

Blended Finance Glossary

This is a quick glossary for common **blended finance terminology**, the strategic use of public capital to attract private investment funding, developed with and for the **Local Net Zero Accelerator Pilot Combined Authorities** (Greater Manchester Combined Authority, West Midlands Combined Authority and York and North Yorkshire Combined Authority).

- **Outcome-Seeking or Impact Investors** are those who invest not just for financial returns, but also to achieve measurable social or environmental impact.
- **Lending (Debt Capital)** refers to money provided to projects or companies with the expectation of repayment with interest. It is typically used in later stages of a project. Example: an Able to Pay Loan Fund offering low-interest loans to households undertaking energy retrofits.
- **Equity Capital** involves investing in return for ownership in a project or company, with returns linked to performance. It is generally used in early-stage or higher-risk investments. Example: Mayor of London's Energy Efficiency Fund has made equity investments in decentralised and renewable energy projects.
- **First Loss Capital** is a layer of capital that absorbs initial investment losses, thereby protecting other investors and encouraging participation. Example: local authorities or central government often provide first-loss capital in Net Zero projects to de-risk private investment.
- **Concessional Capital** is funding provided on terms more generous than market rates (e.g., low interest, long grace periods) to make lower financially returning but impactful projects viable.
- **Mezzanine Capital** is a hybrid form of financing that blends characteristics of debt and equity, often used when projects need flexible, long-term capital.
- **Guarantees** are commitments by a third party to repay a lender in the event of borrower default, reducing the risk for private investors.
- **Subordination** refers to the structuring of capital so that certain tranches (e.g., junior capital) take losses before others (senior capital).

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