

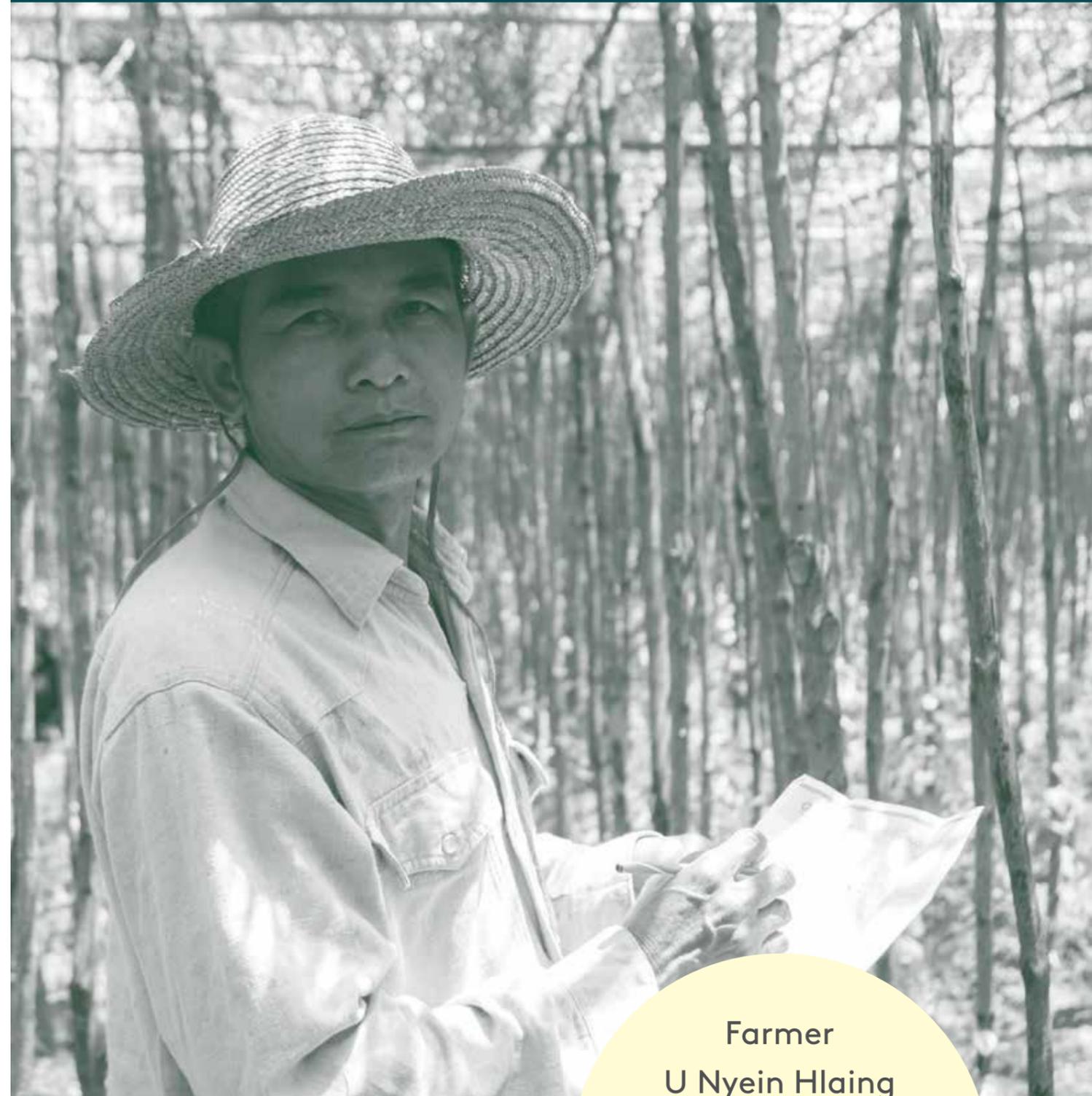
Proximity Designs Quarterly Report

Quarter 4, FY2015
1 April to 30 June 2015

Q4

SUMMARY: Q4 RESULTS

Our fiscal year ended on a high note with our Annual Meeting, when 380 staff gathered in Yangon from across our four business units to report their performance for the year. A total of **72,439 rural households** purchased our products and services. This past quarter, our irrigation business experienced increased sales over comparable quarters in previous years. We are trying to make our irrigation business less seasonal by extending aggressive sales activities through the monsoon season. As planned, we wound down our solar lantern business this quarter. Extensive analysis had shown declining prospects for significant income impact among rural households, due to Myanmar's unprecedented and rapid penetration of solar lantern products by private manufacturers, largely from China. With additional new leadership, our Farm Advisory Services unit began expansion into six new townships for this coming year. Proximity Finance, our farm finance business, received major and timely funding that will allow us to resume expansion plans, despite government restrictions on international capital flows. At the national level, our economic policy work began a new and timely engagement with the country's military leaders.



