CHAPTER 8
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

After independence, India embarked upon the challenging task of socio-economic transformation of society. The country adopted the instrument of planning to accelerate the rate of economic growth and to bring speedy improvement in the living conditions of masses. Identification and building up of relevant institutions to accelerate the pace of development and to effect early improvement in the living conditions of masses occupy an important place in a developing country like India aspiring to establish a socialist pattern of society.

The potential of the institution of cooperation to contribute to socio-economic development of the people particularly in rural areas was recognised right from the beginning of the planning era. Cooperatives with their broad base have been considered as powerful instruments in involving the people in the planning process and making available to them the gains of development.

Agricultural processing occupies a central place in any programme of cooperative development. The need to organise agricultural processing on cooperative lines was emphasised in the Rural Credit
Survey Report 1954. Agro-processing industries when organised on cooperative lines help in ensuring higher income to the farmers (partly in the form of remunerative price for their produce and partly in the form of a share in the profits), increasing agricultural production, mobilising and channelising rural resources, checking disguised unemployment and under-employment, reducing inequalities in income and industrialising and developing rural areas. The Government of India took various measures to encourage such undertakings. They were accorded preferential treatment with regard to licensing and institutional financing. As a result of all these measures the number of cooperative agro-processing units organised and installed in the country increased to 2188 and 1807 respectively as on March 31, 1982.

Punjab with a per capita income of Rs 3,164 (at current prices) for the year 1981-82 is the richest state of India followed by Haryana with a per capita income of Rs 2,581 against all India average of Rs 1,758. The economic development of these States particularly after the advent of Green Revolution in late sixties has been spearheaded by agriculture. An indepth study of the
growth potential in the different sectors reveals that agriculture in these states has reached almost the saturation stage and not much scope exists for further increase in the agricultural production. Consequently, these States cannot continue to depend on agriculture for achieving their future targets of growth. So there is an urgent need to diversify the economies of these states through industrialisation. It is only through industrialisation that these States can withstand the pressure of increasing population. Industrialisation becomes essential also for attaining a desirable balance between the primary and secondary sectors in which the latter plays at least as important a role as the former one.

The need to industrialise these States is being increasingly felt by the Government of these States. Various development plans lay emphasis on the need for industrialisation. But the pattern of industrialisation has to be in tune with the resource endowments of these States. These states lack in mineral resources like iron ore, aluminium, copper, lead, etc., hence not suitable for mineral-based heavy industry. One of the alternatives left for these states in the matter of industrialisation is the setting-up of agro-processing industries.
based on the local agricultural produce viz sugar-mills, cotton-ginning and pressing factories, spinning mills, rice-mills, fruit and vegetable processing units, oil mills and industries based on agricultural waste (like rice husk, paddy straw, cotton waste, etc.)

As mentioned earlier, cooperation offers them the best form of organisation to derive full benefits out of agro-industrial development by cooperativising control and management. The potential of cooperative agro-processing enterprises in the socio-economic development of Punjab and Haryana has been keenly appreciated by the Governments of these states and their development constitutes an integral part of the plan priorities.

By the end of March 1982 as many as 45 and 34 cooperative agro-processing units have been organised in Punjab and Haryana respectively of which 39 and 27 have already gone into production. The number of such units in these states is increasing at a very fast rate. Such a rapid growth of these enterprises brings in its train several problems such as organisational pattern, administration and supervision, raw-material supply, financial management, marketing,
NEED OF THIS STUDY

industrial relations, members relations, selection and training of personnel in the light of the objectives of the cooperative movement, etc. Of all these the issue relating to financial management is such vital and important that it requires deep study and consideration because the entire structure of a business unit rests on its financial base. Finance is said to be the circulatory system of an enterprise making possible the needed cooperation between the other productive resources like men, material and machines. Therefore, keeping in view this objective the present study is being made to examine in detail various issues pertaining to financial management such as project planning, financial planning, financial control, etc.

The study has been conducted by examining the different facets of financial management such as project planning, financial planning and control, pricing policies, profitability and management of earnings. In the process financial statements (balance-sheets, profit and loss account and cash statements), accounting manuals, project reports, audit reports, reports of the Public Accounts Committees and other relevant documents have been examined. Information has also been collected from the units through questionnaire. The units selected for the study are such that were in the production during the year 1980-81 excepting The Abohar.
Cooperative Spinning Mills Ltd, Abohar. Six new cooperative spinning mills are being set-up in Punjab, the Abohar Cooperative Spinning Mills Ltd. being the first in the series. The success or failure of this project is likely to have its impact on the other projects. So this project (The Abohar Cooperative Spinning Mills Ltd.) has been deliberately included in the study. Wherever possible, a minimum period of five years has been taken for the purpose of analysis so that fruitful results could be drawn. However, every possible effort has been made to extend the period of analysis beyond five years and in 24 out of 30 units under study the period covered is more than five years (in the chapter on profitability). The study is restricted to the financial year ending 30.6.1982 or 30.6.1983 depending upon the availability of data.

