

Proximity Designs Quarterly Report

Quarter 3, FY2017
01 January to 31 March 2017

SUMMARY Q3:

In quarter three Proximity expanded to serve more rural households in Myanmar. As of March 31, 113,258 unique customers have purchased a product, adopted our farm advisory or received our financial services this fiscal year. This quarter farm households purchased 8,871 irrigation products—a 20 percent increase on the same quarter last year. 67,695 rural households have loans outstanding from Proximity Finance. 14,657 farmers received farm advisory services—a 182 percent increase on the same quarter last year. The results of our impact survey show that adopters of our farm advisory services are increasing their annual income by an average of USD480 above the control group's annual income of USD932. Our Economic Research team hosted 21 senior Myanmar leaders on a leadership program and trip to Jakarta and Maluku to learn how Indonesia resolved their violent, inter-communal conflicts.

Q3

Q3



SOWING SEEDS IN SHWEBO

Customers in Yin Mar Village, Shwebo Township, discuss our seed-grading technique, which can boost yields by 8-12 percent.

FARM ADVISORY SERVICES IMPACT:

Proximity's in-house Knowledge and Social Impact team surveyed 268 farmers to measure the impact of our Farm Advisory Services on smallholder farmer incomes. Key findings include:

Key Findings

\$480

Average net annual income increase of Farm Advisory Service adopters, above the USD932 average base income of our control group.

Farmers **reinvested their additional income** in children's education, health care for the family, food, and repaying of debts.

\$489

Potential median income loss due to the burden of untreated disease and pests, that is prevented by the use of our emergency On-Call Pest and Disease Diagnostic service.

80%

80 percent reported they had recommended Farm Advisory Services to at least one friend or neighbor.

98%

98 percent of adopters surveyed were either satisfied or very satisfied with our services.

57,766

Since 2010, 57,766 farmers have adopted our farm advisory services, generating more than **\$86 million** in economic impact.

YETAGON IRRIGATION TECHNOLOGIES

Demand for sprinklers and drip irrigation drive strong sales

Yetagon Irrigation provides farmers with a suite of efficient and affordable technologies to irrigate their small plots. We had a strong quarter, closing with 8,871 irrigation product sales, a 20 percent increase from this quarter last year. Year-to-date sales grew to 18,288, marking a 15 percent increase year-on-year.

Our direct sales force boosted sales with 13,028 sales presentations and a 36 percent closing rate—our highest close rate since 2004 and up 44 percent year-on-year. 262 active independent, village agents contributed to 27 percent of these direct sales. Agro-dealer sales were down 22 percent, in part due to manufacturing issues with a popular treadle pump, and lag time as we on-board new dealer management.

Our micro irrigation products now account for 63 percent of year-to-date sales. As was expected, treadle pump sales declined 14 percent this quarter, largely due to the influx of low-cost motorized pumps and rising farm labor rates, making the cost of operating treadle pumps less viable. This quarter, we phased out production of our water storage tank. The viability of this product dropped as the cost of production increased to almost double the sales price. Affordable water storage remains a need in rural communities. We will explore a more cost competitive solution this year.

