

Proximity Designs Quarterly Report

Quarter 3, FY2016
1 January to 31 March 2016

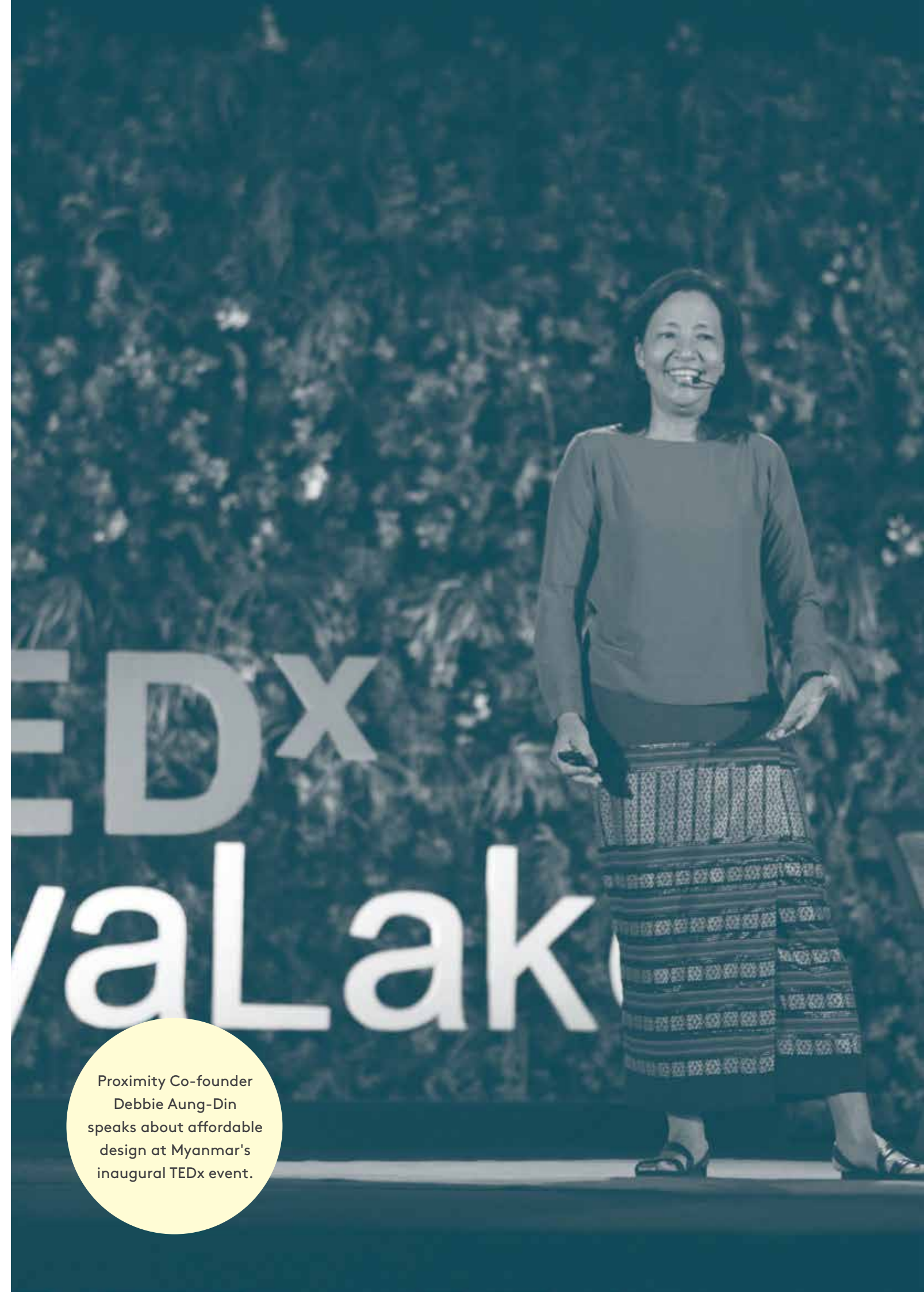
Q3

SUMMARY: Q3 RESULTS

A total of 38,862 new rural households have purchased Proximity products or adopted one of our services as of the end of March 2016. This puts us at 56 percent of our yearly target. We expect to close much of the gap to our target of 69,000 new households by the end of our fiscal year in June. This quarter, farmers purchased 6,264 irrigation products, bringing our total sales this year to 15,166, essentially even with last year. Our Farm Advisory Services team expanded in number and geared up to provide much-needed advisory services to Myanmar's rice farmers. We're behind on our targets, but adoption of promoted techniques is picking up. Proximity Finance kicked off its transformation project, to become a separate legal and financial entity that will still function under the broader Proximity Designs group and shared mission. We added 6,426 new rural borrowers this quarter. Loan delinquencies in two areas continue to be a concern. We made significant investments in design work across each of our three business units. Design projects include re-designing our drip irrigation system to adapt to sprinkler products, prototyping soil moisture sensors, piloting digital channels to deliver farming information, completing research on rice farming ecosystems and designing small enterprise loans.



proximity



Proximity Co-founder
Debbie Aung-Din
speaks about affordable
design at Myanmar's
inaugural TEDx event.



New sprinklers
being tested to meet
changing customer
needs.

YETAGON IRRIGATION

Sales productivity improves

In Q3, we sold a total of 6,264 irrigation products. Our direct sales force sold 5,166 products, a year-on-year increase of 12 percent. Sales through our dealer channel increased 4 percent year-on-year. Our total year-to-date sales reached 15,166 units, generating \$409,000 in total income through the end of March. We are at essentially the same level as last year but with 29 percent fewer field sales reps this year, so sales productivity and cost per sale have improved markedly. In the year-to-date, our dealer channel represents nearly a third of total irrigation sales. The agent network currently comprises 517 village-level entrepreneurs. Cash sales now represent 70 percent of all sales, an improvement over the 56 percent last year. Our product mix continues to shift, with a downward trend in demand for treadle pumps and an increase in demand for sprinkler and drip irrigation systems, as farmers look to respond to rising rural labor shortages.

