

## **CO-OPERATION AND MARKETING DEPARTMENT**

### **Management of co-operative sugar factories in Maharashtra**

#### **OVERVIEW**

*The co-operative sugar factories (CSFs) in Maharashtra are processing societies under the Maharashtra Co-operative Societies (MCS) Act, 1960. They manufacture sugar from the sugar cane purchased from local farmers. Besides processing of by-products of sugar production, CSFs also take up electricity production by setting up co-generation units. Thus, by providing a market for the farmers' produce and employment opportunities for the people, the CSFs play a significant role in the rural economy of the State. As of March 2006, there were 202 registered CSFs.*

*The State Government provides assistance to the CSFs in the form of share capital; loans and subsidies for Scheduled Castes/Scheduled Tribes and marginal farmers to enable them to become shareholders of the CSFs; grants for infrastructure; conversion of purchase tax into loans; subsidies for less recovery of sugar, extra transportation (during glut years), uncrushed cane and export of sugar and loans and subsidies for payment of cane price arrears. The Government also gives guarantees for loans raised by the CSFs. Besides, the Government of India also provides subsidy for export of sugar, loans for cane development, modernisation and expansion of CSFs and setting up of co-generation units. Research grants are provided to the Vasantdada Sugar Institute. In spite of all these various types of assistance, 116 CSFs were incurring losses, of which 74 CSFs registered negative net worth as of June 2006 and 31 CSFs had to be brought under liquidation during 1987-2006.*

*The CSFs had mismanaged their affairs by making unproductive and idle investments and neglecting cane development as well as modernisation of their processes/functions. As a result, crushing capacities of the factories were underutilised and overhead expenditure including the conversion cost of sugar increased. The Commissioner and the Government had failed to take action against the erring Managements. Highlights of important audit findings are mentioned below:*

**Preparation of annual accounts of the CSFs was delayed upto 19 months, mainly because the finalisation of the cost of closing stocks was delayed by the Ministers' Committee. The accounts prepared were not in accordance with the Form 'N' prescribed as per Rule 62 of the Maharashtra Co-operative Societies Rules, 1961 and the Generally Accepted Accounting Principles.**

*(Paragraphs 2.1 and 2.1.1)*

**As of March 2006, statutory dues amounting to Rs 2,658.65 crore were outstanding in respect of 22 test-checked working CSFs for periods ranging from two to five years. Share capital balances amounting to Rs 164.41 crore were outstanding from the shareholders of these CSFs, recovery of which could reduce their burden of borrowings and other liabilities. Even the Rs 72.15 crore collected as share capital was kept under suspense.**

*(Paragraphs 2.2.1 and 2.2.2)*

**Loans paid from the Sugar Development Fund were under-utilised/misutilised. Thirteen CSFs, which did not utilise the loans for cane development, had to be brought under liquidation. Utilisation Certificates (UCs) for loans of Rs 10.73 crore were not received from them. Four CSFs also did not submit Utilisation Certificates for loans of Rs 14.90 crore paid for modernisation and expansion.**

*(Paragraph 3.5.1)*

**As of March 2006, Government provided guarantees to 172 CSFs for raising loans amounting to Rs 3,557.09 crore including interest. Guarantees of Rs 147.45 crore in respect of 26 CSFs had been invoked by banks. Guarantee fees including interest amounting to Rs 563.02 crore were outstanding from CSFs.**

*(Paragraph 3.7)*

**Harvesting and transport advances of Rs 23.34 crore paid by CSFs were outstanding as of March 2006. The CSFs had failed to recover the amounts as the advances were paid without obtaining security. Even the advances recovered from the contractors (Rs 92.73 crore) were not repaid to the banks.**

*(Paragraph 3.8.1)*

**Loans raised (Rs 4.22 crore) by two CSFs for purchase of fertilisers and cane seed were diverted for other purposes. Government raised market loans for further disbursement as loans to CSFs for payment of cane price arrears for 2002-03, but permitted the CSFs to use loans of Rs 258.73 crore for other purposes, in violation of Government of India stipulations for raising the loans.**

*(Paragraphs 3.8.3 and 3.8.4)*

**Government asked the Commissioner to permit registration of five CSFs, ignoring the latter's recommendations to the contrary. Four of these projects failed. Government also released excess share capital to the CSFs as the necessary verification was not done by the Commissioner.**

*(Paragraphs 4.2 and 4.3)*

**Twelve CSFs registered between 1992 and 2002, having Government investment of Rs 92.56 crore, had not completed their erection and commissioning as of December 2007, though the work had to be completed within three years.**

*(Paragraph 4.4)*

**In 21 CSFs, the cost of conversion was more than the standard cost fixed by the Commissioner, resulting in excess expenditure of Rs 1,103.94 crore during 2001-06.**

*(Paragraph 4.11)*

**Liquidation proceedings of four CSFs were not completed even after the statutory period of 10 years. The Commissioner did not bring three CSFs under liquidation though they were not in operation. Old erring managements continued in nine leased CSFs, defeating the very purpose of the liquidation policy. As of March 2007, lease rent of Rs 25.76 crore was outstanding from the lessees of 13 CSFs.**

*(Paragraphs 5.1, 5.1.1 and 5.2.1)*

**Audit of 61 CSFs was in arrears for periods ranging up to 15 years. Audit paragraphs were not watched for compliance and no control registers were maintained by the Regional Joint Directors. Neither the Commissioner nor the Regional Joint Directors had carried out inspection of the CSFs.**

*(Paragraphs 6.2 and 6.3)*

**During 2002-06, 14 CSFs had not conducted cost audits and nine had not conducted energy audits.**

*(Paragraph 6.4)*

**There was no mechanism in place for periodical evaluation of the working of the CSFs. The Godbole Committee appointed by the State Government, suggested remedies for the deficiencies in management of the CSFs; but the same were not implemented.**

*(Paragraph 6.8)*