



Purpose meets Profit: The Case for Sustainable Tourism



Tourism Development Fund Whitepaper
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This whitepaper provides comprehensive coverage of the many compelling reasons tourism businesses and destinations should move faster and more aggressively on improving their sustainability practices.



Randy Durband

Chief Executive Officer

Global Sustainable Tourism Council (GSTC)

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This whitepaper is a timely and vital contribution to today's rapidly growing tourism economy. It makes a compelling case for why organizations across the tourism ecosystem must embed sustainability at the core of their strategies. The paper not only highlights the urgency of this shift but also offers a comprehensive overview of the long-term benefits that such an approach can deliver to businesses, communities, and the planet.



Christopher Imbsen

Vice President of Research and Sustainability at
the World Travel & Tourism Council (WTTC)



01 FOREWORD

Travel and tourism remains one of the world's most attractive areas for investment, yet the sector must advance further in embedding sustainable practices. The global transition to a greener economy has been uneven and slower than required, and travel and tourism is not an exception. While notable progress has been achieved and many positive examples exist, the scale of effort still falls short. A practical review of the business case for sustainable tourism is therefore essential to demonstrate both why it should happen and how it can be realized.

One of the main barriers lies in misconceptions and outdated assumptions about cost and demand. In reality, many sustainability measures in travel and tourism involve modest or negligible expense, while the costs of upgrading physical assets have declined significantly in recent years. Market demand, though not always visible at the point of purchase, is evidenced through customer satisfaction data that shows clear preference for more sustainable products and services.

Against this backdrop, capital markets are increasingly rewarding assets that demonstrate resilience, long-term value and sound risk management — all of which are strengthened by sustainability performance. For investors, sustainable tourism therefore represents both a strategic opportunity and a means of aligning with broader financial trends.

The issues carry particular relevance in the context of the Kingdom of Saudi Arabia's (KSA) ongoing transition toward a diversified, post-oil economy. However, the principles apply equally across markets and scales, from large-scale new developments to the modernization of established systems.

Timeliness is also a consideration. Global demand for travel continues to expand, driven by rising middle and upper classes worldwide. Although the sector is vulnerable to short-term shocks — such as natural disasters, political instability or even global crises like the COVID-19 pandemic — it has consistently demonstrated strong resilience and capacity for rapid recovery.

Taken together, these factors reinforce a clear conclusion: travel and tourism will continue to grow, but its long-term success depends on promoting that growth to be sustainable. This whitepaper sets out the key considerations, challenges and opportunities for achieving that goal.



02 INTRODUCTION

The standard tourism model is undergoing a significant shift: the global appetite for sustainability is changing the way people travel and spend their time for leisure, and tourists are making conscious decisions to vacation more responsibly. In response to this shift, stakeholders across the tourism sector will need to re-evaluate their practices, priorities and operations to align with the growing demand for sustainable tourism.

WHAT IS SUSTAINABLE TOURISM?

The concept of “sustainable tourism” was introduced by the United Nations World Tourism Organization (UNWTO) in 2002 during the World Summit on Sustainable Development with the program “Sustainable Tourism – Eliminating Poverty.”¹ That year was also designated the “International Year of Ecotourism,” emphasizing best practices for Small and Medium Enterprises (SMEs) in the ecotourism sector.² Since then, sustainable tourism has become synonymous with socio-economic development and natural habitat protection and underpinned by its inclusion in three of the UN’s 17 Sustainable Development Goals (SDGs).



Target 8.9 of SDG 8 (Decent work and economic growth) states: “By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products.”



Target 12.B of SDG 12 (Responsible consumption and production) states: “Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products.”



Target 14.7 of SDG 14 (Life below water) is to: “By 2030, increase the economic benefits to small island developing states and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism”.

The UNWTO defines sustainable tourism **as tourism that considers its economic, social, and environmental impacts, addressing the needs of visitors, the industry, the environment, and host communities.** This includes ecotourism, cultural tourism, agritourism, responsible tourism, and projects that drive traditional and conventional tourism to ever-more sustainable practices.

To achieve a cohesive understanding of sustainable tourism, the UNWTO introduced the Statistical Framework for Measuring the Sustainability of Tourism (SF-MST) in 2024,³ which integrates all its elements into a single framework. The SF-MST examines indicators across economic, environmental and social dimensions to assess the holistic impact of tourism projects. This framework uses research-backed metrics to evaluate aspects such as the distribution of economic benefits, ecosystem impacts and effects on the quality of life in host societies, and provides a unified methodology for investors, developers and stakeholders to gauge the sustainability of their ventures. This framework can be used by decision makers across public and private sectors, for whom the SF-MST describes a common language for discussion of progress toward the sustainability of tourism.

The growing interest in sustainable tourism is also being recognized by global hotel brands. While the current ambitions for sustainable tourism are typically focused on minimizing negative impacts, major operators in the space are already looking beyond having a neutral impact and exploring how their activities can be regenerative. The World Sustainable Hospitality Alliance has over 35 member companies including Accor, Hilton and Four Seasons, covering 66,000 properties across the globe.⁴ The alliance intends to “accelerate the path to net positive hospitality through strategic industry leadership, collaborative action, harmonization of metrics and regenerative solutions.”



The Kingdom is pursuing ambitious yet environmentally conscious investments, embedding sustainability into all aspects of its tourism development.



His Excellency Ahmed Al-Khateeb

Minister of Tourism, KSA

Measuring the Sustainability of Tourism

Linking data and decisions

Why ? Who ?

Decision making and policy development by stakeholders concerned with the sustainability of tourism

What ?

Standard concepts, definitions, classifications & organizing structures for data

Statistical Framework for MST

Economic

Visitor flows
Tourism expenditure
Economic structure
Economic performance
Employment
Distribution of benefits
Investment
Government transactions

Environmental

Water resources
Energy use
Solid waste
GHG emissions
Ecosystem extent and condition
Ecosystem services
Species
Protected areas
Environmental activities and transactions

Social

Visitor satisfaction
Visitor engagement
Participation in tourism
Host community perceptions
Employment characteristics
Decent work
Governance
Civic engagement
Accessibility

Tourism areas: Global, National, Regional, Municipal, Local, tourism destinations, Local tourism connected areas

How ?