Project Planning:

The process of project planning involves the following three phases:

1. Preliminary project formulation;
2. Feasibility report; and
3. Detailed project report.

Of course, the need for preparing a project completion report cannot be over-emphasised. In the planning of agro-processing projects an
important point to be considered is the availability of raw-material in sufficient quantity to run a plant of economic size.

The study revealed that in most of the units under study project planning was either missing or and faulty/ incomplete. In some of the cases, factors basic to the success of a project like availability of raw-materials and markets have been ignored. These mistakes were more glaring in the setting-up of the Markfed Canneries, Jalandhar and Markfed Cotton Ginning and Pressing Factory, Jaitu. Markfed Canneries has been incurring losses right from the beginning. This basic mistake has frustrated all the efforts on the part of the management to put the unit on the track. In some of the cases, the economics of the project was not examined at all, in some others the exercise was confined to the computation of absolute figures of profit (HAFED projects and MARKFED projects).

Even the simple accounting rate of return was not worked out to see whether the project ensures the minimum required rate of return or not. None of the Discounted Cash Flow techniques was applied in any of the units under study. Even
in the case of The Hansi Cooperative Spinning Mills Ltd, Hansi and The Abohar Cooperative Spinning Mills Ltd, Abohar where the project reports were got prepared from the consultants this vital aspect was ignored. The project management of the units did not appreciate the utility of taking into account the time value of money while setting-up these units.

Keeping in view the above, it is recommended that no project should be approved until the project report is prepared, project costs are ascertained and commercial viability of the project is established. Availability of the raw-material and market are some of the important points to be considered at this stage. In examining the commercial profitability of such units Discounted Cash Flow techniques of capital budgeting must be applied. Such techniques are very useful in judging rigorously the commercial profitability of a project. Project authorities should make it a point to apply these techniques as such units have to compete with private sector and a wrong choice of the project may cause disaster. Besides endangering the survival of the project, it causes a set-back to the movement. In some cases the magnitude of cost and time over-runs is alarming.
Of the various reasons found responsible for it some important are the faulty planning particularly with regard to project cost, delay in sanctioning of funds, shortage of materials and other resources required for the completion of the project, inefficiency in implementation and poor monitoring of the project, etc.

Cost over-runs pose problems of arranging additional funds and increase the interest burden and may go to the extent of making a viable project unviable. Additional interest charges would leave lesser profit to be distributed as patronage dividend amongst the grower-members and growers may be tempted to sell their produce to the private trade rather than selling it to the processing cooperative.

Delay in the commissioning of a cooperative agro-processing plant would shake the confidence of a large number of grower-members because a large number of grower members have grown a particular crop in anticipation of its purchase by the processing cooperative. Such a loss of faith and confidence in the grower-members especially in the beginning may prove fatal for it, as it has to depend upon a large number of growers for getting raw-material supplies.
In order to ensure the completion of the project within the stipulated time and cost it is necessary that the progress of the actual implementation is regularly reviewed. The techniques like PERT and CPM should be used for monitoring the progress of such projects. On completion of the project, a project completion report should be prepared. Actual progress with regard to time and cost should be compared against the estimates and the reasons for variations analysed. Such projects are implemented through common state level federations. Experience obtained from one project can be usefully utilised in the implementation of the new projects.

Financial Planning:

Of the various ingredients of a financial plan, some important are the fund requirements, sources of funds, proportion between the borrowed funds and owned funds, working capital planning, profit planning, ensuring repayment of loans and other liabilities, etc.

Cooperative agro-processing projects are financed according to the pattern of assistance framed by the NCDC. According to the said pattern of assistance debt-equity ratio for the cooperatives processing perishable commodities in the non-tribal
areas of the cooperatively developed states is (See Table 3.1A: 1). Keeping in view the fact that such enterprises process perishable commodities and the degree of business risk involved is very high, the debt-equity ratio of 2.33:1 seems to be unreasonable. It is suggested that the component of debt in the concerned assistance by the state Government should be reduced while that of the equity increased.

