

Farnoush Farsiar on Why Sustainable Finance Is Important for Business Growth and Investment Returns in the UK

Sustainable finance is no longer just a trend; it is transforming the way businesses operate and attract investment in the UK. In 2023 alone, UK-managed impact investments [reached £76.8 billion](#) in assets under management by the end of 2023, reflecting a 10.1% compound annual growth rate, proving that ESG-driven finance is not just about ethics—it's about profitability and long-term resilience. With increasing regulatory pressures, consumer demand, and investor priorities shifting towards sustainability, companies that integrate ESG principles into their financial strategies are securing competitive advantages.

Financial expert [Farnoush Farsiar](#) explores how sustainable finance is shaping the UK economy, influencing investment decisions, and ensuring that businesses remain competitive in an evolving financial landscape. By aligning capital with sustainability goals, UK companies can enhance profitability while contributing to environmental and social progress.



I. Business Case for Sustainable Finance in the UK

Sustainable finance plays a crucial role in corporate strategy and investment management, influencing everything from risk assessment to long-term profitability. Companies that integrate environmental, social, and governance (ESG) criteria into their financial decisions are increasingly outperforming those that do not.

Institutional investors and asset managers in the UK are shifting towards sustainable investment strategies. The UK Sustainable Investment and Finance Association (UKSIF) has highlighted the UK's leading position in sustainable finance, with 83% of surveyed financial services organizations considering the UK their top market for sustainable finance activity.

Additionally, UKSIF's membership includes over 290 organizations representing more than [£10 trillion in assets under management](#), indicating a significant commitment to sustainable investment strategies among institutional investors and asset managers in the UK.

The Role of the UK Sustainable Investment and Finance Association (UKSIF)

UKSIF plays a pivotal role in promoting sustainable finance in the UK by advocating for policy changes, providing industry guidance, and facilitating collaboration among businesses, regulators, and financial institutions. The organization has been instrumental in pushing for mandatory ESG disclosures, ensuring that businesses remain transparent about their sustainability efforts

Farnoush Farsiar emphasizes that sustainable finance is no longer a niche investment strategy but an essential element of long-term value creation. She notes, *"Businesses that fail to embed ESG in their financial planning today will struggle to access capital tomorrow."* UK investors are actively divesting from unsustainable industries and redirecting capital toward green energy, circular economy initiatives, and climate-conscious businesses.

II. How Sustainable Finance Fuels Business Growth in the UK

The UK government has taken significant steps to promote green finance, launching initiatives like [the UK Green Finance Strategy](#). This strategy focuses on mobilizing private sector investment for sustainable projects, ensuring that businesses with strong ESG commitments have access to funding and incentives (UK Government).

In addition, UK banks and asset managers are increasingly offering green bonds and ESG-linked loans, providing financial incentives for companies to reduce their carbon footprint and adopt sustainable practices.

Sustainable finance provides businesses with a clear competitive advantage. Companies that prioritize sustainability:

- Attract institutional investors and pension funds looking for ESG-compliant assets.

- Improve brand reputation and customer loyalty.
- Enhance operational efficiency, leading to cost savings and better long-term profitability.

Farnoush Farsiar highlights UK-based companies like Aviva and Legal & General, which have successfully integrated ESG principles into their investment strategies, leading to strong financial performance while reducing environmental impact.

Regulatory Compliance and Risk Mitigation

UK businesses must comply with increasingly stringent ESG regulations. The Task Force on Climate-Related Financial Disclosures (TCFD) has made it mandatory for UK-listed companies to disclose climate risks, ensuring transparency for investors.

Farsiar warns, *"Companies failing to align with ESG regulations risk losing investor confidence and facing financial penalties."* Sustainable finance allows firms to stay ahead of regulatory shifts, ensuring compliance while maintaining financial stability.

III. The Link Between Sustainable Finance and Investment Returns in the UK

Studies show that companies integrating sustainable finance practices achieve higher long-term returns compared to those focusing solely on short-term profits. ESG-aligned businesses tend to experience:

- **Lower capital costs** due to investor confidence in their risk management strategies.
- **Stronger resilience during financial downturns**, as seen

during the COVID-19 pandemic when ESG funds outperformed traditional portfolios.