Farmer
U Nyein Hlaing
records data on
his betel crop to
share with our
design team.

SMALL PLOT IRRIGATION

Investing in sales training and responding to growing labor-saving needs among farmers

With upgraded sales skills and better mid-management, our sales force generated increased irrigation product sales through the current monsoon season, resulting in total quarter sales of 3,516. This represents a 21 percent year-on-year jump for the quarter.

This year, we sold a total of 19,480 irrigation products, an 11 percent year-on-year decrease. This is due to three major factors: first, a dramatic rise in rural wages (caused by accelerating out-migration and rural labor shortages) has reduced demand for human-powered, treadle pumps. In recent years, lower cost diesel pumps from China have entered the Myanmar market. Second, we changed our approach to product financing by focusing on cash and installment sales, and eliminated extra financing or 'top-up' loans. (Offering these extra loans on top of irrigation products tended to have boosted sales in the past). Cash sales therefore jumped to 72 percent of irrigation revenue this year, compared to 23 percent last year. Third, we re-trained our sales force mid-year, which interrupted some of our selling activities. After the intensive training, we reduced our sales force by 25 percent, as some low-performing sales reps could not meet our monthly targets consistently under our new sales system. Our total product mix for the year shifted; treadle pump sales were down 34 percent year-on-year, while labor-saving drip irrigation sales were up 40 percent.

We are preparing to launch our newly designed solar-powered irrigation pump next quarter – an exciting, safe, clean and low-cost alternative to the widespread diesel engine pumps currently being used by many farmers. This past quarter, we successfully completed life-cycle testing and produced models for early sales demonstrations. Farmers have shown keen enthusiasm for this new solar pump, as it provides an attractive alternative to the expensive operation of diesel engine pumps.

RURAL ENERGY

Sales wind down amidst solar options and government plans for grid expansion

We sold 13,372 solar lanterns this year, approximately 78 percent of the total sales last year. After extensive analysis of the future business prospects and competitive landscape, we completed the phasing out of our household energy sales operations this quarter, with some of our sales staff opting to shift to irrigation sales or becoming loan officers. The availability of imported, low-cost solar lights and small home systems in rural areas continues to grow rapidly across Myanmar. Our lanterns were no longer the first or primary light for rural households, therefore our estimated social impact per product declined from around USD30-50 annually to only USD10. Our cost per unit sale remained too high to justify continuing this business that will generate lower impact outcomes.

Our design team works on our new solar-powered pump that will help farmers save on diesel costs.



Our loan products provide capital to small-plot vegetable farmers, who do not qualify for government loans.

We also researched two other business options: 1) the market for larger solar home systems (100W) costing USD 400-500 each and 2) micro-grids for villages. Both the 100W solar home system and the micro-grid options require substantial investment and years to break even, proving too risky in the midst of rapid changes in the market. Also, the government's National Electrification Plan to cover our core markets with grid connections over the next ten years is becoming credible. Japan, the Asian Development Bank and World Bank are also introducing significant subsidized schemes in our market area. Although the decision to exit the solar lighting business was a difficult one, it will allow us to focus on activities that generate greater social impact.

PROXIMITY FINANCE

Additional funding enables expansion

We ended this year with 36,689 loan clients – a 28 percent year-on-year increase in our rural customer base. Our average loan size grew 16 percent to USD 220. We increased our outstanding loan portfolio to USD 7.4 million, up from USD 5.6 million last year. Our repayment rate is currently over 97 percent (PAR>30 is 2.7 percent). There continues to be opportunity for rapid growth in this business due to the large, unmet demand for affordable credit among small farm households in Myanmar. Our various loan products currently serve rice farmers, irrigation product customers, duck and goat-raising landless families, and vegetable growers. Most of our non-rice growing farmers do not qualify for loans from the government agriculture bank.

