



TIGER
LANDSCAPES
INVESTMENT
FACILITY



TIGER LANDSCAPES INVESTMENT FACILITY BHUTAN

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One United Nations Plaza, New York, NY 10017, USA

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1. INTRODUCTION

This document presents the proposed design for implementing the Tiger Landscapes Investment Facility in Bhutan. It translates the findings from the joint scoping into an operational framework for financing nature-positive micro, small, and medium-sized enterprises and other eligible rural economic actors.

1.1. Biodiversity and Rural Livelihoods

Bhutan is one of Asia's most intact and connected forest landscapes. More than 70 percent of the country is forested, while protected areas and biological corridors cover more than half of its territory. The Constitution requires Bhutan to maintain at least 60% forest cover in perpetuity. This ecological network supports globally important species, including tigers, elephants, snow leopards, takins, and diverse prey populations. The 2021–2022 National Tiger Survey estimated 131 tigers, representing a 27% increase from the previous national survey.

Bhutan's conservation success nevertheless faces significant pressures. Human–wildlife conflict is among the most immediate. Wild boar, elephants, deer, monkeys and other species damage crops, while tigers and other predators occasionally kill livestock. Stakeholders consulted during the assessment reported crop losses ranging from approximately 19–40% in some locations. These losses affect household income and food security

and can weaken community support for wildlife conservation.

The underlying pressures are wider than wildlife conflict alone:

- substantial post-harvest losses caused by inadequate storage, processing, and transport;
- dependence on a narrow range of crops, livestock activities, and forest products;
- fragmented production and weak access to larger and more reliable markets;
- competition from lower-cost agricultural products, handicrafts, and other goods from neighboring countries; and
- labour shortages arising from rural-to-urban and overseas migration.

Climate change adds further stress through changing rainfall patterns, extreme weather, increase in pests, and adverse impacts on agricultural productivity, water, and forests. Together, these pressures lead to land use changes, livelihood insecurity, and harmful responses to wildlife, including snaring and retaliatory killing.

Biodiversity in Bhutan

>70%

of Bhutan is forested

131

tigers estimated
in the 2021–2022
national survey

+27%

increase from the
previous national tiger
survey

1.2. MSME Context and Financing Constraints

MSMEs are central to addressing these challenges. In this document, the term is used broadly to include individual farmers and livestock owners, informal and household businesses, producer groups, cooperatives, community enterprises, and formally registered cottage, small, and medium industries.

Cottage and small industries account for most registered businesses but generally operate on a limited scale. Many are owner-managed, depend on family labour, and serve localized markets. Few progress into established small or medium-sized firms.

Their growth is constrained by limited value addition, weak financial management, insufficient processing and storage, high logistics costs, inconsistent quality, and difficulty meeting testing, certification, and export requirements. Bhutan's non-membership of the World Trade Organization also limits its participation in global trade rules and dispute-settlement arrangements, although production scale, logistics,

and compliance with product standards remain the more immediate constraints for most MSMEs.

Access to finance is similarly limited. Lending remains heavily dependent on land, buildings, and other fixed assets as collateral. Farmers, women, young entrepreneurs, informal businesses and community groups may have viable activities but lack acceptable collateral, formal accounts or established credit histories. Standard loan products and monthly repayment schedules may also be poorly suited to agriculture, tourism, and other activities with seasonal or irregular cash flows.

These constraints create a direct connection between biodiversity conservation and rural economic development. Enterprises that reduce human–wildlife conflict, improve the value generated from existing production, and strengthen sustainable forest use or create income from healthy ecosystems can increase community resilience and reduce pressure on biodiversity. However, economic activities are not automatically nature-positive. Their contributions must be assessed in terms of effects on habitats, species, resource use, and local communities.

Common Challenges Faced by the Small Businesses in Bhutan

Human–wildlife conflict

Human–wildlife conflict is among the most immediate. Wild boar, elephants, deer, monkeys and other species damage crops, while tigers and other predators occasionally kill livestock.

Climate change

Changing rainfall patterns, extreme weather, pests and adverse impacts on agricultural productivity, water and forests.

Access to finance

Many small businesses are too established for microfinance but unable to meet conventional bank requirements.

2. ECONOMIC AND FINANCIAL CONTEXT

Bhutan's economic outlook is broadly positive, supported by hydropower, tourism, and public investment. However, the economy remains small and concentrated, with a narrow export base and continuing dependence on external financing.

