



FY18 Q3 Report – Jan 1st to Mar 31st 2018

Headlines

- **Added 15,087 new farmer customers in Q3, including a 54 percent year-on-year increase in new adopters of agronomy services.**
- **Myanmar is facing a cycle of increased isolation, slower growth, greater military influence and dampened democracy as a result of its treatment of the Rohingya minority.**
- **Appointed a new Chief Financial Officer – Michael van den Berg – to replace outgoing CFO Piet Schutter.**
- **Current number of employees stands at 764, with an average age of 31.**
- **Launched new Soil Testing Service that provides plot-specific fertilizer recommendations at a cost of US\$18 per test.**

Opening Thoughts

This quarter, we've spent quite a bit of effort on building our platform of a more integrated set of products and services to offer farmers. We're realigning our market geographies along with a clearer focus on our best target customers. Our emerging 'product stack' across finance, technology and advice is becoming better aligned with cropping cycles and offers support for increased yields and crop loss prevention. Moving towards a more integrated offering requires some significant changes to our operating model, which we are undertaking now. Our efforts aim to simultaneously increase our ability to scale our work while making even greater farm-level impact possible.

Summary of Operating Results

Overall, we added 15,087 new customers during the quarter, which was well below our target. A combination of regulatory disruptions in our lending operations and depressed demand due to price increases in our irrigation business contributed to this disappointing result. Year-to-date, we have added 71,630 new customers. During this quarter, we launched one new agronomy service and have design teams working on two new services.

Farm Tech

We sold 6,543 irrigation products this quarter, led by our drip and sprinkler products. Year-to-date sales are up 13 percent over last year and we project being able to reach our year-end target of 28,000 sales. However, this quarter's sales came in below our targets due to the effects of a significant price increase we introduced on 1 January 2018 and some new competition in the market. Sales revenues for the quarter totaled US\$218,000. We have 86 sales reps (who achieved a 15 percent closing rate), 96 agro-dealers in our network and 220 active village agents who helped 1,622 customers install their new irrigation products.

We've always viewed our strategy as a 'market-maker' for micro irrigation in Myanmar — and for the first time, we're seeing several local irrigation manufacturers and sales organizations enter the market. This has led us to focus on introducing new irrigation technologies — such as our 'mister' product and low-cost, solar-powered irrigation pump. To meet our affordability goals, we're making our Yangon manufacturing plant operations more efficient and sourcing more components from low-cost manufacturers.

Agronomy Services

During Q3 we added 6,217 new farmers, a 54 percent increase over the same period last year. These farmers adopted at least one of the crop production techniques we promote across Myanmar's Delta and Dry Zone regions. The most popular service this quarter was advice on improving fertilizer application and management. Year-to-date, 44,104 new farmers have been acquired and we anticipate reaching our target of 48,400 by the end of our fiscal year in June. Since 2016, we've served 101,950 rice farmers.

The primary sales and service delivery channel is through village group meetings organized by our 98 field agronomists. During this quarter, 1,954 village group meetings were held, attended by 19,997 farmers. At the initial meetings, we're able to achieve 30 percent adoption rates. Over several seasons in a given township, this rate typically increases to over 50 percent. To lower our unit costs to serve, we have introduced an SMS messaging service. This quarter, we have 6,208 digital subscribers. We trialled IVR (Interactive Voice Response) messaging with a leading technology company but came to the conclusion that Myanmar's telecom infrastructure is not ready for it.

During the quarter, we rolled out our Soil Testing Service to five townships — our first revenue producing service. Work has also begun on re-designing our existing Crop Protection service, so it can scale beyond the current capacity of 2,300 farmers per year. We're also conducting research on new agro-zones to expand into in the coming months, as well as several new crops — in addition to rice — for which we can offer agronomy services.

Farm Finance

Our farm lending business experienced a six-week disruption in lending activities this quarter due to a change in regulatory enforcement by the Ministry of Finance. This suspension affected about 23,000 of our farmer clients. In April, however, we were able to recommence lending. During Q3, our 243 loan officers added 5,902 new customers. The number of total active borrowers this quarter is 69,616. We will now likely have 93,000 customers at the end of the fiscal year – short of our target of 115,000. Net operational profit for the quarter was US\$312,861 on revenues of US\$1,352,262. PAR30 jumped to 0.60% – above the 0.50% target – due to delinquencies concentrated in two lower Delta areas impacted by abnormal weather.

The legal separation of Proximity Finance from Proximity Designs is likely to occur in June now that all of the paperwork has been completed for government regulators. Proximity has also recruited a new CEO for our farm finance operation – Hedvig Sundberg. She has over ten years of micro-finance experience and was most recently the CEO of AccessBank, Tanzania. She will start in June 2018.

Economic Research

The events related to the displacement of 700,000 Muslims from Rakhine State to Bangladesh in August 2017 have again isolated Myanmar. Official international policymakers' stance is that Myanmar should fix the crisis or else face sanctions. However, Myanmar government authorities are poorly placed to respond positively. Bangladesh is now overburdened and wants the refugees to return home; much of the international community supports this position often without addressing the obstacles to speedy repatriation; and Myanmar feels justified in fighting what it sees as terrorism. This stalemate has brought a cycle of increased isolation and military influence, and is ultimately a threat to the development of democracy. Myanmar's international standing is threatened, undermining trade, investment, and diplomatic prospects. The implications for nation-building and peace are even more troubling.

