Chapter IV : Working of co-operative sugar factories

As on March 2006, there were 224 licensed sugar factories of which 202[26] were in the co-operative sector and 22 in the private sector. The production from these sugar factories contributed to 36 *per cent* of the total production of sugar in India. The total sugar cane crushed during 2001-06 was 1949 lakh MT. Of this, the CSFs had crushed 1831.31 lakh MT (93.96 *per cent*) and the balance 117.69 lakh MT (6.04 *per cent*) had been crushed by the private sugar factories.

4.1 Non-availability of sugar cane

Agricultural statistics of the State showed that the area under sugar cane in the State had increased from 4.60 lakh hectares during1991-96 to 8.40 lakh hectares in 2006-07 and production was 798.39 lakh MT in 2006-07. Based on their crushing capacity, the 190 installed sugar mills in the State required 732.24 lakh MT[27] of sugar cane in a year. After providing for seed, feed and chewing[28] and for the *gur* and *khandsari* industry[29], the sugar cane available for the CSFs was 694.59 lakh MT only. Thus, there was not enough sugar cane available in the State for the sugar factories to utilise their entire crushing capacity. This pointed to the fact that there was an excess of at least 26 sugar factories[30] in the State based on the maximum sugar production of 798.39 lakh MT. It is therefore not surprising that 31 CSFs were taken under liquidation due to non availability of sugar cane.

4.2 Registration of CSFs

Under Section 4 of the MCS Act, no society is to be registered if it is likely to be economically unsound and contrary to the policy directives issued by the State Government from time to time or which would affect development of the co-operative movement. The conditions prescribed (May 1999) in the Government Resolution (GR) are to be fulfilled for the Commissioner to recommend the names of the CSFs for registration. As per the GR, before giving permission to open bank accounts to new CSFs, hearings should be given to the existing CSFs in the areas of operation and an aerial distance of at least 15 km should be maintained between two CSFs. The Commissioner has to satisfy himself about the availability of adequate sugar cane for crushing in the areas of operation and districts of the proposed CSFs. As water is a critical input for the production of sugar, the Commissioner also has to scrutinise the

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[26] 12 under erection, 22 deleted from pipeline, 31 under liquidation (including 4 leased out and working), 113 working (including 4 under liquidation but working) and 28 were non-working (crushing not done)

[27] crushing capacity of 4.58 lakh MT per day for a crushing season of 160 days in a year

[28] 12 *per cent; 'seed' for sugar cane plantation,' feed' for cattle and 'chewing' for human consumption*

[29] 1 *per cent*

[30] 2500 MT crushing capacity

project proposals of the CSFs against the Ground Water Survey and Development Agency's certification regarding water availability in the area before recommending their registrations. However, the Commissioner did not have reliable data regarding cane plantation and availability of sugar cane, as mentioned in para 4.9, affecting his recommendations and Government's decisions for opening new CSFs.

During 2001-06, six[31] CSFs with 1250 TCD capacities were registered after following the prescribed procedure. The Commissioner had proposed (September 2000 to January 2001) to the Government that except for the CSF of Dakshin Solapur, the remaining five CSFs may not be allowed to open bank accounts (which was the first step towards registration), on the ground that sufficient sugar cane would not be available in the districts. The Government, however, directed (January to March 2001) the Commissioner to grant permission for opening of bank accounts after giving hearing to the existing CSFs. These directions were followed by the Commissioner. Reasons for these decisions were, however, not recorded on file. Of the six CSFs, only one CSF (Rena, Latur), commenced production from 2003-04. But it too was facing shortages of sugar cane ranging from 73 to 79 *per cent* during 2003-06 and had to procure sugar cane at higher prices from other districts, incurring extra expenditure on transportation. As of March 2006, the CSF had accumulated losses of Rs 9.06 crore. Shivshakti and Sagar CSFs were still under erection (November 2007). Dakshin, Chudaman Patil and Balasaheb Mane CSFs were deleted (November 2003) from the pipeline[32] by the Government. Thus, directions of the Government to grant permission for registration of the CSFs, ignoring the recommendations of the Commissioner, proved injudicious.

In July and September 2005, the Commissioner recommended to the Government, the deletion of the Shetkari, Banganga, Chatrapati, Tokai, Ghrushneshwar, Jamner and Sahyadri CSFs from the pipeline on the grounds that sufficient sugar cane was not available even within a radius of 50 km of these CSFs and that banks had also not sanctioned loans to them. The increase in the recommended radius from the prescribed 15 km to 50 km showed that there was not enough sugar cane available for the CSFs. However, no Government order of deletion had been issued as of January 2008. As a result, Government share capital remained blocked in these CSFs and they continued to be eligible to get financial support of the Government.

The Commissioner stated (January 2008) that after hearing the parties, his office had come to the conclusion that there was a likelihood of availability of sugar cane for the proposed CSFs and hence the proposals for giving permission for opening of bank accounts for registration of the CSFs were given. Other norms regarding economic viability had also been considered.

[31] Annasaheb Chudaman, Dhule; Balasaheb Mane, Kolhapur; Dakshin, Solapur; Rena, Latur; Sagar, Jalna and Shivshakti, Osmanabad

[32] A CSF deleted from pipeline will not be entitled for any Government assistance any more

The reply was not tenable because availability of cane (as in **Appendix III)** was not sufficient in the concerned districts to meet the requirement of both the existing CSFs and the new ones.

4.3 Government share capital for erection and commissioning of CSFs

Government has been financing the CSFs to meet their project costs (on the basis of the normative costs of erection of sugar factories fixed by it from time to time)[33] by providing share capital[34] and guarantees for loans raised by them. Government's share capital is released in instalments based on utilisation certificates submitted by the CSFs in respect of the financial assistance provided to them in the past, duly certified by their auditors. The expenditure for erection and commissioning has to be restricted within the normative costs and extra expenditure, if any, has to be incurred by the CSFs. As per the guidelines of the National Co-operative Development Corporation (NCDC), erection and commissioning of new CSFs has to be completed within three years from the dates of their registration. The Commissioner receives quarterly progress report on the erection and commissioning of the CSF.

It was observed that:

(i) Government released subsequent instalments of share capital of Rs 40.34 crore to nine[35] CSFs before utilisation of the earlier instalments.

Excess share capital was released to CSFs without adhering to proper verification procedure

(ii) While recommending the proposal of the CSF for sanction of Government share capital, the Commissioner has to ascertain the amount of share capital actually collected from the shareholders. There were, however, instances of excess release of Government share capital as the necessary verification was not done by the Commissioner before recommending the proposals for sanction as detailed below:

- While proposing for sanction of Government share capital, the Ghrushneshwar and Jamner CSFs furnished false claims regarding collection of their proportionate shares of own share capital. As a result, excess share capital of Rs 7.75 crore was released by the Government between 1996 and 2003, to these CSFs. The false claims

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[33] The normative cost was Rs 35 crore since 1996 for 2500 TCD, which was raised to Rs 40 crore in 1999, which was further raised to Rs 48 crore in 2002

[34] Up to 1995, the portion of the CSFs' own contribution to the Government's contribution was in the ratio of 1:4.33. Thereafter, it was changed to 1:3 in 1997. For new CSFs coming up in the Vidarbha and Marathwada regions, a special package was announced in 1997 where the ratio was 1:5. For CSFs belonging to woman shareholders, the ratio was 1:9.

