Financing Bhutan's Future: Reimagining Bhutan's Entrepreneurial Ecosystem

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Introduction

Bhutan is at a pivotal demographic, economic, and developmental crossroads that is reshaping opportunities for its people and the pathways to national growth. With 41% of its population below the age of 25, a generation is entering adulthood at a time when the public sector is experiencing significant attrition, as skilled professionals seek opportunities abroad, with nearly 49% of migrants comprising of former civil servants primarily from health and education sectors (UNFPA Bhutan, 2023; World Bank, 2025).

While this mobility broadens horizons for our people, it is reshaping labour markets, community structures, and the aspirations of younger generations seeking meaningful livelihoods within the country.

Having graduated from the Least Developed Country status in 2023, Bhutan's development financing landscape is shifting, amidst global trends of decline in official development assistance, which decreased by 9% in 2024, is projected to decline by 9 - 17% in 2025, and a further 11.2 % in 2026 (ESCAP, 2026).

For Bhutan, while grant-based assistance increased from Nu. 16.5 billion in FY 2024-25 to an estimated Nu. 25.4 billion in FY 2025-26, this rise is driven almost entirely by Government of India project-tied grants, from Nu. 10.5 billion to Nu. 18.9 billion.

Excluding this bilateral support, grants from all other development partners combined declined from Nu. 4.3 billion to Nu. 3.5 billion over the same period (Ministry of Finance, 2025).

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The constraints are not only external. Existing domestic financing systems, built around collateral-based lending, are not fully equipped to support first-generation entrepreneurs, rural enterprises, or emerging sectors. Community-based enterprises remain underserved, despite their vital role in local livelihoods and social resilience.

Together, these groups form what development practitioners call a "missing middle" of ventures, with proven models and clear social value that stall and disappear, not because they fail, but because they are still maturing in a financing environment built for either collateral-backed loans or later-stage institutional capital (Berlin & Lediju, 2021).

The Global Impact Investment Network (GIIN) estimates that the worldwide impact investment market is around USD 1.6 trillion in 2025, an increase of 11% from the past year. This is a significant rise from USD 1.16 trillion in 2022 (Hand et al., 2025).

Although North America and Europe remain the largest recipients of allocations, investments in South Asia grew by 24% in the past year, from USD 37.5 billion to approximately USD 46.5 billion (Hand et al., 2024). Bhutan, despite its unique advantages, remains largely under-represented in this arena.

The Bhutan Sustainable Development Goals (SDG) Impact Finance Forum 2025 signalled a growing recognition that traditional pathways are falling short, with the Prime Minister Tshering Tobgay stating that "traditional financing alone is no longer sufficient" (Kuensel, 2025).

In response to these shifts, Bhutan has begun exploring alternative financing approaches, through recent initiatives, such as the EU-Bhutan Business Forum, the Invest Bhutan Forum, and engagements between the International Finance Corporation (IFC) and the Royal Monetary Authority (RMA) on private equity and venture capital ecosystem development.

Bhutan's most visible expression of transformation ambition, the Gelephu Mindfulness City (GMC), represents both a sandbox for experimenting with new financial instruments and a symbol of the country's determination to chart a new development path.

This article examines the building blocks of an emerging financing ecosystem for Bhutan's private and social enterprises. It draws on recent policy reforms, emerging examples of alternative financing mechanisms, insights shared by industry practitioners and an Oxford University working paper on ecosystem formation in the Himalayas.

The article argues that bridging the missing middle will require matching the right kinds of capital to ventures at different stages; building intermediaries that can prepare entrepreneurs for investment; creating policy frameworks that enable capital to flow; and recognising Bhutan's unique characteristics as potential strengths.

With these building blocks, it proposes that we can design an entrepreneurial ecosystem aligned with the aspirations and constraints of a generation in transition. These factors may very well determine whether a small country with a young population can create the conditions for its people to build livelihoods at home.

