

Co-operation and Marketing Department

Management of co-operative sugar factories in Maharashtra

Chapter I : Introduction

Maharashtra is the largest sugar producing State in India. Sugar factories in the State were initially set up by private entrepreneurs in the 1930s, with concessions and protection given by the then Government of Bombay. The first co-operative sugar factory in India, the "*Bagaitdar*¹ Co-operative Sugar Producers' Society" was commissioned in 1950 in the Ahmednagar District. Government of Bombay adopted (1954) a policy of licensing new sugar manufacturing establishments to co-operative societies.



The co-operative sugar factories (CSFs) in Maharashtra are processing² societies under the Maharashtra Co-operative Societies Act, 1960 (MCS Act) and the MCS Rules, 1961. They are engaged in the manufacture of sugar from the sugar cane purchased from local farmers. Molasses and pressmud, (both by-products of sugar production) are processed further to produce alcohol and compost. Bagasse, another by-product, is used in the factory boilers as fuel and raw material for paper and particle-board projects. A few CSFs have also set up co-generation units and biogas plants. Thus, the CSFs provide a market for the farmers' produce and employment opportunities for the rural people. Out of 202 registered CSFs, 113 CSFs were working as of March 2006 with an annual crushing capacity of 504.32 lakh MT. The total area³ under sugar cane was 3.47 *per cent* (6.24 lakh hectares) of the total area under Kharif and Rabi crops while 8.25 *per cent* (16 lakh) of the total of 194 lakh cultivators were cultivating sugar cane.

¹ Irrigation farmers

² Rule 10 of the MCS Rules: classification and sub-classification of societies

³ Source: Economic Survey (2003-04) of Maharashtra

1.1 Mechanism for setting up of a new CSF

For setting up of a new CSF, it is essential to ensure the availability of sufficient sugar cane to meet the requirements of the existing factories. Government of India (GOI) had, therefore, stipulated that the conversion of a Letter of Intent granted for establishment of a new sugar factory into an industrial licence would, *inter alia*, depend on the State Government notifying the zone for drawal of sugar cane by the new factory.

Based on Government directives, the Commissioner issues the necessary permission to the chief promoter of a proposed CSF for opening a bank account for collecting and depositing share capital from the members of the CSF. Government approves the registration of the factory after the chief promoter submits the application with proof of fulfillment of conditions regarding collection of share capital, arrangements made for raising loans from financial institutions and sufficiency of sugar cane for crushing. The first Management Committee is appointed by the Government in order to purchase land, mobilise the CSF's own share capital and the required finances from financial institutions. The Commissioner then recommends sanctioning of Government share capital and guarantees for loans to the CSF. The Commissioner is required to monitor the completion of erection and commissioning of the CSF. The Ministers' Committee headed by the Chief Minister, approves the proposals regarding commencement of the crushing season, deductions to be made from cane prices for funding research, training etc.

1.2 Organisational set-up for control over CSFs

At the Government level, the working of the CSFs is controlled by the Secretary, Co-operation and Marketing Department. The Commissioner of Sugar with his headquarters in Pune, implements the schemes and is assisted by four⁴ Directors, four⁵ Joint Directors and seven⁶ Regional Joint Directors (RJDs). As the Registrar of CSFs, the Commissioner registers the CSFs and administers the same as per the provisions of the Sugar Control Order, 1966 and the MCS Act, 1960 and Rules 1961.

Sugar cane and sugar have been included in the list of essential commodities under Section 3 (1) of the Essential Commodities Act, 1955. In exercise of the powers conferred under this Act, the Central Government issued the Sugar Control Order, 1966. As per a GOI notification of 1966, the powers conferred under the Sugar Control Order are exercisable by the Government of Maharashtra. Accordingly, the State Government passed the Maharashtra Sugar Factories (Reservation of Areas and Regulation of Crushing and Sugar Cane Supply) Order, 1984. This order empowers the Government to reserve any specific sugar growing area for a factory with a view to enabling it to purchase adequate quantities of sugar cane. It, however, empowers the Permit Officer (the Commissioner) to allow deviations from the order under certain

⁴ Four Directors are for Administration, Finance, By-product and Development Branch

⁵ Four Joint Directors are for Administration, Finance, By-product and Development Branch

⁶ Ahmednagar, Amravati, Aurangabad, Kolhapur, Nagpur, Nanded and Pune

circumstances. The State Government issued the Maharashtra Sugar Factories (Reservation of Areas and Regulation of Crushing and Sugar Cane Supply) (Amendment) Order, 1997, which sought to ensure better sugar cane prices to the cane growers, without compromising the interests of the CSFs.

