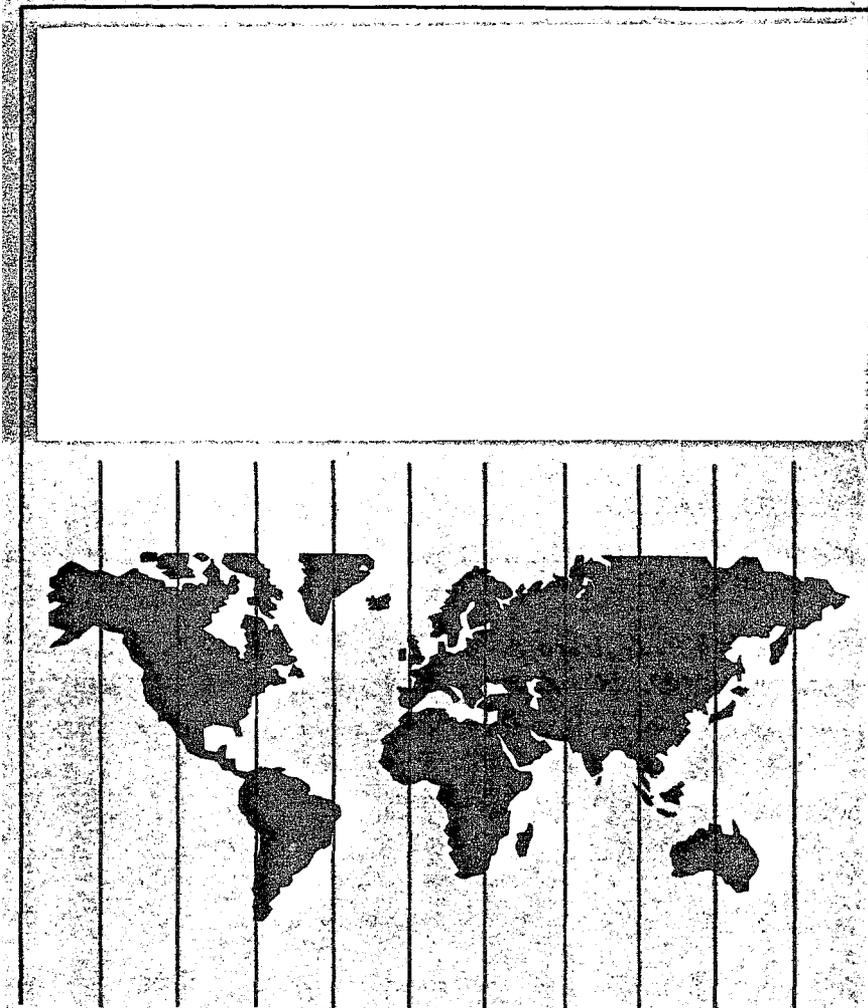


UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
MANILA

Impact of Changed Marketing Organizations'  
Roles on Thailand's Seed Development  
Project (493-0270)

USAID/Thailand

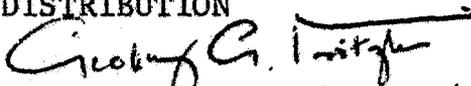
Memorandum of Survey Report No. 81-MOS-3  
February 27, 1981

UNITED STATES GOVERNMENT

# Memorandum

TO : DISTRIBUTION

DATE: February 27, 1981

FROM :   
Geoffrey G. Fritzler, A/RIG/A/M

SUBJECT: Memorandum of Survey Report No. 81-MOS-3  
Impact of Changed Marketing Organizations' Roles on Thailand's  
Seed Development Project (493-0270)

We revisited Thailand's Seed Development Project (493-0270) as a result of certain seed marketing organizations related findings and recommendations made in the course of a prior review, Audit Report No. 2-493-79-10, dated July 16, 1979.

The capsule highlights described the project in the following terms, on its title cover page:

"The United States is providing \$3.7 million loan funding and \$200,000 grant funding to assist the Royal Thai Government in a project to increase the supply of improved seed for distribution to Thai farmers. The project is encountering management and implementation problems (outlined in this report) which are in need of increased attention by both USAID/Thailand and the Royal Thai Government."

The report's 29 recommendations were closed during the subsequent 15 months period ending October 15, 1980.

One of these recommendations, Number 17, contained far reaching seed marketing organizational implications, and for that reason, in order to assure overall optimum project success, we were asked to make another reassessment of its successful implementation.

