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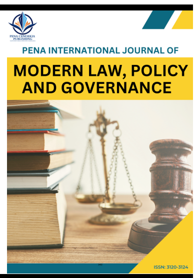

Banks at the Crossroads of Sustainability and Restructuring: Legal Pathways and Financial Instruments for Supporting Distressed Companies

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ABSTRACT

The global economy is increasingly challenged by financial instability and urgent climate imperatives, requiring banks to expand their role beyond traditional financing. Distressed companies, particularly in emerging markets, face difficulties balancing economic recovery with environmental, social, and governance (ESG) compliance. Existing legal and institutional frameworks often overlook ESG factors, limiting access to sustainable finance and slowing the green transition. Insolvency and restructuring laws rarely integrate ESG considerations, creating barriers for troubled firms seeking green financing. This gap undermines both economic resilience and environmental objectives, especially in regions with underdeveloped financial systems. This study examines how banks can support distressed companies by embedding ESG goals into restructuring processes, thereby promoting inclusive and sustainable recovery. Using a multidisciplinary approach, the research analyzes legal reforms, financial instruments, and governance tools that position banks as key actors in climate-aligned restructuring. It explores emerging regulations and innovative mechanisms to mitigate risks such as greenwashing—misleading claims of sustainability. Through a comparative analysis of international standards and a case study on Morocco's green finance initiatives, the study provides insight into the specific challenges and opportunities facing emerging markets. Findings highlight the need for integrated frameworks that link ESG performance with financial recovery, supported by effective corporate governance and data transparency. As sustainability evolves from a voluntary goal to a legal obligation, banks are increasingly required to offer ESG-linked products and manage climate-related risks. Morocco's experience illustrates how legal innovation, public initiatives, and digital tools can expand access to green finance—offering lessons for countries aiming to align economic and environmental priorities.

1. Introduction

The world today is facing a dual crisis: growing financial instability and accelerating ecological degradation. These interconnected challenges require a rethinking of how capital is allocated and

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regulated on both national and global levels. In response, environmental, social, and governance (ESG) finance has emerged as a strategic framework to align financial recovery with long-term sustainability goals [1].

Banks play a pivotal role in this shift—not only as providers of capital, but also as legal and regulatory actors. They are expected to support companies through financial restructuring while simultaneously advancing the ecological transition. This dual responsibility is particularly critical for financially distressed firms, which must now adapt to ESG requirements under increasing regulatory pressure [2,3].

A significant development in this area is the rise of transition finance, which aims to help companies—especially those with high carbon footprints—gradually align with low-emission models [4,5]. Unlike green finance, which supports already sustainable activities, transition finance recognizes the importance of progressive and achievable environmental targets. For distressed companies, this approach offers a more realistic and inclusive path toward sustainability.

Nonetheless, access to green or transition finance remains limited for many vulnerable firms. Financial constraints, outdated infrastructure, and complex compliance obligations often prevent them from meeting ESG standards [6,7]. Inclusive legal and financial frameworks—such as green bonds, blended finance, or performance-based instruments—are essential to ensure that these companies are not excluded from the sustainable transition [8,9].

To meet this challenge, banks are increasingly expected to implement tailored legal strategies and develop ESG-sensitive risk models, in line with evolving standards such as the EU Taxonomy, the SFDR, and the CSRD [10]. At the same time, global principles like the UN Principles for Responsible Banking are reinforcing the normative responsibilities of banks to contribute to a sustainable and inclusive economy [2].

Despite growing emphasis on ESG finance, significant gaps remain in how legal and financial frameworks enable banks to effectively support distressed companies' green transitions. Current mechanisms often lack integration of ESG considerations in restructuring processes, limiting the ability to foster sustainable and resilient recoveries. Addressing this gap is crucial to promote inclusive economic transformation and align financial recovery with environmental goals. This article aims to analyze the legal and financial tools available to banks, exploring how ESG finance, transition instruments, and innovative legal strategies can be mobilized to overcome these challenges and facilitate a fair, resilient, and financially viable green transition for distressed firms.

2. Methodology

This study employs a multidisciplinary qualitative research approach to examine the legal and financial mechanisms that enable banks to support the green transition of distressed companies. Given the complex interplay between regulatory frameworks, financial instruments, and sustainability goals, qualitative analysis provides the depth and flexibility necessary to explore the nuances of legal reforms and banking practices within different jurisdictions.

