OPPORTUNITY GREEN

IMO Net-Zero Fund vs Facility: Institutional options for managing Net-Zero Framework compliance revenues

November 2026

1 Introduction

The International Maritime Organisation's (IMO) Net-Zero Framework (NZF) is estimated to generate $10-15bn in compliance revenues annually[1] through its economic element, following the 'polluter pays' principle. Under the current draft NZF, which was approved by the majority of Member States at the 83rd session of the Marine Environment Protection Committee (MEPC), ships that fail to meet the greenhouse gas fuel intensity (GFI) requirements must address their compliance deficits by either:

A. Purchasing Remedial Units (RUs) priced at $100/tonne CO2eq if the attained GFI falls below the base target, but above the direct compliance target;

   OR, in the case of overshooting both targets,

B. Buying RUs at a higher price ($380/tonne CO2eq), purchasing Surplus Units (SUs) from GFI-compliant ships, or using SUs gained in another year[2].

Revenues collected from compliance with the emissions pricing will then be redistributed towards a wide range of purposes, including investment in sustainable fuels, port and coastal infrastructure, capacity building, and resilience measures to enable a just and equitable transition for climate-vulnerable developing States.

Given the breadth of these expectations, the revenue distribution mechanism will need to reconcile different types of financing needs. Some activities will generate public goods, whilst others will provide commercial returns. The mechanism will therefore need to determine not only who receives revenues, but also what type of finance is

[1] Transport and Environment, 2025, UN shipping agreement a victory for multilateralism but a failure for the climate, available at: https://www.transportenvironment.org/articles/un-shipping-agreement-a-victory-for-multilateralism-but-a-failure-for-the-climate

[2] International Maritime Organisation, 2025, The IMO Net-Zero Framework- FAQs, available at: https://www.imo.org/en/mediacentre/hottopics/pages/faqs-the-imo-net-zero-framework.aspx

appropriate, who makes allocation decisions, and which institution is best placed to perform the financial and operational functions involved.

The Net-Zero Fund (or facility) is set out in Regulation 40 of the current draft NZF, which establishes the basic functions and governance requirements of the mechanism and lists the issues that should be addressed in the development of its governing provisions. Brazil[3] and China[4] bracket the terms 'IMO Net-Zero Fund' and 'IMO Facility' in this draft regulation so as to not prejudge its legal nature, governance arrangements, or operational modalities. A 'Risotto Group' of interested countries is currently working intersessionally to overcome challenges and allow for constructive negotiations on the Framework at MEPC 85. Their discussions continue to include an economic element.

1.1 Key Functions

The required function of the mechanism should direct the form it takes. It is therefore important to understand the key functions and requirements that the mechanism should fulfil. The critical functions necessary for the financial instrument to support a just and equitable energy transition of global shipping are:

1. Mobilise funds
2. Identify and select target recipients of funding and funding types
3. Facilitate the flow of funds from source to recipient.

The key governance functions and bodies required to make this happen are:

A. Board

- Decision-making and strategic direction
- Oversight of Secretariat
- Approving annual budgets and project selection
- Setting funding priorities, access criteria, allocation methodologies
- Reporting to MEPC
- Financial oversight

B. Secretariat

- Operations and management
- Implementing the decisions of the Board
- Coordinating funding rounds
- Facilitating the flow of funds from the source through the administrating entities to recipients
- Monitoring, evaluation and reporting
- Establishing and ensuring safeguards

C. Administrating entities

- Administration of funds – receiving, holding, disbursing
- Due diligence and accountability for funds managed

[3] Brazil's submission to the International Maritime Organization, 2026, Circular Letter No. 5214, available on IMO Docs

[4] China's submission to ISWG-GHG 22, document number 22/2, 2026, available on IMO Docs

D. Implementing entities

- Receipt and spending of funds
- Project implementation, monitoring, evaluation and reporting

➢ Importantly, these governance functions do not need to be conducted by the same entity and in many cases are divided across different entities. For example, the World Bank's Financial Intermediary Fund model separates strategic and funding decisions by an independent governing body from the financial functions performed by a trustee and the implementation functions performed by designated Implementing Entities.[5]

Both a fund and a facility can be designed to support these purposes. The key difference is the institutional architecture through which these functions are delivered.

