सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 2007

(CIVIL)

Performance audit of Management of Co-operative Sugar Factories in Maharashtra

Co-operation and Marketing Department

GOVERNMENT OF MAHARASHTRA

www.cag.gov.in

TABLE OF CONTENTS

Chapter	Subject	Page
	Preface	v
	Overview	vii
1	**Introduction**	**1**
1.1	Mechanism for setting up of a new CSF	2
1.2	Organisational set-up for control over CSFs	2
1.3	Audit objectives	3
1.4	Audit criteria	4
1.5	Audit coverage and methodology	4
1.6	Acknowledgement	4
	Accounts of co-operative sugar factories	**5**
2.1	Accounts of CSFs	5
2.2	Financial position of the CSFs	7
2.3	Conclusion	10
2.4	Recommendations	10
3	**Financial assistance to CSFs and sugar cane farmers**	**11**
3.1	Creation of Funds for infrastructure development of CSFs	11
3.2	Road development grants	12
3.3	Grants for research work	13
3.4	Loans and subsidies to SC/ST and marginal farmers	13
3.5	Government loans to CSFs	14
3.6	Conversion of purchase tax into interest-free loans	16
3.7	Guarantees for raising loans	17
3.8	Utilisation of loans from financial institutions	17
3.9	Conclusion	21
3.10	Recommendations	22
4	**Working of co-operative sugar factories**	**23**
4.1	Non-availability of sugar cane	23
4.2	Registration of CSFs	23
4.3	Government share capital for erection and commissioning of CSFs	25
4.4	Incomplete CSFs	27
4.5	Delay in erection of CSFs	27
4.6	Purchase of machinery by CSFs	28
4.7	Utilisation of Funds and Deposits for specific purpose	30
4.8	Procurement of sugar cane and payment of cane price	30
4.9	Lack of reliable data on cane plantation for planning of crushing season	31
4.10	Cost of transportation of cane	32
4.11	Cost of conversion of sugar cane	33
4.12	Comparison of key operational parameters	34
4.13	Sale of sugar	35
4.14	Working of by-product units	39
4.15	Unproductive investments made by CSFs	41
4.16	Irrigation and water supply schemes	42

Chapter	Subject	Page
4.17	Staff in CSFs in excess of prescribed pattern	43
4.18	Automation of existing machinery	44
4.19	Compliance to the required pollution control measures	44
4.20	Conclusion	45
4.21	Recommendations	46
5	**Liquidation and leasing of co-operative sugar factories**	**47**
5.1	Delay in liquidation of CSFs	47
5.2	Leasing of CSFs	48
5.3	Conclusion	50
5.4	Recommendations	51
6	**Monitoring and Evaluation**	**53**
6.1	Appointment of qualified Managing Directors	53
6.2	Conduct of audit by statutory auditors	53
6.3	Inspection of CSFs	54
6.4	Conduct of cost and energy audits	54
6.5	Watching of prescribed returns for monitoring	55
6.6	Maharashtra Sugar Information System	56
6.7	Finalisation of inquiry cases instituted against CSFs	56
6.8	Evaluation of working of CSFs	59
6.9	Conclusion	60
6.10	Recommendations	61
	APPENDICES	
Appendix	**Subject**	
I	Statement showing details of the samples test-checked	63
II	Statement of loans outstanding against farmers	65
III	Statement showing requirement of cane with reference to crushing capacities and cane actually crushed	66
IV	Statement showing incomplete CSFs	67
V	Cost of transportation of cane	68
VA	Harvesting and transportation charges adjusted from cane price	70
VI	Statement showing component-wise and year-wise expenditure over standards	72
VII	Expenditure on excess staff	73
VIII	Charter for Corporate Responsibility for Environmental Protection (CREP)	74
IX	Statement showing machinery lying idle due to delay in liquidation proceedings	75
X	Statement showing geographical region-wise lease rent fixed by Government of Maharashtra for leasing of CSFs	76
XI	Statement showing recommendations of the Godbole Committee	77

PREFACE

1. This Report of the Comptroller and Auditor General of India containing the performance audit of 'Management of Co-operative Sugar Factories in Maharashtra' has been prepared for submission to the Governor of Maharashtra under Article 151 of the Constitution.

2. The audit was conducted through a test-check of records (March – September 2007) of the Co-operation and Marketing Department, office of the Commissioner of Sugar, its regional offices, co-operative sugar factories and the Maharashtra Pollution Control Board, covering the period 2001-06. Matters relating to the period prior to and subsequent to the period 2001-06 have also been included, wherever necessary.

3. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

OVERVIEW

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)

CHAPTER - I

	Page
Introduction	1 to 4

Co-operation and Marketing Department

Management of co-operative sugar factories in Maharashtra

Chapter I : Introduction

Maharashtra is the largest sugar producing State in India. Sugar factories in the State were initially set up by private entrepreneurs in the 1930s, with concessions and protection given by the then Government of Bombay. The first co-operative sugar factory in India, the "*Bagaitdar*[1] Co-operative Sugar Producers' Society" was commissioned in 1950 in the Ahmednagar District. Government of Bombay adopted (1954) a policy of licensing new sugar manufacturing establishments to co-operative societies.

The co-operative sugar factories (CSFs) in Maharashtra are processing[2] societies under the Maharashtra Co-operative Societies Act, 1960 (MCS Act) and the MCS Rules, 1961. They are engaged in the manufacture of sugar from the sugar cane purchased from local farmers. Molasses and pressmud, (both by-products of sugar production) are processed further to produce alcohol and compost. Bagasse, another by-product, is used in the factory boilers as fuel and raw material for paper and particle-board projects. A few CSFs have also set up co-generation units and biogas plants. Thus, the CSFs provide a market for the farmers' produce and employment opportunities for the rural people. Out of 202 registered CSFs, 113 CSFs were working as of March 2006 with an annual crushing capacity of 504.32 lakh MT. The total area[3] under sugar cane was 3.47 *per cent* (6.24 lakh hectares) of the total area under Kharif and Rabi crops while 8.25 *per cent* (16 lakh) of the total of 194 lakh cultivators were cultivating sugar cane.

---

[1] Irrigation farmers

[2] Rule 10 of the MCS Rules: classification and sub-classification of societies

[3] Source: Economic Survey (2003-04) of Maharashtra

1.1 Mechanism for setting up of a new CSF

For setting up of a new CSF, it is essential to ensure the availability of sufficient sugar cane to meet the requirements of the existing factories. Government of India (GOI) had, therefore, stipulated that the conversion of a Letter of Intent granted for establishment of a new sugar factory into an industrial licence would, *inter alia*, depend on the State Government notifying the zone for drawal of sugar cane by the new factory.

Based on Government directives, the Commissioner issues the necessary permission to the chief promoter of a proposed CSF for opening a bank account for collecting and depositing share capital from the members of the CSF. Government approves the registration of the factory after the chief promoter submits the application with proof of fulfillment of conditions regarding collection of share capital, arrangements made for raising loans from financial institutions and sufficiency of sugar cane for crushing. The first Management Committee is appointed by the Government in order to purchase land, mobilise the CSF's own share capital and the required finances from financial institutions. The Commissioner then recommends sanctioning of Government share capital and guarantees for loans to the CSF. The Commissioner is required to monitor the completion of erection and commissioning of the CSF. The Ministers' Committee headed by the Chief Minister, approves the proposals regarding commencement of the crushing season, deductions to be made from cane prices for funding research, training etc.

1.2 Organisational set-up for control over CSFs

At the Government level, the working of the CSFs is controlled by the Secretary, Co-operation and Marketing Department. The Commissioner of Sugar with his headquarters in Pune, implements the schemes and is assisted by four[4] Directors, four[5] Joint Directors and seven[6] Regional Joint Directors (RJDs). As the Registrar of CSFs, the Commissioner registers the CSFs and administers the same as per the provisions of the Sugar Control Order, 1966 and the MCS Act, 1960 and Rules 1961.

Sugar cane and sugar have been included in the list of essential commodities under Section 3 (1) of the Essential Commodities Act, 1955. In exercise of the powers conferred under this Act, the Central Government issued the Sugar Control Order, 1966. As per a GOI notification of 1966, the powers conferred under the Sugar Control Order are exercisable by the Government of Maharashtra. Accordingly, the State Government passed the Maharashtra Sugar Factories (Reservation of Areas and Regulation of Crushing and Sugar Cane Supply) Order, 1984. This order empowers the Government to reserve any specific sugar growing area for a factory with a view to enabling it to purchase adequate quantities of sugar cane. It, however, empowers the Permit Officer (the Commissioner) to allow deviations from the order under certain

[4] Four Directors are for Administration, Finance, By-product and Development Branch
[5] Four Joint Directors are for Administration, Finance, By -product and Development Branch
[6] Ahmednagar, Amravati, Aurangabad, Kolhapur, Nagpur, Nanded and Pune

circumstances. The State Government issued the Maharashtra Sugar Factories (Reservation of Areas and Regulation of Crushing and Sugar Cane Supply) (Amendment) Order, 1997, which sought to ensure better sugar cane prices to the cane growers, without compromising the interests of the CSFs.

Under Section 79 of the MCS Act, the Commissioner, as Registrar, can enforce performance obligations of CSFs, *i.e.,* compliance of the provisions of the Act, Rules and Bye-laws and Government directions by issue of notices to the erring factories. He can remove and replace Committees/members of CSFs who neglect their duties (Section 78). The Commissioner causes the accounts of the CSFs to be audited by statutory auditors[7] (Section 81) and can enquire into the constitution, working and financial conditions of the CSFs to take necessary corrective steps (Sections 83 and 84). He can institute inquiries and inspections to confirm defects in the working or financial conditions of the CSFs and direct the factories to take specific remedial action (Section 87). The Commissioner can also liquidate any CSF (Section 102). The Government can issue directions under Section 79 A to secure proper management of the business of CSFs and for preventing their affairs from being conducted in a manner detrimental to the interests of the members, creditors and depositors.

The CSFs are managed by Management Committees comprising elected representatives and a representative each from Government and their banks. The Managing Directors act as Secretaries of the committees. The Vasantdada Sugar Institute (VSI) at Pune, set up in 1975, renders technical advice to the sugar factories for setting up of by-product units, expansion of existing crushing capacity, modernisation of existing machinery and for increasing production and productivity of sugar cane. The Maharashtra Rajya Sahakari Sakhar Karkhana Sangh Limited (Sakhar Sangh), the apex body of the CSFs, represents the CSFs and interacts on their behalf with the Government, National Bank for Agriculture and Rural Development (NABARD) and other agencies. The Sakhar Sangh also advises sugar factories regarding purchase of consumables and spares and fixes annual rate contracts for these items. Purchase committees are also constituted by the Government to approve purchases of plant and machinery.

1.3 Audit objectives

The objectives of the performance audit were to examine whether the management of the CSFs by the Government was such as to ensure that:-

- the accounts were prepared as per the provisions of the MCS Act and Generally Acceptable Accounting Principles;
- financial assistance to the CSFs and the cane growers was provided in accordance with the guidelines of various schemes;
- registration of new CSFs, release of share capital contribution to CSFs, purchase of machinery, procurement of sugar cane and payment of sugar prices by CSFs, cost of conversion of sugar cane, manpower management of the CSFs and working of by-product units were as per the relevant Act, Rules and Orders;

[7] Special Auditors of Co-operative Societies (Sugar) working under the Commissioner

- the investments of CSFs in other co-operatives were productive;
- the requirements of the Charter on Corporate Responsibility for Environment Protection (CREP) were complied with by the CSFs;
- the liquidation and leasing processes of CSFs were as per the prescribed norms;
- the working of the CSFs was effectively monitored by the Commissioner.

1.4 Audit criteria

The audit criteria used for the performance audit were as under:-

- Prescribed conditions for registration of CSFs and for availing of Government financial assistance
- Provisions of the MCS Act, 1960 and Rules 1961, Provisions of the Sugar Control Order, 1966, Maharashtra Sugar Factories (Reservation of Areas and Regulation of Crushing and Sugar Cane Supply) Order, 1984, Maharashtra Sugar Factories (Reservation of Areas and Regulation of Crushing and Sugar Cane Supply) (Amendment) Order, 1997 and the MOU signed in October 2002 by the State Government with GOI and Government directives issued for ensuring economy in working of the CSFs
- Conditions of the lease policy (November 2005) of the Government
- Requirements of the Charter on Corporate Responsibility for Environment Protection (CREP) for reducing pollution by distilleries

1.5 Audit coverage and methodology

The performance audit was conducted (March to September 2007) through test-check of records in the Mantralaya, Commissionerate, Regional Offices and 32 CSFs and the Maharashtra Pollution Control Board (MPCB), Mumbai, covering the period 2001-06. The details of the sample are given in **Appendix-I.** The audit objectives and audit criteria were discussed with the Commissioner of Sugar in a meeting held in February 2007. The audit findings and recommendations were discussed with the Principal Secretary, Co-operation and Marketing Department and the Commissioner in December 2007. The Government's views expressed in the meetings as well as the comments received (January 2008) from them were considered while finalising the report.

1.6 Acknowledgement

The Office of the Principal Accountant General (Audit –I), Maharashtra, Mumbai acknowledges the co-operation of the Co-operation and Marketing Department, the MPCB, the VSI, the Sakhar Sangh and the selected CSFs during the performance audit of the 'Management of co-operative sugar factories in Maharashtra'.

CHAPTER - II

	Page
Accounts of co-operative sugar factories	**5 to 10**

Chapter II : Accounts of co-operative sugar factories

As per Rule 61 of the MCS Rules, 1961, the annual accounts are required to be prepared by the CSFs within 45 days from the end of the financial year. As per Section 81 of the MCS Act, the Commissioner, as Registrar, is responsible for audit of the accounts at least once in each year.

2.1 Accounts of CSFs

Financial statements are the final product of the financial accounting process. The accounts of the CSFs are required to be prepared as per Form N of Rule 62 of the MCS Rules, 1961 and audit of the same is conducted by the statutory auditors. As per Form N, it is mandatory for the CSFs to make the following disclosures:-

Disclosure of material facts, as required under MCS Act and the Generally Acceptable Accounting Principles, was not made in the Financial Statements of the CSFs

- the mode of valuation of the investment;
- the mode of valuation of stock of raw material and finished goods;
- contingent liabilities, which have not been provided for and statutory disputes and amounts involved in them;
- the method of providing depreciation.

None of the 22 working CSFs test-checked had made the above disclosures in their accounts.

Besides, the following material facts, required to be disclosed as per Generally Accepted Accounting Principles, were also not disclosed by the 22 test-checked working CSFs:-

- the fact of acknowledgement of debtors and creditors to avoid over-statement or under-statement along with age-wise analysis;
- retirement benefits, particularly gratuity liabilities as on the balance sheet dates, on the basis of actuarial valuation;
- the dates up to which assessment of income-tax, sales tax and purchase tax had been completed.

Thus, the certificates issued by the Statutory Auditors to the effect that the accounts depicted a true and fair picture of the state of affairs of the CSFs, as envisaged in the MCS Act and the Generally Accepted Accounting Principles, were not proper.

2.1.1 Preparation of Accounts

As per Rule 61 of the MCS Rules and Section 75 of the MCS Act, the annual accounts are required to be prepared by the CSFs within 45 days from the end of the financial year. The accounts so prepared are required to be placed before the annual general meeting (AGM) of the members within three months along with the audit report, to enable the members to know the working of the co-operative factories.

