CHAPTER I

INTRODUCTION

A ROLE OF INDUSTRY IN THE ECONOMIC DEVELOPMENT

In the developed countries, although it is not the only economic objective, economic growth has been moved to the centre of the stage to join full employment and price level as major concerns of policy. In recent years, however, economic policies have been largely oriented towards faster economic growth and the system of taxation, magnitude of government expenditures, aid to industry and many other governmental actions are now carefully scrutinised to determine their effect on economic expansion. Economic growth has, thus, become a focus of attention in the developed countries, particularly, those like India and Germany in which the growth rates have been slowing down. However, it is necessary to point out that economic growth is not an end in itself, but a means to bring economic prosperity.

2 Speeches from Man Mohan Singh, Minister of Finance Government of India, The Hindu 5th March 1992
4 It is primarily desired (i) to increase the standard of living (ii) to reduce unemployment (iii) to improve the balance of payment through more rapidly raising productivity (iv) to control inflation, thereby maintaining prices under check and (v) to fulfil the potential of which we are capable.
'Industry is marginal to India's present, but central to its future', thus wrote Baldwin in one of his masterly studies relating to economic development in India.\(^5\)

The present day economic scenario in India truly reflects what Baldwin observed. In most of the developing countries like India, the efforts to build up industry constitute one necessary and very important condition of economic progress. Industrialisation has, indeed, become the magic word of the twentieth century, thus proving our late Prime Minister Jawaharlal Nehru's truism, "real progress must ultimately depend on industrialisation". The reasons for this explosion of interest in industrialisation,\(^7\), are not hard to discover.

5 George B. Baldwin, "Industrial growth in South India", The free Press, Glencoe, Illinois, 1959, P 3

6 Jawaharlal Nehru's speeches March 1953 - August 1957, New Delhi, India, 1958

7 Industrialisation is indeed a very complex phenomenon, which permeates all or man's endeavours. As the major single determinant, it makes the wave on which mankind is moving from a past dependent on the haphazard play of natural force to a self-made future (Aizenstatte, Goals of industrialisation: An international view, paper presented in the international conference on the industrialisation and inter-disciplinary aspects of the developing countries held on October 20-25, 1965 at the university of Pittsburgh, P 8.)
The enthusiasm of the elite for industrialisation is a manifestation of their general acceptance of the goal of modernisation and the complex of ideas associated with it. The growth of modern industry, no doubt, will provide employment to the labour force, now bottled-up in agriculture and loosely organised sectors of non-agricultural pursuits. Industrialisation is held to be crucial to development strategy also, because it will radiate stimuli throughout and move it away from stagnation. Directly or indirectly modern industry is expected to raise the productivity of the labour force and increase the national output and income, thus leading the economy to a self-sustained growth.  

SUGAR CO-OPERATIVES

Industrial development in a developing country calls for a good deal of deliberate planning involving rational allocation of resources over various industrial projects considered desirable during the given period to achieve the set objectives. Therefore, the government has to formulate a programme to mobilise the resources judiciously among the three different sectors—public, private and co-operative—to achieve the development at the desired rate and direction. Left entirely to private initiative or to operation of market forces, it is difficult to achieve cent percent rural employment. Whatever the ultimate perspectives may be, the country, anxious to develop its rural areas and to improve the standards of living or the rural masses, has no other alternative but using co-operative enterprise on a considerable scale.

9 Rural Credit Survey Committee Report, 1954
10 (1) The co-operative form of organisation is, perhaps, more than two centuries old and during all these years its basic philosophy based on mutuality and self-help has remained practically unchanged, except in minor aspects and emphasis. As a system, it has found acceptance the world over. "To the sociologist, it is a socio-economic movement where under the group transforms the individuals to the socialist, it is a social order in which man is free from class struggle, and to the economist, it is a form of business organisation devoid of exploitation by middle men. To the developing nations, it is synthesis of a state and non-state action which acts essentially as a constructive instrument for social change and economic development through popular participation" (Nambiar K V National Co-operative Development Corporation Bulletin, February 1991, Vol XXIV, No 6 (ii) It is similar to other forms of enterprise in so far as it also aims at doing efficient business, thus getting the benefits of capitalistic and socialistic forms of enterprises.
The co-operative sector in India presently comprises more than 35 lakh institutions with a working capital of Rs 55,000 crores needs reorganisation in conformity with the co-operative principles to retain the co-operative character of the movement\(^{11}\). This number may seem rather small compared to the number of firms under the corporate private sector. However, it is necessary to remember that the history of the co-operative sector in India, unlike that of the corporate private sector, does not go beyond 1904, when the first co-operatives were officially registered\(^{12}\).

