

F. No. 2/3/2019-PPP  
Government of India  
Ministry of Finance  
Department of Economic Affairs  
PPP Cell

North Block, New Delhi  
Dated 8<sup>th</sup> June, 2021

**Office Memorandum**

**Sub: Record of Discussion of 102<sup>nd</sup> PPPAC meeting to consider proposal of 'Development of Eco-tourism resorts in Minicoy Island, Lakshadweep under PPP mode'.**

The undersigned is directed to forward the Record of Discussion of the 102<sup>nd</sup> Meeting of the PPPAC to consider the project proposal of Development of Eco-tourism resorts in Minicoy Island, Lakshadweep under PPP mode held on 11<sup>th</sup> May, 2021 for information and necessary action.

Encl. as above

  
(Kartik Agrawal)  
Deputy Director

To,

1. Home Secretary, North Block, New Delhi
2. CEO, NITI Aayog, Sansad Marg, New Delhi
3. Secretary, Department of Expenditure, North Block, New Delhi
4. Secretary, Department of Legal Affairs, Shastri Bhawan, New Delhi

Copy to.

1. Advisor to Administrator, UT of Lakshadweep
2. Sr. PPS to Secretary, Department of Economic Affairs, North Block, New Delhi
3. Sr. PPS to JS (IPF), Department of Economic Affairs, North Block, New Delhi

**Record of Discussion of 102<sup>nd</sup> PPPAC meeting to consider the MHA project proposal of ‘Development of Eco-tourism resorts in Minicoy Island, Lakshadweep on PPP mode’**


The 102<sup>nd</sup> meeting of PPPAC under the chairmanship of Secretary (EA) to consider the proposal of Development of Eco-tourism resorts in Minicoy Island, Lakshadweep under PPP mode was held on 11<sup>th</sup> May, 2021 at 12 Noon through VC. The list of participants is annexed.

<b>Project Description and its Components</b>	Concessionaire shall be responsible for designing, financing, procurement and construction of 150 keys resort (110 keys for Beach villas & 40 Keys for Water Villas) along with all necessary and incidental infrastructure, for a state-of-the-art island resort and the management, operation and maintenance of the resort. Authority will provide total land area of around 8.53 ha of which total developable area is 4.0 Ha for Beach Villa & Total Lagoon area of around 6 ha for water villa.
<b>Estimated Project Cost</b>	Rs.302 crore (Rs 319.00 crore with inflation)
<b>Concession Period</b>	75 years (including 3 years construction period)

1. JS (IPF) welcomed the participants to the 102<sup>nd</sup> PPPAC meeting and informed the PPPAC that aforesaid proposal was granted in-principle approval in 89<sup>th</sup> PPPAC meeting held on 27.08.2019. However, Ministry of Home Affairs (MHA) forwarded the proposal for “in-principal approval” of PPPAC with some changes as no bidder was found eligible on the basis of RfQ. Subsequently, the proposal was considered in 96<sup>th</sup> PPPAC meeting held on 16.09.2020. In the meeting, UT Lakshadweep Administration (UTLA) indicated that since no applicants could qualify under the extant ‘conditions of eligibility,’ certain relaxations therein may be necessary to enable reasonable participation for bidding to be competitive. After deliberations, PPPAC had decided that the MHA/UTLA might structure the project for a ‘single stage - two envelope’ bidding to make up for the lost time and submit to the PPPAC for approval. The current proposal has been submitted by the MHA/UTLA accordingly.

2. AS(MHA)informed the PPPAC that the project proposal under consideration is a key project in Hospitality and Tourism sector with the perspective of holistic development of the UT Lakshadweep. The project aims at creating the right atmosphere for private sector participation in the Hospitality and Tourism sector. He also informed that the project has been restructured for a ‘single stage - two envelope’ bidding to make up for the lost time and also to increase bid-ability of the project. He further informed that certain other changes have also been made in the bid documents based on stakeholder consultations and lessons learnt from the previous exercise of floating RfQ. He further informed that the project is broadly based on the Draft Concession Agreement (DCA) of NITI Aayog and statement of deviations from the draft template is also submitted. Accordingly, the restructured project proposal with RfQ cum RfP and Draft Concession Agreement for a single stage two envelope bid process is submitted for consideration and grant of in-principle and final approval of the PPPAC.

