CHAPTER – IV: UNION TERRITORIES (COMMERCIAL SECTOR)

Lakshadweep Development Corporation Limited

4.1 Modernization of Tuna Canning Factory at Minicoy

Upgradation in capacity of Tuna Canning Factory, Minicoy from 1,500 cans per day to 10,000 cans per day was approved without ensuring the availability of raw material (tuna). UTL Administration also failed to ensure that proposals emanating from LDCL had the approval of its Board of Directors and scrutinize them accordingly. Further, failure of Ministry of Agriculture and Fisheries and Ministry of Commerce to adhere to financial rules, resulted in unfruitful expenditure of ₹ 7.64 crore and blocking up of ₹ 6.89 crore for more than six years.

4.1.1 Introduction

Lakshadweep Development Corporation Limited (LDCL) has been operating the Tuna Canning Factory, Minicoy, Union Territory of Lakshadweep (UTL) since 1990. The Fisheries Department, UTL owns 99.99 *per cent* of LDCL, with the balance owned by the office of the Collector cum Development Commissioner, UTL. Due to age and obsolescence, the production of the factory, with installed capacity of three lakh cans per annum, has functioned below capacity[1] over the years.

Based on a Detailed Project Report (DPR) by NIFPHATT[2], LDCL proposed (November 2009) to upgrade and modernize the factory and to increase the production capacity from 1,500 to 10,000 cans per day (i.e., from three lakh cans to 20 lakh cans per annum). Out of funds received from the Ministry of Agriculture and Fisheries, UTL Administration released ₹ 4.40 crore to LDCL in January/February 2010. Ministry of Commerce and Industry also approved (June 2010) ₹ 3.24 crore under ASIDE [3] against the total project cost of ₹ 7.64 crore. Subsequently, LDCL revised (July 2010) the scope of the project from semi-automated factory to fully automated factory, and UTL Administration released additional funds[4] from the grant of Ministry of Agriculture and

[1] 61,550 cans (2013-14), 42,586 cans (2014-15) and 88,128 cans (2015-16)

[2] National Institute of Fisheries Post Harvest Technology and Training, a Government of India entity

[3] Central Assistance to States for Developing Export Infrastructure and other Allied Activities (ASIDE) Scheme

[4] Total releases- Ministry of Agriculture and Fisheries: ₹ 8.45 crore (revenue head), ₹ 2.00 crore (capital head); Ministry of Commerce: ₹ 3.24 crore (capital head).

Fisheries for a total cost of ₹ 13.78 crore (project cost: ₹ 12.75 crore; working capital: ₹ 1.03 crore).

LDCL furnished revised estimates (September 2013) for ₹ 32.15 crore to the Department of Fisheries. In these estimates, the civil work component alone had increased from ₹ 4.40 crore to ₹ 9.73 crore. Department of Fisheries has not decided on the revised estimates which are beyond the Administrator's delegated powers of ₹ 20 crore.

Important findings noticed in audit are as under:

4.1.2 Unrealistic costing of the semi-automated canning process

Based on NIFPHATT estimates (2009), LDCL Board approved and UTL Administration released funds to meet project cost of ₹ 7.64 crore, of which civil works were estimated at ₹ 4.40 crore. This was less than the ₹ 8.50 crore estimated by LPWD for the civil works. Consequently, at the instance of the Board, LPWD submitted revised estimates to LDCL which were approved for ₹ 3.51 crore (23 September 2010). After the modernization stalled, GTCS Cochin who had been appointed by LDCL as an expert, submitted a DPR (September 2013) on the status of modernization. Forwarding the DPR, LDCL informed UTL Administration that the estimates of NIFPHATT on the semi-automated canning process were flawed since the costing at ₹ 7.64 crore was not supported by (i) market quotations or Departmental Schedule of Rates (DSR) of the Central Public Works Department for civil works; and (ii) the estimates of the new building, refrigeration and cold storage did not meet international standards for tuna canning factory including HACCP[5]/European Union standards. Further, UTL Administration's decision (12 July 2010) not to demolish the existing factory as intended by NIFPHATT, and instead, to build a new structure on the adjacent land (and demolish the old building thereafter), caused the design to be highly complex.

The fact that the NIFPHATT estimates on civil works were not first vetted by Lakshadweep Public Works Department (LPWD) which was the implementing agency, subsequent reduction of estimates by deleting essential items covered in the DPR of NIFPHATT, and the non-revision of estimates after it was decided to retain the existing building and construct a separate new building, shows that the costing of the civil works for the semi-automated process was unrealistic.