FARM ADVISORY SERVICES

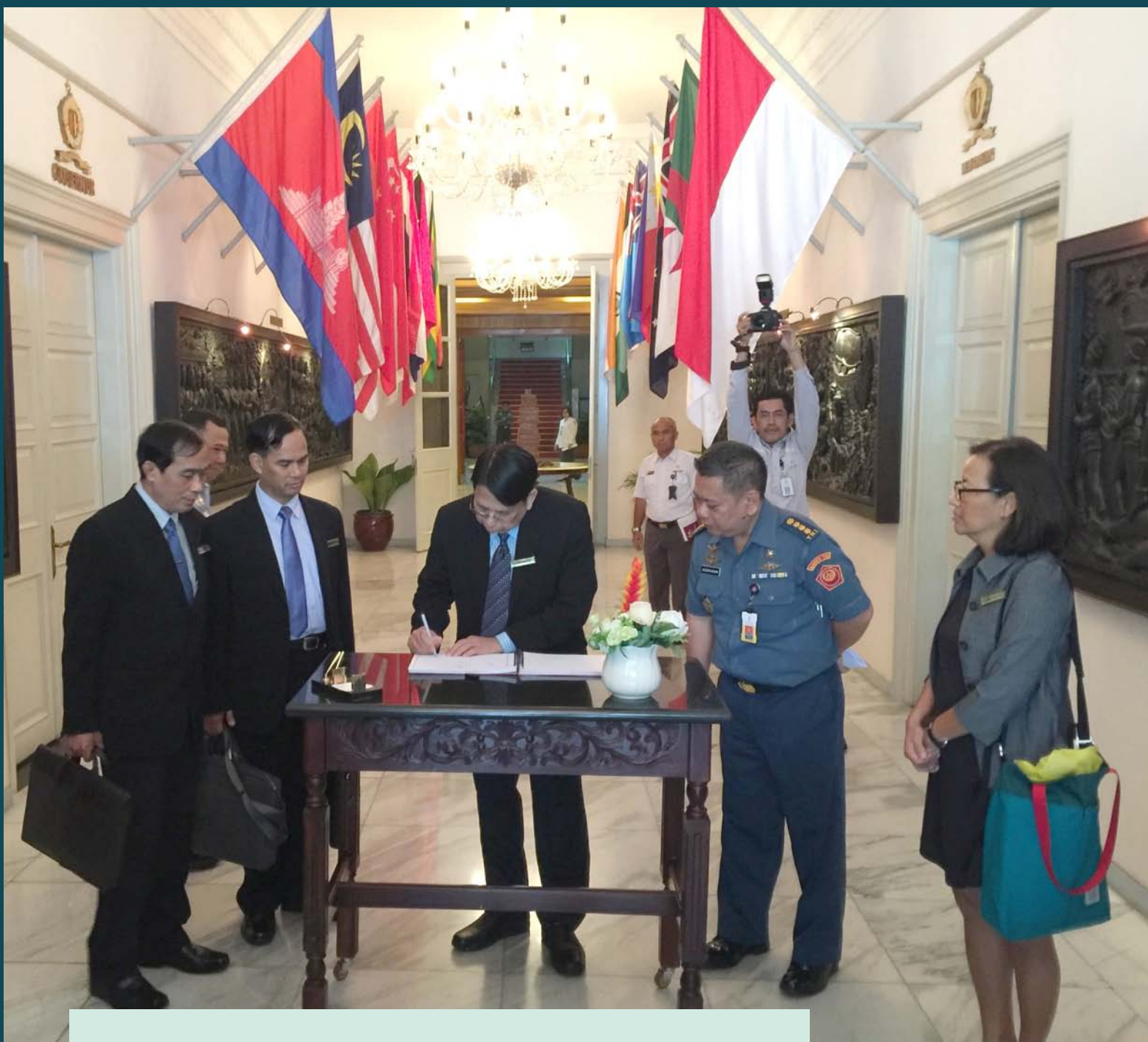
Adopting farmers benefit from USD480 average annual income increase

Our Farm Advisory Services provides the following services to rice farmers:

1) rice grading with saltwater solution, 2) fertilizer recommendations, 3) pest and disease management 4) direct rice seeding and 5) double-cropping of rice in brackish water areas of the Delta.

This quarter, we provided Farm Advisory Services to 14,708 farmers (a 183 percent increase over this quarter last year), with 7,340 farmers adopting. This brings our year-to-date unique adopters to 22,531 from the 43,601 farmers who received our services. We have 1,153 subscribers receiving services through our Shwe Pyo SMS-messaging service for fertilizer management. We now operate in 18 townships with 135 total staff. Extension officers have increased efficiency by nearly 100 percent from the same quarter last year: from an average of 1.63 farmers advised per day to 3.16 farmers per day.

In January, seven team members travelled to India to learn about farming techniques and technologies that could be relevant to smallholder farmers in Myanmar. They met with innovative organisations including the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), Precision Agricultural Development (PAD), CropIn, and Digital Green. The team gained many insights to inform our future digital initiatives, monitoring and evaluation work, and the development of advisory services for new crops for semi-arid areas, such as sesame and pulses.



BUILDING LINKS BETWEEN MALUKU AND MYANMAR

21 senior Myanmar leaders make a courtesy call to Lt. Gen. Agus Widjojo, the Governor of Indonesia's National Resilience Institute. Discussions followed on Indonesian democratization and military reform, and its challenges.

We continue to explore opportunities to generate revenue to improve the financial sustainability of our farm advisory services. A design sprint for a soil health testing service has generated promising options, and a pilot is scheduled for the next quarter with 40 farmers before they plant their monsoon crops. A second pilot of our land levelling service is scheduled for next quarter subject to weather conditions.

