

Proximity Designs Quarterly Report

Quarter 1, FY2016
01 July to 30 September 2015

SUMMARY Q1:

The highlight of our first quarter was a most rare event for us—a weeklong leadership program we designed for Myanmar military leaders. In August, we took a group of the country's military leaders to visit Indonesia's leaders, to learn from their relevant experience with military reforms, economic growth and democratic transition. It was a huge success. Heavy rains in July caused major flooding and landslides in several states and divisions, having a devastating impact on rural households and agricultural livelihoods. Nearly 1.1 million acres of rice paddy were affected. Proximity continued to provide financial services and advisory support to farm households in this extremely challenging environment. This quarter, smallholder farmers delayed their irrigation equipment purchases, resulting in 1,877 units sold—a 25 percent decline over the same period last year. Our Farm Advisory Services coverage expanded to four new rice-growing townships in the Ayeyarwady Delta. Proximity's farm finance business grew its portfolio by 5 percent from the previous quarter.



Q1



Five military generals travelled with us to Indonesia, to hear firsthand from retired Indonesian military reformers.

PROXIMITY'S TRIP PROVIDED IMPORTANT TAKEAWAYS FOR MYANMAR'S MILITARY:

- Democracy is a messy process; it requires a commitment to resolving differences through listening and dialogue rather than violence and conflict.
- Political and economic inclusiveness is key to success as a nation. This can be achieved through decentralization of power and resource sharing at regional and local levels.
- A shared vision of religious and ethnic diversity, tolerance and prosperity can serve as a strong unifying force in nation building.
- The military has an important role to play by modernizing and supporting democratization.



Rice farmers adopt land leveling to improve yields.

PROXIMITY RESEARCH

New engagement with Myanmar's military leaders

Last June, our policy research team, along with our partners from Harvard Ash Center had an unprecedented meeting with the Commander-in-Chief of the Armed Forces. At that time, we took the opportunity to invite a select group of military leaders to travel with us to Indonesia, to participate in a 5-day leadership program that we designed. Surprisingly, the Senior General accepted our invitation. (The Myanmar military's self-imposed isolation and reluctance to engage with outsiders had been frustratingly rigid for six decades. Many people had come to see the military's insular nature as an insurmountable hurdle to the country's progress.)

As a result of our invitation, a delegation of nine persons from the Myanmar military and the President's Office traveled with us to Jakarta and Bali in August. The Myanmar generals engaged with and learned firsthand from former Indonesian generals and leaders who had spearheaded successful military and democratic reforms. It was inspiring and instructive to learn from the personal experiences of these credible leaders who transformed Indonesia from an authoritarian regime into the prosperous democracy it is today.

We plan to respond to follow-up requests for research and analysis, and engage with Myanmar's leaders to support the country's critical peace process and nation building.

FARM ADVISORY SERVICES

Expansion, extension and exploration

This quarter, our Farm Advisory Services team added 20 new staff to our field force in four new townships in the Ayeyarwady Delta. Our expanded field team conducted introductory meetings in 225 new villages with 3,969 farmers, demonstrations of innovative rice cropping techniques with 815 farmers, provided on-call diagnostic services to 97 farmers and supported farmer club meetings in 40 villages.

In partnership with design firm Studio D, we conducted a six-week foundational study this quarter on smallholder rice farming in Myanmar. This design research will identify opportunity areas for the development of new products and services for smallholder farmers. We are creating 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; developing digital channels to deliver cropping information to farmers; adapting the design of small farm implements such as land leveling equipment and direct rice-seeders to help boost production; developing prototypes of sensor technologies to support farmers with precision agriculture; and piloting weather-indexed crop insurance.

In Q2, we plan to improve our operating performance by strengthening our field sales capabilities.

PROXIMITY FINANCE

New funding enables growing portfolio and client base

With loan disbursements mainly to returning customers in Q1, our portfolio grew by just 5 percent, to USD 6.7 million. Year-on-year, our client base grew 15 percent to 38,100 borrowers by quarter end, while our portfolio grew 42 percent from last year. Our maximum loan size now stands at \$200. The devastating flooding that hit Myanmar in July fortunately did not impact the large majority of our borrowers. However, where borrowers were badly affected, we offered the option of rolling over their loans for later collection.