When the co-operative movement was launched as a democratic instrument for the transformation of rural areas, its main objectives were the organisation of economically weak producers and consumers to secure the benefits, which as separate individuals they could not hope to obtain. The co-operatives helped not only to pool their resources, but also to obtain better terms in buying, selling and finance. Considering this span of less than

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\(^{11}\) Conformity to co-operative principles promotes mutuality, the single greatest asset of co-operatives as business enterprises—mutuality between men and co-operatives, between co-operatives at various tiers and between co-operatives in various sectors.

\(^{12}\) In 1901, there were 200 societies called, "Nidhis" with a membership of 36,000 and a working capital of two crores which were mostly found in U P and Bengal (Report of the Maclegan Committee on Co-operation in India, 1915)
nine decades, the rate of quantitative growth of co-operative institutions in India has been fairly remarkable. Though the earlier five year plans appreciate the role of the co-operative sector combining the best features of public and private sectors, thus, giving a sense of balance, direction and value to the economy, it is heartening to note that the recent plans do not talk of the balancing and value-giving role of the co-operative movement. Dr P R Dubhashi, while delivering the sixth IPFCO (Indian Farmers and Fertilisers Corporation) Jawaharlal memorial lecture on "co-operation" has stressed on the total reorganisation of the system to gear up the machinery to achieve the objectives envisioned by the late Prime Minister Jawaharlal Nehru.

13. "Speaking for my self, I have a good deal of faith in the innate good sense of the Village people. They will no doubt make mistakes. It does not matter. All of us make mistakes. But if you give them that feeling, they gain self-confidence. They gain initiative and they do things and not wait for officials to do them" -- Jawaharlal Nehru

14. An outstanding Agricultural economist and administrator who is widely recognised for his contribution in the sphere of co-operation and rural development of India
The most significant development in the co-operative sector in the last 30 years has been the promotion of non-credit co-operatives in the agricultural sector, followed by the structural changes of ownership and control in the sugar-mill industry.

In the pre-independence period the big business houses came to exercise considerable control over the sugar economy through the Indian sugar syndicate and through their access to governmental and semi-governmental agencies associated with the sugar policy and the sugar-mill industry. Among the non-credit co-operative., the prominent ones are the sugar co-operatives organised by the sugar cane growers for processing and marketing of their sugar cane in the form of value added item, i.e., sugar. The number of such sugar co-operatives now exceeds 225 accounting for more than 60 per cent of the total sugar production in the country. Other agro-industries where co-operatives have made substantial in-roads are cotton-spinning, oil-seed processing and fertilisers.

15 Credit co-operatives comprise co-operative credit societies, co-operative banks etc., and non-credit co-operatives include the areas of agriculture, agro-industries, marketing, processing and storage etc.

16 Despite the fact that no single business house dominated the sugar-mill industry, Shri Ram, Birla, Walchand Hira Chand, Thapar, Narang, Begg-Sutherland, DIL Parry and others had considerable influence upon the sugar-mill industry.

17 Co-operative Sugar, Vol. 22, No. 12, August 1991
but their success and suitability are not comparable to those of the sugar industry under the co-operative sector. Keeping in view, the successful in-roads of the sugar industry, into the Agro-rural areas, the planners have encouraged and organised co-operative sugar factories to attain the following objectives—

i) to secure increase in production by distributing gains of productivity equitably, among the cane growers, workers and consumers,

ii) to create a sense of mutual obligation and concern for rehabilitation of the weaker sections of the community including labour, both agricultural and industrial,

iii) to eliminate exploitation of workers and to provide opportunities to the rural community for gainful employment and improving standards of living and working conditions,

iv) to establish and maintain intimate relationship between the committees of management and individual families associated with the co-operative and to organise and render various services to improve their socio-economic conditions,

v) to eliminate the concentration of economic power in a few hands,
vi) to develop backward areas and to generate rural resources by attracting share capital, non-refundable deposits etc, and to encourage participation in the cane development activities and

vii) to spread education and medical facilities in rural India by establishing primary and secondary schools and contributing to the running of higher educational institutions and by starting hospitals and dispensaries.