The primary method involves a comprehensive review and comparative analysis of international legal texts, regulatory guidelines, and policy documents related to ESG finance, insolvency law, and sustainable banking practices. Key sources include directives and frameworks from the European Union, principles from global organizations such as the United Nations Environment Programme Finance Initiative (UNEP FI), and reports from multilateral financial institutions. This document analysis is complemented by a case study focusing on Morocco, selected due to its emerging market status and recent initiatives in green finance. The case study allows an in-depth investigation of how local regulatory progress and innovative financial tools have been implemented to support distressed firms' sustainability transitions.

Data triangulation is achieved by integrating findings from legal texts with secondary data, including academic articles, industry reports, and expert commentaries. This approach enables the identification of gaps and challenges in existing frameworks and facilitates the formulation of recommendations grounded in both theory and practice. The study refrains from primary data collection such as interviews or surveys, focusing instead on publicly available, authoritative documents to ensure replicability and transparency.

Finally, thematic content analysis is applied to synthesize the information collected, highlighting key themes such as ESG integration in restructuring, the role of transition finance, regulatory incentives, and risks like greenwashing. This methodological framework ensures a comprehensive understanding of the current landscape and provides a solid foundation for proposing innovative legal and financial strategies to enhance banks' contributions to sustainable economic recovery.

3. Results

3.1 Financial and Structural Challenges of Distressed Companies

Distressed companies often face a combination of severe financial pressures, including liquidity shortages, solvency problems, and difficulties in meeting increasingly complex environmental, social, and governance (ESG) requirements. Limited cash flow, rising debt levels, and fragile investor confidence severely restrict a company's capacity to invest in sustainable practices or adapt to new regulatory standards [11]. These challenges are especially acute in sectors where the cost of transitioning to greener operations is high and capital is scarce.

Legal and institutional frameworks may further complicate recovery efforts. For instance, in countries such as the United States, the bankruptcy process under Chapter 11 is designed to give firms a second chance. However, short restructuring timelines, creditor hierarchies, and litigation risks frequently discourage long-term investments—including those related to sustainability—during financial recovery [12]. Although bankruptcy law theoretically permits firms to restructure if their going-concern value exceeds liquidation value, ESG considerations largely remain absent from these legal procedures [6].

This gap is even more critical in emerging markets across Africa and other developing regions, where distressed companies confront additional barriers. These include weak regulatory infrastructures, limited access to green finance, and a lack of ESG-focused investment instruments [7][9]. Furthermore, institutional fragmentation and legal uncertainty often discourage lenders and firms alike from prioritizing sustainability during insolvency or restructuring phases.

To address these structural deficiencies, urgent legal and institutional reforms are necessary. Insolvency and corporate restructuring laws must evolve to incorporate ESG priorities, enabling financially troubled firms to pursue sustainability goals alongside economic recovery. This transformation requires not only revising legal codes but also enhancing institutional capacity to implement ESG-compatible restructuring programs [13]. Banks and regulatory bodies should collaborate to develop risk assessment models that integrate ESG criteria and accommodate transition finance strategies.

The African context further underscores the need for inclusive and supportive frameworks. Although green finance is increasingly recognized as a key tool for sustainable development, implementation frequently falls short due to fragmented policies, limited stakeholder awareness, and insufficient access to tailored financial instruments. Such limitations prevent many distressed firms, often operating in vulnerable sectors, from engaging in environmentally responsible recovery efforts [14]. A coordinated approach encompassing legal reform, financial sector engagement, and capacity-building is essential to overcome these challenges.

3.2 The Rise of Sustainability as a Legal Imperative

Sustainability has undergone a paradigmatic shift from a voluntary corporate commitment to a binding legal obligation in numerous jurisdictions. This evolution reflects growing recognition that environmental, social, and governance (ESG) considerations are essential not only for ethical business conduct but also for ensuring macroeconomic stability, resilience, and long-term access to capital markets [15,16]. ESG norms now influence how firms are governed, financed, and held accountable, particularly in contexts of financial distress and restructuring.

The European Union has emerged as a global leader in institutionalizing sustainability within its legal and financial architecture. A suite of regulatory instruments—most notably the Corporate Sustainability Reporting Directive (CSRD), the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy Regulation, and the forthcoming Corporate Sustainability Due Diligence Directive (CSDDD)—has embedded ESG factors at the heart of corporate governance, disclosure obligations, and investment flows [17]. These frameworks are reshaping the legal environment in which both solvent and distressed companies operate, reinforcing the notion that sustainability is no longer aspirational but enforceable.

