



**FY2019 Q3 Report – January 1<sup>st</sup> to March 31<sup>st</sup>, 2019**

# Headlines

- **During Q3, served 104,111 farm customers with one or more of our products and services. 15,803 were new customers.**
- **Acquired a total of 53,487 new farm customers during first three quarters of this fiscal year, reaching 65 percent of annual target.**
- **Continued strong growth in irrigation sales, with YTD sales to 12,931 farmers, already exceeding our annual target.**
- **Completed 8-week foundational research project on sesame value chain in Myanmar.**
- **Conducted macroeconomic research and produced discussion paper on “Economics and National Unity” for Myanmar decision makers.**
- **MDF, an independent consultancy firm, began an impact evaluation of our agronomy advisory services.**

## Opening Thoughts

Proximity celebrated our 15th anniversary this quarter. Our winning aspiration has remained unchanged through all of these years: to bring inspiration and innovation to millions of underserved, low-income, small-scale farmers across Myanmar as they pursue their journey towards a better life. In our latest “chapter”, we’re doing this by building a farm services platform delivering indispensable agronomy advice, farm technologies and farm finance that boost productivity, crop yields and farm incomes in a sustainable way. The platform now has a customer base of over 650,000 farmers.

There are millions of small-scale farming households who are poorly served by Myanmar’s current farming ecosystem. We’ve chosen to work in six major agro-climatic zones of Myanmar, which contain a high density of small-scale farmers growing a diversity of crops. These farmers rely on farming as their main source of household income and grow two seasons each year, yet their crop yields and quality remain low. These families want to improve their farm profitability and invest in their futures, and they dream of sending their children to university. This quarter, Proximity did in-depth customer research into a large, neglected and new area of opportunity for impact within Myanmar’s farm ecosystem: farmers who grow sesame, the country’s second largest staple crop after rice.

# Summary of Operating Results

Overall, we added 15,803 new farmers this quarter to our customer base. Our growth target for this year is 82,000 new customers, and to date we've added 53,487 new farmers. Our farm irrigation products saw strong year-on-year growth, while our farm finance and agronomy advice services' results were lower than targeted. This quarter, our farm finance business was hampered by unexpected delays in receiving regulatory approvals for overseas capital. Thus, we did not have sufficient loan funds to meet demand. Our agronomy work had difficulty finding experienced and trained agronomy field staff, which has led to understaffing at a time of planned expansion in advisory services. Our rural recruitment efforts have ramped up and our People Operations team is improving onboarding processes to ensure new extension officers can be trained well and quickly deployed.

## Current Farm Services Offered:

**+ Quality Seeds and Precision Planting:** This quarter is typically not the rice planting season so we anticipated low adoption of our rice seed cleaning practices. Only 624 farmers adopted during the quarter.

**+ Soil Health Testing and Nutrient Management Services:** As farmers prepare for the upcoming monsoon rice growing season, they are investing in soil health testing. After a slower than expected start, sales have picked up this quarter, with 1,886 customers buying our newly launched soil testing service, and a YTD total of 4,059 sales—37 percent of our annual target. As expected, the sales closing rates for the soil tests were high among farmers who had already used one of our other services; with a 40 percent closing rate among our pest/disease on-call diagnostic service users and 34 percent among farmers who had adopted two of our agronomy practices. We continue to improve the service delivery and sales skills of field extension officers, but are one quarter behind on targets. We project soil test sales will reach 6,600 farmers by year end, which is 60 percent of our original first year target.

This quarter, 4,486 farmers adopted our free recommended crop fertilizer practices.

**+ Crop Protection Services:** Our crop protection service offers an on-call field visit service to rice farmers year round. This quarter, we experienced a spike in requests, with our field agronomists responding to 3,194 farmers' calls. Farmers request help to diagnose a pest or disease problem in their fields and receive a recommended treatment protocol. There was an outbreak of thrip insect in the Ayeyarwady Delta this quarter. Fortunately, the crop losses in such cases are preventable if caught early. We've found these on-call services generate strong trust among farmers and help lay the groundwork for introducing other agronomy practices.