Data sources and methods, data collection, statistical production and release, indicator set and case studies

SUSTAINABLE TOURISM – DRIVERS AND TRENDS

The increasing global awareness of climate change, social sensitivities and sustainability is significantly reflected in **travelers' preferences**. According to the 2025 Travel & Sustainability report by Booking.com, sustainability is an important consideration for 84% of travelers. Additionally, 53% of travelers are aware of tourism's impact on local communities and the environment. Tourist preferences are also extending beyond natural attractions and into

the preservation of cultural identities, heritage and local communities. In fact, 77% of travelers seek authentic experiences that are representative of local culture, and 73% of travelers want their spending to go back to the local community.

The push for sustainable tourism is also driven by the **needs of these communities**. Residents in tourist destinations are increasingly dealing with the challenges of overcrowding and rising costs of living, problems that are often exacerbated by overtourism, urbanization and a changing economy.

CASE STUDY

As Spain saw record levels of tourism in 2024, locals across Spain have been protesting tourists, blaming overtourism as the source of a rising cost of living. A focus of these protests has been the practice of tourists renting short term housing, which reduces the supply of affordable housing for locals and causes rents to increase across the housing market⁵.

The environmental impacts of conventional tourism add strain to existing infrastructure and ecosystems in both rural and urban settings. These impacts may range from an uneven allocation of resources such as energy, water and waste management services to tourists, and added

pollution stemming from this consumption.⁶ As governments recognize the environmental impacts accompanying the economic benefits that tourism brings, they are increasingly pushing for sustainable tourism measures that both contribute to the economy and mitigate negative impacts on the environment.

CASE STUDY

Maya Bay in Thailand closed access to its beach in 2018 in an effort to combat overtourism that had affected significant environmental impacts on the coast. These impacts included littering, damage to flora and fauna and deterioration of 50% of the coral in the area from having been damaged by boat anchors.

The beach was cleaned, left to regenerate for four years, and was reopened to limited numbers of visitors under new strict conditions to promote the maintenance of the environment. As a result, wildlife has returned to the beach — over 100 blacktip sharks are estimated to live in the bay, compared to only six in 2018 before the beach's closure.⁷



Owing to these strong drivers, common trends are emerging across the tourism ecosystem both globally and regionally:



Increased adoption of green building practices in **hotels and shopping centres**, including globally recognized certifications such as LEED.



Airlines and travel providers are utilizing greener travel options, such as energy-efficient aircraft, electric taxis, and enhanced access to public transportation for exploring tourist destinations.



Restaurants are implementing innovative strategies to minimize waste, including low or zero-waste menus and the use of biodegradable cleaning supplies.



The **tech industry** is developing solutions that enable tourists to make informed choices regarding the environmental and social impacts of their travel.



Cultural institutions, including religious sites, museums, and historic businesses, are emphasizing the importance of their heritage to promote preservation.



Regions surrounding natural attractions are raising awareness about environmental consciousness and supporting conservation efforts.



Smaller agricultural producers, particularly in rural areas, are increasingly interested in agritourism to meet tourists' demand for authentic culinary experiences.



Tour providers are offering cultural experiences and deeper interactions with the traditions, customs, and rituals of local communities.



Governments are making efforts to combat overtourism at popular destinations, directing more business to historically underserved communities and rural areas that offer unique experiences for tourists.



Financial institutions are increasingly supporting **small and medium enterprises** to support tourists' spending on local services, including tours and recreational activities.





03

TOURISM IN THE KINGDOM

A SECTOR OF GROWTH AND OPPORTUNITIES

In KSA, the tourism sector is recognized as a vital opportunity for economic diversification and development under the "thriving economy" pillar of the Saudi Vision 2030 agenda. The creation of a Saudi tourism ecosystem, including a National Tourism Strategy from the Ministry of Tourism, the Tourism Development Fund (TDF) and the Saudi Tourism Authority demonstrates the prioritization of tourism in the Kingdom. Significant investments in giga-projects including NEOM and Red Sea Global (RSG), position the tourism industry as central to the future of KSA's economy.

The Kingdom is set to invest **SAR 3 Tn*** into tourism by 2030, aiming to develop **500,000** hotel rooms and create **1.6 million** jobs.⁸

The results of these tourism development efforts have already been significant: the Kingdom received over 109 million visitors in 2023, reaching its target of 100 million annual visitors seven years ahead of schedule⁹ (the target has now been revised to 150 million annual visitors). These visitors spent SAR 1.35 Tn in the Kingdom, representing a 38% increase in net tourism income and contributing to an estimated 11.5% of KSA's GDP.

SUSTAINABLE TOURISM IN THE KINGDOM

As the sector grows, it will contend with another aspect of KSA's transformational ambitions — sustainable development. KSA's target of achieving net zero emissions by 2060, along with the sustainable development ambitions outlined in the Vision 2030 program and the Saudi Green Initiative, underscores the importance of environmental and social sustainability early in the country's diversification efforts. The tourism sector has responded to this challenge by adopting sustainability in a multitude of ways. Some examples include:



The Red Sea Global project places ecotourism as the central attraction, with efforts to conserve and simultaneously showcase the marine biodiversity of the country



The Diriyah gate development seeks to promote cultural tourism, placing Saudi heritage and historic Saudi architectural styles at the centre of its attractions



The expansion of the list of heritage sites from 241 to 316 sites in KSA by the Ministry of Tourism to actively protect areas that could otherwise be forgotten in the pursuit of growth



The establishment of the Tourism Development Fund, which incentivises the adoption of sustainability as part of its mandate to expand the tourism sector in KSA



The establishment of the "Sustainable Tourism Global Center" by HRH in 2021 to institutionalise the value of sustainability in the global tourism sector and to position the Kingdom at the forefront of the Sustainable Tourism industry

* 1 USD = 3.75 SAR



04

THE BUSINESS CASE FOR SUSTAINABLE TOURISM

The growing awareness of the importance of sustainability, the value of the tourism sector and the intersection of these two areas in the region stand to provide myriad opportunities to further establish sustainable tourism as a mainstay of KSA's economy. As the tourism sector positions itself as a pillar for the future of KSA's economy, sustainability has already established a foothold in both the public consciousness and in the way that the government plans to expand the tourism sector. Even with further room for

growth and integration, the implementation of sustainability throughout the tourism sector in KSA is undeniable. The coming years present significant potential and opportunities for sustainable tourism offerings. It is imperative that developers, investors and other industry stakeholders recognize this value and take decisive action to capitalize on it.