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[5] Hazard Analysis and Critical Control Points. It is an internationally acceptable management system that advocates a systematic preventive approach to food safety from biological, chemical, and physical hazards in production processes that can cause the finished product to be unsafe, and designs measurements to reduce these risks to a safe level.

4.1.3 Injudicious decision to upgrade to fully automatic process

4.1.3.1 Injudicious decision to increase capacity to 10,000 cans per day

LDCL's decision to increase the capacity from 1,500 to 10,000 cans per day was without basis. The DPR of NIFPHATT, based on which the project was approved, contained the disclaimer that it had not taken any step to assess the availability of the raw material (tuna) and that the report was prepared on the assumption that sufficient quantity of tuna existed.

The Planning Commission had estimated[6], that the reasonable exploitation potential around Lakshadweep was 50,000 tonnes, while actual exploitation was only 10,000 tonnes. Production can only be enhanced through introduction of mother vessels that can take a number of smaller fishing vessels to far away fishing grounds. Presently, the surplus catch (after local consumption) of approximately 1,200 tons is converted to 'masmin' (traditional smoked tuna) and sold on the mainland. LDCL is operating a masmin packing unit at Agatti since December 2009 and also exports masmin collected from all the islands.

The Marine Products Export Development Authority (MPEDA) expert team also reported (March 2016) that three-fourths of the local tuna catch goes for masmin, and of the remaining, only a small share goes to the existing canning factory, which is insufficient to meet even the capacity of 1,000 cans per day. Also, the factory works only 9 months in a year because of non-availability of raw materials and boat repairs.

Even the DPR of NIFPHATT stipulated that the semi-automatic plant had to work at least 10 months in the year to ensure economic viability. Thus, to achieve economic viability, the semi-automated factory with capacity of 10,000 cans would require 880 MT of tuna[7], which can be achieved only if the local fishermen and LDCL agree to divert almost three-fourths of their existing masmin production to the canning factory, which is unlikely.

The MPEDA expert team reported that the modernization project had been taken up on the assurance of the Fisheries Department that they would be procuring two mother vessels and developing deep sea fishing. This is supported by the reply of LDCL (9 June 2015) to Audit that the Board of Directors was informed that availability of raw material (tuna) would be ensured by the mother vessel that was being procured by the Fisheries Department; it

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6 Lakshadweep Development Report, 2007

7 10,000 cans x 220 days i.e., 22 lakh cans. One kilo of raw tuna should give more than 2.5 cans of tuna.

was not anticipated that the proposal for procurement of the mother vessel would be scrapped (November 2012) due to high cost. Audit observes, however, that none of the minutes of the Board relating to the modernization discuss the procurement of the mother vessel. LDCL subsequently informed (18 May 2016) Audit that there was no proposal to procure mother vessel in connection with the modernization, and an earlier proposal was shelved as too expensive. LDCL also admitted (14 October 2016) that no market survey was conducted on the domestic and international markets for canned tuna.

It is therefore evident that without deep-sea fishing facilities, the project to increase the capacity to 10,000 cans per day was injudicious in the absence of adequate raw material and lack of information on domestic and international markets for canned tuna.

4.1.3.2 Insufficient raw material (tuna) for fully automated process

In response to observation of Audit on insufficient raw material, LDCL confirmed (August 2016) that the minimum capacity production (i.e., below which the machinery cannot run) of the fully automatic equipment that had been procured was 1,145 cans per hour. This requires 806.08 MT of tuna for full capacity utilization. Even if the entire landed capacity of tuna fish (including normal domestic consumption and masmin production) in all the islands of Lakshadweep (132 MT per annum) is diverted to the fish canning factory, the fully automated canning factory can run for only 60 days in the year. In reality, since the production of even the existing factory is far less, mainly due to raw material shortage, this would mean that the 17 regular and 14 casual employees of even the existing canning factory would be rendered jobless for most part of the year, thereby defeating the primary objective of the canning factory, which is to uplift the socio economic condition of local fishermen.

4.1.3.3 Bypass of due process in decision to upgrade

(i) Ministry of Home Affairs increased (5 July 2010) the delegated powers of the Administrator from ₹ 10 crore to ₹ 20 crore. On the date of receipt of these orders (12 July 2010), the Administrator decided in a meeting chaired by him in his capacity as Chairman LDCL to upgrade the factory from semi-automatic to fully automatic. Bypassing the Board at this stage, LDCL approached UTL Administration for additional funds. Since the proposal had the approval of the Administrator in his capacity of Chairman LDCL, UTL Administration also, released funds without examining the merits of the proposal. Though the 85th (17 December 2010), 86th (27 January 2011), 88th (15 March 2011), and 89th (27 June 2011) Board meetings discussed the stages of tendering and award of the contract for machinery, at no time was the change in specifications from semi-automated to fully automated factory and increase in project cost tabled or discussed by the Board.

