Indian Streams Research Journal
Vol - I , ISSUE - V [August 2011] : Commerce **ISSN:-2230-7850**

Article :Challenges Before Sugar Cooperatives in Maharashtra

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Abstract-

Maharashtra is known as sugar bowl of India. It contributes around 40% of national sugar production. Cooperative sector is dominant in its sugar industry. The state sugar industry has a turnover of Rs.20,000 crores. It has been playing significant role in overall socio-economic development of the state for the past six decades. The industry has achieved spectacular growth owing to the conducive environment in the state. It has become a movement and contributed significantly to the industrial development of the state. The hallmark of the industry is the involvement of large number of small and marginal farmers regardless the size of their holding. But in the recent past this one time champion industry is faced with various grave problems like obsolete technology, short margin, policy hurdles, entry of private players, non availability of sugarcane, financial crisis, corruption and so on. A recent report shows that almost 40% of state sugar mills are sick. Moreover, with the advent of new economic era, cut throat competition, awareness of farmers coupled with their movements and changing global environment are threatening the very survival of the industry at large. Therefore there is an urgent need to take review of these problems and identify remedies thereon for the protection of millions of farmer dependent on the industry. Some remedial steps like de-controlling the industry, reviewing levy system and export policy need to be taken immediately. The proposed article intends to take a brief review of crucial problems faced by the industry and tries to suggest some concrete remedies thereon for the rejuvenation of this crucial industry that forms the backbone of the rural economy of Maharashtra. .

Key Words- Privatization, Modernization, Levy system, Professionalization, Short margin.

Introduction

Maharashtra has a remarkable history and tradition of cooperative sugar industry. The state has been known as pioneer of cooperative movement. Especially sugar cooperatives in the state have prominent place in socio-economic development of the state. Maharashtra under tropical belt and has adequate irrigation facilities and suitable climate for sugarcane. Therefore cooperative sugar industry is deep rooted and grown in the state since 1950 when Pravara experiment took place in Ahmednagar District. At present, the state has 202 registered sugar factories out of which 195 are functioning including 165 factories from cooperative sector.

Over a last decade the sugar cooperatives in Maharashtra have been facing some grave problems. The industry that has transformed the life of millions of farmers and societal development, has been striving hard for its very existence. Gone are the days when the industry has royal patronage, Now it begging for the government aid for its survival. The problems faced by the industry are of two types namely, *self generated problems* and the *problems emerging from the new economic policy*. In the year 2008-09 out of 165 cooperative sugar factories in the state, only 123 have taken its crushing season. Almost 40% sugar cooperatives in the state are in trouble and 71 sugar cooperatives in the state are declared as sick. Eighteen sugar cooperatives are already liquidated; twenty seven are handed over to private management. It will not be improper if we say that the state sugar industry is on death bed.

Following are the general problems faced by the state sugar cooperatives:

Challenges -

1. **Corruption-**

Cooperative sugar industry in Maharashtra has been eroded by corruption. It is the only grower owned enterprise. Even a small farmer can be member of the factory and further he can lead factory in a capacity of director or a chairman. However, most of the member farmers are illiterate or semi-illiterate and have least financial interest. The structure of cooperative sugar factories itself doesn't have any financial accountability over the persons at the helm of the affairs. The basic philosophy of cooperative form of enterprise is to protect collective interest of the small and weaker sections of the society. In real practice the very objective of cooperation is defeated. The working of the sugar cooperatives is dominated by few large farmers who use cooperatives as a tool to serve their personal interest. Instead of safeguarding economic interest of small farmers, they are protecting their personal political and financial interest through the corrupt practices. Financial unaccountability, high political ambitions, greed of wealth and money leads to corruption. Thirty-four cooperative sugar factories in the state have suffered losses to the tune of Rs 1,173.90 crore as on March 31, 2010 - an amount that is higher than the country's budget for polio immunization. The losses have been recorded in a report prepared by the Comptroller and Auditor General of India. The report has blamed factories for mismanagement and unproductive expenditure that has resulted in financial irregularities.

