

PROXIMITY DESIGNS

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# Annual Report

1 JULY, 2017 – 30 JUNE, 2018

## FY2018



## Highlights of the Year's Results

- This year, we served a total number of 149,042 farm customers through crop loans, irrigation products and agronomy advice - a 34 percent increase from the last fiscal year.
- 87,695 of our customers were new, first-time customers.
- We had a total of 207,506<sup>1</sup> farm households actively using a Proximity product or service – representing approximately 892,000 people.<sup>2</sup>
- Our total customer base in Myanmar is now over 640,000 farm households (close to 2.75 million people) located across more than ten thousand villages.
- Total rural household incomes increased by an estimated over USD 50 million across all of our active customers.<sup>3</sup> This translates into USD 5 of rural incomes increased per dollar spent for operations and USD 15 of rural income increased per donor dollar spent for operations.
- Our “Yetagon” Irrigation farm tech unit sold 26,051 irrigation products to 11,583 growers who are now using advanced micro irrigation systems.
- 51,496 farm households adopted improved agronomic practices or used a service provided by our Farm Advisory Services unit.

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<sup>1</sup>This number accounts for overlap customers using one or more service. Without overlap assumptions, active customers stand at 214,215.

<sup>2</sup>This assumes 4.3 people per rural household as noted in the Myanmar Living Condition Survey, 2017.

<sup>3</sup>We consider a customer active if they are still actively using a product or technique. This is based on assumptions that are grounded in our surveying of customers. For FAS: 4 years, YI 3 years and Proximity Finance based on those with active loans.



*YETAGON IRRIGATION's mister irrigation system has quickly become one of our best-sellers since it launched in January 2018. This system targets a crop's root zone, which not only reduces water usage, it is also optimal for plant health. Plants that have had consistent and appropriate amounts of water are more resistant to pests and diseases and have higher yields. At half the price of our sprinkler system, this addition to our product line has meant even more small-plot farmers can see the impact of high-tech irrigation. To reach our goals for even greater access and affordability, we continue to identify new opportunities for high-performance solutions that are missing from the market.*

## FARM TECH

Our Yetagon Irrigation venture offers small-plot farmers advanced yet affordable, micro-irrigation systems to replace traditional surface irrigation methods that waste water and fuel, and can harm plant health and yields. This year, our product offerings included: a treadle pump, a solar-powered irrigation pump, a drip system, a micro-sprinkler system, a mister system and lay flat tubing. The business of introducing and promoting these new technologies to farmers continues to be people-intensive and involves direct-selling in villages. In FY2018, our direct sales force, comprised of 86 sales representatives and 300 independent village-level agents, conducted thousands of product demonstrations. We also had 98 active agro-dealer shops selling our products in small towns. These face-to-face meetings and dealer sales led to 11,583 farming customers including 9,142 first time buyers, adopting our products.

Irrigation product sales totalled 26,051 units, marking a 6 percent increase year-on-year. Micro-sprinklers, mister and drip systems continue to replace demand for our original

foot pumps, accounting for 70 percent of product sales while foot pumps decreased to 29 percent of total sales. Our earned revenues from product sales totalled USD 733,000, an 18 percent increase from last year. These revenues covered 31 percent of total operating costs of the Irrigation business.

Our design Labs team continued developing a new entry level mister irrigation system that is a lower-cost version of our current mister system. These systems have higher water application efficiency than the traditional method of furrow flooding irrigation; water is stored more effectively in the crop root zone, resulting in better yields, along with water and labor savings. We plan to launch this new, entry-level product during the first quarter of the next fiscal year. We also temporarily halted the production of our Lotus solar irrigation pump after it experienced engineering problems related to the pump's motor components coming from China. Labs team is collecting feedback from users and investigating various solutions to resolve the problem. Users have shown strong satisfaction with the solar pump, and indicate that their primary reason for purchase is to save on fuel costs.





