India has been a mixed economy: sale and purchase of raw-materials has been free except for scarce items. The shortage of raw-materials was particularly experienced towards the beginning of the First Five Year Plan. Rapid growth of metal-working and machine manufacturing industries, fabricated metal products and non-ferrous metal based industries in particular, led to an increased demand for various categories of scarce and imported industrial metals. However, the supply failed to keep pace with it due to insufficient indigenous supply and foreign exchange difficulties in the way of the import. The problem was most serious in the case of iron and steel. The Essential Commodities Act, 1955, which aimed at the control of production, supply and distribution of certain commodities, covered iron and steel and their manufactured
products, and paraffin wax. According to Section 3 of the Act, the State Government was to fix the price of the wax, which was to be sold only under allotment orders. The Iron and Steel (control) Order was passed in May 1956 to regulate the acquisition, disposal, price and creation of new capacity for iron and steel and its scrap. A step for helping small-scale industries was the setting up of raw-material depots by the National Small Industries Corporation Ltd. for supplying standardised and controlled iron and steel at places having a concentration of these. One such depot was set-up at Ludhiana also. The other important scarce raw material was cement: the Cement Control Order was passed in 1961 to regulate its sale and price. The Wool Control Order was passed in 1962; it was lifted in 1965.

The continuing shortage of raw-materials was highlighted by various committees, working groups and manufacturers' forums. The Working Group on small scale industries stressed in 1959 that the non-availability of the right type of raw-materials at reasonable prices had always been a problem faced by small entrepreneurs and that the shortage of iron and steel had adversely affected many a small-scale engineering unit. Therefore, there had always been a pressing demand by small manufacturers for Government
assistance. The International Perspective Planning Team found the scarcity of raw-materials as the major problem facing small-scale industries. The Working Group of the Team reported that nearly 60 per cent of the firms had provided evidence that critical shortages of materials and components which could only be purchased at higher black market prices made fuller utilization of capacity unprofitable. The Loknathan Committee on Scarcity of Raw-Materials of the Small-Scale Industries Board and the Planning Sub-Group of the Government of India also reported that the small-scale sector was starved of essential raw-materials which led to underutilization of their capacities. The shortage of raw-materials was discussed at several meetings of the Small-Scale Industries Board. At the twenty ninth meeting of the Board (1971) which was attended by Union and State ministers, high officials dealing with industries and some


industrialists, this issue received much attention. The President Industrial Estate, Ludhiana pointed out that non-availability of standard indigenous and imported raw-materials affected the quality of the products adversely. Shortage of raw-materials was again discussed in 1974 at the thirty second meeting.

Another issue was discrimination in allotment. The Sub-Committee on Raw-Materials and the Standing Committee on Raw-Materials of the Small-Scale Industries Board reported that the small-scale sector was not getting its due share as against the organised sector. The International Perspective Planning Team reported that large firms, on an average, received 85 per cent of their one shift requirement compared to 33-40 per cent of the small-scale sector. The question was discussed at the twenty-first meeting of the Small-Scale Industries Board in 1965. This led to the appointment of the Loknathan Committee on Scarce Raw-Materials which reported that the system of allocation to the small-scale sector without reference to its actual performance and requirements had operated to its disadvantage. The issue was discussed

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One of the problems involved was haphazard assessment of capacities, as pointed out by the International Perspective Planning Team. The Team pointed out that there were no criteria for assessing capacity and that in many cases the assessments had been made five years earlier. States tended to inflate their demand and assessment figures to pressure the Centre, but used a different set of figures to allocate within the State to firms. The Loknathan Committee (1965) recommended a uniform system of assessment of capacities for both the large and small sectors and suggested that the allocation should be based on the priorities of the end-products irrespective of the sector. On its recommendation the Development Commissioner was now to devise a uniform procedure for assessment of capacities and supervise the State Departments. The latter directed that capacity should be assessed every two years on the basis of the working capacity of the machines working for six hours a day for 300 days in a year.

Problems relating to procedures of importing raw-materials were discussed by several committees. The Study Team on Import and Export Trade Control recommended in 1966 that the procedures should be simplified. In 1967, the Standing Committee on Raw-Materials was reconstituted to study the
problems of canalization of imported raw-materials. At the thirty second meeting of the Board in 1974 the need to simplify procedures and reduce prices charged by the canalizing agencies was pointed out.

Several committees were set up by the Central Small Industries Development Organisation over the years to analyse the raw-materials position and suggest measures for its improvement. The issues were also discussed time and again at the meetings of the Small-Scale Industries Board. The Board, at its tenth meeting in January 1958, recommended that State Governments should set-up depots for distribution of raw-materials. The Working Group on small scale industries for the Third Five Year Plan also made the same recommendation. At its fourteenth meeting in October 1959, the Board decided to appoint officers in State Departments of Industries to bring about liaison with the Iron and Steel Controller and an officer of the Central Small Industries Development Organisation for liaison with the Iron and Steel Controller, for expediting planning, production and distribution of raw-materials. In Punjab, the Punjab State Small Industries Corporation Ltd. was set up in 1962 "for the procurement and supply of essential raw-materials to the small-scale manufacturers". The Balachandran Committee in its report in 1972, recommended that the State-owned Corporations should function as raw-material banks.  

