

PROXIMITY DESIGNS

Annual Report

1 JULY 2016 – 30 JUNE 2017

FY2017

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Proximity Designs is shaping the future of smallholder agriculture in Myanmar by empowering farmers with our platform of agricultural technology, tailored and timely knowledge, and rural finance. In FY2017 111,570 unique clients purchased our products and services (up 30% from last year).

Our business ventures continue to grow and embrace new technologies in our mission to serve our customers. Proximity Finance now lends to 78,467 borrowers, a 39 percent increase. The Yetagon sales team sold 24,627 irrigation products as our agricultural technology solutions continue to meet the demands of farmers. In addition, 23,320 farmers used our farming techniques. In total Farm Advisory Services now operates in 21 townships, 11 of which were added in FY2017. Working with Proximity Labs, Farm Advisory Services began the roll out of two high-impact services, Soil Health Tests, a revenue-generating service that makes soil diagnostics more accessible and user friendly for our customers, and Shwe Pyo, an SMS-based farm advice platform for agronomists to connect directly with farmers.

Overall, Proximity Designs has increased the income of 555,581 smallholder farm households across all businesses by over US\$263 million since 2004.



Our new Sprinkler system has helped boost irrigation sales by 17%.

YETAGON IRRIGATION TECHNOLOGIES

Staying ahead in Myanmar's changing irrigation market

Our irrigation business designs innovative products to meet the rapidly evolving needs of Myanmar's smallholder farmers. While treadle pump sales declined 16 percent this year, the introduction of our new sprinkler system has contributed significantly in boosting overall sales. Precision irrigation systems (drip and sprinkler products) now account for 52 percent of total sales, up from 28 percent last year, reflecting broader technology trends throughout Myanmar.

As urban and out migration have increased so have rural labor shortages, and consequently farmers continue to demand more labor-saving products. By making our precision irrigation systems compatible with mechanized pumps and focusing on technologies that optimize farmers' limited resources, we are pivoting to meet their demands. As a result, product sales increased to 24,627 units, 17 percent higher than last year.

Yetagon Irrigation's production and delivery methods are evolving alongside its portfolio mix. The manufacturing team is now using foreign parts to assemble products in the South Dagon workshop, speeding up the production process, lowering costs, and improving the quality of our products. We have also refined our four-channel delivery system: agents are now trained to install products, allowing sales representatives and agro dealers to improve their closing rates to 30 percent, while an improved online platform allows us to engage with customers outside the reach of previously existing channels.

This year the direct sales force, comprised of 83 sales representatives, held 47,510 product demonstrations and drove the majority of our irrigation product sales (73 percent). Although total product sales have increased, sales of specific products such as the Lotus solar pump were considerably lower than expected. In order to combat this low uptake, we have developed a new sales incentive structure and rent-to-own payment system for the solar pump. These new initiatives will be rolled out in Q1 FY2018.

Our Farm Advisory Services team now serves 21 townships throughout the Ayeyarwady Delta and Central Dry Zone.



Farmers in Minbu adopting our Saltwater Seed Grading technique to produce higher yielding paddy.



An extension officer is determining what type of plant disease is affecting our farming adopter's crop during an on-call visit.

YETAGON FARM ADVISORY SERVICES

Redesigning farm extension

Our Farm Advisory Services team delivers "best-fit" rice-cropping practices and recommendations to farmers in the Delta and this year expanded into the Central Dry Zone. We remain a trusted source of information for farming adopters. This year out of the nearly 80,000 farmers who attended our village meeting, 23,276 farmers adopted at least one of our techniques. There was a 164 percent increase in new adopters from last year.

Our 103 extension officers delivered Farm Advisory Services at over 6,376 village meetings. We now serve 21 townships throughout the Ayeyarwady Delta and Central Dry Zone.

Farm Advisory Services continues to test high impact revenue-generating services to complement our technical advice. This year we piloted our Soil Health Diagnostic Service and sold 40 tests to 32 farmers across 5 townships. Soil tests will allow our field agronomists to give more precise recommendations to farmers, allowing them to improve their soil health and farming yields. Once fully

launched next year, we predict that this service will generate up to US\$250,000 in annual revenue.

Farm Advisory Services has significantly increased the efficiency of service delivery with its new SMS-messaging service, Shwe Pyo. The mission of Shwe Pyo is to provide a low-cost platform for sharing frequent and timely messages on farming knowledge, as well as provide answers to farmers' general questions on farming techniques, effective fertilizer use, and pest and disease management. We gained 3,742 subscribers in the first roll-out of this service.

This year Proximity's Social Impact Team conducted a survey assessing the impacts of our advisory services on rural farmers. Results from the survey indicate that the median increase in net annual income among technique adopters was US\$480, this represents a 52 percent increase in income for an average smallholder paddy farmer. Data further shows that farmers reinvested their gains in children's education, healthcare, food, and repaying debts.



