



FY20 Q4 Quarterly Report
1 April to 30 June 2020



Highlights

- COVID-19 related lockdowns across Myanmar in April and May restricted our ability to serve customers, with our field staff unable to make in-person visits to villages. We were able to resume operations in early June.
- COVID-19 cases in Myanmar number around 500, including cases of local transmission.
- Despite the disruptions in Q4, we were still able to achieve our customer growth targets for the year, with 146,384 new households in FY20, a 65 percent YoY increase.
- We've started to make important changes to our operating model, including accelerating our move to combine our two business units – Farm Advisory Services And Irrigation into one.
- Proximity Finance completed a year-long equity round of US\$14 million in June with three new investors.

Opening Thoughts

The past four months have represented some of the biggest challenges we've ever faced as an organization. The unexpected arrival of the global pandemic caused an abrupt dislocation of how our staff worked, how our farm customers behaved, how the food supply system functioned and shifted the outlook for future grant funding.

From a public health perspective, Myanmar (along with most other Southeast Asian countries) has had minimal health impacts from COVID-19. But the pandemic has severely crippled much of the Myanmar economy as three key drivers of growth – remittances, exports and foreign tourist arrivals – have all been hit hard. While Myanmar did not institute a severe lockdown like India, much of the normal economic activity came to a standstill in April and May. Farming and the associated services in the agricultural ecosystem are certainly deemed 'essential services', so farmers carried on their activities as best they could. But there is a great deal of anxiety among farmers – unpredictable border closures mean crop price fluctuations, and potential 'lockdowns' mean market disruptions. Migration of workers in the cities back to rural areas means a loss in remittance incomes and anxiety about the potential introduction of the virus to villages. This is on top of the many other problems farmers face year in and year out.

In the midst of all of the uncertainty, we believe Proximity exists for times such as these. The food supply and the food security of millions of people are at stake. The potential for this crisis to widen the existing gap between the poor and those who are well-off is immense. Farming and the people who engage in it need our tangible support and encouragement as they navigate this new landscape and its very real threats.

Summary of Operating Results

We made some dramatic and quick changes in our operations as a result of the pandemic. First, we changed how most of our staff worked – quickly closing our offices and branches and shifting to remote working arrangements (it was the first time most of our employees had worked remotely). With uncertainty over how the virus would spread in early March, most of our expat employees left the country just before all international flights were suspended. We immediately partnered with the government, at their request, to launch a large public health campaign via digital messages, focusing on key behaviors for farmers to adopt. We also began monitoring farmer behaviors and disruptions to the food supply system across Myanmar, to help advise the National COVID-19 Response Committee on how to prevent the spread of the virus while ensuring adequate food supplies and food security for the rural population.

Within Proximity, we moved quickly to a new playbook, making some critical changes to our operating model. We set up a Crisis Leadership team composed of key Burmese leaders who were on-the-ground in Myanmar to speed up decision-making. Our Finance team focused on conserving cash, instituting tight financial controls, realigning our budget and increasing our runway with the prospect of reduced grant funding in the future. To reduce our unit costs while maintaining our growth and impact goals, we shifted our sales activities to two lower cost channels – digital and dealers.

To be more agile and reduce redundancies, we moved to combine two of our business units – Farm Advisory and Irrigation – into one. We re-deployed field staff to focus more on product and service opportunities that generate revenue. We consolidated most of our shared services and made our ‘center’ much leaner. Across the organization, we identified 15 key initiatives that would simplify our operations and help us pursue more efficient growth in FY21. These resulted in changes in resource allocations. We intensified and shifted our internal communications to help staff understand decisions being made and to adjust to uncertainty. Finally, we shifted all of our staff training and development online so we could continue providing skills development during this time of significant change.

Overall, this has been an opportunity for us to reset how work gets done, with the aim of being both more effective and more efficient. Looking back at the past few months, we have accomplished much of what we had previously thought would take years to do.

Our core products and services during the quarter remained largely the same, but we saw the emergence of new sales channels that allowed us to maintain most of our growth targets in the midst of COVID-19-related restrictions.