\[\text{Thirty Fourth Meeting of Small Scale Industries Board, 14th and 15th February, 1979: Agenda and Notes (Development Commissioner, Small-Scale Industries, Ministry of Industry, 1979, Mimeographed), p. 36.}\]
Allocation of controlled raw-materials was made by the Government of India to States. In the Ministry of Iron and Steel, the Iron and Steel Controller dealt with it. There was a Joint Plant Committee to streamline the distribution of steel. It was set up by the Government of India on 29 February 1964; its functions were extended through another notification of 7 April 1971 in regard to the distribution and pricing of steel and the maintenance of a data bank. The quarterly despatch schedule was to be prepared by the Joint Plant Committee and approved by the Iron and Steel Controller; it was then to be communicated to the producers sixty days before the commencement of the quarter to enable them to release the product in due time. Thus the Joint Plant Committee was to bring about coordination between supply and demand.  

Coal was not a controlled raw-material but after nationalisation of the coal industry its distribution was rationalised and streamlined by the Coal India Limited. The Country was divided into five zones and the requirement of Punjab was met by the Bharat Coking Coal Ltd. Dhanbad. The transportation of coal was regulated by the Director of

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Movement of the Indian Railways, whose office was in Calcutta. The wagons for transportation of coal were allotted by him.

Allocation of other raw-materials to States was made by agencies of the Government of India as follows:
- cement - Department of Civil Supplies;
- paraffin wax - Department of Petroleum in the Ministry of Petroleum, Chemicals and Fertilisers;
- furnace oil - Department of Chemicals in the Ministry of Petroleum, Chemicals and Fertilisers;
- and imported raw-materials - Controller of Imports and Exports. Some trading agencies like the Minerals and Metals Trading Corporation and the State Trading Corporation also canalized the imported raw-materials.

The Small Industries Development Organisation was to represent the small-scale sector in dealing with the allocating authorities and canalizing agencies. The Organization also represented the small-scale sector on committees constituted by the different ministries. Its function was that of collecting rough estimates of demand (or assessment) for indigenous and imported raw-materials from the States. It did not establish criteria for giving priority to different firms using scarce materials. Neither did it keep a check on the manner in which quotas were utilized or despatched.

At the State level, the Director of Industries was the authority to implement the programme. He was to allocate
raw-materials (except iron and steel) out of the State quota on the basis of the capacities of individual units and inspect utilization. A Committee was formed in the Department of Industries to decide policy issues.

At the District level the Functional Manager, Raw-Materials, was to assist small entrepreneurs in procuring both indigenous and imported raw-materials. However, he was able to do little more than to assess the production capacity of the units. The applications were recommended to the Director of Industries or the Punjab State Small Industries Corporation Ltd. for different materials.

Procurement and distribution of iron and steel was the major activity of the Punjab State Small Industries Corporation. Apart from iron and steel, certain other raw-materials such as non-ferrous metals, mutton tallow, chemicals, plastics, timber, cotton and staple yarn, were also to be procured and distributed to small-scale units by it. In practice, only iron and steel items were procured and distributed by the Corporation through a net-work of twelve depots at Ludhiana, Amritsar, Batala, Jullundur, Goraya, Mandi Gobindgarh, Hoshiarpur, Moga, Patiala, Malerkotla, Malout and Chandigarh.

The Corporation also had three consignment agencies of the Steel Authority of India Limited and Iron and Steel Company Limited.
Some of the raw-materials used by our sample units were as follows: wool, acrylic yarn, nylon yarn, cotton yarn, different categories of iron and steel and pig iron, caustic soda, soda ash, coal, cement, furnace oil, dyes, chemicals and paraffin wax. Of these, iron and steel and pig iron, coal, cement, furnace oil and paraffin wax were found to be in scarce supply at the time of our survey. Merino wool was not being produced within the country and would have to be imported. We studied the procurement and distribution of raw-materials, whose distribution was being controlled by the Government either fully or partially. These were iron and steel, cement, coal, furnace oil, paraffin wax, chemicals and imported wool.

For applying for the allotment of any one of the raw-materials, an industrial unit was to get the capacity assessed by the District Industries Centre. Capacity assessment was introduced to ensure adequate supplies to genuine manufacturers but it led to delay and corruption.

**PROCUREMENT AND DISTRIBUTION**

**IRON AND STEEL**

Statutory control over the prices and distribution of all categories of steel was withdrawn with effect from 1 May 1967. However, in view of the problems faced by small units in procuring adequate supplies of scarce categories even after
decontrol, it was decided that supplies of these categories to small units should be made through State Small Industries Corporations which would place consolidated indents with the Joint Plant Committee. These were to be considered in the priority sector of status group 'A'. Supply to the corporations was generally from the stockyards. While allocations were made categorywise by the Iron and Steel Controller, adjustment both in respect of category and size within the overall allocation was made subject to the convenience of the producers and the Corporations. Because of these adjustments, entrepreneurs sometimes did not get the materials according to their specific requirements.