The study revealed that the vital aspects of financial planning have not attracted the due attention of those who were assigned this arduous job. While in some cases fund requirements were not fully ascertained, in some others these were under-estimated. In the case of The Sonepat Cooperative Sugar Mills Ltd., Sonepat, initial cash losses were not included in the project cost estimates. Again the funds proposed to be raised were short of the requirements as per the estimated project cost. In the case of this mill project cost estimates were revised thrice. Still the actual expenditure exceeded the finally revised estimates by Rs 29 lakhs. In the case of The Karnal Cooperative Sugar Mills Ltd., Karnal project cost estimates were revised twice. The actual expenditure on completion exceeded the finally revised estimates by Rs 29 lakhs. In the case of The Hansi Cooperative Spinning Mills Ltd., Hansi
building requirements were not considered fully at the planning stage. The actual expenditure on building doubled the estimated one. All this delayed the commissioning of the project.

With regard to the availing of loans sanctioned by the financial institutions there are instances of serious lapses. For example in the case of The Hansi Cooperative Spinning Mills Ltd., Hansi, 15% central capital subsidy remained partly unavailed for quite a long time. This added to the interest burden of the mill. Loan sanctioned by the RBI to enable the farmers to buy shares in The Karnal Cooperative Sugar Mills Ltd., Karnal and The Sonepat Cooperative Sugar Mills Ltd., Sonepat was not distributed amongst the growers for quite a long time. Closely linked to the share capital contribution by the growers is their involvement in and feeling of concern for such enterprises. Higher amount of share capital contribution by the growers brings them closer to the processing plant in a greater degree. This can help a lot in ensuring a regular supply of raw-materials. The fact has not been duly appreciated by the field staff deputed for the job of motivating and persuading the farmers to buy shares in these mills.
There seems to be total absence of planning with regard to the repayment of loans. In most of the cases the mills had to pay penal interest due to default in repaying loan instalments and interest in time. This has adversely affected the profitability of these units.

The task of estimating the block capital cost requirements should be performed carefully. Initial cash losses should form part of such requirements. Failure to include initial cash losses in the estimated project cost would put the unit into financial difficulties. More care and caution should be exercised at this stage so that chances of revision of estimates are minimised if not altogether eliminated. Growers should be persuaded to subscribe to the share capital of such undertakings in an increasing measure. The scope of the financial planning should be extended to cover the repayment of the loans. Failure in making timely repayments results in higher interest charges at penal rates.

The study reveals that no attempt has been made to refund the state Government's share in the share capital. Even the old mills like the Jenta Cooperative Sugar Mills Ltd, Bhogpur and The Rohtak Cooperative Sugar Mills Ltd, Rohtak which were set-up as early as in 1957 could not repay any amount on
account of State Government's share in the share capital. In fact the mills have failed to generate surpluses for this purpose. For most of the times the mills have been running into losses. Refund of State Government's share in the share capital is essential to free these undertakings from the state control and to make them the undertakings of the growers in the real sense of the word.

In six out of the ten independent societies the accumulated losses have eaten away the whole of the equity making the net worth negative. In the case of The Panipat Cooperative Sugar Mills Ltd., Panipat accumulated losses have far exceeded the equity and term-debt taken together. The whole of the business have come to be financed by the short-term funds representing current liabilities.

Because of their dependence on agriculture, agro-processing industries are subject to a great degree of business risk. To withstand the business fluctuations, an agro-processing undertaking should have a sound financial position. The study revealed that long-term funds fell short of long-term assets (fixed assets plus investments) in four independent societies which shows that part of the long-term assets has come to be financed by short-term funds. In certain cases principles of sound financing were not observed.
Current liabilities were incurred to acquire fixed assets and to repay term loans. This affected adversely the liquidity position of the mills. The proportion of debt as compared to equity is disproportionately high. This is mainly because of the erosion of equity due to the huge recurring losses. The ratio of debt to equity could not be calculated due to the negative equity in the case of The Morinda Cooperative Sugar Mills Ltd., Morinda as on 30.6.1982. In the case of all the independent societies of Haryana as well the ratio could not be calculated as on 30.6.1983 due to the same reason.

