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A movement in decline

LYLA BAVADAM

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Maharashtra's sugar cooperatives, which have played a key role in the State's economy and politics for more than 50 years, are on a downward trend thanks to corruption, mismanagement and undemocratic functioning.

LYLA BAVADAM in Mumbai



A cooperative sugar factory in Maharashtra. Mismanagement and manipulation of the cooperative principles have led to the downfall of the industry in the State.—BY SPECIAL ARRANGEMENT

THE sugar-crushing season has just ended in Maharashtra. Under normal circumstances, it would be a time of plenty for cane-growers. Weddings would be celebrated, farms refurbished and religious pilgrimages undertaken. But this year, it has not been so for the majority of farmers. Sugarcane, once a money-spinner, no longer shows the same profits. Scanty rainfall, scarcity of irrigation water and attacks on the crop by an insect called lokri mava are some of the reasons. But the core problem is the mismanagement of the cooperative sugar factories and the manipulation of the principles that govern them.

There was a time when the sugar cooperatives did benefit rural areas. The very first sugar cooperative, which was established by Vithalrao Vikhe Patil, was a reaction to the plight of cane-growing peasants who were trapped by landlessness, moneylenders and the exploitative policies of private sugar mills. In the mid-1940s peasants struggled to market their sugarcane. Extracting sugar from cane was expensive and uneconomical. So the cane was made into jaggery. But as there was a surfeit of raw sugarcane and jaggery prices invariably reached rock bottom. In 1948, Vikhe Patil organised the sugarcane growers of 44 villages in Ahmednagar district in western Maharashtra. The outcome was Asia's first cooperative sugar factory, which was commissioned in 1950.

The essence of the cooperative movement is that it gives the farmers the status of shareholders and assures them agricultural, educational and medical facilities. Under the Maharashtra State Cooperatives Act, a minimum of 11 farmers is required to form a cooperative. Today the shareholder membership averages between 15,000 and 25,000 farmers. The relationship between the shareholder farmer and the cooperative is simple – the farmer is committed to contributing a certain amount of cane per season and the mill is bound to take this cane.

The strength of the movement was the involvement of the farmers who were shareholders in the sugar mill regardless of the size of their holdings. Over the years, this truly democratic idea got corrupted and farmers with larger holdings grew more powerful. In practice, this altered the power structure of the cooperatives. In the elections to the governing bodies of the sugar factories, money became such a powerful tool that the top posts of chairman and vice-chairman usually went to the richest farmers even though the majority of members were farmers with small- or medium-sized holdings.

The determination of rich farmers to maintain their hold over the factories was best illustrated in the 1996 election to the Sangamner factory's governing body. Of the 15,000 members of the cooperative, about 14,000 were small farmers with holdings of about half an acre (0.2 hectare). Yet, like so many other factories, this factory too had always been governed by rich farmers. A small farmer named S. Tanpure decided to contest the elections. That Tanpure lost came as no surprise since the odds were stacked against him but what was revealing was the ensuing ire of the rich farmers. To teach him a lesson, they neglected to take the harvest from his land. If cane is not cut in time the sugar yield from it decreases rapidly and its price drops correspondingly. Tanpure eventually sold his cane at a far lower price than what it should have fetched him.

Punishment meted out to those who try and change the power structure is swift. Water and power supplies are cut off, credit is stopped, or the collection of their harvest is delayed. In a situation reminiscent of the pre-cooperatives era, poor farmers often find themselves trapped in debt to rich farmers. Failure to repay loans on time usually results in one of the crippling punishments mentioned above.

MAHARASHTRA accounts for 30 per cent of the sugar produced in the country, of which 99 per cent comes from the cooperatives. The profits – both financial and political – from sugarcane have been so great that their promoters were quick to cash in on cooperatives. Of the 212 registered sugar factories in the State, 202 are cooperatives. But the industry has been so pampered that it is inevitable that it will be crushed by its own weight. Huge subsidies and lack of accountability have led to poor management with the result that of the 202 cooperatives only 165 are functional. Ten have been delicensed, 10 are due to be liquidated and 17 are being reconstructed.

Prakash Naiknavare, Managing Director of the Maharashtra State Cooperative Sugar Factories Federation Ltd., believes that the cooperative movement has been "a tremendous success" and has achieved its objective of promoting rural development. But opponents of the system, such as Subhash Jadhav, vice-president of the Maharashtra Sugarcane Cutters and Transporters Union, agrees with him to some extent but says that it has been a limited success. "The rot set in about 15 years ago," says



Sugarcane being harvested. The intensive use of water, power and fertilizers by the crop is cushioned by the high levels of agricultural subsidies it receives. -SANDEEP SAXENA

Jadhav. "While the cooperatives have benefited medium and poor farmers to some extent, the original goal of the cooperative movement of making farmers prosperous has clearly not been achieved." Jadhav feels "corruption and political interests result in poor management, excessive processing costs and the proliferation of sick units."

He regrets the non-representation of poor farmers in the governing bodies of factories. He says that there is only one factory that still goes by the original cooperative principles - the Hutatma Kisan Ahir factory in Sangli district. It still has poor farmers on its governing board. The factory collects cane from only 15 villages. This small-is-beautiful principle has ensured a consistently high average sugar recovery rate but, says Jadhav, it is an anomaly in a system that has been corrupted.