Small-scale units were allotted raw-materials through the Corporations, however there were a few categories of small industrialists eligible to place direct indents with the stockyards for procuring raw-materials required by them, as follows:

(i) Small-scale units with an off-take of steel material of 200 tonnes and over in any quarter during the last three years.

7All the consumers were divided into four status group 'A', 'B', 'C' and 'D' according to the descending order of priority attached to them by the Joint Plant Committee.
Procedure was to apply for registration for raw-materials to the Panjab State Small Industries Corporation Ltd., Chandigarh giving detailed particulars of his unit. On payment of a fee of Rs.25, the unit was given a code number for purposes of distribution and was attached with a depot. The distribution was made in the order of registration. The unit was to book its requirement in advance on a quarterly basis on the prescribed form. Associations of small-scale industrial units could also book requirements for specified units. The Corporation placed indents with the Joint Plant Committee for the materials on the basis of the demand so registered. The stockyards supplied materials to the Corporation which then made depot-wise and unit-wise allocations.

On receipt of the material and its list, the depot managers/ground supervisors issued delivery orders to small-
scale industrial units. The allottees were to lift the material within ten days of the offer, failing which the allocation was liable to be cancelled and material offered to other eligible units. The amount of security deposited by the defaulter was also likely to be forefeited. However, the period of delivery was extended for valid reasons subject to the payment of interest. Material was also allowed to be lifted in instalments on interest at the rate of 18 per cent.

Security While booking the requirements, a unit was to deposit 2.5 per cent of their estimated value as security, for which it received no interest. As an alternative, a permanent deposit was also accepted as follows: Rs.5,000 for materials worth Rs.2-4 lakh and Rs.10,000 for more than Rs.4 lakh. The deposit blocked part of the small financial resources of the entrepreneur; what was worse was that it did not guarantee allocation to him.

Prices Prices were fixed by the Punjab State Small Industries Corporation Ltd. in accordance with the price structure announced by the Joint Plant Committee from time to time. During the period of study, the material supplied to the State Small Industries Corporations was allowed a rebate of Rs.150 per tonne in case of stockyard supplies. On this price, the Corporation charged Rs.110 per metric ton as the servicing and handling charges. Thus, small industrialists in effect received a rebate of Rs.40 per tonne.
## TABLE 6.1
Iron and Steel: Booked and Supplied

(Quantity in tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Punjab</th>
<th></th>
<th>Ludhiana District</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity booked</td>
<td>Quantity supplied</td>
<td>%age of quantity supplied against booking</td>
<td>Quantity booked</td>
</tr>
<tr>
<td>1978-79</td>
<td>4,73,953</td>
<td>39,000</td>
<td>8%</td>
<td>1,45,415</td>
</tr>
<tr>
<td>1979-80</td>
<td>7,81,105</td>
<td>49,066</td>
<td>6%</td>
<td>3,20,000</td>
</tr>
</tbody>
</table>

Source: Records of the Punjab State Small Industries Corporation Limited.
Actual Distribution

By the year 1978-79, 5730 units in Punjab and 1780 in Ludhiana District were registered; thus 31.1 per cent of the units belonged to Ludhiana District for allotment of materials. Table 6.1 shows the amount of iron and steel booked and supplied in the State and in Ludhiana District. In 1978-79, small-scale units received only eight per cent of their requirements in the District, and also in the State as a whole. In 1979-80, the allocation for Ludhiana District was 4.5 per cent of the demand, while in Punjab it was six per cent.

Table 6.2 shows the number of sample units which were users of iron and steel and applied for quota of pig iron or iron and steel to the Punjab State Small Industries Corporation Ltd.

TABLE 6.2

<table>
<thead>
<tr>
<th>Investment Group</th>
<th>Applicant units</th>
<th>Non-applicant units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-investment group</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>Medium-investment group</td>
<td>20</td>
<td>8</td>
</tr>
<tr>
<td>High-investment group</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
<td>27</td>
</tr>
</tbody>
</table>
In our sample 37 of the 64 iron-users applied for the quota of iron and steel, and pig iron. Of these eight belonged to the low-investment group, 20 to the medium-investment, and nine to the high-investment group. The number of non-applicants was the highest (16) in the low-investment group and the smallest (3) in the high-investment group. The reasons given by those who did not apply have been discussed below.

The entrepreneurs stated that during the Emergency (1975-77) there was no scarcity of raw-materials. These were freely available in the market, sometimes even cheaper than the controlled price. The officials complained that entrepreneurs sometimes did not lift the materials they had booked with the Corporation. However, after the Emergency, these again became scarce. Table 6.3 shows the supply of iron and steel to our sample units during 1977-80. It may be seen that of a total of 37 units, 13 did not get any controlled iron and steel. Of these, four were low-investment units, eight medium-investment units and one high-investment unit. Thus, in the low-investment group half of the applicants, in the medium-investment group eight of the twenty and in the high-investment group only one of the eight units did not get any controlled iron and steel. If we now consider the units which did receive the supply, we find that in the category above 25 per cent there were only 3 units belonging to the
### TABLE 6.3
Supply of Controlled Iron and Steel

<table>
<thead>
<tr>
<th>Investment Group</th>
<th>Number of units and supplies received by them (as percentage of requirement)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nil</td>
</tr>
<tr>
<td>Low-investment group</td>
<td>4</td>
</tr>
<tr>
<td>Medium-investment group</td>
<td>8</td>
</tr>
<tr>
<td>High-investment group</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
</tr>
</tbody>
</table>

The high-investment group. In the 10-25 per cent category, there was only one unit each of the high and medium groups. In short, the trend was one of direct relationship between supply and size of unit.

