



FY2019 Q1 Report – July 1st to September 30th 2018

Headlines

- **15,525 total new farm customers added this quarter**
- **New customer acquisition was led by Farm Advisory Services with 7,534 new adopters**
- **Earned revenue from operations was USD 1.28m, covering 58 percent of operating expenses**
- **Our customer base totals over 640,000 farmers**
- **Added new capabilities in data analytics and rural marketing**

Opening Thoughts

A well-functioning, small-scale farming ecosystem in Myanmar is critical to transforming rural areas into a vibrant source of more and better quality jobs and incomes for millions of people who are underserved. To support this ecosystem, Proximity has, for the past 15 years, been creating and growing a nationwide platform of key, farm products and services that are not being provided by the government or private agri-companies. Proximity's practical services and products are designed to improve yields, productivity, profitability and sustainability of small farms. We continue to see strong demand from small-scale farmers for these practical products and services, provided they generate a robust return and are affordable.

We began our new fiscal year in July with a "stretch" target of adding 82,000 new small farm customers to our farm services platform.

Summary of Operating Results

Our platform offerings revolve around three core service areas: 1) the provision of improved agronomy practices/skills, 2) access to farm loans, and 3) affordable micro-irrigation systems. This quarter, 15,525 total new farm customers used one or more of these services.

+Farm Advisory Services: This quarter, a total of 11,416 farmers used one of our agronomy services, of which 7,534 were new customers, meeting 99 percent of our total customer target for the quarter. We are currently targeting an ambitious goal of a total of 51,000 new adopters by the end of the year. We offer the following advisory services: 1) rice seed cleaning, 2) precision planting (for rice seed) 3) nutrient (e.g. fertilizer) management, 4) soil health management, and 5) crop protection services (to control pests & disease). We currently employ 106 field agronomists who drive outreach and growth.

Our field agronomists are launching our new Soil Health Diagnostic Service, offered at a price of USD4 per acre. To date, we've sold 477 tests, 76% lower than our target. Our agronomy team has never launched this kind of fee-for-service before, and is learning it takes up more field staff time than originally estimated.

+Micro-irrigation: This quarter is typically a slow time for irrigation product sales, as the period marks the end of the monsoon season in Myanmar. 1,655 new farmers purchased one of our micro-irrigation products, representing 16 percent growth year-on-year, and 91 percent of the quarter's target. We are targeting 10 percent annual growth this year or 12,743 farm customers.

This year, our irrigation product offerings include: micro-sprinkler systems, mister systems, drip systems, lay flat hose and a treadle pump. We sold a total of 3,062 units of irrigation products, representing an 8 percent y/y decrease, and earned sales revenue of USD 78,000 for the quarter. After 15 years of selling various models of our original foot-operated pump, we are now selling only one treadle pump model this season. In recent years, the market has shifted with the influx of affordable and portable motorized pumps from China replacing the more labor-intensive treadle pumps. Thus, our products today focus on advancing irrigation efficiency in water use. This quarter, we launched our newest product – a "Starter" Mister that customers can install for USD 10 for 1/10 acre. We are seeing strong demand largely due to the affordable price point.

We have a very capable, new General Manager leading the irrigation business, Seng Nu Pan. We are reducing our in-house manufacturing work and shifting to sourcing components from new, higher quality, local suppliers as well as importing more parts from Thailand and China. Assembly is still done in Myanmar.

+Crop loans/farm finance: We now have 96,992 active farm loan borrowers, which represents a 21 percent y/y growth and 7 percent more than targeted for the quarter. Our outstanding portfolio grew 11 percent year-on-year, to USD 17.6 m. Farmers continue to value affordable loans and therefore repay to retain their good credit record. Our overall default rate (PAR30 days) dropped this quarter to 0.6 percent, from 0.9 percent in the previous quarter.

Crop loans represent 89% of our portfolio mix, with the rest comprising of livestock (3%), migration (<1%) and small enterprise (8%) loans. Our YTD profit is USD 170,000, compared to the USD 89,000 targeted for the quarter; this increase is mainly due to underspending on key investments (e.g. core banking system) and staff positions that are taking more time to fill than anticipated. To grow this farm lending business, we plan to raise USD 8.1m in debt capital this year, of which USD1.6m was raised this quarter. We continue to experience many hurdles related to the fledgling finance market in Myanmar, including government delays in approving overseas borrowings, changing regulations and a fluctuating local currency.

Product and Service Design: This quarter, our design work focused on the following projects: a new crop protection service for rice farmers; an improved design (version 2.0) of our solar irrigation pump; and the design of an individualized farm loan. Our current pest and disease diagnostic service sends out a field agronomist in response to an emergency call from a farmer to help treat and contain a pest or disease outbreak. Our re-design of this service will incorporate a chatbot and call center staffed by experts, to help triage farmers' requests and reduce the need for costly, in-person field visits. Our solar irrigation pump is undergoing a redesign, focused on improving the motor after premature failure with the original motors coming from China. In response to farmers' requests for larger amounts of capital than our current USD 250 loans, we are looking to increase our loan amounts to USD 600-800 per season and designing a "hybrid" delivery channel that uses our current group lending process while offering farmers individualized service.