The annual accounts were not prepared within the due dates and the delays ranged from five to 19 months. One important reason cited by the CSFs was that as the Ministers' Committee finalised the cost of the closing stock only between August and October every year, the accounts could be finalised only after that. Due to delays in finalisation of the accounts, there were further delays in conducting statutory audits.

Government had been granting permission to postpone holding of AGMs frequently. During 2001-06, extensions were given in 28 cases for periods ranging from six months to two years, on grounds of non-conducting of audit, prolonged crushing periods and prevailing drought conditions. Government stated (January 2008) that it had granted extensions under Section 157 of the Act by which the State Government could exempt the CSFs from any of the provisions of the Act. The reply was not tenable because the reasons cited by the CSFs did not warrant postponements in holding of AGMs for such long periods. Further as per the Generally Accepted Accounting Principles, the current assets including stock in trade and work in progress are to be valued at cost or market price, whichever is lower.

2.1.2 Provisions for bad and doubtful debts

Provisions for bad and doubtful debts of Rs 44.07 crore were not made by 20 CSFs

The CSFs in operation obtained secured and unsecured loans on Government guarantees from financial institutions against pledges of sugar and molasses at interest rates ranging from 11.50 *per cent* to 14.50 *per cent*. From these loans, temporary advances were paid to contractors, suppliers, harvesting and transport (H&T) contractors, sugar cane suppliers, staff and others. According to the balance sheets for the year ending 31 March 2006, the receivable amounts in respect of the 22 working CSFs test-checked were Rs 322.35 crore (advances: Rs 125.85 crore and other receivables: Rs 196.50 crore). As per instructions issued (March 2005) by the Commissioner, the CSFs were required to make provisions for bad and doubtful debts at 20 *per cent* for dues outstanding for more than one year, at 50 *per cent* for two to three years and at 100 *per cent* for periods above three years.

However, 20 out of the 22 test-checked working CSFs did not make any provision for bad and doubtful debts for amounts totalling Rs 44.07 crore though the advances and other receivables were outstanding for more than one year. This resulted in understatement of losses of these CSFs. These advances were required to be adjusted in the same financial year or immediately after the crushing season. Of the amounts receivable, there were advances (out of loans raised) which were not settled for periods ranging from one to five years.

2.2 Financial position of the CSFs

2.2.1 Outstanding liabilities

In 22 CSFs outstanding dues as on 31 March 2006 were Rs 2658.65 crore

As per the MCS Act, the dues payable or likely to be payable are required to be cleared by the CSFs before closure of the financial year or provisions for the same are required to be made in the annual accounts before calculation of net profits.

The balance sheets for the year 2005-06 showed that all the 22 test-checked working CSFs had outstanding statutory dues aggregating Rs 2658.65 crore. These comprised Government dues (Rs 116.95 crore), Government loans (Rs 213.90 crore), National Co-operative Development Corporation (NCDC) loans (Rs 6.98 crore) members' cane bills (Rs 277.20 crore), other dues (creditors/suppliers) (Rs 497.96 crore), secured/unsecured loans (Rs 1416.40), SDF loans (Rs 62.97 crore) and recoveries effected from cane bills but not passed on to the financial institutions (Rs 66.29 crore). These dues were outstanding for periods ranging from two to five years.

Government stated (January 2008) that during the period 2001-06, the sugar industry was faced with various problems and the CSFs had not earned net surpluses. However, with the tagging of Rs 25 per quintal of sugar sold, for the settlement of Government dues for 2007-08, some part of the dues would be recovered. This was, however, a one time measure valid for one season only. Considering the production of 8.35 crore quintal of sugar during 2006-07, the percentage of Government dues including outstanding guaranteed loans, likely to be recovered by the tagging would be only 7.24 *per cent*[8].

2.2.2 Non-realisation of share capital due from the shareholders

Share capital amounting to Rs 164.41 crore was not realised from shareholders

The CSFs raise capital from sugar cane growers, Government, financial institutions and nominal members. Under Section 23 of the MCS Act, it is obligatory on the part of the CSFs to admit every eligible farmer applicant from their zones or areas of operations, as their members. For becoming members of CSFs, farmer applicants are required to pay Rs 5000[9] per share in a phased manner[10] within a year. In 22 test-checked working CSFs, a total amount of Rs 164.41 crore out of the value of the shares was not recovered from their shareholders. Raising their own share capital could have reduced the dependence of the CSFs on borrowed funds.

Government stated (January 2008) that the Ministers' Committee decided (August 2006) to allow the CSFs to make compulsory deductions from sugar

[8] (Rs 25 x 8.35 crore quintal x 100)/Rs 2883.87 crore (outstanding guarantees)=7.24 *per cent*

[9] Minimum amount of share capital for each farmer was Rs 2000 upto July 1992, Rs 3000 from July 1992 to April 2000 and Rs 5000 from April 2000 onwards.

[10] Rs 1250 is to be paid along with the application, Rs 2500 within one month from the date of intimation of enrolment as member and balance within one year from the date of allotment.

cane price bills to raise their share capital base. Further, under the NABARD package (April 2005) of restructuring of term loans, the CSFs were required to raise the level of their members' share capital. A Committee, at the level of NABARD, had been monitoring the compliance. However, the fact remains that in spite of these initiatives, the CSFs had not raised their own share capital base as discussed in paragraph 3.5.2.

Further, a sum of Rs 72.15 crore had been collected by 19 out of the 22 test-checked working CSFs for enrolling the farmers as shareholders upto March 2006. They were, however, not enrolled as shareholders on the plea that requisite documents had not been furnished by them. The amounts remained as share *'anamat'* (suspense) with the CSFs. The Commissioner did not issue any directions to the CSFs to clear the suspense amounts. As the Profit and Loss accounts of these CSFs showed losses, these amount might have been spent by the CSFs, which was irregular. Government stated (January 2008) that the sugar mills had been instructed to issue share certificates to the members after collecting the full amount of shares.

2.2.3 Provision of Capital Redemption Reserve Funds

Eight CSFs did not create capital redemption funds amounting to Rs 15.35 crore

As per the conditions governing the sanction of share capital by Government, CSFs are required to create capital redemption funds at one fifteenth of their share capital contribution every year and the same are to be invested to ensure repayment of Government dues within the due dates. Fifty *per cent* of Government share capital is to be redeemed within 10 years from the date of release of share capital and the balance within the next five years.

During 2001-02 to 2005-06, eight[11] CSFs did not create the required capital redemption funds, amounting to Rs 15.35 crore. As a result, three[12] CSFs had not redeemed Government share capital of Rs 4.60 crore which was due for redemption by March 2006.

The Government stated (January 2008) that the CSFs were being persuaded to make adequate provisions for their share capital redemption funds.

2.2.4 Reconciliation of cash book and pass book balances

Two CSFs did not reconcile differences between ledger and pass book balances, resulting in frauds amounting to Rs 13.26 crore

Reconciliation of cash book and pass book balances is to be verified by the statutory auditors and points on non-reconciliation, if any, are to be included in the audit reports. Niphad and Kadva CSFs had not carried out the reconciliation of the differences between the cash book and pass book balances. The Commissioner should have ensured reconciliation of the balances or got it done through third parties and recovered the costs from the CSFs as per Section 79 of the Act. This would have prevented occurrence of

[11] Adivasi, Navapur; Bhaurao Chavan, Nanded; Jai Bhavani, Beed; Kukadi, Ahmednagar; Nira Bhima, Pune; Rena, Latur; Samarth, Jalna and Vasant, Yavatmal

[12] Jai Bhavani, Beed; Sant Tukaram, Pune and Vasant, Yavatmal

frauds, or at least, helped in their early detection, as discussed in the following paragraph.

- As per directives (February 1982) of the Commissioner, the CSFs are to sell sugar only on receipt of the full cost of the sugar before its delivery. The Niphad CSF sold (till June 2005) sugar against cheques without confirming the encashment of the cheques from their bank. During November 2004 to April 2005, cheques valued at Rs 10.12 crore received from a sugar trader bounced, but the fact was not known to the CSF as reconciliation of the cash balance with the bank balance was not being done. The fraud was detected by the statutory auditor only in July 2007. Deviation from the prescribed procedure and non-reconciliation of the cash and bank balance resulted in non-detection of the fraud of Rs 10.12 crore in time and also in an avoidable loss of interest (Rs 3 crore) due to non-clearance of the outstanding balance of the pledge loan to be borne by the CSF.
- For purchase of sugar, traders had written (2004-05 and 2005-06) fake amounts on counterfoils of challans (Rs 3.14 crore) as proof of payments to the bank and submitted these counterfoils to the Kadva CSF. Based on these counterfoils, the staff of the sugar sales department of the Kadva CSF had advised the bank to release their pledged sugar[13] to the traders, without verifying the actual receipt of the amounts in their pledge[14] account. The fact of the fraud was detected only in July 2007 by the statutory auditor as reconciliation of cash and pass book balances had not been done by the CSF.

The Commissioner stated (January 2008) that FIRs against the concerned persons of Niphad and Kadva CSFs had been lodged (July 2007).

2.2.5 Maintenance of loan ledgers and Government dues registers

Position of outstanding loans, share capital and guarantee fees could not be ascertained as loan registers were not updated

According to the terms and conditions governing the sanction of Government loans and share capital, the Commissioner is responsible for maintaining loan ledgers, effecting recoveries of the loans and redemption of share capital on due dates and obtaining share certificates of the Government from the CSFs. These duties have been delegated to the RJDs with effect from 10 February 2005.

The loan registers had, however, not been updated after 1996-97 in the five RJD offices test-checked and therefore, the position of outstanding loans, share capital, Government guarantee fees etc could not be ascertained in audit.

[13] The sugar of the CSF pledged to its lead bank against working capital loan (pledge loan) raised by it. The loan is repaid from the sale proceeds of the sugar.

[14] The account opened in the lead bank by the CSF into which the sale proceeds are credited for clearance of the pledge loan.

The Commissioner stated (December 2007) at the exit conference that the registers would be got updated.

2.3 Conclusion

The financial statements of CSFs did not disclose certain material facts, and as such, did not depict a correct picture of the affairs of the CSFs. Provisions for bad and doubtful debts were not made in the accounts. Preparation of accounts of the CSFs was delayed mainly due to late finalisation of the cost of closing stock by the Ministers' Committee. Statutory dues were outstanding for periods ranging from two to five years. Share capital balances were not recovered and the amounts recovered were kept under suspense. Share capital redemption funds were not created as required. Non-reconciliation of balances in cash books and the bank books resulted in delayed detection of frauds. Loan ledgers had not been updated since 1996-97.

2.4 Recommendations

- Disclosure of the material facts in the Accounts of the CSFs, as envisaged in the MCS Act, should be ensured.
- Ministers' Committee meetings should be convened in April every year, so as to avoid delays in finalising the accounts.
- Creation of share capital redemption reserves by the CSFs should be ensured.
- Increase in the share capital base of the CSFs should be emphasised.
- System of regular reconciliation of cash book balances and bank balances should be put in place in each CSF.
- The loan registers and the Government dues registers should be made upto-date.

CHAPTER - III

	Page
Financial assistance to co-operative sugar factories and sugarcane farmers	11 to 22

Chapter III : Financial assistance to co-operative sugar factories and sugar cane farmers

The State Government provides assistance in the project costs of the CSFs in the form of share capital contribution, loans, guarantees for loans raised by CSFs, subsidies and loans to SC/ST/marginal farmers towards their share capital contribution and deferment of payment of purchase tax. The minimum contribution of the Government to the share capital is 30 *per cent* of the originally appraised project costs of the CSFs. The loans raised by the factories from various financial institutions, for which Government gives guarantees, amount to 60 *per cent* of the project costs. In the event of cost overruns, Government gives additional share capital to enable the CSFs to complete their projects. Relief is also given in the form of subsidies for uncrushed cane, for exports and loans and subsidies for payment of cane arrears. Research grants are provided to the Vasantdada Sugar Institute (VSI), Pune. The total assistance of the State Government to the CSFs and sugar cane farmers was Rs 2589.05 crore as on 31 March 2007 under various schemes, as under:-

(Rupees in crore)

Name of Scheme (State Government)	Amount
Share capital to sugar factories	875.62
Loans	845.42
Road grants under infrastructure development	68.49
Grants to VSI for research	40.47
Subsidies for uncrushed sugar to farmers	178.74
Subsidies for less sugar recovery and transport	241.98
Subsidies for sugar export	123.91
Remission of purchase tax	210.00
Financial assistance to SC/ST and marginal farmers for purchase of shares	
(i) Loan	2.20
(ii) Subsidy	2.22
Total	**2589.05**

Besides, the CSFs also received financial assistance of Rs 982.23 crore from the Central Government towards ocean freight, transport and freight charges, handling charges, buffer stock subsidy and loans for modernisation and cane development. Working results of 139 CSFs available with the Commissioner showed that 116 CSFs were incurring losses and 74 of them registered negative net worths.

3.1 Creation of Funds for infrastructure development of CSFs

Funds for infrastructure development of CSFs were not created

Government resolved (December 1990) to create two separate Funds for infrastructure development and for sugar research. It contributed (2001-06) Rs 25.92 crore and Rs 27.99 crore[15] respectively as road grants to the sugar

[15] Source: Appropriation Accounts

factories and for sugar research to the VSI, out of the total purchase tax of Rs 174.88 crore recovered from the CSFs. However, the said Funds had not been created as of January 2008. The Commissioner stated that he had taken up the matter with the Government in January 2008.

3.2 Road development grants

Road development grants are given by the Commissioner to the CSFs for development of roads leading to the sugar cane farms to ensure smooth transportation during the crushing seasons. These grants are to be kept in separate bank accounts and utilised by the CSFs within the same financial year. Unspent balances are to be refunded to the Government at the end of the financial year. During 2001-06, road grants of Rs 23.50 crore were released to 46 CSFs. Utilisation Certificates (UCs) amounting to Rs 15.06 crore were not received from 20 CSFs as of March 2006.

None of the test-checked CSFs had utilised road development grants within the same financial year

In none of the test-checked working CSFs, the road development grants given to the CSFs had been utilised fully within the same financial year. Unspent balances were also not being refunded immediately. Four[16] CSFs did not submit UCs for Rs 86.11 lakh disbursed during 1994-2006. Utilisation of the grants for unauthorised purposes by the CSFs, therefore, could not be ruled out. Vasantdada CSF, Sangli and Daulat CSF, Kolhapur did not refund the unspent balances of Rs 14 lakh and Rs 19 lakh respectively even after a lapse of 10 years on the plea that their proposals for sanction of works submitted to the Commissioner had still not been approved. Niphad CSF did not utilise Rs 18 lakh out of Rs 97 lakh received during 2005-06, even after being granted an extension up to 2006-07. The Kannad CSF, Aurangabad diverted a road development grant of Rs 2.75 lakh sanctioned during March 2001, for repayment of outstanding Government guarantee fees.

Eight CSFs did not refund the unspent balances of road development grants amounting to Rs 1.40 crore

Thus, unspent balances of road grants amounting to Rs 1.40 crore were unauthorisedly retained in eight test-checked districts. The Commissioner should have recovered the amounts instead of allowing retention of Government funds by the CSFs. The Commissioner stated (January 2008) that the CSFs had been asked (June 2007) to submit UCs immediately or refund the unspent balances. As the CSFs had not complied with his directives, the Commissioner should have initiated action against the erring Managements as per Section 78 of the MCS Act.

