Chapter 2 – Review of Literature
CHAPTER 2

REVIEW OF LITERATURE

2.1 CO-OPERATIVE MOVEMENT IN INDIA

Co-operative sugar industry has helped India to attain the position of being the largest producer of cane sugar in the world. Sugar industry in the country occupies the status of being the second largest agro based industry next only to cotton. The industry pays about Rs. 60,000 millions\(^{(1)}\) annually to the cane growers by way of cane price. About Rs.8000 millions\(^{(2)}\) are contributed in the form of Central Excise duty to the exchequer. It is but natural that the industry of such a magnitude has attracted attention of several researchers and scholars who have conducted research on the various aspects of vital sector of the economy.

2.2 REVIEW OF AVAILABLE LITERATURE

An attempt is made in this chapter to review such available literature on the sugar industry and also to locate gaps if any between the issues confronting the sugar industry and solutions offered through the research. The available literature was carefully searched and studied. The process of review of the available literature revealed the following.
2.2.1 The Central and State Governments have appointed various committees from time to time for studying the various problems faced by the sugar co-operatives and finding out the solutions for the same. These committees have also made valuable contribution to the literature on this subject.

2.2.2 Some of the Researchers have attempted to study the cost and the financial aspects of the sugar industry in general and sugar co-operatives in particular. Various aspects of co-operative sugar industry relating to the cost and financial matters are studied.

2.2.3 Some Researchers have studied the social aspect of the sugar co-operatives and in such study they have also conducted Research in the area of social development resulting from the establishment of the sugar co-operatives in a particular part of the state. For facilitating a free flow of discussion, a review of literature is carried out as detailed below.

2.3 Recommendations Of The Various Committees Of The State And Central Government: -

In addition to the work done by various scholars in the area of sugar co-operatives, various committees appointed by the State and the Central Government have also contributed to the research in this area and have enriched the literature on this subject. The recommendations made by various committees are summarized below.

A) Gulabrao Patil Committee (1983):- This committee was appointed by the Maharashtra State Government and the important recommendations are as given below.
1) A scheme of rehabilitation of sick units should be prepared and implemented.

2) The Board of Directors of the sugar co-operatives should be made more accountable and if the performance of the sick units do not improve in spite of assistance from Government, the Board of Directors should be superseded and an administrator should be appointed.

B) Shivajirao Patil Committee (1987):- This committee, also appointed by the Government of Maharashtra recommends that,

1) The net worth and current ratio should be taken as parameters for judging the co-operative sugar factories and thus 15 factories were identified as sick units and out of these 13 were considered as very sick.

2) The sick factories should not be permitted to go in for manufacture of by-products till they achieve 100% capacity utilization and their accumulated losses are written off. The only exception should be when it is shown conclusively that the projected profitability of the by-product unit will improve the working of that unit.

C) High powered Committee appointed by the Government of Maharashtra (1990):- This committee also appointed by the Government of Maharashtra, recommends that,

1) Every sick unit should be taken into liquidation so that their liabilities could be frozen, and thereafter these factories may be given on lease to private parties for a period of 10 to 15 years by calling offers through advertising in the newspapers. Financially strong parties in the private sector who can invest Rs, 20-25 crores can be tapped for this purpose.
2) The committee has also recommended that various rehabilitation measures should be taken for sick units. These measures include conversion of the Government loans into share capital, writing off interest on capital, further moratorium of 5 years beyond the initial moratorium of 5 years to be given for the recovery of Government share capital etc.

D) Madhavrao Godbole Committee (1997) :- This committee was appointed by the State Government and the committee has studied the problems faced by the sugar co-operatives exhaustively and their important recommendations are summarized below.

1) A separate law needs to be enacted for the co-operatives. There is no justification to keep such co-operatives under tight leash of the Government. This will provide a level playing field to the co-operatives as compared to the private sector.

2) The management of the sugar co-operatives should be held responsible for the sickness so that a sense of accountability can be created amongst them.

3) There should be more cost consciousness in the co-operative sugar factories. It is necessary to give wide publicity not only to the costs incurred by each sugar factory but also by other sugar factories in the vicinity. Cost and Performance Audit by a qualified Cost Accountant should be made mandatory.