Our agronomy team, led by our Chief Agronomist Dr. Nang Seng Aye, began prototyping the use of trichoderma fungus as an affordable method to protect crops from black stem disease, a common disease which damages sesame yields. In the prototyping phase of this new crop protection service, we sold packets of this beneficial fungus to 203 test growers of sesame. The early results are encouraging. We have been collaborating with the Department of Agricultural Research and Innovation of the Ministry of Agriculture on this project.

**+ Micro-irrigation:** Our irrigation business had a strong third quarter. We exceeded not only our quarterly target but our fourth quarter target as well. 5,686 farming households purchased a micro-irrigation system, which was 32 percent higher than last year's Q3 performance. Our YTD sales to 12,931 farmers have already exceeded our year-end target of 12,743 customers. We now project total farm sales will reach 16,000 households by the end of FY2019 in June. This will represent a 43 percent growth rate for the year. Irrigation product offerings included a drip system, a micro-sprinkler system, a mister system, lay flat hose and one treadle pump model.

This quarter we sold 11,175 products, a 71 percent y/y increase. Year-to-date sales revenue totalled USD 594,000, representing a 14 percent increase compared to the same period last year. A major factor driving increased sales was our supply chain team's management and reduction of product stock-outs at the field level. These efficiencies are critical as 77 percent of sales come through our direct sales channel of 92 sales representatives.

**+ Crop Loans:** Proximity Finance experienced strong performance during the quarter, growing our loan portfolio to USD 20.1m, just shy of the quarterly target of USD 20.9m. We extended farm loans to 93,000 borrowers, 14,000 below target. This decline was due to delays in regulatory approval, which led to slowed disbursements toward the end of the quarter. In addition, we have continued to increase loans sizes for eligible returning clients with an average increase of USD 40 per client. Delinquency was the lowest in the history of our farm lending, with PAR 30 days at 0.08 percent. In turn, profit was USD 176,000 for the quarter, 53 percent above target. Our YTD profit is USD 450,000.

**+ Savings products:** In line with regulatory requirements, we successfully launched a new compulsory savings product in December 2018. The roll out has progressed quickly and 12,129 customers now have savings accounts.

**+ Mechanization services:** During this quarter, "Tun Yat", the local start-up venture we helped incubate and invested in, provided tilling, plowing and harvesting services to 962 farmers on 5,959 acres of rice paddy in the Delta.

## New Products and Services in the Design Stage:

During the quarter, we finished our foundational research on sesame farming in Myanmar. The research team was made up of a mix of agronomists, impact researchers and designers. We partnered with international design firm, Studio D, on this research. After six weeks in the field we identified a number of promising opportunities for new farm services, to support sesame farmers within our core areas of irrigation, finance and agronomy. We have already started piloting a new crop protection service (including trichoderma) as well as testing the use of irrigation systems on sesame to increase yields. We plan to launch a book publication of our research in September 2019.

Major design work this quarter included customer research for redesigning a new drip system and adding an impact sprinkler system to our irrigation product line; the design of a new customer contact center; and development of a field force app that would allow us to improve our customer data collection and streamline workflows. We also have one small 'moonshot' design project prototyping the use of drones for crop monitoring and a spraying service against pest and disease. For this project, we are partnering with a former designer from Google.

## **Marketing and Sales Channels:**

Our farm services platform is increasingly using digital channels to complement our front-line field staff. We now have 20,005 subscribers to Shwe Phyo (our SMS messaging program) through which farmers receive weekly reminders on crop nutrient management, weather alerts and advice on improved practices. This quarter, we increased our reach using social media ads and messenger chatbot features to directly engage with over 50,000 farmers. Of these, 28,000 farmers subscribed to learn more about agronomy techniques and services and 25,000 farmers wanted to learn more about our advanced micro-irrigation systems. The data suggests digital engagement is a cost-effective way to drive adoption beyond our traditional field force. This channel also offers an exciting opportunity to send personalized data to farmers based on their crops, location and previous interactions with our platform.

