



FY2020 Q1 Quarterly Report
1 July to 30 September 2019



Highlights

- We had a strong start to our fiscal year (FY20), which begins in July. A total of 26,460 new farm households purchased one of our irrigation products, took out a crop loan or adopted a new agronomy practice this quarter — a 42 percent increase from last year’s first quarter of 18,580 new customers.
- We received a much-anticipated influx of delayed overseas loan borrowings this quarter, which allowed Proximity Finance to go from 86,000 borrowers to a peak of 117,167 borrowers in a short three-month period. Our loan portfolio now stands at USD 29m.
- Our irrigation products experienced a big jump in sales due to rising demand from onion growers who anticipate exporting to China and Bangladesh. The timing of the launch of our affordable new mister product (designed for irrigating crops such as onions) coincided with this market opening. We had 5,276 new farmers purchasing 18,842 irrigation products this quarter¹.
- We introduced digital campaigns to drive increased adoption of two of our agronomy services — seed cleaning and effective fertilizer usage. These resulted in over 6,223 new adopters at a cost of about USD 1.50 each.

¹ Our Yetagon Irrigation numbers are provisional due to a change in the methodology for measuring product sales through independent dealer shops, and will be confirmed in Q2.

Opening Thoughts

Proximity has been serving the long-neglected sector of small farms for the past 15 years, by creating indispensable farm products and services that are not being provided by the government or private agri-companies. When farmers purchase and adopt our practical and affordable products and services, they can generate robust farm returns and become more resilient, especially in the face of daily and often overwhelming challenges of weather related shocks. Most importantly, farmers can see their dreams become a reality — to be able to feed and take care of their families, send their kids to school, and grow their farm enterprises and incomes sustainably.

We began our new fiscal year in July with a “stretch” target of adding 142,000 new small farm customers to our growing farm services platform over the course of the coming year. We expect 25 percent of these new customers will be acquired through our lower-cost digital channels that are allowing us to expand at lower unit costs.

Small Farm Services Currently Offered

Our platform offerings for small farmers revolve around six service lines in our core areas of farm finance, agronomy services and irrigation as follows:



+ Rice seed cleaning: Our rice seed cleaning service had a total of 4,732 farmers adopting the practice this quarter. This represents a 43 percent increase YoY. Significantly, the service was delivered via our new digital channel (FB chatbot campaign) to 2,749 farmers, while 1,983 were served by our in-field agronomy staff. However, the results were 12 percent below our target for the quarter. Depressed rice prices are causing farmers to switch to other crops, thus reducing demand for rice seed cleaning.

+ Soil health testing: Armed with a soil test, a farmer can apply fertilizers and manures to soils at rates that are most appropriate for improving crop yields. We held 869 farmer group in-village presentations to introduce the soil testing service this quarter. As a result, 1,018 farmers purchased the soil test, generating revenue of over USD 16,800 for Proximity. This result was only half of the quarterly target, however.

Rice farmers were reluctant to invest in a soil test this season, due to uncertainty around whether there will be enough irrigation water available from the government-controlled dams in upper Myanmar to grow rice. This water shortage is affecting over 500,000 acres of rice.

+Soil nutrient management: We provide farmers with knowledge about about plant growth cycles, and how different stages require different types and amounts of fertilizer, so their fertilization practices can be more agronomy-based and precise. This results in savings on fertilizer costs and increasing yields and farm profits. Our SMS reminders to farmers during the crop cycle also reinforce timely adoption of these new practices. This quarter, 8,063 farmers adopted our more precise nutrient management practices. Of those, 3,474 farmers were served via our digital campaigns. Overall, this is a 47 percent increase over Q1 of last year.

+ Crop protection: Farmers experiencing a pest or disease infestation can call or message us and receive tailored information via return call or chatbot to diagnose and treat their in-field problems. This quarter, we experienced a big spike in calls, with 4,975 requests – a 200 percent increase over last year during the same period. For cases that cannot be solved over chatbot or phone, our field agronomists make on-site visits. Unfortunately, the brown planthopper rice pest has made a big come-back affecting many farmers this year. The underlying cause for this brown planthopper infestation is the widespread overuse of pesticides.