There is no single, widely accepted United Nations definition of a 'fund' or a 'facility'. This paper therefore applies the following distinction:

A fund is an entity: it is a dedicated institutional and financial vehicle for receiving, holding, managing and disbursing resources for defined purposes.

A facility is a mechanism: it mobilises and directs resources through existing financial institutions without holding or administering funds itself.

This distinction could allow a facility to address some of the concerns raised about establishing an IMO Net-Zero Fund while retaining the revenue generation, dedicated governance and allocation functions envisaged under Regulation 40 of the NZF.

2 Fund vs Facility: The main differences

2.1 A fund is an entity

Generally, a fund is established as a dedicated institutional vehicle with responsibility for receiving, holding, managing and disbursing financial resources for defined purposes. That is to say, the secretariat and administrative functions are conducted by the same entity, requiring a large number of dedicated staff, directed by a board that leads the fund. This is the form originally envisioned for the IMO Net-Zero Fund[6].

[5] World Bank, Financial Intermediary Funds, available at: https://www.worldbank.org/en/programs/trust-funds-and-programs/financial-intermediary-funds

[6] International Maritime Organisation, 2025, Circular Letter No.5005, Draft revised MARPOL annex VI, Regulation 40: The IMO Net-Zero Fund, available on IMO Docs

The precise legal status varies between funds: some have independent legal personality, while others are hosted or administered by an existing institution. In practice, establishing a fund therefore requires a number of complex decisions and developments, such as regarding its legal status and personality, financial rules and fiduciary arrangement, staffing, and mechanisms for disbursing resources.

A fund can provide a clear institutional home for funds, but has raised concerns in the IMO context around the significant scale of compliance revenues from the NZF, the potential creation of a separate legal personality, and the institutional and administrative burden of establishing a new financial institution.

2.2 A facility is a mechanism

A facility does not necessarily need to be established as a separate entity and could operate within the existing legal framework of MARPOL Annex VI and applicable IMO Financial Regulations and Financial Rules. Depending on its design, it could instead provide an operational framework through which money is governed and allocated, while the funds are received, managed and disbursed externally by existing institutions such as MDBs and UN agencies (implementing entities). In other words, secretariat and administrative functions are separated, with secretariat functions carried out by a new dedicated team and administrative functions conducted by existing institutions. The IMO would retain decision-making responsibility about what qualifies under each element of Regulation 41, and what quantum of finance should be distributed to each. The implementing entities would be responsible for establishing the evaluative methodology to determine which projects are eligible for funding under the IMO's qualifying criteria.

In the context of the IMO NZF, a facility could look like:

A. Decision-making retained by the IMO
B. Small secretariat housed within the IMO Secretariat
C. Funds mobilised under the NZF received by and channelled through administrative and/or implementing entities to fund projects which support a just and equitable transition of the global shipping sector.

This model resembles the structure currently being discussed by the Risotto Group.

2.3 Financial architecture

Creating a standalone fund as a separate legal entity would require the IMO to build a new financial architecture. On the other hand, a facility model can instead build on existing institutions and financial infrastructure, meaning that the IMO would not need to create every component of a new financial institution from scratch.

Instead, a facility would provide the coordination, governance and accountability layer connecting the compliance revenues gathered under the NZF with existing delivery institutions. Different revenue pathways are possible under a facility mechanism. Options could include all revenues being gathered by an administrative entity before being disbursed to implementing entities, or revenues could be channeled directly from source to implementing entities, bypassing the need for an administrative entity.

2.4 Decision-making over revenue distribution

A further distinction concerns who retains decision-making authority over the distribution of compliance revenues. Under a fund model, revenue is generally managed within a defined governance structure, with a governing body responsible for decisions on allocations and disbursements. This is reflected in the base text on governing provisions of the Net-Zero Fund submitted by Brazil et al[7] (Annex I), where the Board would approve the Fund's strategic plan, annual budget, allocation methodology, access criteria and funding priorities, as well as programmes and projects above delegated thresholds.

