Headlines

- Delivered services to 113,328 smallholder farmers this quarter. Added 21,841 new growers.
- Strong y/y customer growth in both our micro-irrigation and crop loan product areas.
- Challenging quarter for the launch of our new soil testing service, selling 1,516 tests—well short of our target of 2,530.
- Completed the legal separation of our farm finance operation. As a result, we’re seeing strong interest among investors in providing capital for smallholder finance.
- Earned revenue from operations was $3.3 million representing a y/y increase of 20 percent.

Opening Thoughts

When we set out on our journey 15 years ago, Debbie and I wanted to build a company around the compelling idea of providing farm services for struggling farmers in the big gaps left between what private agri-business and the Myanmar government were providing. Those gaps—really more like gaping holes—had left millions of Myanmar’s farmers to essentially fend for themselves. And while we’ve built Proximity around designing and scaling life-changing products and services, we’ve also seen Proximity playing two other roles in Myanmar’s farmer ecosystem. First, as a ‘market mover’ by introducing new innovations in irrigation, farm credit and agronomy. For example, we were the first to offer micro-irrigation products of any kind in Myanmar, including sprinklers & drip systems and solar powered irrigation pumps. Today, sprinkler and drip irrigation products are being distributed by several local manufacturers. They’re doing this because we’ve also become ‘market makers’—showing the commercial viability of providing farm products to very low-income farmers. Our farm credit efforts are similarly ‘making’ a market—we’re now the largest private provider of farm credit in Myanmar (100,000 active borrowers); but it is a $2.3 billion/year market, so we are encouraging other lenders to enter the market by demonstrating that poor farmers are good credit risks and can be served profitably.

Sound agronomy, credit, and practical on-farm technology are still in short supply—that’s why we remain focused on scaling our efforts to provide services alongside our efforts to change the ecosystem that serves small farmers in Myanmar.
Summary of Operating Results

Overall, we added 21,841 new farmers this quarter to our Yetagon farm services platform—slightly below our target of 22,954. Our farm credit services and irrigation products saw strong y/y growth, but our agronomy services missed our targets largely due to the slower than expected roll-out of our new revenue-generating soil testing service. Our growth target this year is 82,000 new customers. Year to date, we’ve added 37,097 new farmers to a growing active user base of 214,215 farm customers. Our operating model is shifting to us organizing more around our customer-facing services and less on our separate business units.

Current Farm Services Offered:

+ Quality Seeds and Precision Planting: Rice seed cleaning services have been our most popular agronomy service over the past several years. In many of the villages where we have introduced this technique, we’ve achieved over 50 percent adoption within several seasons—a very high rate for a new innovation. Farmers are typically able to achieve yield increases of 20–30 baskets per acre, which translates to yield improvement of 10 percent. Over the past three years we’ve been able to increase rice yields on over 430,000 acres.

+ Soil Health (testing) and Nutrient Management Services: During this quarter, we formally launched a new Soil Testing service that provides plot-specific and actionable fertilizer recommendations before the planting season to help rice farmers improve fertilizer efficiency and increase crop yields. We sold 1,516 tests to farmers in Myanmar’s lowland Delta region. This was well below our target of 2,530 tests. Demand appears to be strong, but internally the complexity of providing the new service slowed down the roll-out. We’re confident these problems can be solved quickly and will expand the testing service to the upland Dry Zone region in Q3. For our more general fertilizer application recommendations delivered through village meetings, we achieved 6,524 rice farmer adopters.

+ Crop Protection Services: Proximity offers rice farmers early identification of pests and diseases as well as treatment recommendations so they can avoid financially devastating crop losses. During this quarter, we provided this service to 339 rice farmers through both in-field consultations and via our new call center. 84 percent of farmer calls regarding pest or disease problems were successfully addressed by phone and did not require an in-field visit by our field agronomists.

+ Micro-irrigation: 5,002 new farming households purchased one of our micro-irrigation products during the quarter, a 45 percent y/y increase. Sales revenue was $293,000, a y/y increase of 10 percent. Our most popular product was the new, low-cost mister system targeting struggling farmers with very low incomes. We expect to beat our current sales target of 12,763 farmers for the year. Micro-irrigation sales are increasing on the national level. Because Proximity is proving the commercial viability of these systems, four new local manufacturers have entered the market.