2. **Lack of professional management-**

   In the era of new economic reforms (LPG), industrial environment has changed drastically. However, a lack of professionalism pervades the cooperative sector. According to Prakash Naiknavare, the Managing Director of State Cooperative Sugar Factories Federation "*The cooperatives have grown under protection and now they are like an overgrown baby in an incubator."* In today's highly competitive and globalised business environment, there is an urgent need of professional management for the successful conduct of the affairs of the co-operative organizations. The professional management of sugar co-operatives is the need of an hour. It is also needed in sectoral federation which protects the interest of its affiliated units. It has been observed that general trend in the growth of professionalization of management is hindered in the co-operative organizations because of lack of education and training. Sharad Pawar, Union Agriculture Minister and powerful sugar lobbyist, noted on the occasion of the centenary of the cooperative movement *that the financial indiscipline, lack of transparency and non-professional management had crippled the sugar cooperatives. Although sugar factories form the lifeline of the Maharashtra State, they should learn to stand on their own*, he said. The State's sugar industry is in urgent need of a transformation of its cooperative management. The professional approach needs to displayed by the sugar cooperatives managements as done in the cooperative organization in neighboring state of Gujarath like AMUL.

The mismanagement in sugar cooperatives is exhibited in form of unskilled and untrained workforce, vested political interest, absence of modern management tools and techniques, lack of foresightedness, absence of quick decision making process, delayed and vested decisions, high authority and low accountability etc. Due to these circumstances private professional managements are either taking over the sick sugar cooperatives on lease or purchasing them in the course of liquidation.

The pattern of management of the factories needs to change drastically if India were to take advantage of the international opening up of the markets. Curbing nepotism in the allocation of sugar mills, increasing the representation of poor farmers in governance, prohibiting the setting up of new sugar mills, cutting off funds to mismanaged mills and `sick' units, and closing down mills that have not been operational for over three seasons are some ways to stem the rot and bring the cooperative movement back on track.

3. **Short Margin:**

Short margin is another problem that relates to price crash. In Maharashtra all sugar cooperatives collect sugarcane from cane growers, crush it and produce sugar. Whatever sugar produced is hypothecated to District Cooperative Bank and loan is obtained. From the loan amount availed cane growers’ payment is made. In price crash situation cane price paid to cane growers and processing cost per ton exceeds loan obtained per bag of sugar. Many sugar cooperatives are suffering from the short margin and are resorting to over-drawl from banks. For example, if a sugar cooperative has produced two lakh bags of sugar of 100 kg each, the stock immediately goes into the custody of the cooperative bank. The bank has financed the sugar mills considering a benchmark sugar price of Rs 26/kg. As per the benchmark, the total value of the two lakh bags is Rs 52 crore. Of this, the banks gives 85% as an advance to the mill, that is Rs 44 crore. But as the mill is realizing only Rs 25/kg to Rs 25.50/kg, the value of the two lakh bags in the bank's custody decreases to RS 50 crore, with a consequent reduction in the permitted withdrawal amount to Rs 42.20 core. This difference of Rs 1.80 crore, the over-drawl amount, is called as short margin in the industry. At least 33 out of 111 cooperative mills participating in the ongoing crushing season are short of margins on advances. The Maharashtra State Cooperative Bank (MSCB) has curtailed advances to these mills.

To match the short margin factories have to obtain another loan and the vicious circle continues. Another secondary thing is while sugar production has increased in the last decade domestic sugar consumption has grown very slowly. Despite the levy mechanism, ban on export, plummeting of sugar prices led to accumulation of heavy stock with sugar factories which ultimately results in declining sugar prices below breakeven point. These are the main reasons as to why margins were under pressure. In the year 2006-07 the amount of short margin of state cooperative sugar industry was estimated to be 600 crores.