In pursuance of the policy laid down, the central and state governments took steps to create conditions favourable for the establishment of sugar factories in the co-operative sector. The licensing policy relating to the establishment of sugar factories was so shaped and executed that most of the licences for new sugar factories went to the co-operative sector. The Negotiating Committee appointed by the government in 1960 for the granting of licences for additional capacity was asked to give preference, other things being equal, to the establishment of co-operative factories. The Screening Committee established in 1964 was asked to give second priority to the licensing of new units, (first priority being expansion of existing units) with preference being given to co-operatives.

In the context of the Fifth Plan, the government, in its licensing policy announcement, reiterated that the policy of encouragement to the co-operative sector would receive special emphasis in industries which processed agricultural raw-materials such as sugarcane, jute, cotton etc. A scheme of the state government to participate in the share capital was also evolved wherein, the central and state governments were to guarantee loans advanced to the factories by the public financing institutions like the Industrial Finance Corporation, Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Life Insurance Corporation etc., besides the National Co-operative Development Corporation meant to advance loans to them out of the funds placed at its disposal by the central government.
Table 1.1: Growth of Co-operative Sugar Factories

<table>
<thead>
<tr>
<th>Year</th>
<th>Co-operative Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>2</td>
<td>139</td>
</tr>
<tr>
<td>1960-61</td>
<td>30</td>
<td>174</td>
</tr>
<tr>
<td>1979-80</td>
<td>138</td>
<td>300</td>
</tr>
<tr>
<td>1989-90</td>
<td>212</td>
<td>377</td>
</tr>
</tbody>
</table>

Source: Co-operative Sugar Vol 22, No 12, August, 1991

The initiation of the process of preferential licensing policy and liberal financial assistance has helped the sugar industry to attain a remarkable progress during the five year plans as per the table shown above. The co-operative sugar factories during 1950-51 accounted for only two, one at Itikoppaka in Visakhapatnam District, Andhra Pradesh and the other by name the Bagaitdars (Pravars) co-operative sugar factory in Bombay State thus contributing 1.44 percent to the total number of sugar factories in India. As against this, the co-operative sugar factories were raised to 30 contributing 17.24 percent in 1960-61, and to 138 accounting for 46 percent of the total number of factories during 1979-80. Remarkable progress was also noticed during 1989-90 wherein, the number of sugar factories under the co-operative sector touched an all time record of 212 (56.23 percent) out of a total 377 factories in India.
C THE PROBLEM UNDER STUDY - OBJECTIVES, DESIGN AND METHODOLOGY

The sugar industry in India has been enabled to emerge as the largest producer of sugar in the world. The sugar industry is often described as the second largest industry in terms of number of factories, value of output, total investment and employment opportunities in the agro-industrial sector. Though the industry is all set to achieve impressive results in the production front accounting for an all time output of 120 lakh tonnes during 1990-91, the state of health of the industry is not in a good shape. The industry consists of 410 licensed sugar units of which 227 are in the co-operative sector with a total capital outlay of about Rs 2,700 crores employing about 3.50 lakh labourers during 1990-91. Paradoxically, many sugar factories are turning sick owing to the interplay of a variety of factors - political, financial and social, and this is a matter of grave concern to several segments of the constituents of the industry, including government, banks and other financial institutions.

In Andhra Pradesh, out of 33 factories 18 are in the co-operative sector of which 13 factories, it is disheartening to note, are incurring heavy losses to the tune of about Rs 30 crores annually. The position of the Kovur co-operative sugar factory at Kovur in Nellore District is no better than that of the others in all respects.