A Proximity Finance loan officer dispersing Crop Loans in Kone Gyi Village in the Dry Zone area.

Proximity Finance issued 101,674 loans and served 78,467 active borrowers this year, representing a 39% increase in customer base.

PROXIMITY FARM FINANCE

Tailoring microfinance to the farmer

Proximity Finance focused on product diversification in FY2017, launching two new loans for migrant laborers and small enterprises. Unlike traditional microfinance institutions, we design and provide a unique selection of financial offerings focused on smallholder farming family needs. Proximity Finance increased its customer base 39 percent to serve 78,467 active borrowers this year and now serves 1,754 villages across 56 townships. The outstanding loan portfolio is USD15 million, representing a year-on-year increase of 27 percent. A total of 101,674 loans were issued this year with a majority for non-rice crops (58%) followed by loans for rice, livestock, migration costs for rural labor and a new enterprise loan. The average loan size of USD183 disbursed to clients has slightly increased in the local currency (MMK), but due to a fluctuating exchange rate its USD equivalent indicates a slight decrease from the previous year.

Our repayment rate remained healthy at over 99 percent (PAR>30 has significantly reduced to 0.34 percent, compared to 0.62 last year). A significant investment was made in training loan officers in customer engagement and delinquency prevention, as well as how to improve the flow of information between our head office and branches.

These efforts have all contributed to improved repayment rates.

Proximity Finance has faced some headwinds in capital growth due to government regulatory delays in approving a currency hedging facility, limiting our ability to access international capital. However, a back-to-back hedging agreement with YOMA bank is expected to take effect in Q1 FY2018. This agreement will facilitate the entry of foreign investment and hedge against the volatility experienced in exchange rates.

PROXIMITY RESEARCH

Engaging regional leaders to build an inclusive Myanmar

Proximity Research continues to engage leaders and key stakeholders in efforts to build an inclusive and pluralist Myanmar. Conflict between the Myanmar government and sectarian groups over natural resources and governance issues illustrate how essential this work is. Proximity works with Myanmar leaders to discuss strategies for successful economic development and multi-party conflict resolution. The Research team also partners with Harvard's Ash Center to lead research analysis and trips within Myanmar.

In addition to conducting domestic research and organizing forums, the research team facilitated the third Senior Leadership Program in the Malaku Islands and meetings with Indonesia's Minister of Foreign Affairs and Vice President. Indonesia experienced sectarian conflict in the Malaku Islands from 1999 to 2004 and the successes and failures of their conflict resolution process provide Myanmar leaders with valuable insights into navigating a difficult democratic transition at home.



Economic Research discussion papers produced this year:

December - Internal and External Challenges to Unity in Myanmar

Assesses how the internal and external challenges faced by Myanmar are linked, and suggests that economic progress, unity and effective independence will remain elusive (or could decline) if no action is taken.

April - Rakhine State - In Need of Fundamental Solutions

Assesses factors that are at the heart of the instability in Rakhine state and suggests options for approaching citizenship and mobility issues and for overcoming the constraints on implementing development in the state.

May - Rakhine State: Dangers and Opportunities

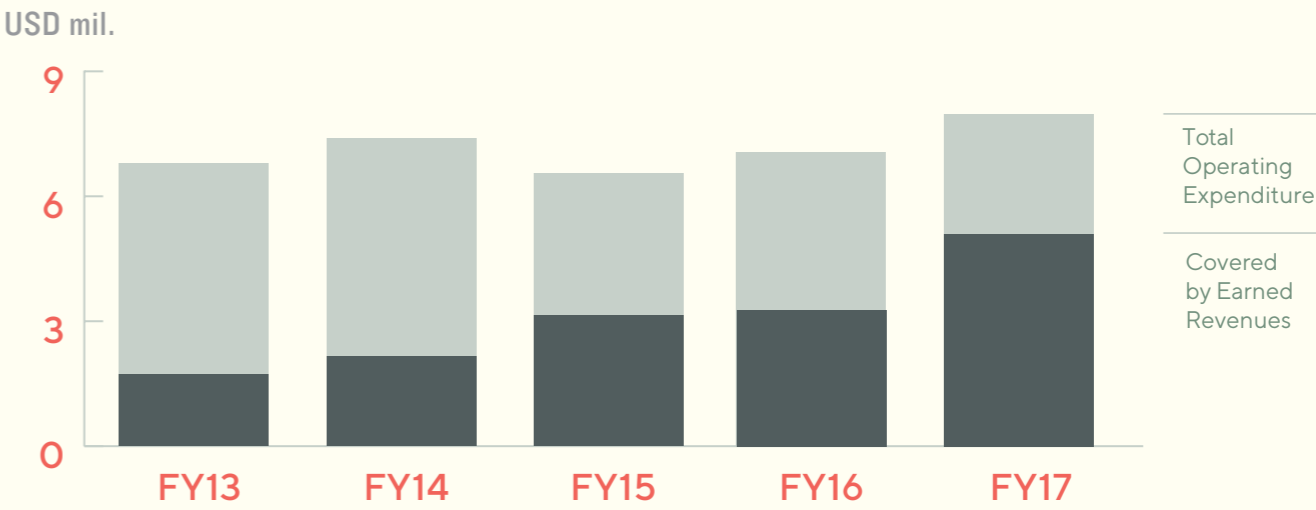
Assesses the danger that the Rakhine state conflict poses to all of Myanmar in terms of cost in lives, international reputation, depressed FDI, ongoing violence and sectarian conflict.