4. Price Crash:

In the year 2006-07 the sugar production in Maharashtra touched 9 million tons. In the year 1952 it was 0.147 mn/tn, in 1980's it had reached to 1.394 mn. tn. in 1990's it has touched to 3.923 mn. tn. and in the year 2006-07 it has all time high i.e.9.095 mn.tn. It shows that it has increased manifold over the period of time, while consumption of sugar is increasing at a steady pace of 4% to 5% p.a. It does not match the increase in production. As a result, after bumper production, the price of sugar falls rapidly and significantly. Sometimes price of sugarcane as raw material is higher than price of sugar. The impact of the price crash will ultimately be felt by sugarcane farmers. As the factories run into losses payment to farmers delayed automatically. Consequently cane planting goes down and crop pattern changes. Sometimes to control the situation Government interferes and lifts the ban on exports and creates buffer stock, but decision has not been implemented immediately, it comes into existence when global price crashes. So despite of subsidy sugar factories may not be able to ship sugar to other countries at a competitive price. The following table shows the price fluctuations of sugar in the past decade.

Table No.1
Average Wholesale Sugar Prices for last seven years in Mumbai Market

Sr.No	Year	Sugar Price Per K.g.(in Rs.)
1	2003-04	14.42
2	2004-05	17.58
3	2005-06	18.46
4	2006-07	14.50
5	2007-08	14.85

6	2008-09	24.56
7	2009-10	31.46

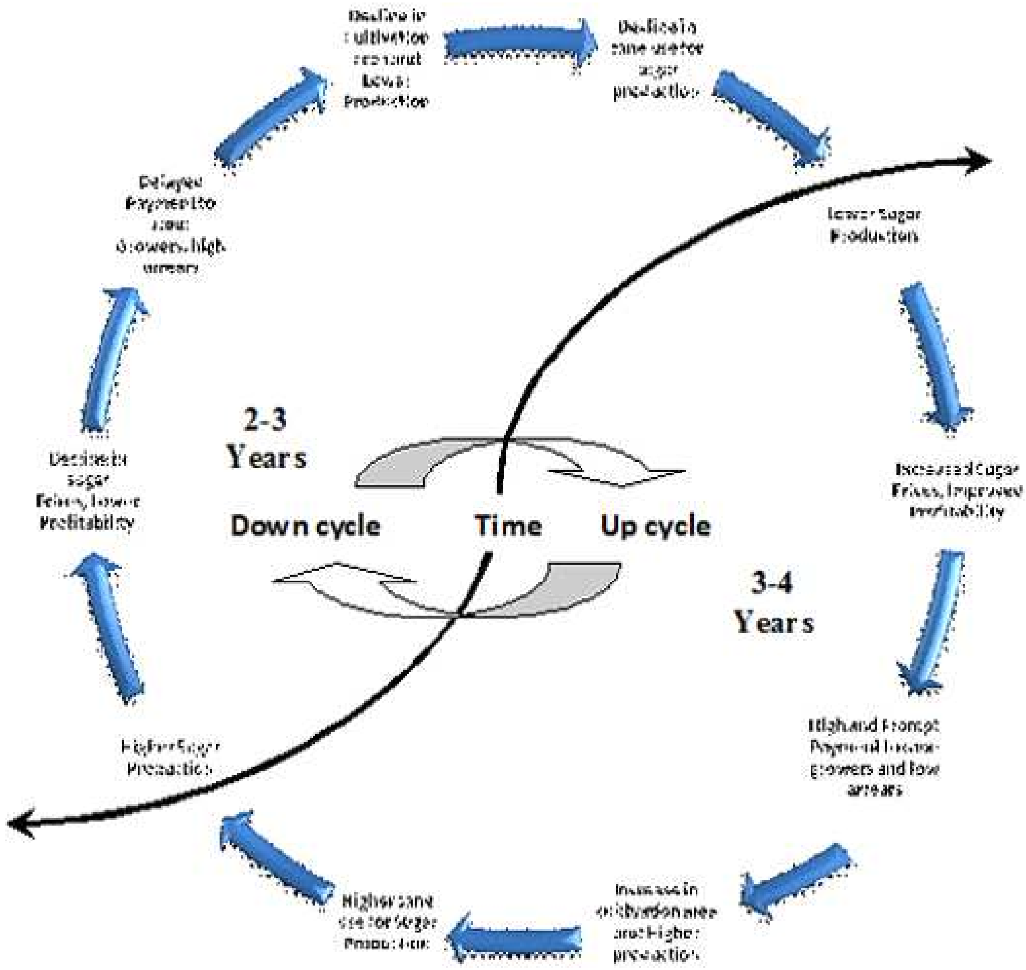
(Source- Hand Book of Sugar Statistics, Oct-2008 and Cooperative Sugar, May 2011)