[16] Adivasi, Nandurbar; Godavari Dudhana, Parbhani; Jai Jawan, Latur and Satpuda Tapi, Dhule

3.3 Grants for research work

Government grants were given to VSI without specifying the nature of research

During the period 2001-06, grants of Rs 25.22 crore for research work were released to VSI. These grants were extended without specifying the nature of research to be undertaken. In addition, VSI had income amounting to Rs 46.85 crore from other sources such as membership fees from the CSFs, consultancy fees and interest on fixed deposits[17] as of March 2006. It also received SDF grants and Indian Council for Agricultural Research (ICAR) grants of Rs 1.16 crore during 2001-06.

Many working CSFs did not avail of all the services rendered by VSI

Even though the services of VSI were available to the CSFs, 12 out of the 22 test-checked working CSFs, had not improved their capacity utilisation, 20 had not reduced their steam consumption and two had not participated in the training programmes arranged by VSI. Thus, many working CSFs did not avail of all the services rendered by VSI though they were its members and paying annual subscriptions to it.

3.4 Loans and subsidies to SC/ST and marginal farmers[18]

Scheduled Caste, Scheduled Tribe and marginal farmers are provided financial assistance in the form of 50 *per cent* loan and 50 *per cent* subsidy for enabling them to purchase shares in CSFs. The loans are to be recovered from the cane payments due to the farmers in three annual instalments from the third year of sanction. The District Deputy Registrar of Co-operative Societies (DDRCS) and the RJDs are to monitor their timely recovery and submit reports to the Commissioner.

Year-wise details of loans due and recovered from SC/ST/marginal farmers were not maintained

During 2001-06, 7,272 SC/ST and marginal farmers were paid Rs 84 lakh as loans and subsidies for purchase of share capital. However, reports of recovery of loans and their remittance in the Government account were not submitted by the RJDs to the Commissioner. Year-wise details of loans due and recovered were also not maintained (December 2007).

In 12 test-checked working CSFs, loans amounting to Rs 2.98 crore were not recovered from 21,651 farmers as of March 2006. In four other CSFs, Rs 1.07 lakh recovered from the cane payments during 2004-05 to 2006-07 were not remitted to the Government account as of June 2007. The details of outstanding loans and loans recovered but not credited to the Government account are given in **Appendix II**. Thus, there was lack of effort on the part of the Commissioner for monitoring and expediting the recoveries.

[17] Fixed Deposit was for Rs 70.68 crore

[18] Holding land up to 1 hectare

3.5 Government loans to CSFs

3.5.1 Loans from Sugar Development Fund

Government of India created (1982) the Sugar Development Fund (SDF) by levying a cess of Rs 14 per quintal of sugar produced for developmental activities of the sugar factories. Loans from SDF are available for increasing sugar cane production, modernisation and expansion of CSFs and for setting up of co-generation projects by the CSFs. The Commissioner has to recommend the proposals for grant of loans to the CSFs after due scrutiny, to assure himself that utilisation of the amounts would increase sugar cane production.

During the period from 1982-83 to 2005-06, the sugar factories (including private mills) in the State had contributed Rs 1,312.60 crore to the Fund which included an amount of Rs 488.25 crore contributed during 2001-06. The amounts of loans disbursed during 2001-06 were Rs 176.58 crore. Thus, receipt of assistance from SDF was only 36 *per cent* of the amount contributed to the Fund during the same period. The loans outstanding at the end of March 2006 along with penal interest amounted to Rs 725.36 crore. Proposals for loans amounting to Rs 12.82 crore submitted (2003-04 to 2005-06) by five CSFs were pending with the Scrutiny Committee of GOI for periods ranging from one to four years as of January 2008.

The Commissioner stated (December 2007) that some CSFs could not avail of the SDF assistance as they failed to qualify for the assistance at the time of scrutiny of proposals. The Government also stated (January 2008) that the sugar factories were being pursued for repayment of loans.

Thirteen CSFs which underutilised or misutilised the first instalment of loans (Rs 10.73 crore) for cane development had to be brought under liquidation

For cane development, loans of Rs 153.68 crore had been released to 111 CSFs by GOI from 1982-83 to 2005-06. However, 13 CSFs had availed of only the first instalment of the loans as they had not utilised the same for the purpose. Utilisation Certificates for loans of Rs 10.73 crore were not received from these CSFs. Due to lack of cane development in their areas, which led to their uneconomical working, the CSFs had to be finally brought under liquidation during the period March 2002 to September 2006. Thus, cane development suffered due to under-utilisation or misutilisation of the loan assistance by the CSFs and no remedial action was taken by the Commissioner. The Commissioner stated (January 2008) that due to the unfavourable situation for implementing the scheduled cane development programmes, the CSFs did not take further instalments. He said that the CSFs had to go under liquidation due to financial, mechanical and managerial factors. The reply was not tenable as the Commissioner should have recommended the proposals for grant of loans to the CSFs after due scrutiny and after assuring himself that utilisation of the amounts would increase sugar cane production.

For modernisation and expansion, Rs 326.36 crore was disbursed to 44 CSFs during the period 1982-83 to 2005-06. However, UCs were not received for Rs 14.90 crore in respect of Belganga CSF, Jalgaon since 1996, Ambejogai CSF, Beed since 1997 and Jai Bhavani CSF, Beed and Shivpur CSF, Dhule since 1998.

For co-generation projects, Rs 7.16 crore was released to the Pandurang CSF in 2005-06. Of this, UCs were not furnished for Rs 3.58 crore.

3.5.2 NABARD Package for restructuring of loans

Though the banks had restructured their loans under the NABARD package, the CSFs did not comply with the conditions of the scheme

Government of India approved (September 2005) the NABARD package for restructuring of outstanding term loans (with interest due up to March 2005) of sugar factories which were operational during the 2002-03 crushing season after considering their commercial viability. The loans are rescheduled at 10 *per cent* interest per annum for a period of five years or 15 years depending upon the CSFs' capacity for repayment. There is a moratorium of two years before starting the repayments.

The State Government has to provide guarantees for the scheduled loans during the package period, share the financial obligations of the scheme and initiate some measures to ensure economic viability of the CSFs. The CSFs, on their part, have to restrict their conversion costs within Rs 225 per MT and have to increase their share capital base.

A Technical Committee headed by VSI was made responsible for the vetting of proposals for availing of NABARD package from the banks. During October 2005 to March 2006, 92 proposals (out of 125 applications received) had been cleared, involving outstanding loans of Rs 1827.40 crore. Of these, 75 CSFs signed MOUs with the banks, as representatives of NABARD. Though the banks had restructured the outstanding loans of the 22 test-checked working CSFs in 2005-06, they had not adhered to the conditions regarding restricting their conversion costs within Rs 225 per MT and increasing their own share capital. The acceptance of the conditions of the package in principle by the Government had been communicated (November 2007) to NABARD with a request to honour the interest subsidy claims of the banks which had already restructured the outstanding loans of the CSFs.

The Government stated (January 2008) that GOI had decided to give the package a re-look considering the fall in prices of sugar and the difficulties faced by the CSFs to repay the first instalment of the restructured term loans. Accordingly, a new committee had re-examined the package and submitted its report to GOI. A new technical committee had also been formed under the Sugar Commissioner to work out the eligibility of CSFs for restructuring of term loans. A monitoring committee had also been constituted at the level of NABARD to ensure compliance of the conditions of the package by the CSFs.

The fact, however, remains that the CSFs had not adhered to the conditions of restricting their conversion costs and increasing their own share capital even after restructuring of their outstanding loans in 2005-06. Besides, outstanding share capital of Rs 164.41 crore remained to be recovered from the shareholders in the 22 test-checked working CSFs as of March 2006.

3.6 Conversion of purchase tax into interest-free loans

CSFs which had not converted their purchase tax payments into loans had also not paid purchase tax during the periods of delay

In order to assist the new CSFs in the first five-year period after their establishment and the existing CSFs for the five-year period after the dates of expansion of their crushing capacities to above 2500 TCD, Government decided (1990) to convert the sugar cane purchase tax liability of these CSFs into interest-free loans, subject to the following conditions:-

- Repayment of the loans in five equal instalments from the sixth year onwards (for CSFs of 1250 TCD, the loan was repayable in 10 years).
- Payment of purchase tax in respect of their original capacities by the expanding CSFs; payment of instalments of the previous loans if any and repayment of dues to the Government and the financial institutions.
- Payment of interest at 13 *per cent* for defaults in repayment of these loans on due dates.

Mention was made in para 2.2 of the CAG report (Revenue Receipts) for the year ended March 2000 regarding non-recovery of purchase tax converted into interest free loans (Rs 28.23 crore) from 23 CSFs. This continued to persist as discussed in the following paragraph.

As of March 2006, purchase tax amounting to Rs 122.93 crore in respect of 89 CSFs was converted into interest-free loans. However, in 52 cases, there were delays ranging from one year to 13 years in converting the purchase tax (Rs 118.51 crore) into interest-free loans due to delays in submission of claims by the CSFs, in assessment of tax by the Commissioner of Sales Tax and in granting of sanctions by the Government. During 2001-06, the amount of purchase tax converted into loans was Rs 76.18 crore in 37 CSFs and delays in conversion ranged from three to four years in 15 cases. The CSFs which had not converted their purchase tax payments into loans did not pay the purchase tax for the periods of delay. As the loans were interest-free only for a specified period of five or 10 years, the non-conversion resulted in non-payment of purchase tax and interest on the loans.

Loans amounting to Rs 61.45 crore were overdue from 37 CSFs; penal interest was, however, not levied

Loans amounting to Rs 61.45 crore from 37 CSFs pertaining to the period 1991-92 to 2003-04 were overdue for recovery as of March 2006. However, penal interest was not levied on the outstanding loans. The Government stated (October 2007) that the CSFs did not make regular repayment of loans due to their weak financial position. Some portion of the amount would be recovered with the tagging of Rs 25 per quintal of sale of sugar during the 2007-08 crushing season. The fact, however, remains that the Government did not levy any penal interest in order to recover the same. As already stated, the tagging of Rs 25 from sugar sales would result in recovery of only 7.24 *per cent* of the Government dues.

3.7 Guarantees for raising loans

The Government had given guarantees for raising loans for erecting sugar factories, subject to levy and recovery of guarantee fees. In the case of inability of the CSFs to repay the loans, the banks would invoke the guarantee and the Government has to pay the same. As of March 2006, the Government had provided guarantees to 172 CSFs[19] for loans amounting to Rs 3557.09 crore, inclusive of interest. Of this, a total of Rs 147.45 crore had been invoked by the banks in respect of 26 CSFs. Only three[20] of these 26 CSFs had, however, repaid the loans to the Government.

As of March 2006, the total guarantee fees including penal interest[21] outstanding in respect of the CSFs, was Rs 563.02 crore[22].

3.8 Utilisation of loans from financial institutions

The Commissioner and the RJDs were to watch and monitor management of funds and use of share capital and institutional loans by the CSFs. They were to scrutinise and recommend proposals of pre-seasonal finance and working capital finance to the Maharashtra State Co-operative Bank (MSCB) as per norms. They were also to watch recovery of institutional loan instalments along with the interest.

3.8.1 Loans for harvesting and transportation

CSFs borrowed funds for payment of advances to H&T contractors (without any security). Amount recovered were used for other purposes

To maintain the regular arrival of sugar cane and to utilise the daily crushing capacities of the CSFs, harvesting and transport (H&T) expenditure is initially incurred by the CSFs and is subsequently adjusted from the cane payments. The work of harvesting and transport of sugar cane is executed through trusts created by the CSFs notionally for the purpose. All transactions in respect of these activities of the CSFs are routed through these trusts and the incidental expenses of the trusts are borne by the CSFs. Advances are paid to the H&T contractors by raising loans from district central co-operative (DCC) banks and other banks against CSFs' guarantees. The advances are to be recovered from the H&T contractors within the same crushing seasons, while interest on the loans has to be borne by the CSFs. As of March 2006, the total amount of H&T advances outstanding, as per the balance sheets of the CSFs, was Rs 23.34 crore. The amount recovered from the H&T contractors but not repaid to the banks was Rs 92.73 crore.

[19] including defunct CSFs
[20] Datta Asurle, Kolhapur; Jai Bhavani, Beed and Nashik, (Palse), Nashik.
[21] penal interest @ 2 *per cent* above the normal rate of interest
[22] Provisional

The CSFs paid the advances to H&T contractors without obtaining adequate securities. As a result, the recovery of advances from the defaulting contractors became difficult. Although legal proceedings were initiated against the defaulting contractors, advances had not been recovered and the CSFs had to pay the outstanding loans to the banks.

Three CSFs (Niphad, Sant Tukaram and Vasantdada) had borrowed Rs 18.51 crore from banks during the period April 2002 to April 2004 for payment of H&T advances. While Niphad CSF recovered the entire advance (Rs 3.50 crore) from its contractor, Sant Tukaram and Vasantdada CSFs had recovered Rs 5.43 crore (out of Rs 8.80 crore) and Rs 5.21 crore (out of Rs 6.21 crore) respectively from their contractors. However, instead of repaying the bank loans, they used the amounts for other purposes, as evident from the accounts of the CSFs. The Niphad CSF had refunded loans of Rs 1.47 crore only in August 2007, leaving a balance of Rs 3.95 crore, including interest. The Vasantdada CSF had repaid principal and interest amounting to Rs 67 lakh only. The concerned banks had filed cases with the Debt Recovery Tribunal for recovery of Rs 11.98 crore and Rs 11.42 crore respectively from the Vasantdada and Sant Tukaram CSFs. Though Sant Tukaram CSF made a settlement with the bank, it could pay only Rs 15 lakh as of March 2007.

Thus, due to improper utilisation of borrowed money, the CSFs increased their liabilities. The Commissioner, who was responsible for monitoring the working of the CSFs, had not taken appropriate action to prevent the irregularities. Government stated (January 2008) that instructions would be issued to the CSFs not to give guarantees to the banks for H&T advances.

3.8.2 Loans for pre-seasonal expenses

Despite raising pre-seasonal loans, CSFs had crushed less than 50 *per cent* of the cane available in the area. Loans of Rs 23.26 crore were not refunded by 20 CSFs

The CSFs borrow from banks annually to meet their pre-seasonal expenses on repairs and maintenance for starting the crushing of cane available in their areas. The loans are guaranteed by the Government. One of the conditions of grant of guarantees for pre-seasonal loans stipulated that the CSFs should not crush less than 50 *per cent* of their crushing capacities in order to reduce their overhead costs including the conversion cost of sugar. The banks recover these loans by tagging Rs 60 per quintal of the sale price realised.

During the period 2002-06, Government provided guarantees amounting to Rs 281.48 crore to the CSFs for raising pre-seasonal loans from the banks. Of this, Rs 42.69 crore was provided to 23 CSFs, even though the Commissioner did not recommend their proposals on the grounds of non-availability of cane, defaults in payment of earlier loans, refusal by the Maharashtra State Co-operative Bank to provide credit etc.

Instances of diversion/misutilisation of the loans, non-adherence to the conditions of the guarantees provided and inaction of the Commissioner against the erring CSFs etc were noticed as under:-

- Though the Shriram CSF, Satara had raised (2001-02) a pre-seasonal loan of Rs 2.22 crore for crushing sugar cane, it had not undertaken crushing during the year due to financial problems and the loan was utilised for modernisation of old machinery. Besides irregular diversion of the pre-seasonal loan, the CSF incurred extra expenditure of Rs 29 lakh on payment of interest on the loan up to 2006-07. No action was taken by the Commissioner against the CSF for misutilising the loan.