Our economic research efforts focused this quarter on analyzing specific actionable options to fostering constructive international relations with Myanmar at the table. We see three crucial steps to achieving this goal: (a) ensuring security and development opportunities for all people now in Rakhine State including Muslims and Buddhists; (b) reasserting Myanmar's commitment to a pluralistic, equitable society committed to democratic principles through action on citizenship and other key issues; and (c) ensuring the welfare of the Rakhine Muslims who have fled to Bangladesh, whether through repatriation or alternative opportunities.

Market Conditions, Challenges, and Outlook

- We're experiencing increasing regulatory requirements and additional scrutiny – some would say micro-management of business and NGO activities across all sectors of the economy. As a result, we've had to strengthen our government relations team to meet the increased demands for regulatory compliance and reporting.

- Our flagship irrigation product — the ‘Lotus’ solar-powered irrigation pump — has again experienced engineering problems associated with the pump’s motor assembly — causing us to temporarily halt production. We aim to resume production in time for next year’s selling season.
- During this quarter, we engaged with the firm IDinsight to help us lay out a roadmap for improving the rigor and independence of our impact measurement work. We’re exploring several different measurement tools, including but not limited to RCTs. Running commercial businesses in fast-changing operating environments make RCTs difficult to conduct.
- Democracy in Myanmar is fragile. After decades of military rule, underinvestment in education and infrastructure, and active Buddhist nationalist propaganda, an “us versus them” mentality has taken hold. The interruption of ethnic negotiations across the country adds another element of uncertainty and division — indeed, recent outbreaks of intensified hostilities in Kachin state reflect the continuation of decades of conflict. If democracy and development are to have any chance of success, there will have to be policies that reduce Myanmar’s isolation and end decades of both ethnic and religious strife.
- Over the past few years, we’ve invested heavily in making Proximity a top employer in Myanmar. As a result, we continue to attract high caliber talent. This quarter, we hired a new, highly qualified CEO to run Proximity Finance from a pool of over 400 applicants. Rural field staff recruiting and retention — particularly for agronomy staff — is emerging as a concern for us as commercial fertilizer companies are seeking our best field staff.

Fast Stats

NEWEST PRODUCTS & SERVICES (Sales in FY18)		
549 Soil Health tests sold (launched April 2018)	7,948 enterprise loan customers (launched March 2017)	1,207 mister irrigation products sold (launched November 2017)

Financial Results

Fiscal Year 2017-2018: Q3 (January 2018 to March 2018)

*in thousands of US Dollars

ACTUAL

	YETAGON IRRIGATION	FARM ADVISORY	PROXIMITY FINANCE	PROXIMITY RESEARCH	TOTAL
Grant Income	\$113	\$349	\$213	\$9	\$684
Earned Income	\$225	\$5	\$1,352	\$0	\$1,583
TOTAL INCOME	\$338	\$355	\$1,565	\$10	\$2,268
TOTAL OPERATIONAL EXPENSES	-\$625	-\$611	-\$1,177	-\$185	-\$2,598
Total Operational Expenses covered by Earned Income (%)	36%	1%	114%	0%	61%
OPERATIONAL RESULT	-\$287	-\$256	\$388	-\$175	-\$331

Lens



YIELD BOOSTING ADVICE

This season U San Min (left) increased his yields by 39% across his 10 acre farm. U Linn Linn (right), a FAS field agronomist, taught him how to grade his seeds using the salt water seed selection technique. After selecting the best seeds and learning the right amount of fertilizer to apply, U San Min saw his yields result in 350 additional baskets of rice for which he received US\$1,570.



WOMEN OF THE FUTURE AWARDS

In March, FAS' General Manager, Phyu Hninn Nyein received the "Women of the Future Award", SE Asia for Community and Public Service. The annual awards showcase remarkable female talent and their achievements across diverse sectors. We're all proud and delighted that Hninn was selected. She was the only woman from Myanmar to win an award.



PROXIMITY FINANCE CROP LOAN

Daw Nwet Nwet Win (left), a corn farmer from Kayung Su village, and U Zaw Man apply for a Proximity Finance crop loan in Monywa township. They plan to use the loan to pay hired labor, a shrinking resource in rural markets due to out-migration to cities and foreign countries. Launched in 2012, crop loans range from US\$185 - 445 and comprise 80 percent of our portfolio.



CUSTOMER ENGAGEMENT TRAINING

During a Customer Engagement Training, our loan officers lead a mock loan application meeting. Run by our in-house Proximity School, the course trains our sales reps, loan officers, and agronomists to listen and walk through customers' problems and together arrive at the best solutions to meet their needs.



ADVISORY SERVICES

48-year-old farmer, Daw Thidar, from Leik Chin village in Shwebo township decided to attend a fertilizer management training provided by our Farm Advisory Services team. She now keeps her fertilizer application pamphlet handy and refers to it often when purchasing and applying inputs on her 3.5 acre rice farm.