I. What's Missing and Current Challenges

i. The Missing Middle

According to the Aspen Network of Development Entrepreneurs[2] (ANDE), the critical gap in financing lies between USD 20,000 and USD 2 million, that are too large for microfinance or grants but too small and risky for institutional investors, or even impact investors. This echoes the challenges of Bhutan's private sector.

Micro and small enterprises account for an estimated 95% of registered businesses and employ approximately 12% of the population (ADB, 2022; IFC, 2025); yet the ecosystem between cottage industries and large state-owned enterprises remains largely undeveloped.

This pattern reflects broader regional challenges facing emerging economies, highlighted at ANDE's South Asia Convening 2025, whereby early-stage grants and venture philanthropy support pilots and proof-of-concept, while later-stage commercial capital seeks large tickets (investments typically USD 2 million and above), fast growth, and clear exit pathways.

2 https://www.upayasv.org/blog/the-missing-middle-is-more-complicated#:~:text=In%20our%20industry%20of%20impact,shifts%20to%20address%20the%20gaps.

What is missing is patient, risk-tolerant capital that is flexible enough to accommodate imperfect financials, longer horizons, and blended return expectations, where investors accept lower financial returns in exchange for measurable social and environmental impact.

ii The State as Competitor

Beyond financing, a distinct challenge is the dominance of State-Owned Enterprises (SOEs) in the economy across sectors of aviation, communications, energy, financial services, manufacturing, and natural resources. While intended to drive strategic growth, their dominance creates unintended consequences.

Among private sector actors, there is a prevalent perception that state entities will enter successful private markets using their structural advantages. This creates a hesitation to scale and potentially discourage risk-taking and innovation, resulting in a private sector consisting of cottage industries, alongside a few family legacy monopolies, with little in between.

iii The Policy Response

Recognising these constraints, Bhutan has undertaken significant policy reforms. The Foreign Direct Investment (FDI) Rules and Regulations 2025 involved a comprehensive overhaul of the investment framework (RGoB, 2025).

Key changes include increased FDI ownership thresholds in high potential priority sectors (such as up to 100% in agriculture, IT services and health sector and up to 74% in food processing, vocational training and small-scale manufacturing, from 49%), guaranteed repatriation of capital and dividends, investor cards to smoothen visa provisions and streamlined approvals with turnaround times reduced.

The updated regulations also include new activities in the priority sector to strengthen gaps in Bhutan's financial ecosystem, with the introduction of venture capital funds and credit rating agencies (up to 100% FDI), and cross border e-payments (up to 74%).

While it is still premature to assess the government's ambitious target of securing Nu 500 billion in FDI by 2029, these changes are demonstrating traction, with 14 new FDI projects formally approved with a value of

Nu. 73.76 billion in 2025, and 18 projects receivinged FDI Registration Certificates (including two major hydropower projects) totaling Nu. 201.91 billion (The Bhutanese, 2026).

As of December 2025, Bhutan's total FDI portfolio reached 135 projects, primarily in tourism, hospitality and IT and IT-enabled services.

While these changes indicate a genuine shift towards investor-friendly policy reform, they primarily address the concerns of conventional investors, such as entry thresholds, ownership control, profit repatriation and regulatory predictability with the removal of the lock-in period, guaranteed foreign exchange access and streamlined approvals.

They do not yet address the distinct needs of the "missing middle" which requires smaller, flexible tickets; risk mitigation mechanisms such as guarantees and first-loss provisions; and frameworks for impact measurement and environmental, social, and governance (ESG) compliance.

Minimum investment thresholds, while lowered, still exclude smaller impact investors who might prefer to deploy capital across multiple ventures. Furthermore, the policy assumes a pipeline of investment-ready enterprises, but the broader ecosystem remains relatively undeveloped.

Without targeted capacity building in impact measurement, financial modelling, and export readiness, Bhutan risks having an open door for foreign capital but few prepared to walk through it.