PROXIMITY FINANCE

Offering farm finance to expanded geographies

Proximity Finance currently has 67,695 active borrowers with an outstanding portfolio of USD13.7million. Our total number of borrowers grew 19 percent year-to-date, and our portfolio grew 28 percent year-to-date. Repayment rates remain healthy at over 99 percent (PAR30 is 0.43 percent).

We continue to focus on product and geographic diversification. Our product mix has shifted to 6 percent livestock loans, 1 percent migration loans, 2 percent enterprise loans, 42 percent rice crop loans, and 49 percent other crops (compared to 12 percent livestock, 61 percent rice crop and 27 percent other crops, this time last year). Geographically, we diversified away from the Ayeyarwady Delta, where our lending has dropped to 47 percent of our portfolio compared to 71 percent this time last year. We instead expanded operations in the Dry Zone and in Shan State.

This quarter, we rolled out our new migration loan for rural laborers who migrate to find work in different regions. We launched a pilot of our new enterprise loan in ten branches. Proximity Finance is also exploring opportunities to introduce digital tools for our financial services, and to improve rural operations. We provided customer engagement training to 53 loan officers, and also conducted smaller trainings for our new rural enterprise loan.

PROXIMITY RESEARCH

Exposing Myanmar leaders to Indonesia as a "classroom"

In January, we led our third senior leadership program to Indonesia. Indonesia has offered Myanmar leaders with many relevant lessons in navigating a difficult democratic transition, decades of ethnic conflict, resource-sharing, decentralization and religious extremism. This quarter, we took 21 senior Myanmar leaders to Indonesia to hear first-hand from Indonesian leaders about their past experience in resolving sectarian conflict. We travelled to the Maluku Islands where violent inter-communal conflict took place from 1999 to 2004. Our trip came at a critical time, as Myanmar has been facing recent outbreaks of sectarian violence in Rakhine state in western Myanmar.

Regrettably, our trip to Indonesia ended in a tragic event of national importance as we returned home. U Ko Ni, a prominent Muslim lawyer for the ruling party, the National League of Democracy, was assassinated at Yangon airport. The



Paing Hein Htet



Thant Zaw Tun



Sithu Thein Swe



Khin Nyein Chan



Gabriel Smales

NEW TALENT JOINING PROXIMITY

82 new employees bring our total workforce to 671 this quarter.

entire country is in a state of shock at the death of such a prominent advocate of democracy. There has been a national outpouring of grief, anger and fear at such a brazen act.

TALENT

This quarter, we welcomed 82 new employees, bringing our total workforce to 671 (a 42 percent increase year-on-year). The majority of this growth comes from the addition of field staff for Farm Advisory Services and Proximity Finance, with approximately 25 percent of our staff having worked with us for less than 6 months. We also promoted 32 staff this quarter, including 22 from Proximity Finance.

We're excited to draw upon the experience and expertise of our key managerial hires this quarter. **Paing Hein Htet** joined our Farm Advisory Services Digital Team after launching a tech startup in Myanmar, and receiving his master's degree in international development in the United Kingdom. Our Farm Advisory Services Content Manager, **Thant Zaw Tun**, founded a non-profit digital magazine 'Focus Youth E-magazine', and his engaging writing style has earned him an audience of over 127,000 followers on Facebook. **Sithu Thein Swe**, Analytics Manager for Farm Advisory Services, brings seven years' experience as a social impact and strategic planning consultant in California. He holds a Masters in International Affairs and Economics from UC San Diego School of Global Policy. **Khin Nyein Chan** joined Proximity as Logistics Manager, leading our distribution of our irrigation products. She has nine years' experience in trading, procurement, and logistics. Service Designer, **Gabriel Smales**, joined Proximity bringing five years' experience designing new services and business models for public and private sector clients in the United Kingdom. He holds a Masters of Arts from King's College University in London.

SIX-MONTH OUTLOOK

Farmers in Myanmar face growing complexity and challenges. There is intense pressure to mechanize due to severe labor shortages in rural areas, created by ongoing outmigration. Farmers continue to look for ways to diversify their crops. We are seeing increasing demand from farmers to better understand their crops and farming, as a wider array of commercial inputs and information become more accessible. The government has been working on a new agricultural policy, but it has yet to be launched. We remain optimistic that the regulatory environment will improve, so we can access further foreign capital to grow Proximity Finance's outreach to farmers.