[35] Banganga, Osmanabad; Bhausaheb Birajdar, Osmanabad; Chhatrapati, Beed; Ghrushneshwar, Aurangabad; Kurmadas, Solapur; Sagar, Jalna; Sahyadri, Kolhapur; Sharad, Aurangabad and Shivshakti, Osmanabad

were not detected before sanction of the share capital as the statutory audit of the CSFs was delayed by two[36] years**.**

- As per the Government orders of 2000, verification of claims regarding collection of own share capital by statutory auditors was compulsory. In spite of this, excess share capital of Rs 9.48 crore was released to the Sahyadri[37] CSF, Kolhapur in 2001 without conducting necessary verification. Police complaints were lodged (October 2003/April 2006) which were still under investigation (January 2008). Inquiries initiated under Sections 83 and 88 of the MCS Act against the Ghrushneshwar and Sahyadri CSFs were still pending. In the case of the Jamner CSF, although the Commissioner had issued (March 1999) a notice under Section 88 (1) for assessing the damages against the Management, the State Minister (Co-operation) had quashed the order in October 2003.
- The Ambadevi CSF, Amravati and D. Y. Patil CSF, Kolhapur were paid (upto 2005) excess share capital of Rs 4.21 crore and Rs 3.38 crore respectively by the Government, as the necessary verification was not done. In both the cases, the Commissioner came to know of the excess payments from the reports submitted by the RJDs in January and February 2007.

The Commissioner stated (January 2008) that they had started insisting upon confirmation from statutory auditors regarding collection of share capital by the CSFs from their members. In the case of the Amravati CSF, recovery of excess share capital from responsible persons would be made. The D.Y. Patil CSF, intimated (December 2007) that Rs 11.38 lakh had been recovered from the members and the balance would be recovered at the earliest. However, the fact remained that necessary verification had not been done by the Commissioner to protect the interest of the Government before release of share capital.

(iii) As per the financing pattern prescribed by the Government, additional share capital has to be granted only to meet the increased project costs of CSFs. However, the Government irregularly sanctioned additional share capital of Rs 2.70 crore during March and August 2004 to the Vaidyanath CSF, Beed based on revision (June 2002) of the normative project cost of the CSF of 2500 TCD capacity from Rs 40 crore to Rs 48 crore. However, the actual cost of erection of the CSF was only Rs 40 crore and there was no increase in the project cost.

The Government stated (January 2008) that the additional share capital was provided as per a policy decision of the Government. The reply was not

[36] Audit of 2000-02 was done in 2002-03 of Ghrushneshwar CSF, Aurangabad and audit of 1999-2000 was done in 2001-02 of the Jamner CSF, Jalgaon
[37] The Sahyadri CSF had remitted Rs 5.86 crore out of the excess payment of Rs 9.48 crore

tenable because the financing pattern decided by the Government provided for additional share capital only for meeting increased project cost of CSF.

4.4 Incomplete CSFs

Government funds of Rs 92.56 crore were blocked in 12 incomplete CSFs

New CSFs are to complete their erection within three years from the dates of their registration. However, 12[38] CSFs registered during 1992 to 2002 had not completed their erection and commissioning as of December 2007. The delays in erection of these CSFs ranged from three to 12 years.

As of March 2007, Government funds of Rs 92.56 crore were blocked in these CSFs, whose erection had been unduly delayed as shown in **Appendix IV.** Besides, as the normative project costs were increased by Government in June 2002 from Rs 35 crore to Rs 48 crore for CSFs with capacities of 2500 TCD each and from Rs 28 crore to Rs 35 crore for CSFs with capacities of 1250 TCD each, the possibility of cost overruns could not be ruled out.

The Government stated (January 2008) that the main reason for the delays in erection of these sugar factories was escalation in the prices of machinery. The process of tendering in respect of some CSFs and finalisation of tenders in respect of the other CSFs was in progress. The fact, however, remained that Government money was blocked in the CSFs whose erection had been unduly delayed.

4.5 Delay in erection of CSFs

Delays of five to 11 years in commissioning the CSFs resulted in cost overrun of projects

The Shivshakti Adivasi & Magasvargiya CSF, Buldhana (registered in November 1988) and Sant Tukaram CSF, Pune (registered in May 1990) were commissioned with delays of 11 years and five years and with cost overrun of Rs 3.26 crore and Rs 9.28 crore respectively.

Both these CSFs could not raise their own share capital. As a result, sanctioning of the Government share capital was delayed. For the same reason, the Shivshakti Adivasi & Magasvargiya CSF failed to raise loans from financial institutions also. Finally, Maharashtra State Co-operative Bank (MSCB) released a loan of Rs 24 crore to the CSF in December 1999.

For supply of machinery to the Shivshakti Adivasi CSF, an agency was fixed by the Government and an agreement was executed in December 1994. Commissioning was to be completed by February 1996. Due to delay in payment, supply of machinery was delayed and the erection was completed in March 2002 at a cost of Rs 37.26 crore. A trial for three days was taken in March 2002 and only 829 MT of sugar cane was crushed. No further crushing was done upto 2004-05 as the banks did not sanction pre-seasonal loans. The

[38] Banganga, Osmanabad; Bhausaheb Birajdar, Osmanabad; Chhatrapati, Beed; Ghrushneshwar, Aurangabad; Jamner, Jalgaon; Kurmadas, Solapur; Sagar, Jalna; Sahyadri, Kolhapur; Sharad Aurangabad; Shetkari, Sangli; Shivshakti, Osmanabad and Tokai, Hingoli

CSF had accumulated losses of Rs 31.66 crore at the end of March 2002, mainly on account of interest on borrowed capital, pre-operational expenses etc. Thus, the sugar factory, erected at a cost of Rs 37.26 crore, was put to use for only three days and was finally brought under liquidation in 2005-06. The Government dues outstanding were Rs 6.82 crore.

The Sant Tukaram CSF also could not raise the required finances as it did not have enough cane in its area of operation and was surrounded by an IT park. The CSF incurred heavy losses from the first year of its crushing in 1998 and its accumulated losses at the end of March 2006 were Rs 9.07 crore, mainly because of huge expenditure on harvesting and transportation of sugar cane from long distances, interest on borrowed funds and blocking of the borrowed funds paid as advances to harvesting and transport contractors. The CSF had created share capital redemption reserve, but did not repay the outstanding Government dues of Rs 3.91 crore.

The Commissioner, also had failed to enforce the conditions governing sanctioning of share capital *ie.,* creation of share capital redemption fund and levy of interest on share capital due for refund.

4.6 Purchase of machinery by CSFs

There are two separate committees for purchase of machinery, one under the chairmanship of the Chief Minister for new CSFs and another under the chairmanship of the President of the Maharashtra Sakhar Sangh, for expansion and modernisation of existing CSFs and by-product units. The Commissioner is the Member Secretary for the former and a member of the latter.

4.6.1 Purchase of machinery by the State Level Committee

The records relating to the State Level Purchase Committee meeting showed that a rate of Rs 14.29 crore was fixed (April 2000) by Government after negotiation with the suppliers for supply of machinery for 18 sugar factories of 1250 TCD registered during April 2000 to June 2002. Rena CSF, Latur however, proposed to place a supply order at a higher rate of Rs 14.94 crore with its supplier firm, which had accepted the earlier rate of Rs 14.29 crore. This rate was accepted (April 2002) by Government without assigning any reason. This resulted in avoidable extra expenditure of Rs 65 lakh.