The original audit commented on the fact that there existed no evidence, in 1979, concerning the degree of project redesign to accommodate (certain organizational) changed circumstances. It was not clear, then, whether the Marketing Organization for Farmers (MOF), without strengthening, could function effectively

even in its limited role of seed marketing. There existed indications that the MOF may be consolidated into a new multi-purpose cooperative or that it may even be liquidated.

The MOF, because of the lack of adequate funds, had failed to establish distribution centers in the provinces as planned. As a result, the seed distribution activities had to be taken over by the Department of Agriculture Extension (DOAE) personnel at the Phisanulok Seed Center. This in turn interfered with DOAE's responsibilities for seed multiplication and seed processing.

In late 1977 the Royal Thai Government (RTG) became interested in expanding the use of cooperatives as one of the main instruments to approach rural and agricultural development in Thailand.

In FY 1978, USAID/Thailand entered into an Operational Program Grant (OPG) arrangement with the Cooperative League of the USA (CLUSA) to assist the RTG in the development plan to vitalize its program for agricultural cooperatives.

In February 1979 USAID/Thailand noted that an overall plan which called for significant changes in RTG policy and organizational structure in support of agricultural cooperatives had been accepted in principle by the RTG.

The plan called for a new multi-purpose apex organization to be created by amalgamating the Agricultural Cooperatives Federation of Thailand, the Marketing Organization for Farmers (MOF), and the Thai Rice Company. The new cooperatives system was to be implemented in stages over the next five years.

The report concluded that USAID/Thailand needed to give immediate and concerted attention to the seed distribution system. The probability that MOF's status might change complicated the situation, and for that reason MOF's future status had to be determined at once in order to redesign certain project aspects and establish a revised seed distribution system. This was considered crucial when giving consideration to the three new seed processing plants that were then planned to be in full operation by early 1980.

Of the three related recommendations, No. 17 contained the critical redesign aspects. Because of its importance, it is quoted below in full.

Recommendation No. 17

"USAID/Thailand, after determination of the Marketing Organization for Farmers (MOF's) future status, should redesign those aspects of the seed project affected by MOF's and Department of Agricultural Extension (DOAE's) changed roles." (Thailand and explanations of acronyms added).

On September 23, 1980 USAID/Thailand reported that "subsequent to the issuance of the audit report a project review/redesign team addressed the problem of seed distribution in their March 1980 report. They recommended that the DOAE

- a) establish a seed promotion/marketing section in its Seed Division and at each center, and
- b) develop an aggressive, comprehensive program to promote and distribute seed produced.

The RTG accepted this recommendation by their letter of September 16, 1980." Based on the actions taken by the RTG the Mission believed that the recommendation had been cleared.

Our office, in acknowledging USAID/Thailand's comments on October 2, 1980 cautioned that the shifting of marketing responsibilities to the DOAE from the MOF would not in itself guarantee that the distribution facilities, so vital to this project, would be successfully developed. We pointed out further that the difficulties that DOAE has experienced in implementing other aspects of this project had already been noted elsewhere in the report. Therefore, we expressed our intention to review the distribution problem once more, sometime in early 1981.

When we visited the project again, in February 1981, we had the opportunity to compare the Old with the New Marketing System, with the assistance of an AID-supported seed industry specialist from Mississippi State University.

Under the Old System, a farmer ordered seed from the MOF, and made full payment in advance. MOF then ordered seed from the DOAE. When this seed was transported by the Express Transport Organization (ETO), if required to the MOF, the MOF then notified the farmer and seed was either delivered to the farmer or picked up by the farmer.

The seed specialist thought that ... "This system did not work; seed sometimes reached the farmer after planting time, not all seed was sold, and there were many operational problems. Analysis of the system indicated that it was not really workable. It involved too many different agencies which had critical responsibilities, but which were operated under completely separate administrative structures. This made precise definition of responsibilities and time-responsive coordination very difficult. Furthermore, MOF was expected to hire distribution/marketing staffs, build warehouses and distribution points, conduct marketing programs, etc., on a small mark-up or margin which would barely cover losses due to climate or any other contingencies. Since MOF is expected to operate as a business, it was in no position to develop a system adequate to market the Project seed.

Changes were necessary in order to get the seed to farmers. This was the thrust of Recommendation No. 17.

Under the present marketing system the seed requires no change in farmer technology to increase yields. Rather, a higher-yielding seed is being substituted for the poor seed previously used by farmers. Improved seed, just by itself, can increase yields in amounts estimated to 10-25 percent, under Thai varieties, because of the improved quality and milling output.

