

Proximity Designs Quarterly Report

Quarter 3, FY2015
01 January to 31 March 2015

Q3

SUMMARY: Q3 RESULTS

As the 'dry season' in Myanmar comes to a close, many of our customers are now harvesting their summer crops. For Proximity, this quarter has harvested mixed results. Our irrigation unit is in the midst of building a stronger sales foundation and has already seen sales grow stronger this quarter. Our Farm Advisory Services unit is preparing for a significant expansion over the next three years, with a number of exciting product and service innovations in our design pipeline. The energy unit was stabilized, but the long-term prospects for having social impact in this area are limited, so we are now considering winding down this business. Proximity Finance is facing funding constraints due to the Myanmar Central Bank's decision to cap interest rates on cross-border loans to all microfinance institutions, which has caused our customer growth to level off. Hiring high-quality Burmese talent has become a top operating priority.



SMALL PLOT IRRIGATION

Reducing costs to deliver irrigation products to smallholder farmers

In the year to date, we've sold 15,112 irrigation products compared to 19,804 at this point last year. The single biggest factor for this drop was the reduction of our field sales representatives by a third, and the re-training and restructuring of our sales organization. Rising rural wage rates and the inflow of cheap motorized pumps from China are also putting downward pressure on our treadle pump sales. On the other hand, these same factors also contributed to a 26 percent increase in our labor-saving drip irrigation sales compared to this time last year.

Improvements in national infrastructure and our own investment in sales training are reducing costs for delivering our irrigation products. Transport networks are improving rapidly, allowing us to deliver directly to points throughout Myanmar, without trans-shipping through Mandalay city in the north. Our channel sales team received the same training as our irrigation sales force, helping them to drive stronger sales through our 147 active dealers.

Our in-house knowledge and impact team completed their annual impact assessment and customer satisfaction survey for our irrigation unit this quarter. On average, our customers gained an additional \$254 in net annual income from using our irrigation products. This also helped them reduce time spent irrigating their land by an average of 42.3 hours per month. 87 percent of users recommended our product to a friend or neighbor. 18 percent of customers used our products to diversify their vegetable plots.

In addition to providing safeguards against crop-specific pests and diseases, diversification can also prove extremely profitable. For example, until last year farmer U Kyaw Moe would only grow traditional crops during the monsoon months. Installing a drip irrigation system allowed him to continue cultivating well into the dry season, so U Kyaw Moe decided to use the technology to plant melons. Because he was the first farmer in the region to try this, he traveled to a different township to learn how to properly cultivate melons. His effort paid off, and U Kyaw Moe sold his bountiful melon harvest at the Chinese border town of Muse to further increase his profits, which the family used to build a new house and expand their farm. This year, U Kyaw Moe is encouraging other farmers to grow non-traditional dry season crops, and is expecting to earn 1.7 million kyat (roughly USD \$1,700) in profits from his next melon harvest.

RURAL ENERGY

Refocusing our energy efforts towards agriculture

Over the past quarter, we have looked hard at Proximity's role in the rural energy market providing affordable solutions to low-income families. In Myanmar's rapidly changing market, our solar lanterns are no longer the primary lighting source for our customers. Thus our social impact from this product is declining. The private and public sectors are rapidly filling the market with affordable off-grid solutions for rural households, and the government's

Our latest impact survey shows that irrigation customers increased their annual incomes by an average of \$254.

National Electrification Plan intends to cover our core markets with grid connections. Moreover, the World Bank, ADB, and the Japanese Government are introducing subsidized schemes for renewable energy in the areas where we are operating.

With rural households' energy needs increasingly met by these other players, we are looking to scale back our efforts in this area and focus on other promising opportunities where we can create sizeable impact for rural families. Over the next quarter, we plan to sell our remaining solar lantern inventory and collect the outstanding installment loans. Our focus going forward will be on solar-powered irrigation pumps.

PROXIMITY FINANCE

Demand for credit continues to grow despite regulatory restrictions

This quarter we disbursed 8,280 loans to existing customers, bringing us to an outstanding loan portfolio of \$6.6 million with 33,392 active customers.