The CSRD, in particular, mandates granular, audited reporting based on the principle of double materiality: companies must disclose how sustainability issues affect their operations and how their activities impact people and the planet [19]. For companies undergoing financial restructuring, this standard amplifies the relevance of ESG performance in securing creditor trust, investor interest, and regulatory approval. ESG compliance thus becomes not merely a reputational concern but a substantive legal requirement with direct financial implications.

Further strengthening this trend, the SFDR imposes sustainability-related disclosure duties on financial market participants, influencing how capital is allocated across sectors. It categorizes investment products according to their sustainability characteristics, thereby conditioning access to funding on ESG alignment [20]. Simultaneously, the CSDDD introduces obligations for companies to identify and mitigate adverse human rights and environmental impacts within their value chains. This directive is set to transform corporate liability regimes by enabling legal action against firms failing to conduct proper due diligence, especially in cases involving transboundary environmental or social harm [21].

These developments impose significant compliance burdens on both creditors and debtors, especially in restructuring contexts where time, liquidity, and legal clarity are scarce. Financially distressed firms must now demonstrate ESG due diligence as a precondition for accessing sustainable finance instruments, participating in state aid programs, or negotiating restructuring plans that satisfy regulatory expectations [22]. Non-compliance exposes them to litigation, financing exclusion, and reputational damage, thus compounding their vulnerability.

Globally, the EU model is exerting considerable influence. Emerging economies, including many in Africa and Latin America, are increasingly aligning their national legal frameworks with international ESG standards to attract sustainable investment and foster inclusive development [23]. However, these jurisdictions often confront structural impediments: fragmented regulations, weak enforcement, and limited institutional capacity inhibit effective ESG integration [24]. Addressing these challenges requires harmonized legal reforms, capacity-building initiatives, and coordinated financial sector engagement.

The legal institutionalization of sustainability addresses not only governance failures but also deeper systemic risks. Scholars have long warned against the misallocation of capital towards unsustainable industries, noting that such practices externalize environmental degradation and perpetuate social inequities [25,26]. The global financial crisis and ongoing climate emergency have accelerated demands for legally enforceable ESG frameworks to ensure that capital serves long-term societal and ecological objectives.

Consequently, ESG has become central not only to regulatory compliance but also to corporate viability, particularly in periods of economic distress. The embedding of ESG in restructuring processes signals a shift in the normative foundations of corporate recovery—from shareholder primacy to stakeholder accountability. This trajectory will be further entrenched by prudential regulatory reforms discussed in *Section 3.5*, where supervisory authorities integrate climate-related risks into risk-weighted asset calculations and capital adequacy requirements [27].

3.3 Banks as Legal and Financial Enablers of Sustainable Restructuring

Building on binding sustainability obligations from evolving legal frameworks *(Section 3.2)*, banks play a pivotal role in operationalizing these mandates through tailored legal instruments and innovative financial products. By embedding environmental, social, and governance (ESG) criteria into restructuring agreements, banks facilitate sustainable recovery pathways for distressed companies [28].

3.3.1 Legal instruments and frameworks

Banks function not only as capital providers but also as legal enforcers of sustainability commitments. They utilize a spectrum of tools—from soft law to binding contractual clauses—to embed ESG factors within restructuring deals. The 2025 Green Bond Principles (GBP), developed by the International Capital Market Association (ICMA), serve as a key global benchmark. These principles emphasize dedicated use of proceeds for green projects, rigorous project evaluation, transparent fund management, and comprehensive post-issuance reporting [29].

Recent expansions of the GBP framework now incorporate “Green Enabling Projects” that finance transitional activities such as clean technology development, allowing companies undergoing transformation to access sustainable finance [30]. Contracts based on these principles often include mandatory ESG disclosures and independent verification clauses to guard against greenwashing risks [31,32]. For distressed firms, banks increasingly condition restructuring benefits—such as interest relief or grace periods—on measurable ESG improvements [33].

Banks also navigate a complex regulatory landscape. Anti-greenwashing mandates, such as the UK Financial Conduct Authority’s 2024 rules, impose strict requirements for substantiated, transparent environmental claims, driving robust compliance and risk mitigation within bank legal teams [32].