Hydropower is the principal source of export earnings and public revenue, while tourism is the main source of convertible-currency service exports. Agriculture remains essential for rural employment and livelihoods but contributes a comparatively modest share of economic output. Bhutan's central development challenge is therefore to diversify beyond hydropower, expand private-sector employment, and create additional sources of exports and foreign exchange without compromising its environmental priorities.

Public debt stood at approximately 118% of GDP at the end of FY2024/25. A substantial share is associated with revenue-generating hydropower projects financed through long-term arrangements with India, making its risk profile different from conventional borrowing for recurrent public expenditure. Nevertheless, high debt, a narrow domestic revenue base and potential contingent liabilities limit the country's capacity to absorb additional fiscal shocks.

Bhutan's external position is shaped by dependence on hydropower exports, imported goods and machinery, tourism, remittances, grants, and concessional finance. The ngultrum's peg to the Indian rupee mitigates some currency risks, but convertible-currency earnings remain limited. Financing mechanisms that create new sovereign repayment obligations or expose domestic borrowers to foreign-exchange risk are therefore less suitable.

The financial sector is stable but relatively small and concentrated. Banks remain the principal source

of finance because equity, venture capital, leasing, supply-chain finance, and longer-term risk capital are underdeveloped. Lending remains predominantly secured and focused on established borrowers.

Scoping exercise suggests that Bhutan does not lack enterprise-support initiatives, but a financing gap emerges as businesses move from start-up support toward commercial growth. Rural and nature-linked enterprises frequently lack the fixed collateral, financial records, and predictable cash flows required by conventional lenders, while existing financial products are generally not designed around their seasonal and small-ticket financing needs. The assessment therefore identified a need for financing that combines appropriate risk sharing with targeted enterprise and financial-institution support.

UNDP BIOFIN has estimated Bhutan's broader biodiversity financing gap at approximately USD 75 million. This illustrates the scale of unmet conservation financing needs and the importance of diversifying sources of conservation finance beyond public and donor funding.

These conditions have four implications for TLIF:

- concessional resources should mobilize, rather than replace, domestic capital;
- lending should be denominated in local currency;
- the instrument should avoid unnecessary sovereign borrowing and FX exchange exposure; and
- financial institutions should retain responsibility for credit decisions and a share of loan risk.

This provides the economic and financial rationale for TLIF's proposed risk-sharing structure.

3. RELEVANT INSTITUTIONS AND PROGRAMMES

Compared to the size of the country, Bhutan has a substantial institutional ecosystem supporting finance, enterprise development, rural livelihoods, and conservation. Financial institutions provide general-purpose credit, while enterprise programmes mainly support start-ups, and conservation finance remains predominantly grant-based.

The Royal Monetary Authority regulates banks, microfinance institutions, insurance companies, and other financial service providers. It is also advancing Bhutan's sustainable-finance agenda through the green taxonomy, movable-asset lending, and blended-finance initiatives. The Ministry of Finance oversees public finance, resource mobilization, and government-supported financing programmes. The Ministry of Industry, Commerce and Employment and the Ministry of Agriculture and Livestock lead enterprise, industrial, agricultural, and value-chain development.

Bhutan Development Bank Limited has a combination of development mandate, rural outreach, and capacity to provide loans above microfinance limits. Its clients include farmers, livestock producers, cooperatives, informal businesses, cottage industries, and MSMEs.

Although much of its lending remains collateral-based, it also offers selected group-based and collateral-free products.

Commercial banks have larger balance sheets and broader product ranges but generally have less exposure to agriculture, informal businesses, and remote rural clients. Microfinance institutions are better positioned to serve first-time borrowers, women, and clients without conventional collateral, but their capacity is constrained by smaller balance sheets, lending limits, and higher operating costs.

Bhutan also has several enterprise-support institutions:

- the BIZAP Fund provides small collateral-free loans, incubation, and mentoring;
- the Loden Foundation provides interest-free and collateral-free financing;
- Loden Tewa supports more established businesses requiring growth in finance and business acceleration;
- Tarayana works with remote communities through livelihood programmes, self-help groups, and microfinance; and
- government entrepreneurship programmes, the Bhutan Chamber of Commerce and Industry, cooperatives, and producer groups provide additional support.

A key weakness is the gap between early-stage support and commercial finance. Several programmes can help establish an enterprise, but fewer provide sustained management support, market preparation and financing required for viable businesses to scale.