Further, the supply was not timely. Material was not received every quarter regularly. Nine entrepreneurs stated to have received it after one year.

### CEMENT

The Central Government recognised that for purposes of securing equitable distribution of cement at fair prices, its trade and commerce should be regulated. Under the Cement Control
Order 1961 the entire quantity of cement was to be sold by the Government. The Civil Supplies Department of the Government of India made State-wise allocation of cement to the State Food and Civil Supplies Departments, which in turn made allocation to Departments of the State Government. Allocation to the small-scale sector was made by the Industrial Supply Section of the Industries Department out of the material allocated to the Department of Industries. There were two types of consumers—bulk consumers and "petty" consumers. Bulk consumers were allotted cement by the State Director of Industries and petty consumers by the General Manager, District Industries Centre.

**Bulk Consumers** Those who needed cement either for constructing factory building or for manufacturing items such as electric poles, spun pipes, lattices and flower pots were called bulk consumers. They were to apply to the Director of Industries through the District Industries Centre. The estimate was to be certified by a designer in case of construction work. Allocation was made on a quarterly basis and it was not to be less than a wagon load. On the basis of a comparison of the supply and the demand in the State, a pro-rata cut was applied to the requirements of the various units. The particulars of the units were sent to the Regional Cement Controller who indicated the factory from where they were to take delivery.
Petty Consumers

Those who needed cement for repairs of factory buildings were called petty consumers. Ten per cent of the cement allocated to the District was to be used for this purpose. The registered stockist informed the General Manager, District Industries Centre, about its availability on the basis of weekly arrivals. The General Manager issued permits on the recommendation of field inspectors. Bags of cement were supplied by the stockist.

Actual Distribution

Table 6.4 shows the requirement of cement and its arrivals in Ludhiana District.

TABLE 6.4
Cement: Requirement and Arrival
(Quantity in bags)

<table>
<thead>
<tr>
<th>Year</th>
<th>Requirements</th>
<th>Actual arrival</th>
<th>%age of quantity arrived against requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>4,02,255</td>
<td>86,451</td>
<td>21.5</td>
</tr>
<tr>
<td>1980</td>
<td>4,17,075</td>
<td>53,415</td>
<td>12.8</td>
</tr>
</tbody>
</table>

Source: Information maintained by the DIC, Ludhiana. Figures for earlier years were not maintained.

It may be noted from table 6.4 that in 1979, the arrival of cement was 21.5 per cent of the requirement and in 1980 it fell to 12.8 per cent; thus the situation in 1980 was worse.
In our sample, no unit used cement as a raw-material for manufacturing. Eighty two of the sample units were petty consumers. Table 6.5 shows the receipt of cement by our sample units during 1977-1980. We note that among the

**TABLE 6.5**

Supply of Cement

<table>
<thead>
<tr>
<th>Investment group</th>
<th>No. of units and supplies received by them (as percentage of requirement)</th>
<th>0% Below</th>
<th>5-10%</th>
<th>10-25%</th>
<th>25% Above</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-investment group</td>
<td></td>
<td>-</td>
<td>-</td>
<td>34</td>
<td>9</td>
<td>43</td>
</tr>
<tr>
<td>Medium-investment group</td>
<td></td>
<td>-</td>
<td>-</td>
<td>19</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>High-investment group</td>
<td></td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>-</td>
<td>-</td>
<td>55</td>
<td>24</td>
<td>3</td>
</tr>
</tbody>
</table>

units which received large (10-25%) supplies, there were four out of eight in the high-investment group, 11 out of 33 in the medium-investment group and nine out of 43 in the low-investment group. Thus success in obtaining supply varied directly with the size of the unit. This indicates that the bigger the entrepreneur the greater was his influence. The role of "influence" was corroborated by the three entrepreneurs
in the medium-investment group who received more than 25 per cent.

**COAL**

The units which required coal were to get their capacity assessed by the General Manager, District Industries Centre, and apply to the Director of Industries. On the basis of allocation to the State, the Director of Industries recommended the application to the Director of Movement of the Railways. The Director of Movement recommended the applications to the collieries with a copy to the unit. On allotment of wagon, the entrepreneur arranged for transportation of coal. In the alternative, the industrialist might arrange transportation by road which, however, was too costly. Thus, the freight for transportation from Dhanbad to Ludhiana by rail was Rs.150 per tonne, whereas by road it was Rs.600.

