SUMMARY Q2:

Proximity kicked off its second quarter of the year with the launch of our new “Lotus” solar irrigation pump. This coincided with the coming of the new dry season in Myanmar in October. This quarter, over 25,000 new farm households adopted our rural products and services. Farmers purchased 7,025 of our irrigation products, representing a 7 percent increase in year-to-date sales compared to last year. Our Farm Advisory Services team expanded services to yet another two rice-growing townships, bringing our presence to a total of 8 townships in the Ayeyawady Delta. Proximity Finance grew its loan portfolio by 30 percent, compared to Q2 last year, and we now serve a total of 48,000 rural clients. Our design teams’ research and pilots included sensor technology, mobile messaging to improve communication with farmers, and rice seed multiplication to help households adapt and thrive in Myanmar’s fast-changing rural landscape.
YETAGON IRRIGATION

Powering small scale irrigation with the next generation of products

Over 150 people joined us in Yangon to celebrate the launch of the “Lotus”, which we hope will become a significant milestone for rural Myanmar. We invested much time and thought in the branding of the product for our rural customers. We began a limited roll out of the Lotus—the world’s most affordable solar-powered irrigation pump—to 30 farmers in various parts of the country. We are finishing lifecycle testing of modified motors, and sourcing motor housing pipes from China.

The Lotus represents a new way of powering agriculture for Myanmar’s smallholder farm households. Our pump features include:

**Designed for Myanmar farmers.** It’s submersible and designed specifically to fit neatly in the 2” (50mm) tube wells common throughout the country. When working at a depth of 24ft, the Lotus pump can yield over 15,000 liters of water per day.

**Quiet and effortless.** Women and children can operate it easily.

**Affordable.** At USD 345, the Lotus costs less than buying and maintaining a diesel engine—and that’s including 260W of high quality solar panels.

**Rapid payback.** The Lotus has a rapid payback period of just ten months. Customers can save up to USD 300 per year in fuel, as they replace heavy and costly diesel engine pumps.

**Made in Myanmar.** The Lotus is manufactured locally and was designed by our in-house team in partnership with Stanford University’s d.school.

Total second quarter sales of our irrigation products amounted to 7,025 units, reflecting a 26 percent increase year-on-year, largely due to favorable crop prices across Myanmar. Compared to the first quarter, sales spiked 275 percent. This spike is largely due to the pent up demand with the coming of the dry season and dampened sales after severe flooding during the first quarter. Our portion of cash sales continues to grow; 72 percent of sales were cash, an increase from last year’s cash sales of 64 percent.

Our direct sales staff sold 61 percent (4,308 units) and the remaining 39 percent (2,717 products) were sold through dealer shops across Myanmar. Our best-selling products continue to be drip irrigation products, which comprised 75 percent of total sales. Treadle pumps now represent only 19 percent of sales while 6 percent comprised of water storage tanks. This change in product mix reflects the rising popularity of drip irrigation among small farmers who are looking for ways to reduce rising labor costs due to rural labor shortages.

Our sales force made significant strides in productivity. Sales per staff increased 90 percent from the same quarter last year – jumping from 50 products sold per rep to now 95 products per rep. This productivity increase is especially significant since our force dipped from 90 reps to 83 reps this quarter. Our trimmed down sales force made a total of 12,952 total presentations to rural customers this quarter, a 69 percent jump from the previous quarter. Their closing rate also improved significantly to 26

‘Tech entrepreneurs’ U Myat Kyaing and U Nyein Hlaing are the first farmers to buy the Lotus solar pump.
percent, up from their closing rate of 13 percent last quarter. We believe these improved sales metrics are a direct result of our investments in intensive sales training over the past year.

PROXIMITY FINANCE
Growing our portfolio and diversifying our rural client base
This quarter, we welcomed Savoeung Chann, our new General Manager to lead Proximity’s farm finance business. Savoeung comes with in-depth experience, leading MFIs in both Mongolia and his native Cambodia, and is familiar with rural and agriculture-based clients. Our loan portfolio grew 30 percent year-on-year to USD 8.4 million this quarter. We now serve a total of 48,000 rural borrowers, and are looking to add another 9,000 borrowers by the end of the fiscal year. To manage risk, we’ve diversified our portfolio geographically and offer non-crop loans. Loans in the Ayeyarwady Delta have been reduced from 60 percent to 44 percent of our total portfolio, and we opened two new branches in Upper Myanmar. Loans for animal husbandry now comprise 8 percent, up from 3 percent. Our PAR>30 percentage for the quarter rose to 1.8 percent of total outstanding portfolio, partly due to the lingering impact of Myanmar’s unprecedented flooding during the first quarter.

