

## **CHALLENGES BEFORE CO-OPERATIVE SUGAR INDUSTRIES**

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### **Abstract :**

At present, India is the world's largest consumer and the second largest producer of sugar with partial liberalization of sugar market in 2013 and remunerative levels of guarantee cane prices. The co-operative sugar industry has been playing important role in the development of rural Maharashtra. Burden of various taxes i.e. purchase tax, income tax, excise duty, higher cane prices, problems of cane cutters, labour troops etc. and other problems like Corruption, Mismanagement, and Delay in Decision Making, Problems of Price Crash, Natural Vagaries and Infamous Sugar Cycle, Shortage of Sugarcane, Threat of Privatization, Levy System and so on. 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.

**Keywords:** Co-operative sugar industry, Socio-economic development, Challenges, Rejuvenation.

### **Introduction-**

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 co-operative sugar factories and dairies are well-

flourished co-operatives in Maharashtra. These co-operatives sugar factories have changed the lives of millions of people from villages. The roads, education, irrigation and even the culture in the rural area have been supported by these factories. The first co-operative sugar factory was established by late Padmashree Vithalrao Vikhe Patil who was inspired and supported by late Vaikunth Mehta and Prof. Dhananjayrao Gadgil. Co-operative sugar industries came with setting up of the first co-

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operative sugar factory at Loni near Ahmednagar in the year 1945.

At present, the state has 202 registered sugar factories. Out of 202, 195 are functioning including 165 factories from co-operative sector. Out of these co-operative sugar factories in the Maharashtra, only 123 have taken its crushing season. Almost 40% sugar co-operatives factories are declared as sick units. 18 sugar co-operatives 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. But now a day the co-operative industries are suffering from many problems related to management, the ignorance of the farmers, and slow rate of information process, corruption and misappropriation of funds. The co-operative sugar factories are not only income generating or sugar producing establishment but they are biggest employers.

### **CHALLENGES FACED BY SUGAR INDUSTRIES:**

The challenges encountered by the sugar industries are self-generated and emerging from the new economic policy.

#### **1. Corruption**

The corrupt practices are common in all Co-operative sugar industries in India. Co-operative sugar industry in Maharashtra is in trouble due to corruption. A small farmer can be member of the factory and further he can lead factory in a capacity of director or a

chairman. However, majority of the farmers are illiterate or semi-illiterate and have least financial interest. The basic philosophy of co-operativesugar factories is to protect collective interest of the small and weaker sections of the society. In real practice the very objective of co-operation is defeated. The working of the sugar co-operatives is dominated by few large farmers who use co-operatives 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.

#### **2. Shortage & Fluctuations in the Sugarcane Production**

One of the most important problems faced by Co-operative sugar industry is nothing but shortage and fluctuations in the sugarcane production. 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 installed capacity of the state is over 72 lakh metric tons but the average sugarcane production for the last 10 years is not more than 50 lakh tons. 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 last for more than 100 days. The average sugarcane production in Maharashtra has fallen to below the national average. The

average sugarcane yield in Maharashtra has fallen to below the national average.

### **3. Mismanagement:**

The mismanagement in sugar co-operatives industries is due to vested interest of political leaders. The mismanagement in sugar co-operatives 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.

### **4. Delay in Decision-Making:**

Due to political pressure and their active involvement delayed in decision making is taken place. The decision-making is delayed due to the high number of people involved in the process. Another issue is the vagaries of nature. Sugar industry is grossly governed by natural vagaries and the infamous sugar cycle of two years' surplus followed by one year of shortage.

### **5. Lack of professional management:**

The lack of education and training to the employees is the root cause of lack of professional management. In the era of new economic reforms (LPG), industrial environment has changed drastically. However, a lack of professionalism saturates the co-operative sector. It has

been found that general trend in the increase of professionalization of management is hindered in the co-operative organizations because of lack of education and training.

### **6. Short Margin:**

Short margin is another problem that relates to price crash. In Maharashtra all sugar co-operatives collect sugarcane from cane growers, crush it and produce sugar. Whatever sugar produced is hypothecated to District Co-operative 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 co-operatives are facing the problem of short margin and are resorting to over-drawl from banks. At least 33 out of 111 co-operative mills participating in the constant crushing season are short of margins on advances.