Under Section 79 of the MCS Act, the Commissioner, as Registrar, can enforce performance obligations of CSFs, *i.e.*, compliance of the provisions of the Act, Rules and Bye-laws and Government directions by issue of notices to the erring factories. He can remove and replace Committees/members of CSFs who neglect their duties (Section 78). The Commissioner causes the accounts of the CSFs to be audited by statutory auditors⁷ (Section 81) and can enquire into the constitution, working and financial conditions of the CSFs to take necessary corrective steps (Sections 83 and 84). He can institute inquiries and inspections to confirm defects in the working or financial conditions of the CSFs and direct the factories to take specific remedial action (Section 87). The Commissioner can also liquidate any CSF (Section 102). The Government can issue directions under Section 79 A to secure proper management of the business of CSFs and for preventing their affairs from being conducted in a manner detrimental to the interests of the members, creditors and depositors.

The CSFs are managed by Management Committees comprising elected representatives and a representative each from Government and their banks. The Managing Directors act as Secretaries of the committees. The Vasantdada Sugar Institute (VSI) at Pune, set up in 1975, renders technical advice to the sugar factories for setting up of by-product units, expansion of existing crushing capacity, modernisation of existing machinery and for increasing production and productivity of sugar cane. The Maharashtra Rajya Sahakari Sakhar Karkhana Sangh Limited (Sakhar Sangh), the apex body of the CSFs, represents the CSFs and interacts on their behalf with the Government, National Bank for Agriculture and Rural Development (NABARD) and other agencies. The Sakhar Sangh also advises sugar factories regarding purchase of consumables and spares and fixes annual rate contracts for these items. Purchase committees are also constituted by the Government to approve purchases of plant and machinery.

1.3 Audit objectives

The objectives of the performance audit were to examine whether the management of the CSFs by the Government was such as to ensure that:-

- the accounts were prepared as per the provisions of the MCS Act and Generally Acceptable Accounting Principles;
- financial assistance to the CSFs and the cane growers was provided in accordance with the guidelines of various schemes;
- registration of new CSFs, release of share capital contribution to CSFs, purchase of machinery, procurement of sugar cane and payment of sugar prices by CSFs, cost of conversion of sugar cane, manpower management of the CSFs and working of by-product units were as per the relevant Act, Rules and Orders;

⁷ Special Auditors of Co-operative Societies (Sugar) working under the Commissioner

- the investments of CSFs in other co-operatives were productive;
- the requirements of the Charter on Corporate Responsibility for Environment Protection (CREP) were complied with by the CSFs;
- the liquidation and leasing processes of CSFs were as per the prescribed norms;
- the working of the CSFs was effectively monitored by the Commissioner.

1.4 Audit criteria

The audit criteria used for the performance audit were as under:-

- Prescribed conditions for registration of CSFs and for availing of Government financial assistance
- Provisions of the MCS Act, 1960 and Rules 1961, Provisions of the Sugar Control Order, 1966, Maharashtra Sugar Factories (Reservation of Areas and Regulation of Crushing and Sugar Cane Supply) Order, 1984, Maharashtra Sugar Factories (Reservation of Areas and Regulation of Crushing and Sugar Cane Supply) (Amendment) Order, 1997 and the MOU signed in October 2002 by the State Government with GOI and Government directives issued for ensuring economy in working of the CSFs
- Conditions of the lease policy (November 2005) of the Government
- Requirements of the Charter on Corporate Responsibility for Environment Protection (CREP) for reducing pollution by distilleries

1.5 Audit coverage and methodology

The performance audit was conducted (March to September 2007) through test-check of records in the Mantralaya, Commissionerate, Regional Offices and 32 CSFs and the Maharashtra Pollution Control Board (MPCB), Mumbai, covering the period 2001-06. The details of the sample are given in **Appendix-I**. The audit objectives and audit criteria were discussed with the Commissioner of Sugar in a meeting held in February 2007. The audit findings and recommendations were discussed with the Principal Secretary, Co-operation and Marketing Department and the Commissioner in December 2007. The Government's views expressed in the meetings as well as the comments received (January 2008) from them were considered while finalising the report.

1.6 Acknowledgement

The Office of the Principal Accountant General (Audit –I), Maharashtra, Mumbai acknowledges the co-operation of the Co-operation and Marketing Department, the MPCB, the VSI, the Sakhar Sangh and the selected CSFs during the performance audit of the ‘Management of co-operative sugar factories in Maharashtra’.