



Rice farmers in Sin Par Pouq village, Delta wave after sharing stories about adopting new “best-fit” cropping techniques.



Quarterly Report | Q1 FY 2015

1 JULY–30 SEPT, 2014

We began our 11th year of operations in Myanmar by expanding initiatives in each of our business units and developing our latest innovations in irrigation, farm finance and farm advisory services. We started the year with strong growth in most areas and achieved increased incomes for 16,282 rural households. In Q1, we brought new leadership and talent to our finance and energy initiatives. We’re investing in transforming our field sales organizations to improve sales. We further diversified our farm finance loan portfolio and product offerings to reach customers in new geographies. Our Farm Advisory Services team continued rolling out an innovative technique for farmers to grow additional rice and cash crops in the Ayeyarwady Delta. Our outlook is positive in the midst of disruptive changes occurring across all of our markets.

16,282 rural households with increased incomes this quarter.

2,173

irrigation
products sold
this quarter

Smallholder Irrigation

Investing in rural sales techniques to fuel impact through sales

We sold 2,173 irrigation products this quarter, a 64 percent year-on-year increase. The Q1 monsoon season is traditionally our lowest sales period for irrigation. Of our direct sales, nearly 75 percent were purchased with cash in a single payment, whereas in previous seasons the majority of sales were financed by our in-house credit arm. This payment shift reflects our new efforts to increase cash sales and improve purchasing power among our rural customers due to broadly improving crop prices in recent months.

We brought on a new National Sales Director - Sai Han Linn, who brings strong sales and marketing experience from Myanmar's commercial sector. In FY2015 we're making significant investments to transform our sales organization to be more effective. We launched this project with an ongoing series of intensive week-long training modules for our field sales reps to improve their sales skills and engagement with our rural customers. We're also investing in improving our critical first-line sales managers and refocusing our key sales metrics on sales presentations and close rates.

We project that by the end of this fiscal year, our 105 sales reps and network of independent agents and agro-dealers will have sold over 25,000 irrigation units.

Design Initiatives

Bringing new product and service innovations to rural Myanmar

We continue to focus much of our organizational efforts on bringing new product and service innovations to rural customers across Myanmar. For critical market insights, we rely heavily on our field staff and agent networks who are in direct touch with our customers and communities on a daily basis throughout the year. This in-depth knowledge combined with our design team user research, informs which customer 'pain points' to focus on as we design each product, service, and customer experience to maximize social impact.



A farmer in Meiktila township checks out a prototype of our new solar-powered irrigation pump.

This quarter, our design teams have been developing these exciting new products and services:

Solar irrigation pump: To add to our line of small-plot irrigation technologies, we're designing a new and dramatically more affordable irrigation pump, powered by solar energy. Rapidly rising rural wage rates have forced many farmers to mechanize their small farm operations. Diesel-powered water pumps have entered the market but are difficult for women to operate, and are environmentally harmful. Our design team has partnered with engineers from Stanford's d.school to design a solar-powered irrigation pump. The pump fits into narrow two-inch diameter tube wells used nationwide, and connects with our existing water storage containers and gravity drip system products.

Livestock loans: Proximity is quickly emerging as one of the major players in farm finance bringing innovative new loan products to the rural market in Myanmar. We're now extending our financial services beyond crop loans into other farming activities. In Q1, we piloted a loan product designed specifically for farmers whose primary business is raising ducks. Loan terms are tailored to the income flows of raising ducks.

Double and triple cropping: Our Farm Advisory Services team is innovating to help low-income farmers mitigate some of the negative impacts of climate change in Myanmar's Ayeyarwady Delta. Rising sea levels and tidal action have brought increasing levels of saltwater into low-lying areas of the Delta, threatening rice harvests. Our agronomists designed and piloted customized planting schedules so farmers can grow an additional rice crop and sesame crop within a single freshwater season. This simple technique more than doubles farm incomes in the food insecure and environmentally fragile coastal areas of the Delta.

4,652

units sold
this quarter

Renewable Rural Energy

Refocusing geographic coverage and expanding product offerings

Our rural energy sales reached 4,652 units this quarter, up 4 percent over the same period last year. Ms. Su Mon, one of our senior managers assumed a leadership role of this important business unit. We evaluated and rationalized the size and geographic coverage of our sales force, resulting in a quick improvement of about 9 percent in direct sales over the previous quarter. We consolidated our operations—focusing more heavily in Myanmar's Dry Zone where solar exposure is greater.

Inexpensive but low quality solar lanterns and panels from China have continued to rapidly enter Myanmar's rural areas. An increasing number of homes in the Dry Zone use make-shift, solar panel-car battery-LED lights in their homes. In response, we engaged in extensive market research to better understand where the energy market is heading in the next 2-5 years. We're looking to expand our product offerings beyond solar lanterns to include solar home systems and other energy solutions.

\$6.1m

outstanding
loan portfolio
extended to
clients

Rural Financial Services

Growing loan portfolio serves increasingly diverse rural sectors



Ma Myat Myat Htway is the duck loan group leader in Mhaw Aine Village.