+ Irrigation systems

The months of April through June are typically slow for our irrigation work, as the dry season ends and farmers wait for the monsoon season arrival in late May. COVID-19-related travel restrictions severely restricted customer visits in most villages. Despite these two factors, overall irrigation product sales held up fairly well, with sales down just 8 percent YoY. We served 3,777 farmers with two-thirds of sales coming through our dealer network. This was double from last year for the same period.

For the year, we served a total of 42,345 farmers with irrigation systems, representing a big increase over the 16,886 farmers last year and even exceeding our target of 33,703. We earned US\$1.2 million in revenue – a 41 percent YoY increase. Our ticket sizes were smaller this year, which we believe indicates

growth from new farmers purchasing their first irrigation system. 98 percent of our sales were paid in cash. Our most popular product for the year was a low-cost, mister irrigation system. This was also our final year to offer treadle pumps. Our supply chain was strengthened through new relationships with local suppliers, reducing distribution transport costs and introducing new inventory controls. Despite these improvements, we still experienced stock-outs in key products during the peak months of December and January – when demand spiked higher than anticipated.

+ Soil health testing

Our ability to sell and deliver our soil health tests took a big hit during the three months of Q4. With COVID-19 restrictions bringing uncertainty to farmer's decisions on what crops to grow in the coming months, this predictably led to lower demand for our soil diagnostic services among many of our potential customers. Furthermore, during the April-May lockdown period, our field staff were unable to collect soil samples from customers. We ended up selling only 123 soil tests in Q4, a 94 percent drop YoY. In response to the potential for travel restrictions in the coming months, we started delivering soil test results and recommendations digitally to our customers, instead of the practice of in-person delivery. We plan to continue this practice during FY21.

Despite a challenging second half of FY20, our annual soil test customer total of 5,429 farmers represents only a three percent reduction YoY, thanks largely to strong sales in Q2. We're optimistic for the growth potential of the soil testing service in the coming year, as we have expanded the service to support 10 new key crops. Our market research shows demand for soil health services has been increasing since early May; for instance, in the first week of July, 68 percent of farmers surveyed said they were likely or very likely to purchase one of our soil tests this year.

+ Crop protection

With COVID-19 travel restrictions to villages, our in-person, on-farm crop protection services effectively stopped during most of Q4. Our field staff, many working from home, continued to support farmers through phone calls and video and message/chat channels. During the three months, we provided pest and disease advice to 3,581 farmers – a large increase YoY. The main infestations diagnosed and treated were rice thrip and root knot nematode. For the entire FY20, we provided 15,804 farmers with crop protection services – representing a significant YoY increase from 4,483 farmers last year.

We've been testing out a new bio-pesticide product to address the serious black stem disease in sesame crops this year. The product is a bio-fungicide called Trichoderma. Again, due to COVID-19 related restrictions we were only able to conduct sales during the month of June – serving just 71 farmers. The total number of farmers using this new product was 2,181 in FY20. We see significant potential in this new product and will increase production in the coming months, by working closely with the government's Department of Agricultural Research (DAR), which produces Trichoderma in their labs.

+ Seeds & planting and nutrient management

For most of the year, we've been investing in our digital channels to deliver our training on improved farming practices. When the COVID-19 crisis stopped our field operations for two months, we were therefore able to still deliver this training directly to farmers. We're finding adoption rates among farmers reached through digital channels are comparable to our in-village group trainings – yet at a much lower cost. During the quarter, we had 15,613 farmers adopt our practices – a 33 percent YoY increase. The primary practices taught were more effective fertilizer management and reducing pesticide application risks.

+ Farm finance

Q4 marked an important milestone for Proximity Finance, when we signed a US\$14 million equity package with three development finance institutions – FinnFund, Nordic Microfinance Initiative (NMI) and Proparco. This increased equity will enable Proximity Finance to triple its current client base of 130,000 farming households and disburse 1,500,000 loans over the next four years.

Operationally, Q4 was a difficult one for Proximity Finance as the government regulators placed a moratorium on collecting loans for the month of April and May. When we were able to resume operations, the rural financial system was under a lot of stress, with other credit providers – such as the government's Myanmar Agricultural Development Bank (MADB) – and input supply shops unable and unwilling to provide financing to farmers. Loan collections by other MFIs were hard hit, as customers were cash-strapped. Farm finance is proving more resilient than typical MFI lending, as our repayment rates were at 95 percent by the end of June – much lower than our typical 99 percent. We were able to disburse 42,470 loans during the quarter. Our total portfolio now totals US\$42.8 million and our total year-end client number is 129,634. In FY19, we ended with 86,003 clients.