3.3.2 Financial tools for distressed companies

Complementing legal frameworks, banks deploy a broad array of financial products designed to assist distressed companies while advancing sustainability objectives. Instruments include green loans, green bonds, sustainability-linked loans, blended finance, and conditional refinancing, each incorporating legally binding ESG performance conditions [29].

Green bonds enable capital raising for environmental projects like renewable energy or pollution control, with 2025 GBP revisions mandating enhanced disclosures on greenhouse gas reductions and biodiversity impacts to ensure transparent, accountable capital allocation [29]. Issuers typically develop Green Bond Frameworks validated by independent third-party reviews [31].

Conditional refinancing ties restructuring terms to ESG milestones, incentivizing environmental improvements as integral to financial recovery. These instruments require precise legal drafting to enable performance-linked adjustments [33]. Blended finance—combining concessional public funds with private capital—addresses creditworthiness challenges in distressed firms, embedding ESG safeguards and enforceable impact reporting [28].

Beyond capital provision, banks increasingly offer ESG advisory and audit services as essential components of restructuring support, facilitating due diligence, risk assessments, and compliance verification—often prerequisites for sustainability-linked financing. Through these services, banks reinforce their dual role as financial facilitators and legal enablers of sustainable corporate transitions [33].

Nevertheless, these innovations entail inherent legal risks. Opaque ESG metrics or reliance on questionable offset schemes expose banks to litigation and reputational harm. Adoption of rigorous external verification systems, alignment with frameworks like the Harmonised Framework for Impact Reporting, and clear dispute resolution mechanisms are essential risk mitigants [29,33].

3.4 Corporate Governance and ESG Compliance in Distress

While banks facilitate sustainable restructuring externally, robust internal corporate governance within distressed companies is critical to implementing ESG compliance and ensuring successful financial recovery [34].

As binding frameworks such as the EU Taxonomy, Corporate Sustainability Reporting Directive (CSRD), and Sustainable Finance Disclosure Regulation (SFDR) impose legal obligations, governance systems must harmonize financial stability with environmental accountability, aligning regulatory requirements with stakeholder expectations [35].

Directors of distressed firms face heightened pressure to integrate ESG considerations—including climate risk disclosure, ethical conduct, and long-term value creation—into restructuring strategies. Dedicated governance structures, such as audit and risk committees, enable focused oversight of financial and non-financial disclosures, sustaining integrity and compliance throughout turnaround processes [34].

From a banking perspective, governance quality is a key criterion in due diligence and credit risk evaluation. Transparent and resilient governance frameworks serve as proxies for a company's capacity to manage ESG risks and fulfill sustainability-linked financing conditions, thereby influencing access to restructuring tools *(see Section 3.3.2)*. Strong governance reduces information asymmetries, fostering lender, investor, and stakeholder confidence [36].

Equitable treatment of shareholders—including minorities and foreign investors—is essential for preserving trust during restructuring. Mechanisms ensuring transparency and inclusive decision-making help mitigate conflicts of interest and governance failures. Timely, accurate ESG disclosures further bolster management legitimacy and maintain access to sustainable finance [34].

Stakeholder engagement extends beyond shareholders. Institutional investors, ESG rating agencies, proxy advisors, and financial intermediaries play active roles in monitoring and enforcing ESG compliance, applying stewardship principles that shape corporate strategy amid distress. Increasingly, ESG metrics inform evaluations of restructuring viability as sustainable finance and regulatory scrutiny expand [37].

Effective data governance is vital. Distressed companies must implement digital tools to reliably collect, manage, and disclose ESG information, supporting compliance with evolving regulations. Independent third-party audits validate sustainability reporting, enhancing trust among banks, regulators, and stakeholders and facilitating robust credit assessments [34].

Legal safeguards, such as “safe harbor” provisions, empower directors to pursue sustainability-driven restructuring without undue fear of personal liability, especially where insolvency, corporate, and climate laws overlap. These protections are critical to enable boards to navigate complex ESG obligations amid financial uncertainty [38].

Beyond mere compliance, strong governance represents a strategic asset, embedding sustainability into corporate viability. Inclusive stakeholder dialogue, resilient capital structures, whistleblower protections, and performance-linked executive remuneration collectively build organizational resilience [36].

For banks assessing distressed companies, governance quality signals ESG alignment and readiness for sustainable recovery, shaping lending decisions and advisory support. Banks operationalize sustainability externally through legal and financial enablers, while internal governance mechanisms within distressed firms ensure effective ESG compliance and corporate resilience. Together, these complementary roles underpin a legally coherent, financially sound, and sustainable restructuring process [34].