4.6.2 Purchases by the Committee of the Sakhar Sangh

No standard tendering procedure was in place for purchases by the Committee under the Sakhar Sangh

The CSFs are individually responsible for preparation of project reports, technical specifications and tender documents; getting financial and administrative approvals, issuing of tender documents, holding of pre-bid meetings etc. Government has not standardised the tendering procedures to be followed by the CSFs, and therefore, there is no uniformity in the procedure followed by the Committee under the Sakhar Sangh. The following deficiencies were noticed.

- In three CSFs[39], though the price escalation clause was not included in the supply agreements (2002-03), Rs 4.02 crore was paid (2004-05) to the suppliers against price escalation claims of Rs 6.66 crore. The basis of settlement of the claims was not available with the Committee.
- For purchase of machinery for distilleries, prices were different for different makes/brands depending upon additional features/accessories etc. However, offers were invited without stipulation of the specific features required in the machinery. As a result, comparison of the prices quoted and deciding the lowest offer was not possible. The Committee accepted the offers of suppliers as per demand of the CSFs.
- In three[40] cases, single offers had been accepted by the Committee for purchase of machinery, while in one[41] instance, a single offer received had been rejected on the ground that comparison of rates would not be possible. The Committee was thus, not consistent in its procedures.
- For supplying machinery to the Vithal CSF, Solapur, the Committee rejected (May 2006) the offer of one supplier as he did not fulfill the eligibility criteria of having supplied machinery to at least five other plants in various States including Maharashtra. The offer of the same supplier for Rs 11.75 crore, received on re-tendering was, however, accepted (June 2006) by the Committee, without giving any justification.
- Out of 37 meetings of the Committee held during 2001-06, the Commissioner was not present for 28 meetings. As the Commissioner was absent, safeguarding the interest of the Government was not ensured.

The Principal Secretary agreed at the exit conference to standardise the tendering procedures to be followed by the CSFs.

4.6.3 Advances paid to suppliers of machinery by CSFs

Failure to obtain/ revalidate bank guarantees as envisaged in the supply agreements led to non-recovery of advances of Rs 18.15 crore paid to the suppliers

In order to safeguard their financial interests, the CSFs have to obtain bank guarantees from the suppliers of machinery for the advances paid to them. The Commissioner also has to monitor the progress of work of erection of the CSFs. Eight[42] CSFs could not recover advances of Rs 18.15 crore paid (April 1996 to April 2003) to the suppliers who failed to supply the machinery as the CSFs had not obtained bank guarantees or revalidated the guarantees obtained, though envisaged in the supply agreements. Besides, non-supply of machinery also resulted in non-commissioning of the CSFs. No action was initiated by

[39] Pandurang, Solapur; Rajarambapu, Sangli and Sonhira, Sangli
[40] Bhaurao Chavan, Nanded; Vasantdada, Nashik and Vikas, Latur for supply of distillery units during January 2003 to March 2007
[41] Vithalrao Shinde, Solapur for supply of distillery unit on 26 March 2003
[42] Banganga, Osmanabad; Chhatrapati , Beed; Ghrushneshwar, Aurangabad; Jamner, Jalgaon; Sahyadri, Kolhapur; Sharad, Aurangabad; Shivshakti , Osmanabad and Tokai, Hingoli

the Commissioner under Section 78 for the Managements' negligence to safeguard the interests of the CSFs.

4.7 Utilisation of Funds and Deposits for specific purpose

The CSFs are required to create cane development funds and utilise the same for providing loans to sugar cane growers for purchase of basal doses for sugar cane plantation.

Nira Bhima and Niphad CSFs did not utilise their cane development funds of Rs 10 lakh and Rs 1.66 crore respectively for cane development though these CSFs had to procure sugar cane from outside areas during the period 2001-02 to 2005-06, due to shortages in their operational areas.

4.8 Procurement of sugar cane and payment of cane price

The CSFs have to procure sugar cane from their operational areas. Procurement from outside the operational areas involves higher cost of transportation and requires the permission of the Commissioner. Purchase of cane from outside the State, without prior approval of the Commissioner is also not permissible and penalty at Rs 250 per MT is recoverable from the erring CSFs. Cane prices not less than the Statutory Minimum Price (SMP)[43] are required to be paid by the CSFs to the sugar cane farmers. Any additional prices payable for sugar cane are to be calculated and paid with the prior permission of the Commissioner when there are surpluses[44] over and above the costs of crushing and production. The above provisions were not adhered to by the CSFs, resulting in increase in the liabilities of the CSFs, as discussed below:-

- Though enough cane was available in their areas of operation, five[45] CSFs had incurred additional expenditure on procurement of 7.15 lakh MT of sugar cane from outside their operational areas, during 2001-06. The Government accepted (January 2008) that heavy expenditure was incurred by the CSFs for such procurement.
- The Krishna CSF, Satara had bought 1180 MT of cane from outside the State during 2005-06 without permission of the Commissioner, though cane was available in its area of operation. However, the Commissioner did not levy the penalty of Rs 2.95 lakh. The Commissioner stated (January 2008) that the proposals for post-facto sanction for 2005-06 had been sent to the Government for regularisation. The reply was not tenable as this was also irregular

[43] SMP is fixed by GOI under the Sugar Control Order, 1966 every year for each CSF, based on the sugar recovery percentage
[44] As per clause 5A of Sugar Control Order, 1966
[45] Dr. Babasaheb Ambedkar, Osmanabad; Dr. V.V Patil, Ahmednagar; Krishna, Satara; Kukadi, Ahmednagar and Nira Bhima, Pune

especially because cane was available in the area of operation of the CSF.

- Nine[46] CSFs paid excess cane prices over and above the SMP and additional prices though there was no surplus to be paid under Section 5A. Prior approval of the Commissioner was also not obtained. The total excess cane price paid by these CSFs during 2001-06 was Rs 107.14 crore. As the CSFs had paid cane prices beyond their paying capacities, the total accumulated losses in these CSFs at the end of March 2006 increased to Rs 213 crore**.** The CSFs stated that they had to pay higher cane prices for cane brought from outside areas as the CSFs of those areas were paying higher cane prices. This indicated that the Commissioner failed to prevent unhealthy competition among the co-operatives. No action was taken against the CSFs except against Dr. VV Patil CSF, Ahmednagar (June 2005) on a complaint by the Niphad CSF, Nashik that the former had taken away cane from the latter's area of operation. The inquiry instituted in June 2005 had, however, not been concluded even as of June 2007.

4.9 Lack of reliable data on cane plantation for planning of crushing season

Sugar cane farmers are required to register the details of sugar cane planted by them with the CSFs to whom they supply cane and also with the revenue authorities. The CSFs maintain detailed records of cane plantation, so as to arrange for timely harvesting of the cane. The Commissioner also requires the data for proper planning of the crushing season and to issue crushing licenses.

Information on cane plantation areas and availability of cane for crushing during each season available with the CSFs and those with Revenue, Agriculture and Irrigation Departments was not uniform. The Commissioner stated (November 2007) that the cane growers did not register the actual cane planted by them with their respective CSFs as they intended to supply cane to CSFs which offered higher rates. They did not also register the entire cane with the Revenue Department to avoid payment of education cess. The data of the Irrigation Department related only to the official irrigation permits issued by them. The report of the Agriculture Department was based on visual surveys and not on actual basis. The fact, however, remains that the Commissioner did not have reliable data for proper planning.