We've missed our Q3 sales target for the new solar pump due to continued manufacturing difficulties with our imported parts (from China). We're starting mass production in May and hope to start selling this high potential product with full force in Q4. This past quarter we've also begun re-designing our drip and sprinkler irrigation product line in response to changing customer preferences. We expect to launch new drip and sprinkler products in Q2 of next year, giving us a more well-rounded product line.

PROXIMITY FINANCE

Investing in staff capacity to prepare for portfolio expansion

After the rapid expansion of portfolio and customers during the previous quarter, in Q3 new customer growth decreased by 35 percent, while we focused on loan officer development in preparation for a major disbursement in May and June 2016. We acquired 4,000 new farmers through two recently established branches at Monywa and Waw townships, both located in areas where farmers had been affected by flooding earlier this year.

During the quarter, we increased field and head office staff by 27 percent, to a total of 187 employees up from 147 in the previous quarter. In addition, we conducted a performance evaluation of all Loan Officers and Branch Managers, identifying high potential staff for current or future promotion, and identifying training and development needs. To continue diversification of the portfolio away from exclusively agricultural based credit products, we worked on two new products during Q3. We piloted a Migration Loan (to support the families of rural migrants before the migrant can send remittances home) in two branches in the Dry Zone. We continue to research and design our new Enterprise Loan, targeting micro-entrepreneurs based in and around towns in rural areas.



Farmers receive coaching on “best-fit” agricultural techniques.

FARM ADVISORY SERVICES

Adapting to farmers' changing needs through digital channels

During this quarter, the staff responded to 1,109 requests from farmers for our on-call services and provided 1,182 solutions to farmers' pest or disease problems. Our field teams conducted 386 farmer meetings and presentations with 6,029 new rice farmers this quarter; a total of 3,180 rice farmers adopted new techniques as a result of these presentations, resulting in a cumulative total of 10,084 adopters (8,269 unique farmers) of new techniques since July 2015 – the start of our fiscal year.

This quarter, we added 21 new field staff and 10 support staff. We now have a total of 51 field staff, with women agronomists comprising 14 percent of the field force. We continue to research and develop our “1:1,000” digital service, a new digital messaging platform that makes it possible for one field staff member to provide advisory services directly to hundreds of farmers throughout the growing season. This new digital service is designed to deliver timely messages with information about fertilizer application, pests and diseases to rice farmers. Pilot testing has shown adoption levels of around 50 percent.

