

CHAPTER II : MINISTRY OF AGRICULTURE

National Fisheries Development Board

2.1 Unfruitful expenditure on establishment of Specific Pathogen Free Shrimp Seed Multiplication Centre

Concluding an agreement without ensuring parties' financial capabilities coupled with injudicious decision to make 90 per cent payment to the firm on submission of drawings, led to non establishment of the project even after lapse of seven years, rendering the expenditure of ₹ 5.82 crore unfruitful. The objective of supplying disease free *Penaeus monodon* seed to Indian shrimp farmers also remains unachieved.

Because of shortage of disease-free shrimp brood stock, Ministry of Agriculture (MOA), decided in a meeting chaired by Union Minister of Agriculture on 27 June 2006, to set up a Specific Pathogen Free Multiplication Centre (SPF-MC) in India as a joint programme by importing quality seed of *Penaeus monodon* from reputed international companies. The objective of setting up of SPF-MC was to produce disease-free seed of Black Tiger Shrimp (*Penaeus monodon*) and supplying it to the shrimp farmers of the country. In the same meeting it was decided that the proposal of M/s Moana Technologies, Hawaii, USA (the firm) of bringing the seed to India may be considered.

A detailed presentation on proposed SPF-MC for production of seed was given by the firm in December 2006. This was followed by a visit (February 2007) of Due Diligence Team constituted by MOA to inspect the facilities of the firm in USA to assess the level of technology and to work out other details in connection with the establishment of SPF-MC. The team recommended (February 2007) establishment of SPF-MC in India by the firm.

National Fisheries Development Board (NFDB) an autonomous body under the administrative control of MOA, entered (March 2008) into an agreement with M/s Moana Hong Kong Ltd. (also referred to as Moana, a holding company of Moana Technologies, USA) and M/s Moana Technologies India (Pvt.) Limited (MTIPL-JVC), a joint venture company in India. The terms of agreement, inter-alia, provided for:

- Establishment of a complete SPF-MC facility by NFDB on a 40 hectare area in Srikakulam district in Andhra Pradesh as per the conceptual design of Moana, at an estimated investment (excluding land cost) of US\$ 5.2 million (₹ 21 crore).

- NFDB will entrust Moana for the concept design and supervision of the construction and commissioning on turnkey basis of the SPF-MC.
- Total payment of US\$ 600,000 to the Moana (US\$ 300,000 after signing of agreement and on submission of conceptual drawings, US\$ 240,000 on acquisition of land and submission of final blue prints of drawings and balance US\$ 60,000 on successful commissioning of SPF-MC).
- Majority shareholding in the MTIPL-JVC would be held by Moana, however, MTIPL-JVC was answerable for financial default, if any, and Moana shall be responsible and liable only in respect of technology default.
- Licensing out the SPF-MC facility so constructed to MTIPL-JVC on yearly payment of five *per cent* license fee of the NFDB investment (facilities and land).
- The term of license will begin at the commencement of the operation and run for eight years.

NFDB made the payment of US\$ 540,000 to Moana in March 2008 after the submission of conceptual drawings and final blue prints of drawings by the firm. CPWD submitted proposal (August 2009) and revised proposal (December 2009) for the project work for setting up of SPF-MC at a estimated cost of ₹ 47.12 crore in the land acquired at a cost of ₹ 2.85 crore in Srikakulam District, Andhra Pradesh. However, due to non-furnishing of acceptance for payment of five *per cent* license fee by MTIPL-JVC i.e. the Indian JV on the revised estimate, NFDB did not sanction for calling of tenders for construction the SPF-MC.

NFDB issued legal notice (July 2011) against Moana for not respecting the terms and conditions of the agreement. In response, M/s MTIPL (August 2011) and Moana (November 2011) blamed each other for the delay in establishment of Multiplication Center. Further, no fruitful efforts were made by NFDB to get over the stalemate.

Audit examination of the records of NFDB revealed that though an amount of ₹ 5.82 crore¹ was incurred on various activities relating to the establishment of SPF-MC, the facility had not been set up till April 2013. Further scrutiny disclosed the following shortcomings in the award of work:

- Responding to a single proposal, the project was awarded to Moana after evaluating the technical capabilities but without assessing its financial capabilities. The auditor of Moana, M/s Ernst & Young, Hong Kong, which

¹Acquisition of 97.45 Acres land: ₹ 2.85 crore; payment of fees: ₹ 2.17 crore; laying of approach road: ₹ 43.80 lakh and other miscellaneous expenditure: ₹ 35.67 lakh

conducted the audit of the Financial Statements of Moana from 18.11.2005 (date of incorporation) to 31.12.2009, gave (December 2011) disclaimer of opinion and observed that the company's ability to continue on going concern basis was doubtful.

- The agreement did not provide for any performance related security to ensure performance of the terms of agreement and for safeguarding the interests of the government in the event of default by Moana. As per the agreement Moana in addition to providing of drawings was required to perform supervision of the construction and commissioning of SPF-MC. The decision to make payment of 90 *per cent* of the agreed amount upon mere submission of the drawings without construction and commissioning of SPF-MC and without any security was injudicious.
- No date for completion of and operation of SPF-MC was mentioned in the agreement.
- Neither any time-frame for MTIPL-JVC to sign the licence agreement nor any penalty clause in the event of not signing the agreement was included in the agreement.

In reply, the Ministry while admitting (March 2012) the delay attributed the same to unforeseen developments between Moana and MTIPL. It further stated that proposal of Moana was critically reviewed at MOA/NFDB and it was felt that obtaining technology from the Moana would be beneficial. Further as on the date of signing of agreement there was no room for doubting the financial health of the organisation. It further stated that their efforts were on, to facilitate further dialogue between NFDB and Moana or to put the acquired land to alternate use.

The reply of the Ministry shows that no due diligence about financial health of the partner was carried out before the execution of the agreement. The fact remains that nothing concrete had emerged out of the dialogue and the land was not put to alternate use as of April 2013.

Thus, despite spending ₹ 5.82 crore (including ₹ 2.17 crore paid as consultancy fees to foreign company) on various aspects of the facility, the envisaged SPF-MC could not be established and the intended benefit of supplying disease free seed to the Indian shrimp farmers remained unfulfilled even after a lapse of seven years of decision.