There were wide variations in the quantities of cane actually crushed and the quantities for which crushing licences were given, with shortfalls ranging from 17 to 76 *per cent* and excesses ranging from 71 to 137 *per cent*. During 2006-07, the initial estimation of cane by the Commissioner, based on

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[46] Daulat, Kolhapur; Dr. Babasaheb Ambedkar, Osmanabad; Dr.V.V.Patil, Ahmednagar; Indira Gandhi Mahila, Kolhapur; Niphad, Nashik; Nira Bhima, Pune; Rena, Latur; Sant Tukaram, Pune and Vasant, Yavatmal

information furnished by the CSFs, was 657.94 lakh MT. However, it was noticed in audit that the cane actually crushed was 798.40 lakh MT and sugar cane crop was left standing in fields measuring 52760 hectares, for which the Government had to pay compensation of Rs 131.90 crore to the farmers. At the exit conference, the Commissioner stated that under-estimation of sugar cane in 2006-07 was due to an unprecedented bumper harvest of the crop in the Marathwada region.

The Government stated (January 2008) that differences between the estimation and the actual crushing were due to changing climatic conditions. They also added that efforts were being made for proper estimation and close monitoring of the cane development programmes of the CSFs.

4.10 Cost of transportation of cane

The rates of H&T by bullock carts were paid as per transport agreements signed by the Sakhar Sangh Unions and the CSFs. The rates in case of transport by trucks or tractors were, however, fixed by the respective CSFs every year with reference to the rates of adjoining CSFs or on the basis of diesel prices. The rates of transport fixed by the CSFs showed wide variations ranging from Rs 51 to Rs 95 for the initial lead of 8 km and ranging from about Rs 2.50 to Rs 5 per km for additional leads. Besides, other financial benefits were given to the transporters such as payment of commission at 12 to 25 *per cent* of the transport rates, credit sale of diesel and interest free advances. For fixation of transport rates, the procedure of inviting tenders and accepting most competitive rates was not followed.

As H&T charges were adjusted from the cane price paid to farmers, higher H&T rates would mean lower cane prices for farmers. The SMP calculated, based on percentage of recovery of sugar, for three test-checked CSFs was Rs 929.80 per MT each. However, the net SMP paid to the cane farmers after deducting H&T expenditure was Rs 621.52, Rs 659.80 and Rs 673.89 for Rena, Indapur and Dr.VV Patil CSF respectively. The costs of transportation of cane in respect of the test-checked CSFs are given in **Appendix V**. The declared SMP vis-à-vis the net SMP after adjustment of H&T expenditure in 10 CSFs is shown in **Appendix V-A**.

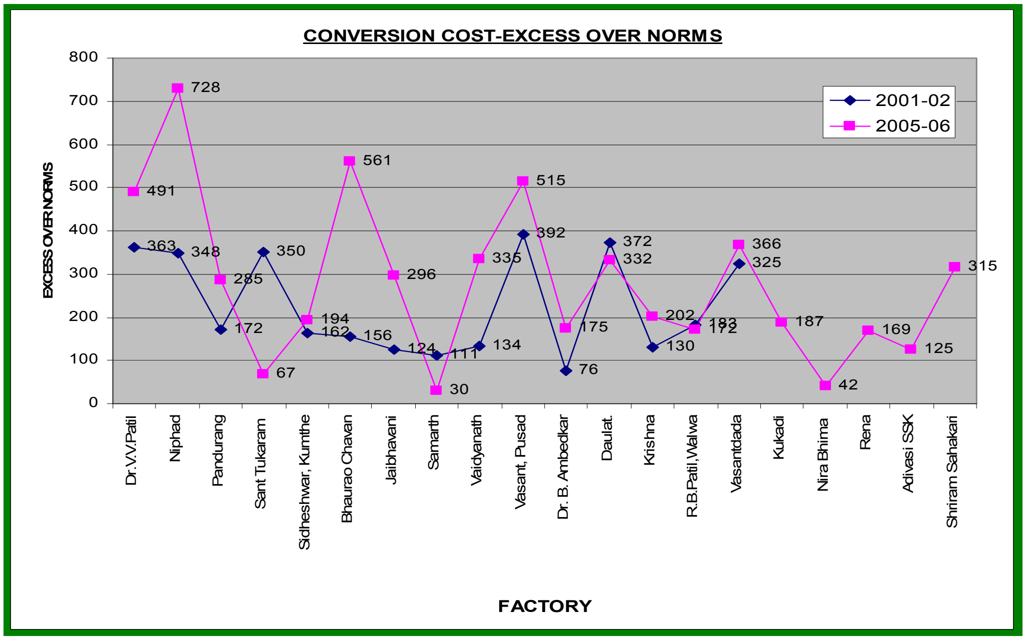
The Government stated (January 2008) that in order to bring uniformity in H&T costs, a group consisting of representatives of the Commissionerate, CSFs, the Maharashtra Sakhar Sangh and banks had been proposed to formulate and offer suggestions so that appropriate action could be taken in due course of time.

4.11 Cost of conversion of sugar cane

Excess expenditure ranging from 12 to 7640 *per cent* over the ceiling prescribed on cost of conversion of sugar cane by the Commissioner was incurred by 21 CSFs

In pursuance of his powers under the Act, the Commissioner fixed the standard for conversion cost[47] of sugar cane at Rs 319 per MT in 2002 and directed all CSFs to observe the cost norms in order to minimise the overall production cost of sugar. There were nine elements, viz., salaries and wages (Rs 120), interest (Rs 60), factory overheads (Rs 15), power (Rs 16), repairs (Rs 20), chemicals (Rs 24), depreciation (Rs 30), packing (Rs 30) and insurance (Rs 4).

In the 22 test-checked working CSFs, the expenditure incurred was more than the ceiling prescribed by the Commissioner. Excess expenditure in respect of 21[48] CSFs for the years 2001-02 to 2005-2006 was Rs 1103.94 crore. The excess expenditure ranged between 12 to 7640 *per cent* over the prescribed standard cost. The excess cost of conversion of sugar over the standard cost (Rs 319 per MT) for the year 2001-02 (in respect of 15[49] CSFs) and those for 2005-06 (in respect of 20[50] CSFs) are shown in the following chart:-



It would be seen that the cost of conversion was in excess of the standard cost in all the CSFs. During 2001-02, the excess cost over the norm ranged between Rs 76 and Rs 392 while it ranged between Rs 30 and Rs 728 during 2005-06. An analysis of the trend of excess cost in respect of 15 CSFs during the years 2001-02 and 2005-06 showed that there were huge increases in

[47] Conversion cost is the cost incurred by the factories for converting the sugar cane brought to the factories into sugar.
[48] Shivshakti CSF, Buldhana was not working during 2001-02 to 2004-05
[49] Five CSFs opened after 2001-02 and two others were not working/leased out
[50] Out of 22 CSFs, Shivshakti CSF was not working and Indira Gandhi Mahila CSF was leased out

Niphad CSF, Bhaurao Chavan CSF and Vaidyanath CSF during the five year period. There was also a significant increase in the Vasant CSF, Pusad which had already registered a large excess over standard cost in 2001-02. On the other hand, the Samarth CSF could reduce the cost significantly during the period. Even in Nira Bhima CSF, which was commissioned in 2001-02, the cost was only marginally higher (Rs 42) than the standard cost.