**Actual Distribution**

Allotment of steam coal and hard coal for Punjab was that of 36,000 wagons and 6,600 wagons per annum respectively. Table 6.6 shows the requirement and actual receipt of coal in Punjab and in Ludhiana District. During 1978, 1979 and 1980 the arrival of steam coal against the requirement in Punjab was 14.3, 18.7 and 8.7 per cent respectively. In Ludhiana
<table>
<thead>
<tr>
<th>Year</th>
<th>Steam Coke</th>
<th></th>
<th></th>
<th>Hard Coke</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Punjab</td>
<td>Ludhiana District</td>
<td>Punjab</td>
<td>Ludhiana District</td>
<td>Punjab</td>
<td>Ludhiana District</td>
<td>Punjab</td>
</tr>
<tr>
<td></td>
<td>No. of applicant units</td>
<td>Quantity required</td>
<td>Quantity received</td>
<td>% of receipt against units</td>
<td>No. of applicant units</td>
<td>Quantity required</td>
<td>Quantity received</td>
</tr>
<tr>
<td>1973</td>
<td>2,950</td>
<td>42,694</td>
<td>6,102</td>
<td>14.7%</td>
<td>440</td>
<td>9,250</td>
<td>539</td>
</tr>
<tr>
<td>1979</td>
<td>3,294</td>
<td>61,408</td>
<td>9,594</td>
<td>15.7%</td>
<td>494</td>
<td>11,329</td>
<td>702</td>
</tr>
<tr>
<td>1980</td>
<td>3,285</td>
<td>61,217</td>
<td>5,500</td>
<td>8.7%</td>
<td>564</td>
<td>12,450</td>
<td>650</td>
</tr>
</tbody>
</table>

**Source**: Information regarding State from the Department of Industries, Punjab, and regarding District from the District Industries Centre, Ludhiana.
District, the arrivals were much less than those in the State; percentages for the three years were 5.8, 6.2 and 5.2. The arrivals of hard coal were better. In Punjab, the arrival of hard coal against requirement was 31.9 per cent, 25.9 per cent and 8.9 per cent in 1978, 1979 and 1980. In Ludhiana District, these percentages were 12.4, 16.1 and 12.5. Except in 1980, the arrivals in Ludhiana District were less than those in Punjab.

The problem was that of shortage of railway wagons. The table indicates that there was a big gap between the number of wagons required and received both for steam coal and hard coal.

In our sample, there were 48 units needing coal. Of these 13 applied for quotas. Table 6.7 shows the receipt of coal materials in case of sample units.

**TABLE 6.7**

*Supply of Coal*

<table>
<thead>
<tr>
<th>Investment Group</th>
<th>Number of units and supplies received by them (as percentage of requirement)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0% Below 5-10%</td>
</tr>
<tr>
<td>---------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Low-investment group</td>
<td>2</td>
</tr>
<tr>
<td>Medium-investment group</td>
<td>3</td>
</tr>
<tr>
<td>High-investment group</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
</tr>
</tbody>
</table>
We note that none of the units in the low-investment group received any coal. In the medium-investment group, three units did not get any material, four obtained less than 5 per cent of their requirements and one 5-10 per cent. However, in the high-investment group, all the three units which applied received some proportion of the requirement.

**PARAFFIN WAX**

The State Governments had been authorised under the Essential Commodities Act to fix the price of wax. It was to be sold only under an allotment order and after obtaining a licence; persons in possession of wax had to make declarations.

Paraffin wax was used by manufacturers of candles, biscuit and bread wrappers, cloth printing tables, boot polish and rubber compounds. Units which required it were to apply to the Director of Industries through the General Manager, District Industries Centre, who was also to assess their capacity.

In the Department of Industries, there was a Committee to decide policy issues regarding allotment of wax. It was decided that different industries should be given weightage as follows: rubber goods - 50 per cent; wrapper manufacturers - 40 per cent; boot polish - 25 per cent and
candles - 10 per cent. Permits were to be issued to manufacturers who were to purchase the material from stockists.

The requirement of paraffin wax in Punjab increased from 7,013 tonnes in 1975 to 20,000 tonnes in 1978 but the allotment was reduced from 1500 tonnes in 1975 to 1380 tonnes in 1978. In Ludhiana District the requirement for the year 1980 was 3,845 tonnes but the allotment was only 190 tonnes, that is less than 5 per cent. In our sample, there were two candle manufacturers who needed paraffin wax but none of them had received any material for five years; consequently, one unit had been closed down and the other had purchased some material in the black-market.

FURNACE OIL

The units which required furnace oil were to apply to the Director of Industries through the General Manager. The applications were referred to the Punjab High Powered Committee for Furnace Oil. The Industrial Advisor, Department of Industries Punjab, the Director Small Industries Service Institute, Ludhiana and the General Manager, Indian Oil Corporation were members of the Committee. The Committee forwarded applications to the office of the Indian Oil Corporation at Chandigarh. The Corporation issued ration cards for the supply of furnace oil. The oil was to be released every month on the basis of these ration cards.
In our sample, 37 units had ration cards for furnace oil. Table 6.8 shows the requirement and release of furnace oil in case of sample units. It may be noted that all the units which had ration cards got some proportion of the requirement of furnace oil. Of the total of 37 units, seven obtained less than 5 per cent, eight 5-10 per cent, seventeen 10-25 per cent and five above 25 per cent.