Myanmar's Central Bank continues to restrict the availability of overseas capital to microfinance organizations. By capping the interest rates allowed for cross-border loans, our microfinance business is unable to receive significant funding that we secured from international lenders. This poses a significant challenge for our plan to grow and diversify Proximity Finance operations this year. With national elections on the horizon in November 2015, it is unclear if this will be resolved before the end of the year. Despite these challenges, we opened a new office in Kungyangon to meet demand for duck-raising and crop loans there.

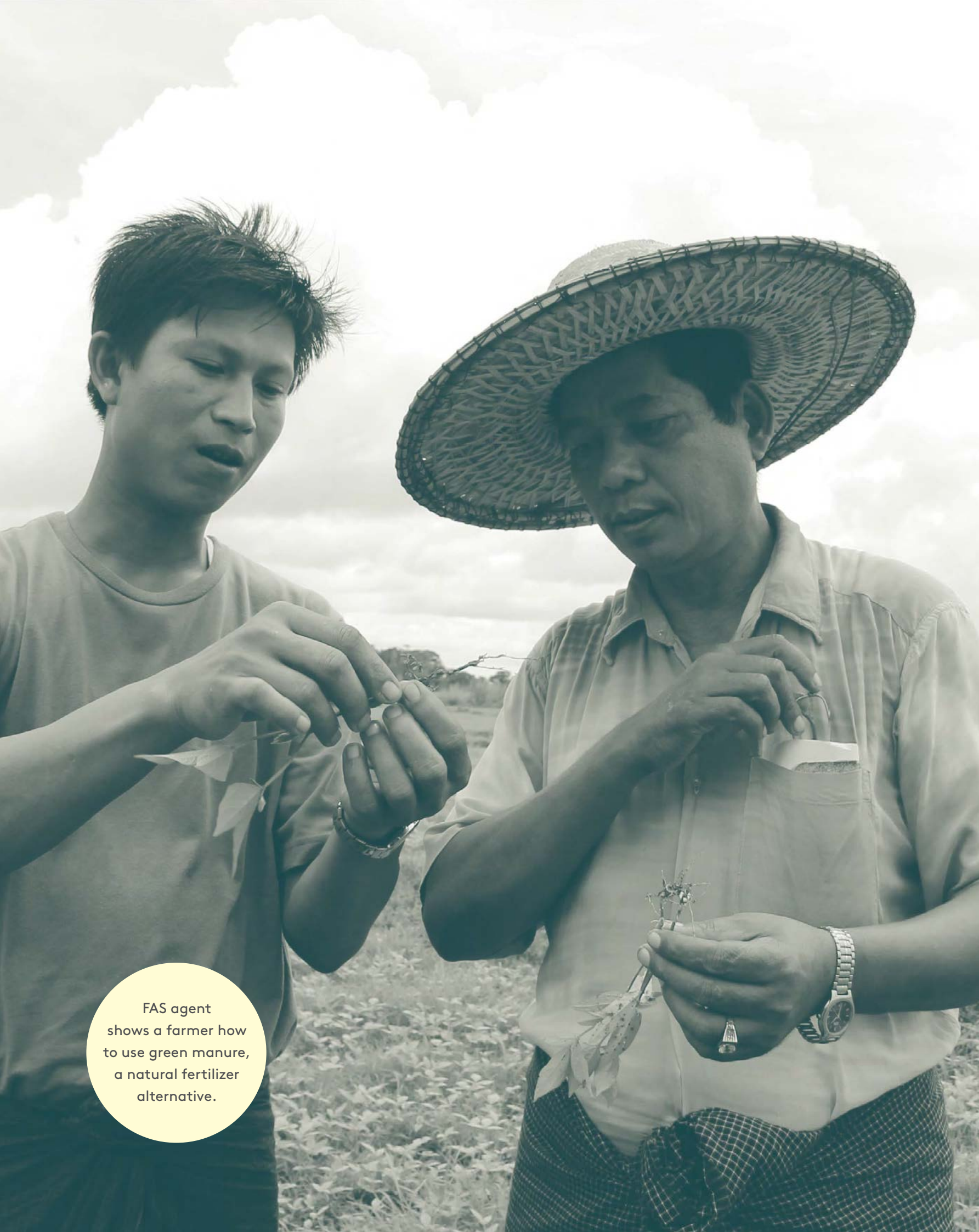
FARM ADVISORY SERVICES

Preparing to expand our advisory services across Myanmar

Our Farm Advisory Services (FAS) team was recently featured on Al Jazeera as part of their [earthrise](#) documentary series highlighting responses to climate change.



