions materialise). Debt can be provided by the government on its own or alongside a private sector lender.
	Equity (direct)	An equity investment is money invested in a company, platform, or project by purchasing shares. Equity can be invested alongside a private sector lender, or on its own as a standalone investment. Majority equity stakes or significant control over a company/project will lead to the whole entity being classified on the government's balance sheet (but this doesn't occur with minority stakes/no significant control). Equity carries a higher risk than debt (correlating with higher potential opportunity/value) and would usually expect to receive a higher return to reflect the risk being taken. Equity returns are typically less predictable than debt returns and are dependent on project performance and cash availability.
	Investments in a fund	Government funding is pooled with private sector funding into a 'fund', which is administered by a fund manager who invests into projects or companies. These investments can be equity or debt. Risks of such investments are similar to those of equity.
Aggregation	**General aggregation**	The combining of multiple assets usually of a similar profile, such as a certain type of loans, into a pool. Investors then invest in the pool by purchasing portions of it. Proceeds from the underlying assets, e.g., loan repayments, flow through to the investors. The government can provide a guarantee on some or all of the payments, and/or it can directly purchase some of the aggregated assets.
	Place-based aggregation	The aggregation of assets in a specific geographic location into a pool (unlike general aggregation which focuses on assets of the same type, such as small business loans, across different locations). For example, this could include domestic solar panels, business energy efficiency measures, and local heat networks in a given location. The government can guarantee and/or purchase the aggregated assets.