5. Natural Vagaries and Infamous Sugar Cycle:

As Maharashtra falls under tropical belt, sugarcane cultivation in the state is largely depend on monsoon and agro climate. Sugarcane crop requires adequate water and sunlight. A vagary of weather significantly affects the sugarcane production in the state. Because of this the area under sugarcane in the state varies from 0.549 to 1.049 million hactares in the last ten years. The sugar industry is well-known for decades for its cycles of surpluses and shortages, typically every five to seven years.

Higher sugarcane and sugar production results in a fall in sugar prices and nonpayment of dues to farmers. This compels the farmers to switch to other crops thereby causing a shortage of sugarcane, resulting in steep increase in sugarcane prices and extraordinary profits. Taking into account the prevalent higher prices sugarcane, farmers then switch back to sugarcane. Normally two or three year surplus follows by two or three year's shortage.

Figure No.1



1. **Need of Modernization-**

Most of the sugar cooperatives in the state are as old as 30 to 40 years. Over the period of time lot of technological changes and diversification have taken place. Most of the players in the industry have not maintained, modernized or expanded their plants. But a few have changed with the times and have pursued an agenda for reform. They have realized that the by-products of sugarcane - such as molasses, bagasse and press-mud can yield profits too. New diversified technology and low cost plant and process techniques have been invented in sugar industry. But to adopt technological diversification old plants need to be modernized. For modernization huge amount of capital is required. Most of the sugar cooperatives in the state are engrossed with the financial problems and crises. They do not raise money for modernization because these sugar factories do not have any internal financial resource generating mechanism. Lack of modernization affects crushing capacity, recovery, molasses, total losses of sugar in process, fuel efficiency, stoppage etc. The state government has set up Sugar

Development Fund to assist modernization of the sugar cooperatives in the state but their norms for obtaining loan and rate of interests are cumbersome for the factories.

2. **High interest burden:**

   Cooperative sugar industry in the state is highly working-capital intensive. Basically this industry is seasonal in nature. A 2500 TCD sugar factory expected to run 160 days in a year commencing in the month of October whereas sugar sales happen throughout the year. Sugar factory collects sugarcane from its members, produces sugar and after deducting process cost the remaining amount is being distributed among the cane supplier in proportion of cane supplied. Company also incurs fixed cost when crushing comes to an end. There is no inbuilt mechanism of plough back of profit or generating reserves or raising capital from capital market. So majority of sugar cooperatives always depend upon external financial institutions for their additional capital need. When margins are squeezed and the factories are not able to make enough money, even to recover their conversion cost are in deep financial trouble. In addition to that, if factory is in short margin position it has to face hindrances in obtaining loan. The entire situation raises additional interest burden on the sugar cooperatives. The financial report of state shows that the interest per quintal of sugar varies from Rs. 3.79 to Rs.377.89 in the year 2008-09. Average interest cost per quintal of sugar produced for last five years is Rs.111.30 which is significant. The rate of interest for obtaining loan from District Cooperative Bank or State Cooperative Bank is around 13% to 14% p.a. which is relatively high and the factories are bound to take loan from these banks. Recently government has advised to these banks to provide loan to sugar cooperatives @ 10.5% p.a. or to allow them to borrow from other banks.