4) It must be ensured that performance of each of the down stream units for manufacture of by-products is evaluated separately and it is treated as independent profit center.

5) The present performance norms need to be raised further to international levels.
6) The committee further suggested that effort must be made to adopt the lowest cost norm achieved by the best factory in respect of each item of cost. This will imply that wherever the actual costs are higher than the prescribed norms, the auditors will have to question the factory seeking justification of the same. A study by a competent firm may be taken up on inventory management of the sugar co-operatives at the earliest. Based on the conclusions of such a study, suitable directives under the Act may be issued.

7) In continuation of the cost control drive, the committee further suggested that staff norms should be tightened by undertaking a careful time and motion study by an expert professional group.

E) Mahajan Committee:- This committee was appointed by the Central Government and the important recommendations of the committee are summarized below.

1) The important suggestion of this committee is that there should be full decontrol of sugar in the next two years in a phased manner. The committee suggests that the mechanism of levy sugar should be abolished totally, again in a phased manner and the sugar should be taken off the PDS once it is totally decontrolled and that the sugar subsidy should be added to the subsidy on the food grains supplied through the PDS.

2) Permanent reservation of sugarcane area is another important recommendation of the committee. The world over, it is a common practice to reserve the captive cane areas, which are contiguous with each mill. This is necessary in view of economies of scale. Also sugarcane needs to be transported to the mill immediately after cutting in order to prevent rapid deterioration in the sugar content and quality. In view of this and also the fact that the sugar
recovery in India is very low, at about 10%, the committee suggests that a permanent linkage should be established between the factories and the cane growing areas. It has been observed that State Governments routinely issue new licenses for new sugar factories by carving out cane areas from areas already allotted to existing mills. This jeopardizes the viability of both the existing and the new mills. The committee suggests that the State Governments should get clearance from the Central Government before supporting the new factories this way. A distance of at least 25 kms should be there between two sugar factories, however this can be flexible, depending on the region, the sugar content of the cane and the efficiency of extraction.

3) At present licenses are given only to mills with a minimum economic capacity of 2500 TCD. (tones of cane per day) The Mahajan committee wants to abolish this stipulation and it suggests that the size should be left to the entrepreneurs and the financial institutions. It also recommends that the restrictions on expansion of capacity should be removed. This is necessary as the minimum capacity in other countries is around 7500TCD. But while the expansion of capacity is desirable, it must be ensured that new mills have at least a certain minimum economic size, as low capacity mills will add to the sickness in the industry.

4) The Mahajan committee further suggests that the present system of distributing the entire surplus as the cane price, followed in the cooperative sector in the states of Maharashtra, Gujrat, and North Karnataka may be continued and the co-operatives in other states may also follow this system at their option.
The committee has recommended the retention of the Statutory Minimum Price for the cane even after the decontrol of the industry. It has said that the Statutory Minimum Price should be linked to the sucrose content in the cane in order not to reward the inefficiency in the extraction. The committee further suggests that there should be statutory Sugar Pricing Board to determine the advance price for different price zones for the coming crushing season. The final price will also be determined by the Board, based on actual ex-factory sale price in the zone excluding excise duty and cess and purchase tax and the cess on sugarcane and the recovery rate.

2.4 Cost and Financial Structure of Sugar Co-operatives :-

Some of the researchers have studied the cost and financial structure of sugar co-operatives. Their views are summarised in the following paragraphs.

Mr. R.M. Kharche\(^3\) in his paper entitled as, “Co-operative Sugar Factories and Industrial Growth of Marathwada” has discussed the licensing policy of the Government of India as regards to the sugar industry. Mr. Kharche has also analysed financial structure of the co-operative sugar factories. He has also studied the cost of production of sugar and also the causes of the sickness amongst the sugar factories in the co-operative sector.

Mr. G.A. Nikam\(^4\) has analysed the cost of production of sugar co-operatives and has stressed that the cost of production should be minimized to ensure sound development of the sugar industry. He observes that the sugar co-operatives suffer heavy losses due to the dual pricing policy followed by the Government of India. He further
states that the pricing of the levy sugar which is to be sold through the public distribution system is below the cost of production and hence is one of the main reason for the sickness amongst the sugar factories in the co-operative sector.