**TABLE 6.8**

<table>
<thead>
<tr>
<th>Investment Group</th>
<th>No. of Units and Supplies Received by Them (as Percentage of Requirement)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0 Below 5%</td>
</tr>
<tr>
<td>Low-investment group</td>
<td>- 2 2 6 1 11</td>
</tr>
<tr>
<td>Medium-investment group</td>
<td>- 3 4 8 2 17</td>
</tr>
<tr>
<td>High-investment group</td>
<td>- 2 2 3 2 9</td>
</tr>
<tr>
<td>Total</td>
<td>- 7 8 17 5 37</td>
</tr>
</tbody>
</table>
For quotas of chemicals like soda ash, caustic soda and dyes, the units applied to the Director of Industries through the General Manager, District Industries Centre. The Director was to make recommendations to the producers of these chemicals from where the entrepreneurs purchased the chemicals. In our sample there were seven users of chemicals - three soap, two electroplating, one cleansing powder, and one dyeing unit. Of these, six applied but none of them received the chemicals.

In the foregoing analysis, we have noted that there was a big gap between the requirement and availability of raw-materials. The main problems related to their distribution are being discussed below.

Existence of Bogus Units

One of the problems was that of bogus units, that is units which obtained the scarce and controlled materials but did not use these for manufacturing; the materials were sold in the black-market. A 'crash campaign' to identify and eliminate bogus units was undertaken by the Department of Industries in Punjab in December 1980. According to the Director of Industries, 572 units were deregistered by the end of 1980 and 1800 were served with one month's notice to
show cause why their registration should not be cancelled. It was found that some of the bogus units had been in existence since the sixties and had been drawing the full quota of precious pig iron, iron and steel, and coal. By 10 June 1981 supplies of various raw-materials to 1452 units had been withheld in the State, and the number of such units in Ludhiana District was 287. In Ludhiana District, quotas of 236 units for pig iron and iron and steel had been cancelled; of 48 units for coal; of 5 units for paraffin wax; of 3 units for imported raw-materials and of one unit for furnace oil.

In our sample, there were two entrepreneurs who had been allotted coal which they did not use but sold in the black-market. Instead of coal, rice husk was used for the manufacturing process. Our observation had indicated this; it was confirmed by the entrepreneurs during the interviews. Some other entrepreneurs maintained that they had to sell the allotted materials of iron and steel because these were not according to specifications. In such cases they did not lift the material but sold the Delivery Order to others.

Bogus units existed in other States also. In Karnataka, this subject came up in the State Legislature which led to a detailed enquiry by the State Government. It was reported that more than half of the 21,000 tonnes of iron and steel sold as raw-material to small units by the Karnataka Small Industries Corporation during 1979-80, had been diverted
to the black market. With a premium of about Rs.2,000 per tonne, the black marketeers had netted over Rs.20 million in these deals. The President of the Jammu Small Industries Association highlighted the magnitude of corruption obtaining there and stated that over 50 per cent of the units were bogus and over Rs.40 million worth of raw-materials were diverted to the black market.  

Apparently, this was happening with the connivance of State Government officials. No unit was entitled to any Government facility unless it was duly registered with the Directorate of Industries and registration was to be done after verification of the activities of the unit - its record, line of production and installed capacity. Obviously, black marketing in raw-materials could not succeed without the connivance of regulating agencies. These bogus units starved the genuine units of the scarce raw-materials.

Extension Units of Large-Scale Units

Some small entrepreneurs complained that there were large-scale units which manoeuvred to obtain raw-materials meant for small-scale units. In our sample, there was a bicycle

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unit which was in fact an extension of a leading large-scale bicycle manufacturer. Such legally separate small-units, each within the official definition, were able to obtain facilities and concessions meant for small-scale units. This problem had been pointed out in the twentieth meeting of the Small-Scale Industries Board also that large entrepreneurs opened units in the names of their wives, sons or other relatives to corner the facilities meant for small entrepreneurs.

**Security**

The respondents complained that the requirement of depositing 2.5 per cent of the value of booked pig iron and iron and steel materials with the Punjab State Small Industries Corporation Ltd. meant blocking part of their capital. In our sample there were 64 users of iron and steel. Of these 37 gave the security; however 13 did not receive the material. Fifteen entrepreneurs said that they had not applied due to the conditions attached to the security. Still, there was no guarantee with regard to the quantity, quality or time of supply.

**Delay**

Seventy one of the eighty entrepreneurs who were users of controlled raw-materials stated that obtaining Government quotas involved a lot of botheration and took a long-time. Getting production capacity assessed was the first
problem. The officer of the District Industries Centre and the Quality Marking Centre for Engineering Goods were to make the assessment jointly. Lack of coordination between them led to delay. Procuring the code number and the registration certificate from the Corporation took another month. Still, there was no certainty about the availability of raw-materials. Since small-scale enterprise was basically a one-man show, it was not possible for him to make frequent visits to offices and wait for a long time.

For units located outside Ludhiana city, this problem was even more serious because they were to apply to the Block Level Extension Officer. After his recommendation, capacity was assessed by the office of the General Manager, District Industries Centre. For these entrepreneurs it was all the more difficult to visit the District Industries Centre again and again.

Materials not according to specifications

Eleven of the entrepreneurs who received iron & steel complained that the materials offered were not according to their requirements; this was because of adjustments related to category and size between the Iron and Steel Controller and State Small Industries Corporations.