During this first quarter, we received approval for funding of USD 8.1 million from the LIFT Livelihoods Trust Fund (a Myanmar based multi-donor fund), to be disbursed over two and a half years. These new funds, a combination of grants and subsidized loans, will allow Proximity Finance to meet expansion plans to reach 56,900 clients this coming year. We prepared for this expansion this quarter by opening a new branch in the Dry Zone and accepting applications from over 8,000 new borrowers in this region.

YETAGON IRRIGATION

Farmers delay purchases due to heavy monsoon flooding

In FY2016, we aim to build our position as Myanmar's market leader in small farm irrigation equipment. In Q1, sales through our dealer shops amounted to 586 units, bringing total irrigation sales to 1,877 — a 25 percent year-on-year decline for the quarter. Our direct sales staff sold 1,291 irrigation products — a 26 percent decline from the same quarter for last year. The decline in sales was caused in part by the flooding in many parts of Myanmar — which was unprecedented in its severity and prolonged period, causing farmers to delay purchasing irrigation equipment for the coming season. Another factor contributing to slower sales is that we are not offering top-up loans this year. 89 percent of our sales were cash sales whereas the same quarter last year had 72 percent cash sales. Our sales force of 90 reps made 7,670 product presentations — half as many presentations as last quarter, largely due to the difficulty in traveling to flooded areas. This quarter, our sales reps also supported our Proximity Finance business unit and disbursed 4,960 crop loans to irrigation customers.

We are working to increase sales through both our dealer and village agent channels this year. We have 87 "Tier 1" dealers who each have minimum sales of 15 products. This quarter we are targeting 80 "Tier 2" dealers to increase their sales. Our active agent network currently consists of 478 active agents, who have each sold an average of ten products.

TALENT

Continued focus on staff recruitment and staff development

This quarter, we continued focusing on our Talent Initiative efforts in employer branding, recruitment, interviewing and hiring, onboarding, benefits, and retention and development of high quality staff. The Myanmar job market

Historic flooding disrupted farm communities nationwide, affecting nearly 1.1 million acres of rice.



The democratic opposition's landslide victory on November 8 ushers in a new period of uncertainty.



Phyu Phyu Pyae



Thin Thin Htwe



Kyaw Swar Aung



Hsu Thet Htoon



Jennifer Khun Kyin Hmwe

remains highly dynamic and competitive, with intense competition for scarce managerial talent in all sectors.

Our people operations team grew with the addition of Talent Development Manager **Phyu Phyu Pyae**. Phyu Phyu previously worked as a manager for Mercy Corps' social enterprise activities in Myanmar. We named **Thin Thin Htwe** to manage our Agent Network. Thin Thin comes with prior experience in sales and marketing, and was promoted from our Dealer Network team. **Kyaw Swar Aung** and **Hsu Thet Htoon** joined Proximity Finance as Internal Auditor and Loan Product Manager respectively. Kyaw Swar brings previous private sector experience as an internal auditor. Hsu Thet is a U.S. Chartered Financial Analyst and holds a BA in Finance from the U.S. She spent eight years working in the U.S. including stints at Citibank and at AIG, and returned recently to Myanmar. We also welcomed **Jennifer Khun Kyin Hmwe** as Manufacturing Manager. Jennifer is a Burmese "repatriate" with manufacturing experience in the U.S. She received her industrial engineering degree from the University of Texas.

SIX-MONTH OUTLOOK

Myanmar's historic national election took place on 8 November 2015, marked by unexpected and unprecedented orderliness, passion, dignity and enthusiasm among 24 million voters. Voter turnout was about 80 percent as people cherished the experience of voting for the first time in their lives. An overwhelming victory has been declared for the National League for Democracy, headed by Aung San Suu Kyi. Many voters see their respective votes as a vote for a clear mandate for change that has been long overdue, rather than the selection of a particular leader or party. Whether the winning party can meet the high expectations placed on them as well as work together with the powerful military and fractured ethnic groups will be the question. With such significant shifts in Myanmar's political environment, the next six months are uncertain. We don't expect any shifts in our irrigation activities. We expect a positive change in leadership at the Ministry of Agriculture could support Myanmar's farmers and complement our advisory services' outreach. The new government will not be in place for another six months, so we expect our finance activities to continue operating under the current constraints set by the Central Bank. We expect demand for our policy research work to grow, to support leaders on all sides of the country's peace building and national dialogue process.