The social power that the cooperatives brought to rural Maharashtra was gradually hijacked and turned into a political tool. "There is not a single cooperative that is not under political control. While 5 per cent of the sugar factories are controlled by Bharatiya Janata Party-affiliated unions, 95 per cent are under Congress control. Of the latter, 60 per cent are under the control of the Nationalist Congress Party (NCP)," a senior sugar industry official told Frontline.

'Private benefits at public cost' is how a report of the World Bank summed up the role of Maharashtra's sugar cooperatives. Though the cooperative movement has helped rural Maharashtra, it has also been at a high cost to the exchequer. Sugar cooperatives have a complicated structure, which makes it possible for them to incur losses but not profits. This is because profits are fully distributed among the members of the cooperative, whereas losses are not; losses accrue to the cooperative. It is bad enough when a cooperative makes losses but when it is shown to be making a loss when it has actually made profits, then the members of the cooperative are being cheated of their share of the profits. In addition, the burden on the government rises because the government bears the losses of the sugar cooperatives and also provides subsidies.

Though initially the subsidies provided to the cooperative sector did benefit farmers both rich and poor, they gradually came to benefit only the rich farmers. Right from the beginning, the State has extended full support to the cooperatives. Over the last five years, its direct share capital has been Rs.715 crores in 171 cooperative mills. Further, at the behest of the State government, financial institutions have granted the mills long-term loans to the tune of Rs.2,062 crores. Over and above this, support is extended in other ways such as loans on interest, principal defaults and ad hoc subsidies.

A lack of professionalism pervades the cooperative system. Naiknavare says: "The cooperatives have grown under protection and now they are like an overgrown baby in an incubator." In an attempt to streamline the system, the Sugar Factories Federation recommended in 2002-03 that no new factories be opened for a period of five years. The reason, says Naiknavare, was that the mills' crushing capacity did not match the availability of sugarcane. The phenomenal waste that an idle factory means is clear

when it is realised that a typical factory has a crushing capacity of 1,250 tonnes and its cost of establishment is about Rs.50 crores. The heady cocktail of government subsidies and hefty profits meant that until five years ago it was not uncommon for 10 to 12 new sugar factories to be set up on an annual basis. A cost-benefit analysis was obviously not the basis for setting them up. Promoters rarely bothered to see their long-term viability since they did not have to bear the financial repercussions of failure. Whether the setting up of new factories often meant that the existing ones were underutilised, the absence of penalties or incentives meant that this obvious management failure passed undetected.

The formation of a cooperative is a relatively simple procedure. All that a promoter had to do is to contribute 10 per cent of the total cost and the remainder would be borne directly by the government or through loans that were guaranteed by the government (since the cooperative movement is dominated by politicians, for whom it is literally a means of subsistence, it is not difficult to obtain loans). As per the law, the government's contribution towards the loan should be returned, but in reality this is rarely effected. Instead, the promoter declares a factory to be sick and demands further cash infusions. The majority of factories are sick but only in the sense that they themselves have eroded their share capital and have been incurring financial losses over at least two consecutive years. It is not a sickness that can be blamed on the market since there is a huge demand for sugar both nationally and internationally and with a production rate of 15.5 million tonnes annually, India is the world's largest producer.

With many factories sick or closed, the responsibility of paying back the loans rests on the State government. At the end of March 2004, the outstanding guaranteed loans amounted to Rs.665 crores. With the State itself in a situation of near-bankruptcy, the debt burden of cooperative loans is not just unrealistic but unfair.

FAR from fulfilling its original vision, the cooperative movement has deteriorated to the extent that sugarcane cultivation itself is coming in for strong criticism. Sugarcane is cultivated on less than 4 per cent of the total cultivated area in the State, but it uses more than 70 per cent of all irrigation resources leaving a mere 30 per cent for other crops. Subhash Jadhav says that the preferential treatment given to sugarcane has been at a heavy cost to the development of agriculture in the State. Indeed, the government has conveniently turned a blind eye to the problem; the highest concentration of cane cultivation is in western Maharashtra, a rain-shadow region, and 100 sugar factories exist in 100 drought-prone areas of the State.

About eight lakh hectares in the State is under sugarcane. The average per hectare yield is 80 tonnes, making it one of the most profitable crop in terms of yield. Its intensive use of water, power and fertilizers is cushioned by the high levels of agricultural subsidies it receives. Add to this the fact that it is not a highly labour-intensive crop (except at harvest time), and sugarcane truly becomes a crop from which heavy profits can be reaped. However, the profits have been reaped by only 2 per cent of the landowners in the State. There is a brutal injustice in this. Of the approximately 12 lakh cane-growers in the State, about five lakh (45 per cent) have holdings of less than half an acre each under cane, about six lakh (50 per cent) have holdings of half to two-and-a-half acres each, and about 60,000 growers (5 per cent) own above two-and-a-half

acres, including the sugar barons who own hundreds of acres. Thus, 95 per cent of the cultivators have holdings between half and two-and-a-half acres, but their representation in the cooperative power hierarchy is practically nil.

With low cash inputs, high subsidies, high returns and generous financial support from the State, it is clear why sugar cooperatives are attractive to promoters. But these have also been the reasons for the cooperative movement's downfall. Speaking about the future of the cooperatives, Subhash Jadhav said that the pattern of management of the factories had to change drastically if India were to take advantage of the international opening up of the markets. Curbing nepotism in the allocation of sugar mills, increasing the representation of poor farmers in governance, prohibiting the setting up of new sugar mills, cutting off funds to mismanaged mills and 'sick' units, and closing down mills that have not been operational for over three seasons are some ways to stem the rot and bring the cooperative movement back on track.

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