- In October 2002, the Government provided guarantees to 12 CSFs for pre-seasonal loans totalling Rs 16.54 crore, though loans and interest amounting to Rs 21 crore were outstanding against them. The Principal Secretary stated (January 2008) that guarantee would be provided for new loans to the CSFs only if the previous loans were cleared by them and that a committee had been appointed to monitor the loans from the current year.

- Despite raising pre-seasonal loans of Rs 43.52 crore, 20 CSFs had crushed less than 50 *per cent* of their crushing capacities, leading to high overhead expenditure. As a result, the CSFs could not refund loans amounting to Rs 23.36 crore.

- Inquiries had been instituted against five[23] CSFs for misutilising their loans during December 2005 and March 2006. These were not concluded as of January 2008. Government, however, stayed the inquiries of three[24] CSFs. In the case of the Gangapur CSF, Aurangabad, the inquiry was in progress while the Shetkari CSF, Latur had been taken under liquidation. The Government stated (January 2008) that the decision to provide guarantees to CSFs against the Commissioner's recommendations, had been taken by the Ministers' Committee because of the weak financial position and negative net worth of the CSFs and with a view to crushing as much cane as possible. The reply was not tenable because the CSFs which had been given guarantees had not crushed adequate amounts of cane in their areas.

3.8.3 Loans for purchase of fertilisers and cane seed

Loans raised for purchase of fertilisers and cane seed were not passed on to the farmers

Loans for purchase of basal doses of fertilisers and cane seed were taken by CSFs from various banks for payment of advances to the farmers. Two CSFs (Vasantdada Shetkari, and Rena) raised loans of Rs 1 crore in September 2002 and Rs 3.75 crore in December 2005 respectively. Vasantdada Shetkari CSF could not utilise the loan for the intended purpose as its release was delayed.

[23] Dr.V.V.Patil CSF, Ahmednagar; Gajanan CSF, Beed; Gangapur CSF, Ahmednagar; Priyadarshini CSF, Latur and Shetkari CSF, Latur

[24] Gajanan CSF, Beed; Priyadarshini CSF, Latur and Vasantdada Patil CSF, Nashik

The CSF repaid the entire loan with interest thereon in November 2007. As the intention of availing of the loan was to pass on the benefits to the farmers, the CSF should not have accepted the delayed loan. The Rena CSF, Latur disbursed only Rs 53 lakh and the balance was utilised for repayment of earlier loans. As the CSFs diverted the funds borrowed, for making basal dose and cane seed advances to farmers, their liability for repayment of the loans continued. At the exit conference, the Principal Secretary stated that stringent action would be taken against the errant CSFs.

3.8.4 Loans raised by Government for payment of cane price

Government raised market loans for payment of cane price arrears to the CSFs

As per Section 3A of the Sugar Control Order, 1966, the Statutory Minimum Price (SMP) declared by GOI for sugar cane is to be paid to the farmers within 14 days from the date of supply of cane. Due to reduction in the prices of sugar in 2002-03, the sugar factories incurred heavy losses and were unable to pay the SMP to the farmers for the crushing season 2002-03 and demanded Government assistance for the purpose. In order to assist the CSFs, the Government obtained permission from GOI in 2003-04 and 2004-05 for raising open market borrowings of Rs 600 crore. The interest liability was to be shared by GOI and the State Government. The permission for raising open market borrowings was subject to the following conditions:

- The State should use the proceeds only for clearing actual arrears of cane growers for the 2002-03 sugar season and loans should not be given at a normative rate of Rs 100 per tonne of sugar produced as proposed by the State Government.
- A certificate of the amounts actually paid out of the loans provided should be furnished to GOI by the State Government along with a statement giving mill-wise details of amounts payable at SMP to sugar cane growers.
- The term of the loan would be for 10 years including a moratorium period of five years and recovery was to be made in five annual instalments from the sixth year onwards.

The State Government raised a market loan of Rs 600 crore through the Reserve Bank of India and disbursed Rs 556.16 crore during 2003-04 and 2005-06 (including Rs 4.90 crore to 15 private sugar factories) of which UCs were received for Rs 535.20 crore. The Government paid cane price arrears at a normative price of Rs 100 per quintal of sugar produced to all the CSFs. This action of the Government was incorrect as the GOI conditions stipulated that the loans were to be given to only those CSFs which had cane price arrears. In the process, 20 profit making CSFs were provided loans amounting to Rs 149.24 crore.

Government permitted the CSFs to utilise Rs 258.73 crore for purposes not covered under the scheme, in violation of GOI stipulations

In violation of the Central Government's stipulation to provide the loans only for payment of cane arrears for 2002-03, State Government had allowed CSFs to utilise the loans of Rs 258.73 crore for the following purposes.

- SMP arrears for the years 2000-2001, 2003-2004 and 2004-2005 (Rs 18.75 crore).
- Outstanding dues on account of the Chief Minister's Relief Fund (Rs 1.37 crore).
- Payments to Chief Minister's Fund (Rs 6.16 crore).
- Arrears of subscription to Vasantdada Sugar Institute (Rs 7.68 crore)
- Clearance of outstanding loans, deposits and interest thereon (Rs 182.96 crore)
- Meeting pre-seasonal expenditure (Rs 11.31 crore)
- Clearance of arrears of Employees Provident Fund subscriptions and arrears of salaries of employees (Rs 18.15 crore)
- Clearance of outstanding Government dues (Rs 10.26 crore)
- Subscriptions to Sakhar Sangh (Rs 2.09 crore)

Of the balance (Rs 297.43 crore)[25], the CSFs diverted Rs 60.55 crore for other purposes even without obtaining Government permission. Thus, a total of Rs 319.28 crore was used in violation of GOI stipulations. The Commissioner issued notices (March 2007) to 15 CSFs for recovery of the loans of Rs 6.68 crore misutilised by them along with 12 *per cent* interest. The Government however, stayed (March 2007) the order based on appeals made by the CSFs.

Though borrowed funds of Rs 215.91 crore were used for payment of SMP arrears of 2002-03 in respect of 17 CSFs, the arrears stood at Rs 18.31 crore as of 30 April 2007. The Government stated (January 2008) that UCs for Rs 20.97 crore were awaited from 11 CSFs and 15 private sugar factories. The UCs received were, however, not forwarded to the GOI as of December 2007.

3.9 Conclusion

Government did not create the Funds for infrastructure development and sugar research. However, grants were released for these purposes. Road development grants were not utilised in the same year and even during the extended periods and were retained by the CSFs. Many CSFs had not availed of the benefits of the technical advisory services rendered by the VSI. Cane development suffered as the loans given from Sugar Development Fund were not effectively used by the CSFs. The Commissioner did not ensure utilisation of loans released for modernisation and expansion. Even after availing of the

[25] Rs 556.16 crore – Rs 258.73 crore = Rs 297.43 crore

NABARD package, the conversion cost of sugar was not limited and share capital base of the CSFs was not increased as envisaged in the package conditions. There were delays in conversion of purchase tax into loans causing loss of revenue and interest to the Government. Government had to repay the loans guaranteed by it due to non-payment by the CSFs and invocation of guarantees by the financial institutions. Harvesting and transport advances were paid without obtaining adequate securities and the amounts recovered were not refunded to the banks. Pre-seasonal loans for CSFs were guaranteed by the Government though the Commissioner did not recommend the proposal. Pre-seasonal loans as well as loans raised for procurement of fertilisers/cane seed were diverted for other purposes. Market loans raised by the Government for giving loans to the CSFs for payment of cane price arrears were sanctioned for purposes other than for payment of cane price arrears.

3.10 Recommendations

- Cane development programmes of CSFs should be closely monitored so that erection of the CSFs and cane development happen simultaneously.
- Availing of the technical advice of the VSI by the CSFs and acting upon the same should be ensured.
- Fulfilment of the conditions governing the sanction of loans given to the CSFs should be strictly monitored.

CHAPTER - IV

	Page
Working of co-operative sugar factories	**23 to 46**

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

---

[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

[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

[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**.

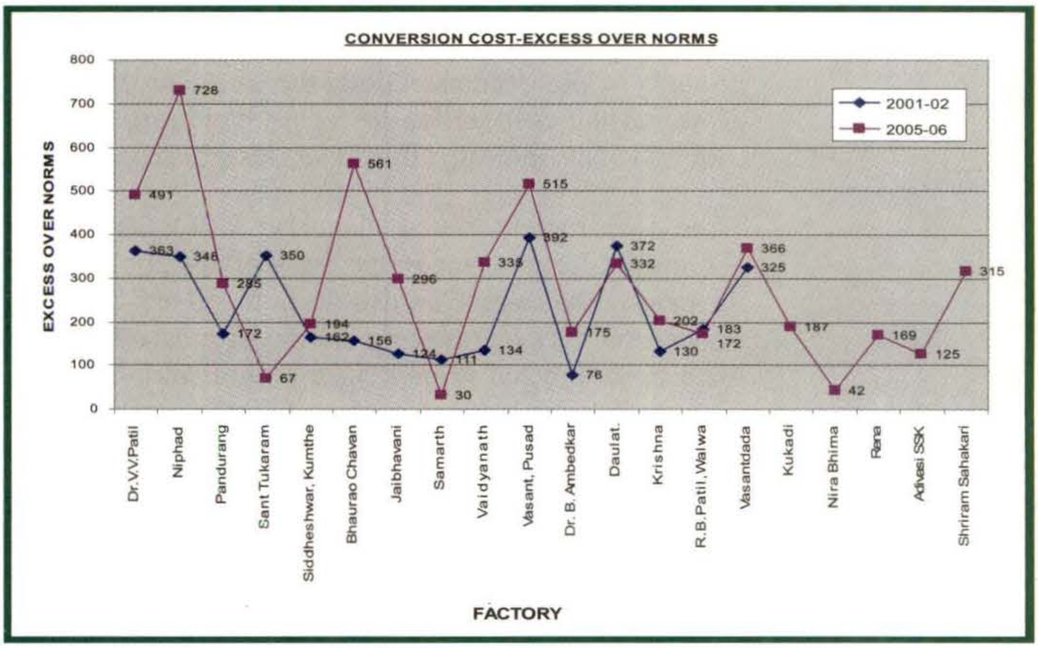
The Government stated (January 2008) that in order to bring uniformity in H&T costs, a group consisting of representatives of the Commissionerate, CSFs, the Maharashtra Sakhar Sangh and banks had been proposed to formulate and offer suggestions so that appropriate action could be taken in due course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

---

[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.

CHAPTER-V

	Page
Liquidation and leasing of co-operative sugar factories	47 to 52

Chapter V : Liquidation and leasing of co-operative sugar factories

Under Section 102 of MCS Act, a CSF can be liquidated when it ceases to work. Banks cannot levy interest on the outstanding loans of the CSFs under liquidation and the erring Managements can also be changed. The Government decided (November 2005) to liquidate CSFs which were unable to mobilise funds for commencement of the crushing season and were not eligible for restructuring of outstanding loans under the NABARD package. During 1995-2006, 31 liquidation orders had been issued.

After issue of liquidation orders, the Commissioner appoints liquidators who take over the property and books of accounts of the CSFs and liquidate all their liabilities in the order of preference specified in the MCS Act. The liquidators have to recover the outstanding dues of the CSFs. They also have to prepare and submit accounts to the Commissioner for audit every year. Reports on the progress in liquidation have to be submitted by the liquidator to the Commissioner every quarter.

5.1 Delay in liquidation of CSFs

As per the MCS Act, the liquidation proceedings are to be terminated by the Commissioner within 10 years from the date of the liquidator's taking over of the properties of a CSF. Scrutiny of liquidation proceedings of nine CSFs out of 31 CSFs under liquidation disclosed the following:

- In respect of four[63] CSFs, liquidation proceedings had not been completed even after 10 years.
- Machinery worth Rs 42.83 crore in respect of five CSFs was lying idle for various periods from 1980-81 to 2005-06 as detailed in **Appendix IX.**
- As the liquidation proceedings were unduly prolonged, property worth Rs 3.50 crore was stolen from Sanjay CSF, Dhule for want of watch and ward staff.
- Government dues of Rs 81.61 crore were outstanding from eight[64] CSFs under liquidation, as detailed in **Appendix IX.**

Audit of the accounts of the liquidators had not been completed (June 2007) in any of the CSFs except Saswad Mali CSF, as the liquidators had not prepared and submitted any accounts to the Commissioner. The Commissioner did not

[63] Girna, Nashik; Parshuram, Ratnagiri; Sanjay, Dhule and Saswad, Solapur

[64] Girna, Nashik; Jijamata, Buldhana; Kondeshwar, Amravati; Parshuram, Ratnagiri; Sanjay, Dhule; Shankar, Nanded; Vinayak, Amravati and Yashwant, Sangli

obtain any quarterly reports on the progress of liquidation of the CSFs from the liquidators.

The Commissioner stated (January 2008) that the liquidators could not dispose off the assets of three[65] CSFs because their properties were attached by Industrial Finance Corporation of India and Industrial Development Bank of India and the Debt Recovery Tribunal had appointed a Court Receiver. The case of Parashuram CSF was pending with the High Court and the claims of Saswad Mali CSF, Solapur were pending with the Central Government. The Government stated (January 2008) that the plant and machinery of Sanjay CSF, Dhule had been disposed off. During the exit conference, the Principal Secretary stated that with the promulgation of the Securitisation Act, banks were not allowing the disposal of the properties of the CSFs through liquidation under the MCS Act. The High Court had also granted (15 October 2004) a stay on the liquidation process based on a writ petition filed by MSC bank, which had not been vacated as of January 2008. The fact, however, remains that the properties of the CSFs except the machinery of the Sanjay CSF, Dhule had not been disposed off as of January 2008.

5.1.1 Sick CSFs not brought under liquidation

Three CSFs were not liquidated though they were not in operation

Three[66] CSFs in Nagpur division were not in operation during the period 2002-03 to 2006-07. These CSFs had registered a negative net worth, totalling Rs 107.78 crore as of March 2005. The CSFs were also not eligible for assistance under the NABARD package. The Commissioner, however, did not consider bringing them under liquidation. The Commissioner accepted (January 2008) that there was a need to take action in respect of the Shriram and Vainganga CSFs under the MCS Act. However, as the RG Gadkari CSF was a multi-State CSF, action had to be initiated by GOI.

5.2 Leasing of CSFs

The CSFs under liquidation are to be leased out. Government decided (November 2005) to liquidate those CSFs which were unable to mobilise funds for commencement of the crushing season and were also ineligible for the NABARD package for restructuring of outstanding loans. The objectives of leasing out the liquidated CSFs are to ensure that they earn lease rent for payment of outstanding dues, the sugar cane in the area gets crushed and the infrastructure is utilised. In cases of leasing of CSFs before liquidation, it is compulsory to initiate action for liquidation to avoid the burden of interest. Considering the availability of sugar cane and the possibility of future increase, the period of lease and lease rent have been decided separately for the four geographical regions in Maharashtra as shown in **Appendix X.** Competitive tenders are to be invited to get the highest prices for the CSFs.

[65] Girna, Nashik; Parashuram, Ratnagiri and Saswad Mali, Solapur
[66] RG Gadkari, Nagpur; Sriram, Nagpur and Vainganga, Bhandara

The processes of liquidation and lease are to be monitored by a Committee of Ministers set up under the Chairmanship of the Minister for Co-operation.

