

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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**PROBLEMS OF SUGAR COOPERATIVES IN MAHARASHTRA**

**DR. DANGAT NILESH R.**  
**DIRECTOR**  
**RESEARCH CENTRE IN ECONOMICS**  
**PROF. RAMKRISHNA MORE COLLEGE**  
**AKURDI**

**ABSTRACT**

*Maharashtra has been known as pioneer of cooperative movement. Especially sugar cooperatives in the state have prominent place in socio-economic development of the state. This Industry is the backbone of the rural economy of state. Therefore cooperative sugar industry is deep rooted and grown in the state. In 1945 Late Padmashree Vithalrao Vikhe Patil pioneered the first successful Co-operative Sugar Factory in the country at Pravaranagar in Ahmednagar District of Maharashtra which was commissioned in 1951. Sugar cooperatives in Maharashtra are facing many problems. In Maharashtra 40% of state sugar mills are sick. & only 10% are getting profits. 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.*

**KEYWORDS**

Co-operative sugar Industry.

**INTRODUCTION**

India is second largest sugar producing nation in the world, while it is only seventh largest exporter of sugar. 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. This Industry is the backbone of the rural economy of 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. In 1945 Late Padmashree Vithalrao Vikhe Patil pioneered the first successful Co-operative Sugar Factory in the country at Pravaranagar in Ahmednagar District of Maharashtra which was commissioned in 1951.

**REVIEW OF LITERATURE**

At present, the state has 202 registered sugar factories out of which 195 are functioning including 165 factories from cooperative sector. Out of these cooperative sugar factories in the Maharashtra, 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. 18 sugar cooperatives are already liquidated; 27 are handed over to private management. It will not be improper if we say that the state sugar industry is on death bed. It has been striving hard for its very existence. It is begging for the government aid for its survival. Sickness of Sugar Cooperatives, In fact those four committees (Gulabrao, Shivajirao, Godbole and Rane committees) have been appointed by the government of Maharashtra since 1980 to examine the problem of sickness of sugar co-operatives is itself indicative of the fact that the government acknowledges the gravity of the problem.

**STATEMENT OF PROBLEM**

Sugar cooperatives in Maharashtra are facing many problems. In Maharashtra 40% of state sugar mills are sick. & only 10% are getting profits. 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.

**OBJECTIVES AND METHODOLOGY**

The main intension of this research paper is to find out the challenges before sugar cooperatives in Maharashtra. In our study we will try to suggest some practical suggestions for solve these problems.

**HYPOTHESIS**

The challenges faced by the sugar industry are of two types namely, one is self generated and the other is emerging from the new economic policy.

**RESULT & DISCUSSION****SHORTAGE & FLUCTUATIONS IN THE SUGARCANE PRODUCTIONS**

Maharashtra is being known as top producer of sugarcane and sugar, Availability of sugarcane is normally depends upon area under cultivation, climate and irrigation facilities and crop diseases. The availability of sugarcane in the state is not enough. 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 for more than 100 days. The fluctuations in the sugarcane productions are show in the graph. The average sugarcane yield in Maharashtra has fallen to below the national average.

**SUGAR PRICE PROBLEMS**

The production of sugar 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.

**CORRUPTED MANAGEMENT- CORRUPTION**

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. 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 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.

**LACK OF PROFESSIONAL MANAGEMENT**

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.

#### 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. At least 33 out of 111 cooperative mills participating in the ongoing crushing season are short of margins on advances.

#### CYCLES IN PRODUCTION

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 the most important reason responsible for cyclicity in sugarcane and sugar production was not bad weather but extreme delay in the payment of the cane price to the farmers. The delayed payment was causing a big shrinkage of area under sugarcane cultivation.

#### NEED OF MODERNIZATION

Most of the sugar cooperatives in the state are as old as 35 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.

#### 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. 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.

#### THREAT OF PRIVATIZATION

Sugar cooperatives in Maharashtra have been facing emerging challenge of Privatization. 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.

In the process of decontrolling industry is de-licensed on 11<sup>th</sup> August, 1999. Before de-licensing the cooperative sector has clean sweep in the state. 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. 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.

#### 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 decriminalized 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 phosphor flotation 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.

#### 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.

#### LEVY SYSTEM

Sugar falls under the Essential Commodities Act, 1955 and hence the government is permitted to impose a levy quota, that is, procure a certain per cent of the sugar at a subsidized price to be sold via the Public Distribution System (PDS) at prices lower than the "free market" price within India. The objective of this compulsory procurement is to supply sugar to the lower strata of society at a subsidized price. supplying 26 lakh tons for the PDS at a discounted price caused an annual loss of Rs 3000 crore to the sugar industry. This affected the earning of the sugar mills that, in turn, affected payments to the cane farmers. It also affected the price of the balance 90% sugar sold in the open market. 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.

Apart from the main problems discussed above the other challenges faced by the sugar cooperatives in the Maharashtra state are: decreasing yield of sugar cane, higher cane price, competition from Gur and Khandsari industry, inter-factory competition for cane supply continues, rigid regulations burden of various taxes (like purchase tax, income tax, excise duty) problems of cane cutters labor, high production cost, are affecting the growth of sugar cooperatives.

#### RECOMMENDATION & SUGGESTION

To revive the state cooperative sugar industry from these challenges and following remedies are suggested.

- Every sugar cooperative should undertake production of byproducts i.e. cogeneration, ethanol, distilleries etc. to reduce cost of production and generate more revenue.



- 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. There has to be an immediate withdrawal of ban on sugar export and allied by- products also. Whenever necessary and removal of restriction on sugar stock.
- The government should allow use of 20% ethanol along with petrol in vehicles. It will help in boosting molasses market prices and it will save the precious foreign currency for imported oil.
- To avoid Short margin, 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. There should be withdrawal of dual pricing policy (levy system) and pre determined import and export policy for a period of 5 years. Process of de-controlling should be taken on board immediately.
- Professional management techniques like cost control, purchase procedure, fund raising, branding, research and development; training should be used by all sugar cooperatives. Every factory should use Employee Resource Planning (ERP) technique.
- Micro level cane cultivation and harvesting techniques should be used to estimate proper sugar cane availability. Mechanization of harvesting is necessary. Corporatization of sugar cooperatives. Atomization of process and use computerization.
- There is a need to levy on import raw sugar more than 50%. & there should be a ban on sale of refined sugar in the country.
- Purchase tax on sugarcane which at present is at 3% on cane price should be removed because factory collects sugarcane from its members.

## CONCLUSION

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.25,000 crores. It has been playing significant role in overall socio-economic development of the state for the past six decades. 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 numbers 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.

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