3. **Shortage of Sugarcane-**

Maharashtra is being known as top producer of sugarcane and sugar, but the state now experiencing capricious sugarcane availability due to estimated shortfall of at least 30% in its cane yield. Availability of sugarcane is normally depends upon area under cultivation, climate and irrigation facilities, crop diseases and pests, infamous sugar cycle and diversification to other crops. Moreover development of state sugar industry is also uneven. Where there are adequate irrigation facilities, factories can take season more or less 160 days and recovery of that particular region is comparatively high i.e. 11.5% to13.75%, but where there is inadequate irrigation facilities and lower rainfall factories cannot take crushing season more than 120 days and their recovery is also low in between 9% to10.5%.

Considering these all factors, availability of sugarcane in the state is not enough. The sugarcane crushing in the season 2008-09 is 40.02 million tons as against 76.14 million tons in the previous season. The installed capacity of the state is over 72 lakh metric tons but the average sugarcane production in the state for the last 10 years is not more than 50 lakh tons. As a result in the season when cane production is fallen, 40% of the installed sugar factories could not start crushing season and if they start, they could not run factories for more than 100 days. The fluctuations in the sugarcane productions are evident from the Table No. 2.

Table No.2

Production of Sugarcane in the state (in mn/tn)

Sr.No.	Year	Sugarcane Prod^{n}
1	2001-02	45.14
2	2002-03	42.17
3	2003-04	25.67
4	2004-05	20.48
5	2005-06	38.85
6	2006-07	78.57
7	2007-08	88.43
8	**2008-09**	**60.65**
9	2009-10	64.16

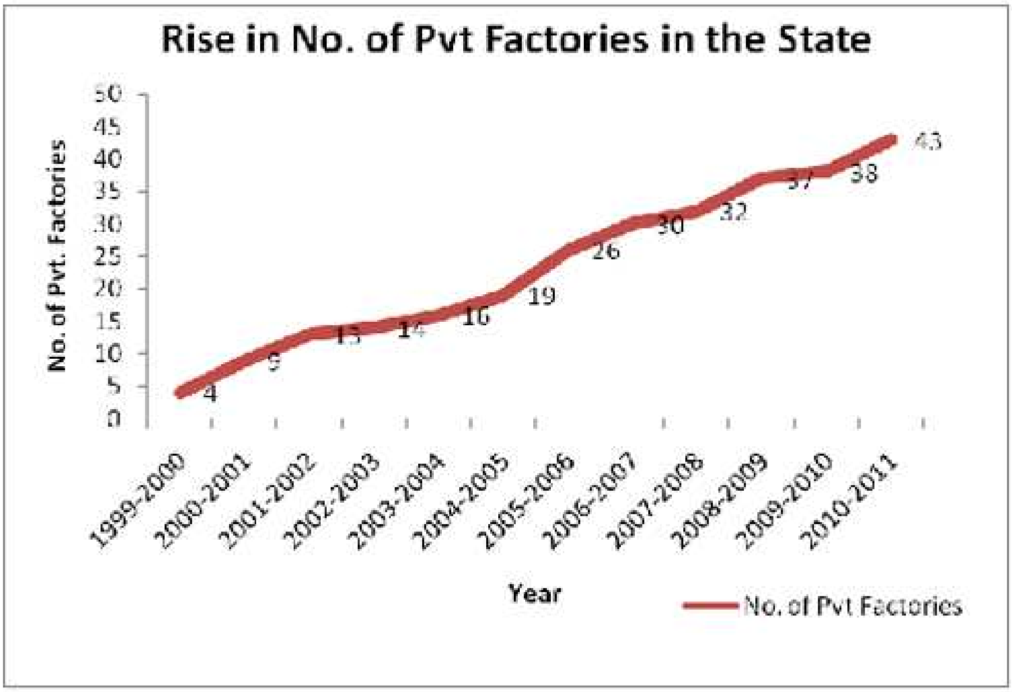
(Source Cooperative Sugar, May 2011 pp 61)

The other significant factors causing sugarcane unavailability are improper location, nepotism while granting permission and licenses, vested political interest and the prevailing zoning system.