3.5 Climate Risk, Prudential Regulation, and the Banking Sector’s Evolving Mandate

3.5.1 The legal integration of climate risk in banking: Emerging mandates and responsibilities

In response to the escalating materialization of climate-related financial risks (CRFRs), banking supervisors and regulators worldwide are recalibrating their mandates to incorporate environmental considerations within prudential oversight. Once treated as externalities, climate risks are now recognized as systemic threats with the potential to destabilize financial systems—particularly affecting distressed companies exposed to intertwined economic and environmental shocks [39].

This shift primarily emerges from the reinterpretation of existing legal mandates rather than new legislation. Regulatory bodies such as central banks and financial supervisors increasingly invoke prudential objectives—like safeguarding financial stability and managing systemic risk—to embed climate risk assessment, disclosure, and mitigation into banking regulation. The Basel Committee on Banking Supervision (BCBS), for instance, has integrated climate risk considerations into its Core Principles, obligating banks to enhance transparency and oversight of environmental exposures [39].

Building on this, the Basel III framework, particularly Pillar 3, mandates ESG disclosures that transform voluntary sustainability reporting into legally enforceable requirements—especially within the European Union, where compliance has become obligatory. These disclosures aim to promote transparency and redirect capital flows toward low-carbon investments without compromising banks’ operational autonomy [39].

Legal interpretations of fiduciary duties have also evolved, expanding directors’ and executives’ responsibilities to encompass climate governance. Banks must now implement scenario analyses, climate stress testing, and credible transition plans to address the unique temporal challenges and uncertainties of climate risk—thereby embedding environmental considerations into core risk management and decision-making processes [39].

Although supervisors generally avoid direct intervention in banks’ capital allocation, indirect regulatory influences—including taxonomies, climate disclosure regimes, and green investment standards—effectively guide financial institutions toward sustainable objectives. This approach supports the financing of distressed firms’ transitions away from carbon-intensive operations.

At the international level, agreements such as the Paris Accord, while not legally binding for banking supervisors, inform secondary legislation and soft law that translate climate commitments into enforceable supervisory expectations. Coordinated efforts by global standard setters like the Financial Stability Board (FSB) and the International Sustainability Standards Board (ISSB) foster convergence toward consistent climate disclosure norms and governance practices, enhancing overall financial sector resilience [39].

Together, these developments position banks as dual agents—both legally mandated to manage escalating climate risks and strategically responsible for financing green transitions. This role is especially critical for distressed companies, whose recovery increasingly depends on compliance with environmental standards and access to sustainable capital.

It is important to note that this evolving regulatory landscape also raises compliance challenges, including the risk of greenwashing—a topic explored in detail in *Section 3.6*.

3.5.1 Integrating socio-environmental solvency into prudential policies for financing green companies

Despite abundant global liquidity, green enterprises—particularly those in distress or transition—face financing obstacles due to a mismatch between traditional prudential norms and the long-term nature of sustainable investments. Market failures and inadequate carbon pricing further exacerbate these barriers, penalizing firms that pursue environmentally responsible pathways [40].

To address these shortcomings, scholars advocate for "eco-systemic prudential policies," which holistically integrate macroprudential, microprudential, and environmental factors into risk assessment. A leading example is the CARE-TDL model, which reconceptualizes solvency by recognizing ecological degradation and social harm as financial liabilities rather than externalities [40].

Under this framework, firms undertaking credible green transitions may be considered socio-environmentally solvent—even if they display traditional financial fragility—allowing regulators and banks to prioritize sustainable recovery over short-term financial metrics.

State involvement is pivotal, with governments expected to de-risk green investments via guarantees, subsidies, and preferential financing conditions. Additionally, credit reallocation mechanisms should shift capital away from "brown" assets toward low-carbon alternatives, though existing Basel III and Solvency II requirements limit such flexibility [41,42].

Monetary policy tools could also be tailored to incentivize green lending, including differential capital charges and preferential liquidity operations. Public–private partnerships play a crucial role, mobilizing blended finance and innovative instruments like green securitization and climate bonds [40].

Nonetheless, these innovations must be managed prudently to avoid unintended consequences such as financial bubbles or greenwashing-driven market distortions. Robust verification frameworks and risk mitigation safeguards are essential to prevent systemic vulnerabilities.