Our COVID-19 Response

+ Nationwide public health campaign

Since late March, we've been partnering with Myanmar's Ministry of Social Welfare, Relief and Resettlement, which is leading the government's response to the pandemic, on an impactful digital public health behavior campaign tailored for rural Myanmar. At the request of the Ministry, we've been giving farmers simple, clear and actionable advice on how to protect themselves and their communities from the virus – so they can continue to carry out critical farming activities safely. We're leveraging our experience in promoting behavioral change in agricultural practices, user-centered design approach and digital surveys to drive the right response among the rural population. The Ministry of Ethnic Affairs has also helped us with translation of some videos into several ethnic languages.

In Q4, we created 13 pieces of COVID-19 public health communication, that were watched to near-completion 12 million times by a total of 3.1 million rural people. We communicated 14 different behavior changes to farmers across the videos disseminated. An average of 26 percent of the farmers who watched a video reported adopting the behavior change that was featured. This totals to 1,314,057 individual cases of behavior change. We conservatively estimate that at least 650,000 farmers – likely more – have changed their behavior as a result of our campaign. The true impact is probably much higher: family and friends of farmers made up 42 percent of the viewers of the videos, and an average of 22 percent reported they had passed the advice on to at least one farmer they know.

+ Tracking COVID-19 impact on farmers and the food supply system

In Q4, we shifted our impact research efforts towards keeping a pulse on how COVID-19 was affecting rural household food security, farmer market access, crop prices and food supply chains. We've been conducting a total of 6,267 weekly (now bi-weekly) digital surveys, supplemented by in-depth phone surveys. Our field staff are also reporting on-the-ground developments through a new app we designed. We're providing this data to the government's National COVID-19 Response Committee, together with our policy suggestions. In particular, the Minister of Social Welfare has asked for our input and views on how to balance social distancing and movement restrictions with keeping agricultural activities and channels open.

Our latest surveys found that:

- 88 percent of farmers say they and their family are worried about getting the virus.
- 87 percent say they are worried about the economic impact.
- 46 percent of farmers say they received lower crop prices, and 33 percent were able to sell less because of lower demand and the closure of big trading markets.
- Farmers' financial resources have been declining over the past few months, with 66 percent struggling to get by or needing additional/emergency loans.
- 20 percent of farmers lack working capital for the season.
- Farmers are growing more optimistic as the weeks go by, with 43 percent forecasting their situation will improve. However, farmers state seed quality and crop protection against pests and diseases as the most important factors for their success.

Impact Measurement

In Q4, our Social Impact team released the findings of an internal impact assessment of our micro-irrigation products, that we concluded in January 2020. The team conducted 378 interviews in 46 villages in 14 townships across five ecological zones, and interviewed two groups of respondents: customers who purchased micro-irrigation products during FY14-18 and during FY19-20. Two key findings were:

- **Product lifespan:** Customers typically use our products for 4 years. This indicates that once a farmer purchases a Yetagon product, we can retain them within our customer base for about 4 years.
- **Increase in farm income:** Customers achieved a median net farm income increase of US\$290 compared to before using Yetagon products. This represents a 41 percent increase from last year's net farm income, though it should be noted that net farm income here only accounts for income from irrigated crops and doesn't include other staple crops. Improved yields were the major driver behind this increase.

Proximity School and People Update

Proximity School has played a key role in helping our workforce adapt to new ways of working. We have moved all of our in-person training online, incorporating the best of in-person and online trainings with a mix of online class discussions, small group breakout sessions and independent learning courses. Over the next year, School will support the accelerated transformation of Proximity by helping staff adapt to the new demands of a digitizing workplace and reskilling those transitioning into new or emerging roles within the organization. The focus will be on upskilling our staff on digital and data fluency, remote working/productivity, sales, basic finance and basic agronomy and farm economics.

As of 30 June 2020, Proximity's total headcount stood at 950, with our turnover in both Q3 and Q4 stable at around 4 percent. During Q4, Proximity Designs reduced its headcount by 11 percent.