FARM ADVISORY SERVICES

Expanding geographically to serve more rice farmers

Over the past year, we reached 9,180 new rice farmers with new, climate-smart rice cropping techniques in a relatively small target area in the Ayeyarwady Delta. This past quarter, we began laying the groundwork to expand to six additional townships this year. We named Phyu Hninn Nyein as Operations Manager of our Farm Advisory Services team and began a recruitment process to add new field staff.

We are developing a pipeline of new products and services to accompany our geographic expansion plans. These include commercial rice seed production models to expand access to improved rice seed; adapting the design of direct rice-seeders to help farmers sow more efficiently; developing prototypes of sensor technologies that can support farmers with precision agriculture; weather-indexed crop insurance; and piloting farm mechanization services. These ongoing design projects point to the increasing interaction between our irrigation, finance and farm advisory operations

new staff



Phyu Hninn
Nyein



Eaint Myint Mo



Nge Oo Mon



Zachary Gould



Yawng Ku

TALENT

Talent crunch causes us to rethink recruitment and staff development

This quarter, we focused on our highest priority – our Talent Initiative – crystallizing our strategy for employer branding, recruitment, onboarding, retention and development of our high quality staff. The Myanmar job market remains highly dynamic and competitive. There is intense competition for managerial talent in all sectors.

We named **Phyu Hninn Nyein** to lead our Farm Advisory Services operations. **Eaint Myint Mo** joined Proximity Finance as an Assistant Program Manager; she recently returned from work and study in Singapore. We also welcomed **Nge Oo Mon** to our staff; Nge Oo is a Burmese, U.S.-educated “repatriate” with experience in marketing. **Zachary Gould** joined our design lab and workshop as an engineering fellow. **Yawng Ku**, a Myanmar national, returned from Malaysia recently to join our design team as Senior Designer.

Our
Design Team and
Farmer U Nyein Hlaing
read soil moisture
data from an early
sensor protoype.

NATIONAL ECONOMIC POLICY RESEARCH & ENGAGEMENT

New and timely engagement with the country's military leaders

This quarter's highlight was a substantive meeting and discussion that occurred between our policy research team and the Commander-in-Chief of the Myanmar armed forces. Proximity and our research partners from the Harvard Ash Center met with the country's top six military leaders, to discuss a range of topics including economic growth, resource-sharing and democratic transition. The military leaders accepted our invitation to bring a select group of senior leaders to Indonesia, to learn from Indonesia's military reforms and transition. This past quarter, the research team also visited Rakhine State, to explore economic growth prospects and solutions to the country's sectarian strife. We updated one of our earlier research papers, *"A Fatal Distraction from Federalism: Religious Conflict in Rakhine State."*

DONORS

In FY2015 Proximity was supported by the following donors and lenders:

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Proximity and our research partners from Harvard Ash Center met with Myanmar's Commander-in-Chief and his top five generals in the capital Naypyitaw. We discussed economic growth, resource-sharing, and Myanmar's democratic transition.

SIX MONTH OUTLOOK

Myanmar is entering a period that could bring its most dynamic change yet. National elections are scheduled for 8 November 2015, and 90 political parties will be vying for power. Most insiders and observers expect elections to be free and fair, although the outcome is unpredictable in terms of the new government and coalition.

The next quarter in the run-up to the elections may be disruptive to our business. Political election may dampen our sales activity, as there may be travel restrictions around the elections. We expect a lot of campaign activities in rural areas, including the distribution of subsidized loans. We may also experience more government paralysis as government departments become uncertain about direction and election outcomes. Foreign direct investment is slowing down, as investors adopt a wait-and-see approach. The outlook for our rural finance business and the micro-finance sector in general is looking brighter, as the Central Bank and international finance institutions try some innovative approaches to loosening controls.

The latest violent flooding that damaged major parts of the country appears to have been not only a result of climate change, but from decades of neglect of the country's major watersheds and river bank areas. Experts view it as a sign of Myanmar's environmental havoc that is yet to come. We are still assessing the damage caused to our farm customers.

Our policy work is going into high gear with significant opportunities to engage the military. The military's role in the country remains important if not dominant, and it is uncertain how well an elected government will be able to implement policies aimed at improving economic conditions and political stability. This is the situation before elections in November 2015—a situation in which fundamental choices of strategy about the nation's future have to be made.

Q4