Transportation Cost

The entrepreneurs complained that they had to bear
the high cost of transporting raw-materials, particularly coal. Coal was to be transported from Dhanbad. Entrepreneurs said that they often had to pay bribes to get rail wagons. Even after the wagon was allotted and the raw-material despatched, there was no surety of getting the material. Sometimes, anti-social elements removed labels from the wagons and misplaced them in loco-sheds at big junctions. This was done apparently in connivance with railway officials. Hence it was difficult to locate the wagon; sometimes it was parked so far away that it was a problem to transport the material to the unit. A manufacturer of rubber goods stated that he had transported chalk powder from Porbunder. After the wagon had arrived at Ludhiana it got lost in the railway yard, finally when it was traced the chalk was found spoilt by rain and made useless for industrial purposes.

Corruption

Both entrepreneurs and Government officials complained about corruption. Entrepreneurs maintained that applying for raw-materials meant greasing the palms of several officers. Forty two of the 62 entrepreneurs who got their capacity assessed said that they had paid Rs. 5 to Rs. 10 per tonne of capacity to the officers. The officers of the District Industries Centre acknowledged the existence of bribery. However, they maintained that manufacturers pressed them to inflate their capacity and that they demanded
a share in the gains of the manufacturers, which were of the order of Rs.1,000 to 2,000 per tonne.

The entrepreneurs said that for obtaining permits for cement, they paid Rs.2 per bag as the consideration money. For transporting coal also they had to pay railway officials. Then there was theft of coal. When the wagon was received, it was often short of 5-10 tonnes.

The above mentioned problems discouraged the entrepreneurs so much that 27 of the 64 of our sample units who were consumers of iron and steel items, 35 of the 48 coal users and one of the chemical users did not even apply for quota materials.

Other Sources of Raw-Materials

In the foregoing analysis we have seen that very few small-scale units obtained raw-materials from the Government distribution system; the amount of materials which they did obtain was generally a very small portion of their requirements. Most of them purchased these in the open market, either locally or outside the district. Table 6.9 shows the distribution of units by the type of this private source. It may be noted that 103 (88%) of the 117 units purchased raw-materials only from Ludhiana; 12 from other places in India as well as Ludhiana, two only from other places in India,
and one from outside India. Of the 12 units which purchased raw-materials both at Ludhiana and outside, there were units manufacturing hosiery, readymade garments, rubber, machine tools and cycle and cycle parts or providing services such as that of dyeing. Two hosiery units obtained acrylic yarn from Kota (Rajasthan), the readymade garments unit its dress material from Delhi and Bombay, the rubber unit its chalk powder from Porbunder and the dyeing unit its chemicals from Bombay, Delhi and Amritsar. Seven machine tools and cycle and cycle parts units obtained steel from Mandi Gobindgarh. A woollen hosiery unit imported merino wool from Australia.

Table 6.10 shows the importance of agencies of suppliers of raw-materials to our sample units. In our

### TABLE 6.9
Number of Units by Source of Raw-Materials

<table>
<thead>
<tr>
<th>Investment Group</th>
<th>Local</th>
<th>Outside</th>
<th>Local &amp; Outside</th>
<th>Local &amp; Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-investment group</td>
<td>54</td>
<td>-</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Medium-investment group</td>
<td>39</td>
<td>1</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>High-investment group</td>
<td>9</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>103</td>
<td>2</td>
<td>12</td>
<td>1</td>
</tr>
</tbody>
</table>
sample, 51 units were dependent on retailers and 59 on wholesalers. Only seven units purchased directly from producers and four were provided with raw-materials by the manufacturers of final product for fabrication. The nature of supplying agencies varied to a large extent with the size of the investment. It may be seen that 40 units in the low-investment group purchased raw-materials from retailers as against six units in the medium-investment group and none in the high-investment group. Further 15 units in the low-investment group purchased raw-materials from wholesalers as against 35 in the medium-investment group and eleven in the high-investment group. As far as purchase from direct producers was concerned, two units each from the low and high-investment group and three from the medium-investment group purchased from them. Manufacturers of final product supplied raw-materials to only four units of the low-investment group. One unit of the high-investment group imported raw-material. The dependence of smaller units upon retailers indicates that they were unable to obtain the advantages of buying in bulk and were thus at a competitive disadvantage as compared to bigger units in the small-scale sector. Small-scale sector as a whole suffered this disadvantage against large-scale sector.
<table>
<thead>
<tr>
<th>Investment Group</th>
<th>Retailers</th>
<th>Wholesaler</th>
<th>Producer</th>
<th>Manufacturer of the Final Product</th>
<th>Any other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-investment group</td>
<td>40</td>
<td>13</td>
<td>2</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Medium-investment group</td>
<td>11</td>
<td>35</td>
<td>3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>High-investment group</td>
<td>-</td>
<td>11</td>
<td>2</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>59</td>
<td>7</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

Some units purchase from more than one agency, so the total adds up to more than 117.