Bhutan also has strong conservation institutions. The Department of Forests and Park Services manages forests, wildlife, protected areas and wildlife corridors, and human–wildlife conflict interventions. The

USD 75m

broader biodiversity financing gap

Approximate UNDP BIOFIN estimate. It illustrates unmet conservation financing needs, not the level of credit demand from biodiversity-positive MSMEs.

Bhutan Tiger Center provides scientific support for tiger research and monitoring, while the National Biodiversity Centre coordinates biodiversity information and implementation of the Convention on Biological Diversity. The Bhutan Trust Fund for Environmental Conservation, Bhutan for Life, and donor-supported programmes provide significant resources for public and community conservation. These mechanisms demonstrate national capacity to manage conservation finance but are not generally designed to finance income-generating enterprises through repayable capital.

Government and development partner initiatives provide useful precedents. The National Credit Guarantee Scheme generated experience with risk sharing. The Economic Stimulus Programme provides concessional finance for productive investment, while the Bhutan Resource Mobilization Plan calls for a wider shift towards catalytic finance and private investment. IFC's local-currency-linked financing through the Bank of Bhutan also demonstrates how international capital can be mobilized while limiting currency mismatches.

4. KEY CONCLUSIONS FROM THE SCOPING ASSESSMENT

The scoping assessment conducted in Bhutan identified several factors that have informed the proposed design of the Tiger Landscapes Investment Facility (TLIF) in Bhutan.

Bhutan's conservation model is based on ecological connectivity across protected areas, biological corridors, community forests, agricultural landscapes, and rural settlements. Evidence reviewed during the assessment indicates that biodiversity conservation and rural livelihoods are closely linked throughout the country, and that conservation outcomes cannot be achieved through interventions confined to protected areas alone. Consultations therefore supported a landscape-wide approach that recognises opportunities for nature-positive enterprise development across Bhutan's broader rural economy, including agriculture, forestry, tourism, and community-based enterprises, while addressing human-wildlife conflict.

Access to finance emerged as one of the most significant constraints facing nature-positive MSMEs, particularly those operating in rural areas and biodiversity-linked sectors. The assessment found that lending by most financial institutions remains heavily collateral-based, while many enterprises lack the

fixed assets, formal financial records, or credit history required to access commercial finance. Stakeholder consultations repeatedly highlighted the existence of a "missing middle" comprising enterprises that are commercially viable but underserved by both microfinance institutions and commercial banks. These constraints are particularly acute for community enterprises, and enterprises operating in conservation landscapes.

Consultations consistently indicated that many biodiversity-linked enterprises require support beyond financing. While access to capital is important, enterprises also face challenges related to business planning, financial management, market access, packaging, branding, certification, quality standards, and commercialization. The assessment therefore concluded that financing should be accompanied by targeted technical assistance to strengthen enterprise readiness, improve bankability, and support the development of competitive biodiversity-linked value chains. Capacity-building support is also needed for financial institutions to strengthen their understanding of biodiversity-linked business models and lending opportunities.

The assessment found strong justification for

risk-sharing mechanisms that can encourage financial institutions to expand lending to underserved and eligible sectors while maintaining commercial discipline. The proposed approach is intended to reduce barriers to lending and encourage additional private-sector capital, rather than replace the role of financial institutions in credit appraisal and portfolio management.

Biodiversity-linked opportunities cut across multiple sectors, including agriculture, tourism, non-timber forest products, human-wildlife conflict mitigation,

restoration, and environmental services. At the same time, consultations highlighted substantial variation in business models and practices within sectors. As a result, eligibility should focus on the specific activities being financed and their contribution to conservation, livelihoods, and sustainable resource use, rather than assuming that all enterprises within a particular sector generate nature-positive outcomes. This is consistent with the assessment's recommendation that emphasis should be placed on conservation contribution, livelihood impact, growth potential, and sustainability of the business model.