*FARM ADVISORY SERVICES* customer Than Zaw Min meets with Tin Tun Aung, one of Proximity's field agronomists, in Madaya township. Than Zaw Min sought advice and treatment steps for what he suspected was a bacterial blight infection in his fields. This kind of blight is deadly for cultivated rice and he feared the worst. Tin Tun Aung confirmed the bad news but he also recommended a treatment: the application of a copper-based fungicide to prevent the blight from spreading. Thanks to the correct diagnosis and quick intervention, Than Zaw Min was able to contain the disease and avoid large-scale crop loss.

## AGRONOMY SERVICES

Myanmar farmers have languished for decades from isolation and the lack of access to best agricultural practices. Today, the government lacks the budget and capacity to reach the country's millions of farmers with extension services, while private agro-businesses promote practices in line with their vested commercial interests. Our Farm Advisory Services team of 110 field agronomists provides rice farmers with hands-on training in "best-fit" agricultural practices including: seed cleaning, soil health management, improved fertilizer application, and plant protection against pests and disease. Our simple and yield-boosting agricultural practices enjoyed high adoption rates of 47 percent among farmers, up from an average adoption rate of 27 percent in the previous year.

Across our targeted, rice-growing geographies, we more than doubled our impact with 51,496 smallholder farmers adopting our agronomy practices this year. Of these farmers, 45,362 were first-time adopters, representing 117% percent growth year-on-year. The agronomy practice with the highest rate of adoption was rice seed cleaning using a saltwater solution, followed by improved fertilizer application and management practices. Our dramatic growth was largely driven by our geographic expansion to eight new townships in the Ayeyarwady Delta and the Central Dry Zone; our team currently operates in a total of 31 rice-growing townships.

We are completing the design process for our first ever revenue-generating service—a fee-for-service Soil Health Diagnostic Test. This low-cost soil test will help farmers cut back on their fertilizer use and increase crop yields, by identifying needed nutrients or soil chemical factors that are limiting plant growth. Farmers can make better use of fertilizer by knowing the appropriate rate for their particular soils and crops, while protecting the environment. Initial product tests have shown promising yield increases of 12 percent per acre on rice, as well as improved plant and seed quality.

This year, our Labs team revisited our crop protection services, and conducted customer surveys and a needs assessment. The high cost of doing "house calls" to respond to farmers' emergency pest or disease outbreaks makes it difficult to scale such a service. We prototyped a call center that allows for the triaging of farmer requests. We diagnosed and gave treatment plans over the phone for common pest and disease problems, and deployed in-field advice when needed. Our Farm Advisory Services also explored new ways to leverage the trust built through our in-person visits and the use of new digital channels. We now have a digital relationship with 8,150 farmers via our two-way, SMS messaging service, Shwe Pyo, and can deliver cropping knowledge and information to farmers in a more timely, customized and cost-effective way.

We're delivering critical farming knowledge to Myanmar's small paddy farmers, currently not provided by the public extension system. This year 51,496 farmers adopted at least one of our techniques.

## FARM FINANCE

The limited availability of affordable farm credit continues to constrain small-scale growers in their farming operations. Private banks and micro-finance institutions have focused more on delivering financial services to urban and peri-urban markets. Proximity Finance is addressing this gap in credit for the underserved, small farm sector.

In June 2018, we welcomed our new CEO, Hedvig Sundberg, who comes with ten years' management experience in commercial banking/microfinance in Africa. She was most recently CEO of AccessBank Tanzania. Our farm lending grew 9.6 percent from last year and now has a total number of 85,963 borrowers. We fell short of our plan to grow to 118,000 borrowers, due to delays and uncertainties in the regulatory environment that hampered inflows of overseas debt capital. Our outstanding loan portfolio reached USD 17 million, representing year-on-year growth of 13 percent. Crop loans comprised 87 percent of the portfolio with the rest made up of rural enterprise (9%), livestock (4%), and migration loans (<1%). The business had a profitable year and remains the largest revenue-generator across our platform of products and services, accounting for 88 percent of Proximity's total earned revenues for the year. Proximity Finance's annual net operating profit grew 56 percent year-on-year, to USD 877,995 on earned revenues of USD 5.5 million. Loan repayment rates remain high, with PAR>30 days at less than 1 percent.