Proximity Finance, our farm finance business, continued to grow its nationwide operation this quarter. In September, Chris Hering came on board as our new General Manager. Chris previously managed microfinance institutions in East Africa and Central Asia, and will lead Proximity Finance through its next phase of institutional development.

We disbursed 9,868 loans in Q1, bringing our total clients to 34,400 with an outstanding portfolio of US\$6.1 million. We plan to disburse another 6,277 loans in Q2.

In Q1, we piloted our livestock loan product and expanded geographically. Ma Mya Mya Htway provides an example of the impact our loans can have. As a group leader of our duck loan pilot, she received her first loan this quarter for her duck egg business. She had been ineligible for a loan from other lenders because she doesn't own land. She used her loan to purchase nutrient-rich food for her ducks to lay more eggs during the traditionally lean month of July. In just two months, Ma Mya Mya Htway earned enough money to buy a cellphone, which she uses to call vendors in town to secure better prices for her duck eggs.

Over the past year, we've grown our ratio of non-rice farmers like Ma Mya Mya Htway from 25 to 39 percent of the overall portfolio, and will continue to expand our non-rice loans. We also continued our "Direct-to-Customer" programs that extend loans to our long-time irrigation customer base. This diversification reduces our portfolio risk, provides more regular cash flows, and smooths out our field officers' workload. We plan to continue this expansion through FY2015 and open three new branch offices.

5,406

farmers adopted
new techniques
this quarter

Farm Advisory Services

Delivering “best-fit” agricultural practices

Our Farm Advisory Services (FAS) continues to be a key resource in spreading sustainable agriculture practices through the Delta. The team promotes peer-to-peer learning to build community trust and deliver our carefully curated, low cost techniques to farmers.

Since starting in 2010, our 27-member team has reached over 38,000 households with proven “best-fit” rice-cropping techniques, impacting nearly a quarter million people. 5,406 farmers adopted FAS-promoted techniques this quarter, which puts us on track to reach our target of at least 16,000 households by the end of FY2015. We’re now launching a pilot for triple-cropping with sesame in the Delta to further improve incomes.

National Economic Research

Supporting Myanmar leaders with context and analysis

Proximity continued to partner with Harvard University’s Ash Center to research critical issues related to equitable economic growth. This quarter, we focused on researching Myanmar’s electricity supply, demand and pricing, and how to close the gap. Without an adequate supply of electricity in the short and medium term, Myanmar will not be able to sustain economic growth needed to fuel a smooth transition to peace, development and democratic governance. David Dapice and Thomas Vallely, experts on Southeast Asia from the Ash Center at Harvard’s Kennedy School, have led the efforts in this research.

This quarter, Proximity was invited to participate in several international social enterprise and business events in Myanmar including a social enterprise panel talk with visiting Nobel laureate Muhammad Yunus; the Chatham House Round Table on “Myanmar’s Transition”; and the Myanmar Global Investment Forum.

Talent Pool

A talented mix of locals, foreigners and repatriates joined our growing team

Proximity recruited five key staff members in Q1. **Chris Hering**, our new General Manager of Proximity Finance brings extensive banking and microfinance experience from East Africa and Central Asia. **Aung Kyaw Min Oo** has joined us as an Area Manager on our financial services team. We recruited **Sai Han Linn** as National Sales Director to lead the sales organization of our Irrigation business. He brings strong sales experience from his previous work in the private sector. **Su Hlaing Win Nu** is now leading our staff training and professional development program. She recently returned to Myanmar having studied and worked in the U.S. for the past ten years. To manage our Business Development and Donor Relations work, we recruited **Fiona Natusch**. From New Zealand, she holds a Masters degree from Cambridge University with previous work experience in economic consulting in Asia.



Chris Hering



Aung Kyaw Min Oo



Sai Han Linn



Su Hlaing Win Nu



Fiona Natusch

Six Month Outlook

Disruptions in farming, energy and rural finance markets present some tough challenges and new opportunities

Myanmar's rural sector continues to experience significant changes. In the farming sector, increasing levels of internal and external migration are pushing rural wage rates up to between \$4-\$5 per day. This bidding up of rural labor is driving increased mechanization and intensification even among small farmers. This puts pressure on some of our product categories but opens up new opportunities as well.

The government's ambitious plans to develop energy infrastructure in rural areas is off to a slow start, but we may see significant electrical grid expansion in the next 5 to 10 years. We're re-examining our energy business and looking for opportunities in pre-electrification in Myanmar's 50,000+ villages.

The amount of capital available for rural lending has increased, but is focused heavily among rice farmers in the Ayeyarwady Delta. Government regulators make it difficult for foreign loan capital to enter Myanmar and to expand lending. Our investments in strengthening our rural sales and distribution capabilities are critical to building a distinctive and sustainable advantage in serving rural customers. There continues to be lots of movement of talent in the rapidly expanding job market in Yangon. We're competitive in this market but overall, Myanmar is becoming a high cost economy to operate in. Our deep operating experience and knowledge are serving to be distinct advantages for us.



U Kyi Soe expanded his duck farming enterprise through one of Proximity's loans in Konyangon township in the Delta.

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