Working capital planning occupies an important place in the ambit of financial planning. The Punjab Cooperative Societies Rules 1965 and The Punjab Cooperative (First Amendment) Rules 1969 define working capital as owned capital and borrowed capital. This definition is not uniform with the one used in the terminology of 'Corporate Finance' (which is current assets or current assets minus current liabilities). Working capital defined as owned capital plus borrowed capital in these rules is generally taken as capital employed in the terminology of 'Corporate Finance'. It is suggested that necessary amendment should be made in The Punjab Cooperative Societies Rules, 1965 and The Punjab Cooperative (First Amendment) Rules 1969.
so as to make the definition of working capital uniform with the one used in the terminology of 'Corporate Finance'. Necessary amendment in this regard would facilitate the use of tools of management accounting like Funds Flow Analysis and Ratio Analysis for the purpose of planning and control.

A concern must enjoy sound liquidity to run its operations smoothly. During the course of study it has been found that the liquidity position of all the independent societies is quite unsound. While in some cases current ratio is less than one in others it is slightly above one.

Cane growers continue to be unpaid for years. Provisions of the Sugarcane Control Order 1966 are not being observed in this regard (said Order makes it obligatory on the part of the sugar mills to make payment to each grower within 14 days of the date of supply of sugarcane). Payments were made for the current year's purchases while arrears of the previous years' purchases remained unpaid. Delay in making payments reduces the supply of raw material in future. Provision of the sugarcane Control Order 1966 should be observed and the growers should be paid in time.
Cash planning constitutes an integral part of working capital planning and management. Cash is the basic input needed to keep the operations of the business going on a continuing basis. Cash planning can be ensured through the mechanism of cash budgets/forecasts (yearly and monthly). The business rules of all the societies provide for the preparations of the annual budget (consisting of revenue budget, cash budget and capital expenditure budget) for the next year before the 15th of June every year. During the course of study, it was found that there is no practice of preparing the cash budget in any of the independent societies in Haryana. In the case of independent societies of Punjab, the system of cash budget was found operating only in The Janta Cooperative Sugar Mills Ltd., Bhogpur and The Abohar Cooperative Spinning Mills Ltd., Abohar. In the case of The Janta Cooperative Sugar Mills Ltd., Bhogpur the exercise was not undertaken in time. The budget estimates of the mill for the year 1980-81 were submitted for approval to the Registrar Cooperative Societies, Punjab on 4.3.1981 and the same were approved on 30.3.1981 (as against June 15, 1980) when the cooperative year was at its fag end. The same was the case with regard to the budgets for the year 1975-76 and 1979-80. The budgetary exercise undertaken by the
mill for the year 1983-84 was confined to the expenditure budget only.

To ensure comprehensive planning, all the major budgets like revenue budget, capital expenditure budget and cash budget should be prepared in all the societies. Annual cash budget should be segmented into monthly budgets.

Making share-money deductions out of the cane dues to the growers is one of the important means used by the sugar cooperatives in the country to strengthen their equity base. The device got wide acceptance particularly after the success of Parvara Cooperative Sugar Factory in Maharashtra under the guidance and leadership of Professor D.R. Gadgil. None of the cooperative sugar mills in Punjab is presently following the practice of making share money deductions out of the cane price. In the cooperative sugar mills in Haryana complete regularity was not observed in this regard.

Financial Control:

In a mixed economy, cooperatives are to function in competition with the private enterprise. But unlike the private enterprises, cooperatives are constrained from making super-profits because of their obligation towards the members and society at large. This necessitates the cooperatives...
to use utmost care and economy while dealing with finance. Cooperatives are set-up to serve the members and/or to provide them an economic service at the minimum cost. The cost at which the said service is provided to the members would depend on the soundness with which the financial control measures are applied in the organization.

The system of control over the financial matters of the units under study has been divided into internal and external financial control. The former inter-alia includes budgetary control, cost control, marginal costing, inventory control, internal audit, financial and accounting statements, break-even analysis, etc. The latter one includes examination of the working of the societies by the Public Accounts Committee of the concerned State Legislature, statutory audit and supervision by the Registrar.