## **Impact:**

This quarter, Proximity engaged MDF, a Dutch consultancy with offices in Myanmar, to conduct an external impact evaluation to measure the impact of our agronomy advisory services. The evaluation surveyed almost 1,400 farmers across multiple townships in both the Delta and Dry Zone regions. The final report will be completed by the end of June 2019.

Our in-house Social Impact team surveyed 335 loan farmer customers on the impact of Proximity Finance's increased loan sizes and the timing of disbursements. Key findings showed that a) disbursements at harvest period allowed farmers to hold on to their harvest longer, enabling them to get higher market prices, and b) disbursements at the start of planting season enabled some farmers to pre-pay labor and purchase seeds advance—thus securing scarce resources at the peak of the season. We will continue to track this treatment group of farmers to observe income changes at the end of the loan period in October 2019.

## **Economic Research:**

We spent two weeks in February meeting with various Myanmar leaders and conducting research on the current state of Myanmar's economy with our Harvard Ash Center partner and macroeconomist, Professor David Dapice.

Following this research, we produced a discussion paper for the Myanmar leadership entitled, "Economics and National Unity". It stresses the impact of economic decisions made on Myanmar's politics and vice versa; so leaders can make clear-eyed decisions related to the Rohingya crisis, ethnic wars and Chinese Belt and Road investments and move on a path of non-alignment that is not overly dependent on China.

## People Operations and Staff Learning and Development:

Proximity's staff count was 922 at the end of Q3. This represents a 17 percent growth from one year ago. Overall, we hired 88 new staff members during the quarter—69 of whom were field staff. The market for skilled rural staff has become more competitive as outmigration diminishes Myanmar's rural talent pool. Our staff turnover for Q3 was 5 percent—the same percentage as Q2, and less than the 8 percent turnover rate from last year's third quarter.

We made a number of senior Burmese hires to grow key leadership areas during the quarter. We added two senior agronomists to build up our capability in soil and plant science. Two senior finance managers were recruited to lead two business unit finance functions. We added a new operations manager in each of our farm finance, agronomy advisory and farm technology units. Finally, we brought on two experienced managers in the areas of internal auditing and risk/compliance.

We continue to invest in staff learning and leadership development as we look to close the large skill gap in Myanmar. Proximity School, our in-house training program, provided training to 365 different employees during Q3. This represents 40 percent of our total staff. YTD we've offered 30,766 hours of staff training, on fourteen different topics including communication, critical thinking, sales and management. We continue to evaluate the effectiveness of our training on actual on-the-job performance. Based on self-reporting, the majority of participants say they apply these new skills in their jobs. We launched v2.0 of our special Front-Line Managers Track, which we designed specifically for our 50+ field managers. In addition to in-class sessions, we are developing our online courses as well. We now have 266 staff as active online learners. Demand is only being constrained by limited internet bandwidth in our 30 branch offices.

## Market Conditions and Outlook

Myanmar continues to undergo a difficult political and economic transition, from isolation and an authoritarian government a decade ago, to another form of governance. The kind of economic choices currently made by Myanmar's leaders are linked to political outcomes and are impacting not only the type of state rule but also the possibility for true national unity. There have been efforts to identify weaknesses and implement limited reforms to bring in more foreign investment, which has been declining for the past three years. Foreign investment in the agricultural sector still remains very low.

The long-standing ethnic conflict in the north of the country continues, with no end in sight. In western Myanmar, new and intensified violence has broken out in Rakhine state, involving the local Buddhist Rakhine and the Myanmar security forces. The previous expulsion of 700,000 Muslims from Rakhine state continues to cause Myanmar's relations with Europe and America to chill. This has effectively increased diplomatic, economic and military reliance on China, Myanmar's largest and strongest neighbor.

