



FY21 Q1 Quarterly Report
1 July to 30 September 2020



Highlights

- While the first wave of COVID-19 largely missed Myanmar, the second wave is hitting the country hard. The number of daily cases is now the third-highest in Southeast Asia, and deaths are also rising.
- We temporarily closed our main office and manufacturing facility in Yangon, and suspended field operations in a few townships. Two Proximity Finance branches also suspended operations after loan officers came into contact with confirmed COVID-19 cases.
- The changes made to our operational model early on allowed us to maintain impact this quarter, serving a total of 75,457 customers across Proximity Designs and Proximity Finance. This was slightly below target (80,519), but represented a 15 percent YoY increase.
- Our agronomy practices – now delivered entirely via digital channels – performed especially well, accounting for 69 percent of Proximity Designs' total customers. Sales of micro-irrigation products also had a strong quarter, generating 40 percent more income YoY. Proximity Finance served 39,518 customers this quarter, only a 4 percent reduction YoY, and maintained loan default rates of 1.25 percent as of early October.

- We held our first-ever, fully virtual Annual Meeting – our most important internal event. 900+ staff logged on from across Myanmar and other parts of the world, using a mix of Zoom, Slack and Google Meet. After a few challenging months, it was an energizing moment to connect and focus on our mission.

Opening Thoughts

After very few COVID-19 cases (300+) since March, the virus spread rapidly in Myanmar in September and October, to more than 61,975 confirmed cases and 1,437 deaths. The surge has quickly overwhelmed Yangon's three COVID-19 designated hospitals, forcing temporary facilities and quarantine sites to be built on football pitches and at housing complexes. The strict 'stay at home' orders in Yangon and other cities are devastating people's livelihoods, particularly informal and daily workers with no social safety net.

Our farm customers are also facing immediate and acute challenges. Our most recent COVID-19 monitoring survey (of 350+ farmers) shows 43 percent are seeing their crop prices drop, because of on and off closures of the border with China, or brokers unable to visit villages. With crop prices for most crops fluctuating wildly, farmers growing perishable fruits and vegetables have sometimes been forced to leave produce to rot, when they're unable to get to market or sell at a fair price. Another 40 percent reported falling crop sales, from less demand or the closure of wholesale markets, food shops and stalls in some regions.

Despite resilience in times of crisis, farmers' confidence in the future is at an all-time low. 56 percent said they're struggling to get by or need immediate financial support – nearly double since the start of the pandemic. Half expect their situation to worsen or worsen significantly over the next six months. Beyond the impact on farming activities, many rural families have lost access to vital remittances (which account for 3.7 percent of GDP), as family members have been laid off from garment factories and construction jobs in Yangon or abroad. U Kan Nyunt, a farmer from Shwebo, summed it up this way: "The situation is serious this time around."

Summary of Operating Results

While the second wave of COVID-19 significantly impacted our operations this quarter, the changes we made to our operational model early in the pandemic allowed us to maintain our impact. We served a total of 75,457 customers across Proximity Designs and Proximity Finance in Q1 – slightly below our quarterly target (80,519) but a 15 percent increase YoY.

Excluding Proximity Finance, Proximity Designs served 35,939 unique customers, exceeding our Q1 target by 26 percent and performing 46 percent better YoY. Customer growth was mostly driven by our micro-irrigation sales and agronomy practices – seed grading, fertilizer application and pest & disease management – which are now delivered entirely through digital channels.

Our Q1 earned revenues totaled USD 240,300, covering around 17 percent of operating expenses. This was 3 percent below budget, yet an improvement of 16 percent YoY – in line with our strategic objective to generate more earned revenues to take off some pressure from grant funding. More than half (USD 134,200) of earned revenues came from micro-irrigation product sales, which generated 40 percent more income YoY. We focused on improving margins on our micro-irrigation products, driving more sales through dealers, adjusting our pricing, streamlining our product line and reducing COGS through procurement and manufacturing efficiencies.

+ Micro-irrigation systems

Our micro-irrigation products – particularly our best-selling mister – performed strongly in Q1, with 4,626 customers who bought them (141 percent of target). This was only a slight reduction of 5 percent YoY. 63 percent of total customers were served through our dealer channel, which managed to surpass customer targets, despite most shops in lower Myanmar being shut down in September.