+ Micro-Irrigation Systems: Our irrigation customers typically grow vegetable and cash crops; they switch from using furrow irrigation to our more precise drip, mister or micro-sprinkler systems to irrigate their plots more efficiently. This quarter, 5,276 new farmers purchased 18,842 irrigation system components, exceeding our sales target by 47 percent.² This was largely due to the spike in demand from onion growers who are seeing rising demand from China and who want to save labor and watering costs. Product sales growth was driven by the introduction of our new low-cost, 10-hole mister product. Our sales revenue growth did not keep pace with product growth however, since the average ticket price of our mister/sprayer products is getting lower. We also saw a shift in our most popular sales channel. For the first time, sales were significantly higher via our network of dealers compared to our in-field sales reps. This is a welcome development as the dealer channel is a much lower cost channel for us.

² Our Yetagon Irrigation numbers are provisional due to a change in the methodology for measuring product sales through independent dealer shops, and will be confirmed in Q2.

+ Farm loans: Farmers who receive our seasonal crop loans are able to purchase a higher quantity and quality of seeds, as well as access fertilizer, diesel and pesticides that enable them to boost their production. Our loan sizes range from USD 200 to USD 600, with the majority of loans comprising the higher amounts. This quarter, we added 30,000 loan customers and our total portfolio stood at 117,167 borrowers at the end of Q1.

+ Savings products: This quarter, we continued to roll out our mandatory (required by the government regulator) savings product to over 95,000 clients. The average size of deposits is USD 8, and clients earn 14 percent per year on their deposits.



“IT WAS A TURNING POINT.”

My wife and I didn't come from farming families, but we spent most of our lives working as manual laborers on other people's farms. With our family of six children, we couldn't rely on casual labor jobs for life. So we turned to farming as an alternative. It was a tough transition. We didn't know how to choose the right seeds, how to apply the right amount of fertilizers nor how to fight against constant pest attacks. There was always something wrong with our crops. My neighbors urged me to use chemical pesticides but I resisted; I want to grow food that is safe for people to eat.

Our family was becoming worse off every year. I was ready to give up farming. That's when I met one of Proximity's field agronomists three years ago in my village. It was a turning point. I learned low-cost, simple practices from seed cleaning and proper plant nutrition to managing pests. I now feel I'm in control of my crops -- our yields have doubled from 50 baskets of rice to over 100 baskets per acre. My neighbors even turn to me for advice. I'm most proud to leave a legacy of a residue-free and prosperous farm for my children.

New Products and Services

Proximity Designs had an active quarter with respect to research and development. Jamie Stevenson, joined Proximity as the new Head of our Proximity Labs. Elisabeth Chin also joined us as a senior designer.

The last quarter saw the launch of a new low-cost mister irrigation product (1” hose with 10 holes). The irrigation team is also designing a new drip system with a variable rate emitter, a sprinkler with a larger spray radius and a fertigation device for injecting fertilizer through a drip system. These products will be launched over the next two quarters.

Our agronomy team is researching a solution to the golden apple snail pest outbreak on rice crops, as well as solutions for common pest and diseases for sesame, the 2nd largest crop grown after rice. As farmers diversify away from rice, they are growing more sesame and requesting basic knowledge services for sesame.

New Channel Development: Digital channel for delivering farm advisory services

We are connecting to farmers via their mobile phones, since the majority of farmers in Myanmar are now increasingly accessing information and knowledge through digital channels. We introduced digital campaigns to drive increased adoption of our agronomy services, specifically for rice seed cleaning and fertilizer management practices. This low cost channel resulted in over 6,223 new adopters at a cost of about USD 1.50 each. We will expand marketing and delivery through this promising channel for pest and disease management practices.

Impact Measurement and customer research

Our in-house team completed a large, field study this quarter to measure the income impact of receiving a USD 400 loan from our farm lending operations. The results indicate that annual farm income increased by about USD 189 (using current financial exchange rates and crop prices). We conducted a quick survey of treadle pump users to determine the number still used directly for agriculture. The study confirmed what we have been observing anecdotally - 90 percent of treadle pumps are now being used primarily for domestic water use. While this still generates benefits to low-income rural families, it does not improve farm incomes significantly. We had an external study of our irrigation product users conducted by the international firm 60Decibels. We hired Thet Hnin Aye as the new head of our

Impact measurement team to replace Grace Su who left during the quarter to pursue MBA studies.