4. **Threat of Privatization:**

Sugar cooperatives in Maharashtra have been facing emerging challenge of Privatization. In the process of decontrolling industry is de-licensed on 11th August, 1999. Before delicensing the cooperative sector has clean sweep in the state. The number of private factories in the state was limited to four only. After de-licensing the number of private factories in the state increased rapidly. Before de-licensing it was limited to four only but till the year 2010-11 forty three private factories are in operation in the state. The steep increase in the growth of private sugar factories is shown in the graph no. 1 ahead. Formation of another 92 factories is expected in the forthcoming 5 years. The private sector is forged ahead not only in forming new units but they are acquiring sick cooperative sugar factories in the state. Thirteen cooperative sugar factories are already liquidated, thirty five are in the process of liquidation and twenty seven are leased out to either private management or well managed cooperatives. Around 40% sugar cooperatives in the state are declared as sick.

Graph No.1



Source- Cooperative Sugar, May 2011

The number of operating sugar cooperatives in the state are decreasing day by day. The private players are acquiring the sick units and running it successfully. Therefore leasing out sick cooperatives to private players is emerging as a remedy for its survival. But if this situation is not changed the day is not far when sugar cooperatives in the state will vanish.

1. **Unsound Export Policy:**

The exports of sugar were governed by Sugar Export Promotion Act, 1958. According to the Act government could use 20% of country's total production for sale abroad. Later on in the process of decontrolling the provision was eliminated. India is second largest sugar producing nation in the world, while it is only seventh largest exporter of the commodity. The Government decanalised the exports in 1997 allowing private parties to export sugar. The Government has also put the sugar imports on Open General Licensing (OGL) allowing the private parties to import sugar. The imported sugar has been subjected to a custom duty of 20% from Jan.1999. From 2001 export of sugar can now be undertaken by the various sugar factories after obtaining Export Release Order from the directorate of sugar under the Ministry of Consumer Affairs, Food and Public Distribution. In spite of that Maharashtra as well as national sugar industry is not able to exploit export potential because it produces plantation white sugar which is produced through double sulphitation process. This sugar is not much in demand in the global market. Refined sugar is much in demanded globally and it requires phosphoflotation process. Most of our sugar cooperatives are not equipped to make refined sugar. Maharashtra Government also announces export subsidy apart from Central Government, but it came at the time when global market had crashed, causing losses to sugar factories and farmers. In short import or export of sugar is mainly resorted to when there is a mismatch in domestic sugar production. Moreover from June 2006 onwards Central Government banned sugar export. As a result, domestic sugar rates have fallen drastically and most of the sugar cooperatives could not pay even Statutory Minimum Price (SMP) to farmers.

2. Sluggish Pace of De-controlling :

Sugar industry decontrolling decision has been put on hold for a long time. At present it is under partial decontrol mode because of which the industry has flourished. Recently, the union cabinet decided to constitute an expert group to look into the ways and means to total decontrol of sugar industry. The Government had announced complete decontrol of the commodity by March 2003, but the decision was deferred to October 2005. Though Government had taken some positive and concrete steps towards decontrol, like de-licensing industry, reducing and modifying levy system, releasing restrictions on sugar export etc. still restrictions on the commodity continue. The decontrolled environment is likely to help sugar industry to record a more robust growth.