TABLE 6.10

Distribution of Units by Suppliers of Raw-Materials
In product groups, the dependence on retailers was as follows: hosiery - 23, cycle and cycle parts - 7, sewing machines - 3, agricultural implements - 3, soap - 3, casting and forging - 2, shoe - 2, nut and bolts - 2, welding - 1, tinplating - 1, oilsmill machinery and parts - 1, attach case - 1, printing press - 1 and cleansing powder - 1. The dependence on wholesalers was as follows: cycle and cycle parts - 15, machine tools - 9, hosiery - 7, auto-parts - 6, agricultural implements - 4, sewing machines and parts - 4, pulp box - 2, electroplating - 2, re-rolling and bar-drawing - 3, dyeing - 1, handtools - 1, cage bar set - 1, chains - 1, diesel engine and parts - 1, textile machinery and parts - 1, and steel-balls - 1. The dependence on producers was as follows: hosiery - 2, pulp boxes - 2, soap - 1, rubber - 1, dyeing - 1. All the four units which depended on manufacturers of final product, were hosiery fabricating units.

From the foregoing analysis, we find that most of the units procured raw-materials not from the producers but from the dealers - either retailers or wholesalers. The raw-materials were available in the open market at a high premium. We found that there was a great difference between prices in the Government distribution system and in the open market. The price of plates of all sizes was Rs.3,300 per tonne against the open market price of Rs. 5,200 per tonne. Prices of other items in the Government distribution system were as follows: (open market price in brackets).B.P. sheets Rs.3,500
per tonne (Rs.5,300 per tonne) rounds Rs.2,950 per tonne (Rs.4,200), billets Rs.2,800 per tonne (Rs.4,000), steel Rs.3,100 per tonne (Rs.4,500), C.R. Sheets Rs.5,500 per tonne (Rs.8,000 to 9,000), G.P. Sheets Rs.6,800 per tonne (Rs.8,500 to Rs.9,000 per tonne) galvanised corrugated sheets Rs.6,600 per tonne (Rs.8,500 per tonne), pig iron Rs.1,500 per tonne (Rs.2,300) and angles Rs.2,900 per tonne (Rs.4,500). There was a difference in prices of other raw-materials also, such as carbide Rs.400 per drum (Rs.800 per drum), liquid caustic soda Rs.165 per quintal (Rs.375 per quintal).

**IMPORTED RAW-MATERIALS**

An entrepreneur was to apply to the Director of Industries through the General Manager, District Industries Centre. The application was to be accompanied with a declaration (in duplicate) regarding the submission of income tax returns and payment of all taxes by the applicant. The Director of Industries issued the Essentiality Certificate; it was to be issued only to actual users, who were to maintain accounts of consumption. The General Manager was to check whether the imported material was properly utilised. On the basis of the Essentiality Certificate issued by the Director of Industries, the entrepreneur applied for an import licence to the Controller of Import and Export.
Import through Canalising Agencies

There were a number of items of raw-materials which were not allowed to be imported direct by users but were imported by the Government Corporations like the State Trading Corporation and Minerals and Metals Trading Corporation for distribution to industrial units, both large and small. Besides the canalised items, the State Trading Corporation also imported material for small-scale units on ad-hoc basis. For allocation of these materials to States, ceilings were fixed by the State Trading Corporation on pro-rata basis according to their demand. The States later made recommendations to the State Trading Corporation in favour of individual units within the ceiling.

For supply of worsted yarn and greasy wool imports were channelised through the State Trading Corporation against fixed quota and export entitlements. Till 1975, the Hosiery Industry Federation used to get this from the State Trading Corporation against the payment of 45 per cent ad-valorem duty. After getting it combed at Calcutta and Chandigarh, the raw-material was distributed to industrialists according to their entitlements. In 1976, the system was changed and the State Trading Corporation provided wool against individual applications. The small entitlements of hosiery exporters were not lucrative enough to undergo the licensing procedure.
Further, the process of combing, dyeing, knitting, dry cleaning, and packing of wool took about a year which was not conducive to production and marketing as small entrepreneurs could not afford to block their small working capital.

In 1977, Morarji Desai's Government included wool in the Open General List and thereafter wool could be freely imported against an import licence. The essentiality certificate was not required. In 1977, wool combers were also set up in the District; industrialists no longer faced the problem of processing of wool.

In our sample, one entrepreneur imported wool from Australia against an import licence and did not face any problem.

Conclusion

The small-scale sector faced the shortage of many raw-materials. The problem was most serious in the case of iron and steel. There was a Government distribution system for some materials such as iron and steel, cement, furnace oil, chemicals and paraffin wax. Though coal was not a controlled material, there was a shortage of rail wagons and these were allotted by the railway authorities. Only about 5-25 per cent of the requirements of the units were met from the Government system. Even for this meagre supply, there was
no certainty regarding the time when it would be available. It was not received regularly every month or even every quarter. The main problems of the distribution system related to existence of bogus units, units set up by large entrepreneurs, the requirement of security, delay, materials not being per specifications, transportation costs and corruption. Manufacturers depended on the open market for the major part of their requirements. They purchased materials at a high premium from dealers - retailers or wholesalers. The smaller the size of the unit, the greater was its dependence on the retailer; benefits of bulk purchase were not procured by them. The import policy changed every year; the unit in our sample did not face problems in importing wool.