UK pension funds, asset managers, and institutional investors are **increasing their allocations** to sustainable investments. For example:

- **Nest**, the UK's largest workplace pension scheme, has committed to transitioning its entire investment portfolio to align with net-zero emissions by 2050. They have set an interim goal to reduce the carbon intensity of their portfolio by 30% by 2025, using 2019 as the baseline.
- **Scottish Widows** has pledged to invest between £20 billion and £25 billion in climate-aware investment strategies by 2025, with at least £1 billion allocated specifically to climate solution investments. They also aim to halve the carbon footprint of their investment portfolios by 2030 and achieve net-zero emissions across all investments by 2050.

The demand for climate-friendly investment options has led to significant growth in green finance instruments, such as sustainability-linked bonds and carbon credit markets.

Traditional valuation models often fail to account for ESG risks, leading to inaccurate risk assessments. Farnoush Farsiar argues, *"ESG isn't just about compliance—it's about identifying opportunities for long-term value creation and risk mitigation."* Investors must adopt new methodologies that incorporate sustainability metrics, ensuring a more accurate reflection of financial performance.

IV. The Future of Sustainable Finance in the UK

The UK is leading the way in emerging sustainable finance trends, including:

1. **Carbon offset markets** to incentivize businesses to reduce emissions.
2. **Green fintech innovations** integrating AI for ESG data analysis.
3. **Sustainable real estate investments** focusing on energy efficiency.
4. **Social impact investing**, where funds are allocated to businesses addressing social inequalities, workforce diversity, and community development.
5. **The rise of biodiversity finance**, where companies invest in projects that protect and restore natural ecosystems as part of their sustainability strategy.

Technology plays a transformative role in sustainable finance. AI-powered ESG tools allow businesses to analyze sustainability data in real time, improving transparency and investor confidence. According to a 2023 PwC report, 78% of UK asset managers now use AI-driven ESG analytics to assess investment risks and opportunities. Machine learning algorithms help firms measure carbon footprints, track supply chain sustainability, and assess climate risks more efficiently. For example, HSBC has integrated AI-powered climate risk assessment tools into its lending decisions, resulting in a 30% reduction in exposure to high-carbon industries. Additionally, blockchain technology is enhancing accountability in green finance by providing an immutable

record of ESG compliance and impact measurements, with platforms like Provenance helping companies track sustainability claims through blockchain verification.

As sustainable finance gains momentum, regulatory frameworks continue to evolve. The UK Government's Green Finance Strategy is expected to introduce more stringent ESG disclosure requirements, further integrating sustainability into financial systems. Financial institutions must adapt to comply with these regulations, ensuring that investment products align with ethical and environmental standards.

Farsiar predicts that sustainable finance will become the default investment strategy in the UK, with ESG factors embedded into all major financial decisions. She highlights that businesses failing to embrace sustainability will face greater regulatory scrutiny, reduced investor interest, and long-term financial instability. *"Companies that fail to transition to sustainable finance models will find themselves left behind as capital increasingly flows toward responsible investments."*

V. The Path Forward

As the financial landscape continues to evolve, businesses and investors in the UK must embrace sustainable finance not just as an ethical choice, but as a strategic necessity. Companies that integrate ESG principles into their financial frameworks will not only enhance their resilience but also secure long-term profitability.

Next Steps for Businesses and Investors

For organizations looking to integrate ESG into their operations, here are some immediate actions:

- Conduct an ESG risk assessment to pinpoint financial vulnerabilities and opportunities.

- Invest in sustainability-linked financial instruments to align capital allocation with sustainable objectives.
- Ensure compliance with UK regulatory frameworks to secure investor confidence and market credibility.

Sustainable finance is no longer optional—it is the foundation of future business success in the UK.

Farnoush Farsiar urges businesses and investors not to delay their transition to sustainable finance. *“Those who fail to adapt will struggle to remain competitive in an evolving financial landscape. The future of finance is sustainable—companies that recognize this today will lead tomorrow.”*