Further scrutiny revealed that the per MT power consumption cost of the CSFs had worsened by 31.6 *per cent* from 2001-02 to 2005-06. Despite the reduced crushing, the per MT cost of chemicals and consumables had not been reined in and had increased by 31.6 *per cent*. The administration/salary cost per MT had increased in excess of the norm for the period by 55.3 *per cent*. Although the interest cost had reduced over the years, it was still in excess of the norms by 150.9 *per cent*. The component-wise and year-wise excess expenditure of the 22 test-checked working CSFs are given in **Appendix VI.**

Increase in the cost of conversion of sugar was mainly because of reduction in crushing as the CSFs did not take necessary steps for cane development, modernizing the machinery and reducing administrative cost. The Sakhar Sangh, while recommending the revision of conversion cost norms, had lowered the cost ceiling for consumption of chemicals and consumables by Rs 7.51. This indicated that there was still scope for savings in this sector.

The Government stated (January 2008) that due to certain reasons like shortage of sugar cane in the areas of operation, hike in wages and high H&T expenses, the costs exceeded the norms fixed. The Government also stated that under the package of restructuring of outstanding loans, the concerned mills had been directed to undertake programmes of sugar cane development and reduce their conversion costs and H&T costs and monitoring was being done at the level of NABARD. Audit, however, noticed that the CSFs had not cut down their conversion costs even after the restructuring of term loans as discussed in paragraph 3.5.2.

4.12 Comparison of key operational parameters

An analysis of the key operational parameters of the sugar factories showed that there were wide gaps between the maximum capacity utilisation, cost of crushing of sugar, conversion cost and cost of harvesting and transport by the factories as shown in the following table:

Name of parameter	Best in the State for CSFs during 2005-06	Achievement in test-checked working CSFs during 2005-06	
		Lowest (CSF)	Highest (CSF)
Capacity utilisation in *per cent*	233.29 (H.K. Ahir, Sangli)	40.00 (Shivshakti, Buldhana)	140.14 (Siddheshwar, Solapur)
Cost of crushing per MT (Rs)	1810.82 (Adivasi, Nandurbar)	1810.82 (Adivasi, Nandurbar)	2358.86 (Vaidyanath, Beed)
Cost of conversion (Rs)	305.81 (Vikas, Latur)	388.41 (Samarth, Jalna)	702.75 (Daulat, Kolhapur)
Cost of harvesting and transport per MT	199.96 (Jai Bhavani, Beed)	199.96 (Jai Bhavani, Beed)	441.50 (Dr. Babasaheb Ambedkar, Osmanabad)

It would be seen from the above table that there is sufficient scope for improving the capacity utilisation of the CSFs and to reduce their costs of H&T, crushing and conversion, when compared to the best performing CSFs in the State.

4.13 Sale of sugar

According to the Sugar Control Order of GOI, 10 *per cent* of the total sugar manufactured in the State has to be reserved as levy quota for distribution through the Public Distribution System (PDS) at a concessional rate to economically weaker sections. Release orders are issued by GOI while the indenting authority *viz,* State Government, lifts the quota by paying the price to the CSFs on the spot. The CSFs are required to follow proper tendering procedures for sale of the remaining sugar and the Commissioner has to ensure the same.

4.13.1 Irregular procedure followed by CSFs for sale of sugar

No action was taken by the Commissioner for fixing responsibility/ recovery though the statutory auditor's report disclosed losses of Rs 22 lakh due to disposal of sugar at lower rates

The statutory auditor's Report (2003-04) pointed out loss (Rs 22 lakh) on sale of sugar at lower rates without following proper tendering procedure by the Nashik CSF, Nashik. The Commissioner issued (February 2004) an inquiry order under Section 83 of the MCS Act and appointed the RJD, Ahmednagar as inquiry officer. The inquiry officer confirmed the loss to the CSF in January 2007. No further action was taken by the Commissioner for fixing responsibility and recovery. The Commissioner stated (January 2008) that the report was under scrutiny. Thus, action by the Commissioner was unduly delayed as the report was under scrutiny for about a year.

Further, despite a direction of the Commissioner not to sell sugar at rates lower than levy sugar rates, the statutory auditor's report showed that during 2003-04, the Niphad CSF, Nashik sold 18.12 lakh kg of sugar to its members at Rs 6 per kg as against Rs 11.51 per kg for levy sugar and 5.16 lakh kg of sugar to non-members at a lower rate of Rs 9 per kg. As a result, it had incurred a loss of Rs 1.13 crore. Disregarding the auditor's observations, the CSF sold sugar again during 2004-05 at concessional rates and incurred a loss of Rs 1.25 crore. The CSF had not yet prepared any detailed statement regarding sale of sugar during 2005-06.

The above instances showed that the Commissioner had neither acted promptly on the objections raised in the statutory auditor's reports nor taken action under Section 78 of the MCS Act.

4.13.2 Delay in disposal of levy/free sugar

The State Government had not been lifting the quotas of sugar released by GOI from 2000-01 onwards. As of May 2007, the accumulated balance quantity lying with nine[51] CSFs, was 11.73 lakh quintals, pertaining to the period 2000-07. As a result, the CSFs were unable to repay their pledge loans[52] and were incurring huge expenditure on interest. Neither did GOI take any initiative to convert the levy sugar to free sugar, nor did the State Government request GOI for the same, contributing to the losses incurred by the CSFs.

Disposal of free sale sugar (90 *per cent* of the sugar produced) was allowed only against quarterly quotas released by GOI, with a view to maintaining the sugar prices. As a result of this policy, the sugar produced remained with the CSFs for at least three months, while they had to incur avoidable expenditure on interest on pledge loans taken by them, storage charges and insurance. There was also a possibility of sugar stocks getting damaged if the CSFs did not have enough space to store them.

4.13.3 Utilisation of Buffer Stock Subsidy

In order to mitigate the hardship of the sugar cane growers, GOI created a buffer stock of the sugar with the CSFs for a period of one year up to 17 December 2003, which was extended upto 17 December 2004. Under the Sugar Cane Development Rules, 1983, the interest, storage and insurance charges for the quantities included in the buffer stock were reimbursed to the sugar mills as buffer subsidy which was to be used for payment of cane price arrears. The reimbursement was to be made in instalments. The mills were to submit utilisation certificates to GOI stating that the amounts of subsidy paid had been utilised for payment of cane prices after which further instalments were to be released.

[51] Adivasi, Nandurbar; Chopda, Jalgaon; Jai Bhavani, Beed; Kukadi, Ahmednagar; Malegaon, Pune; Niphad, Nashik; Vaidyanath, Beed; V.V.Patil, Ahmednagar and Samarth, Jalna

[52] Loans raised against sugar stocks by CSFs

During 2003-06, GOI paid buffer stock subsidy of Rs 183.54 crore to 136 CSFs. Buffer stock subsidy of Rs 5.84 crore was paid to 14 [53] test-checked CSFs. Six [54]of these CSFs did not submit UCs for Rs 1.63 crore to the GOI as of December 2007. As a result, further instalments were not released and cane arrears amounting to Rs 93.23 crore were outstanding as of March 2006, as per the balance sheets of the CSFs.

4.13.4 Subsidy for sugar export

The Government sanctioned (February 2004) payment of subsidies to the CSFs at a rate equal to the difference between the rate of sale in the open market and the rate of export, subject to a maximum of Rs 250 per quintal, for export of sugar during the period from November 2003 to September 2004. A target of export of 10,000 MT of sugar was fixed for the period.

The Commissioner pointed out (April 2004) that the availability of sugar during 2004-05 would be about 88 lakh MT as against the local market requirement of 90 lakh MT for 24 months and opined that there was no need to encourage export of sugar on payment of subsidy. Nevertheless, the Government did not discontinue the scheme and allowed export of sugar. It paid subsidies of Rs 28 crore during 2003-06 for the purpose. Continuation of export subsidy without any justification resulted in avoidable expenditure of Rs 28 crore to the Government.