A. CREATING VALUE THROUGH RESOURCE EFFICIENCY

KSA aims for net zero greenhouse gas (GHG) emissions by 2060, with both investors and the public anticipating progress. It is important for the tourism sector in KSA to align with the nation's net zero goal to contribute to the sustainability ambitions of the Kingdom and remain a mainstay of its future economy. Fortunately, this alignment with environmental sustainability and resource efficiency presents opportunities for increased profitability.

Optimizing operations and obtaining returns

The Accor Group estimates that investing in **20% energy efficiency savings** across its hotels can result in **EUR 1 Bn** of energy utility cost savings, contributing to a **1% P&L improvement** across its portfolio.

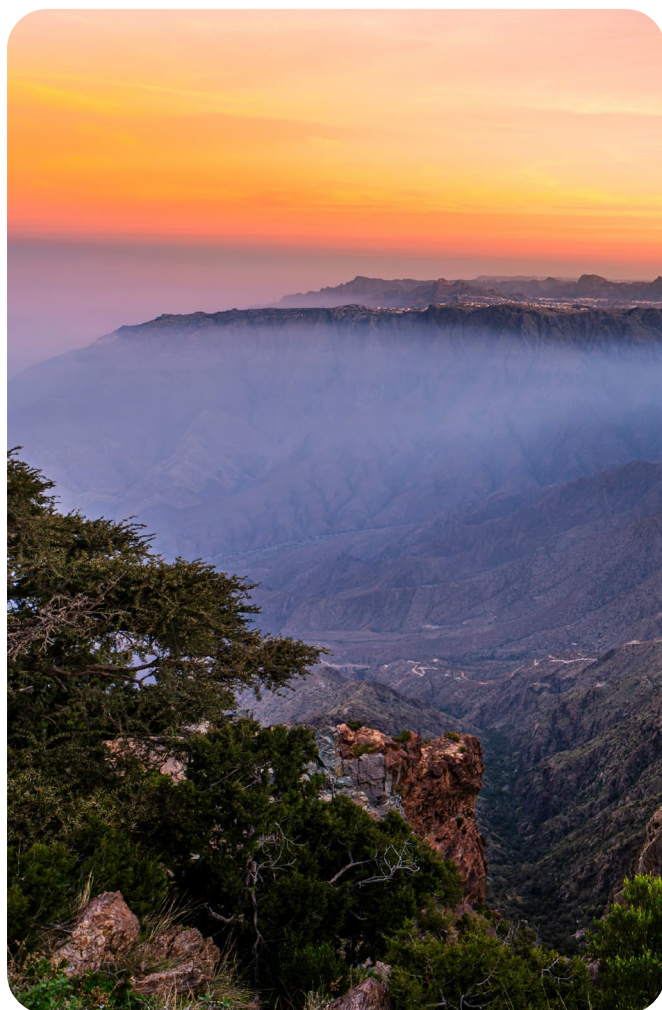
- **Energy management:** Energy and resource management are fundamental concepts within the sustainable tourism landscape which not only help reduce environmental impacts and meet sustainability targets but also contribute to cost savings. Methods such as passive cooling features, high insulation, low-albedo materials and shades that

block sunlight all contribute to buildings maintaining lower cooling loads, requiring less mechanical intervention to create healthy temperatures for occupants. In addition to this inherent ability to maintain suitable conditions, energy-efficient Heating, Ventilation and Air-Conditioning (HVAC) equipment, LED lighting and occupancy sensors help maintain the cooling load at a low level, requiring lower initial investment in HVAC equipment and less intensive use. These opportunities for energy and resource management to optimize back-of-house operations without negatively impacting guests can contribute to significant savings in energy consumption, resulting in lower operational costs. The Accor Group estimates that investing 20% energy efficiency saving across its hotels can result SAR 1 Bn of energy utility cost savings, contributing to a 1% Profit and Loss (P&L) improvement across its portfolio.¹⁰



- **Water conservation:** Effective management of water consumption in KSA is particularly crucial due to the region's water scarcity. Both design and operational strategies can help reduce dependence on water resources. Design solutions that promote efficient water use include incorporating rainwater harvesting systems in hotels to collect and store rainwater for future use, and utilizing native vegetation in landscaping that is well-suited to endure drought conditions. Operational efficiencies can be achieved by installing low-flow water fixtures and efficient laundry equipment, as well as implementing greywater recycling and treatment systems that provide water for landscaping and xeriscaping. By actively managing water consumption and reducing the overall demand, hotels can alleviate pressure on this vital resource while also lowering operating costs.

Waste reduction: On average, hotels generate approximately 1 kilogram (kg) of waste per guest per night.¹¹ While some of this waste is recyclable, the overall consumption places significant strain on a hotel's supply chain and operating costs, while also contributing to unsustainable resource extraction. To effectively reduce waste production, hotels are exploring several opportunities:



The St. Regis Abu Dhabi achieved remarkable savings of nearly **AED500k** through a critical initiative introduced to reduce food waste.¹³

- 1. Minimizing Single-Use Materials:** Reducing reliance on single-use items such as disposable toiletries and packaging can lead to immediate savings in procurement costs and lower waste disposal fees. By offering reusable alternatives, hotels can significantly decrease their environmental footprint.
- 2. Promoting Recycling Practices:** Encouraging recycling and implementing waste sorting systems can help divert materials from landfills, thereby reducing overall emissions.¹² By partnering with local recycling facilities, hotels can facilitate the efficient processing of recyclable materials.
- 3. Implementing Low or No-Waste Menus:** Designing restaurant menus that focus on minimizing or eliminating food waste allows hotels to optimize their food supplies while still catering to guests' needs. This approach not only reduces costs but also provides a marketing opportunity to attract eco-conscious diners interested in sustainable culinary practices.
- 4. Establishing On-Site Composting:** Creating composting systems for biodegradable waste can significantly reduce the need for chemical fertilizers and enhance the sustainability of on-site landscaping. This practice promotes the effective use of all resources, eliminating the need for additional purchases to maintain landscaped grounds and greenery.