**Internal Controls**

Normally an agro-processing cooperative is expected to prepare three budgets i.e. revenue budget, capital expenditure budget and cash budget. Because of their dependence on agriculture the operations of agro-processing industries are subject to constant fluctuations. On account of this reason the technique of flexible budgeting assumes special applicability to the business of agro-processing industries.
Our enquiry into the operative model of budgeting revealed several severe distortions. As mentioned earlier, the system of budgetary control was conspicuous by its absence in all the independent societies in Haryana. In the case of independent societies in Punjab, the system of budgetary control was found operating only in The Janta Cooperative Sugar Mills Ltd. Bhogpur and The Abohar Cooperative Spinning Mills Ltd. Abohar. In the case of the Janta Cooperative Sugar Mills Ltd. Bhogpur, abnormal delay was noticed in the finalisation and approval of the budget estimates defeating the very purpose of the system. The budgetary exercise undertaken by this mill for the year 1933-84 was confined to the expenditure budget only. Revenue budget and cash budget were not prepared. The system of budgetary control in this organisation is used only for the purpose of getting departmental approval for incurring expenditure under certain heads rather than as a device for the purpose of planning and control. In the case of MARKFED units, taking of corrective action which is considered to be the crux of the budgetary control system seems to be lacking. This is evident from the recurring losses against the budgeted profits in all the plants except one. In the HAFED units budgetary exercise is confined to the expenditure budget only. No attempt has been made to introduce performance budgeting in these units.
The system of flexible budgeting should be introduced in these units. Budget estimates should be finalised well before the commencement of the budget year. Actual progress against the budgets should be regularly reviewed and corrective action taken. The system of budgetary control should encompass all major areas of activity.

The study revealed alarming position with regard to the introduction of costing system for the purpose of ascertainment and control of cost. In the case of cooperatives producing Sugar and vanaspati a serious lacuna in law has come to light. Exercising its powers under section 209(1)(d) of the Companies Act 1956 the Central Government has prescribed rules for the maintenance of cost records by the joint stock companies engaged in the manufacture of Sugar and Vanaspati. But no such parallel provision exists in the Cooperative Law. In the case of sugar the share of the cooperative sector has gone up to 54.8% of the total production in the country during 1982-83. Necessary amendment in the Cooperative Law should be made so as to extend coverage of the Cost Record Rules and Cost Audit to include all undertakings producing a given commodity irrespective of the form of enterprise. In the absence of legal
requirement none of the sugar cooperatives in these States has implemented the costing system. Only the consolidated cost of production statements are prepared on the basis of financial records. In the case of MARKFED units, costing and cost control has not been given due attention. Occasionally cost of production statements are prepared in some of the units. The study found complete lack of costing system in the rice-mills of HAFED. Due to this deficiency society had to suffer a heavy loss in executing a contract for custom-milling of paddy with FCI during 1979-80. However, The Abohar Cooperative Spinning Mills Ltd was found an exception to all this. A number of costing statements are prepared and used for the purpose of cost control.

The utility of the internal audit system has not been appreciated in the independent societies. In one of the units the system was not introduced even after recruiting the person for the job. The system was found operating in the agro-processing units of MARKFED and HAFED. In the MARKFED units it was found during the course of study that constructive suggestions were not forthcoming from the internal auditors. It is suggested that necessary amendment should be made in the cooperative legislation at the national level making it obligatory on the part of
the statutory auditor to comment on the efficacy of
the internal audit system operating in the
organization on the lines of the requirements of
the Manufacturing and Other Companies (Auditor's
Report) Order 1974. Such a provision would induce
the cooperative societies to introduce internal
audit system.

No attention has been given to the vital
aspect of inventory management. In some of the
units under study internal check with regard to
the stock items is missing. This has led to the
misappropriation of stock-items. Proper recording
for the receipt and issue of store-items is not
done. In some of the units, shortages and excesses
of store items were continuously noticed during
the annual stock-taking. The magnitude of inventory
of consumption materials and consumable stores and
spares is abnormally high in the independent
societies. Such a huge inventory is adversely
affecting the profitability of these units.

The case of alarming position of inventories
should be taken-up immediately. It is suggested
that list of surplus materials which have remained
unused for a period of three years or more should be
prepared and such materials should be disposed off. This will ease the financial tightness of the mills and also reduce the interest burden.

The position of account keeping in the units (specially in the case of sugar mills) is far from satisfactory. Closing and adjusting entries were not made for quite a long time. In certain cases generally accepted norms of accounting have been ignored while preparing manufacturing, trading and profit and loss account. The poor position of accounting have drawn the attention of the Public Accounts Committees of the state legislatures. In the case of cooperative sugar mills wide variations in accounting practices have been noticed. It is suggested that observance of the accounting manual issued by the National Federation of Cooperative Sugar Factories should be made mandatory like schedule VI in the case of the joint stock companies so as to bring uniformity in the presentation of annual accounts of the cooperative sugar mills on all-India basis. Similar accounting manuals should be issued by the apex national cooperatives for other categories of processing cooperatives as well so that uniformity is observed at the national level.
A scientifically designed comprehensive management information system is essential to meet the information needs of the management for the purpose of planning/control. Management information system in the units was found deficient keeping in view the periodicity and coverage of the statements prepared. Management Information System in the units needs to be redesigned and revamped.