In conclusion, integrating socio-environmental solvency into prudential regulation offers a promising pathway to reconcile financial stability with planetary boundaries. This approach is particularly relevant for restructuring and recapitalizing distressed firms, whose sustainable viability is increasingly a prerequisite for recovery.

3.6 Greenwashing as a Legal and Strategic Risk in Sustainable Banking

As sustainable finance becomes a cornerstone of banking strategy and reputation, greenwashing—defined as making exaggerated, misleading, or unsubstantiated environmental claims—has emerged as a critical legal and operational risk for financial institutions. Between 2020 and 2023, greenwashing-related legal actions and investigations increased twelvefold, highlighting the sector's growing vulnerability to reputational damage and litigation amid heightened regulatory scrutiny and stakeholder expectations [43-45].

These legal challenges often target discrepancies between banks' public climate commitments and their actual financing activities. For example, in 2021, civil society groups lodged complaints with the U.S. Securities and Exchange Commission against Deutsche Bank and Barclays, contesting the credibility of their sustainability-linked bonds [46]. Such cases underscore the increasing demand for transparency, measurable impact, and integrity in ESG performance indicators. Sustainability-linked loans (SLLs) are particularly exposed to scrutiny, as they frequently rely on issuer-defined, weak, or opaque KPIs that may allow manipulation or ambiguity in reporting ESG outcomes.

Regulatory landscapes vary, but momentum toward stricter enforcement and harmonization is clear. The European Union's Corporate Sustainability Reporting Directive (CSRD) and the UK's Sustainable Disclosure Requirements (SDR) and Financial Conduct Authority (FCA) guidelines exemplify efforts to combat greenwashing. In North America, the evolving regulatory framework and recent SEC actions signal growing exposure for firms failing to align ESG disclosures with legal standards [45,47].

High-profile cases continue to illustrate the risks. The Royal Bank of Canada faced stakeholder backlash over climate misstatements in 2023, while BNP Paribas became one of the first banks sued for its fossil fuel lending practices [48,49]. European institutions, due to earlier and deeper sustainable finance engagement, encounter a higher volume of regulatory probes and NGO-driven litigation, increasing the sector's overall legal risk [50].

Greenwashing litigation transcends compliance—it is also a governance and strategic challenge. The Network for Greening the Financial System (NGFS) recognizes climate-related litigation as a systemic financial risk with potential contagion effects [44]. Though most exposures are classified as moderate risk due to legal uncertainties, the reputational damage and erosion of investor trust from prominent lawsuits can be profound and lasting [51].

Addressing greenwashing requires strong governance frameworks and robust legal tools, as outlined in *Sections 3.3 and 3.4*. Banks must embed rigorous ESG risk governance, linking sustainable finance products to credible impact metrics, transparent reporting, and independent verification. Supervisory authorities now mandate standardized KPIs and harmonized disclosure practices, demanding boards and senior management substantiate sustainability claims through auditable evidence consistent with science-based targets.

In sum, greenwashing presents a dual imperative: banks must navigate a rapidly evolving legal landscape while safeguarding market legitimacy and stakeholder trust. Proactive risk governance, stringent disclosure, and credible impact measurement throughout the sustainable finance value chain are essential to mitigate litigation risk and sustain authentic ESG performance.

3.7 Case Study: Morocco – Legal Innovations for Green Finance in Distress

Morocco stands out as a regional pioneer in integrating green finance within its broader economic restructuring framework, embedding sustainability at the heart of national development strategies. The country's green finance agenda supports projects that reduce environmental harm while generating ecological benefits, reflecting Morocco's commitments under international environmental agreements such as the United Nations Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, and its role as host of COP22 in Marrakech [52]. Morocco's Nationally Determined Contributions (NDCs) notably pledge a 45.5% reduction in greenhouse gas emissions by 2030, signaling a firm embedding of green objectives within public policy [53].

Legal reforms have underpinned this momentum. Morocco has enacted a robust environmental legal framework, including Law 12-99 on sustainable development and Law 49-17 regulating environmental impact assessments. These laws impose explicit duties on banks and financial institutions to integrate climate risk considerations into lending decisions and governance practices [54][55]. Such legal mandates lay the groundwork for embedding green finance principles within corporate restructuring efforts, particularly for distressed firms seeking alignment with sustainability targets.