Though the subsidy was admissible for export of sugar only during November 2003 to September 2004, claims of subsidy of Rs 2.80 crore for export of sugar during November 2004 in respect of Dr. BT Tanpure CSF, Ahmednagar and Datta CSF, Kolhapur were admitted and payments were made in October 2005. Acceptance of claims for export subsidy beyond the period specified in the scheme by the Government was irregular.

It was the responsibility of the CSFs to obtain proofs of export in order to ensure that the sugar had been actually exported by the agencies. However, the authorised export agencies of the CSFs had disposed off[55] (2000-01 and 2001-02) sugar meant for export in the domestic market itself at higher rates and earned unintended benefits. Proofs of despatch were neither furnished by the export agents nor insisted upon by the CSFs as per the terms of the agreements with the agents. Thus, the CSFs and their authorised export agents were jointly held responsible for violation of Clause 5 of the Sugar Control Order and Clause 3 of the Essential Commodities Act, 1955. Government of

[53] Daulat, Kolhapur; Dr. Babasaheb Ambedkar, Osmanabad; Dr. V.V. Patil, Ahmednagar; Krishna, Satara; Niphad, Nashik; Nira Bhima, Pune; Pandurang, Solapur; Rajarambapu, Sangli; Samarth, Jalna; Sant Tukaram, Pune; Tasgaon, Sangli; Vaidyanath, Beed; Vasantada, Sangli and Vasant, Yavatmal

[54]Dr. Babasaheb Ambedkar, Osmanabad; Dr. V.V. Patil, Ahmednagar; Krishna, Satara; Nira Bhima, Pune; Samarth, Jalna and Tasgaon, Sangli

[55] As per inquiry report

India then directed (September 2003) the respective District Collectors to lodge police complaints against 16 CSFs and 12 export agents under the Essential Commodities Act, 1955. Inquiries were also launched under Sections 83 and 88 of the Act by the Commissioner for recovery of losses suffered by 13 CSFs due to selling of sugar at lower rates to the export agencies, while the CSFs sold the sugar in the domestic market at higher rates. The inquiries were pending in respect of Vasantdada CSF, Sangli, Sant Damaji CSF, Solapur and Vasantdada Vithewadi CSF, Nashik. An inquiry report (February 2005) under Section 88 held the management of Vasantdada Vithewadi responsible for the loss. The Minister, Co-operation in response to a revision application under Section 154, stayed (January 2006) further action and fixed dates of hearing. The stay has been lifted in January 2008 and inquiry has been resumed.

The inquiry report (March 2004) in respect of the Kisanveer CSF, Satara under Section 88 was cancelled by the Chief Minister (March 2004) and the Co-operation Minister in response to a revision application filed by the CSF.

Thus, action had not yet been taken against the erring Managements of the above-mentioned CSFs even after five years.

4.13.5 On-line trading facility for sale of sugar and by-products

Non-utilisation of the software regarding on-line trading for sale of sugar and by-products resulted in unfruitful expenditure of Rs 31 lakh

In Maharashtra, the value of sale of sugar, molasses, spirit etc through the tendering process was estimated by the Commissioner at Rs 8000 crore every year. As the tenders were publicised at local levels by the CSFs, traders in far-flung areas were unable to participate in the tendering process, leading to CSFs being deprived of the full benefits of the competitive bidding process. To overcome this problem, the Commissioner decided (January 2006) to develop a website for web-based trading in these commodities, having the following functions:-

- Floating of tenders by sugar mills
- Collecting traders' responses to the tenders
- Evaluation and awarding of tenders by sugar mills
- Publishing details of tenders floated and awarded for public viewing

The work of software development was awarded to an agency in May 2006 for Rs 34 lakh. Though the software application was ready for launching in September 2006, it had not been put to use as of January 2008. Thus, the expenditure on the project amounting to Rs 31 lakh proved unfruitful and the objective of obtaining competitive prices through the bidding process was not achieved. Government stated (January 2008) that the platform would be compared with another big platform viz., the National Commodity and Derivative Exchange (NCDE) and the decision as to which one was better would be taken. Also, the possibilities of using the existing platform by connecting it to the bigger platform would be explored. The reply was not tenable because NCDE had been in existence from December 2003, much before the new application was developed.

4.14 Working of by-product units

Sugar cane contains 12 *per cent* sugar and 88 *per cent* by-products (50 *per cent* water, 30 *per cent* bagasse, 4 *per cent* molasses and 4 *per cent* pressmud). Non-use of these by-products in a gainful manner is not profitable for the CSFs as production of sugar can be done for only 160 days in a year. The CSFs are required to take the approval of the Commissioner for incurring any kind of capital expenditure on by-product units.

The Commissioner had been according administrative approvals for project proposals of the CSFs for by-product units. A total of 49 distilleries, 19 ethanol projects, 12 co-generation projects, 12 country liquor units, five Indian made foreign liquor projects and one particle-board project were working during 2001-06. In the 22 test-checked working CSFs, 33[56] by-product units were working while four[57] by-product units has been shut down during 2001-06 due to losses. The detailed findings are as under:-

Distilleries

Capacity utilisation in five out of 12 distilleries was less than 50 *per cent*

In five out of 12 test-checked distilleries, capacity utilisation was less than 50 *per cent* in all the years during 2001-06 because of low supply of molasses and steam. Eleven distilleries were, however, earning profits except the distillery unit of Vasantdada CSF, Sangli which had suffered losses of Rs 1.10 lakh and Rs 1.01 crore in 2002-03 and 2004-05 respectively. The Indian made foreign liquor (IMFL) plant of the CSF suffered a total loss of Rs 1.55 crore during 2001-05.

Biogas plants

Extra expenditure of Rs 1 crore was incurred on fuel charges

Shriram CSF, Satara commissioned a biogas plant of 11,700 cum per day in August 2003, after a delay of five years. The machinery valued at Rs 1.40 crore supplied in March 1997 was lying idle during the intervening period of six years. The CSF also had to incur extra expenditure on account of fuel charges of about Rs 1 crore during 1996-2003.

Co-generation units

The co-generation plant of 12 MW of Rajarambapu Patil CSF, Sangli was commissioned in March 2006. It earned only Rs 1.11 lakh in the first year and Rs 4.92 crore in the second year against the projections of Rs 6.67 crore and

[56] 12 distilleries, 5 biogas plants, 4 co-generation units, 6 country liquor units, 2 IMFL units, 3 chemical units and 1 particle-board unit

[57] Acetic acid and acetaldehyde plants of Vasantdada CSF, Sangli, glyzol plant of Niphad CSF, Nashik and bagasse based paper plant of Dr. V.V. Patil CSF, Ahmednagar

Rs 7.23 crore respectively due to delay in synchronisation of alternators and crushing of cane for 150 days instead of 180 days as projected by the CSF.

In Pandurang CSF, Solapur, a 9 MW project was sanctioned in May 2003, but was held in abeyance in 2003-04 and 2004-05 because of droughts. The project was completed in June 2006, with a cost overrun of Rs 13.19 crore. As against the projected earning of Rs 11.05 crore in the first year, the CSF had earned only Rs 77.46 lakh.

Thus, the co-generation projects were not generating the projected revenues for the CSFs.