II. Building Blocks for an Ecosystem

Against this backdrop, a few examples illustrate how the foundations for innovative financing are beginning to take shape for Bhutan's entrepreneurial landscape.

i. Catalytic Capital in Action: IFC-Bank of Bhutan Partnership

In October 2025, the IFC announced a USD 20 million investment in Bank of Bhutan (BoB) as the first foreign debt investment in Bhutan's banking sector under revised External Commercial Borrowing guidelines (IFC, 2025).

This was supported by the International Development Association's Private Sector Window (PSW) launched in 2017 to catalyse private sector investment in the poorest and most fragile countries, by providing co-investment funding and guarantees to de-risk investments where no commercial solution exists. This represents a fundamentally different approach from traditional aid, with USD 5.4 billion in PSW funding mobilising over USD 31 billion in private investment globally.

Notably, at least 80% of the financing will be dedicated to Micro, Small and Medium Enterprises (MSMEs). The partnership includes technical assistance to strengthen BoB's governance, risk management, and environmental standards, enabling the bank to attract additional financing from other development finance institutions (DFIs).

ii. Early-Stage Equity Platforms and Intermediaries

In May 2025, the RMA launched Jabchor 2.0, an equity financing platform designed to connect entrepreneurs with investors, focusing on export-oriented ventures with funding needs exceeding Nu. 10 million. The platform builds on an earlier iteration from 2018 but with additional bootcamps for entrepreneurs on valuation and legal compliance, grooming to refine pitches, and post-investment support.

Loden Tewa, Bhutan's first catalytic fund and accelerator, represents a domestic intermediary response to the missing middle. Spun off from the Loden Foundation, which ran entrepreneurship programmes for 18 years, Loden Tewa was deliberately structured as an independent entity.

This separation reflects a critical lesson in navigating the challenges of running businesses within Civil Society Organisation (CSO) structures and the fundamental conflicts that arise between community expectations of free services and investor requirements for financial sustainability. Loden Tewa's initial phase focuses on accelerator programming providing patient, risk-tolerant investment for growth-stage companies.

iii. The Orchestrator Role: Learning from DHI InnoTech

A working paper by Deuschle et. al. (2025) examines how Druk Holding and Investment's Innovation and Technology (DHI InnoTech) department built an ecosystem for nascent technologies despite lacking conventional enabling resources, such as dense partner networks, substantial financial capital, or deep domain expertise. Their findings reveal a three-stage process that could offer lessons for building Bhutan's entrepreneurial finance ecosystem.

In the first stage, which the researchers term place-grounding, InnoTech attracted local actors by linking unfamiliar technologies to concrete challenges arising from Bhutan's geography, such as landslide prediction using sensors and glacial lake monitoring. By demonstrating how technology addressed practical problems tied to the local terrain, InnoTech made innovation both relevant and credible.

In the second stage, termed place-recasting, InnoTech reframed Bhutan's challenging terrain, previously a constraint, as a test bed for global startups to improve their technologies under extreme conditions while contributing to local capacity.

In the third stage, place-embedding, InnoTech bridged local and global efforts by embedding place-based features directly into technological use-cases, enabling joint experimentation and mutual knowledge exchange.

The research posits that what is perceived as geographic constraints could be reframed or rebranded as assets for ecosystem formation. It also traces how InnoTech's role evolved over time, beginning as a "doer" by developing innovations itself despite limited expertise, transitioning to a "broker" by connecting local and global actors, and only later becoming what the research terms an "orchestrator" by enabling direct collaboration between partners. This offers a template for how other actors, particularly independent intermediaries like incubators and accelerators, could approach ecosystem building in Bhutan.

III. The Road Ahead - Building the Ecosystem

i. Matching Capital to Stage

The missing middle persists because different stages of growth require different kinds of capital. Seed-stage ventures need patient, risk-tolerant funding, while growth-stage companies can attract impact investors and scale-stage ventures can engage DFIs. Bhutan's financing ecosystem must evolve to recognise these distinct stages and create the conditions for appropriate capital to flow to each.

ii. Building the Intermediaries and Orchestrators First

As ecosystem builders in Bhutan have observed, investment readiness is not automatic. It requires intentional cultivation through incubators, accelerators, mentoring networks, and governance support.

