

Proximity Designs Quarterly Report

Quarter 1, FY2017
01 July – 30 September 2016

SUMMARY Q1:

With the new fiscal year underway, our Yangon team moved into a new head office in September—bringing all business units and teams under one roof. Our Irrigation business launched its newest product—a micro irrigation sprinkler system with 60 units sold in the first month. Our Farm Advisory Services expanded operations from the Delta to the central Dry Zone. Proximity Finance, our farm finance business, now serves 57,695 rural borrowers. Our economic research team produced a short discussion paper, entitled “Internal and External Challenges to Unity in Myanmar,” in response to the country’s critical juncture in democratic transition. Proximity Labs, our design team, is working on a pipeline of products and services including a soil moisture sensor, seed multiplication services, and a redesigned solar irrigation pump.

Q1



PROXIMITY LAUNCHES MYANMAR'S FIRST SPRINKLER SYSTEM

Proximity launched a new sprinkler system on September 2, 2016—the first sprinkler system available in Myanmar. At USD55, it’s less than a third the cost of a system a farmer could assemble from available components. The system is flexible, reliable and can be assembled in less than a day. The product launch was one of our most successful to date with 60 early adopting farmers purchasing units within the first month. We anticipate the sprinkler system to become a significant portion of our product mix. Read more about the journey to create Myanmar’s first sprinkler system [here](#).



EXPANDING FARM ADVISORY SERVICES TO THE DRY ZONE

Sann Aung Thu, Shwebo Township Coordinator (our newest region of expansion) was invited by a Pyithu Hluttaw Member of Parliament to check upon a disease outbreak in nearby Wetlet Township. The Parliamentarian joined our team in the paddy fields with keen interest.

IRRIGATION TECHNOLOGIES

Yetagon Irrigation launches Myanmar's first sprinkler system

Our irrigation products are designed for small-plot farmers and sold under the "Yetagon" brand, which means "waterfall" and connotes prosperity in Burmese. We closed the first quarter—the start of the dry season for farming—with 2,039 product sales, a 39 percent increase compared to the same quarter last year. 92 sales representatives delivered 10,981 sales presentations and closed 1,597 sales (13 percent closing rate). Our network of independent agents exceeded its first quarter target by 18 percent, generating leads that resulted in 187 of our direct sales. Our network of agro-dealer shops sold 442 products, a 27 percent drop compared to quarter one FY2016. The drop in sales was driven by quality control issues with our "Baby Elephant" treadle pump. This plastic pump is the leading seller in our dealer network so the quality control issues had a disproportionate impact in this channel.

Small-plot farmers remain eager to access more sophisticated technologies and information. Our designers in Proximity Labs are drawing from advances in precision agricultural technologies elsewhere, to develop similar products that help farmers in Myanmar optimize their inputs and improve farm management. We are conducting user research and market analysis on a potential soil moisture sensor product and will begin developing and testing prototypes next quarter.

FARM ADVISORY SERVICES

Filling farming knowledge gaps

This quarter, we opened our first two offices in the Central Dry Zone: in Pwintbyu and Shwebo townships. We are now delivering farm advisory services in 12 townships. We are looking to expand in townships with a high concentration of farmers, nurture working relationships with local authorities, understand local farming practices and needs, and hire local staff. Our farm advisory staff has grown to 97 employees, a 250 percent increase year-on-year.

We introduce "best-fit" agricultural practices to farmers looking to improve their yields and incomes. Since our expansion in 2015, 16,418 farmers have adopted our advisory services. Our most popular services include grading rice seed in a saltwater solution; improved fertilizer usage, pest and disease management; and advising farmers living in brackish water areas of the Delta on how to safely grow an additional rice crop.

This quarter our extension staff held 1,199 meetings with farmers in villages, provided 1,152 emergency pest and disease diagnostic consultations, and facilitated 77 farmer-led club meetings. 327 farmers received services from Proximity's digital platforms.

Our in-house Knowledge and Social Impact team spent three-weeks in the Ayeyarwady Delta to measure the impact of our Farm Advisory Services on



SERVING RURAL HOUSEHOLDS WITH AFFORDABLE CREDIT

Customers in Nyaungdon Township receive their loans from Proximity Finance—boosting our portfolio to 57,695 rural households.

smallholder incomes. The team surveyed 176 adopting farmers and are currently analyzing results. Preliminary results indicate that our advisory services are generating a much larger impact than anticipated.