A facility can instead be designed so that decision-making authority remains with the IMO, while the administration and delivery of resources are undertaken through existing financial or implementing institutions. The precise allocation of decision-making authority would therefore depend on the design of the Facility, rather than necessarily requiring a new governing body responsible for the Fund's operations.

2.5 Time and cost to operationalise

The two models would also differ in the time, institutional processes and cost required to become operational. Establishing a fund requires the development and agreement of a dedicated governance, financial and administrative architecture. This is illustrated by Brazil et al[8] (Annex I), which sets out extensive proposed governing provisions. The paper also identifies "the establishment of the Fund and the possible need for interim arrangements before it is fully operational" as an issue requiring consideration and proposes specific interim arrangements.

A facility could be operationalised more quickly by making use of existing institutional, fiduciary and delivery arrangements, rather than requiring the establishment of a new institutional entity and associated governance architecture. A facility could also operate at a much lower cost to the IMO than a fund, and on the basis of collaboration and partnership with the Implementing Entities. Therefore, a facility offers the most cost-effective model for ensuring that compliance revenues from the Framework are transparently and accountably managed and reach their intended purposes.

2.6 Direct contributions

Japan (in MEPC 85/7/3) has proposed a model of direct contributions. Mobilising private finance is critical for the successful decarbonisation of shipping; however Opportunity Green has written a briefing highlighting the risks of this proposal.

As the direct contributions in Japan's proposal are voluntary, this modality could easily be combined with a fund or facility mechanism without the risks inherent in Japan's proposal. In such a model, ships that have achieved compliance, either through reducing their GHG intensity or through the purchase of RUs, could elect to make a direct contribution to a project. This approach would ensure the existence of core

[7] In ISWG-GHG 22/3/13, 'Base text for the governing provisions of the IMO Net-Zero Fund', available on IMO Docs
[8] In ISWG-GHG 22/3/13, 'Base text for the governing provisions of the IMO Net-Zero Fund', available on Imo Docs

revenues to support a just, equitable and effective decarbonisation in line with the IMO's 2023 GHG strategy, and that these would still be governed under the IMO, while offering shipping companies a mechanism to invest in their own decarbonisation.

Indeed, under a facility model as laid out in section 2.2 above, the mechanism established would be designed to channel funds from source to designated projects, so the direct contribution model would fit seamlessly into this mechanism and could be facilitated by the secretariat without excessive additional burden. This could help to mobilise private sector finance by offering a cost-effective, streamlined way for the shipping sector to invest in advancing its own energy transition.

3 Conclusion

A facility offers a way of retaining dedicated IMO oversight and accountability while avoiding the need to establish a separate legal entity and an entirely new financial architecture. It could use existing financial and implementing institutions for functions where they have relevant expertise and infrastructure, while keeping strategic decisions, including allocation principles, safeguards, and priorities for a just and equitable transition for developing countries, within the IMO-governed Net-Zero Framework.

The institutional label should therefore follow the functions required. The objective should be: a mechanism that can generate and deploy NZF revenues predictably, transparently, and efficiently; safeguard the purposes agreed under MARPOL Annex VI; address the needs of climate vulnerable countries; and provide sufficient IMO oversight without creating unnecessary institutional complexity.

Opportunity Green

At Opportunity Green we use legal, economic and policy knowledge to tackle climate change. We do this by amplifying diverse voices, forging ambitious collaborations and using legal innovation to motivate decision makers and achieve climate justice.

www.opportunitygreen.org

Legal disclaimer

Opportunity Green gives no warranty, express or implied, to the accuracy or completeness of the information in this document and does not accept responsibility or liability of any kind for any action made by anyone in reliance on this document or the use of the information contained in this document. The figures provided and tabulated are based on publicly reported information.

Further information

Sapphire Ross, Maudie Fraser
Policy Officers, Climate Diplomacy
Sapphire@opportunitygreen.org, Maudie@opportunitygreen.org