Chemical units

Plant sanctioned in 1993 was not commissioned even after spending Rs 11.72 crore due to design problems

The Yeshwantrao Mohite (Krishna) CSF, Satara had set up a Direct Incineration Energy Generation plant in collaboration with VSI to convert the spent wash discharged by their distillery into powder which in turn, could be used as fuel for the boiler for generating steam and power to run the distillery. This was also to solve the problem of disposal of spent wash. The ash generated contained potash and could also be used as fertiliser. However, due to problems in the design of the project, it could not be commissioned even after 15 years since its sanction in March 1993, after incurring an expenditure of Rs 11.72 crore.

Acetaldehyde plant set up in 1991 by investing Rs 31.72 crore was underutilised due to shortage of alcohol and the glyzol plant was closed due to lack of demand

The acetaldehyde plant of 10 MT capacity per day of Dr. V V Patil CSF installed in 1991 by investing Rs 31.72 crore, was not utilised to its optimum capacity during 2001 to 2005 due to shortage of alcohol. The capacity utilisation ranged from 13.40 *per cent* to 35.10 *per cent* except during 2004-05, when it was 93.24 *per cent*. The CSF stated that the project was not economical as the sale value of alcohol was more than acetaldehyde and the CSF was selling alcohol rather than processing it further for acetaldehyde. The glyzol plant of the above CSF commissioned in 1993 was closed down in 2001-02 as the market demand for glyzol collapsed due to import of a substitute chemical. The total accumulated loss of the plants was Rs 11.45 crore at the end of March 2006.

In respect of the acetic acid and acetaldehyde plants installed by the Vasantdada CSF, Sangli at a cost of Rs 7.95 crore, the rates of capacity utilisation had decreased from 55.83 to 13.80 *per cent* and from 55.65 to 18.29 *per cent* during 2001-02 to 2003-04. During 2004-05 the plants were shut down as the CSF was closed. The losses of these units during 2001-06 were Rs 6.40 crore.

Paper and particle-board projects

A particle-board plant set up at a cost of Rs 45.90 crore was underutilised for want of bagasse

The particle-board unit of the Daulat CSF, Kolhapur with an installed capacity of 14235 MT was commissioned during December 1997 at a cost of Rs 45.90 crore. During 2001-02 and 2004-05, capacity utilisation of the unit decreased from 27.10 to 0.70 *per cent,* mainly on account of non-availability of bagasse due to less crushing of sugar cane. However, the CSF continued the unit. The accumulated losses of the project at the end of March 2006 were Rs 46.35 crore.

Thus, the by-product units other than distilleries were proving to be a drain on the CSFs' finances. These plants were neither gainfully utilised nor disposed off. Although many CSFs were diversifying into co-generation and distillery projects to hedge their losses from sugar, the revenues from these units were still not proportionate to their investment.

At the exit conference (December 2007), the Principal Secretary agreed that the losses suffered by the CSFs/by-product units were because of mismanagement. He also stated that there could be a cell in VSI to provide inputs on financial management and marketing as the existing arrangement *ie.,* administrative approval by the Commissioner, of the capital expenditure of the CSFs based on their project proposals, was not working satisfactorily. With regard to working of co-generation units, Government stated (January 2008) that a Fund had been created for setting up these units. The strategy of the Government was for partnering a strong unit and a weak unit to produce electricity and selling of electricity on the latter's behalf by the former. The fact, however, remains that though the said Fund was created in January 2006, approval for investment upto 20 *per cent* of the project cost in equity was accorded only in respect of three CSFs in October 2007. The funds had not been released to the CSFs (March 2008). As for the other by-product units mentioned earlier, they had been mismanaged, greatly deteriorating the CSFs' financial health.

4.15 Unproductive investments made by CSFs

Though there were no surpluses, two CSFs invested Rs 12 crore, which did not give any return

Co-operative sugar factories are allowed to invest their profits under Section 70 of the Act, which includes investment in other co-operatives as well. Two[58] CSFs invested about Rs 12 crore in other co-operatives though they did not have surpluses. The investments were not giving them any returns. Commissioner had, however, not taken action under Section 78 of the Act on the Management, as discussed in the following paragraphs.

- The property of the Vasantdada Groundnut Oil Mills, Sangli (under liquidation) comprising land, buildings and machinery was purchased (1993) by the Vasantdada CSF on as is where is basis for Rs 2.96 crore. The purchase deed had not been executed so far (January 2008), even

[58] Pandurang, Solapur and Vasantdada, Sangli

after a lapse of 15 years. As a result, the ownership of the property was not with the CSF management. The Commissioner informed that the CSF had submitted (2003) a proposal to the State Government for waiver of stamp duty of Rs 18.05 lakh. The Government had not given any sanction. There was no need to purchase the additional land as sufficient land had already been acquired. The property was procured only because it was adjacent to the sugar factory and was being used as a godown and parking place for bullock carts etc.

- The Management of the Vasantdada CSF deposited (1994-95) Rs 8 crore as a fixed deposit in the Youth Development Co-operative Credit Society Limited, Sangli, which belonged to the same Management, to enable the latter to provide loans to H&T contractors. However, the credit society had not provided loans to the H&T contractors during 1994-95 as per the agreement and had also not refunded the deposit along with interest and penal interest at two *per cent*. The matter was taken up in court by the CSF. Of the total deposit, Rs 2.56 crore had been recovered from the society. As per the special auditor's report (January 2008), the outstanding amount against the society as of November 2007 was Rs 18.43 crore. As permission was not obtained from the Commissioner for the investment as required under Section 70, the Management committee was responsible for the injudicious investment. Though the Regional Joint Director, Kolhapur, had instituted an inquiry under Section 83 (1) of the Act in February 2005 for completion within 60 days, it had not been completed as of July 2007.

- Pandurang CSF, Solapur invested (November 1997) Rs 24 lakh with Rukmini Poultry Project Sangh. Further investments were made from year to year for running the poultry which were recoverable at 18 *per cent* interest. Advances pending recovery with the Sangh amounted to Rs 99 lakh at the end of March 2006. The CSF had thus invested in a society without getting any benefit out of the investment. The Management, had not obtained prior approval of the Commissioner for the investment as required under the Act. The Commissioner stated (January 2008) that the CSF had assured that 50 *per cent* of the receivable amount would be recovered from the cane bills of the members during the year 2007-08 and the remaining 50 *per cent* would be recovered during the crushing season of 2008-09. In cases of non-recovery of the dues in this manner, the CSF proposed to recover the amount by initiating legal action against the society to recover the dues from the assets of about Rs 71 lakh available with the society.

4.16 Irrigation and water supply schemes

Water is an important input for production of sugar cane. The CSFs, therefore, had taken up irrigation schemes for increasing the sugar cane in their areas of operation. Sugar factories also required water for running the factories.

Investment in irrigation and water supply schemes by two test checked CSFs, however, proved injudicious as discussed below:

Irrigation schemes owned and operated by the CSF accumulated losses of Rs 28.75 crore as of March 2006

- The Vasantdada CSF, Sangli had invested (1990-95) Rs 32.17 crore in 25 vasant bandharas (storage tanks) and 45 lift irrigation schemes with the objective of increasing sugar cane in its area of operation. These were in addition to the 11 irrigation schemes of individual members already taken over (1972-90) by it. The annual expenditure incurred on running these schemes was Rs 5 crore and the revenue realised by way of water charges was only Rs 2 crore. The outstanding water charges as of March 2006 were Rs 8.78 crore and the accumulated losses were Rs 28.75 crore. The Government stated (January 2008) that the CSF had promised to recover the outstanding dues from the beneficiary members. The fact, however, remains that the investment was not judicious and proved to be a drain on the CSF's finances.