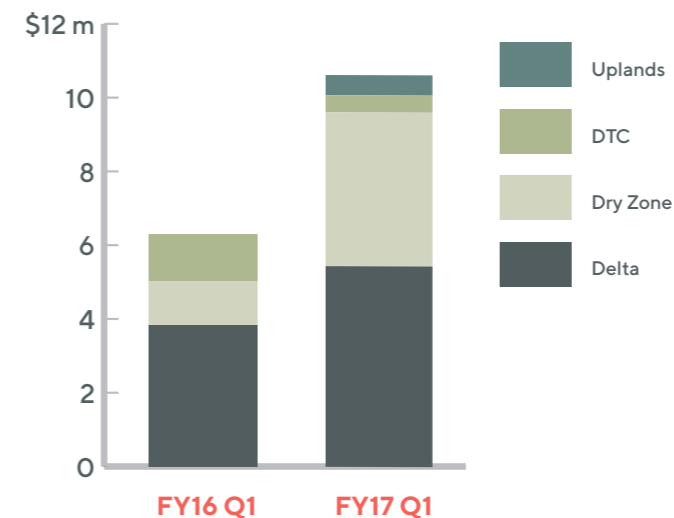
PROXIMITY FINANCE

Expanding financial services to farmers and diversifying our portfolio

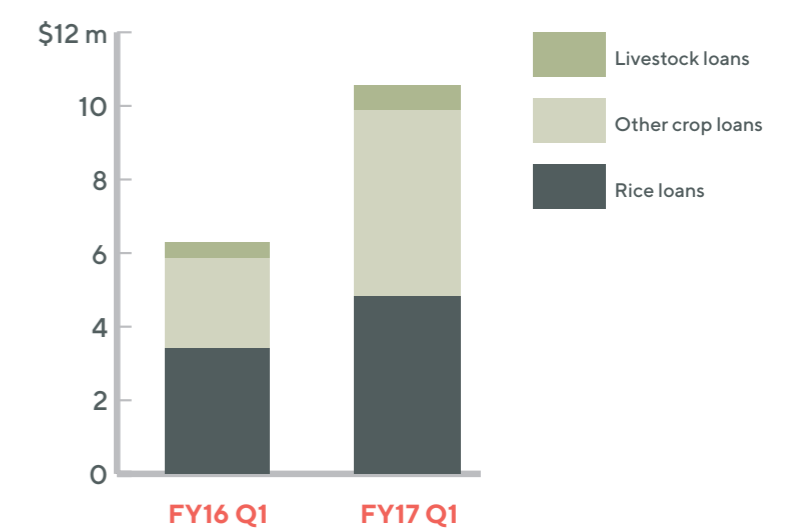
Proximity Finance provides financial products designed for farmers' cash flows and capital needs. We are now serving 57,695 rural borrowers, up 51 percent compared to this time last year. Our loan portfolio grew 30 percent year-on-year to USD11.8 million. Our repayment rate remains high and stable at over 99 percent (PAR30 is 0.62 percent, compared to 0.61 percent last quarter).

This quarter, we continued to diversify our rural loan portfolio. Loans to rice farmers in the Ayeyarwady Delta now account for 52 percent of the portfolio, down 9 percent year-on-year. We diversified geographically and expanded lending to farmers in Myanmar's central Dry Zone, from 19 percent of our portfolio last year to now 39 percent. We diversified away from rice crop loans with 45 percent rice loans (down from 54 percent this quarter last year), 49 percent other crops, and 6 percent livestock. This quarter, we also began piloting our new enterprise loan product with over 100 customers in two townships. We are preparing to launch our new rural migration loan to customers in December.

Loans made by region



Loans made by sector



The lack of capital from overseas lenders to fund our growth remains a significant constraint on our expansion as the local kyat exchange rate remains volatile. Arrangements for a currency hedging facility through funding agencies have not yet been available. We are optimistic that such a facility will be functional next quarter. We continue to explore other options for securing capital to grow our portfolio.



PROXIMITY SCHOOL HAS NEW LEADERSHIP

We recruited **Yamin Myo Nyunt** to work with our Proximity School team. Yamin received her bachelor's degree from University of California-Los Angeles and her master's in clinical psychology from Pepperdine University. She has prior experience running awareness raising and training programs, and providing mental health services to young people.

ECONOMIC RESEARCH

Generating knowledge for nation building

This quarter, our research team produced a short essay entitled, "Internal and External Challenges to Unity in Myanmar". Myanmar's resource-related conflicts, sectarian conflicts, the role of China as a powerful neighbor and other issues such as increasing drug use and land confiscation are all invariably linked. They are topics we have been researching in partnership with Harvard Ash Center. Both the English and Myanmar versions of the paper were provided to the senior leaders with whom we engaged. The papers were used to engage in constructive discussions with various leaders and stakeholders. In July, our research team spent two weeks in Kachin state, Mandalay and Nay Pyi Taw conducting research on Myanmar's jade and hydropower issues.

TALENT

This quarter, Proximity moved to our new head office space in Yangon, where we repurposed an abandoned hotspot restaurant. Staff from all of our four ventures now work under one roof, allowing for greater collaboration. Our new space also provides ample room for Proximity School, our in-house training program, to run all its training programs.

This quarter, Proximity School provided 4,840 hours of training to 269 staff. Key training topics were customer engagement and sales, onboarding, English language, how to interview, and design thinking. Proximity School also designed and piloted a new hub training model to deliver core competency trainings to field staff at selected hubs in rural areas.

We're pleased to acknowledge the hard work and impressive achievements of our staff with internal promotions. **Man Cha Koe** was promoted to Extension Manager, overseeing all farm extension agents in both the Delta and Central Dry Zone townships. **Sann Aung Thu** was promoted to Shwebo Township Coordinator.

OUTLOOK

Myanmar's national and local leadership transitions continue at a slow pace and are not significantly impacting our operations. Prices for some crops, especially paddy, are increasingly volatile due to border closures with China (dropping from USD400 per 100 ton last year to USD280). As farmers move towards pulses and other crops that cater to more reliably profitable markets, we will explore opportunities to provide targeted advisory services to farmers of these crops. Farmers continue to find ways to reduce labor inputs, which we expect to drive strong demand for our new sprinkler system.