Reducing costs through green building practices

The rise of green building practices and certifications across the real estate sector encompasses both the design and operational aspects. These practices enable sustainable accommodations to mitigate, prepare for and thrive under the effects of climate change.

Operational costs are up to **30% lower** in green hotels than they are in conventionally built hotels.

Green building standards inherently prioritize resource efficiency. They optimize the amounts of energy consumed, water used and waste generated in both the construction and operation of buildings. The methods for achieving these optimizations come from a range of options. These include the use of energy-efficient HVAC equipment, innovative water reuse through greywater and rainwater collection, xeriscaping strategies, and by mandating minimum standards for recycling and waste disposal. All these practices for efficiency in design and operation contribute to a substantial benefit. **Operational costs are up to 30% lower in green hotels than they are in conventionally built hotels.**¹⁴

These standards, including LEED and BREEAM certifications, present blueprints to identify and maximize opportunities to manage these resources, and reward performance appropriately. The benefits of these green building practices and certifications are financially tangible: **Returns on investments are higher and faster than they are compared to conventional hotels.**¹⁵ These benefits come at a low cost – building a LEED-certified hotel only costs 1% to 2% more than one that's not green, according to the United States Green Building Council.¹⁶ Both versions of these certifications provide a framework for constructing hotels and resorts. These frameworks limit their impact on the local environment while considering how a changing climate might affect the long-term sustainability of a building.

The advantages of these practices have been recognized by global hotel chains, and their adoption is now widespread. Major brands such as IHG, Hilton and Marriott are now implementing sustainability strategies based on the development and operation of sustainable and green buildings.

B. MITIGATING FINANCIAL RISK THROUGH SUSTAINABLE TOURISM

The Middle East and North Africa (MENA) will reach 1.5°C, 2°C, 3°C and 4°C warming levels two to three decades earlier than the global average.¹⁷ These rising temperatures will impact tourism assets – both natural and man-made. Infrastructure and attractions centered around natural beauty such as beaches, mangroves, mountains and forests will face high risks from changing weather patterns and ocean currents¹⁸, which could reduce the area's appeal, decreasing income for developers, investors and rural communities.

The Wyndham group of hotels estimated that the physical impacts of climate risks could cost SAR 29.64 Mn in damages without appropriate measures to mitigate these impacts.¹⁹ For developers and stakeholders in the tourism sector, prioritizing sustainability from the outset of a new development project is essential to avoid recurring costs and to promote long-term viability.

Site selection and climate risk assessment

As a result of climate change, sea levels are expected to rise between 0.5 to 1.9 meters by 2100.²⁰ Buildings constructed in areas with lower risks of physical hazards, including floods and storms, inherently require less effort to protect and strengthen against the effects of rising sea levels. These areas may be further inland, away from flood plains and on higher ground, naturally mitigating the risks associated with extreme weather events. Beach resorts may also use physical resiliency measures such as coastal barriers to combat the effects of stronger storm surges and limit erosion of the shore, while also capturing carbon and lowering net GHG emissions.

An example of a nature-based physical barrier is the use of mature mangroves to limit erosion and protect shorelines. Mangroves attenuate waves and lessen their energy before they impact a shore, a factor that is especially useful in guarding a beach resort during a storm surge.²¹

Material selection and building design

The increasing severity of storms²² threatens business stability, leaving hotels and resorts vulnerable to interruptions in operations and their ability to host guests. Severe weather can also damage infrastructure, causing extended power outages and road destruction. However, the design of a building and choice of materials can contribute to protecting them from extreme weather. Buildings using reinforced concrete, steel framing and elevated foundations, which are tested to withstand the most extreme conditions, require fewer structural renovations or upgrades and could lessen the impact of an extreme weather event.²³ Building materials that are selected using a Life Cycle Assessment (LCA) and are suited to the climate and intended to have a longer lifetime lead to buildings with longer lifespans despite the increasing severity of weather. These materials also contribute to lower embodied carbon in a hotel, allowing for material selection that does not contribute further to climate change.

In the case of Arabian deserts, both stone and adobe are examples of materials that are readily available and inherently suited to the climate, minimizing the need for expensive and emissive long-distance transport of materials. Both stone and adobe have high thermal masses, allowing them to capture heat during the day and slowly release it during the night, lessening both cooling and heating loads. The availability of these materials also allows for quick reconstruction in the event of any damage, minimizing downtime.

Maintaining continuity through on-site farming

As climate change disrupts food harvests and threatens food security, hyper-local farming offers tourism projects a way to maintain independence. This practice also helps mitigate the effects of severe weather on food supply. In rural areas, small on-site farms provide a dual benefit: controlling the supply chain and attracting tourists. In urban settings, miniature farms using hydroponics and vertical farming enable hotels and restaurants to maintain produce quality. They also help maintain food supply chains despite challenges faced by traditional methods.

The “Parkroyal Collection Marina Bay” hotel in Singapore uses an urban farm on its roof to grow **60 varieties of flowers**, herbs and vegetables. These are used in restaurants, bars and spa. The farm provides these facilities with a steady supply of ingredients, which may otherwise be expensive to deliver and reliant on functional global supply chains if purchased externally.²⁶

C. CAPITALIZING ON GROWING MARKETS

The primary demographic of travelers that consider sustainability as a factor in travel choices are millennials and Gen Z.²⁷ Millennials are projected to maintain a compound annual growth rate (CAGR) of 11.39% in sustainable tourism expenditure through 2034²⁸, and their commitment to sustainability is expected to persist as awareness of its various aspects becomes more mainstream. As these groups acquire greater disposable income and seek global travel experiences, their preferences present a significant opportunity for stakeholders in the tourism ecosystem to capitalize on.

Eco-tourism and agri-tourism

The demand for off-grid destinations, national park experiences and sustainable adventure tourism has risen by over 50% in the past decade.²⁹ Eco-resorts and sustainable lodges have experienced a 35% increase in bookings as a result of this shift in attitude.³⁰ The global ecotourism market was valued at SAR 697.48 Bn in 2021 and is expected to undergo a CAGR of 14.1% through 2030.³¹ In addition, agritourism, valued at SAR 3.34 Bn, is expected to have a CAGR of 11.9% over the same time period.³² This reflects the sustained and growing interest in these areas.