Investing in Capabilities, Training and People Operations: This quarter, we established a new data analytics team with a Data Manager and Data Scientist. We also finished putting into place a new Marketing and Communications team, headed by Tom Lloyd – who comes with private sector agency experience in London. Our Digital Services team is working on a number of digital projects including identifying a suitable vendor for an upgraded Core Banking system for Proximity Finance for this year.

Proximity School, our in-house training program, gave a total of 13,330 training hours this quarter, for 523 unique training participants. Training topics included: Problem Solving Track: Creative Confidence, Design Thinking, Decision Making, Communications, Growth Mindset, Feedback, Difficult Conversations, Customer Engagement, English, Microfinance and Sexual Harassment Prevention. Our total staff count grew 12 percent from last year, to 845 staff.

Market Conditions, Challenges and Outlook

While smallholder farming is the single largest source of livelihoods for Myanmar's population, the number of rural people employed in farming continues to decline as farm incomes cannot keep pace with urban jobs. The small farms our customers operate are diversified and commercially oriented. Farmers remain exceptionally resilient, entrepreneurial and eager to adopt new practices in the face of mounting challenges. However, the agricultural system in Myanmar continues to underserve farmers thus constraining their productivity and incomes. For example, it takes 100 days of labor in Myanmar to cultivate a hectare of crops, while in neighboring Thailand it takes just 11 days. Myanmar farms also have the lowest yields in Asia.

Private sector participation in service provision in credit, value-added investment and market development remains limited, as investment interest in Myanmar and in agriculture has waned with recent political developments. Current government policies towards ethnic areas and the expulsion of Muslims in Rakhine state have caused foreign investment and engagement to deteriorate, making Myanmar more isolated and dependent on China in many ways. The rapidly changing rural landscape in Myanmar is putting pressure on us to stay agile in response to new demands.

Financial Results

Income Statement

Fiscal Year 2018-2019: Quarter 1 (July to September 2018)

*in thousands of US Dollars

	YETAGON IRRIGATION	FARM ADVISORY SERVICES	PROXIMITY FINANCE	PROXIMITY RESEARCH	TOTAL
Grant Income	\$447	\$565	\$47	\$92	\$1,152
Earned Income	\$80	\$5	\$1,442	\$1	\$1,528
TOTAL INCOME	\$528	\$570	\$1,489	\$93	\$2,680
TOTAL OPERATIONAL EXPENSES	-\$512	-\$707	-\$1,272	-\$148	-\$2,639
Total Operational Expenses covered by Earned Income (%)					58%
OPERATING INCOME	\$15	-\$137	\$217	-\$55	\$41

Please note that this financial report excludes remeasurement gain/loss

Lens



FARM ADVISORY SERVICES

extension officer Win Naung meets with Khin Saung, a paddy farmer in Thee Lone village for an 'on-call' meeting. Farmers use this service to identify a pest or disease problem and receive a personalized treatment protocol to address the issue. Khin Saung had concerns about the health of his crop after his rice plants started drooping, a worrying sign at this time of the season. After a visit from our field agronomist, Khin Saung was relieved to hear that a small amount of potassium fertilizer would strengthen his plants, keeping them healthy until harvest.



PROXIMITY FINANCE

customer Myint Myint Htwe meets with Poe Ei Kyaw (one of our Social Impact team members) in Aung Ban to discuss the impact of a Crop Loan she received after the sudden death of her husband. Conducting surveys to better understand the effect of our products on farmers' seasonal cash flow and resilience to financial shocks is essential to further improving our offerings. For Myint Myint Htwe one Proximity loan allowed her to rent land and buy seedlings and other inputs, moving from farm laborer to farmer. She now runs a successful farm enterprise and has taken her first crop of white chrysanthemums to market.



YETAGON IRRIGATION

sales representative Kyaw Zayar Tun walks across a wooden footbridge to deliver products to customers in Kyaiklat township. Because most farmers live far away from markets and services, they are often marginalized and have little access to the technologies they need to make their farms profitable. To remedy this situation, we have tailored our delivery capabilities to the needs of isolated rural communities. Meeting farmers right in their village allows us to maximize our reach and remains the most effective way for our field staff to engage with farmers.



PHYU HNINN NYEIN, the General Manager of Farm Advisory Services, spoke at the 2018 TEDx Yangon to an audience of over 800. Hninn discussed how Proximity is using big data to help farmers make critical decisions. As tools to collect and analyse agricultural data sets become available, Proximity's new Data Analytics team is working with FAS and our other business units to translate the large quantities of data we collect into actionable business insights. Over the next year, Proximity is investing in capabilities so that our deep qualitative knowledge of small plot farming is complemented by robust quantitative analysis.