(ii) The Board ordered (27 June 2011) that the cost of machinery be submitted to competent authority. In this case, the competent authority was the Administrator (the previous Administrator had handed over on 11 July 2011) who should have been approached through the UTL Administration. Without getting the approval of the Administrator, the Managing Director, LDCL awarded (July 2011) the contract for ₹ 6.84 crore to a Thai firm.

In a meeting held by the previous Administrator in his new capacity of Joint Secretary in the Ministry of Commerce with LDCL officials (August 2011), it was decided to get Board ratification.

(iii) Despite the refusal of NIFPHATT to certify on the need or high cost of the new machinery, the Board of Directors accorded *ex-post facto* ratification in its 91st meeting (30 December 2011). Evidently, the Board had little choice, but to accede to the *fait accompli* since by this time, formal agreement had been signed (August 2011) and advance paid for the fully-automated machinery.

4.1.3.4 Refusal of NIFPHATT to certify on reasonableness of need and cost of new machinery

Pursuant to the above decision, the Managing Director, LDCL directed (August 2011) that NIFPHATT be asked to confirm the reasonableness of the higher cost of ₹ 6.84 crore for the equipment (against NIFPHATT's original estimate of ₹ 3.24 crore). After examining the matter through an expert committee, NIFPHATT refused (December 2011) to assess the reasonability of cost of the fully automated machinery on the grounds that (i) NIFPHATT's expert consultant had earlier recommended a semi-automated plant on the basis of available fishery resources and projected resource potential of Lakshadweep; and (ii) the capacity and cost of fully automated machinery could not be justified and fully automated machinery cost was bound to be very high.

4.1.4 Failure of LDCL to revise estimates in light of changed scope

4.1.4.1 Failure to revise civil works estimates

LDCL failed to prepare a fresh DPR incorporating the change in civil works and refrigeration consequent to the upgradation of scope from semi-automated to fully-automated factory. In their replies to Audit, LDCL informed that they had not been asked to revise the DPR to meet the new requirements. The replies are unacceptable. The layout was prepared by LPWD and they were aware of the height and structure of the machinery. The construction was entrusted to LPWD and the plan of the factory was approved by the Executive Engineer and Consultant, Fisheries appointed by LDCL. As the client, it is LDCL's responsibility to arrange to revise and approve the DPR. LDCL had never requested LPWD to prepare revised estimates to accommodate the change in scope; and neither the Executive Engineer nor Consultant is competent to approve the plans of the factory. Failure of LDCL to revise the plans of the factory in tune with the modified requirements is the reason why the imported machinery could not be installed, and critical equipment lying in the open is liable to damage as mentioned in elsewhere in the para. Out of ₹ 3.51 crore deposited by LDCL (September 2010), LPWD has completed only part of the work (on the ground that the approved estimates are unviable) and remitted the balance of ₹ 1.62 crore plus interest (₹ 0.85 crore) to LDCL in December 2015.

4.1.4.2 Failure of LDCL to revise refrigeration estimates

Storage and refrigeration of tuna to meet the minimum production requirement is essential for the functioning of the canning factory, since the catch is sporadic and the fishing season is limited to six months in a year. Accordingly, NIFPHATT had estimated the refrigeration system for the semi-automatic factory at ₹ 1.5 crore. The estimate for the refrigeration system for the fully automatic process approved, at the instance of the Administrator, however, was only ₹ 0.40 crore, which was unrealistic and would have rendered the factory completely non-functional. This became evident when, subsequently, LDCL itself endorsed and submitted to Department of Fisheries a revised DPR (September 2013) for ₹ 32.15 crore, where the HVAC[8] and Refrigeration costs were estimated at ₹ 6.53 crore.

4.1.5 Non installation of imported machine

After global tendering, LDCL signed an agreement (August 2011) with a Thailand based firm (supplier) for USD 1.49 million (₹ 6.84 crore) to supply, install and commission machinery for the tuna canning factory[9]. Though the machinery was delivered (March 2012), it is lying unopened on the ostensible ground that the LPWD has not completed the civil works. Since the machinery has been kept idle for a very long period of time in the vicinity of the sea and exposed to monsoons, the working condition of the machine parts is in doubt; and warranty would have lapsed. The LPWD had agreed to cut a horizontal

[8] Heating Ventilation and Air Conditioning

[9] A fish waste using biogas generating plant for ₹ 0.40 crore has been procured through a separate agreement with a Coimbatore based firm.

beam at the entrance that was preventing entry of the largest box into the new building but till date (November 2016) this has not been done and the machinery continues to lie in the open, uninstalled.