+Soil health diagnostic testing

We sold soil health testing services to 1,190 customers this quarter, achieving only 64 percent of our target but a 32 percent increase YoY. This lower result was largely due to fewer sales presentations conducted this quarter, because of COVID-19 restrictions on field travel. Our digital market survey in July-August suggests strong demand for this service – Myanmar’s first affordable soil diagnostic testing – and we’re confident sales will pick up again.

+Trichoderma (biofungicide)

We sold Trichoderma packets to 1,636 sesame farmers in Q1, achieving only 47 percent of our ambitious quarterly target. Sales were very low from July through mid-August, as sesame farmers experienced a lack of rainfall and delayed their planting. Sales did pick up again in late August. We remain optimistic about the potential for this effective biocontrol product, which improves soil health, root growth and yields. We're also conducting research on Trichoderma's effectiveness with other crops such as chili, tomatoes, onion and pulses and beans (pigeon peas, black gram, green gram, chickpea and groundnut).

We're negotiating a collaborative partnership with our current Trichoderma supplier, Myanmar's Department of Agricultural Research (DAR), to expand production and supply. DAR's microbiologists have researched and produced Trichoderma in government labs for over 20 years, yet have not been able to provide extension support to introduce farmers to this new product; there has also not been a financially viable distribution system to make it accessible.

+Crop protection

Our crop protection service performed well this quarter, serving 4,651 customers – an 18 percent improvement YoY. With COVID-19, most of our crop advisors have switched to “tele-agronomy”, providing pest & disease diagnosis and treatment recommendations to farmers via video call or social media channels (Facebook and Viber). In areas with fewer travel restrictions, staff have been able to continue meeting farmers in their fields.

+Seed grading, fertilizer application and pest & disease management practices

We're seeing strong and promising growth in the adoption of rice seed grading, more efficient fertilizer application and pest & disease management practices, now delivered almost entirely via digital channels. These adopters through our digital channels accounted for 69 percent of our total customers. Our digital surveys show at least 24,873 farmers adopted these simple and yield-boosting techniques, after consuming one of our targeted online video campaigns. This was 166 percent of the quarterly target and 186 percent increase YoY.

+Farm finance

Proximity Finance was able to continue its loan disbursement and collection activities throughout Q1. However, starting from September, about 10 percent of villages restricted movement and access to our field staff. We served 39,518 customers in Q1, only a 4 percent YoY reduction. Portfolio at Risk (PAR) increased slightly over the quarter, with PAR30 at 1.25 percent as of early October, mainly due to ‘stay at home’ orders in two Delta townships. Village lending group leaders are now acting as the main interface with our loan officers, to minimize exposure and large group meetings.

Serving the “Multi-channel” Farmer

Because of the pandemic, farmers are consuming online content and using digital tools more than ever before. A key development this quarter was the establishment of our Customer Contact Center, to support our digital channels in three main areas: 1) digital selling, 2) crop protection services (“tele-agronomy”) and 3) general customer inquiries. We completed the technical installation and operational testing of the Contact Center, including the design and set up of an automated IVR (default reply system) that allows customers to choose which service they need. We also implemented a SIP trunk service to improve our capacity to handle multiple calls at once. So far, we’re able to manage 30 inbound/outbound calls at once, from different locations across Myanmar. We’ve already responded to 5,717 inquiries about crop protection, our product/service offerings and other issues from farmers through this new Contact Center.

Our nationwide network of agro-dealers is also becoming an increasingly important channel to market, sell and deliver our micro-irrigation products. In Q1, we surveyed 100+ customers, to learn why they purchased from dealer shops and why/how they decided to buy our Yetagon product. We found most farmers make the decision to buy our Yetagon products prior to visiting the dealer shop, based on recommendations from other farmers and Facebook. Our findings are helping us refine our strategy, improve brand awareness, make product information more accessible and increase in-shop recommendations.