FARM ADVISORY SERVICES
Expansion, extension and exploration
This quarter, our Farm Advisory Services team added 25 new field staff and expanded services to two new townships. We’re now operating in eight townships in the Delta. We are investing in intensive customer relations and sales training for our farm advisory services team, similar to the training received by our irrigation sales force.

We delivered a 68 percent increase in total farm advisory services, compared to the previous quarter. Our field team conducted 422 introductory meetings and presentations with 10,023 new rice farmers; a total of 3,180 rice farmers adopted new techniques this quarter, resulting in a cumulative total of 9,134 new adopters since July. We provided on-call diagnostic services to 166 farmers, and held farmer-to-farmer exchanges for 326 farmers. We’re currently researching and conducting pilot experiments on crop insurance options; leveraging mobile messaging to keep in touch with farmers; rice seed multiplication; and solutions to contain the outbreak of golden snails pest attacking rice crops in the delta. Craig Mod, one of the designers who worked with us on researching farmers’ use of mobile technology, shared insights in his recent article in The Atlantic. Click here to read about ‘The Facebook Loving Farmers of Myanmar’.

A rice farmer tests a prototype of our Farm Advisory Services mobile messaging system and gives feedback.
PROXIMITY RESEARCH

Engagement with Myanmar’s incoming government

This quarter, our policy research team spent considerable time engaging with newly elected government MPs and leaders from the National League for Democracy party who will be taking over the government in March 2016. We met with their Economic Committee members to discuss priority issues facing Myanmar and how state building might occur post-conflict in ethnic areas. We also had meetings with leaders of eight ethnic armed groups who recently signed Myanmar’s National Ceasefire Agreement.

We produced two research papers on hydropower; 1) “How to Analyze Proposed Dams” and 2) “Hydropower in Myanmar: Moving from Colonial to Commercial”. Myanmar has rich hydropower potential and needs clean energy for economic and social development. (Only 30 percent of the population has access to grid electricity.) Hydro can complement alternative energy sources such as natural gas and solar to fill Myanmar’s huge energy gap. The revenues generated from hydropower can also be shared to build federalism. Myanmar could benefit from many examples of good, smaller size hydro projects globally, which fully consider the social and environmental consequences.

TALENT

Growing our staff through ‘Proximity School’

This quarter, we continued to develop our Talent Initiative efforts. We rolled out a new and improved onboarding process for new hires that includes a field trip to customers and interactions with our various business units. We also developed key courses for staff on topics necessary for them to be successful at work. These courses include: learning presentation skills, conflict resolution, receiving feedback, engaging with rural customers, knowledge of our products and services, learning English, managing people, design thinking, and mindsets/behaviors/values practiced at Proximity. Our goal with Proximity School is to design an effective mix of training methods that use 70 percent on-the-job training; 20 percent coaching; and only 10 percent classroom.

Soe Kyaw Hlaing was promoted to Logistics and Procurement Manager at our Manufacturing facility; Soe returned to Myanmar after working in the private sector in Dubai and Qatar for five years. Aye Pyae Sone Tun joined as Training Coordinator for Proximity Finance and brings five years’ experience in training and adult education. Arkar Bo Bo and Hsu Mon Tun also joined Proximity Finance, as Assistant Product Manager and Assistant Business Development Manager of Proximity Finance. Arkar Bo Bo graduated from the University of Medicine, Yangon and previously worked with a microfinance institution. Hsu Mon received her B.A. in Business and Math from Kalamazoo College in the U.S. where she received a four-year scholarship. Former irrigation product sales reps Thet Naing Oo and Kyaw Zaya were both promoted as Zone Sales Managers in lower Myanmar; they have worked at Proximity for six and four years respectively.
As of end December 2015, Proximity had a total of 439 employees, representing a 4 percent increase over last year and 9 percent increase over previous quarter. 31 percent of our staff are female. Our Farm Advisory Services and Proximity Finance businesses recruited the biggest bulk of this quarter’s new hires (about 39 percent each). We were fortunate to have a low regrettable turnover rate of 1.4 percent this quarter.

**SIX-MONTH OUTLOOK**

Farmers have enjoyed fairly robust crop prices across the board this season. However, they have not been able to reap the full benefits of strong prices due to rural labor shortages (from out migration) and rising input costs. Nowadays, Myanmar farmers are looking to mechanize but face numerous obstacles. They lack access to capital to buy equipment. Poor infrastructure and the lack of land leveling constrain more mechanized rice growing. After the unexpected landslide victory of the National League of Democracy party led by Aung San Suu Kyi, the country is now preparing for an historic transition away from decades of military dictatorship. Most people are in wait-and-see mode. The newly elected government will take over at the end of March and people expect many positive changes in the coming months. We expect greater attention given to supporting smallholder agriculture and rural development by the new government—a welcome change after decades of neglect and dis-investment.

**Watch the design story behind the Lotus: our new solar irrigation pump**