KfW Development Bank

Project Information

Risk capital – India

A fund for innovation in agriculture

Despite the country's economic rise as a leading location for IT, agriculture continues to play a major role in India. It employs almost half of the country's working population. However, a large number of operations are very small, while farming and marketing methods tend to be outdated, meaning that profitability and efficiency are not as high as they could be. In an effort to boost the innovative power of the Indian agricultural sector, KfW is investing in the Omnivore fund on behalf of the German Federal Government. The fund invests in Indian start-ups who develop ground-breaking technology related to nutrition, farming and agriculture.

Context

Over the past few years, India as a sub-continent has transformed into a key location for technology, with a strong potential for innovation and entrepreneurial initiative. Centres and cities like Delhi and Bengaluru are home to companies from the fields of IT, biotechnology, pharmaceuticals and mechanical engineering, with countless start-ups and rising stars arriving on the scene every year. However, the situation is quite different for agriculture, an area afflicted by a range of structural problems.

Most operations for instance are small – 1.2 hectares on average – and land tends to be over-fertilised or degraded, due to improper use of machinery. This is the result of pressure on farmers to protect their livelihood. On top of this, there are weather-related risks (drought or flood) caused by climate change, defective transport chains, inadequate storage or refrigeration options, and complicated distribution methods.

When viewed as a whole, agriculture is not working productively enough – even though so many people depend on it. As a result of this, harvests and income can fluctuate heavily. This has an adverse effect on the food supply in India, and pushes many of those involved in agriculture to the edge of their existence. In turn, this exacerbates the trend of rural flight and urbanisation, which then generates a whole new set of challenges.

Project approach

The Omnivore Impact Investing Fund was created in an effort to stimulate agriculture through innovation. This fund provides companies from the agricultural sector with risk capital, something which is generally in short

Project name	Fiduciary holding for innovative agriculture
Commissioned by	Federal Ministry for Economic Cooperation and Development (BMZ)
Country/Region	India
Lead executing agency	Omnivore II Impact Investing Fund

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Agriculture in India is not always productive. Source: KfW photo archive, photographer: Anne Schönharting, OSTKREUZ.

supply in India and is almost impossible to come by in this sector. Omnivore's first fund, which was made up exclusively of Indian donors, was founded in 2011. It invested around USD 40 million in 12 start-ups. These included a company that develops solar-powered refrigerated buildings, a company that provides electronic weather forecasts for farmers, various IT service providers for the agricultural business, logistics companies for improving supply chains, and a company for agricultural diagnostic tools.

Since then, a second fund has been set up in the form of Omnivore II, which now includes foreign investors. One of the new donors includes KfW, who is acting on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ). During the first financing round, KfW contributed a fiduciary holding of EUR 10 million. Other investors include the Rockefeller Foundation, AXA Investments and the Dutch Good Growth Fund (DGGF). The second round saw further donors join the fund, including the Dutch development financier FMO and BASF. One of the founders of Omnivore, Mark Kahn, explained that the fund decided to bring in foreign investors this time around as they paid closer attention to impact and environmentally compatible effects. The plan is to keep a balance of Indian and foreign investors.

The fund is managed by Omnivore Advisors Private Limited, which is based in India and managed by Mark Kahn and Jinesh Shah. Both directors have many years of experience and a wealth of expertise in the agricultural and financial sectors. The fund volume is around USD 90 million and its term has been set to ten years.

The fund will invest in promising business ideas along the value added chain for agriculture, focusing on the direct target group of young, innovative companies. However, Omnivore II and, as such, KfW's involvement are also geared indirectly towards smallholders. After all, the industry's transformation into a market-oriented and sustainable economic sector – as encouraged by modern start-ups – will help to secure their livelihoods. Furthermore, higher income in rural areas will lead to higher demand for all kinds of goods and services, thereby helping to stimulate the Indian economy.

Impact

According to the information provided by Omnivore, the capital from the first fund reached 2 million Indian farmers, who all use products or services from companies supported by the fund in some form or another. The portfolio for Omnivore I was assessed by an independent auditor in 2016, the results of which confirmed that the companies supported were able to increase their value, even during an early stage of portfolio development. Similar effects are also expected for Omnivore II. All in all, the aim of Omnivore is to contribute to increasing the performance capacity and sustainability of smallholdings.

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