4.1.6 Failure of Finance Department and Fisheries Department, Union Territory Administration, and Ministry of Agriculture and Fisheries and Ministry of Commerce to follow financial rules

Rules 26 and 52 to 56 of the General Financial Rules delineate the manner in which Central Government Ministries and Departments are required to control expenditure against the Budget approved by Parliament and also surrender savings arising during the year. Rule 100 of the Central Government Receipt and Payment Rules stipulate, *inter-alia,* that all charges actually incurred must be paid and drawn at once, and under no circumstances they may be allowed to stand over to be paid from the grant of another year; no money shall be drawn from Government account unless it is required for immediate disbursement. It is not permissible to draw money from Government account in anticipation of demands or to prevent the lapse of budget grants.

In this connection, Audit observed that though a substantial portion of the amount was released (in 2009-10 and 2011-12) by Ministry of Agriculture and Fisheries (₹ 8.45 crore under revenue head and ₹ 2.00 crore under capital head) and Ministry of Commerce (₹ 3.24 crore under the capital head), the same was not expended during the related financial year. The Ministries did not ensure surrender of savings at the end of the financial year as stipulated in the GFRs. Further, though Ministry of Commerce had specified the total project cost of ₹ 7.64 crore, the Administrator (in his capacity of Chairman LDCL) unilaterally revised it to ₹ 13.78 crore (without routing it through the Finance Department, UTL) by using his delegated powers, without informing Ministry of Commerce, who in any case had never monitored the progress of the project except for the single meeting (August 2011) held by the previous Administrator in his capacity as Joint Secretary, Ministry of Commerce. An amount of ₹ 7.64 crore has been spent (December 2016) on the project and ₹ 6.89 crore is lying with LDCL.

Finance Department, UTL Administration who had released the funds to the Department of Fisheries failed to monitor the expenditure. Rather, the Department of Fisheries is being permitted to re-appropriate funds from other projects that have been closed or postponed, without the approval of Finance Department. Consequently, Department of Fisheries was able to accommodate the enhanced requirements of LDCL for increase of project cost from ₹ 7.64 crore to ₹ 13.78 crore without referring the matter to Finance Department for additional funds. Department of Fisheries also did not review the project viability and reasonableness of the demand from LDCL for additional funds, since these had been approved by the Administrator in his capacity of Chairman, LDCL. Fisheries Department replied (November 2015) to Audit that the role of Fisheries Department was limited to financial support. The reply is untenable since it is contrary to the Rule 26 of the GFRs which states that it is the duty of the fund sanctioning authority to verify whether the fund was utilized properly for the purpose for which it was sanctioned.

4.1.7 Customs liability due to non-fulfilment of export obligations

LDCL has availed (April 2012) of customs exemption[10] of ₹ 1.36 crore on import of machinery on the condition that they export ₹ 8.16 crore worth of tuna within six years. Since LDCL has not exported any tuna since the import of machinery, it is liable to refund the entire duty along with applicable interest to the customs authorities. In their reply, LDCL informed (18 May 2016) Audit that this period (i.e., by April 2018) can be extended. The reply is not acceptable as LDCL has admitted that it had not conducted any market survey to substantiate its confidence that there is an international market for its exports and even if the important machinery is commissioned, the factory does not meet international food safety standards, which are essential for exports.

4.1.8 Conclusion

The Finance Department and Fisheries Department failed to ensure that proposals emanating from LDCL had the approval of its Board of Directors and were not subjected to detailed scrutiny in the Departments of Finance and Fisheries for formal approval of the Administrator. Ministry of Agriculture and Fisheries and Ministry of Commerce also failed to ensure adherence to GFRs. Consequently, the entire expenditure of ₹ 7.64 crore has been rendered infructuous apart from the blocking of ₹ 6.89 crore with LDCL, and non-achievement of objectives of modernization of tuna canning factory.

[10] Under the Export Promotion Capital Goods scheme

The matter was referred to the Ministry of Home Affairs (June 2015 and January 2017), Ministry of Agriculture and Fisheries (January 2017) and Ministry of Commerce (January 2017). Their replies are awaited (January 2017).

New Delhi
Dated: 02 March 2017

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