Proximity Finance continues to search for ways to develop better products for small farmers, to manage risks associated with farm clients and to diversify our portfolio. We have been experimenting with increased loans sizes in

response to farmers' needs and requests. In addition, we took measures to comply with new government regulations for compulsory savings and designed a savings program to be gradually rolled out to all of our branches during the coming year. We are currently operating through 16 branches in 63 townships in the major farming regions of the country.

## ECONOMIC RESEARCH

Proximity leverages our in-depth, on-the-ground knowledge of the country and our trusted local networks to conduct macroeconomic research, in partnership with economic development experts from the Harvard Ash Center. We work opportunistically to conduct timely research and analysis, to provide independent feedback to Myanmar's decision makers on the impact of their politics on the broader economy and vice versa, so they can be clear-eyed about their choices. This year, we continued to engage with both Muslim and Buddhist community and national leaders. We researched possible solutions to Myanmar's humanitarian crisis of the displacement of 700,000 Muslims from Rakhine state. We produced two discussion papers targeted for Myanmar leaders that outlined options of actionable solutions to the crisis. Upon request, we also briefed international leaders who requested our analysis of developments in Myanmar.

## New Talent



**Michael van den Berg**  
*Chief Financial Officer*



**Hedvig Sundberg**  
*Head of Proximity Finance*



**Dr. Nang Seng Aye**  
*Chief Agronomist*



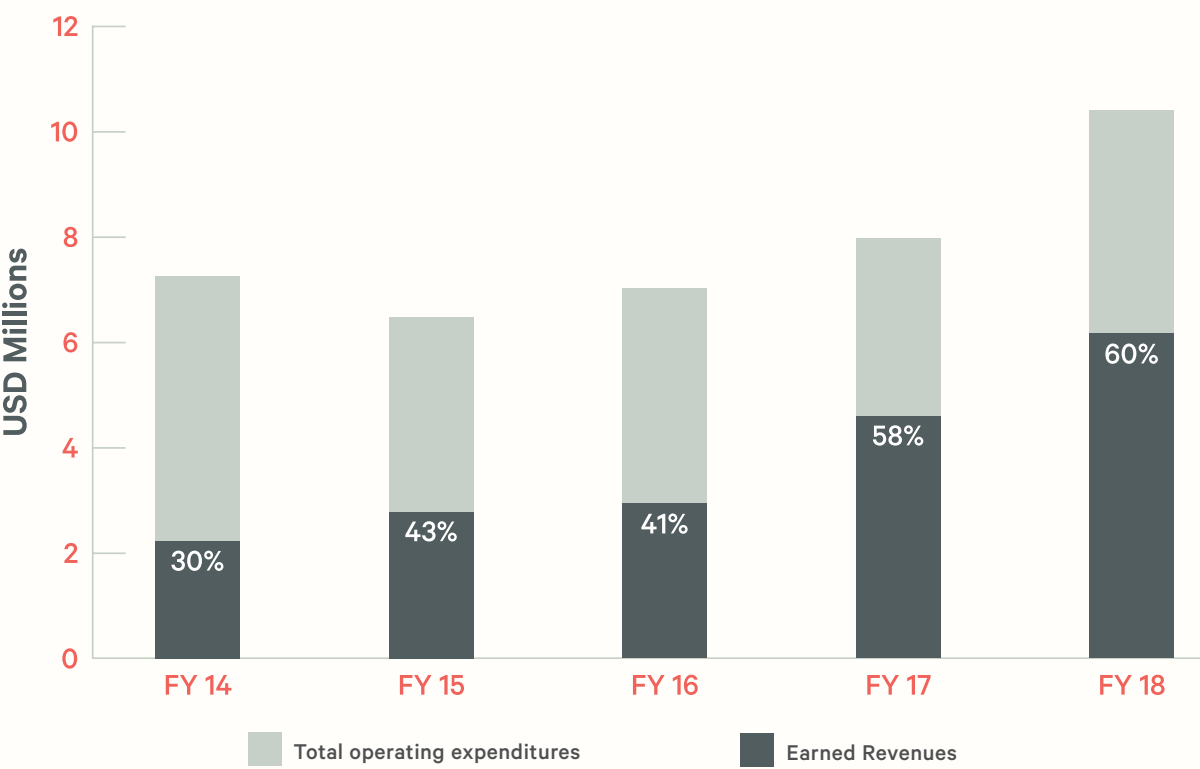
**Tom Lloyd**  
*Head of Marketing and  
Communications*

