



Quarterly Report

Q2 FY 2012 | 1 OCT - 31 DECEMBER 2012

Proximity had a strong Second Quarter with solid growth in our rural energy, agricultural micro finance and farm advisory services units. Irrigation product sales were weaker than expected due to increased competition from inexpensive small engine pumps, a four-week pause in sales of our newly launched plastic pump and a tightening of our credit program. We expanded and strengthened our national rural distribution network and hired new individuals in four key management positions. Proximity was recognized as one of the Schwab Foundation’s Social Enterprises of the Year 2012.

Smallholder Irrigation

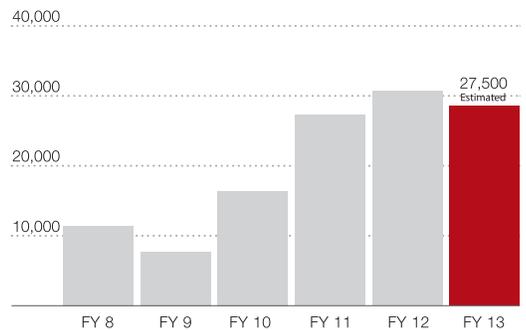
Irrigation sales have been weaker than projected

11,398

irrigation products sold in Q2

This quarter we sold 11,398 irrigation products across Myanmar. Our product line this year consists of four foot-pump models, two models of water storage tanks and a gravity-fed drip irrigation system. This quarter we introduced a new plastic pressure pump called the Kywe Pauk (means “baby water buffalo” in Burmese) and a re-designed 250 gallon water storage tank. Our overall sales during the quarter have been about 15 percent lower than projected. Three factors seem to be contributing to lower sales volumes. First, during November and early December – the biggest sales months of the entire year – we discovered problems with our new plastic pressure pump – so we had to suspend its sales for 4 weeks while our design team solved the problem. Second, during Q2 we sell most of our irrigation products on credit. This year, we have tightened our credit policies to reduce the number of non-performing loans. Third, we are seeing increased competition with our foot-operated pumps from low-cost, small horsepower, gasoline pumps imported from China. With rural wage rates rising for farm labor, farmers are opting for less labor-intensive farming techniques.

Irrigation Product Sales
UNITS SOLD



276%

increase in solar light sales

Rural Energy

Strong sales growth this quarter

Solar lighting sales for the quarter were 4,428 units, up 276 percent over Q1. We are co-marketing three models of lanterns under our Yetagon Energy brand and the d.light brand. We are now carrying d.light's upgraded product line with better solar panels and longer warranties. During this quarter we hired 14 new sales staff to market solar products in 7 townships across both lower and upper Myanmar. We plan to hire an additional 22 dedicated solar light sales staff in Q3, and 100 of our irrigation sales staff will start to sell solar lights in addition to irrigation products during Q3.



Solar lights are used in many income producing activities. We also began offering lights on 100-day credit plans through Yetagon Credit and village groups. Providing financing will be critical for reaching our sales target of 25,000 lighting units by the end of our fiscal year in June 2013.

Rural Financial Services

Innovating agricultural microfinance

We extended 9,834 crop loans this quarter through Proximity Finance – our agricultural microfinance unit. Balloon payments (principal + interest) on these will be collected after the 2012 monsoon paddy harvest in January 2013. We're projecting non-performing loans at less than 2% percent – despite difficult economic conditions. Much of this quarter has been spent raising capital to grow the loan book beyond the current \$1.2 million to \$5.9 million. We were able to secure commitments for \$4.7 million from Norfund and the Livelihoods Trust Fund in Myanmar. Proximity also received its microfinance license from the Government of Myanmar.

We provided product loans under Yetagon Credit – our consumer credit unit – to 8,041 farm families to finance irrigation product purchases. This represents a year-on-year decline of 15 percent. The drop in the number of loans issued was the result of using improved underwriting criteria as well as a re-design of the types of loans offered. We are aiming to reduce our non-performing loans across the portfolio to below five percent.

17,875

families receiving financial services this quarter

Farm Advisory Services

Promoting climate-smart agricultural techniques

Our Farm Advisory Services teams currently provide knowledge services to farmers in two townships in the Irrawaddy Delta and two townships in the Dry Zone. 2,943 new farmers adopted our rice seed grading method using a saltwater solution during Q2. Rice farmers enjoy average yield increases of 6-10 baskets of paddy from this method, resulting in an additional \$200-300 of income annually. 389 smallholder farmers adopted low-cost techniques to enrich soils. Nearly 80 percent of our agriculture microfinance borrowers also received farm advisory services from Proximity. The team is prototyping other promising simple, climate-smart techniques such as the use of natural wind-breaks and green fertilizer among farms in the Dry Zone.



80% of our loan customers also use our farm advisory services

Village Infrastructure

325 projects on tap for 2013

Proximity continues to rehabilitate rainwater harvesting reservoirs across Myanmar's Dry Zone using a cash-for-work program that creates a much needed economic stimulus in these very poor regions. Our teams conducted assessments in 520 villages in the Dry Zone during Q2, selecting 260 reservoir sites to begin renovations in January 2013. These village pond projects will create wage income opportunities for an estimated 50,000 poor households over the next six months. In the Irrawaddy Delta, 65 village infrastructure projects have been selected to begin construction in January 2013 – these consist of footpaths, irrigation canals and footbridges. These projects, vital for connecting isolated villages to towns and markets, will provide cash income for an estimated 5,000 households.

55,000

estimated number of rural families receiving wage income this season.