+ Crop Loans: We reached a significant milestone this quarter—for the first time we have over 100,000 active crop loan clients, representing 9.5 percent y/y growth. 11,057 new farm households were added to the portfolio this quarter. The value of our outstanding portfolio stands at $19 million representing 8 percent y/y growth. Loan delinquency rates remain very low (PAR30 days is 0.47 percent). YTD profit is $445,000, well above our target of $177,000 due primarily to delayed investments in a new core banking system.
Savings products: We introduced a new farmer savings product this quarter in three of our 16 branches. 769 farmers have opened accounts to date. This savings product will be rolled out in our remaining branches by June 2019.

Mechanization services: We’ve invested in a start-up venture providing mechanization via a farming-as-a-service model. During this quarter the venture provided harvesting services to 500 farmers and 2,020 acres of rice in the Delta.

New Products and Services in the Design Stage:

Agriculture related product and service lifecycles continue to evolve quickly in Myanmar’s dynamic market. In response, we continue to evolve our portfolio mix and engage in the design of new products and services. This quarter, we designed a new micro-irrigation product, continued the re-design of our Lotus solar irrigation pump, re-designed parts of our crop protection service, began foundational design research on agri-services for sesame growers, and designed a new process for lending farmers larger loans.

Marketing and Sales Channels:

Our go-to-market sales and marketing channels are still heavily focused on our 475 front-line staff of sales reps, agronomists and loan officers who engage with customers directly in villages. Dealer and independent village agents are another important channel—largely because of coverage and lower unit economics. This quarter, we expanded our digital marketing and service delivery channels to include a customer contact center for both inbound and outbound calls. Marketing and sales campaigns using social media were tested with encouraging results. Our SMS messaging program ‘Shwe Phyo’ now has over 17,138 active subscribers. Message content through this channel focuses on weather forecasts, pest & disease outbreak alerts and agronomy advice.

Strategy Tear Down

We’re taking a sharper focus on our ‘where to play’ strategy choices—geographically targeting six agro-ecological zones (in the lowlands, uplands, and highlands), and improving customer segmentation around behaviors, worldviews and cropping systems, not just plot sizes. We are focusing more on key ‘product’ offerings within our verticals of water management, farm finance and agronomy (which includes, seeds, soil, crop protection). We’re also investing in data analytics for better internal decision making with an eye to offering data analytical services to farmers in the future. To achieve higher growth rates, we’ve incubated and invested in a new local farming-as-a-service venture, offering mechanization services for land preparation, precision planting, spraying and harvesting.
Economic Research

The consequences of the Rakhine crisis and ensuing violence and displacement continues to have a chilling effect on Myanmar’s political and economic landscape. The agreement for repatriation of refugees was not the silver bullet the government hoped it would be. This crisis has been compounded by the fighting in northern Myanmar and more recently Rakhine to the west. Each of these crises points to the need for a commitment to democratic development through dialogue and mutual respect, underpinned by economic resource sharing. This quarter our team met with stakeholders within the country and in the region to help find a pragmatic path forward.

Market Conditions, Challenges, and Outlook

The current economic environment within Myanmar is quite weak, making our systems change work more difficult. Foreign direct investment has declined for 3 years straight—with virtually none coming into the agricultural sector. The new democratically elected government struggles with changing overly bureaucratic institutions and an outdated regulatory environment. Myanmar still ranks near the top of the most difficult countries in which to conduct business. At the farm level, however, crop prices—for the most part—were good, giving farmers confidence to invest in our products and services.

Myanmar’s democratic transition continues to be tenuous. Urgent humanitarian needs remain unmet and ongoing hostilities in both Rakhine and Kachin states are of deep concern both in human rights and development terms. These crises, though geographically contained, have had ripple effects throughout the wider society and economy and there are no easy fixes. With foreign direct investment constricting, Myanmar will have an uphill battle to fuel growth. In addition to the long, hard work of improving administration, infrastructure, education, credit, and electricity to eventually attract investment, Myanmar will have to find ways to make progress on its humanitarian crises.

Our Farm finance unit is finally a separate legal entity with Proximity Designs as the owner. This process took well over two years to complete, another example of how difficult it is to navigate the slow-moving bureaucracy. As we had anticipated, there is a surge of interest among investors to provide additional debt capital and potential equity for financial inclusion. Our list includes about 15 potential investors in our $100 million capital raise. We’re targeting Q3 FY2020 to bring on two well-aligned equity partners.