KSA's diverse landscapes provide an ideal opportunity to capitalize on the growing ecotourism and agritourism markets. The Kingdom's natural attractions inherently appeal to tourists, and ventures focused on ecotourism and agritourism are likely to benefit from the anticipated surge in interest within the sector. Successful projects will depend on environmentally sustainable practices to preserve their appealing features and promote long-term viability. Therefore, any initiatives entering these spaces — often favored by environmentally conscious travelers — should consider fully integrating sustainability into their offerings to distinguish themselves from competitors in an increasingly discerning market.

The trend also promotes a more comprehensive consideration of sustainability across products in the value chain. Nearly 70% of consumers are willing to pay a premium for eco-friendly products, and research has found that green practices and products at hotels lead to increased customer satisfaction. This in turn builds customer loyalty,³⁶ increasing the chances that tourists become return customers. This readiness to spend is reflected in more companies producing eco-friendly products for tourism and other sectors.

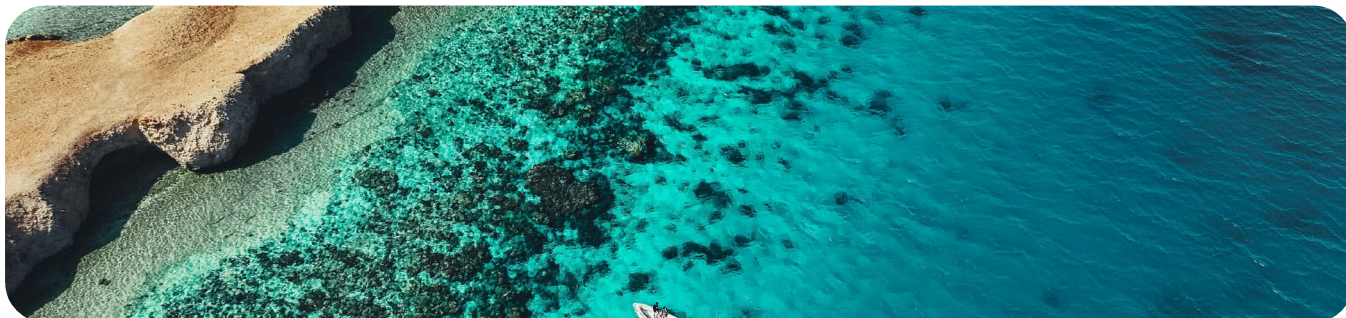
CASE STUDY

The Baha region is a case study for successful agritourism in KSA.³³ The fertile mountainous region in the southwest of the country is home to 23 rural farms, with plans from the Ministry of Environment, Water and Agriculture (MEWA) to expand to 50 farms, seeking to attract more visitors to the area.



CASE STUDY

Red Sea Global(RSG) has identified 11 “biodiversity key areas” in the most comprehensive terrestrial baseline survey of the Red Sea so far. These 11 areas contain 140 species of flora and fauna, and RSG seeks to both use this biodiversity as an attraction for tourists and to regenerate ecosystems, aiming for a 30% net conservation gain by 2040.³⁴ The Red Sea Projects aim to welcome 19 million tourists by 2030.³⁵



Culturally authentic tourism offerings

Furthermore, cultural tourism is ripe for growth in KSA. Government agendas, developers and a range of stakeholders are set to contribute and benefit from the national drive to position tourism as a keystone of KSA’s economy. Cultural and historic travel accounts for 40% of all global tourism, and 73% of millennials report being interested in cultural and historical places.³⁷ As the Kingdom continues to welcome visitors, its rich cultural heritage and history are poised to become vital assets in attracting the demographic most eager to travel sustainably. Developers and investors can gain a competitive edge by differentiating

their offerings to appeal to this audience. This helps their products — such as hotels, resorts, restaurants and recreational options — stand out in a selective market that is willing to pay a premium for sustainable practices.

Customer Satisfaction

As the tourism sector continues to grow post-pandemic, tourists have the ability to be more selective about their travel decisions. Electronic word-of-mouth, including online reviews and organic social media posts, has a significant influence on consumers’ choices while traveling.³⁹ This,

CASE STUDY

The developments in Al-Ula in the west of KSA have positioned Saudi heritage as the highlight of its attraction as a tourist hotspot. A variety of guided tours, walks and events tell the history and traditions of the area, while resorts and hotels are built to blend into the landscape with traditional architecture in mind. The Al-Ula region now has 7 luxury hotels, and has attracted over 250,000 visitors in 2021-2022³⁸.



in turn, influences the decisions of the friends and family these consumers interact with. Sustainable tourism provides a competitive edge in ensuring that tourists are content with their decisions and remain more likely to leave positive feedback. Research shows that customers tend to report higher satisfaction rates in sustainable tourism ventures compared to conventional tourism, and that there is a correlation between sustainable practices and tourist satisfaction⁴⁰.

D. CREATING LONG-TERM SOCIO-ECONOMIC VALUE

Tourism is a well-known catalyst for socio-economic change. It encourages the development of real estate and tourism-related businesses, including retail, food and beverage (F&B) and attractions, offering employment opportunities.⁴¹ Investment in tourism has the potential to benefit both investors and communities, if approached appropriately.

Sustainable tourism strengthening cultural and economic ties

As the global center of Islam and home to the holy cities of Makkah and Madina, KSA sees a significant annual influx of visitors from religious tourism. The Kingdom is prioritizing its cultural institutions in addition to religious tourism as it seeks to showcase historic sites, the richness of its diverse cuisines, and its natural heritage. A prime example of this commitment is the Diriyah Gate development, a large-scale project designed to center Saudi culture as its main attraction.

While tourism brings economic growth, there are also concerns about over-tourism and the influx of global visitors leading to the deterioration of local cultural institutions and practices. If not managed carefully, over-tourism could result in locals resisting new developments or abandoning culturally historic locations and customs. In the worst-case scenarios, it could even provoke a backlash against tourists themselves.

