



**FY19 Q4 Quarterly Report**  
**1 April to 30 June 2019**



## Highlights

- In Q4 we added 34,775 new farmers to our customer base bringing the total new farm customers acquired this year to 88,000, beating our annual target of 82,000.
- Ended the year with strong micro-irrigation sales of 3,818 systems to farmers, a 34 percent YOY increase. For the year we achieved a 44 percent YOY increase in farmers purchasing one of our micro-irrigation systems, from 11,583 in FY18 to 16,735 in FY2019.
- Met strong operating environment headwinds during the quarter, including a 20 percent drop in rice farm gate prices due to trade restrictions with China and a government-imposed reduction on interest rates micro finance institutions can charge their clients.
- Our farm finance business raised USD 6.4 million in debt and kick started an equity raise of USD 30 million to finance growth.
- Proximity was selected as one of the Global Top 50 Best Workplaces for Innovators by Fast Company magazine.

## Opening Thoughts

For farmers in Myanmar, the fourth quarter of our fiscal year marks the transition from the 6-month long dry season to the start of the annual monsoon season. Intense heat gives way to equally intense downpours. During this transition time, farmers harvest their ‘summer’ crops of vegetables, chilis and onions, and planting of 15 million acres of monsoon paddy begins across much of the delta lowlands. As Proximity celebrates 15 years as an organization, we too, are sensing we’re entering a new phase of our growth. We’re moving from operating three important—but somewhat separate—businesses serving farmers—loans, agronomy and ag technology (pipe-type businesses)—towards creating a platform that can serve Myanmar’s small farm ecosystem.

## Summary of Operations

During this final quarter of our fiscal year, we added 34,775 new farmers to our customer base. We beat this year’s growth target of 82,000 new customers by 6,000 more farmers. We had 145,866 total customers who used or bought a product/service from us this year, while we had 254,431 total active customers (those using products/services bought in previous years) in 9,110 villages. Our total customer base is now 692,000 farming households representing over 3 million people.

### QUALITY SEED



### SOIL HEALTH



### CROP PROTECTION



### FARM LOANS



### IRRIGATION



## Current Farm Services Offered

We offer agronomy services to fill the gaps in practical agronomy knowledge that are not offered by agri-business companies or government extension services. Farmers who use these services and adopt improved practices can improve their crop yields, spend less on inputs and reduce losses from pest and disease outbreaks resulting in increased net incomes from farming.

**+ Quality seeds & precision planting:** Our rice seed cleaning service had 20,923 new farmers adopting it this year. This is below our target of 25,550 farmers. As we achieve deeper penetration of the practice among rice farmers, we may see demand

start to plateau. We are shifting this service category to new customer segments such as sesame growers who can benefit from improved seeds.

**+ Soil & nutrient management:** We finished this year with a very strong Q4—exceeding our targets and reaching 5,712 farmers with this paid service. This service generated revenue of USD 99,000 for us, the first revenue stream for our farm advisory services. Offering a fee-based service was a big shift for our field staff and we experienced reluctance from some staff to promote this service wholeheartedly. We conducted 4,135 farmer meetings in villages to introduce the new service. For most customers, it was the first time they had ever had their soils tested.

We continued offering our free recommended crop fertilization practices, through two channels—an SMS messaging service and in-village presentations by our field agronomists. During Q4, we had 1,290 farmers adopting these recommended fertilizer management practices, bringing the year-round total number of new adopters to 14,445.

**+ Crop protection:** We saw a big increase in the use of our crop protection services—exceeding our annual target for this service. Our field extension officers responded to 5,745 requests for on-farm consultations to identify problems and recommend treatments. Common pests this year have been Thrips, Stem borer and armyworms. We believe the rise in these pest outbreaks is due in large part to changes in the climate. In addition, we served 4,632 farmers through a preventative treatment campaign against the Fall Armyworm, a new and devastating pest infestation previously unknown to farmers in Myanmar.