We’ve made good progress this year on recruiting a much stronger group of experienced managers to join Proximity, especially in operations. Our farm finance unit has added five new managers and our agronomy and irrigation teams have brought on three experienced managers. Our senior team is stable and functioning well with our new CFO and head of Proximity Finance now fully onboard. Our new board of Proximity Finance is taking shape and we will nominate a new Proximity Designs board member at our Q3 Board of Directors meeting.
**Financial Results**

Fiscal Year 2018-2019: Semi Annual (July to December 2018)

<table>
<thead>
<tr>
<th></th>
<th>Yetagon Irrigation</th>
<th>Farm Advisory</th>
<th>Proximity Finance</th>
<th>Proximity Research</th>
<th>Shared Services &amp; General</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Grant Income</em></td>
<td>$1,058</td>
<td>$966</td>
<td>$173</td>
<td>$81</td>
<td>$565</td>
<td>$2,840</td>
</tr>
<tr>
<td><em>Earned Income</em></td>
<td>$367</td>
<td>$13</td>
<td>$2,894</td>
<td>$1</td>
<td>$2</td>
<td>$3,278</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>$1,424</td>
<td>$980</td>
<td>$3,067</td>
<td>$82</td>
<td>$565</td>
<td>$6,118</td>
</tr>
<tr>
<td><strong>Total Operational Expenses</strong></td>
<td>-$1,203</td>
<td>-$1,261</td>
<td>-$2,622</td>
<td>-$264</td>
<td>-$116</td>
<td>-$5,466</td>
</tr>
<tr>
<td>Total Operational Expenses covered by Earned Income (%)</td>
<td>60%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operational Result</strong></td>
<td>$221</td>
<td>-$282</td>
<td>$445</td>
<td>-$182</td>
<td>$449</td>
<td>$652</td>
</tr>
</tbody>
</table>

Please note that this financial report excludes remeasurement gain/loss.

**Lens**

**DIGITAL SERVICES** enable us to supplement our interactions with farmers by adding value to our sales presentations. Here, a field agronomist in Natsingon township uses videos to explain how to correctly collect a soil sample for our new soil testing service. As we aim to scale, we are trying to find ways to lower the cost to serve each customer—digital services offer one path for us to adapt our services to the rapidly changing digital landscape of Myanmar.
YETAGON IRRIGATION
Product Manager, Libby McCarthy, gets feedback from a customer about our new micro-irrigation product: the ground sprayer. This product has allowed us to reach tree-crop (mango, durian, papaya, etc.) producers, who required a product that directs water to the base of the plant without having to make cumbersome adjustments. Listening to and observing the needs of our customers is at the core of our approach to designing for low-income farmers.

PROXIMITY LABS has been testing new designs of our solar-powered irrigation pump, the Lotus, which is a clean-tech alternative to polluting diesel pumps that eliminates the backbreaking drudgery of traditional pumps. The new design comes with four new features to meet the cash-and labor-sensitive needs of farmers. Tayzar and Myo Chit, pictured here, have conducted hours of product testing to simulate the hardest wear and tear the pumps may face. Proximity Labs’ new product testing system tests iterations and improvements quickly—measuring not only the product’s lifespan but also its power consumption and robustness. After the in-lab testing, we’ll test the pump under real-world on-farm conditions, ensuring the new product delivers for farmers.
PROXIMITY DESIGNS

PROXIMITY FINANCE customer Ma Thida is the founder of “A Kaung Kyite”, a popular homemade local potato chip brand in Taunggyi. After an accident during the annual fire balloon festival, Ma Thida and her family found themselves shuffling through a cycle of informal lenders with exorbitant fees. A small enterprise loan from Proximity Finance allowed her to start a business after rebuilding her home.

SOIL TESTING FIELD LABS allow our field agronomists to analyze the levels of nitrogen in a farmers’ soil. Nitrogen is an essential nutrient for plant health and although it is the most commonly applied fertilizer, it is often applied incorrectly. To be effective, rice farmers should apply only once in each of the tilling, planting and flowering stages—any more and it goes to waste, often washing into and contaminating nearby water bodies. Advice from agronomists coupled with data from soil tests means farmers know both when and exactly how much fertilizer to apply. A typical soil lab, like this one in Kungyangon, processes 12 customers tests a day.
PROXIMITY SCHOOL

Team member Tabatha Donley, one of our stellar Princeton-in-Asia fellows, travels to the field once a month for a weeklong training with field staff to teach a range of English courses for different levels. In class, she encourages cross-business unit field officers to learn and collaborate through interactive activities and take-home exercises. We believe in investing in a range of skills (both soft and hard) which will prepare us to serve farmers even as Myanmar changes.

Please note: an earlier version of this report under-reported new micro-irrigation households acquired as 3,124 households. The correct number is 5,002 new households (a difference of 1,878). This report has been updated to correct for this error. Throughout the report we have excluded remeasurement gain/loss from our operating expenses.