The utility of the management accounting techniques like funds flow statement/cash flow statement, break-even analysis, accounting ratios and other financial statements has not been recognised for the purpose of planning and control.

These statements are prepared as and when required by the Cooperative Law, banks and financial institutions.

There is an urgent need for appointing professionals as the Chief Accounts Officers/Financial Controllers in these undertakings. Top management should also realise that modern management techniques, if implemented properly, do pay in terms of increased efficiency, better coordination and effective control.
External Control

External financial control in the cooperative societies in Punjab and Haryana consists of examination of the working of the societies by the Public Accounts Committees of the state legislature, statutory audit and supervision by the Registrar of the concerned state. External financial controls in the units were found deficient. Review and examination of the working of such enterprises by the Public Accounts Committee, has most of the times, been restricted to the independent societies. Processing plants of the state level apex societies (MARKFED and HAFED) are rarely examined by the Public Accounts Committee. The working of these plants should also be examined regularly by the Public Accounts Committee of the concerned state. This will make such units conscious of their public accountability.

The quality of audit is not so good due to the reason that unqualified persons are called upon to handle the job in certain cases. Audit observations continue to be unattended for years. System should be devised so as to ensure quick compliance of audit observations. This is essential to maintain and enhance the public image of these
NEED FOR ADMINISTRATIVE AND SOCIAL AUDIT

organisations. The scope of statutory audit should be extended so as to cover administrative audit and social audit. This is very essential in view of the objectives of the cooperative movement of uplifting the weak and the poor. To have a better system of external control, quality of audit should be improved by appointing qualified persons for the job or assigning the task of audit (at least of large units like sugar and spinning mills) to the professionals.

SUPERVISION BY THE REGISTRAR INEFFECTIVE, UNDUE INTERFERENCE AFFECTING OPERATIONAL AUTONOMY.

With regard to the matters like introduction of budgetary control, compliance of audit observations, etc., supervision by the Registrar seems to be ineffective. There are instances of interference by the Registrar in the internal working of these units in the name of supervision to the utter disregard of their operational autonomy.

Pricing:

The pricing policy pursued by a processing cooperative with regard to raw-material and the end-product/products affects to a considerable extent its profitability, growth and financial position. Pricing in a processing cooperative is a challenging task involving reconciliation of the interest of the growers, consumers and the need for earning a reasonable level of profit.
During the course of study, it has been observed that the pricing and procurement policies (with regard to raw-materials) of the units under study are not in tune with the principles and philosophy of cooperation. The prices of raw-materials (like sugarcane, raw-cotton, paddy, edible oils, etc.) for the agro-processing units are fixed and controlled by the Union Government. In case of the units like fruits and vegetables processing, oil refineries and solvent plants, raw-material is procured at the market price. State Government's interference in the matter of fixation of sugarcane price has been jeopardising the working of cooperative sugar mills in these states. This has adversely affected the liquidity and profitability of these mills. There should be no interference by the State Governments in the matter of fixation of sugarcane price. Mills should be allowed to frame their own policy in this regard subject to the minimum price fixed by the Union Government. Cooperative sugar mills in these states should adopt the model followed by the cooperative sugar mills in Gujarat and Maharashtra in the matter of fixation of sugarcane price. Proper conditions should be created for this purpose.
Cooperative spinning mills and apex cooperative societies in these states (MARKFED and HAFED) procure raw-material for their processing units from the open market rather than procuring it directly from the grower-members/member societies. Sometimes the apex societies operate even in competition with the member societies. All this is contrary to the spirit of cooperation and under such circumstances these apex societies do not deserve to be called as genuine cooperatives.

The prices of end-products (like sugar, rice, vanaspati) of most of the units are controlled by Government. In the case of sugar no uniform policy on long-term basis is being followed. The Industry has constantly been witnessing the periods of control, partial control and decontrol. Some of the units are operating in the competitive market for selling their products (like yarn, refined oil and canned products, etc.)