19 The Hindu, dated October 31st, 1991 P 12
21 Andhra Pradesh State Federation of Co-operative Sugar Factories Limited, Hyderabad.
The government is committed to strengthen the co-operative sector and it is said that the co-operatives themselves have to improve their organisational and operational capabilities by availing themselves of various concessions and incentives announced from time to time. Inspite of various programmes initiated by the government and a favourable monsoon during the past five years the industry has not achieved the desired results so far. Some of the reasons attributed for the present state of affairs are low quality sugarcane, high cost of production, rejection of by-products as waste, heavy administrative and establishment expenses, defective price policy etc. Another impression gained is that the co-operatives serve only the politicians and the social workers who use these co-operative units as the springboard for their future careers. Under these circumstances, there is a wide scope to study the existing state of affairs and to evaluate the functional design and structural deficiencies of the various aspects involved in the production, purchases, cost, finance, labour, marketing, management, research and development etc., and also to take into account the rising consumption trends and ensure that the growth in consumption of sugar is commensurate with production increases. Otherwise the country, boasting as the largest producer of sugar in the world, will be constrained to import sugar.
Objective of the Study

The main objective of this study is to enquire into the existing state of affairs of sugar factories in Andhra Pradesh with a special emphasis on the Kovur co-operative sugar factory, Nellore district, to identify the impediments to the operating and financial efficiency of the unit. An enquiry of this nature is expected to throw light on various influencing factors and thus help in tuning up the operational efficiency in production and marketing and in minimising financial losses. For a proper appreciation of the existing state of affairs of the industry, it is felt desirable to observe, first, the functional and organisational trends of the co-operative sugar factories in Andhra Pradesh during the last decade. The structural problems and the impact of governmental policies and procedures are then analysed. Broadly the main objectives of the study are:

1) to examine the present condition of the Kovur co-operative sugar factory by analysing the production and marketing patterns and the consequent effect on the overall efficiency of the unit

2) to identify the reasons therefor by enquiring into the structural and managerial aspects causing losses to the unit

3) to indicate the growth potential of the unit and to suggest measures to be taken at different levels to place the unit on a sound footing
Although this is essentially a case study with special reference to the Kovur co-operative sugar factory, Nellore District, Andhra Pradesh, the observations and suggestions to be made will apply with equal force to the entire sugar co-operatives in India. Such studies, it is believed, would definitely help the policy-makers to evaluate a future course of action for better production and marketing and to strengthen the sugar industry itself. The studies made so far on co-operative sugar industry in Andhra Pradesh are not worth-mentioning, since they do not portray the intra/Inter sectoral aspects of the operational and financial performance at the micro level. The routine periodical reports by the government agencies concerned and the state federation of co-operative sugar factories present a vague account of the conditions of the sugar industry in the state. Several commissions and committees were set up by the Indian Government to study one or more aspects of the sugar industry and for the first time the Tariff Board was appointed in 1930 to examine the question of granting statutory protection to the Indian sugar industry.

22 The sugar committee of the imperial council of agricultural research established in 1929 was entrusted with the task of examining and reporting on measures necessary for the development of the sugar industry in India and this committee in its first meeting, recommended to the Government of India to institute an enquiry through the Tariff Board as to whether protections should be given to the Indian Sugar Industry. This ultimately resulted in the enquiry of the Tariff Board and culminated in the grant of protection to the sugar industry to usher in a glorious chapter in its history. The Tariff Board submitted a comprehensive report in 1931 recommending protection to the sugar industry for the period of 15 years.
A technical sugarcane committee was appointed in 1949 under the chairmanship of Sri Vijaya Raghavacharya to enquiry into the cost of production of sugarcane, to review the progress of cane research and development and to suggest ways and means for achieving quicker results, to increase the yield of cane per acre and the sugar content of cane, with a view to reducing the cost of sugar. As a follow-up measure, many committees were appointed to achieve the desired results.