MSME segments	Illustrative activities	Contribution to biodiversity
Human–wildlife conflict mitigation	Fencing, protective nets, predator-resistant enclosures, deterrents, early-warning systems and monitoring technology.	Reduce crop and livestock losses and lower the risk of retaliatory killing or snaring.
Sustainable agriculture, livestock and food value chains	Resilient farming, agroforestry, diversified crops, protected cultivation, sustainable livestock, aggregation, storage, processing and packaging.	Investments increase resilience and value without expanding into natural habitat or increasing HWC.
Forest products and forest-based enterprises	Sustainable timber and non-timber forest products, bamboo, cane, mushrooms, medicinal plants, natural fibres, handmade paper and forest-based handicrafts.	Sustainable and improved management of forests and natural ecosystems.
Nature-based tourism enterprises	Homestays, eco-lodges, guiding, trails, low-impact visitor services, handicrafts and locally produced food.	Tourism generates local income while avoiding habitat disturbance and excessive visitor pressure.
Restoration, monitoring and landscape services	Native nurseries, ecological restoration, erosion control, watershed services, biodiversity monitoring, conservation technology and nature-based solutions	Direct contribution to biodiversity conservation
Cross-cutting services	Testing, certification, traceability, sustainable packaging and technical services that help nature-positive MSMEs	Indirect contribution to biodiversity conservation

5. PROGRAMME DESIGN

TLIF will connect Bhutan's biodiversity priorities with enterprise development and commercial finance. It will support viable activities that generate income from healthy landscapes, reduce pressures on biodiversity, or lower the economic costs of living alongside wildlife. The Facility will operate across tiger landscapes, including biological corridors, community forests, agricultural areas and rural settlements, rather than limiting support to enterprises located within protected areas.

Eligibility will be determined by the specific activity, its location, its expected biodiversity contribution, and its compliance with TLIF safeguards. An enterprise will not qualify simply because it operates in agriculture, forestry, or tourism. It must demonstrate a credible conservation and livelihood contribution and avoid activities covered by TLIF's exclusion criteria.

5.1. Investment Areas and Programme Components

The scoping assessment identified a range of economic activities that can strengthen rural livelihoods while contributing to biodiversity conservation across Bhutan's tiger landscapes. These opportunities extend beyond enterprises operating within protected areas and include activities linked to agriculture, forestry, tourism, restoration, and human–wildlife conflict mitigation. The six MSME segments presented below are intended to guide pipeline development and financing priorities under TLIF and form the core backbone of the TLIF implementation in Bhutan. They reflect areas where consultations indicated both conservation relevance and potential demand for finance. Inclusion within a segment does not automatically confer eligibility. Individual activities will continue to be assessed against TLIF's biodiversity, safeguard, additionality, and commercial viability criteria. The assessment found that the strongest opportunity – from both livelihoods and biodiversity conservation perspectives - is not simply to

increase primary production, but to improve aggregation, storage, processing, quality, packaging and market access so that producers capture greater value from existing production, while enhancing resilience against human-wildlife conflict.

The exclusion criteria apply across all sectors. TLIF will not finance habitat conversion, illegal or unsustainable resource extraction, wildlife trade, harmful pollution, invasive species, unsustainable grazing, infrastructure that damages critical habitats, or activities that materially increase human–wildlife conflict. All supported activities would be subject to applicable UNDP environmental and social safeguards.

TLIF will combine three components that address different but closely connected barriers:

- Pipeline development will identify enterprises and productive activities that are commercially viable and capable of delivering measurable biodiversity benefits.
- Technical assistance will prepare prospective borrowers, support implementation after financing, and strengthen the capacity of participating financial institutions.
- De-risking support will enable financial institutions to lend to eligible borrowers that they would otherwise be unable or unwilling to finance on suitable terms.

Pipeline Development

The pipeline will be developed through three channels. The participating financial institution is expected to originate most prospective loans through its branch network and existing client relationships. A second channel will connect TLIF with enterprises already supported by programmes such as Department of Employment and Entrepreneurship (DoEE), BIZAP, Loden, Loden Tewa, and Tarayana that are ready for expansion. A third channel will allow UNDP to engage qualified organizations to develop groups of potential investments in priority sectors,

value chains, or landscapes.

The participating financial institution will remain responsible for independent credit appraisal and loan approval. TLIF will ensure that activities financed meet TLIF's biodiversity, safeguard, and additionality requirements.

Technical Assistance

Technical assistance will be tailored to the specific transaction rather than centred on general entrepreneurship training. Technical assistance should instead be transaction- and sector-specific, addressing the concrete barriers that prevent potentially viable businesses from scaling up and strengthening sustainable livelihoods.

Before financing, it will help prospective borrowers address weaknesses in business planning, financial records, technical design, permits, sourcing arrangements, product quality, buyer relationships, and biodiversity safeguards.