In certain cases proper attention has not been given to the vital aspect of quality control. In case of Markfed Modern Rice Mill Rajpura, the rice to be supplied to the FCI under the levy quota was rejected by it because of poor quality during the year 1982-83. Markfed Canneries Jalandhar is facing
the problem of inadequacy of demand for its products. As mentioned in the chapter on 'project planning' basic factors like availability of raw-material and market were not given due attention while setting-up of this unit. Government should follow a long-term uniform policy with regard to sugar. This is necessary to enable the sugar mills to plan on long-term basis. Since most of the units are operating in the competitive market or under the conditions of the administered prices, the only alternative left for these units is effective cost control if they want to improve upon their profitability.

Profitability:

In a mixed economy, processing cooperatives operate in a competitive market and are subject to all the risks like any other business unit. In such circumstances the need for making a reasonable level of profit cannot be over-emphasised. The performance of the units with regard to profitability is not satisfactory. There are some units (Markfed Canneries Jalandhar and Markfed Refined Oil and Allied Industries, Kapurthala and Markfed Cotton Ginning and Pressing Factory, Sardulgarh) which have been incurring losses right from the beginning. There are some others which have suffered losses in most of
In a few years the units under study have earned a reasonable return on capital employed. The interest charges in some of the cases have increased manifold over the years. Such high interest charges are eroding the profitability of these units. Overheads like power and fuel, repairs and maintenance, management cost, etc., have increased both in amount and proportion.

Recovery/yield rate had been quite low in most of the years. It means proper attention is not given to the factors affecting it. Process-losses are very high. Though of late recovery in sugar mills (both in Punjab and Haryana) has increased, yet it is below the states like Maharashtra and Karnataka and all-India average.

Capacity utilisation in most of the units during quite a good number of years had been low. It means adequate efforts to develop sufficient quantity of raw from within the factory area has not been made.

Low capacity utilisation, low recovery, insufficient crop development measures, high interest charges (due to high component of debt and excessive inventory) lack of quality control, excessive breakdowns and high spoilages and wastages are some of the
general reasons responsible for the poor performance of these units. Some of the units are facing problems of poor industrial relations, marketing limitations and obsolete plant and equipment. In the rice mills of HAFED frequency and length of the break-downs is very high. One of the main reasons for it is the absence of full-time technicians in these plants. Under the present system, one technician is appointed for each district and he is called upon to look after all the rice-mills in the district. As mentioned in the previous chapter lack of uniform long-term policy with regard to sugar and interference by the State Governments with regard to fixation of price of cane in these states are also responsible in part for the poor state of affairs of the cooperative sugar mills.

Processing cooperatives are set-up to enable the farmers to combine the benefits of processing along with farming. And if a processing cooperative incurs losses continuously, the very purpose of its setting-up gets defeated. Moreover, losses spoil the public image of these institutions and retard the growth of cooperative movement. The Government of Haryana had a plan to set-up two spinning mills in the cooperative sector during the Sixth Five Year Plan (1980-85). Taking note of the recurring
losses suffered by The Hansi Cooperative Spinning Mills Ltd. Hansi plan to set-up second spinning mill has been dropped. Keeping in mind the recurring losses suffered by HAFED rice mills, the management of HAFED is thinking of leasing these rice mills out to the private parties. Keeping in view all this, it is necessary that a package programme for the revival of such units is evolved at the earliest. Such a programme should give due attention to the factors like raw-material, technical, financial, managerial, marketing and other factors having bearing on the working of these units.

The first point to be considered in the rehabilitation plan is that vigorous efforts should be made by these units to develop raw-material in sufficient quantity in the nearby areas. This would enable these mills to utilise their installed capacities fully and at the same time would relieve them from the huge transportation expenses which presently they are incurring in getting raw-material from far away areas. This calls upon these undertakings to involve themselves increasingly in the agricultural extension activities like provision of seed, pesticides, fertilisers, credit, etc., to the growers. This will create a moral and financial
bond between the cultivator and the factory which may help a lot in ensuring a regular supply of raw-material. Mills should enter into agreements with the growers on long-term basis for the supply of raw-material. Growers should be motivated to supply their produce to the mill by giving some incentives.

Secondly recovery/yield rate should be improved by reducing the process losses. Proper control over the quality of materials should be maintained. Due attention should be given to the sanitation conditions around the factories.

Thirdly interest charges should be lowered by reducing inventories. Financial institutions may think of granting interest holiday for a specified period or till these units turn the corner. Rescheduling of term-loans and converting short-term loans into medium term loans are some other points for consideration in this regard.