**+ Micro-Irrigation Systems:** We offer small farmers low-cost irrigation systems and water pumps so they can increase the productivity of their small plots while using less water and physical labor. The year ended strong with sales to 3,818 farmers in Q4. The total number of farmers purchasing one of our irrigation products this past year was 16,735, representing a 44 percent increase from last year, reversing 3 years of declining customer sales.

Irrigation product offerings now include a drip system, a micro-sprinkler system, a mister system, lay flat hose and one treadle pump model. The most popular micro-irrigation product - with 3,323 in sales - was our newly launched starter ‘mister’—a cost-effective system that introduces risk-averse farmers to the benefits of micro-irrigation. Foot-operated water pumps accounted for 6,656 sales. Our version 2.0 of our solar-powered irrigation pump has been undergoing field testing during Q3 and Q4 of this year.

In FY19 (ending 30 June), we sold 34,570 products—a 34 percent y/y increase due to a gradual shift of our product line from single products (e.g. pumps) to components which are assembled to make a system. As a consequence, we're experiencing growth in individual component products (e.g. pipes, fittings, emitters, etc.) Sales revenue for the fiscal year totaled USD 754,824, up 3 percent (in dollar terms) year-on-year. Approximately 32 percent of operating expenses were covered by earned revenue in FY19—up from 30 percent in FY18.

**+ Farm loans:** At the end of the fiscal year the number of outstanding borrowers totaled 86,000—well below the FY19 target of 120,000, solely due to regulatory delays (The roadblocks were removed in August and we expect to reach 120,000 clients by October 2019). However, on a yearly average, Proximity Finance achieved 97 percent of the target of average clients outstanding, as we disbursed loans to 94,500 clients versus 97,000 outstanding during the year. This difference between the average yearly outstanding number of clients and the end figure reflects the difficulties in matching the inflow of funding with peak demand from farmers at planting time.

In Q4, Proximity Finance continued rolling out larger loan sizes for repeat clients with good repayment behaviour and adequate repayment capacity. At the end of the fiscal year, 45 percent or 38,700 clients had received a loan larger than the base loan amount of MMK 300,000 (USD 200).

The loan portfolio quality declined during Q4, with non-repayment loans (PAR30) rising from 0.1 percent to 0.8 percent of outstanding loans, reflecting loan repayments from the Delta area where due to new rice export trade restrictions imposed by China this year, rice prices dropped by an average of 20 percent. This adversely affected many of our rice-growing farmer clients.

Outstanding portfolio was USD 23 million at the end of FY19. The target for new debt funding for FY19 was USD 8.1 million. We were able to raise 79 percent of that—USD 6.4 million. In Q4, we received \$2.5 million in debt funding from Symbiotics. During Q4, we vetted over 20 potential equity investors and arrived at four like-minded investors who visited Myanmar for a week of due diligence in June/July. We expect to receive non-binding offers by the end of the next quarter.

During Q4, the government Financial Regulatory Department issued two directives that impacted our operations significantly. First, they increased the borrowing rate we pay on uncollateralized funds. Second, they suddenly reduced the overall interest rate that micro-finance organizations in the sector can charge clients, from

2.5 percent to 2.3 percent per month. We also experienced delays in approvals of new debt funding by the Regulator. Thus, we closed the fiscal year with a net profit of only USD 33,408, which was USD 770,552 below the target for the year. This low profit figure included a large re-measurement loss of USD 873,000 during the fiscal year due to changes in the value of the Myanmar kyat local currency.

With reduced interest margins on lending, our farm finance operations will need to be scaled up much faster in the next fiscal year, FY20, than originally planned. The needed growth for operational break-even may be as high as 110 percent for the outstanding loan portfolio, growing to 169,000 clients.

**+ Savings products:** This year, we finished rolling out our mandatory (required by Regulator) savings product to 84,837 clients who now have savings accounts with us.

## New Products and Services in the Design Stage

Our strategy for FY19 called for expanding our services into new customer segments beyond rice. This year, we completed a foundation research project for sesame farmers. Sesame is the second largest crop in Myanmar with over 500,000 farmers. We identified a number of promising new service lines for sesame farmers and have been conducting a low-cost prototype of a potential new service for treating sesame seed to prevent disease outbreaks.