In 1950, a Sugar Enquiry Committee (Ganga Nath Committee) was appointed by the Government of India to enquire into such aspects of the sugar crisis of 1949, as they were not fully covered by the Tariff Board Enquiry of 1949. An Expert Committee was appointed under the Chairmanship of B V Narayana Swamy Naidu to prepare schedules for determining the cost of manufacture of sugar. Another Expert Committee was constituted in 1955 under the Chairmanship of P A Gopalakrishnan which suggested certain amendments to the cost schedules, prepared by the Expert Committee of 1951 and recommended that the amended all-India schedule might be used until such a time as regional schedules were ready. The Tariff Commission was asked by the Government of India in 1958 for the first time to enquire into the cost structure of and fair price payable to the sugar industry. In October 1950, the Tariff Commission was again required to go into the question of revision of the price linking formula for sharing sugar price between sugar factories and cane growers. In June 1963, the Government of India appointed a Committee on Rehabilitation and Modernisation of sugar factories in India, under the Chairmanship of S N Gundu Rao to examine the problems of the old and uneconomic units in the sugar industry.
The most objective and impartial insight into the working of the industry is provided by the reports of two sugar Enquiry Commissions. The first one was set up in 1964 under the chairmanship of Dr. S R Sen and the report was submitted in 1965. The second one was set up in 1970 under the chairmanship of Justice Sri V Bhargava, popularly referred to as the Bhargava Commission, which submitted its report in 1974.

24 The Sugar Enquiry Commission's (known as the Sen Commission) terms of reference were (a) the determination of the price, and the system of distribution of sugar, and (b) the policy regarding licensing or new sugar factories and the expansion of existing sugar factories. It was also required to study certain aspects of export of sugar and the question of production of sugar of different grades.

25 The Sugar Industry Enquiry Commission (known as the Bhargava Commission) was set up (a) to study the working of the sugar industry in all its aspects, with particular reference to its performance during the last ten years and the conditions of the plant and machinery in different sugar mills (b) to identify the inadequacies in the performance of the sugar industry and the causes thereof (c) to study in detail the causes for the existence of a large number of sick sugar mills (d) to study the progress and the working of sugar mills in the co-operative sector (e) to make suggestions in the light of such studies, for a rational and efficient organisation of the sugar industry in different parts of the country, in order to improve its working performance and suggest measures for solving the problem of sick sugar mills, in the context of the demand for nationalisation of the sugar industry (f) to study the relationship between sugarcane suppliers and the owners of the sugar mills, with particular reference to the supply of cane and the payment of cane price and to make suggestions for improvement in the present laws and practices in this regard (g) to study the problem of large fluctuations in sugarcane production and its processing into gur, khadasari and sugar and to make suggestions for securing stable conditions with a view to achieving a balanced development in these fields, and (h) in the light of the foregoing studies, to suggest a blue-print for the development of the sugar and allied industries over a period of the next ten to fifteen years. The terms of reference were very wide and comprehensive and covered, for the first time, all the important aspects of the sugar industry. The commission submitted its report in 1
In 1975, a committee on the economic viability of new sugar factories under the chairmanship of S.V. Sampath was set up to consider the relief which could be given to the newly licensed sugar factories in the context of a steep rise in the costs, particularly of plant and machinery during the last two years. Except the Sugar Industry Enquiry Commission Report 1974, all other studies were partial in nature and with regard to certain specified aspects of the sugar industry only.

Dingle Committee Report on controls and subsidies in 1979 and Agricultural Price Commission Report in 1980 and 1981 are other very important reports from the viewpoint of the researcher. The studies, reports and memoranda submitted by the Indian Sugar Mills Association (ISMA)\(^{26}\) and National Federation of Co-operative Sugar Factories (NPCSF)\(^{27}\) are immensely useful to study the present-day condition of the sugar industry in India.

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\(^{26}\) Indian Sugar Mills Association is an all India organization of sugar mills in joint stock and public sector in the country. It has a wide spread organisation and has regional associations affiliated to it. The aims and objects of the association are (a) protecting and promoting the interest of its members in particular and the sugar industry in general and (b) encouraging friendly feelings and promoting good relations between employers and workers, and the industry and cane growers.

\(^{27}\) National Federation of Co-operative Sugar Factories Limited was established in 1960 with the object of co-ordinating and facilitating the working of the affiliated co-operative sugar factories and state zonal federations and to assist in the promotion and organization of new co-operative sugar factories.
In the academics, the individual research studies that are found about the sugar industry were mostly with reference to the states of Maharashtra, Uttar Pradesh and Bihar. No significant study was made about the working of co-operative sugar factories in Andhra Pradesh. Against this background, this research study about the Economics of Kovur Co-operative Sugar Factory in Nellore District of Andhra Pradesh assumes considerable relevance.