Economic Research

Bringing insightful economic analysis to key leaders

We continue to combine Proximity's on-the-ground knowledge of rural Myanmar with a partnership of economists and development experts from the Ash Center at Harvard to research pressing issues in the economy. Through this research, we provide independent and insightful economic analysis to key leaders in Myanmar's nation building efforts. Our research team has studied key national issues including resource-sharing for ethnic states, electricity, the exchange rate and agriculture policy. Major policy papers written during this quarter include:

1. "Outline for Constructive Conversation on Building Coalitions and Nations"
2. "Against the Odds: Building a Coalition – Using a new Federalism for Unity and Progress in Myanmar"
3. "Electricity in Myanmar" (updated)

Rural Distribution Channels

Building out a 'last mile' distribution network

We've increased our focus and investments in building out our rural distribution and sales channels this quarter. We added 36 new **agro-retailers**, bringing our dealer network total to 198 outlets. We trained 287 of our **village agent** entrepreneurs across our 10 market zones nationally. Our new **Agent Kiosk** channel has been redesigned following a successful pilot last year, and 83 new Agent Kiosks in villages have been launched. This new retail channel is designed to make our products available closer to customers. These Kiosks are operated on a micro-franchise model, offering both irrigation products and solar lighting products. Finally, over 600 **village groups** have been engaged in selling solar lights, and 392 are now being used by Proximity Finance to distribute agriculture loans. During this quarter we trained leaders from over 400 of these village groups.



Ko Htin Kyaw, Agent, one of our 840 village agents

83

new village Kiosks
launched

'Nothing Left to Lose'

Taking a big risk leads to good future

Three years ago, U Than Htike, a small plot farmer, and Yetagon customer in the Irrawaddy Delta, was struggling to get enough income from his 1/3 of an acre plot to feed his family of five. His poverty had made him extremely risk averse. In spite of the local Proximity agent's best efforts, he refused to try drip irrigation on his plot, continuing instead with his old and familiar, but inefficient, sprinkler can watering. It took a hernia three years ago for U Than Htike to change his mind. Unable to work on the farm, and forced to take his children out of school, he felt like he had nothing left to lose, so he went to visit his local dealer and installed drip that very day. And that was when his luck changed. Today, he owns two acres of land, all growing high value crops. His wife was out selling them at the market when we visited -- something she never had time for before -- and his children are back in school. He's also helping his friends with their farms in his spare time, hoping that they can share in some of this good fortune too.



From risk averse to
evangelist

Social Impact

Measuring the impact of our agricultural microfinance and infrastructure work

During this quarter our Social Impact team completed two major assessments. First, we conducted a survey of 364 of our agricultural microfinance borrowers. The most common use of the loans funds was to purchase fertilizer and hire local farm labor for planting and harvesting. 99 percent of borrowers were very satisfied with the loan services they received. Second, we completed an assessment of the social impact of our village infrastructure projects in the Irrawaddy Delta. Interviews with 467 villagers, small business owners and village groups showed these projects effectively target the most vulnerable and cash-strapped families in villages providing them with over \$50 in additional income. The infrastructure projects significantly reduce travel costs, times and lead to a noticeable increase in economic activities.

99%

customers satisfied with
loan services

Donor Relations

Raising capital to fuel our growth

This quarter the following donors renewed commitments to support Proximity's work; the Royal Norwegian Government, Mulago Foundation, the Conservation Food/Health Foundation and the Mortar Foundation. In addition, we are in the midst of negotiating with Norfund and the Livelihoods Donor Trust Fund to secure support to expand our farm lending portfolio. Proximity was honored to receive the Schwab Foundation's Social Enterprise of the Year 2012 award. Finally, our new website was launched this quarter. We now have a digital presence on all major social media.

Talent Pool

New additions to our management team

During Q2 we made several key additions to our management team. **Philip Frazer** has joined us as our first Chief Financial Officer. Philip, a CPA, has over 10 years of private sector experience as a CFO, primarily in the hospitality industry in the US. He relocated to Yangon in December. **Thwin Naung Soe** joined us as manufacturing manager. He has 5 years of manufacturing management experience in Singapore. He holds a MSc in Product Design from Nanyang Technological University, Singapore and BE Engineering from Yangon Technological University. **Wae Win Khaing** joined us as one of our HR managers; she comes with 4 years of HR experience in the private sector. **Gill Pattison** became our manager for Proximity Finance, our new Agricultural micro finance business. Gill is a successful entrepreneur in Yangon and former banker with Citibank in Hong Kong. **May Thu Khine** has joined our donor relations and business development team in Yangon. May Thu worked for Girls Inc. in New York prior to joining Proximity. A native of Myanmar, she is a graduate of Davidson College in the US.



Philip Frazer



Gill Pattison



Wae Win Khaing



Thwin Naung Soe



May Thu Khine

Six Month Outlook

We anticipate very strong growth in both our rural energy and agricultural microfinance operations over the next six months. We hope to begin the national expansion of our Farm Advisory Services during this period as well. Irrigation sales are likely to remain weak over the next six months due to increased competition from small engine pumps. We now expect sales to decline by about 15 percent compared to last year. We enter the final year of our rainwater harvesting reservoir work in the Dry Zone undertaking an ambitious 260 projects that will provide incomes for over 50,000 households. Overall, despite the huge interest by both foreign investors and aid donors, Myanmar's rural economic performance remains very weak. Labor continues to migrate out of rural areas and the overvalued exchange rate is hurting all primary producers – especially in agriculture. We do foresee a rapid rise in mobile phone penetration across all of our markets in the next six months which will open up new opportunities to communicate with and serve our customers.

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