In Q4, we promoted a number of our key Myanmar leaders to positions of increasing responsibility. Phyu Hninn Nyein became Head of Operations in May 2020, after serving as the General Manager of Farm Advisory Services since 2015. Khine Yee Hlaing, Head of Finance, and Lwin Mar Htun, Planning and Performance Manager, took over leadership of Proximity Designs' Finance team in June 2020, after the departure of former CFO, Michael van den Berg. We expanded our Senior Leadership team to include six key Myanmar leaders. We also welcomed Manju Seal, our newest member to the Proximity Designs' Board of Directors. Manju brings rich experience in sustainable finance, risk management as well as non-profit management.

Outlook

Our two key priorities for the coming year are to maintain growth while lowering our unit cost to serve. Our most conservative scenario projects a 20 percent overall decline in demand. This is largely dependent on Myanmar's economic performance and the potential for a public health crisis related to the re-emergence of the virus in the population. Our cash position has improved following significant budget adjustments, and we now have 14-18 months of runway. We're actively seeking new sources of donor funds, but anticipate regaining funds from government funding sources will prove to be especially difficult for the next 12-18 months.

Despite all of the changes we've made to our organization and operating model over the past few months, staff morale remains good. We all recognize how critical Proximity's mission is to the well-being of Myanmar's farmers and the food system on which the population depends. We acknowledge we have entered a period where we must be bold in our aspirations to move faster and higher. One of the barriers to such boldness can be the mindset of employees. We're feeling good that our teams are now looking forward to what is possible, not to maintaining what has been.

“My yield increased 70 percent compared to last year”



“I am no stranger to fighting black stem disease on my sesame crops, but I never found anything that worked. My neighbors were also at a loss for a solution. I was tired of watching my yield decrease before my eyes. Then, I heard from the Yetagon team about Trichoderma, a biopesticide made from fungus, which is effective at protecting against black stem. After seeing a presentation, I jumped right in and purchased 20 bags, hopeful this would strengthen my crops. I am happy to say that I am more than pleased with the results, my yield increased 70 percent, bringing in 12 baskets, compared to the 7 last year.”

U Nay Myo Aung,
paddy and sesame farmer,
Wetlet Township, Shwebo District

Financial Results

Proximity Designs

FY20 Q4 YTD: July 2019 - June 2020

*in thousands of US Dollars

	YETAGON IRRIGATION	FARM ADVISORY SERVICES	PROXIMITY FINANCE	PROXIMITY RESEARCH	GENERAL & ADMIN	TOTAL
INCOME						
Grant Income	\$0	\$0	\$271	\$0	\$7,252	\$7,523
Earned Income	\$1,102	\$135	\$10,333	\$0	\$13	\$11,583
TOTAL INCOME	\$1,102	\$135	\$10,604	\$0	\$7,265	\$19,106
TOTAL OPERATIONAL EXPENSES	-\$2,734	-\$2,241	-\$9,205	-\$35	-\$1,693	-\$15,907
Total Operational Expenses covered by Earned Income (%)	40%	6%	112%			73%
OPERATING INCOME	-\$1,632	-\$2,106	\$1,400	-\$35	\$5,572	\$3,199

* In accordance with US GAAP for Not-For-Profits

Please note that Remeasurement Gain or Loss is not included.



1. Moe Myint Swe, a sales representative from Naypyitaw, helps a customer get his new irrigation product started on his farm.
2. With the pandemic, we had to rethink our crop protection service. Now, when a farmer comes across a pest or disease, we invite them to contact us and share images, via phone call, messenger or video. As well as helping to protect against the spread of the coronavirus, this new process has cut travel time and enabled us to serve more farmers.
3. Earlier this year, our agronomy team began testing a straw decomposition program, which would replace the centuries-old technique of slash-and-burn agriculture associated with paddy rice growing. Preliminary findings from this early pilot were encouraging and show great potential for farmers to cut their carbon emissions while improving their yields.
4. During harvest season, farmers were worried about protecting hired laborers and family members from potential COVID-19 exposure. Many have reported that our “How to Harvest Safely” video was reassuring as it gave clear recommendations, from how to clean tools to keeping distance while working in the field.