Contd

In pursuance of its objects, the Federation may

1. provide technical advice and other assistance in the selection, purchase, installation and maintenance of plant and machinery and other equipment,

2. advise and assist in the selection of technical personnel,

3. suggest measures for increasing the operational efficiency,

4. assist in standardising the accounting and costing method and practices,

5. assist in securing the financial accommodation from State and Central Co-operative Banks and from other financing agencies,

6. advise on the sale of produce, purchase of chemicals, spare parts, fertilisers, fuel and other material and the sale or utilisation of by-products,

7. take up the publication and supply of market and other information relating to sugar industry.
Design and Methodology

Sugar is an industry which touches the lives of every one, - sugarcane growers, gur manufacturers, sugar factories, employees, traders, consumers and a host of downstream industries, in one or more ways. Therefore, designing the study of the topic related to the sugar industry needs careful insight and diligent care. The study has been made in two phases - viz, survey of selected co-operative sugar factories, sector-wise and size-wise in Andhra Pradesh in the first phase and an in depth study of the working of the Kovur co-operative sugar factory in Vellore District, Andhra Pradesh in the second phase. Since this is essentially a case study, aiming at examining the economics of working of the Kovur co-operative sugar factory, in the areas of production, cost, marketing and management, personal interviews with the people/agencies involved in the factory followed by the questionnaire and a detailed inter-action with the management/growers were undertaken for collecting the data. The work reports and financial statements of the factory are also studied to understand the working results of the unit.

28 'Sector-wise' comprises factories under public, private and co-operative sectors. Out of 33 factories, 8 are in public sector, 7 in private sector and 18 in co-operative sector. 'Size-wise' means categorising the factories under different sectors depending upon the size of the capital, labourers employed, quantity of production, crushing capacity, sales etc.
Valuable information was also collected from various sources in and outside the factory regarding the sugar-cane cultivation in the factory area, cane crushing, utilisation of by-products etc, with the help of the personal relationship of the researcher with them. Useful data was also collected from various offices, viz. Andhra Pradesh State Federation of Co-operative Sugar Factories Limited, Head Office of the Nizam Sugar Factories and Office of the Directorate of Sugar and Commissioner of Sugarcane at Hyderabad, Kothari Sugars and Chemicals Limited, at Madras and Vaikunth Mehta National Co-operative Management at Pune. Relevant statistical information on many aspects of sugar industry was also collected from official records and publications of all governmental and non-governmental organisations associated with the working of the industry. Thus, the information collected directly from the factory was dovetailed with the information collected from private, government and semi-government agencies connected with the sugar industry.
D. PLAN OF THE THESIS AND LIMITATIONS

The present thesis comprises eight chapters. Chapter One deals with the role of the industry in the economic development, origin and development of the sugar co-operative in India, and the objectives, design and methodology. Chapters Two & Three explain the emerging state of the sugar industry in India and in Andhra Pradesh. The functioning of the Kovur co-operative sugar factory, with a special emphasis on sugar production, labour, cost, sales and returns, capacity utilisation and recovery cost, price structure and trade are dealt in Chapters Four to Seven leading to the evaluation and suggestions in Chapter Eight.

The persons associated with the sugar factory are a tight-knit lobby, where every one knows everyone else and are said to be a set of dedicated specialised and hard-working men who have their own vocabulary and live in a world of their own. While interviewing the above people, obviously, the researcher has had to undergo a psychological trauma not only to make them follow/answer to the items stated in the questionnaire, but also to get the emerging true picture of the factory in all fronts. On many occasions, the factory sources evaded the main points raised and supplied confused figures. It is a proven fact that the majority of the co-operative sugar factories in Andhra Pradesh do not have a strong statistical department to collect, analyse and preserve...
the data and the Kovur co-operative sugar factory is no exception. Since the managerial cadre is below the expected levels of middle-management group, probing the inherent organisational, structural and economic deficiencies facing the unit posed a big ordeal. However, the researcher collected and checked the available data from various sources, official and un-official, and made personal enquiries with the concerned parties to test the reliability of the collected data.