A farmer harvests rice manually, a practice that usually takes over 70 man-hours per acre.



FAS agent shows a farmer how to use green manure, a natural fertilizer alternative.

The Al Jazeera documentary highlighted our double-cropping technique, which allows farmers to grow a second crop of rice in coastal areas where saltwater intrusion normally occurs. Over the past quarter more than 871 farm households in 107 villages harvested their second crop using this technique, effectively doubling their incomes and dramatically improving their food security.

We are now approaching the completion of our three-year program in the Delta, as funding from the multi-donor consortium LIFT grant ends in April. We are looking to expand these services geographically beyond our current two townships in the Delta to include at least 30 rice-growing townships across Myanmar. We'll also be creating new services and expanding our delivery channels. We have received a significant investment from the Skoll Foundation to initiate this expansion. We also anticipate a matching donation from USAID and are looking to redesign our business model to incorporate earned revenues.

new staff



Min Oo



Hla Yamin Hkike



Nyan Lin Htet



Semone Aye

TALENT

Proximity added four key staff in the past quarter. **Min Oo**, our new National Channel Sales Manager, brings with him 16 years' of sales and marketing experience in Myanmar. **Hla Yamin Hkike** has joined Proximity Finance as Direct-to-Customer (DTC) Area Manager, where she leads our program to provide irrigation customers with tools for financial inclusion. She contributes several years of experience at other microfinance groups, including Pact and OK Myanmar. **Nyan Lin Htet** is the newest member on our product design team. Nyan Lin is a bright, young engineer who has a keen interest in product design. This quarter, we also welcomed KIVA Fellow, **Semone Aye**, who is our first Burmese-American fellow. Semone is taking a sabbatical from her job in the US as a marketing director of a national lending firm.

As of 30 March 2015, Proximity had a total of 401 employees. This drop compared to last quarter represents our focus on sales training and filtering out poor performers. As the labor market for top Burmese talent continues to get more competitive, we are undertaking a Talent Initiative to improve our ability to recruit, develop, and retain quality staff.

NATIONAL ECONOMIC POLICY RESEARCH AND ENGAGEMENT

Our “Choosing Survival” research paper has been received very well this quarter. It is now into its third printing since January with more than 300 copies distributed. During this past quarter, we also engaged regularly with ethnic leaders, the democratic opposition and government ministers. We are now seeing the idea of “federalism” gaining momentum with Myanmar’s leaders. This is an exciting development in which the military and the President’s Office proposed a motion for power, resource and tax sharing between the union and local governments.

SIX MONTH OUTLOOK

Myanmar’s operating environment continues to change rapidly presenting exciting opportunities alongside immense challenges. On the one hand, farmers are facing increasing costs of production, with growing pressure to mechanize their operations. Labor shortages continue, pushing rural wages up even further. Wages are now at least double what they were this time last year. The demand for rural credit is relentless, yet the Central Bank restrictions on international debt capital continue to constrain our ability to expand and diversify our microfinance services.

On the bright side, connectivity is increasing throughout the country. Rural roads are improving, reducing travel times. Smartphone penetration continues at exponential rates, while the service providers are trying to overcome capacity constraints to meet the demand. Rural electrification efforts are gaining momentum, as large multilateral donors are keen to support and subsidize the expansion of grid, and off-grid options. Solar products and farm inputs continue to flow in from China at increasingly affordable prices. Overall, we remain optimistic as Myanmar continues to be a dynamic market, providing numerous opportunities for innovation at the bottom of the pyramid.



Farmers are turning to mechanization to cope with growing labor shortages.