Water supply scheme remained incomplete even after spending Rs 61 lakh

- The Shivshakti Adivasi and Magasvargiya CSF, Buldhana had invested (1996-2002) in a water supply scheme estimated to cost Rs 1.22 crore, which included a pipe house, a jack well, pumps, an underground water reservoir, an overhead water tank and a service water tank to lift water from the Purna river by laying a pipe of 15 km length. An expenditure of Rs 61 lakh was incurred by the CSF during 1996-2002. The scheme had, however, not been completed and put to use so far (January 2008) resulting in idle investment of the amount. The CSF commissioned in March 2002 was run for only two days. Government stated (January 2008) that the CSF had been leased to the Buldhana Urban Credit Society for a period of five years till 2009-10 and its assets would be disposed off as per the provisions of the Act. The reply was not acceptable because the water supply scheme was incomplete and should have been completed and put to use for the CSF.

4.17 Staff in CSFs in excess of prescribed pattern.

Non-adherence to the prescribed staffing norms resulted in extra expenditure of Rs 14.58 crore during 2004-06

The Commissioner prescribed staffing norms once in September 1993 and again in June 2004. He also directed the CSFs to observe the prescribed staffing pattern in order to control the administrative costs of the CSFs. However, eight test-checked CSFs employed staff in excess of the prescribed staffing pattern, incurring extra expenditure of about Rs 14.58 crore during the period 2004-06, as shown in **Appendix VII.**

The CSFs stated (August 2007) that the staff had been employed on the pattern prescribed in 1993 by the Commissioner and the excess staff could not be retrenched immediately due to the poor financial condition of the CSFs. Further, the staffing pattern of 2004 was based on the assumption that the CSFs had modernised their machinery and computerised their functions, which they had not completed.

None of the eight CSFs had initiated necessary steps like giving the staff multi-disciplinary skills and computerising functions to reduce the staff even after two years of issue of the directions by the Commissioner. The Commissioner also did not exercise his powers under Section 78 for making the CSFs conform to the norms. The Principal Secretary stated at the exit conference that the Department was trying consistently to see that excess manpower was removed.

4.18 Automation of existing machinery

The Vasantdada CSF, Sangli had taken up (2001-02) a project estimated at Rs 1.83 crore for automation of its existing machinery, based on a survey conducted by TATA Honeywell Company, Pune which indicated that by automation of its existing machinery, the crushing capacity of the CSF could be increased up to 7500 TCD, manpower could be reduced by 30 to 40 *per cent* and there could be savings of steam and water of four to six *per cent* and power consumption of one to two *per cent*. An expenditure of Rs 1.24 crore[59] was incurred during 2001-02. The project had not been completed as of December 2007 and hence, the CSF did not achieve the objective of improving its efficiency by automation. The Commissioner had, however, not initiated any action against the negligent management of the CSF under Section 78. The Government replied (January 2008) that the audit observation had been noted and further action would be taken under the Act.

4.19 Compliance to the required pollution control measures

The Maharashtra Pollution Control Board (MPCB) monitors the CSFs' compliance of the requirements of the Charter on Corporate Responsibility for Environment Protection (CREP). This Charter, signed in March 2003, deals with the time-bound action to be taken by molasses-based distilleries to achieve compliance of environmental standards and zero discharge of pollutants into the environment by December 2005, later extended to December 2007. The detailed requirements of the Charter are given at **Appendix VIII.**

- Seven[60] CSFs, each having a distillery, were composting the spent wash discharged by the distilleries directly on the soil and not on impervious platforms as required.
- Five[61] working CSFs having distillery units were unable to compost the entire quantity of spent wash generated by them due to non-

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[59] The expenditure of Rs 1.24 crore was incurred on automation of Boiler No. 7 & 8, juice and weighing and flow stabilisation, automation juice and syrup sulphitation, automation system and vapour flow installation of computer

[60] Dr. V.V.Patil, Ahmednagar; Jai Bhavani, Beed; Niphad, Nashik; Rajarambapu Patil, Sangli; Shriram, Satara; Siddheshwar, Solapur and Vaidyanath, Beed

[61] Dr. V.V.Patil, Ahmednagar; Niphad, Nashik; Rajarambapu Patil, Sangli; Shriram, Satara and Siddheshwar, Solapur

availability of adequate quantities of pressmud. The Vasantdada CSF, Sangli had not provided composting facilities as of January 2008.

- Test wells were not provided by nine[62] test-checked working CSFs to monitor the ground water pollution caused by percolation of spent wash due to storage in unlined lagoons. Ground water pollution was recorded in the case of Dr. V V Patil CSF, Ahmednagar in July 2006 due to storage of spent wash in unlined lagoons. The CSF constructed impervious lagoons only in 2007.

The MPCB had issued (January to March 2007) notices for closure of the distilleries for non-compliance of pollution control norms. On specific assurances given for compliance of CREP conditions before December 2007, the CSFs were allowed (March 2007) to operate distilleries by obtaining bank guarantees ranging from Rs 50,000 to Rs 5 lakh, depending upon the nature of compliance.

Thus the CSFs had not fulfilled the conditions till date as per CREP, as a result of which, pollution of the water resources and the soil of their areas continued to increase.

The Commissioner stated (January 2008) that the Government had given special permission (October 2007) to incur capital expenditure in order to follow CREP norms, to the CSFs having negative net worth, after examining their financial concerns. Accordingly, administrative and conditional financial approval was given to 42 CSFs. A Committee comprising MPCB, VSI, Maharashtra Industrial and Technical Consultancy Services Limited and the Commissioner had suggested measures like installation of re-boilers and evaporation systems to minimise the spent wash generation, to the CSFs. As of January 2008, none of the CSFs had complied with the deadline issued by the MPCB.

4.20 Conclusion

Directions of the Government to grant permission for registration of CSFs, ignoring the recommendations of the Commissioner proved injudicious. There were delays in erection and commissioning of CSFs. The Government released instalments of share capital to the CSFs before utilisation of the earlier instalments. The State level Purchase Committee had not ensured economy in purchases. The Government had not prescribed any standard tendering procedures for the Purchase Committee under the Maharashtra Sakhar Sangh. There was no reliable data on cane availability. Government had not prescribed any norms for ensuring uniformity in the rates for H & T. Penalty leviable for import of sugar cane from outside the State was not levied

[62] Daulat, Kolhapur; Dr. V.V.Patil, Ahmednagar; Jai Bhavani, Beed; Niphad, Nashik; Rajarambapu Patil, Sangli; Shriram, Satara;Vasantdada, Sangli; Siddheshwar, Solapur and Vaidyanath, Beed

and recovered. Cost of conversion of sugar cane was more than the norm. The Government did not lift the levy sugar, which resulted in blocking of CSFs' funds. By-product units, other than distilleries, proved to be a drain on the CSFs' finances. Pollution control measures were not implemented.

4.21 Recommendations

- The CSFs which are economically unsound should be de-registered or liquidated.
- Release of share capital to CSFs to cover cost overruns of projects should be restricted to the actual cost.
- A standard procedure should be prescribed for procurement of machinery by the Committee under the Sakhar Sangh and the presence of Commissioner should be ensured in the Purchase committee meetings for protecting Government interest.
- Norms and procedures should be prescribed to bring about uniformity in the rates for harvesting and transport.
- Modernisation of machinery and manufacturing processes by the CSFs should be ensured.
- Observance of the prescribed staff norms by the CSFs should be ensured for reduction in the administrative costs of the CSFs.
- Compliance of the conditions of CREP by the CSFs should be ensured.