We also completed a study of the changing digital landscape in rural Myanmar during the quarter. The study was designed to keep track of the rapid changes in mobile phone use among our farming customers. Mobile money is becoming more common in small towns. Many mobile users switch SIM cards every month to take advantage of recently available telecom promotions, driving data usage up, but making it more difficult for us to reach customers by phone. Households budget about USD 75 cents for data use each month. A 2-page summary of the findings is available.

People Operations

Proximity staff count was 948 at the end of Q1, representing 4 percent growth during the quarter. Proximity School provided courses to 507 staff during the quarter.

Forty-two staff completed one of our online courses we are now offering. Our target for the year is to have 200 staff completing on-line courses such as growth mindset, giving and receiving feedback, navigating change and basic microfinance.

Market Outlook

This quarter, abnormally low water levels in several large dams due to drought in the central Dry Zone have caused the Government to restrict farmers from growing rice during this upcoming dry season. This is likely to suppress demand for our soil tests and rice-related services among farmers. The month-long drought during the rainy season also recently affected more than 270,000 acres groundnuts and over 1.3 million acres sesame grown in early monsoon. As Myanmar enters its long dry season, we are expecting shortages of drinking water, cattle feed and irrigation water throughout central Myanmar that is home to over 10 million rural people. Pest outbreaks related to weather changes have also precipitated a four-fold increase in our crop protection requests and services, compared to last year. It is clear that farmers are on the frontlines of climate change and are stepping up to solve their problems, by diversifying their crops and intensifying their farms. They are responding to new export market opportunities in Bangladesh, China and India for onions, sesame and pulses and beans. However, farmers often lack knowledge related to the use of inputs, including nitrogen fertilizers, insecticides and pesticides, so they can take advantage of these opportunities.

Financial Results

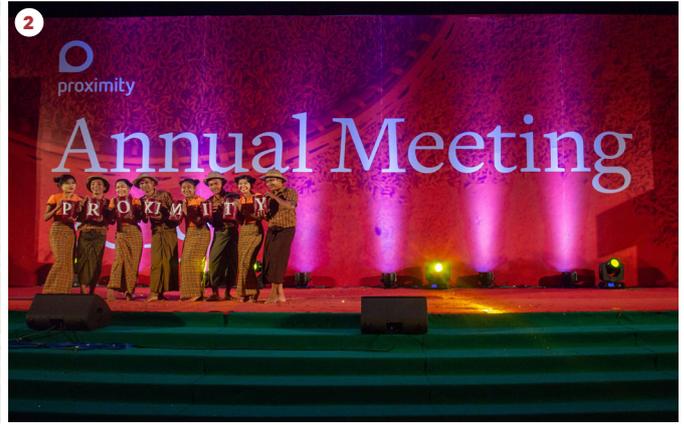
Proximity Designs

FY20 Q1: July 2019-September 2019

*in thousands of US Dollars

	YETAGON IRRIGATION	YETAGON FARM ADVISORY SERVICES	PROXIMITY FINANCE	GENERAL & ADMIN	TOTAL
INCOME					
Grant Income	56	60	45	22	183
Earned Income	96	16	2,091	2	2,205
TOTAL INCOME	152	76	2,135	24	2,388
TOTAL OPERATIONAL EXPENSE	(665)	(714)	(1,879)	(261)	(3,519)
Total Operational Expenses covered by Earned Income (%)					63%
OPERATING INCOME	(513)	(638)	257	(237)	(1,130)

Please note that this financial report excludes remeasurement gain/loss from exchange rate fluctuations.



1. A flower farmer who received a crop loan from our Aungban branch in Shan State
2. Field staff from Waw performing traditional dance at our Annual Meeting
3. Soil test customer from Myaungmya
4. Proximity Designs was named one of the 50 Best Workplaces for Innovators in 2019 by Fast Company
5. Newly introduced mister product watering a cauliflower plant