To enhance green financing access for small and medium-sized enterprises (SMEs) and companies facing financial distress, Morocco has developed tailored financial instruments and legal mechanisms. Public funds like the Fonds de Dépollution Industrielle (FODEP) and the Fonds National pour l'Environnement et le Développement Durable (FNEDD) provide co-financing for renewable energy, waste management, and industrial depollution projects, thereby supporting environmentally sustainable investments [54]. Fiscal tools such as ecotaxes and value-added tax (VAT) exemptions further incentivize investments in green technologies, although the contribution of environmental taxation to GDP remains modest [56].

State-backed guarantees and hybrid financing instruments play a critical role in de-risking green investments for lenders and encouraging sustainable restructuring in vulnerable sectors. Public-private partnerships and interest subsidies, for example, enable Moroccan banks to extend credit while safeguarding their financial stability [57]. Reflecting this, Moroccan financial institutions have expanded green portfolios through initiatives like green bond issuances by MASEN and Casablanca Finance City, alongside hybrid green-social bonds issued by entities such as Al Omrane [58].

Digital finance innovations complement these efforts by enhancing efficiency, transparency, and accountability in green finance monitoring and reporting systems. Additionally, Morocco benefits from international cooperation and funding, receiving grants and credit lines from multilateral organizations including the Global Environment Facility (GEF), the Green Climate Fund (GCF), the European Bank for Reconstruction and Development (EBRD), and Germany's development bank KfW. These resources improve green finance accessibility for SMEs and distressed companies, further bridging the financing gap [59-61].

Despite these advances, challenges remain. Environmental costs are insufficiently integrated into financial decision-making, environmental taxation is underutilized, and private sector engagement in green finance lags behind potential [56]. To overcome these barriers, Morocco must strengthen regulatory oversight, standardize green finance taxonomies, and deepen public-private sector collaboration. These steps are essential to fully mainstream sustainability within economic restructuring and recovery frameworks [57].

In conclusion, Morocco exemplifies how legal innovation and financial sector engagement can converge to foster sustainable restructuring. For distressed companies, banks act not only as financiers but also as strategic partners, leveraging innovative financial instruments and evolving legal mandates to support resilient and sustainable recovery pathways. Continued refinement of fiscal policies, expansion of green financial products, and alignment of private sector activities with environmental goals will be crucial for Morocco's vision of an inclusive, green, and resilient economy [52].

4. Conclusions

This article has examined the evolving role of banks as both regulators and innovators within the framework of sustainable restructuring and green finance, highlighting the critical intersection between legal mandates and financial innovation. Our analysis demonstrates that banks today are not merely passive financiers but active enforcers of binding ESG obligations, leveraging legal instruments and tailored financial products to operationalize sustainability goals in distressed corporate contexts. This dual role positions banks as pivotal actors in shaping resilient and environmentally responsible recovery pathways.

A key finding is that legal clarity and coherence are indispensable to aligning ESG objectives with broader economic recovery efforts. The evolving regulatory landscape—exemplified by the European Union’s comprehensive sustainability directives—provides a foundational legal framework that ensures ESG compliance transcends voluntary commitments and becomes an enforceable criterion for restructuring processes and access to capital. However, gaps remain, especially in emerging markets where regulatory fragmentation and institutional limitations hinder the full realization of green finance potential.

Furthermore, our research underscores the imperative to include vulnerable and financially distressed firms in the green transition. Without inclusive legal and policy frameworks that recognize the unique challenges these companies face, there is a risk of deepening economic inequalities and undermining systemic resilience. Instruments such as conditional refinancing, blended finance, and public guarantees, when paired with robust governance and supervisory oversight, offer promising avenues to integrate these firms sustainably into green financial ecosystems.

Finally, this study affirms the crucial role of coordinated policy and legal reform in supporting a comprehensive and inclusive green banking model. Successful implementation depends on harmonized regulations, capacity-building initiatives, and sustained collaboration between financial institutions, regulators, and governments. Such coordination can effectively mitigate risks like greenwashing, enhance transparency, and foster trust among stakeholders.

In conclusion, our findings reveal that achieving sustainable corporate restructuring and resilient green finance requires a legally anchored, inclusive banking model where banks serve as both guardians of ESG compliance and facilitators of innovation. Future research should further investigate practical implementation challenges in diverse jurisdictions, especially in emerging economies, to refine strategies that balance environmental imperatives with economic recovery.

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