Remaining in a perpetual state of conflict undermines both development and democracy. Myanmar is still poor, weak and divided as a country. Myanmar's leaders will need to take on the long and difficult task of healing internal divisions between military and civilian, Burman and ethnic, and between Buddhist and Muslim.

The country's future lies in the hands of the younger generation, which is eager to connect to the outside world and bring about change. Myanmar is a very young country with over 50 percent of its population under the age of 30. Yet this youthful labor force lacks skills. The economic implications of this skills shortfall are huge. This generation will need to develop skills quickly and have access to training to keep up with the rest of the world.

Proximity has a unique opportunity to build toward Myanmar's future and address the country's large skill and leadership gap. We are equipping our employees with relevant skills such as problem-solving, communication, critical thinking and people management to help them be successful in the future. We are also trying to create a work environment that allows these "soft skills" to flourish.

## Financial Results

### Income Statement

Fiscal Year 2018-2019: January-March 2019

\*in thousands of US Dollars

	YETAGON IRRIGATION	FARM ADVISORY SERVICES	PROXIMITY FINANCE	PROXIMITY RESEARCH	ADMIN & GENERAL	TOTAL
Grant Income	\$122	\$0	\$40	\$0	-\$73	\$90
Earned Income	\$244	\$34	\$1,623	\$0	\$2	\$1,903
TOTAL INCOME	\$366	\$34	\$1,663	\$0	-\$70	\$1,992
TOTAL OPERATIONAL EXPENSES	-\$632	-\$597	-\$1,447	-\$83	-\$415	-\$3,174
Total Operational Expenses covered by Earned Income (%)						60%
OPERATING INCOME	-\$266	-\$563	\$216	-\$83	-\$486	-\$1,181

Please note that this financial report excludes remeasurement gain/loss



## Lens



**DAVID DAPICE**, Chief Economist at Harvard's Ash Center for Democratic Governance and Innovation, shared key insights from his two week trip in Myanmar with the Proximity staff. David presented his analysis of the country's current political situation and its repercussions on the economy, sparking a discussion among our staff members about the role of Myanmar at the regional and international level. Facilitating research-driven dialogue around the critical issues Myanmar is facing today is an important part of our work at Proximity.



**OPEN STUDIO NIGHT** marked the launch of Proximity15, a year-long celebration of our 15th anniversary through different events that showcase our ideas and mission. For one night, we opened up our Yangon office to the wider public, to explore and share some of the design choices that have helped build a work culture of impact, collaboration, and creativity. The evening was also a chance to celebrate all the artisans, makers and builders who took what was once a derelict hot-pot restaurant and made it into our headquarters. We took inspiration from the way announcements and festivities are shared in rural Myanmar and chose the traditional Myanmar speaker as the guiding icon for the event.







### **AGRONOMY TRAINING**

at Proximity School brings together field agronomists from different branches. Here Dr. Nang Seng Aye, our Chief Agronomist, leads a workshop on the role of integrated nutrient management for long-term maintenance of soil health. Since her arrival, she has used her expertise to train our extension officers, ensuring they have the capabilities they need to effectively serve our farming customers. Recommendations provided by our field agronomists enable farmers to improve their soil, increase land productivity and close the yield gap in small-scale agriculture.



### **A CROSS FUNCTIONAL RESEARCH TEAM**

recently concluded a sesame landscape study led by a team of in-house researchers and three designers from Studio D Radiodurans. Over seven weeks, the team interviewed 103 participants in Aunglan, Magway, and Pwintbyu, three major sesame-growing areas in the Central Dry Zone. This in-depth research has highlighted actionable opportunities to provide income-boosting products and services tailored to the needs of Myanmar's sesame farmers.