Dr. G.S.Kamat\(^{(5)}\) discussed various problems like inadequacy of finance; raw materials, transportation etc faced by the sugar co-operatives and has stated that if they are run in professional manner, they can improve the life of rural population.

2.5 **SOCIO-ECONOMIC DEVELOPMENT:**

The sugar factories in co-operative sector in the state of Maharashtra, have played an important role in the socio economic development of the rural areas of the state. The standard of living has increased considerably due to the various activities performed due to the establishment of the sugar factory and the entire rural economy has become very dynamic due to these activities. Many research scholars have studied this aspect of the sugar co-operatives and the following paragraphs present a brief summary of their thoughts.

Mr. S. L. Shirodkar\(^{(6)}\) in his Doctoral thesis entitled as, Co-operative movement in Kolhapur District (1967) observes that co-operative sugar factories have imparted stability to the agricultural income by paying reasonable and guaranteed price for a noticeable increase in the production of sugarcane. He further observes that the sugar co-operatives are agencies of rural development and they should be established in the backward area so that the area will get developed.

Mrs. Vimala Raghavachari\(^{(7)}\) in her Ph.D. thesis entitled as “State and the Indian Sugar Industry”, has explained the impact of state policy on
the development of the sugar industry and has stressed the need to develop a long term policy in this sector.

Mr. N.S. Jain in his doctoral research entitled as Regional Economic Planning in a Sugar Factory Area advocates that sugar co-operatives should be involved in the regional planning by entrusting certain regional planning activities to the sugar co-operatives. He has also studied the impact of sugar co-operatives at the macro level such as irrigation facilities, agricultural development, employment in the rural areas etc.

Mr. G.B. Andhale in his dissertation for M.Sc. titled “A study of impact of Co-operative Sugar Factory on the lives of Farmers” has studied the impact of sugar factories on the lives of the producer shareholders, while Mr. V. Malyadri (1975) has analysed certain aspects of socio-economic impact of sugar co-operatives in general. He observes that a sense of consciousness among the people at all the levels has been developed due to the co-operative sugar factories.

Prof D.R. Gadgil, a promoter of the co-operative movement, in his book titled, “Sugar Co-operatives in Maharashtra” has explained the importance of sugar co-operatives in the rural economy, in his series of articles on sugar co-operatives. He has stated that the sugar co-operatives are working as catalysts of change in the rural economy.

Dr. S.D. Tupe in his book titled “Sugar Co-operatives and Rural Change”, has observed that the rural area has changed drastically due to the establishment of sugar co-operatives as the infrastructural developments have taken place. He has further observed that there has been a remarkable increase in the allied activities due to the
establishment of the sugar co-operatives. But he has also pointed out that the sugar co-operatives and their by-product units have been responsible for water, soil and air pollution in their areas, which may affect the rural life adversely in future.

From the above review, it can be seen that the various scholars have studied various aspects of sugar factories in the co-operative sector. Various committees appointed by the State and the Central Government has also addressed various issues about the sugar co-operatives. However systematic efforts have not been made to study the cost structure of the sugar co-operatives and also of the cost benefit study of the various decisions about the capital investments taken by these sugar factories. An attempt therefore has been made by the researcher to study these aspects in detail and offer concrete suggestions for effective decision making at the corporate level. The researcher has identified the gaps and thus the present study aims at bridging the gap by carrying out scientific study by applying technical parameters such as cost accounting principles and practices, particularly with reference to the implications of the by-products on the cost effectiveness of the sugar co-operatives. Thus, this chapter provides the foundation on the basis of which the objectives and hypothesis of the study are formed.
References for Chapter Two

(1) Commissionerate of Sugar, Government of Maharashtra – Statistical Publication

(2) ibid.

(3) Kharche, R. M., Cooperative Sugar Factories and Industrial Growth of Marathwada, Maharashtra Cooperative Quarterly, April 1976

(4) Nikam, G. A.,


(7) Raghavachari V. (Mrs), State and the Indian Sugar Industry, Ph.D. thesis, University of Pune

(8) Jain N. S., “Regional Economic Planning in a Sugar factory area” Ph.D Thesis, University of Pune


(10) Malyadri, V. Socio-economic Impact of Sugar Co-operatives, Commerce Publication, 1975