## New Capabilities

This year, we added two new core capabilities to our operations—a data analytics function and a new marketing function. We formed our first dedicated marketing shared service under the leadership of Tom Lloyd a marketing professional from London. We built a team of brand managers, external communications, marketing content creators, internal communications and employer branding. Two highlights from the year were: 1) We undertook some significant experimenting with digital marketing. Within two months we were able to engage with 120,000 farm households digitally via Facebook and chat bots. 45,000 farmers completed a series on rice seed cleaning or improved fertilizer practices online, leading to over 9,000 adopters. 2) We have developed a new brand architecture for our Yetagon farm services ‘platform’ to be launched in early FY20.

## Impact Measurement Studies

FY19 marked an important milestone for Proximity in the area of measuring the social impact on the customers of our work. We completed the first independent assessment of our impact. We contracted MDF—a Dutch firm operating in Myanmar, to conduct a study of two of our agronomy services—rice seed cleaning and improved fertilizer management. The study was completed in June and confirmed the results of our in-house team—that farmers achieved significant rice yield increases as a result of adopting our recommended practices—averaging USD 335 in annual net income increases.

In July, our in-house team undertook a survey to measure the net farm income impact of receiving a USD 400 loan from our farm lending operation. The results indicate that annual farm income increased by about USD 189 (using financial exchange rates and current crop prices). This is a significant development because the previous survey conducted 2.5 years ago was unable to show increased incomes from our farm loans. An important development this year in our survey work is the new ability to conduct customer interviews over the phone. This has dramatically increased the speed in which we can conduct surveys and has also lowered the cost significantly.

## Economic Research

This quarter, we engaged with leaders from the Southeast Asia region to discuss and find ways to support and help Myanmar leaders, particularly related to the humanitarian crisis of Muslims in Rakhine State and Bangladesh.

## Market Conditions and Outlook

This past quarter, Myanmar farmers suffered severe flooding and deadly landslides which killed over 70 people. Meanwhile, the arrival of the Fall Armyworm, a pest that devastated maize crops across Africa in recent years, does not bode well for Myanmar farmers who are unfamiliar with it. At the same time, farm gate prices of rice experienced big drops (20 percent from last year), as neighboring China imposed restrictions on rice imports. Farmers are scrambling and looking to diversify into other crops such as sesame and pulses and beans. On the regulatory front, we expect there will no longer be major unexpected policy changes and delays

in the next quarter with regard to our farm finance operations. We expect to catch up on our plans to deepen and expand our loan products to existing and new farmer clients.

Maximizing farm productivity through innovation is paramount in Myanmar, to help improve the lives of farming families and prepare them for the dual challenges of climate change and food production. On the bright side, millions of small-scale farmers across Myanmar remain exceptionally entrepreneurial - they are looking for ways to diversify and are eager to adopt new practices and technologies. In particular, farmers are fast embracing and using digital channels to gain new knowledge, resources and networks.

## Financial Results

### Proximity Designs

Fiscal Year July 2018 – June 2019

\*in thousands of US Dollars

	YETAGON IRRIGATION	FARM ADVISORY SERVICES	PROXIMITY FINANCE	PROXIMITY RESEARCH	ADMIN & GENERAL	TOTAL
INCOME						
Grant Income	\$1,186	\$966	\$375	\$81	\$581	\$3,189
Earned Income	\$774	\$99	\$6,280	\$1	\$7	\$7,162
TOTAL INCOME	\$1,960	\$1,066	\$6,655	\$82	\$588	\$10,351
TOTAL OPERATIONAL EXPENSES	-\$2,390	-\$2,611	-\$5,741	-\$403	-\$1,016	-\$12,161
Total Operational Expenses covered by Earned Income (%)	32%	4%	109%	0%	1%	59%
OPERATING INCOME	-\$430	-\$1,546	\$914	-\$321	-\$428	-\$1,810

Please note that this financial report excludes remeasurement gain/loss