PROXIMITY RESEARCH

Researching options for natural resource revenue sharing in ethnic conflict areas

This quarter, our policy research team worked with our partner, Harvard Ash Center, and continued researching economic development issues in Kachin and Rakhine states. We travelled to Kachin State and researched ways that Myanmar's multi-billion dollar jade industry could be reformed to benefit local communities, Kachin State and other regions of Myanmar.

As for Rakhine State, it has recently become the poorest state in Myanmar, surpassing even Chin State. This is due largely to the religious conflict that has created large and isolated camps of Muslim, internally displaced people. The conflict has also kept most of the remaining million Muslims confined to their townships. Historic problems with state neglect and low investment have also led to very large outflows of younger workers of all religions. A new Myanmar government has a chance to reverse these dismal trends.

FROM PEST MANAGEMENT TO HELICOPTERS

Customer Name: U Maung Maung
Village: Bu Thin Zu
Township: Bogale
Product/Service: Farm Advisory Services

U Maung Maung gestured to the sluggish waters of the Ayeyarwady River and exclaimed, "I wanted to feed the bugs to the crocodiles. My bank account was being nibbled away!" For years, insects devoured 30 baskets (US\$240) of U Maung Maung's rice harvest, in spite of the pesticides he dumped on his field every season. For farmers like U Maung Maung, who lack access to traditional credit and savings options, a healthy rice harvest is a 'bank account,' essential to ensuring food-security and accruing savings over time.

Three years ago, U Maung Maung attended our Farm Advisory Services integrated-pest management demonstration, crediting it as the "best decision" he has ever made. Working with an FAS agronomist, U Maung Maung trialed a detailed program of reduced pesticide application and adopted simple, innovative techniques, including flooding his fields to eliminate the moisture-averse thrip pest. After his first harvest, he slashed pesticide costs by US\$30. Improved application helped him reap even greater yields, like many adopters of our Farm Advisory Services techniques who earn on average US\$200 per acre more per season.

Earlier this year, U Maung Maung became a 'key-farmer,' adopting an array of smart techniques and sharing them with farmers throughout the region. Last February, six farmers came to him for advice, which he is eager to share. When asked what other techniques or services Farm Advisory Services might consider providing, U Maung Maung's body convulsed with laughter, "Design an affordable helicopter so I can get my harvest to the market faster!"



TALENT

Upgrading staff skills

This quarter, Proximity's total number of employees grew to 466 persons, a 10 percent increase from the previous quarter, and 16 percent increase year-on-year. We welcomed our new People Operations (HR) Manager, **Seng Nu Pan**. Seng comes with over a decade of experience in the social sector as well as in journalism. She holds a M.A. degree in International Relations from Chulalongkorn University in Thailand. **Louisa-Jane Richards** joined our Proximity Labs team as User Research Manager. Louisa previously worked at Proximity for two years during her first stint in Myanmar from 2012-3. She holds a M.A. degree in Anthropology of Development and Social Change from University of Sussex and a B.A. from SOAS, University of London. **Mya Soe, Kyaw Zaya** and **Ba Nyar Aung** were promoted as Proximity Finance Branch Managers for our new offices. They have been with Proximity for several years and have come up through the ranks, starting as loan officers to later grow into their new roles as branch managers.

This quarter, 251 staff received practical courses and training in English, irrigation product knowledge, sales and customer relations, micro-finance, conflict resolution, management skills, candidate interviews and presentation skills. We continue to employ and design a mix of adult training methods that comprise of 70 percent on-the-job training; 20 percent coaching; and only 10 percent classroom.