5.2.1 Compliance of lease policy/lease agreements

Old erring managements continued in nine leased CSFs defeating the purpose of the lease policy

The Commissioner did not ensure compliance of the liquidation and lease policy effectively, which led to the following irregularities:

- Out of 18 CSFs which had been leased out during 2005-07, nine[67] CSFs had been placed under liquidation. In the remaining CSFs, the old erring Managements were continued and the interest liabilities of the CSFs continued to mount.
- A lease contract in the case of the Shivshakti CSF, Buldhana was concluded with the Buldhana Credit Co-operative Society without inviting tenders. The Government stated (January 2008) that the lease rent was fixed at a meeting chaired by the Chief Minister. However, tenders should have been invited as per the standard procedure.
- Kalamber CSF, Nanded was initially leased out to Indo Distillery Company Pvt. Limited[68] in 2006 with the approval of the Ministers' Committee. This was later cancelled after being challenged in the Supreme Court by another bidder. In the exit conference, the Commissioner stated that the lease had been cancelled for other reasons which were not specified. Due to the delay, the factory remained closed and Government had to incur avoidable expenditure on payment of compensation of Rs 2.65 crore during 2006-07 for 1,060 hectares of uncrushed sugar cane.

As of March 2007 lease rent of Rs 25.76 crore was outstanding from lessees of 13 CSFs

The CSFs have to execute lease agreements with the lessees in order to safeguard their interest and to ensure compliance of the conditions by the lessees. The liquidator has also to keep a watch on the same. However, neither the CSFs nor the liquidator ensured the fulfillment of these conditions by the lessees as indicated below:-

- Fifty *per cent* of the lease rent is to be paid before commencement of the crushing season, 25 *per cent* after three months and the balance 25 *per cent* 10 days before conclusion of the crushing season. It was seen that lease rent of Rs 25.76 crore was outstanding at the end of March 2007 from the lessees of 13[69] CSFs. The liquidators and CSF Managements failed to recover the rent from the lessees.

[67]Bageshwari, Jalna; Balaghat, Latur; Jagadamba, Ahmednagar; Jaikishan, Yavatmal; K.K.Wagh, Nashik; Parner, Ahmednagar; Shiv Shakti, Buldhana; Tasgaon, Sangli and Yeshwant, Sangli.

[68] promoted by Shri Amit Vilasrao Deshmukh and Shri Dhiraj Vilasrao Deshmukh

[69] Ajra, Kolhapur; Bageshwari, Jalna; Balaghat, Latur; Godavari Manar, Nanded; Indira Gandhi Mahila, Kolhapur; Jagdamba, Ahmednagar; K.K.Wagh, Nashik; Mohanrao Shinde, Miraj, Sangli; Pratapgad, Satara; Narsinha, Parbhani; Parner, Ahmednagar; Shivshakti, Buldhana and Tasgaon, Sangli

- Security deposit equal to the annual lease rent plus 25 *per cent* in the form of bank guarantees was to be obtained from the lessees. However, bank guarantees were not submitted by the lessees of three[70] CSFs.
- As per an agreement (July 2005), the lessee was to increase the crushing capacity of the Mohanrao Shinde CSF[71], Miraj from 2500 TCD to 4000 TCD, establish a 12 MW co-generation unit and a distillery unit of 60 KPLD and execute a power purchase agreement in the name of the CSF. However, the Management failed to mention a time schedule in the lease agreement. As of June 2007, no progress had been made. The Commissioner stated (January 2008) that the activities were not completed as various permissions were not obtained by the CSF. The permissions should have been obtained for the benefit of the CSF expeditiously.

The Commissioner, thus, failed to monitor recovery of rents and obtaining of bank guarantees by the CSFs. The Government stated (January 2008) that there was excess cane during the crushing season of 2006-07 and low market prices of sugar cane affected the lease payment. Considering these facts, the Ministers' Committee had decided to defer the lease payments. The reply was not acceptable as lease rents were to be recovered in advance and bank guarantees were to be obtained and encashed in case of non-payment of lease rent. Thus, the liquidators had failed to enforce the lease conditions.

5.2.2 Non-disposal of property of leased out CSF

Godavari Dudhana[72] CSF, Parbhani was leased out to Vaidyanath CSF, Beed for five years from December 2002 at an annual rent calculated on the basis of the quantity of cane crushed during the year, subject to a minimum of Rs 1.50 crore. Lease rent of Rs 3 crore was received in the first two years. The lease agreement was cancelled following invitation of tenders by the Government to dispose off the property of the CSF. The highest offer (Rs 22.75 crore) accepted by the Ministers' Committee in February 2004 was cancelled in June 2006 as MSCB, its main creditor, obtained (July 2004) a stay from the High Court to maintain status quo. The case was sub-judice as of January 2008. Government should have filed application to the Court for vacating the stay or sort out the issue with the MSCB which is also a wing of the same Department. This was not done. As a result, property of the leased out CSF was not disposed.

5.3 Conclusion

The Commissioner's efforts to liquidate the closed, sick and leased CSFs were not successful. Liquidation proceedings remained incomplete even after the

[70] Jarandeshwar, Satara; K.K.Wagh, Nashik and Mohanrao Shinde, Miraj, Sangli

[71] founder chairman: Shri Mohan Rao Shinde

[72] founder chairman: Shri Shyam Rao Kadam

statutory period of 10 years. Lease rent was outstanding from the lessees and the lease conditions were not being met completely by some of the lessees. Old erring Managements continued in leased CSFs. Interest burden increased in respect of the CSFs leased but not liquidated, defeating the purpose of the liquidation policy.

5.4 Recommendations

- Properties of liquidated CSFs should be disposed of expeditiously and recovery of Government dues during disposal of the assets of CSFs' should be ensured.
- Sick CSFs and the CSFs leased out should be brought under liquidation, to avoid increase in interest burden.
- Operation of the leased CSFs by efficient Managements should be ensured for gainful utilisation of the infrastructure created.
- After the passing of the Securitisation Act, the relevant provisions of the Act should be examined and discussed with the MSCB, NABARD and other financial institutions in order to safeguard Government investment with the CSFs at the time of disposal of the assets of the CSF by the liquidator.

CHAPTER-VI

	Page
Monitoring and Evaluation	53 to 61

Chapter VI : Monitoring and Evaluation

The Commissioner exercises overall control and supervision of the functioning of the CSFs in the State. As the Registrar of Sugar Co-operatives, his powers under the Act include the power to register /de-register CSFs, to enforce performance obligations, to conduct statutory audit, to seize records, to inspect the working of CSFs, to change the Management Committees or appoint administrators, to prescribe periodical returns from the CSFs and to order inquires.

6.1 Appointment of qualified Managing Directors

The Managing Directors of the sugar factories are appointed by the Boards of Directors of the CSFs from the list prepared by a Committee[73] headed by the Commissioner. The Registrar is empowered by Section 74 of the MCS Act to fix the qualifications of the cadre of specified co-operative societies.

CSFs were being managed by Managing Directors not having the requisite professional qualifications

As the existing Managing Directors did not have general awareness and knowledge of modern techniques of the sugar industry, the Government directed (September 2003) the Commissioner to finalise a list of Managing Directors with the help of the Institute of Rural Management (IRMA), Anand. In all, 66 candidates were selected during 2003-04. In February 2005, the Government directed the CSFs to appoint new Managing Directors from the list of 66 candidates in place of the existing Managing Directors. Due to an interim stay order of the High Court, based on a writ petition filed (March 2005) by the Maharashtra Rajya Sahakari Sakhar Sangh, the appointment of the Managing Directors from the selected panel was pending and the existing incumbents continued. In 18 CSFs, where the existing Managing Directors had retired or resigned, the posts were filled on ad hoc basis and qualified and experienced persons were not appointed. Thus, the affairs of the CSFs were being managed by Managing Directors who did not have the professional qualifications. Government agreed (January 2008) that qualified Managing Directors were necessary for tackling the challenges of the sugar industry.

6.2 Conduct of audit by statutory auditors

The audit of CSFs is the most important tool available to the Commissioner under Section 81 of the MCS Act to exercise control over the CSFs. Audit reports provide vital information to the Commissioner to take necessary action against the Managements under the Act and also to avoid the recurrence of irregularities. The Commissioner receives returns from the RJDs about the audits conducted by the auditors as of March every year. Deputy Directors (Sugar) under the RJDs are responsible for scrutiny of the audit reports of the CSFs and to take appropriate action thereon. They are required to keep factory-wise registers of grave and serious irregularities pointed out in the

[73] Committee consisted of Commissioner, Chairman of the Sakhar Sangh, Managing Director of MSC bank and Assistant Director, Administration of the Sugar Commissioner's office

audit reports and to get compliance thereon. The Commissioner did not prepare any annual audit programme. Instead, the statutory auditors, appointed by the Government, were allotted audit of five to six CSFs every year. As of March 2007, there was shortage of eight special auditors out of 35 sanctioned, of which seven posts were vacant for two years.

Audit of 61 CSFs was in arrears for periods ranging upto 15 years

Audit of 61 CSFs was in arrears for periods ranging from one to 15 years. Of these, the accounts of eight CSFs, which were under liquidation, were in arrears for more than 10 years. The Commissioner stated (January 2008) that out of 61 CSFs, audit of 29 CSFs was in arrears for more than three years. The audit was in arrears as the financial statements were not prepared, mainly because of shortage of manpower in the CSFs.

The paras in the audit reports were not being watched for compliance as the registers of outstanding paras were not being maintained by the RJDs. Out of the 22 test-checked CSFs, nine had not submitted compliance to their audit reports within the prescribed period of three months.

Further, audit fees amounting to Rs 2.52 crore, leviable under the provisions of Rule 74 of the MCS Rules were outstanding as of March 2007 from 35 CSFs. The earliest year for which the audit fees remained outstanding was 1992-93. Government stated (January 2008) that due to the sickness of the CSFs, the audit fees could not be recovered. A decision had, however, been taken (July 2007) by the Ministers' Committee that Rs 25 per bag of sugar produced during 2007-08 would be tagged for settlement of Government dues. As already stated earlier, given the quantum of Government dues outstanding, the recovery from this tagging for one year would be only 7.24 *per cent* of the total dues.

6.3 Inspection of CSFs

Neither the Commissioner nor the RJDs had carried out inspection of the CSFs as envisaged under the MCS Act

Under Section 89 A of the MCS Act, the Commissioner has to inspect the CSFs to ensure that the provisions of the Act, Rules and bye-laws are being properly followed, that the records and books of accounts are being kept by them in proper form and that they are following the co-operative principles and directives given by the Government. For the purpose of supervision over the CSFs, the Commissioner has access to the records and books of accounts of CSFs.

However, the Commissioner or the RJDs never carried out any inspections of the CSFs. The RJD, Ahmednagar stated that inspections were not conducted because of staff shortages during the period covered by Audit. Government stated (January 2008) that in future, CSFs would be inspected.

6.4 Conduct of cost and energy audits

In pursuance of the provisions laid down in Section 81 (2A) of the MCS Act, the Commissioner directed (August 2003) all the CSFs to conduct cost audit of the factories. Also, based on a recommendation of the Ministers' Committee, the Commissioner directed (December 2005) the CSFs to conduct energy audit through the agencies selected by the Maharashtra Energy Development Agency (MEDA).

The objective of cost audit is to ascertain the per unit cost of production of sugar and to ensure savings in costs. Although the 22 test-checked working CSFs had not exceeded the power cost norms prescribed by the Commissioner, the power costs were showing an upward trend from 2001-02 to 2005-06. The power consumption costs of the CSFs had increased by 31.6 *per cent* per MT during the period. It was noticed that the Sakhar Sangh had revised the cost norms in March 2007 and had pegged the costs at a lower rate of Rs 11.20 per MT. Compared to these norms, the average excess in costs in the CSFs was 29.37 *per cent.*

Fourteen CSFs did not conduct cost audit and energy audit during 2002-06

During 2002-06, none of the 14 test-checked working CSFs with regard to conducting of cost audits had done the same. In respect of nine working CSFs test-checked for conduct of energy audits, eight had not conducted the audit. The Commissioner had not applied Section 79 to get the energy and cost audits done and made the CSFs pay for the cost of the audits. In the case of the Rajarambapu Patil CSF which had got its energy audit done for 2006-07, the interim energy audit report recommended 10 key energy saving areas with a saving potential of Rs 4.34 crore annually after an approximate investment of Rs 5.79 crore by the CSF. The CSF would also become eligible for carbon credits worth Rs 3.20 crore. This points to the fact that conducting of energy audits by the CSFs could lead to significant savings in energy and earning of revenue through carbon credits.

At the exit conference, the Principal Secretary agreed that cost audit should be done by the CSFs. With regard to conduct of energy audit, the Principal Secretary stated that MEDA's scheme was not attractive to the CSFs as it was on a cost-sharing basis. However, MEDA would be approached to work out a strategy. The fact remains that the Government had not enforced action following its directions of 2003 and 2005.

6.5 Watching of prescribed returns for monitoring

The Commissioner did not maintain any systematic database from the returns submitted by CSFs

The Commissioner prescribed about 16 weekly, fortnightly and monthly returns to be submitted by the CSFs, relating to accounts, agricultural operations, manufacturing and distillation functions.

The Commissioner had no mechanism to watch the receipt of these returns. Though the returns were submitted by the CSFs, the Commissioner did not maintain any systematic database from those. As a result, corrective action could not be taken on the irregularities committed by the CSFs and the mismanagement of their affairs, could not be adequately tackled by the Commissioner. As the details of cane price payments, rates of sale of sugar, purchases of chemicals and crushing reports submitted by the CSFs were not systematically compiled and analysed, the Commissioner failed to prevent payments of excess cane prices by the CSFs, sale of sugar at lower rates, excess cost of chemicals over the prescribed consumption norms and CSFs taking away cane from the operational area of other CSFs, as commented elsewhere in this Report.

The Commissioner stated (January 2008) that the data received through the returns submitted by the CSFs regarding accounts, agricultural operations, manufacturing and distillation functions would be stored in computers and would be effectively utilised for the smooth functioning and management of the CSFs in future.

6.6 Maharashtra Sugar Information System

Unfruitful expenditure of Rs 52 lakh was incurred on Maharashtra Sugar Information system

With a view to ensuring effective monitoring of the important functions of CSFs viz, cane availability, cane crushing, financial position etc, providing speedy and better services to sugar factories by online exchange of information and facilitating integration, the Commissioner entrusted (November 2002) the development of the Maharashtra Sugar Information System (MSIS) to an agency[74] at a total cost of Rs 29 lakh. The software application comprising seven[75] modules was made operational in stages.

The modules were not being used by the Commissioner's office, except for the website module, as the necessary data was not fed into the application system by the Commissioner's office. The expenditure of Rs 52 lakh[76] incurred as of May 2007 was rendered unfruitful. The Principal Secretary stated (December 2007) that the software application would be utilised.

6.7 Finalisation of inquiry cases instituted against CSFs

As per Section 83 of the MCS Act, 1960, the Commissioner as the Registrar has the power to hold inquiries to investigate into the constitution, working and financial conditions of the CSFs. Further, under Section 88 of the Act, he can order inquiries for assessment of damages against delinquent promoters of CSFs. For the inquiries instituted, the time allowed for completion ranges from 30 to 60 days, which may be extended by the Commissioner/RJD on requests made by the inquiry officers.