3. Adviser to Administrator, UTLA explained that in this proposal, there is no separate RFQ and the bidding is single stage two envelop bidding. He further said that the RFP and DCA have been examined by the members of the PPPAC and recommendations / suggestions received from various PPPAC members have been agreed to by UT Administration except those which are flagged in today’s discussion. Therefore, he requested PPPAC to grant “In-Principle and Final Approval” simultaneously to the project proposal.

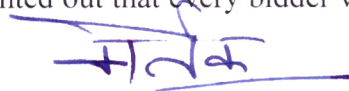


4. JS (IPF) informed the PPPAC that as per the guidelines for formulation, appraisal and approval of central sector PPP projects, in cases where the PPP project is based on a duly approved Model Concession Agreement (MCA), 'in principle' clearance by the PPPAC would not be necessary. In such cases, only final approval of the PPPAC may be obtained before inviting the financial bids. The extant proposal is not based on duly approved MCAs. However, earlier also in its 85<sup>th</sup>, 98<sup>th</sup> and 100<sup>th</sup> Meetings, the PPPAC, upon a request made by the Project Authority/Administrative Ministry, had granted "In-Principle and Final Approval" simultaneously. PPPAC has already agreed to grant so in its 96<sup>th</sup> meeting by asking the MHA/UTLA to structure the project for a 'single stage - two envelope' bidding to make up for the lost time and submit the revised project proposal to the PPPAC for approval. Representative of NITI Aayog said that the RFP and DCA required to be submitted for "Final Approval" of the PPPAC have already been submitted by the MHA/UTLA and examined by the members of the PPPAC. Upon request of the MHA and UT Administration of Lakshadweep, the PPPAC decided, for the reasons explained above, to consider the proposal for "In-Principle and Final Approval" simultaneously.

5. Thereafter, Adviser to Administrator, UTLA made a detailed presentation on the project proposal and informed that this project is one of the anchor ecotourism projects with very high potential as it is a strategic location with best lagoon near to Maldives. It was highlighted that the Project is to be developed on DBFOT Mode on the land owned by UT administration. Authority will provide to selected private developer a total land area of around 8.53 ha (of which total developable area is 4.0 Ha for Beach Villa) and a total lagoon area of around 6 ha for water villa. It was also highlighted that many studies have been taken up for the proposal which inter alia includes Island management plan and environment plan. The construction period will be three years and O&M period to be 72 years. The phasing of investment for three year construction period will be 37%, 34% and 29% respectively.

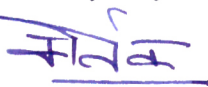
6. Then, with the permission of Chair the following issues were deliberated; -

- a. **Deviations from Draft Concession Agreement Template of NITI Aayog:** UTLA informed that a statement of deviations in the concession agreement from the draft concession agreement template of NITI Aayog has been submitted along with the PPPAC Memo and the variations are minor in nature aimed at making the concession agreement more amenable and attractive to private participation. Representatives of the MHA, DoLA, DoE, NITI and DEA informed that the deviations were not of a significant nature and may be accepted except the issues flagged by them which were discussed by PPPAC thereafter in para-6 below. PPPAC took note of the same.
- b. **Financial Model:** DEA pointed out that UTLA has submitted revenue estimations for only five years and detailed financial model for the project has not been submitted. UTLA informed that the instant project proposal had been initially submitted for consideration of 89<sup>th</sup> PPPAC Meeting and at that time a project feasibility report had been submitted to the PPPAC. Further, there is no substantial change in the project feasibility since then. UTLA presented the detailed financial model and informed that the project is financially viable and NPV of revenue streams @12% discounting will be Rs. 2,262 crore with Economic IRR of 26%, Equity IRR of 24% and Project IRR of 22%. MHA mentioned that since the project is first of its kind, it may not be possible to estimate all the risk factors that may arise to bidders over time and only existing risks are considered. It is possible that private investors may perceive financial modelling differently than the project authority. NITI Aayog/UTLA also pointed out that every bidder will do their own financial assessment of

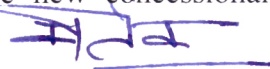


the project which will get reflected in their bids. PPPAC took note of the facts and figures presented by UTLA and directed UTLA to share this financial model of the project for record.

