

Proximity Designs Quarterly Report

Quarter 2, FY2015
01 Oct – 31 Dec, 2014

Q2

SUMMARY: Q2 RESULTS

October through December marks the beginning of the annual ‘dry season’ in Myanmar. The monsoon rains are over and small plot farmers turn to growing crops using irrigation. Our work now centers around five main areas: irrigation, farm finance, advisory services, rural energy and policy research. Although treated as separate business units, at the customer level, we’re seeing a great deal of interaction. Across all of our work, during the first half of the year we achieved increased incomes for an additional 37,766 rural households.

Proximity Finance, Farm Advisory Services and Policy Research are each pursuing aggressive expansion efforts. Our Irrigation business is returning to more stable and sustainable growth, while our rural energy efforts are restructuring and we’re re-examining our longer-term strategies in light of rapidly evolving rural electrification efforts by the government. Overall, our products and services innovation pipeline is solid. Operationally, we’re becoming more efficient. Attracting and retaining high quality Burmese talent continues to be one of our most important focus areas.



Farmer examines
prototype of our
upcoming solar-powered
irrigation pump.

SMALL PLOT IRRIGATION

Transforming our rural sales force performance

We sold 6,548 irrigation products from October through December, a 28 percent year-on-year decrease. This is due to two factors. First, we are re-tooling our entire direct sales effort to become significantly more effective. We continued to make significant training investments to transform our sales organization including intensive week-long training programs for all field sales reps. We've seen improvement in our key sales metrics of number of sales presentations and close rates across most markets. First-line sales managers are learning coaching and motivational techniques.

Second, we've changed our approach to product financing with a new emphasis on cash sales and a dramatic reduction of "top-up" loans. For example, during Q2 last year, 81 percent of our direct irrigation sales consisted of these 'top-up' loans and only 7 percent were cash sales. This year, cash sales have jumped to 64 percent of our sales and we've issued no 'top-up' loans. Our sales force became more efficient, with cost per direct sale decreasing by 41 percent. We project this year's irrigation sales will reach 27,000 units, a 10 percent increase over last year.

Our manufacturing quality and productivity of irrigation products has improved this year. We fine-tuned our water storage tank production processes to improve quality and expanded capacity in drip system production to meet growing demand. The launch of our new solar irrigation pump has been delayed until Q3, due to difficulties in sourcing key components from China.

PROXIMITY FINANCE

Increased demand for credit among diverse borrower groups

Our farm finance business, Proximity Finance, continued to grow and diversify its nationwide operations. We disbursed a total of 6,757 loans this quarter to bring our total clients to 37,169 with an outstanding portfolio just over US\$7 million. We have secured significant funding from international lenders, but final approval has been delayed by the Myanmar Central Bank's general reluctance to allow overseas borrowing. Over the past year, we've grown our ratio of non-rice farmers from 25 to 39 percent of the overall portfolio, and will continue to expand our non-rice loans. We also continued programs that extend loans to our long-time irrigation customer base.

Product financing. We continue to provide modest amounts of financing for our irrigation and solar lantern customers. So far this year, we have distributed only 11,237 product loans as compared to 15,543 at this time last year. This decline stems from several factors. First, we have focused more on cash sales in our selling efforts and less on loans. Second, Myanmar's economy experienced its best year of growth (7 percent), resulting in better purchasing power among our rural customer base. Third, there is more credit available from other sources in rural areas this year, so there is no longer total reliance on our loans. We will continue offering short-term installment loans to select customers of our irrigation and energy customers.

FAS staff measures
a square-meter section
of paddy to sample
crop quality over time.



U Than Win
in Mawgyun processes
harvested rice
with mechanized
thresher.

FARM ADVISORY SERVICES

Growing our service offerings through innovative new channels

Our Farm Advisory Services (FAS) effort in the Delta will complete its three-year program in April 2015, when funding from the multi-donor consortium LIFT grant ends. We are now in the planning stage to significantly redesign our farm advisory services, with a view to expanding geographically beyond our current 2 townships in the Delta, to include at least 30 townships across Myanmar. The redesign will re-focus on scaling existing services, the creation of new products and services, and expand our distribution channels to include mobile technology, video and radio. We're seeking funding for this effort at a level of \$2 million per year over the next four years. We're also pursuing a new business model that departs from the current 100 percent grant funded model to one that includes a significant amount of earned revenues.

RURAL ENERGY

Credible public investments in grid expansion to rural areas are emerging

The pace at which inexpensive, low quality solar panels from China are entering into Myanmar's rural areas continues to surprise us. In many Dry Zone villages, the majority of homes now use solar panel-car battery-LED lights combinations. We continue to engage in on-going research on how the rural energy market is evolving with an eye on opportunities for impact. We see modest growth potential in the solar lantern market, and the now credible government plans to extend the electricity grid over the next 15 years is causing us to re-examine the market potential for high quality 100-watt solar home systems and mini-grids.

Our rural energy sales reached 2,316 units for the period from October through December—a significant decline over the same period last year. There are several reasons for this decrease. Our sales force was reduced because we ceased sales operations in the lower Ayeyarwady Delta. We had to focus on a major recall and replacement of defective d.light products and in December our direct sales force completed intensive sales training, like our irrigation team. The goal of the restructuring is to reach operational break-even by June 2015.

NATIONAL ECONOMIC POLICY RESEARCH AND ENGAGEMENT

Proximity continued to partner with Harvard University's Ash Center to research critical issues related to equitable economic growth. During this period, 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. Prof. 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. We also welcomed one full-time staff member and two part-time advisors to our policy research team. They contribute varied experiences from academia, finance and policy in Southeast Asia and beyond.



new staff

Q2



Aye Kyithar Swe



Aung Kyaw Moe



Aung Phyto Wai



Hnin Yee Aung



Win Aung

TALENT POOL

This quarter, we continued to recruit some of the best and brightest talent in Myanmar to grow our organization. **Aye Kyithar Swe** joined our Policy Research team in December. She studied economics at Singapore Management University and previously worked in Singapore for two research firms. **Aung Kyaw Moe** joined our People Operations team as an Associate. His background is in education administration in rural Myanmar. **Aung Phyto Wai** joined our IT Services team as an Associate with experience in technology support in the private sector. **Hnin Yee Aung** has been hired as an Assistant HR Manager for Proximity Finance. Hnin has previous HR management experience. **Win Aung**, brings strong engineering experience to our manufacturing operations in Yangon.

As of the end of the quarter, Proximity had a total of 425 employees.

SIX MONTH OUTLOOK

The operating environment in rural Myanmar continues to evolve quickly in a number of key sectors. Labor shortages in rural areas seem to be accelerating, putting increasing pressure on farmers to mechanize their operations. This creates new opportunities for both new technologies and equipment financing. Overall, farmers are intensifying their operations which bodes well for demand of our irrigation products and our farm advisory services.

The outlook for rural energy markets is uncertain. Government plans for grid expansion seem more credible and large multilateral donors such as the World Bank and Asian Development Bank seem keen on providing significantly subsidized solar powered systems, leaving limited room for market-based players.

Mobile phone penetration is growing rapidly despite still limited coverage and sporadic connectivity. However, mobile represents a potentially significant new channel to reach our customer base. Demand for rural financial services continues to be almost limitless at this stage, but regulatory barriers make it difficult for us to expand as rapidly as we would like. Finally, we believe we're at a critical juncture in Myanmar's political development. There is strong demand for our high-quality, unbiased research and analysis across the political spectrum. Despite a great deal of difficulties operating in Myanmar, we remain optimistic.