After financing, assistance may support procurement, installation, cash-flow management, production systems, quality control, and access to buyers. More intensive support may be provided where several borrowers face a shared constraint, such as weak aggregation, inadequate testing facilities, limited certification capacity, or poor market coordination.

This approach recognizes that access to finance is only one part of the constraint. Enterprises must also be capable of using the finance effectively and repaying it from viable economic activities.

The participating financial institution will also require support to strengthen:

- cash-flow-based appraisal of smaller and seasonal businesses;
- loan products and repayment schedules suited to rural activities;
- biodiversity screening and portfolio classification; and
- administration, monitoring, and reporting of the risk-sharing arrangement.



Photo: UNDP /Phurba Lhendup

5.2. De-risking and Implementation Arrangements

The assessment identified Bhutan Development Bank Limited (BDBL) as a particularly relevant potential financial partner given its development mandate, rural outreach, and experience serving farmers, cooperatives, and MSMEs. Any partnership remains subject to the applicable due diligence and investment approval processes.

Bhutan Development Bank Limited (BDBL) plays an important role in Bhutan's rural and development-finance ecosystem. Its mandate includes agriculture, rural livelihoods, cottage and small industries and MSME financing, and it has one of the country's broadest rural outreach networks. This gives BDBL established relationships with many of the borrower segments relevant to TLIF, including farmers, cooperatives and rural enterprises.

At the same time, lending to many of these segments remains constrained by conventional collateral requirements and by the seasonal and relatively small-scale nature of rural businesses. BDBL offers some collateral-free products, but much of its lending remains asset-backed, reflecting a wider financing constraint identified across Bhutan's financial sector.

The project therefore identified BDBL as a potentially relevant financial partner for TLIF, given its development mandate, rural presence, and existing experience in agriculture and MSME finance. A risk-sharing arrangement, combined with targeted

technical assistance, could help the institution extend financing to eligible nature-positive enterprises that remain underserved under conventional lending approaches. Any partnership and associated financial arrangements would remain subject to further design, due diligence and applicable approval processes.

TLIF would also provide targeted technical assistance to the financial partner to strengthen lending to the eligible sectors identified under the Facility. This will include support on biodiversity eligibility and screening, cash-flow-based appraisal of rural and seasonal businesses, appropriate product and repayment design, and monitoring and reporting of nature-positive lending. Practical training and implementation support will help relevant staff and loan officers apply these requirements consistently across branches.

5.3. Impact Reporting

Impact reporting will be proportionate to the financed activity. The specific impact indicators that the project will capture are detailed in the programme design. The financial institution will regularly (every six months) report against agreed financial, borrower, and impact indicators. Independent verification will be undertaken by UNDP at least once every two years to ensure the validity of the biodiversity impact. Environmental and social risks will be screened and managed in accordance with the UNDP Social and Environmental Standards and applicable national requirements.

CONCLUSION

Overall, the scoping assessment indicates that Bhutan provides a strong foundation for deploying a more market-oriented approach to financing nature-positive rural enterprise. The opportunity lies not simply in providing additional capital, but in addressing the specific barriers that prevent viable enterprises from accessing and effectively using finance. By combining targeted pipeline development and technical assistance with appropriately structured risk-sharing, TLIF could help financial institutions expand

lending to underserved nature-positive enterprises while maintaining commercial discipline and clear biodiversity safeguards. The proposed approach would build on Bhutan's strong conservation institutions and rural-finance ecosystem, while generating practical experience that can inform the longer-term development of biodiversity finance in the country. Final implementation arrangements would be further refined through partner engagement, due diligence and detailed programme design.



Photo: UNDP /Phurba Lhendup

TIGER LANDSCAPES INVESTMENT FACILITY BHUTAN

Overall, the scoping assessment indicates that Bhutan provides a strong foundation for deploying a more market-oriented approach to financing nature-positive rural enterprise. The opportunity lies not simply in providing additional capital, but in addressing the specific barriers that prevent viable enterprises from accessing and effectively using finance. By combining targeted pipeline development and technical assistance with appropriately structured risk-sharing, TLIF could help financial institutions expand lending to underserved nature-positive enterprises while maintaining commercial discipline and clear biodiversity safeguards. The proposed approach would build on Bhutan's strong conservation institutions and rural-finance ecosystem, while generating practical experience that can inform the longer-term development of biodiversity finance in the country. Final implementation arrangements would be further refined through partner engagement, due diligence and detailed programme design.