new staff



Seng Nu Pan



Louisa-Jane Richards



Ba Nyar Aung



Mya Soe

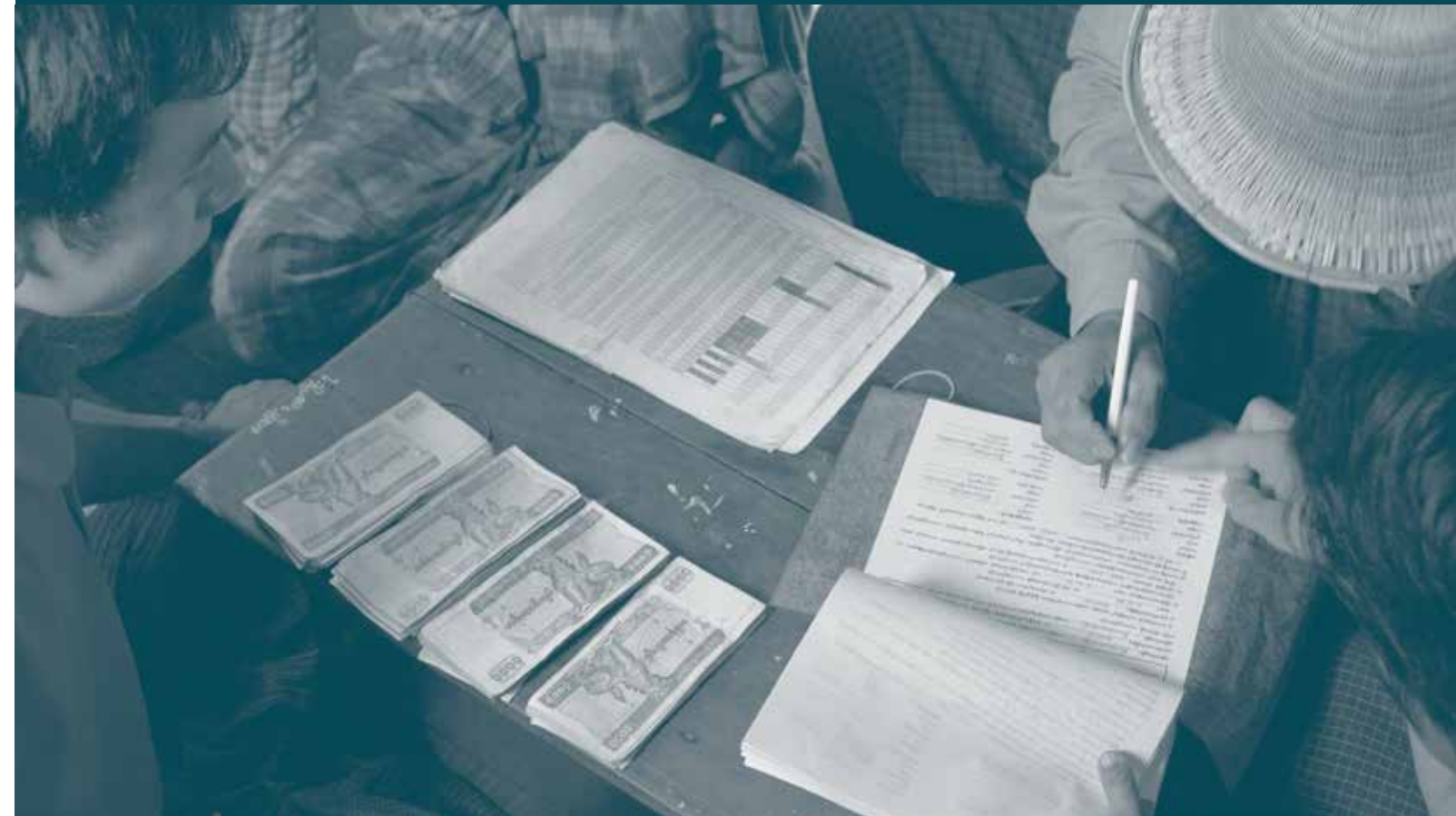


Kyaw Zaya

SIX MONTH OUTLOOK

This dry season in Myanmar has been marked by extreme and unprecedented weather patterns. Freak storms brought hail that was larger than golf balls in size, creating damage to crops and farm animals. High temperatures have also brought drinking water shortages and hardship to rural families in search of water. The new government took office on 1 April, amid some initial public disappointment at the new cabinet picks. It is clear the new government lacks experience in governing and will need time to adapt and find its bearing. The government transition is occurring also in rural villages where new village leaders have been elected, replacing traditional village elites. So far, the new government has made some hopeful reforms such as passing regulations in support of mobile money and releasing political prisoners. There does not seem to be a clear strategy for the first 100 days.

Co-founder Debbie Aung Din gave a talk at Myanmar's first Tedx event held in Yangon. With the theme "Myanmar Connects", TEDxInyaLake aimed to promote to the Myanmar people that there is a lot of knowledge in the world, ready to be tapped into and that the internet offers an opportunity to augment and rectify the education system that has been woefully inadequate. Topics included entrepreneurs starting businesses, communities finding ways to educate themselves, youth finding meaning in a changing city, historians writing about the country -- the human aspirations and challenges, and stories that inspire.



A farmer receives his first crop loan from Proximity.