Impact Measurement

In Q1, our Social Impact team finished analyzing the findings of an internal impact assessment of our soil health testing service, conducted in June-July. The survey assessed our hypothesis that soil health test customers who followed our nutrient recommendations are able to apply nutrients more systematically and thereby gain better yields – ultimately leading to net income increases. The team conducted 500 phone interviews in 337 villages in 23 townships in the Delta, and included a well-matched, control group. Key findings were:

- **Increase in yield:** Soil test customers (rice growers) experienced a 10 percent yield increase compared to the control group. This is attributed to more systematic fertilizer application, resulting in more resilient and productive crops.
- **Increase in farm income:** The improvement in rice yields translated to a USD 26 net income increase per acre compared to the control group. As farmers applied the nutrient recommendations typically to 7 acres, the total increase in net farm income was USD 180 in one season – a 14 percent increase from their net incomes during the 2019 summer season.

People Update

On 24-25 September, Proximity hosted our first, fully virtual Annual Meeting. We had an agenda full of talks, panels, entertainment and interactive sessions. We also launched a refreshed set of organizational values under the theme “See More”, celebrated the impact achieved in FY20 and awarded 63 team members and teams for their exemplary accomplishments in serving farmers. It was a boost to experience the same ethos and camaraderie as in previous years, and to see how far we’ve come in our digital transformation.

In Q1, we continued restructuring our irrigation and farm advisory services into one business unit (Yetagon Farm Services), to improve our customer experience and operational efficiencies by avoiding redundancies and duplications across the organization. As part of this process, we appointed Sandar Aung-Rebiere and Thiri Yadana Saw – two of our senior Myanmar leaders who bring decades of sales experience – to the positions of Head of Direct Sales and Head of Dealer Sales respectively. Our staff count across Proximity Designs and Proximity Finance stood at 894 at the end of Q1.

Outlook

The encouraging customer growth and financial and impact results of Q1 have boosted our confidence in tackling difficult changes and getting creative at adapting our business operations. As we look at the next three months and beyond, our focus remains on staying agile in the midst of so much uncertainty brought on by the pandemic. We expect to continue remote working arrangements in Q2 for most of our staff, and expect further disruptions in manufacturing and distribution. We have a strong balance sheet, our digital transformation continues and our growth initiatives still seem attainable. We will continue to stay close to our customers and diligently track the economic fall-out from COVID-19, to make sure our product and service offerings are responsive to farmers' needs. We're grateful for our team, customers, donors and partners who are all playing a role in keeping people fed and managing the crisis as it evolves. We remain optimistic and believe that supporting farm families and addressing rural/urban inequality is more important than ever.

“Now, getting agronomy advice online doesn't seem so strange.”



“Years ago, I never imagined that seeing something on social media would help improve my crops. When I came across the soil health test on the Yetagon page, I had lots of questions. But once I understood how it worked, I took the leap, and gave it a go. I received customized recommendations on which fertilizers to use, how much and when. It meant throwing my usual approach out the window – but I thought to myself, ‘It wasn't working anyway.’ I was thrilled when my 4 acres of summer paddy crop produced 120 baskets per acre – 20 percent more than the year before. Now, when I have a problem or need advice, checking the Yetagon page doesn't seem so strange.”

U Aung Myint Than,
paddy farmer, Paungde Township, Bago Region

Financial Results

Proximity Designs

FY21 as of Q1: July 2020 – September 2020

Income statement (in '000 USD)

	FY20 actuals	FY21 actuals	YoY
Earned Income	207	240	16%
Total Expenses	1,716	1,406	-18%
Income / Loss Before Grant Subsidy	-1,509	-1,165	-23%
Grant Income (non-GAAP)*			
Grant disbursements received to-date	328	1,751	434%
Disbursements confirmed for rest-of-year	757	1,650	118%
Net Income	-425	2,236	626%