Sustainable tourism provides an angle in which these cultural institutions can be protected and preserved. Placing the conservation of these aspects at the center of a touristic venture allows investors, developers and locals to benefit from heritage and history while promoting its preservation. The opportunities from sustainable tourism to maintain and uphold Saudi cultural values while benefiting locals and citizens are many-fold:

- The expansion of hospitality in the holy cities focuses on offering a variety of accommodation options that cater to all income levels. This approach promotes equitable access for pilgrims to visit religious sites, in line with Islamic principles of equality. The recent decision to allow foreign interests to own property in Makkah further enhances this

opportunity, and presents a unique chance for investors to embody and promote cultural values through their actions while still achieving a financial return. Additionally, there is a growing demand for package deals that enable religious tourists to explore more of the Kingdom. This trend creates a significant opportunity for sustainable tourism to establish itself, as more visitors are likely to extend their stays in the Kingdom.

- The positioning of Saudi's cultural institutions as the main attraction of a touristic development is demonstrated by the success of the developments in Al 'Ula. This opportunity is further bolstered by the addition of five new cultural sites in the Kingdom to the list of UNESCO World Heritage Sites. This strategic move aims to protect these areas and highlight their importance.
- The growth of the sustainable tourism sector brings positive social impacts. It has the potential to improve employment rates, leading to greater social equity, agency, and an enhanced quality of life for residents. Additionally, it creates opportunities for better community engagement through dialogue, supporting the representation of residents' views. Furthermore, this growth may lead to improved access to essential services, which are developed to accommodate the influx of tourists.

Active efforts to preserve culture and history are organically considered through the lens of sustainable tourism. This approach fundamentally considers the effects of a tourism project on communities and seeks to understand their priorities. When considered appropriately, tourism has the potential to strengthen communities and cultural institutions, renewing confidence in their traditions and promoting the value of their local-social identity.⁴²

The 2034 Football World Cup presents a significant opportunity for the tourism industry in KSA to integrate sustainability at a large scale. Such a high volume of visitors in a short span may strain existing infrastructure in the five selected host cities, and the integration of sustainability in the managing these tourists will be critical to promote only positive impacts on these cities and their citizens. Ventures that prioritize sustainable development and deliver economic benefits to residents while minimizing the negative impacts of a high influx of visitors are more likely to succeed, as this success is supported both through official channels and by gaining the social license to operate from the local community.

Ultimately, the application of sustainable tourism principles offers stakeholders fresh perspectives on investing and operating within the tourism ecosystem. The cultural aspect is particularly significant: it presents an opportunity to preserve and showcase traditional heritage while also enhancing its value and facilitating access. This represents a distinct market that is ready to be explored.

E. OPENING AVENUES OF SUSTAINABLE FINANCE

Sustainable finance has grown exponentially alongside the worldwide adoption of sustainability and the market for sustainable finance offerings is only set to grow. The global sustainable finance market size accounted for SAR 248.04 Bn in 2024 and is predicted to reach around SAR 1.43 Tn by 2034. Growth is expected at a CAGR of 19.2% from 2024 to 2034.⁴³

Financial institutions in the Middle East have capitalized significantly on the demand for sustainability in the region, and foreign investors have used bonds as a method of investing in the region's growth. In the Middle East, the volume of sustainable finance issuance reached SAR 7.28 Bn by September 2023, compared to SAR 3.41 Bn in 2022. KSA and the UAE accounted for over 82% of the sustainable issuance market in the Middle East, and accounted for over 70% of sustainable sukuk issuances globally.⁴⁴



Improved access to funding

Stakeholders in the tourism ecosystem that align with the principles of sustainable financial products can capitalize on these offerings and enjoy a variety of benefits. These benefits include lower capital costs and heightened investor interest in their projects. Some of the most commonly issued products include:

Green and Social Bonds: Financial institutions and large developers are increasingly using bonds as a source of raising capital to fund sustainability-related projects. These bonds are offered with specific project aims in mind, such as renewable energy installations, energy efficiency improvements, sustainable infrastructure or developments focused on environmental and social sustainability.

The FIVE hotel group released a **SAR 1.31 Bn** green bond in 2023. The proceeds were intended to fund the greening of their hotel properties to align with LEED and BREEAM standards, and were also used to fund the purchase and commissioning of on-site renewable energy installations.⁴⁵ FIVE holdings released a "Green bond allocation and impact report"⁴⁶ in 2023 to demonstrate the use of proceeds from the bond.

Sustainability Linked Loans: These loans provide lower spreads on interest rates upon achievement of targets in select sustainability-related KPIs for a business. Examples of these KPIs include a target for scope 1 and 2 GHG emissions or a minimum recycling rate. These loans are intended to incentivize sustainable practices across an organization.

Shangri-La Asia Limited have signed an agreement with The Bank of China and Hong Kong for a sustainability-linked loan of **SAR 2.35 Bn** to support ongoing efforts in sustainable development. The terms of the loan are dependent on ESG targets, including the reduction of single-use plastics and lower employee work injury rates.⁴⁷

Green and Social Loans: These loans are specifically designed to finance projects that have a tangible positive impact on the environment or on communities. Green loans can be used to fund renewable energy installations, develop buildings that meet green building certification criteria, or create infrastructure that reduces GHG emissions. Social loans can be used to improve employment rates in specific areas, strengthen food security, and increase access to essential services such as health care and education.

These products are governed by globally adopted principles from the Loan Market Association (LMA), promoting fair terms for both financiers and those accessing loans. For a tourism business, the growth and widespread adoption of sustainable finance in the region provides a heavily incentivized opportunity, allowing for the establishment or expansion of operations in a sustainable manner.