The status as on 31 December 2006 of 75 inquiry cases instituted between March 1988 and September 2006 by the Registrar and RJDs against the CSFs was as follows:-

[74] M/s ABM Knowledgeware, Mumbai

[75] Sugar cane availability and crushing monitoring system, By-product monitoring system, Finance monitoring system, Technical feasibility monitoring system, Co-operative sugar factory monitoring system, Audit information system and Website

[76] including cost of hardware

Number of cases pending finalisation	Amount involved (Rupees in crore)	Inquiry cases finalised but action awaited from RJD/ Registrar	Amount involved (Rupees in crore)	Inquiry cases stayed by the Government	Amount involved (Rupees in crore)	Inquiry cases stayed by the High Court	Amount involved (Rupees in crore)
Inquiry cases under Section 83 of Maharashtra Co-operative Societies Act, 1960							
12	42.96	17	16.79	3	0.56	6	3.78
Inquiry cases under Section 88 of Maharashtra Co-operative Societies Act, 1960							
14	62.35	1	--	16	28.11	6	40.72
Total: 26	**105.31**	**18**	**16.79**	**19**	**28.67**	**12**	**44.50**

Of the 75 cases, three cases were pending for more than one year, 16 cases for more than two years, nine for more than three years, nine for more than four years, 34 for more than five years and the balance four cases were pending for less than a year.

6.7.1 Delays at inquiry officer level

Out of 75 inquiry cases instituted by the Registrar involving 54 CSFs, 26 cases involving Rs 105.31 crore, initiated between February 2001 and September 2006 were not finalised as of December 2006. These cases were pending with the inquiry officers due to various reasons viz, non-production of case records in four[77] cases by liquidators and CSFs, transfer of inquiry officers in 11[78] cases, cases pending with inquiry officers with frequent extensions granted by the Registrar in 10[79] cases and re-inquiry ordered by the High Court in one[80] case.

An inquiry was initiated in December 1999 under Section 83 against the Vasant CSF, Yavatmal for violation of the prescribed purchase procedure by the CSF and consequent loss of Rs 20 lakh. The case was stopped by the RJD, Amravati in December 1999 on orders from the Chief Minister's office. Following an Assembly question, the inquiry was re-started in September 2000 and was concluded in February 2001, confirming that the procedure followed was indeed suspicious and calling for further investigation. However, no further action had been taken as of January 2008. An inquiry under Section 83 of the MCS Act, 1960, instituted in January 2002 for investigating into important audit findings included in the statutory auditor's report for the year 1998-99 of the Tasgaon CSF, Sangli, like non-payment of cane prices,

[77] Bageswari, Jalna; Shetkari, Latur; Shivshakti, Osmanabad and Vinayak, Aurangabad
[78] Ajinkyatara, Satara; Bageshwari, Jalna; Belganga, Jalgaon; Godavari, Parbhani; Kada, Beed; Nashik, Palse; Parzarkan, Nashik; Sant Domaji, Solapur; Sahyadri, Kolhapur and Vasantdada, Sangli
[79] Balaghat, Latur; Gangapur, Aurangabad; Indira, Hingoli; Indira Gandhi Mahila, Kolhapur; Jai Bhavani, Beed; Kada, Beed; Niphad, Nashik; Shetkari, Latur; Tasgaon, Sangli and Vasantdada, Sangli
[80] Gangapur, Aurangabad

outstanding advances not recovered, misutilisation of pre-seasonal loans raised against Government guarantees and diversion of area development funds, had not been concluded as of June 2007. The Commissioner had issued three reminders to the inquiry officer but had neither taken any action under Rule 71 (3) calling for reasons for failure to complete the inquiry nor withdrawn the inquiry from the officer to conduct it himself or to entrust it to another person.

The Government stated (January 2008) that inquiries were pending because records in the cases of non-functioning CSFs and the concerned staff of the CSFs were not available. The problem was the same with the CSFs under liquidation as well. As manpower availability was the main problem, the Commissioner should have got the accounts prepared by employing outside agencies and recovered the cost from the CSFs under Section 79.

6.7.2 Delays at the Commissioner's level

In respect of 18 cases which had been finalised from 2000 to 2004 and whose results had been communicated to the CSFs by the Registrar, action was pending as of January 2008. In all these cases, the CSFs had not appealed to the Government. As 17 of these cases involving Rs.16.79 crore, were under Section 83, the Registrar was to take further action based on the replies furnished by the CSFs in order to fix responsibility and effect recoveries. However, this had not been done in all the cases. It was noticed that although an inquiry conducted (29 November 2005) under Section 83 against the Rajgad CSF, Pune confirmed a loss of Rs 69 lakh due to wrongful sale of sugar as 'damaged' during 2002-03, no action was taken by the Registrar to fix responsibility and recover the loss under Section 88.

Similarly, in Jijamata CSF, Buldhana, an inquiry constituted (20 March 1999) under Section 83, confirmed a loss of Rs 2 crore during 1995-96 due to a fire in the stores department, credit sale of scrap material, advances to staff, expenditure on H&T contractors etc. The inquiry held (July 2000) the Managing Director, Chief Engineer, Store Superintendent and the Management jointly responsible for the loss. However, no action was initiated by the Commissioner to recover the loss under Section 88. No action against the erring officials was also taken under Section 78.

6.7.3 Grant of stays by State Government and High Courts

In 19 cases involving a total amount of Rs 28.67 crore, the Government had granted stays under Sections 152/154. Various branches of the High Court had granted stays in 12 cases involving a revenue of Rs 44.50 crore.

Thus, in all, 63 out of 75 inquiries (84 *per cent*) instituted by the Commissioner to take action against irregularities committed by the CSFs were still to see any results. In addition, 20 inquiry cases initiated under Section 83 (10) and Section 88 (10) in the five RJD offices test-checked were in progress. As most of the inquiries were pending, the Commissioner could not fix responsibilities on the erring Managements and effect recoveries. As no remedial action was being taken, the irregularities would continue, causing further losses to the CSFs.

6.8 Evaluation of working of CSFs

As the CSFs are business enterprises, their financial strength is the most important test of their success. Evaluation of the financial strength of the 22 test-checked working CSFs in terms of their net worth and current ratios revealed that nine[81] of them had registered negative net worth and seven[82] had net worth which were badly eroded. These CSFs had diverted loans, invested in unworthy and unviable projects and had not pursued cane development. Twelve[83] of these CSFs had current ratios *ie.,* current assets to current liabilities, below one, indicating low liquidity apart from their lack of creditworthiness due to eroded net worth. Fourteen [84] CSFs had incurred accumulated losses of Rs 547.65 crore upto 31 March 2006. In the above circumstances, the liquidation of outstanding liabilities, including Government dues, was practically impossible.

All these 22 CSFs had continuously defaulted on payment of Government dues ranging from two to five years. Eleven[85] CSFs had continuously run below 75 *per cent* capacity for over three years, 15[86] CSFs had incurred losses continuously for three years and in nine [87] CSFs, the financial position was such that they could not pay even the SMP for the sugar cane. Payment of higher prices had been at the cost of depletion of the surpluses in the last three years.

Government stated (January 2008) that in the year 2002-03, the industry had suffered due to a steep fall in sugar prices and attack of white woolly aphids. The crushing seasons from 2003-04 to 2005-06 were affected by droughts prevailing in the State, which had adversely affected the productivity and

---

[81] Daulat, Kolhapur; Dr. V.V.Patil, Ahmednagar; Indira Gandhi Mahila, Kolhapur; Jaibhavani, Beed; Niphad, Nashik; Shiv Shakti, Buldhana; Shriram, Satara; Vasantdada, Sangli and Vasant,Yavatmal

[82] Bhaurao Chavan, Nanded; Dr. Babasaheb Ambedkar, Osmanabad; Kukadi, Ahmednagar; Nira Bhima, Pune; Rena, Latur; Sant Tukaram, Pune and Siddheshwar, Solapur

[83] Bhaurao Chavan, Nanded; Daulat, Kolhapur; Dr. V.V.Patil, Ahmednagar; Indira Gandhi Mahila, Kolhapur; Jaibhavani, Beed; Kukadi, Ahmednagar; Niphad, Nashik; Pandurang, Solapur; Shiv Shakti, Buldhana; Shriram, Satara; Vasantdada, Sangli and Vasant, Yavatmal

[84] Bhaurao Chavan, Nanded; Dr. Babasaheb Ambedkar, Osmanabad; Daulat, Kolhapur; Dr. V.V.Patil, Ahmednagar; Indira Gandhi Mahila, Kolhapur; Kukadi, Ahmednagar; Niphad, Nashik; Nira Bhima, Pune; Rena, Latur; Sant Tukaram, Pune; ShivShakti, Buldhana; Shriram, Satara; Vasantdada, Sangli and Vasant, Yavatmal

[85] Jaibhavani, Beed; Kukadi, Ahmednagar; Indira Gandhi Mahila, Kolhapur, Krishna, Satara; Niphad, Nashik; Rajarambapu, Sangli; Rena, Latur; Sant Tukaram, Pune; Shriram, Satara; Vasantdada, Sangli and Vasant, Yavatmal

[86] Bhaurao Chavan, Nanded; Dr. Babasaheb Ambedkar, Osmanabad; Daulat, Kolhapur; Dr. V.V.Patil, Ahmednagar; Indira Gandhi Mahila, Kolhapur; Jaibhavani, Beed; Kukadi, Ahmednagar; Niphad, Nashik; Nira Bhima, Pune; Rena, Latur; Sant Tukaram, Pune; Shiv Shakti, Buldhana; Shriram, Satara; Vasantdada, Sangli and Vasant, Yavatmal

[87] 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

production of cane for crushing. Therefore, GOI had announced a package of restructuring of term loans. During 2001-06, there was not much scope for diversion of loans or investing in unworthy or unviable projects. Since adequate generation of income was not there, the mills faced difficulties in payment of SMP to the cane growers. Certain management problems were also responsible for the financial weaknesses of the mills. The reply was not tenable to the extent that there were cases of diversion of various loans and specific purpose funds by the CSFs during 2001-06 also. Inappropriate managerial decisions, discussed in this report, had adversely affected the finances of the CSFs and caused hardships to the farmers.

There was no mechanism in place for periodic evaluation of the working of the CSFs

Government had appointed four Committees to look into the sickness of the CSFs viz, the Gulabrao Patil Committee in 1980, the Shivaji Rao Patil Committee in 1990, the High Powered Committee under Principal Secretary, Co-operation in 1990 (to examine the recommendations of the Shivaji Rao Patil Committee) and the Godbole Committee in August 1997, to suggest remedial measures for dealing with sickness of CSFs in the State. The Godbole Committee took into account the reports of the earlier Committees and analysed the causes for the sickness of the CSFs. The recommendations of the Committee have been given in **Appendix XI**. Deficiencies in the running and management of the CSFs could have been corrected had the recommendations been considered for implementation. The recommendations were, however, not implemented by the Government.

The Principal Secretary, stated (December 2007) that the Government's view was that the CSFs were people's organisations and were not driven by profit motive. However, there was a conscious move now for liquidation of the inefficient units. As a result, for the first time, three CSFs had been sold and 18 had been leased out. The inefficient units would be allowed to be phased out. The reply was not tenable because while social responsibility was important, even within these constraints, the achievement of profitable employment of funds and resources deployed in the business with the object of wealth maximisation should have been achieved. This would also have furthered the cause of improvement of the economic condition of the farmers in the form of higher cane prices.

6.9 Conclusion

Monitoring by the Commissioner was not effective as statutory audit of the CSFs were in arrears for one to 15 years and the response to audit was also unsatisfactory. Inspections were not being conducted by the Commissioner and the RJDs to properly monitor the working of the CSFs. Monitoring by the Commissioner was not complemented by the appointment of professional Managing Directors to run the affairs of the CSFs. Most of the inquiries against erring managements were inconclusive and corrective action was not being taken. The Commissioner failed to apply Section 79 to get energy and cost audits done by the CSFs. There was no mechanism in the Government for periodical evaluation of the working of CSFs. Though the Government appointed the Godbole Committee to look into the sickness of the CSFs, its recommendations had not been implemented as of January 2008.

6.10 Recommendations

- Appointment of qualified Managing Directors in all CSFs should be ensured.
- Conducting of statutory audit of all the CSFs, maintenance of control registers for watching outstanding objections and timely action by the CSFs on all audit observations should be ensured.
- Conducting of energy audit and cost audit by the CSFs should be ensured.
- Conducting of annual inspection of CSFs by the Commissioner and his officers should be ensured.
- Inquiries initiated against the CSFs should be concluded expeditiously and the damages recovered from the delinquent Managements.
- A mechanism for periodical evaluation of the working of CSFs should be instituted.

(MALASHRI PRASAD)
Principal Accountant General (Audit)-I,
Maharashtra

Mumbai,
The 4 APR 2008

Countersigned

(VINOD RAI)
Comptroller and Auditor General of India

New Delhi,
The - 7 APR 2008

APPENDICES

Appendix-I

(Reference: Paragraph 1.5; Page 4)

Statement showing the details of the samples test-checked

Sr. No	Name of the CSF	Name of Chief Promoter and Present Chairman	Region	Present Status
1	Shree Siddheshwar SSK, Solapur	a) Appasaheb Kadadi b) Meghraj M Kadadi	Western Maharashtra	Working
2	Rajarambapu Patil SSK, Sakharale, Walwa, Sangli	a) Rajarambapu Patil b) Pandurang R.Patil	Western Maharashtra	Working
3	Vasantdada Shetkari SSK, Sangli	a) Vasantdada Patil b) Madan Vishwanath Patil	Western Maharashtra	Working
4	Shriram SSK, Phaltan	a) Malojiraje Naik Nimbalkar b) Shivajiraje Naik Nimbalkar	Western Maharashtra	Working
5	Sant Tukaram SSK, Kasarsai, Pune	a) Vidurji Navale b) -----do----	Western Maharashtra	Working
6	Padmashri Dr. V.V. Patil, Pravaranagar, Ahmednagar	a) Dr.Vithalrao Eknath Patil b) Annasaheb K.Patil	Western Maharashtra	Working
7	Krishna SSK, Satara	a) Yashwantrao Mohite b) Indrajit Mohite	Western Maharashtra	Working
8	Daulat SSK, Kolhapur	a) Narsingrao Patil b) ------do------	Western Maharashtra	Working
9	Nira Bhima SSK, Pune	a) Harshawardhan Patil b) ------do-----	Western Maharashtra	Working
10	Pandurang SSK, Solapur	a) Sudhakar Paricharak b) Dinkarrao A. More	Western Maharashtra	Working
11	Kukadi SSK, Ahmednagar	a) Kundalikrao Jagtap b) ----do-----	Western Maharashtra	Working
12	Indira Gandhi Mahila SSK, Kolhapur	a) Mrs. Vijaymala Desai b) -----do-----	Western Maharashtra	Working
13	Saswad Mali, Solapur	a) Liquidator	Western Maharahtra	Under liquidation
14	Budhargad, Kolhapur	Deregistered	Western Maharashtra	Deleted from pipe line
15	Sant Kurmadas SSK, Solapur	a) Dhanaji Sathe b) -----do-----	Western Maharashtra	Under erection
16	Rena SSK, Niwada, Latur	a) Diliprao Deshmukh b) Yashwantrao Patil	Marathwada	Under production
17	Vaidyanath SSKBeed	a) Gopinath Munde b) ....do..........	Marathwada	Working
18	Dr. Babasaheb Ambedkar SSK, Keshegaon, Osmanabad	a) Arvind Gore b) -----do-----	Marathwada	Working
19	Samarth SSK, Jalna	a) Ankushrao Tope b) Smt. Sharad Tope	Marathwada	Working