Talent Pool



All new staff at Proximity Designs take part in on-boarding training. 314 staff members were on-boarded in FY17.

Proximity Designs Operating Expenses Covered by Earned Revenues



TALENT

Our new key hires included 7 talented Burmese managers such as Pain Hein The, Digital Services Manager for Farm Advisory Services and Yamin Myo Nyunt, Head of Proximity School. Our key hires have taken on pivotal roles at Proximity as new products, services and staff are introduced.

Proximity School expanded its training programs to deliver trainings on different core competency skills, such as communicating and receiving feedback, to field staff in selected rural areas, providing a total of 45,371 hours of training to 563 employees in FY2017. This training included in-depth customer engagement training for field staff in all branches, resulting in an average of 73 hours of training per employee. The English language course has been very popular and was provided to 207 employees, reflecting the desire of staff members to develop the skills to succeed in the global market.

Proximity School provided a total of 45,371 hours of training to 563 employees in FY2017.

Proximity Designs added exactly 200 new employees this year bringing the total to 726 and representing a 35% increase year-on-year. New staff received onboarding and training workshops in our renovated head office in Yangon. Our commitment to thoughtful and human-centered design extends to transforming a former restaurant into a space which offers ample room for staff from all four ventures, those from the field and those from the head office, to collaborate and work together to meet farmers’ needs.

FINANCIALS

Proximity’s FY2017 operating expenses were USD 8 million, a modest 13% increase on the previous year. The businesses have had success in becoming less reliant on grants, with revenues this year covering 58% of expenses, up from 42% last year. This year Proximity Finance raised USD6.5 million in loans from four leading providers. Although the Farm Advisory Service remained fully grant funded, two new revenue-generating services were piloted this year. In FY2017 Proximity Designs raised USD8.7 million in grant income.

OUTLOOK

Regulatory issues – primarily around access to debt capital – continue to hamper the growth of enterprises in Myanmar. However, Proximity Finance has nearly finalized a highly-anticipated hedging mechanism with YOMA Bank, which would allow us to access foreign capital. This deal, the first of its kind in Myanmar gives us confidence that the regulatory climate in Myanmar is improving and will continue to be more conducive to economic growth. Proximity’s economic research team and the Harvard Ash Center will continue to engage with Myanmar leaders on issues such as democratic transition, military reform, resource and revenue sharing, and ethnic conflict resolution. Proximity's commitment to changing high level policy through action and research is predicated on the understanding that national policies have direct implications for our operating environment and for the lives of our customers.

Some trends noted last year are ongoing; rural labor shortages still drive demand for our labor-saving irrigation products, but diesel engines and access to other products from China offer competition to our designs. At the same time microfinance organizations and NGOs are more present in rural areas than ever before, changing the operational landscape and creating both potential challenges and opportunities to collaborate. An initial surge in digital use in rural areas is slowing, and many farmers lack mobile literacy and don’t fully utilize smart technologies. We are exploring ways to design services that match and grow these customers’ digital skills. This year the cost to serve a household decreased from \$84 to \$71 and we anticipate further reductions in costs in the year ahead propelled by digital innovations in all our teams.

DONORS

This year 20 donors and 6 lenders supported our operations, compared to 25 donors and 5 lenders last year. The majority (64%) of our grant income continues to come from social impact foundations, and bilateral donors contribute 35%. This year Proximity Designs secured USD8.7 million including multi-year grants, with 41% of FY2017 funds being unrestricted.

In FY2017 Proximity was supported by the following donors and lenders:

- Autodesk Foundation
- Conservation Food & Health Foundation
- Cordaid
- Cotopaxi
- David Weekley Foundation
- Department for International Development
- Grameen Credit Agricole (GCA)
- Hampshire Foundation
- Individual Donors
- International Finance Corporation
- Jasmine Social Investments
- King Philanthropies
- Kiva
- Livelihoods and Food Security Trust Fund (LIFT)
- Montpelier Foundation
- Mulago Foundation
- Norfund
- Omidyar Network
- Peery Foundation
- Royal Norwegian Government
- Skoll Foundation
- Stromme Foundation
- Taubman Foundation
- Yoma Bank
- USAID