## TALENT

This year, we welcomed several new professionals to our senior leadership team, including Michael van den Berg, who replaced Piet Schutter as our Chief Financial Officer. Hedvig Sundberg joined as Head of Proximity Finance and Tom Lloyd is the lead for our new marketing team. We also added a Chief Agronomist, Nang Seng Aye, who holds a PhD in soil science.

This year, Proximity School expanded its in-house training programs to deliver staff development and learning on 32 different topics, including communications, sales, management, growth mindset, and English language. We provided a total of 40,840 hours of training, averaging over 45 hours of training per employee. In addition, 267 employees went through our onboarding process, reinforcing our workplace culture among both new and existing employees. At the end of FY2018, Proximity Designs had a total of 830 employees.

# Proximity Designs Operating Expenses Covered by Earned Revenues



## FINANCIAL HIGHLIGHTS OF FY2018

- We covered 60 percent of our operating expenses through earned revenues, nearly the same ratio as the previous year.
- Our total operating expenses were USD 10.5 million, which was 24 percent lower than budgeted. The main factors contributing to this lower spending were the delays in hiring key staff and in procuring our new core banking system for Proximity Finance.
- We earned USD 6.3 million in earned revenue from sales of products and services; 88 percent of this income came from our farm finance business.
- Despite falling short of our earned revenue target by 12 percent, actual earned revenue for the year still grew 37 percent from the previous fiscal year.

## INVESTORS

This year, 18 donors and 9 lenders supported our operations. The majority—60 percent—of our grant income continues to come from social impact foundations, while bilateral donors contributed 28 percent. Proximity Designs secured USD 6.44 million including multi-year grants, with 61 percent being unrestricted funds. Proximity Finance brought in USD 8.2 million in debt funding this year.





# Financial Results

## INCOME STATEMENT FY 2017-2018

*in thousands of US Dollars					
	YETAGON IRRIGATION	FARM ADVISORY SERVICES	PROXIMITY FINANCE	PROXIMITY RESEARCH	TOTAL
Grant Income	\$2,651	\$3,967	\$573	\$155	\$7,346
Earned Income	\$757	\$17	\$5,512	\$3	\$6,289
TOTAL INCOME	\$3,407	\$3,985	\$6,084	\$158	\$13,634
TOTAL OPERATIONAL EXPENSES	-\$2,414	-\$2,583	-\$4,633	-\$846	-\$10,476
Total Operational Expenses covered by Earned Income (%)					60%
NET OPERATING INCOME	\$993	\$1,401	\$1,451	-\$688	\$3,158
Please note that this financial report excludes remeasurement gain/loss					

Proximity continues to fill a unique space as we navigate the challenges of working in Myanmar. We've been able to establish a scalable model in what is considered one of the most difficult countries in which to do business.

## Market Conditions and Outlook

This past year was a particularly challenging one as Myanmar's escalating Rohingya crisis brought the country into further isolation. This has led to economic slowdown (including reductions in foreign direct investment), which in-turn has led to heightened military influence. Proximity continues to fill a unique space as we navigate the challenges of working in Myanmar. We've been able to establish a scalable model in what is considered one of the most difficult countries in which to do business. Myanmar is also a country experiencing climate change and is prone to natural disasters. Politically and economically, it is going through a difficult transition from decades of military rule and conflict. We continue to adapt to provide services and products to our rural customers whose needs are evolving as well.