### **7. Price Crash:**

After bumper production, the rate of sugar falls rapidly and significantly. Sometimes rate of sugarcane as raw material is higher than price of sugar. The impact of the rate crash will ultimately be felt by sugarcane farmers. The factories are not able to make payment to farmers regularly. Consequently, cane planting and crop pattern change. 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 average price.

#### **8. Levy System:**

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. Levy system and free sale quota system are believed to be restricting growth of sugar industry.

#### **9. Threat of Privatization:**

Sugar co-operative factories in Maharashtra have been facing challenges of Privatization. The number of operating sugar co-operatives in the state are decreasing day by day. The private players are acquiring the sick units and running it successfully. Therefore, leasing out sick co-operatives 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 co-operatives in the state will vanish.

#### **10. Lack of Modernization:**

Majority of the sugar factories in the state are as old as 35 to 40 years. During the course of time lot of technological changes and diversification have taken place. Majority of the owners 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 co-operatives 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.

#### **11. Export Policy:**

The government recently lifted the ban on exports and decided to create a buffer stock. Despite export subsidy, sugar mills are not able to ship the commodity to other countries at a competitive rate. While sugar production has increased in the last decade, domestic sugar consumption has grown at a sluggish pace. This has led to accumulation of stocks of sugar factories which affected rates. This is one of the main reasons why the margins are under pressure.

#### **12. Export Subsidy:**

The main reason behind the less export is that we mainly produce plantation white sugar, which is not in much demand in the global market. There is virtually no demand for our sugar. Most of the countries export rawsugar and then set up their own refineries to process it. Thus,

we are unable to capture the export market.

### **13. Use of outdated technology:**

Most of the machineries in sugar factories are out dated. For the last 40-50 years none of the major repairs or replacements and automation have been made in most sugar factories. These old machineries increase the cost of production. Low profits often do not allow a substantial depreciation without which the rehabilitation cannot be done.

The other challenges faced by the sugar co-operatives 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 co-operatives.

### **14. 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.

### **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 should be a ban on sale of refined sugar in the country.
2. There is a need to levy 60% import duty on raw sugar.
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. 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.
6. There should be withdrawal of dual pricing policy (levy system) and pre-determined import and export policy for a period of 5 years.

7. Process of de-controlling should be taken on board immediately

8. 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

9. Purchase tax on sugarcane which at present is at 3% on cane price should be removed because factory collects sugarcane from its members

10. There has to be declaration of buffer stock of sugar of more than 20 lakhs M.T. whenever necessary and removal of restriction on sugar stock.

#### **B) Internal Remedies:**

1. Professional management techniques like cost control, purchase procedure, fund raising, branding, research and development, training should be used by all sugar cooperatives.

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. Mechanism of ploughing back of revenue should be adopted by each factory.

5. Every sugar cooperative should undertake production of byproducts 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

#### **CONCLUSIONS:**

Co-operative sugar factories have played important role in development of rural Maharashtra, but last two decades co-operative sugar industry is facing the various problems. If these are not solved in time, the very existence of sugar industry would be in danger in future. 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, and corruption and so on. Sugar industry is the second largest agro-based industry in India. Sugar factories, particularly co-operative sugar factories in Maharashtra and other states have been instrumental in building confidence among rural people and strengthening industrial base in rural India.

In the era of globalization, sugar industry needs more competitive edge which can be given by way of modernization, enhancing productivity, and manufacturing excellent quality sugar at competitive prices. It needs quality management at every level of activity to

enhance its performance. The need of the hour is to liberalize industry from clutches of unprofessional people. Most of the sugar units do not have byproduct utilization plants. Projects based on bagasse and molasses should be initiated. Ethanol, alcohol, and paper projects have tremendous scope for development in India. In future, 10-15% ethanol may be allowed to be blended with petrol. Bagasse based power generation projects installed adjacent to each sugar factory would fulfill need of power. NABARD should provide adequate and timely refinance to these projects at concessional interest rates. New sugar units should be set up taking into consideration sugarcane availability. Research programmed should be undertaken in area of sugarcane cultivation, enhancing sugarcane productivity, and sugar recovery. Sugarcane prices should be fixed on basis of sugar recovery. Attention is to be given on manufacturing quality sugar as per international standards at competitive prices.

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