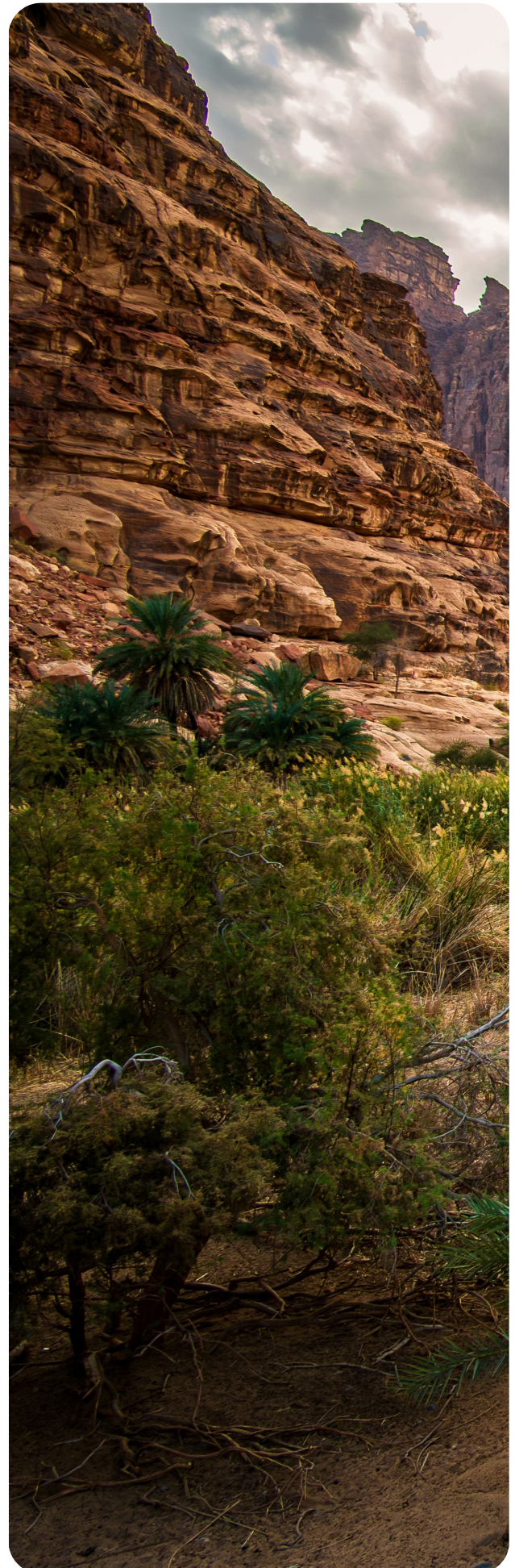
The Public Investment Fund's (PIF) Green Finance Framework exemplifies the region's approach to enabling sustainable development. The framework details the types of projects eligible for financing and the requirements to obtain and maintain funding for these projects. It also outlines the methods of measuring adherence to the criteria.

Attractiveness to potential investors

The region's IPO market has undergone a boom in recent years, with both large-cap public and private companies listing on MENA stock exchanges to resounding success. In 2024, there were 54 IPOS, a 12.5% year-on-year (y-o-y) increase from 2023, raising SAR 4.73 Bn, an increase of 17.6% y-o-y.⁴⁸ The demand for these shares stems from both individuals and financial institutions, opening the region up to global interest and discerning investors examining the sustainability of these organizations. MENA stock exchanges have recognized the importance of sustainability-related disclosures in demonstrating the awareness of this global scrutiny. Major exchanges have published guidelines on the necessity of environmental, social, and governance (ESG) disclosures, with recommendations of reporting frameworks and focus areas for disclosure of metrics. Sustainability reporting has been made mandatory in the UAE and in Oman, with other nations looking to follow suit.

This response is not theoretical: research indicates that the announcement of enhanced ESG practices typically results in favorable market responses, with stock prices increasing. This rise is fueled by heightened investor confidence in the sustainability of the business model and its capacity to achieve long-term growth.⁴⁹ There is also a negative correlation between ESG disclosure scores and the weighted average cost of capital (WACC).

The **FTSE ADX ESG Screened index** was developed and announced before COP28 in Dubai and is aligned with the UAE's "**Towards the next 50**" agenda." It is comprised of a selection of companies listed in the Abu Dhabi Securities Exchange (ADX) that perform better on an ESG scoring methodology than the average for the GCC region. It was created to cater to the demand for further ESG scrutiny from discriminating global investors who correlate sustainability performance with overall financial performance.⁵⁰