Appendix-I (concld.)				
Sr. No.	Name of the CSF	Name of Chief Promoter and Present Chairman	Region	Present status
20	Sagar SSK, Jalna	a) Ankushrao Tope b).........do.........	Marathwada	Under erection
21	Jai Bhavani SSK, Beed	a)Shivajirao Pandit b)Jaysing S.Pandit	Marathwada	Working
22	Bhaurao Chavan SSK, Nanded	a) Shankarrao Chavan b) Ganpatrao Tidke	Marathwada	Working
23	Shivshakti, Osmanabad	a) Shivajirao Chalukya b) Madhukar P. Yadav	Marathwada	Under erection
24	Vinayak, Aurangabad	a) Vinayak Patil b) Liquidator	Marathwada	Under liquidation
25	Niphad SSK, Nashik	a) Bhausaheb Hire b) Madhavrao Boraste	Khandesh	Working
26	Adivasi SSK, Navapur	a) Swarupsing Naik b) Shirskumar S. Naik	Khandesh	Working
27	Chudaman Patil,Dhule	a) Rohidas Patil	Khandesh	Deleted from pipe line
28	Sanjay, Dhule	a) Vijay Naval Patil b) Liquidator	Khandesh	Under liquidation
29	Vasant SSK, Pusad, Yavatmal	a) Jethmal Maheshwari b) Prakash Patil	Vidarbha	Working
30	Kondeshwar, Amravati	a) Ram Meghe b) Liquidator	Vidarbha	Under liquidation
31	Shivshakti Adivasi SSK, Buldhana	a) Balkrishna Wasnik b) Balkrishna Wasnik	Vidarbha	Working
32	Parshuram SSK, Chiplun	a) Govindrao Nikam b) Liquidator	Konkan	Under liquidation

Offices

1. Co-operation and Marketing Department, Mantralaya
2. Commissioner of Sugar, Pune
3. Six Regional Joint Director's Offices at Pune, Kolhapur, Nanded, Aurangabad, Amravati and Ahmednagar
4. Maharashtra Pollution Control Board, Mumbai
5. Vasantdada Institute, Pune
6. Maharashtra Sakhar Sangh Limited, Mumbai

Appendix-II
(Reference: Paragraph 3.4; Page: 13)

Statement of loans outstanding against farmers

Sr. No	Name of CSF	Number of Members	Amount of loan outstanding in rupees
1	Rajarambapu Patil CSF	6	2270
2	Sant Tukaram CSF	245	3,67,500
3	Vaidyanath CSF	267	3,50,000
4	Shri Siddheshwar CSF	16	22,612
5	Daulat CSF	15	14,920
6	Nira Bhima CSF	24	56,886
7	Jai Bhavani CSF	138	97,400
8	Bhaurao Chavan CSF	292	2,89,727
9	Adivasi CSF	6,925	83,70,259
10	Vasant CSF	550	4,37,445
11	Adivasi Shivshakti CSF	12,205	1,83,07,500
12	Dr. Babasaheb Ambedkar CSF	968	14,52,000
	Total	**21,651**	**2,97,68,519**

Statement showing the amounts recovered but not remitted to Government

Sr. No.	Name of CSF	Number of members	Amount recovered in rupees	Remarks
1	Sant Tukaram CSF	12	16,500	
2	Nira Bhima CSF	18	43,114	
3	Rajarambapu CSF	--	23,720	
4	Siddheshwar CSF	17	24,112	Paid at the instance of Audit

Appendix-III

(Reference :Paragraph 4.2 Page 25)

Statement showing requirement of cane with reference to crushing capacities and cane actually crushed

(Quantity in lakh matric tonnes)

Name of District	2002-03		2003-04		2004-05		2005-06	
	Requirement	Actually crushed	Requirement	Actually crushed	Requirement	Actually crushed	Requirement	Actually crushed
Dhule	12.00	1.50	12.00	NA*	12.00	0.16	12.00	2.00
Jalna	14.00	6.70	14.00	5.63	14.00	1.52	14.00	6.32
Kolhapur	85.12	96.57	101.92	60.21	107.52	63.74	107.52	88.34
Latur	19.60	20.40	26.00	10.68	28.00	8.15	28.00	15.65
Osmanabad	19.60	18.18	27.60	6.45	26.40	2.54	26.40	13.70
Solapur	63.60	72.39	68.00	32.25	68.00	23.06	68.00	73.31

* Not Available

Appendix IV

(Reference: Paragraph 4.4; Page 27)

Statement showing incomplete CSFs

Name of CSF	Date of Registration	Government investment	CSFs' own share capital	Expenditure incurred	Progress of work of construction and acquisition of machinery
		(Rupees in crore)			
Ghrushneshwar, Aurangabad	16.05.1994	13.33	2.10	13.33	Advance of Rs 3 crore was paid during 1995-96.
Jamner, Jalgaon	13.01.1992	9.89	2.57	15.93	Machinery advance of Rs 7.17 crore paid and civil work of Rs 5.25 crore executed till 1997-98
Sahyadri, Kolhapur	25.04.1994	12.00	0.84	4.37	No progress; advance of Rs 2.74 crore was paid during July 1997 and April 2003
Sharad, Aurangabad	04.04.2000	6.28	1.6	1.86	Old machinery allotted and advance paid during April and June 2002, but not erected
Sagar, Jalna	01.06.2001	8.48	3.45	12.21	Machinery has been allotted in July 2005 and work of erection is in progress
Shivshakti, Osmanabad	28.06.2001	3.74	1.83	1.64	No progress, advance was paid in August 2004
Kurmadas, Solapur	04.04.2000	3.74	2.84	2.24	No progress, advance was paid in April 2001
Shetkari, Sangli	14.11.1994	10.21	2.15	15.01	Old machinery purchased in 1994 for Rs 9.31 crore was not erected till Jan.2008
Banganga, Osmanabad	31.10.2000	9.33	3.21	6.08	Civil work done for Rs 6 crore upto May 2002
Chatrapati, Beed	05.05.2000	3.26	1.85	1.69	Civil work done for Rs 5.38 crore upto April 2002
Tokai, Hingoli	03.03.1997	2.97	1.92	6.89	Civil work completed valuing Rs 4 crore upto April 2002
Bhausaheb Birajdar, Osmanabad	23.03.2001	9.33	1.87	5.46	Civil work completed partially in March 2006
Total		**92.56**	**26.23**	**86.71**	

Appendix-V

(Reference: Paragraph 4.10; Page 32)

Cost of transportation of cane

Name of CSF		Name of CSF		Name of CSF		Name of CSF		Name of CSF	
Kukadi CSF (2005-06)		Adivasi CSF (2005-06)		Vasant CSF (2005-06)		Shriram CSF (2005-06)		Siddheshwar CSF (2005-06)	
Km	**Rate per tonne**	**Km**	**Rate per tonne**	**Km**	**Rate**	**Km**	**Rate**	**Km**	**Rate**
1 to 8	Rs 94.40	1 to 8	Rs 79.60	1 to 10 Less for 2 km	Rs 65.00 per tonne - Rs 13.00 per tonne = Rs 52.00 per tonne	1 km Add for 7 km	Rs 25.57 per tonne + Rs 28.00 per tonne = Rs 53.57 per tonne	1 km Add for 7 KM	Rs 15.91 per tonne + Rs 35.00 per tonne = Rs 50.91 per tonne
9 to 16	Rs 94.40	9 to 16	Rs 95.65	11 to 30	Rs 2.45 per km per tonne	3 to 16	Rs 4.04 per km per tonne	2 to 16	Rs 4.97 per km per tonne
17 to 24	Rs 109.08	17 to 24	Rs 114.35	31 to 60	Rs 2.10 per km per tonne	17to 24	Rs 3.48 per km per tonne	17 to 32	Rs 3.06 per km per tonne
25 to 32	Rs 121.94	25 to 32	Rs 126.80	61 to 80	Rs 2.00 per km per tonne	25 to 48	Rs 1.94 per km per tonne	33 to 48	Rs 2.60 per km per tonne
33 to 40	Rs 136.36	33 to 40	Rs 138.10	81 to 100	Rs 1.90 per km per tonne	49 and above	Rs 1.58 per km per tonne	49 to 64	Rs 1.87 per km per tonne
41 to 48	Rs 146.87	41 to 48	Rs 149.70					65 to 80	Rs 2.60 per km per tonne
49 and above	Rs 146 + Rs 2.04 per km per tonne	49 and above	Rs 2.10 per km per tonne					81 km and above	Rs 9.75 per km per tonne
Commission 14%								**Commission 15%**	

Appendix-V (Contd.)										
Niphad CSF (2005-06)		Dr. Babasaheb Ambedkar CSF (2005-06)		Sant Tukaram CSF (2005-06)		Jai Bhavani CSF (2005-06)		Rajarambapu Patil CSf (2006-07) transport per MT for Truck/Tractor		
Km	Rate per tonne	Km	Rate per tonne	Km	Rate	Km	Rate	Km	Rate	
									Unit I	Unit II
1 to 8	Rs 72.30	1 to 10 Less for 2 km	Rs 69.61 - Rs 14.00 = Rs 55.61	1 km Add for 7 km	Rs 29.42 per tonne + Rs 30.00 per tonne = Rs 59.42 per tonne	1 km to 10 Less for 2 km	Rs.71.09 per tonne (-) Rs 14.22 per tonne = Rs 56.87 per tonne	0 to 8	Rs 57.17 per tonne	Rs 58.73 per tonne
9 to 16	Rs 80.45	11 to 20	Rs 94.61	2 to 16	Rs 4.28 per km per tonne	11 to 20	Rs.2.59 per km per tonne	9 to 24	Rs 2.38 per km per tonne	Rs 2.45 per km per tonne
17 to 24	Rs 99.75	21 and above	Rs 1.10 per km per tonne	17 to 24	Rs 3.31 per km per tonne	21 and above	Rs.2.04 per km per tonne	25 to 32	Rs 1.18 per km per tonne	Rs 1.22 per km per tonne
25 to 32	Rs 108.15			25 to 48	Rs 1.98 per km per tonne			33 to 40	Rs 2.00 per km per tonne	Rs 2.05 per km per tonne
33 to 40	Rs 115.10			49 and above	Rs 1.50 per km per tonne			41 and above	Rs 1.77 per km per tonne	Rs 1.81 per km per tonne
41 to 48	Rs 122.15			**Commission for Truck 15%**						
49 and above	Rs 15.60 per km per tonne			**Commission for Tractor 12%**				**Commission 17%**		**20%**

Appendix V A

(Reference:Paragraph4.10 ; Page 32)

Harvesting and Transportation (H&T) charges adjusted from cane prices

Sr. No	Name of CSF	Year	SMP declared	H&T expendi-ture	Net SMP (4-5)	SMP as per clause5 A	Total SMP payable (6+7)	Actual SMP paid	Difference (9-8)	Total crushing MT	Excess payment (10*11)	Accumu-lated losses
			(Rupees per metric tonne)								(Rupees in lakh)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1	**Rena Latur**	2003-04	931.56	266.80	664.76	--	664.76	835.00	170.24	124871	212.58	
		2004-05	929.80	308.28	621.52	--	621.52	1100.00	478.48	109302	522.98	
		2005-06	909.40	354.70	554.70	--	554.70	1100.00	545.30	175869	959.01	
										Total	**1694.57**	392.59
2	**VV Patil, Ahmednagar**	2004-05	929.80	255.91	673.89	313.38	987.27	1000.00	12.73	152872	12.73	
		2005-06	891.80	249.00	642.80	--	642.80	1050.00	407.20	570100	2321.45	
										Total	**2334.18**	8194.13
3	**Vasant, Pusad**	2005-06	953.40	298.79	654.61	349.21	1003.82	1110.00	106.18	147354	156.46	
										Total	**156.46**	546.49
4	**Nira Bhima Indapur**	2002-03	941.00	186.00	755.00	--	755.00	796.00	41.00	258001	105.78	
		2003-04	993.50	191.50	802.00	--	802.00	850.00	48.00	139766	67.09	
		2004-05	929.80	270.00	659.80	--	659.80	1150.00	49020.00	82905	406.40	
										Total	**579.27**	296.04
5	**Daulat Kolhapur**	2004-05	841.80	177.80	664.00	--	664.00	1000.00	336.00	216798	728.44	
		2005-06	962.20	238.20	724.00	--	724.00	1200.00	446.00	411401	1958.27	
										Total	**2686.71**	9295.05
6	**Indira Gandhi Mahila, Kolhapur**	2002-03	886.00	254.00	632.00		632.00	750.00	118.00	95801	113.05	
		2003-04	795.00	252.00	543.00		543.00	800.00	257.00	59298	152.40	
										Total	**265.45**	522.40

Appendix V A

(Reference: Paragraph 4.10 , Page 32)

Harvesting and Transportation (H&T) charges adjusted from cane prices

Sr. No	Name of CSF	Year	SMP declared	H&T expenditure	Net SMP (4-5)	SMP as per clause5 A	Total SMP payable (6+7)	Actual SMP paid	Difference (9-8)	Total crushing MT	Excess payment (10*11)	Accumulated losses
			(Rupees per metric tonne)								(Rupees in lakh)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
7	**Dr. Babasaheb Ambedkar, Osmanabad**	2005-06	900.60	441.70	458.90	228.50	687.40	1150.00	462.60	272088	1258.68	
										Total	**1258.68**	70.05
8	**Sant Tukaram, Pune**	2004-05	1026.00	270.00	756.00	--	756.00	1100.00	344.00	158960	546.82	
										Total	**546.82**	907.72
9	**Niphad, Nasik**	2004-05	947.00	210.00	737.00	--	737.00	1000.00	263.00	59680	156.96	
		2005-06	883.00	245.00	638.00	--	638.00	1050.00	412.00	251134	1034.67	
										Total	**1191.63**	1075.89
10	**Vaidyanath, Beed**	2003-04	947.40	248.78	698.62	255.50	954.12	1135.00	180.88	271677	491.41	
		2004-05	915.56	280.97	634.59	223.00	857.59	1150.00	292.41	387856	1134.13	
										Total	**1625.54**	--

* SMP: Statutory minimum price

Appendix-VI

(Reference: Paragraph 4.11; Page: 34)

Statement showing component-wise and year-wise expenditure over standards

Year	Norms	Actual average expenditure	Average increase (+)/ decrease (-)
	Rupees per MT		
Power			
2001-02	16	9.44	(-)6.56
2002-03	16	11.97	(-)4.03
2003-04	16	13.98	(-)2.02
2004-05	16	20.49	4.83
2005-06	16	14.49	(-)1.51
Chemical and consumables			
2001-02	24	14.34	(-)9.66
2002-03	24	12.61	(-)11.39
2003-04	24	14.45	(-)9.55
2004-05	24	15.80	(-)8.20
2005-06	24	21.92	(-)2.08
Interest			
2001-02	60	198.60	138.60
2002-03	60	228.56	168.56
2003-04	60	310.39	250.39
2004-05	60	279.20	219.20
2005-06	60	150.54	90.54
Administration/Salary			
2001-02	120	125.00	5.00
2002-03	120	112.91	(-)7.09
2003-04	120	176.71	56.71
2004-05	120	212.84	92.84
2005-06	120	191.36	71.36

Appendix-VII

(Reference: Paragraph 4.17; Page 43)