*Per US GAAP, grant income of 2,091 was recognized in Q1

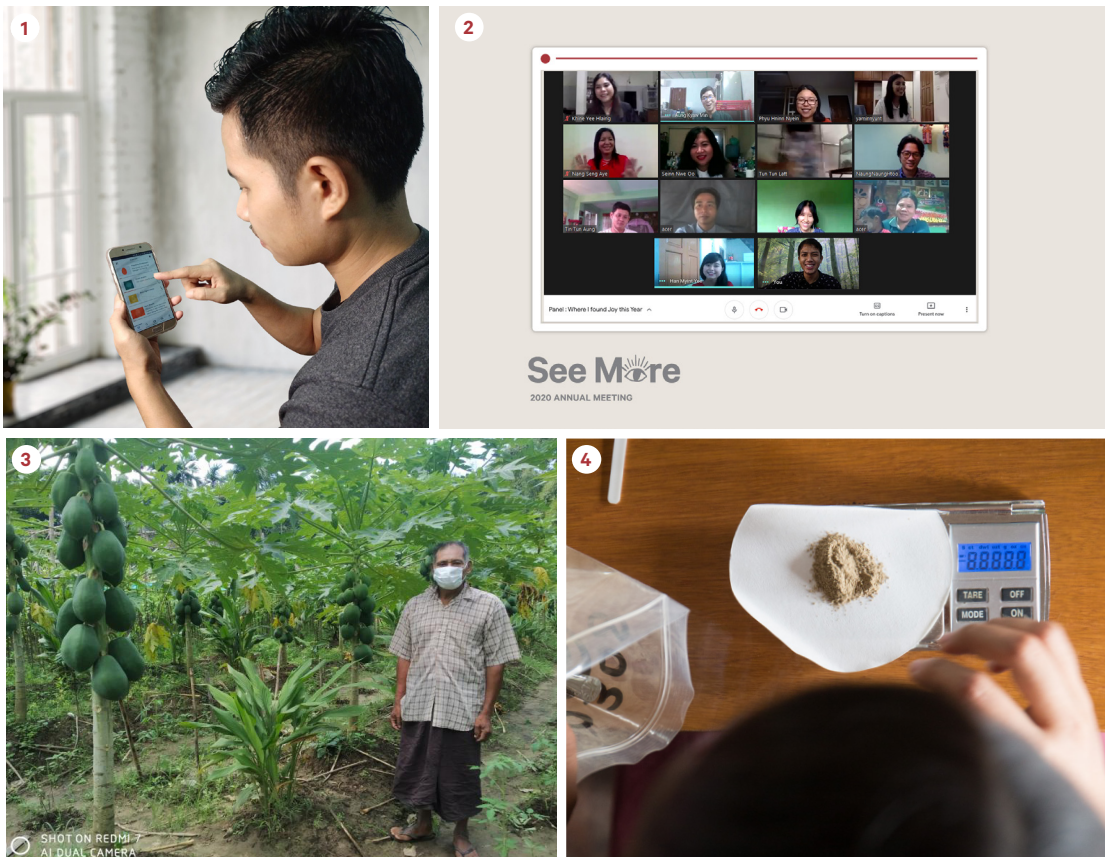
Proximity Finance

FY21 as of Q1: July 2020 – September 2020

Income statement (in '000 USD)

	FY20 actuals	FY21 actuals	YoY
Total Operational Income	2,078	3,509	69%
Interest Income	1,872	3,309	77%
Non-Interest Income	207	201	-3%
Total Operational Expenses	1,815	3,236	78%
Grant Income	45	46	3%
Tax	95	130	36%
Remeasurement Gain/Loss	-0.6	-430	See note**
Net Profit After Tax	212	-239	-213%

**This remeasurement loss is due to the additional equity of USD 8m, which is awaiting approval from the Financial Regulatory Department. As the exchange rate fluctuates, it is remeasured every month end. Upon approval, the expenditure will be settled.



1. With COVID-19, we've upgraded our team members' online learning experience. This quarter, we transitioned all of our in-person trainings online, and have just launched an internal e-learning application. During times of change, expanding our knowledge and honing our skills is even more critical.
2. In September, Proximity hosted our first-ever virtual Annual Meeting. Over two days, our 900+ team dialed in from their homes across rural Myanmar and around the world, to reflect on this past year and look ahead at the future of Proximity.
3. The second wave of COVID-19 in Myanmar is taking a significant toll on farmers, as travel restrictions prevent many from selling their perishables products on time. U Win Maung, a papaya and banana grower from Zalun Township, saw his income fall by 90 percent.
4. To ensure our farm products are as impactful as possible, we measure and remeasure their benefits. An assessment we conducted in Q1 (covering 500 farmers) showed that our soil health test customers can increase their yield by 10 percent and achieve a USD 360 annual net income increase.