05

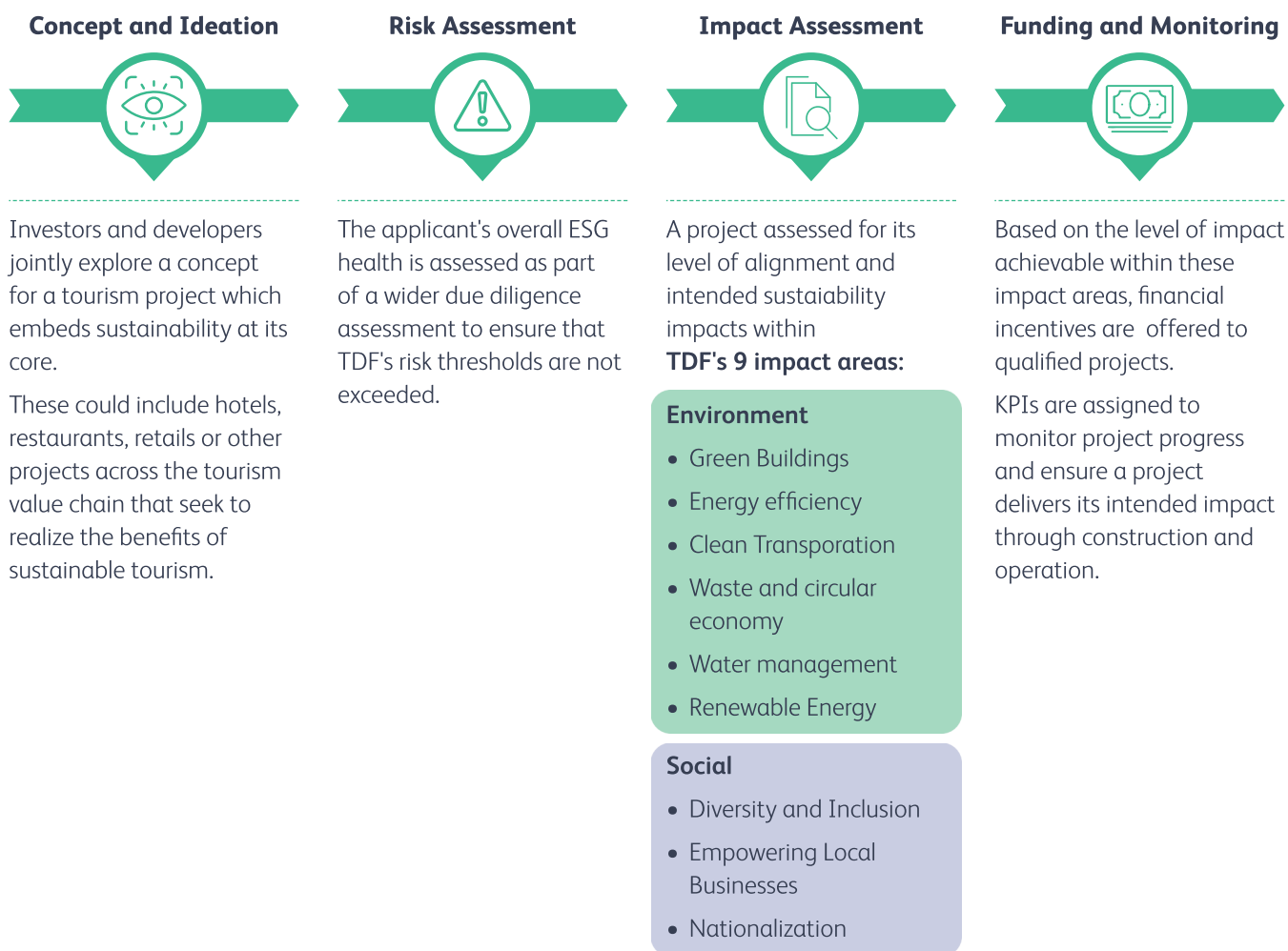
TDF's ROLE

The Tourism Development Fund (TDF) was established by Royal Order in 2020 with the mission of enhancing the Kingdom's tourism sector. With a capital of SAR 15 Bn, TDF offers investors access to high-potential tourism investments throughout the Kingdom. Designed to support the implementation of the National Tourism Strategy, TDF provides a range of financial instruments, including debt, equity, guarantees and indirect financing through partnerships. In addition, TDF also offers sustainability-related incentives for projects looking to launch tourism projects in KSA. These incentives feature favorable interest rate spreads based on the achievement of sustainability-related Key Performance Indicators (KPIs), which are aligned with KSA's broader sustainability goals and leading practices in the tourism sector.

TDF's impact spans the full spectrum of tourism destinations, including metropolitan hubs, high-potential regions, and emerging areas and cities. By tailoring support to the unique needs of each tier, TDF promotes balanced, inclusive tourism development that is aligned with regional strengths.

TDF's investments are not merely financial; they are transformational. By strategically deploying capital across key segments, TDF is helping to shape a more inclusive, sustainable and vibrant tourism landscape. Each sector plays a distinct role in unlocking economic value, empowering communities and enhancing visitors' experience, collectively advancing the goals of Vision 2030 and the National Tourism Strategy.

An Investor's Roadmap: How to unlock the benefits of sustainable tourism with TDF





06

CONCLUSION: A CALL TO ACTION

The rising prevalence of sustainability within the global financial landscape and the strong and growing demand for sustainable tourism provide investors and operators in the space with a golden opportunity to increase their profitability while creating a positive impact.

In this paper, five key areas have been explored that unlock these opportunities:



01. Find profits through efficiency

The implementation of resource-efficiency practices such as energy conservation, waste reduction and water management is central to long-term sustainable development, especially in the MENA region. By investing early in innovation and sustainable infrastructure, developers and hoteliers can design for lower operating costs while promoting continuity through any disruptions to supply chains and simultaneously enhancing the experience for guests. These benefits can also be realized through the evaluation and retroactive improvement of resource consumption in existing hotels and resorts, helping to ensure that these assets continue to provide value throughout their lifespan.



02. Manage and mitigate risk

With the advent of climate change and the risks it brings to infrastructure and to society, the tourism industry may consider its ability to withstand short and long-term physical impacts and integrate these considerations proactively to ensure longevity. The location, design and construction of a site are among the key considerations for investors and developers seeking to invest in assets that endure throughout any interruptions and continue to provide value to owners, operators and to surrounding communities.



03. React quickly to market demand

Sustainable tourism is set to grow in the coming years. As key demographics earn more wealth and exercise discretion in favor of sustainability, they may be more selective and scrutinous about the way they travel. Investors should consider focusing on capitalizing on this trend carefully and early. Options for experiences that preserve and maintain both nature and culture are especially attractive to consumers, and recognition and action to address these trends promise better returns for early investors.



04. Engage the community

Sustainable tourism projects cannot thrive under isolation. Community engagement and buy-in will enable projects to thrive and survive through their lifecycles, creating safer investments with more stable returns. The ensuing amicability can provide benefits to all parties through employment opportunities that create a steady labor market, while limiting any impact on the surrounding environment. Moreover, this engagement provides an opportunity for developers and investors: the chance to preserve and unite communities by highlighting their culture and heritage to tourists.



05. Seek appropriate financing early

Investors and developers can take advantage of the range of sustainable financing mechanisms that support sustainable tourism initiatives and incentivize green investments with attractive terms. The regional leadership in offering green and social bonds and loans has created an environment wherein both stakeholders in the tourism industry and the financial institutions offering these products benefit financially if appropriate sustainable finance products are used.

As the tourism industry continues to evolve, the importance of sustainability cannot be overstated. By embracing these strategies, developers and investors can position themselves at the forefront of a transformative movement that promises not only financial returns but also a positive impact on the planet and society. The time to act is now; the future of tourism depends on our commitment to sustainability.



07 APPENDIX

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09 CONTRIBUTORS

TDF Authors



Badr Alherbish

Chief Strategy Officer



Sarah Alaoudah

Associate Director
Strategic Impact

Reviewers



Qusai A. Al-Fakhri

Chief Executive Officer
TDF



Randy Durband

Chief Executive Officer
Global Sustainable Tourism Council (GSTC)

EY Contributors



Yasir Ahmad

Partner and Leader, MENA
Climate Change and Sustainability Services
yasir.ahmad@ae.ey.com



Anshul Dubey

Partner
Climate Change and Sustainability Services
anshul.dubey@ae.ey.com



Firas Aboukhamis

Partner
Climate Change and Sustainability Services
firas.aboukhamis@sa.ey.com



Maya Malas

Partner
EY Parthenon
maya.malas@parthenon.ey.com



Mythili Madapati

Senior Manager
Climate Change and Sustainability Services
mythili.madapati@ae.ey.com



Aditya Balamurali Krishna

Senior Consultant
Climate Change and Sustainability Services
aditya.krishna@ae.ey.com



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