Fourthly plant and equipment of these units (particularly of the old mills) should be modernised. This would enable these mills to improve capacity utilisation, affect economy in the overheads like power and fuel, repairs, etc., and improve recovery.
Fifthly, cleanliness and maintenance of carried machinery during the off season should be properly so as to avoid machinery break-downs during the working season. It would enable regular milling which in turn would help in affecting economy in the consumption of fuel, wages, etc.

Sixthly, management should give immediate attention to the problem of huge losses in paddy due to drying and pilferage in the rice mills. Automatic dryers and automatic paddy and rice-weighers should be installed. Full-time technicians should be appointed in all the rice-mills.

Another point which can be helpful in improving the position of these units is with regard to by-products. Ways and means should be found out to ensure better and more profitable use of by-products (like bagasse, paddy husk, waste cotton, etc.)

One more point which needs to be given immediate attention is that no such unit should be set-up without prior planning with regard to raw-material, technical, financial, marketing, organisational and other factors. Nothing can revive a unit which was ill-conceived or ill-planned.
Need for Professionalisation

In addition to the above points, the management of these undertakings should be given in the hands of technically qualified and well-trained persons. Nothing substitutes good management. The Chief Executive should be allowed to stay in the organisation for a sufficient time, say, five years, so as to hold him accountable.

Need to Develop and Encourage Cooperative Leadership

Last but not the least, enlightened and committed leadership has a role to play in mobilising the growers to supply raw-material to the processing cooperative. From this point of view, election to the Board of Directors should be held regularly.

An action plan covering the above-mentioned factors along with those discussed earlier is necessary to put these units on the track and restore in them the confidence of the grower-members and the general public.

Regarding Dividend Pay-out

Management of Earnings:

The dexterity of the financial management lies more in the management of savings than in the procurement of funds. Generally, a part of the net profit is retained prior to the declaration of dividend to meet the future contingencies.
In the case of the processing cooperatives, payment of capital dividend at a certain minimum rate is necessary to maintain the confidence of the grower-members. At the same time processing cooperatives should be cautious in the disposition of earnings because of greater business risk involved due to their dependence on agriculture.

All the units under study were found charging depreciation on the basis of historical cost. Diminishing Balance Methods is being followed for this purpose. Depreciation has been used as internal source of funds.

The position with regard to the creation of reserves and payment of capital dividend in these units is not satisfactory. In most of the cases reserves are mainly created to take tax concessions. In some cases these reserves are fictitious since the magnitude of the loss incurred was much higher than the amount of such reserves in the year in which they were created.

The performance of the independent societies with regard to capital dividend is not satisfactory. Of the ten independent societies under study (of which nine have worked for sufficiently a long-time) only three could declare dividend. For four to six
years. Even this dividend was not declared in time. For example in the case of The Panipat Cooperative Sugar Mills Ltd., Panipat a general body meeting was held on 25th October 1976 to consider the allocation of net profits from 1965-66 to 1974-75 as one of the agenda items. Same is the case with other independent societies under study. General body meeting which is necessary to approve the allocation of profits as per law is not held for years. After the profit for a year has been ascertained the management should decide its disposition at the earliest keeping in view the interest of the enterprise and the members. Early decision in this regard would ensure better utilisation of the profits retained.

The poor performance of these societies with regard to dividend is mainly due to the reason that these mills have incurred losses during most of the years. These societies must set their houses in order and conduct their operations efficiently so as to ensure a reasonable rate of dividend. Failure to pay dividend for quite a long time shakes the confidence of the members in the working of such undertakings and retards the growth of the movement in general.
Summing up of Main Conclusions:

The financial management of the cooperative agro-processing undertakings has been found to be deficient when compared with the envisaged model. In the matter of project planning, financial planning and financial control the units have been found to be wanting. It has hampered the growth of the units on sound lines. Pricing and procurement policies are not in tune with the principles and philosophy of cooperation.

Most of the units are incurring losses. A package programme for their revival should be evolved at the earliest. Such package programme should take into account various factors like raw-material, technical, financial, managerial, industrial relations, etc. Vigorous efforts should be made to develop raw-material in the nearby areas. Necessary measures should be taken to involve farmers into the working of these enterprises. The mills should procure raw-material directly from the members rather than procuring it through the private parties.
There is an immediate need to introduce financial disciplines into the working of these units. The various financial tools like costing statements, standard costing, flexible budgeting, internal audit, cash flow and fund flow statements, etc. should be introduced in the units more rigorously. Earnest and untiring efforts on the part of the management are required to put these units on the track. Revival of these units is necessary to maintain and enhance the public cooperative image of the movement and to realise the envisaged objectives.