3. Levy System:

Sugar is under purview of Essential Commodity Act, 1955. It means that the government controls sugar capacity additions through industrial licensing and determines the price of sugar and the quantity that can be sold in the open market and through Public Distribution System. It is one of the major hurdles faced by sugar cooperatives. Maximum levy percentage in the country was 70% and at present it is 10% levy and 90% free sale. It means that the sugar factories are expected to surrender 10% of their production at price below the market rate which is fixed by the Government for Public Distribution System. Unfortunately since 2003-04 Government has not been revised rates of levy sugar. After surrendering 10% of output as levy the remaining 90% is sold by sugar factories in restricted marketing environment. The Government releases what is called monthly free sale quota to factories to be sold within stipulated time frame. Levy system and free sale quota system are believed to be restricting growth of sugar industry.

4. Other Challenges:

Apart from the main problems discussed above the other challenges faced by the sugar cooperatives in the Maharashtra state are: competition from Gur and Khandsari industry, burden of various taxes (like purchase tax, income tax, excise duty), higher cane price, problems of cane cutters labor troops, decreasing yield of sugar cane, high production cost, over staffing and so on. Such hindrances are affecting the growth of sugar cooperatives.

Remedies

To revive the state cooperative sugar industry from these challenges and for resurgence of the noble farmers movement following remedies are suggested. These remedies are of two types. i.e. Policy remedies and Internal remedies.

A) Policy Remedies:

1. There is a need to levy 60% import duty on raw sugar.
2. There should be a ban on sale of refined sugar in the country.
3. Government should purchase levy sugar through open market according to central or state government policy, then it should be distributed through Public Distribution System (PDS) at concessional rate.
4. There has to be an immediate withdrawal of ban on sugar export and allied by- products also.
5. The government should allow use of minimum 10% ethanol along with petrol in vehicles. It will help in boosting molasses market prices and save the precious foreign currency.

6. There has to be declaration of buffer stock of sugar of more than 20 lakh M.T. whenever necessary and removal of restriction on sugar stock.
7. Purchase tax on sugarcane which at present is at 3% on cane price should be removed because factory collects sugarcane from its members.
8. Due to crumbling rates and fluctuating pricing policies factories are facing the problem of short margin. To avoid that, government should determine steady pricing policy for certain period up to 5 years. It will reduce the problem of price crash. Price policy for by products should also be determined.
9. Process of de-controlling should be taken on board immediately.
10. There should be withdrawal of dual pricing policy (levy system) and pre determined import and export policy for a period of 5 years.

B) Internal Remedies:

1. Mechanism of ploughing back of revenue should be adopted by each factory.
2. Over staffing should be strictly avoided. At present in the state 60 % to 80% overstaffing is there in sugar cooperative.
3. Every factory should use Employee Resource Planning (ERP) technique.
4. Professional management techniques like cost control, purchase procedure, fund raising, branding, research and development, training should be used by all sugar cooperatives.
5. Every sugar cooperative should undertake production of by products i.e. cogeneration, ethanol, distilleries etc. to reduce cost of production and generate more revenue.
6. Micro level cane cultivation and harvesting techniques should be used to estimate proper sugar cane availability.
7. Mechanization of harvesting is necessary.
8. Corporatization of sugar cooperatives.
9. Atomization of process and use computerization.

Conclusion-

Maharashtra sugar industry is one of the most notable and large scale sugar manufacturing sectors in the country. The pace of growth of sugar manufacturing has been massive over the past few years. The industry has seen spectacular growth owing to the conducive environment in the state. This industry have become a movement and led to industrial development of the state. The hallmark of the industry is the inclusion of poor and marginal farmers regardless of their size of land holding.

But the situation has changed over the past decade. Corruption, unprofessional management, lack of modernization, price crash, short margin, and natural vagaries are ailing sugar cooperative in the state. As a result, more and more sugar cooperatives are becoming financially weak and sick. Liquidation and leasing out of sugar cooperative is becoming common. To exploit the situation capitalists are assuming a posture to devour this only farmer's enterprise. Therefore timely measures are needed for the revival and resurgence of the one time champion industry. Government, Cooperative Management, Farmers, Employees and all stakeholders should join hands to accept these challenges and give it a new lease of life.

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