Expenditure on excess staff

	Name of the CSF	Year	As per prescribed pattern			Actual staff position					Excess staff					Excess expendi -ture (Rupees in lakh)
			Perma-nent	Seaso-nal	Total	Perma -nent	Seaso-nal	Tempo-rary	Appre-ntice	Total	Perma-nent	Seaso-nal	Tempo-rary	Appre-ntice	Total	
1	**Samarth, Jalna 2500 TCD**	2004-05	246	203	449	508	290	--	--	798	262	87	--	--	349	11.67
		2005-06	246	203	449	484	280	--	--	764	238	77	--	--	315	23.53
2	**Dr.V.V. Patil Pravaranagar 4000 TCD**	2004-05	390	327	717	515	690	95	10	1310	125	363	95	10	593	27.46
3	**JaiBhavani Georai, Beed**	2005-06	246	203	449	411	209	--	--	620	165	6	--	--	171	107.04
4	**Bhaurao Chava, Nanded 2500 TCD**	2004-05	246	203	449	265	286	--	--	551	19	83	--	--	102	24.55
		2005-06	246	203	449	265	286	--	--	551	19	83	--	--	102	18.35
5	**Vaidynath Parli 2500 TCD**	2004-05	246	203	449	156	34	508	--	698	--	--	249	--	249	74.00
		2005-06	246	203	449	156	34	502	--	692	--	--	243	--	243	66.00
6	**Niphad Nasik 3500 TCD**	2004-05	311	256	567	798	372	2	--	1172	487	119	--	--	603	420.65
		2005-06	311	256	567	766	361	2	--	1129	455	105	--	--	560	483.46
7	**Vasant Pusad**	2004-05	246	203	449	340	290	--	--	630	94	87	--	--	181	99.00
		2005-06	246	203	449	340	290	--	--	630	94	87	--	--	181	99.00
8	**Kukadi Ahmednagar**	2005-06	246	203	449	114	395	--	--	509	(-) 137	+ 192	--	--	55	3.30
Total																**1458.01**

Appendix-VIII

(Reference: Paragraph 4.19; Page 44)

Charter for Corporate Responsibility For Environmental Protection (CREP)

1. Existing Molasses based Distilleries

Non compliant Distilleries will furnish bank guarantee and Action Plan to concerned State Boards to ensure compliance with any or combination of the following measures:

- Compost making with press mud/agriculture residue/Municipal Waste;
- Concentration and drying/Incineration;
- Treatment of spent wash through biomethanation followed by two stage secondary treatment and dilution of treated effluent with process water for irrigation as per norms prescribed by CPCB/MoEF;
- Treatment of spent wash through biomethanation followed by secondary treatment (BOD<2500 mg/lt) for controlled discharge into sea through a proper submerged marine outfall at a point permitted by SPCB/CPCB in consultation with National Institute of Oceanography (NIO), so that Dissolved Oxygen in the mixing zone does not deplete, less than 4.0 mg/lt
- For taking decision on feasibility of one time controlled land application of treated effluent, a study will be undertaken within three months.

The road map for utilisation of spent wash by the distilleries to achieve zero discharge of spent wash in inland surface water courses will be as below:

50% utilisation of spent wash -----------By March, 2004
75% utilisation of spent wash---------- By March, 2005
100% utilisation of spent wash----------By December, 2005

Till 100% utilisation of spent wash is achieved, controlled and restricted discharge of treated effluent from lined lagoons during rainy season will be allowed by SPCB/CPCB in such a way that the perceptible colouring of river water bodies does not occur.

Monitoring

Task force consisting of CPCB, SPCB, expert and industry shall be constituted for monitoring the implementation of action points.

2. New Distilleries and Expansion of Existing Distilleries (Molasses based)

Proposal for stand alone new distilleries and expansion of existing distilleries without achieving zero discharge in surface water/ground water will not be considered by MoEF/SPCB.

Appendix-IX

(*Reference: Paragraph 5.1; Page* **47**)

Statement showing machinery lying idle due to delay in liquidation proceedings

Sr. No	Name of CSF	Issue of liquidation order	Period for which closed prior to issue of order	Value of plant and machinery lying idle	Government dues not recovered	Other dues not recovered	Reasons for delay in liquidation	Report on progress of liquidation submitted upto	Accounts of the CSF submitted upto	Accounts audited upto
				(Rupees in lakh)						
1	Parshuram	07.06.1995	3 years (from 1992 onwards)	421.70	33.12	476.53	Matter is sub judice.	Feb.2007	2004-2005	2004-2005
2	Saswad Mali	12.02.1987	1 year (1980-1981)	No machinery	Nil	Nil	Claims with GOI not finalised.	Upto 2005-06	31-12-2004	31-12-2004
3	Girna	06.06.1997	1 year (1996-1997)	814.00	915.25	1237.36	Property of CSF attached by DRT.	Not received	Not received	2005-2006
4	Sanjay	01.04.1998	7 years (from 1992)	Disposed off	1631.60	2684.77	Delay in disposal of machinery & non-disposal of other properties.	Not received	2001-2002	2001-2002
5	Kondeshwar	14.03.2002	1 year (2001-2002)	1787.00	1589.65	6041.15	Non-disposal of machinery & no response for leasing of CSF.	Not received	Not received	1998-1999
6	Vinayak	02.05.2002	1 year (2001-2002)	615.86	598.08	3514.50	Non-disposal of property of CSF & writ petition filed by MSC Bank, Mumbai.	Not received	Not received	2002-2003
7	Jijamata	02.05.2002	Closed 1996-1998 Closed from 2001-02	644.00	426.33	1530.36	Non-disposal of property.	Not received	Not received	2001-2002
8	Tasgaon	17.01.2006	4 years (from 2002-2003)	On lease	1938.78	10899.00	No specific reasons were stated in the reply. However, delay in liquidation was accepted by the Commissioner.	Not received	Not received	2001-2002
9	Shankar	23.03.2006	3 years (from 2003-2004)	No valuation	1027.83	8564.19	Bank has taken possession of assets of the factory under the Securitisation Act.	Not received	Not received	2004-2005
	TOTAL			**4282.56**	**8160.64**	**34947.86**				

Appendix-X

(Reference: Paragraph 5.2; Page 48)

Statement showing geographical region-wise lease rent fixed by Government of Maharashtra for leasing of CSF

Crushing capacity of the CSF (in Tonnes per day)	Name of geographical region					
	Khandesh and Vidarbha		Marathwada		Western Maharashtra	
	Rent	Period	Rent	Period	Rent	Period
1250	Rs 0.50 crore	7 years	Rs 1.50 crore	5 years	Rs 1.50 crore	5 years
2500	Rs 1.00 crore	7 years	Rs 2.50 crore	5 years	Rs 3.00 crore	5 years

Appendix-XI

(Reference: paragraph 6.8; Page 60)

Statement showing recommendations of the Godbole Committee

1. If co-operatives are to work as industry and compete with the private sector, the provisions of the co-operative law, as compared with those of the Companies Act, 1956, will have to be carefully examined. The basic objective of the Companies Act is to help the growth of companies on healthy lines, to protect the interests of creditors in view of the limited liability of the members of the company, and to safeguard the interest of the investors. The law equips the government with necessary powers to intervene in the affairs of a company in their interest of shareholders and the public. There is no reason why co-operative law need not have the same objectives. The basic objective of M.C.S. Act is to provide for orderly development of the co-operative movement in the State in accordance with the objective principles of State Policy enunciated in the Constitution of India. This is as amorphous and woolly as it can get. Thus the latter Act is not meant to look at co-operatives as profit-making, competitive ventures geared to withstand competition in the market.

2. While the considerations underlying these provisions of the M.C.S. Act may still be valid for co-operatives in a number of sectors, a time has come to seriously examine whether these principles should continue to hold good for the co-operatives in the processing sector which involve huge investments. These co-operatives have to increasingly compete in the market and have to be provided with level playing field with the private sector. The committee would like to emphasise that like private sector, joint sector and public sector, the co-operative is only a form of organization of a business or industrial entity, and it must be governed by the same principles as are applicable to the other forms of organization. In this light, the present provisions of the M.C.S. Act need to be reviewed in their entirety. The committee would recommend this being done as soon as possible.

3. It is necessary to ensure that, in future, AGM is invariably held within the stipulated time after the completion of the accounting year. It must be made mandatory that the annual report of the board of directors along with the audited accounts and the remarks of the auditors are printed and circulated to the shareholders and placed before the AGM as above. The discretionary power with the Sugar Commissioner to give any relaxation in this behalf should not be for a period of more than three months. The Act should provide that infringement of this provision will lead to the disqualification of the board of directors and the directors will be ineligible to contest the election for a period of five years from the date of such disqualification.

Appendix-XI (Contd.)

4. Wherever considered necessary in the interest of raising adequate equity capital or fulfilling the requirements of the financial institutions, the concept of one member one vote may be given up. The upper limit for holding of shares by any grower member may be 26 per cent of the total equity. It is essential to introduce this major change to provide for large enough stake for some grower members in the proper running to the sugar factory. However, a CSF will also have the liberty to choose the other alternative of one member one vote if it is in a position to raise adequate equity in this manner. In such an event, the CSF will have to enter into appropriate agreements with the financial institutions so as to be in a position to raise the required funds without the involvement of the state government.

5. Section 101 refers to recovery of arrears of dues to certain societies as arrears of land revenue. The societies covered include primary agricultural co-operative societies, crop protection societies, lift irrigation societies, Balutedar societies, co-operative housing societies, dairy societies and urban banks. The amounts due to them can be recovered as arrears of land revenue on grant of requisite certificate by the Registrar. It is recommended that processing societies which give advances to members, transporters and staff should also be brought in the purview of this section.

Financial assistance to co-operative sugar factories and sugarcane farmers

6. In case of CSFs which have large outstandings of Government share capital, loans, guarantees, taxes and levies, and which are unlikely to be cleared in the near future, there should be much closer supervision and control than has been hitherto exercised by the Commissioner of sugar. A separate chapter may be incorporated in the M.C.S. Act to safeguard the Government's large financial involvement in co-operative processing and other societies such as sugar factories, spinning mills, cotton federation, and others fully, and deal firmly, and in an exemplary manner, with the managements of CSFs which indulge in malpractices, abuse of authority and even worse practices such as outright corruption. At the same time, it will have to be ensured that actions are not initiated against any CSFs due to political vendetta, groupism and insidious political motives.

7. There should be no direct State Government equity in the CSFs. If the NCDC desires to take equity in CSFs, it may enter into a direct transaction with each CSF and should not route its funds through the State Government.

Appendix-XI (Contd.)

Working of co-operative sugar factories

8. It has been noticed that a number of instructions issued by the Sugar Commissioner have not been acted upon by the CSFs. Thus, for example, instructions issued regarding adherence to the staffing pattern have not been followed by most of the CSFs. The Act should provide that non-compliance of directions given to CSFs would lead to supersession of the board of directors, apart from disqualification of the office bearers and/or the other directors, as the case may be, for contesting the election for a period of five years.

9. CSFs have to give advances to their transport contractors. Instead of granting such advances from their own or borrowed funds, it is more beneficial for CSFs to arrange loans for the contractors from commercial or urban banks or credit societies. The co-operative credit societies which agree to advance loans to transport contractors insist that the CSF should invest some funds in the credit society by way of deposit. But under section 70 (d) of the M.C.S. Act, a society can invest or deposit its funds only in any co-operative bank approved for the purpose by the Registrar. It is suggested that the words, "or co-operative credit society' may be added after the words "any co-operative bank" to enable CSFs to deposit their funds in such societies.

10. If the CSF is to run as a democratic institution in an open, accountable and transparent manner, it is necessary that utmost attention is paid to the preparation of proper bye-laws and their adoption by the society. This work has been neglected so far. An awareness campaign, therefore, needs to be undertaken by leading co-operators, the Federation of Co-operative Sugar Factories in the State and non-governmental organizations to have proper bye-laws adopted by CSFs.

11. It must be ensured that except in the case of exceptional urgency, a notice of clear ten days is given before a meeting of the board of directors is held so that the representatives of financial institutions also attend the meeting. Infringement of this requirement should lead to penal action against the office-bearers and concerned officers of CSF.

12. Issue of inventory management should be got examined by an expert management consultancy firm. Such a study will, inter alia, list the items according to the fast and slow moving categories, pooling the inventories of CSFs in the close vicinity of each other, and so on. Such a study by a competent firm may be taken up by the Commissionerate of sugar as soon as possible. Based on the conclusions of such a study, suitable directive under the Act may be issued by the Commissioner later for strict compliance by the CSFs.

Appendix-XI (Contd.)

13. Factories will also have to be encouraged to produce niche products like refined sugar, sugar of pharma grade, soft drink grade and so on. This will mean continuous upgradation of market intelligence by the industry.

Liquidation and leasing of co-operative sugar factories

14. Section 102 states that interim orders of liquidation should be communicated to the society for submitting its explanation to the Registrar. Provision may be made in the section for communication of interim order also to the creditors of the society calling for their remarks.

Monitoring and evaluation

15. It must be mandatory on the board of directors to fully comply with audit objections within a period of six months from the date of receipt of the audit report. Any failure to do so should call for action against the erring board of directors, including the recovery of the loss sustained by the society.

16. Section 81 (2A) may be amended to provide for compulsory efficiency/cost audit and performance audit of CSFs.

17. Appeals over the decisions of the regional officers should lie to the Sugar Commissioner. Any appeal over his decisions should lie only to the co-operative court/high court. The State Government should also have no power to stay initiation of any inquiry under the Act.

18. The committee was told of the tendency of the courts to grant ex-party stays liberally. The Act may be amended to provide that no stay will be granted by a court in any case unless the government has been given an opportunity to present its point of view on whether the request for stay deserves to be entertained by the court.

19. It is necessary to strengthen the management of CSFs substantially in terms of the position and status of the managing director and the technical heads of departments, the administrative and financial powers delegated to them, freedom to take decisions without undue interference from the office bearers and directors in the day-to-day work and so on.

20. To make management more accountable, personal guarantees/mortgage of property of the board members may be made compulsory before sanction of loans.

21. In future, the Commissioner of sugar should categorise the CSFs on the basis of their audited results each year and should give wide publicity to the same by issue of a press note and holding a press conference.

Appendix-XI (Concld.)

22. A standing monitoring committee (SMC) on evaluation of CSFs should be constituted by the State Government as soon as possible. It should comprise the Sugar Commissioner as chairman and have representatives of all India financial institutions, MSCB, Agricultural Finance Corporation (AFC), NABARD, VSI, Maharashtra Rajya Sahakari Sakhar Karkhana Sangh Ltd., commissioner of agriculture, and three experts in the areas in which the concerned sugar factories are weak.

23. It is suggested that the developmental role may be entrusted, as a full time responsibility, to a senior officer in the Commissioner's office. The regulatory functions should be looked after by the Commissioner directly, apart from over-all supervision over the developmental activities.

24. Every inquiry should be completed within 6 months, from the date of its institution, at the latest. If parties do not respond, in spite of repeated notices, the cases may be decided ex-parte.

25. The M.C.S Act may be amended to provide that any stay granted for the proceedings under the Act will be valid only for a period of 6 months from the date of the order and that it would not be permissible to extend the stay beyond this period.

26. The Act may also be amended to combine the inquiries under section 83 and 88 of the M.C.S Act to do away with duplication of inquiries on the same subject, and reduce the delays in the completion of inquiries and imposition of final punishment.