Entrepreneurs must be prepared not only to receive capital but to deploy it effectively, which demands skills in financial management, governance, and impact measurement that are often underdeveloped in early-stage ventures.

The SDG Impact Finance Forum reinforced this message: Readiness of policies, institutions, project pipelines, and partnerships is just as critical as access to finance itself. The DHI InnoTech case offers a model of how an entity can build an ecosystem by attracting partners, enabling collaboration, then stepping back, rather than crowding out private development.

A diverse ecosystem of intermediaries focused on different sectors and stages needs to be cultivated. Bhutan needs more actors capable of playing the orchestrator role, whether specialised intermediaries or state units with clear mandates.

iii. Recognising Bhutan's Distinctive Strengths

While the government already recognises and markets Bhutan's unique environment and cultural heritage as assets, particularly in tourism, translating these same strengths into a compelling proposition for impact investors remains a work in progress. The DHI InnoTech case offers one model, reframing Bhutan's challenging terrain as an asset for technological innovation.

Companies like Mountain Hazelnuts are demonstrating how this can work by combining sustainable agriculture with carbon finance through partnerships with Finnfund, Mirova, and EU guarantees.

For the broader investment landscape, the task might be in moving beyond general branding towards demonstrating how Bhutan's clean environment, pristine water, and organic agriculture can underpin bankable propositions for premium food products, wellness tourism, botanical extracts, and carbon credits.

iv. Separating Enterprise from Charity

For organisations navigating the transition from nonprofit to social enterprise, a common lesson in attempting to run businesses within CSO structures is the fundamental conflicts of mindset, incentive, and capability. For Bhutan's CSOs now permitted to engage in revenue-generating activities, this means making deliberate choices about structure, governance, and leadership. Creating separate social enterprise spin-offs with independent teams (as seen with Loden Tewa) can be crucial in balancing financial sustainability with mission integrity.

Conclusion

By viewing Bhutan's constraints clearly — a small market of 750,000 people, challenging terrain that fragments distribution, a shallow talent pool worsened by emigration, and a dominant state sector that can crowd out private initiative — perhaps we could approach these same challenges differently.

Small means depth is possible, challenging terrain creates opportunities for premium positioning and testing, thin talent forces creativity and collaboration and state capacity, when directed toward orchestration rather than competition, could build ecosystems that would not otherwise exist.

The Gelephu Mindfulness City represents both promise and caution for this agenda. Promise, as a sandbox for experimenting with new financial instruments and investor relationships that could later scale nationally. Caution is required because if it concentrates all attention, talent and capital in one zone, the rest of Bhutan, where most entrepreneurs operate and where community enterprises serve remote populations, could become an afterthought. This balance is yet to be determined.

What is clear is that Bhutan's convergence of transitions leaves no room for business as usual. Half the population under 25 will not wait for aid to return. Skilled professionals leaving for opportunities abroad will not return because they are missed. The missing middle will not fill itself.

What might fill it are the building blocks already taking shape, such as the IFC's catalytic partnership with BoB (Bank of Bhutan), equity platforms connecting entrepreneurs to investors, intermediaries like Loden

Tewa providing patient capital, and frameworks like DHI InnoTech's demonstrating how place-based assets can be mobilised. Each is small and unfinished but together, they suggest a path forward.

As participants at the SDG Impact Finance Forum cautioned, sustained effort will be required to translate interest into long-term impact. Regulatory readiness, financial literacy, and ecosystem coordination will be critical next steps.

Whether Bhutan can create the conditions for capital to reach ventures at different stages of growth, cultivate intermediaries/orchestrators rather than competitors, recognise distinctive strengths as bankable propositions, and separate enterprise from charity, might determine the state of an entrepreneurial ecosystem that addresses the missing middle, ensures the last mile communities are not left behind and allows its young people to thrive amidst global and national shifts in rethinking development finance.

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