- c. **Support Infrastructure and Connectivity:** UTLA informed that support infrastructure will include expansion of existing airport at Agatti, development of dual-purpose airport at Minicoy by M/o Defence, access to Jetties for sea plane operations, access to Minicoy helipad for better air connectivity, improved web connectivity with laying of high-speed optical fibre. DEA and NITI Aayog expressed that only those infrastructure development and improvements should be committed in the bid documents which the UT Administration is reasonably sure of accomplishing as any default in such commitments may bring litigations. UTLA agreed to it. PPPAC took note of the same.
- d. **Obtaining Permissions and Clearances:** UTLA indicated that most of the clearances required for the project would be provided by UT Administration upfront i.e., before finalizing the bids. For clearances required to start operations, UTLA would act as a proactive facilitator. PPPAC took note of the above.
- e. **Obligations relating to employment of locals (Clause 5.17):** UTLA informed that the extant requirement of sourcing a certain percentage of total employed personnel from the local residents is an onerous condition and hence has been removed. In any case, the concessionaire would like to keep its operational costs to a minimum and hence may employ a greater percentage of total employed personnel from the local populace. The MHA, DEA and NITI Aayog also favoured removal of this condition to improve project biddability. PPPAC took note of the above.
- f. **Optional Development Obligation (Clause 12.6) and Additional Services (Clause 21.3):** UTLA informed that it has now been made obligatory for the concessionaire to take prior permission of the Authority before undertaking Optional Development Obligation/Additional Services. PPPAC took note of the above.
- g. **Increment in Concession Fee (Clause 24.1):** UTLA informed that in the previous formulation, the Annual Concession Fee (as determined through bidding) was to be increased at 10% on year-on-year basis. During stakeholder consultation, this onerous requirement of 10% annual increment was identified as one the reasons for failure of the bids. Hence, UTLA proposed to fix yearly increment in annual concession fee at 5% p.a. instead of the earlier 10% p.a. DoE expressed that since the project is a highly profitable venture with decent Economic IRR of 26% and Project IRR of 22% with a concession period of 75 years, hence, there is no requirement for reducing the annual increment rate of concession fee and it should be retained at 10% p.a. DEA suggested that instead of fixed annual increment, the annual escalation should be linked to variation in CPI/WPI which is in line with the DCA of NITI Aayog as well as the standard practice. NITI Aayog added that this would take care of both price escalation and change in revenues accruing to the concessionaire due to change in prices. MHA support the annual increment to 5% p.a. to make the project more attractive and get traction. Further, the project has several inherent risks related to connectivity etc., and considering all factors, a 5% annual increment in concession fee is reasonable. UTLA informed that even if escalation is estimated in line with WPI, it shall come around 5% p.a. only. After deliberations, PPPAC agreed to fix yearly increment in annual concession fee at 5% on year-on-year basis.



- h. **Threshold Technical Capacity:** It was noted that UTLA has proposed 375 rooms as the technical requirement, which is more stringent than the technical capacity of the bidders in the now abandoned previous RfQ. DEA pointed out in spite of not getting bidders and working on certain relaxations to get appropriate traction and competitive bidding, the technical capacity requirement has been made more stringent than the previous formulation. DEA opined that there is no need for additional criteria of minimum Average Room Rate when experience of only 3 stars and above category hotels are considered. Further, it was suggested that the threshold technical capacity be kept at minimum 300 residential rooms instead of the proposed 375 rooms for wider participation and competition. MHA and UTLA favoured that adequate capacity is necessary to get competent bidders. NITI Aayog suggested to lower the criteria. PPPAC decided that MHA and UTLA should decide the appropriate technical capacity threshold, which balances the imperatives of generating good competition and participation of competent bidders.
- i. **Reserve Price:** DEA suggested to get a reserve price for annual concession fee decided for the internal working and acceptance of bids by UTLA. NITI Aayog pointed out that the instant project involves development and operation of an infrastructure asset with significant construction and revenue risks being assumed by the private partner with no capital/operational expenditure being incurred by the Authority. Further, the financial bid is discovered through an open and transparent competitive bidding process. Therefore, there is no need to set/finalize a reserve price for the proposed project. DoE suggested that the reserve price should be worked out in order to protect the interest of Authority. MHA while agreeing that Reserve Price should be calculated, requested PPPAC to form a committee for the same. DEA pointed out that in a similar project proposal of Eco tourism resort in Lalji Bay, Long Island of Andaman & Nicobar Islands, the PPPAC in its 96<sup>th</sup> Meeting agreed for the Reserve Price for annual concession fee to be worked out after receiving the financial bids but before opening the same. After detailed deliberations, PPPAC decided to have a Reserve Price in line with the decision of the 96<sup>th</sup> PPPAC meeting. PPPAC further directed MHA and UTLA to devise an appropriate mechanism at their level for finalization and disclosure of the Reserve Price for the annual concession fee after receiving the financial bid but before opening the same so as to safeguard the interests of the Authority.
- j. **Termination Payment (Clause 32.3.3):** The present termination payment clause envisages that upon termination on account of concessionaire default prior to COD, no termination payment shall be due and payable for expenditure comprising the first 40% of the Total Project Cost (TPC). In case of expenditure exceeding such 40% of TPC and forming part of Debt Due, the provisions of Article 32.3.1 shall, to the extent applicable to Debt Due, apply in respect of the expenditure exceeding such 40% of TPC. DEA suggested that there should not be any termination payment on termination occurring due to concessionaire default prior to COD as decided in the case of Eco-Tourism resorts in Lalaji Bay, Long Island, Andaman & Nicobar Islands proposal considered in 96<sup>th</sup> PPPAC meeting held on 16.09.2020. In 96<sup>th</sup> PPPAC it was decided that "*Regarding Termination Payment (Clause 32.3.3) on concessionaire default at any time prior to Project COD, no termination payment shall be made to the concessionaire and extant provisions of the MCA should be followed*". Further, unlike other infrastructure projects like Road, Rail, etc., this expenditure is the sunk cost because of the inherent subjectivity regarding designing and aesthetics. The new concessionaire may not agree with work done,



