

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

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

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

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

3.1 Creation of Funds for infrastructure development of CSFs

Government resolved (December 1990) to create two separate Funds for infrastructure development and for sugar research. It contributed (2001-06) Rs 25.92 crore and Rs 27.99 crore¹⁵ respectively as road grants to the sugar

Funds for infrastructure development of CSFs were not created

¹⁵ Source: Appropriation Accounts

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

3.2 Road development grants

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

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

In none of the test-checked working CSFs, the road development grants given to the CSFs had been utilised fully within the same financial year. Unspent balances were also not being refunded immediately. Four¹⁶ CSFs did not submit UCs for Rs 86.11 lakh disbursed during 1994-2006. Utilisation of the grants for unauthorised purposes by the CSFs, therefore, could not be ruled out. Vasantdada CSF, Sangli and Daulat CSF, Kolhapur did not refund the unspent balances of Rs 14 lakh and Rs 19 lakh respectively even after a lapse of 10 years on the plea that their proposals for sanction of works submitted to the Commissioner had still not been approved. Niphad CSF did not utilise Rs 18 lakh out of Rs 97 lakh received during 2005-06, even after being granted an extension up to 2006-07. The Kannad CSF, Aurangabad diverted a road development grant of Rs 2.75 lakh sanctioned during March 2001, for repayment of outstanding Government guarantee fees.

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

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

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

3.3 Grants for research work

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

During the period 2001-06, grants of Rs 25.22 crore for research work were released to VSI. These grants were extended without specifying the nature of research to be undertaken. In addition, VSI had income amounting to Rs 46.85 crore from other sources such as membership fees from the CSFs, consultancy fees and interest on fixed deposits¹⁷ as of March 2006. It also received SDF grants and Indian Council for Agricultural Research (ICAR) grants of Rs 1.16 crore during 2001-06.

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

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

3.4 Loans and subsidies to SC/ST and marginal farmers¹⁸

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

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

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

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

¹⁷ Fixed Deposit was for Rs 70.68 crore

¹⁸ Holding land up to 1 hectare

3.5 Government loans to CSFs

3.5.1 Loans from Sugar Development Fund

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

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

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

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

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

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

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

3.5.2 NABARD Package for restructuring of loans

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

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

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

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

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

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

3.6 Conversion of purchase tax into interest-free loans

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

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

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

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

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

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

Loans amounting to Rs 61.45 crore from 37 CSFs pertaining to the period 1991-92 to 2003-04 were overdue for recovery as of March 2006. However, penal interest was not levied on the outstanding loans. The Government stated (October 2007) that the CSFs did not make regular repayment of loans due to their weak financial position. Some portion of the amount would be recovered with the tagging of Rs 25 per quintal of sale of sugar during the 2007-08

crushing season. The fact, however, remains that the Government did not levy any penal interest in order to recover the same. As already stated, the tagging of Rs 25 from sugar sales would result in recovery of only 7.24 per cent of the Government dues.

3.7 Guarantees for raising loans

The Government had given guarantees for raising loans for erecting sugar factories, subject to levy and recovery of guarantee fees. In the case of inability of the CSFs to repay the loans, the banks would invoke the guarantee and the Government has to pay the same. As of March 2006, the Government had provided guarantees to 172 CSFs¹⁹ for loans amounting to Rs 3557.09 crore, inclusive of interest. Of this, a total of Rs 147.45 crore had been invoked by the banks in respect of 26 CSFs. Only three²⁰ of these 26 CSFs had, however, repaid the loans to the Government.

As of March 2006, the total guarantee fees including penal interest²¹ outstanding in respect of the CSFs, was Rs 563.02 crore²².

3.8 Utilisation of loans from financial institutions

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

3.8.1 Loans for harvesting and transportation

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

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

¹⁹ including defunct CSFs

²⁰ Datta Asurle, Kolhapur; Jai Bhavani, Beed and Nashik, (Palse), Nashik.

²¹ penal interest @ 2 per cent above the normal rate of interest

²² Provisional

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

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

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

3.8.2 Loans for pre-seasonal expenses

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

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

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

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

- Though the Shriram CSF, Satara had raised (2001-02) a pre-seasonal loan of Rs 2.22 crore for crushing sugar cane, it had not undertaken crushing during the year due to financial problems and the loan was utilised for modernisation of old machinery. Besides irregular diversion of the pre-seasonal loan, the CSF incurred extra expenditure of Rs 29 lakh on payment of interest on the loan up to 2006-07. No action was taken by the Commissioner against the CSF for misutilising the loan.
- In October 2002, the Government provided guarantees to 12 CSFs for pre-seasonal loans totalling Rs 16.54 crore, though loans and interest amounting to Rs 21 crore were outstanding against them. The Principal Secretary stated (January 2008) that guarantee would be provided for new loans to the CSFs only if the previous loans were cleared by them and that a committee had been appointed to monitor the loans from the current year.
- Despite raising pre-seasonal loans of Rs 43.52 crore, 20 CSFs had crushed less than 50 *per cent* of their crushing capacities, leading to high overhead expenditure. As a result, the CSFs could not refund loans amounting to Rs 23.36 crore.
- Inquiries had been instituted against five²³ CSFs for misutilising their loans during December 2005 and March 2006. These were not concluded as of January 2008. Government, however, stayed the inquiries of three²⁴ CSFs. In the case of the Gangapur CSF, Aurangabad, the inquiry was in progress while the Shetkari CSF, Latur had been taken under liquidation. The Government stated (January 2008) that the decision to provide guarantees to CSFs against the Commissioner's recommendations, had been taken by the Ministers' Committee because of the weak financial position and negative net worth of the CSFs and with a view to crushing as much cane as possible. The reply was not tenable because the CSFs which had been given guarantees had not crushed adequate amounts of cane in their areas.

3.8.3 Loans for purchase of fertilisers and cane seed

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

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

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

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

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

3.8.4 Loans raised by Government for payment of cane price

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

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

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

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

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

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

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

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

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

3.9 Conclusion

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

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

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

3.10 Recommendations

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