Therefore, the improvement of superior seed supplies to farmers is receiving strong emphasis in Thailand, both at the senior policy level within the Ministry of Agriculture and Cooperatives, as well as the Office of the Prime Minister. Serious attention is being given to removing all constraints for making available high-yielding seed, especially to low-income farmers. At the same time the need for an effective system to market and distribute improved seed to farmers has been fully recognized.

According to the seed industry specialist from Mississippi State "the DOAE, with the guidance and direct input of the DOAE Director-General, developed the marketing system which is now being used. It has been in operation for some time, and so far appears to be working well," based on the following procedures:

1. The Project (Seed Division, DOAE) produces the seed according to targets which reflect estimations of marketing potential. When the seed is bagged and put into Seed Center storages, the Seed Center is authorized to sell up to 40% of the seed directly to farmers who come to the Seed Centers specifically to purchase seed. The remaining 60% is reserved for sale through the government distribution system.

2. The Crop Promotion Division (CPD), another arm of the DOAE and administratively responsible to the same Director-General as the Seed Division, is the major distribution and marketing agency.

The CPD receives an RTG budget allocation to purchase seed. The CPD places an order, well in advance, with the Seed Division; this makes it easier for the Seed Division to produce realistic amounts of seed. Furthermore, the CPD makes an immediate large-scale transfer of funds to the Seed Division to pay for the seed. This avoids collection problems and delays, and in actual practice has transferred funds which make the project Working Capital Account a workable concept.

The CPD then distributes the seed through the already-existing network of extension offices at the provincial, district, and lower level. This permits the seed to be carried out to the farmer, to reach low-income farmers, and to have an impact in areas and promotional programs which are receiving special emphasis. Since the CPD must purchase seed for its large network of demonstration plots and farms, use of Project seed by the CPD improves the impact of demonstrations and carries the seed into more areas than could be served by other distribution systems. The CPD has been looking into the possibility of receiving technical guidance from the Seed Division in order to help local farmers who receive project seed to make a further multiplication of Project seed, and then supply this to other farmers in the area, who otherwise cannot receive seed of higher-yielding varieties. This system of re-multiplication can obviously go into effect only slowly, but it does offer a means of significantly increasing the benefits and impacts of the Seed Development Project. CPD also provides seed for emergency needs, which is a major user of seed in the past 2-3 years.

3. Seed is still supplied, within limitations of their prior orders and the stocks available, to other government organizations such as MOF, provincial extension offices, Welfare Department, Forestry Department, Irrigation Department, etc. All possible channels are used; the project is no longer restricted to a single channel. Special emphasis is given to supply of seed to assist in recovery from recurrent natural disasters such as drought and flood.

The seed industry specialist's evaluation of the present marketing system is:

- "1. It works; it is administratively within the same unit and can be effectively coordinated so that the many time-critical operations can move ahead in an effective way. We have gone from a surplus seed situation to one of mostly shortage, in spite of increasing production of seed.
2. It ties improved seed into government crop promotional programs, which makes the demonstrations and promotions more effective, and also demonstrates how farmers can get even further yield increases from their improved seed.
3. It gets seed into more areas than could possibly be served by a newly-developed marketing/distribution system.
4. It eliminates a large part of the problems of collection of payment for project seed, and improves operation of the project-established Working Capital Account.
5. It makes increased Project seed production feasible, as the seed can now be distributed to farmers.
6. More seed gets to low-income farmers. This not only helps programs aimed at improving the lot of low-income farmers, but also reduces the percentage of Project seed which goes to higher-income farmers. Since these are the farmers who effectively create a cash market for seed, this prevents Project competition to the establishment of a private sector seed industry, and carries out the RTG development promotion law which prevents government competition with promoted industries (private sector seed industry is now eligible for promotional privileges).
7. It helps make seed available for emergency relief with less disruption to normal project activities.
8. It assures a market for project seed without dumping marketing responsibilities on the Seed Division at a time when it is striving to develop a technically-sound production system."

The seed industry specialist concludes his evaluation with the caveat that "no system is perfect and this system still will

require continued improvements, particularly in finetuning the production of seed according to changes in varieties. However, the present system indicates that it can serve Project seeds for a marketing outlet, and farmer needs for a system which gets the seed to farmer when and where they need it. This system, or a similar system within the framework of local organizations and possibilities, should be considered when developing Seed Improvement Programs in other countries."

In the light of the significant improvements described above we believe that Recommendation No. 17 is being implemented, as intended.

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Mr. Donald Cohen, Director, USAID/Thailand (3)  
Ms. Susan Gaffney, Director, IG/PPP (1)

cc: Inspector General (1)  
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