We are excited about entering the next phase of our social business. We plan to deepen our impact on farm households, by integrating our three ventures — agronomy advisory services, farm technologies and farm finance — in a joint platform to serve a growing, countrywide customer base of over 640,000 farmers. A platform approach can provide an integrated offering

of products and services that are better aligned with individual farmers' customized needs and crops, and that support them through the various stages of the cropping cycle—from seed cleaning, planting, soil health, irrigation, fertilization and crop protection to harvest. We will be strengthening our organization-wide infrastructure to support this platform, including a customer data management system.

Proximity is also encouraged to see market growth emerging in micro-irrigation in Myanmar. Four local sales organizations and manufacturers have emerged. We are intentionally playing the role of "market-maker". We do this by introducing innovations into an existing market, paving the way for other suppliers to enter, and by showing the viability and demand for particular products and services among small-scale farmers. Next year, Proximity will continue to work on growing and deepening our reach in targeted agro-climatic zones that have a high density of small-scale farmers. We do not expect Myanmar's political/economic environment to improve greatly in the near future, and will need to continue navigating these broader macro challenges.



**PROXIMITY LABS** Lead Designer Aung Koko is seen here brainstorming a product strategy for Yetagon Irrigation. In the ideation stage, a cross-functional team composed of sales representatives, zone managers, and designers pitch ideas that will meet the needs our staff have seen in the field. The team will then narrow the choices to concentrate on the best-fit ideas for prototyping and testing. This human-centered approach to product development puts the consumer at the fore, and allows us to create long-lasting, innovative products that directly meet farmers' most critical needs.



**PROXIMITY SCHOOL's** Lead Trainer, Kwi Kwi, teaches a Customer Engagement course to staff from Farm Advisory Services and Proximity Finance. The course gives employees the skills they need to have meaningful interactions with their customers. Our ability to foster long-lasting relationships with farmers through quality customer service helps us to better understand their needs and increase our impact. This year, School gave 40,833 hours of training tailored to adult learning. These trainings covered a wide range of subjects, from employee onboarding to skills such as financial modeling and creative problem-solving.





**PROXIMITY FINANCE** customer, Lei Lei, stands in front of her home in Hmawbi township. The first loan Lei Lei received in 2015 allowed her to pay off her family's high-interest loans from an informal money lender and buy livestock. This investment stabilized her income, particularly in the lean season between harvests. After raising ducklings for a few years she was able to sell 140 of them to buy a higher-value pig. In Myanmar, pigs offer a good return on investment—after reaching maturity, they fetch four times their original price at market. Providing working capital to farmers allows them to diversify their income sources, making them more resilient to potential shocks. Today, Lei Lei has greater flexibility to invest in new business opportunities.



**SOCIAL IMPACT** team member Phyto Thi Ha Tun interviews a farmer in Pyay township. Over the course of the five-week research trip into the impact of our agronomy techniques, the team interviewed 772 farmers in 48 villages. These interviewees included both customers and also a control group of rice farmers with a similar profile. We invest in this kind of research because, in addition to helping us measure the impact of our products and services, it also allows us to better understand our customers. While in the field we gather data on a number of dimensions from demographics to motivations, as we observe recent trends in farming practices. Impact assessments provide key insights that tell us about our past operations and give us the data we need to improve our future work.

Proximity's work this year was supported by the following donors and lenders:

Alterfin  
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Cotopaxi, Inc.  
David Weekley Foundation  
DfID (Department for International Development)  
FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden)  
Grameen Credit Agricole  
Hampshire Foundation  
Jasmine Social Investments  
King Philanthropies  
LEAP201  
LIFT (Livelihoods and Food Security Fund)  
MCE Social Capital  
Montpelier Foundation  
Mulago Foundation  
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