planning, designing, etc., and may like to go de-novo. NITI Aayog informed that proposed Clause is in line with the extant provisions of DCA of NITI Aayog for development of eco-tourism resorts in PPP model and provides a balanced risk sharing mechanism and sufficient comfort to the lenders and bidders of the project. UTLA stated that the instant project had been earlier bid out but no bids had been received and hence it was necessary to consider certain relaxations in the concession terms and conditions so as to attract better bids and give comfort to the bidders. After deliberations, PPPAC opined that since these are first-of-its-kind projects in India and given the failure of bids, it is imperative to provide certain relaxations in the concession terms and conditions to give comfort to the bidders in order to attract better bids and hence, decided to retain this clause.

- k. **Transfer of Project Assets free of cost:** DEA pointed out that it may be ensured that at the end of the concession period all project assets should revert back to the Project Authority free of cost and therefore to be mentioned clearly in the bid documents. UTLA agreed to it and informed that the appropriate clause in this regard shall be reworded to bring about necessary clarity in the bid documents. PPPAC took note of the same.
- l. **Extension of Concession Period:** DEA suggested that the concession period of 75 years is fairly long and there should not be any further extensions of the same due to any causes such as material breach or default of concession agreement etc. UTLA agreed to the same. PPPAC took note of the same.
- m. **Capturing of Revenues from Additional Services (Clause 21.3) and Optional Development (Clause 12.6):** DEA said that clause 21.3 allows provision of Additional Services which become permissible by any Change in Law by concessionaire @ 15% of the projected additional revenue on yearly basis irrespective of the realization of the additional revenue by the concessionaire. Whereas, Clause 24.1 dealing with Concession fee provides that Concessionaire shall be liable to pay to the Authority 15% of projected revenue for either of such Optional Development Obligations and Additional Services. DEA opined that due to the fairly long concession period of 75 years, linking percentage for sharing of revenue to projected revenues may not fully capture the ground realities and may lead to disputes. It is therefore suggested that instead of projected revenues, 15% of the actual yearly revenue generated from such Optional Development Obligations and Additional Services may be shared with the Authority by Concessionaire. Since in the instant case, there is no provision for an Escrow account, hence, the issue of appropriately segregating and fully capturing revenues from such Optional Development Obligations and Additional Services may arise and UTLA should devise a suitable mechanism for the same. DEA further suggested that Clause 24.1 needs to be appropriately reworded so as to capture revenues from both optional development obligations and Additional Services and not just 'either' of the two. After detailed deliberations, PPPAC agreed to keep Actual Revenue for computing revenue share from Optional Development Obligations and Additional Services. PPPAC also advised MHA & UTLA to devise a suitable mechanism for appropriately segregating and fully capturing revenues from Optional Development Obligations and Additional Services in consultation with NITI Aayog. PPPAC further directed that Clause 24.1 may be appropriately reworded so as to capture revenues from both Optional Development Obligations and Additional Services and not just 'either' of the two.



7. Department of Legal Affairs informed that project proposal had already been analyzed at the time of 89<sup>th</sup> and 96<sup>th</sup> PPPAC meetings and as such there were no specific legal issues which merit consideration.

8. After deliberations, PPPAC accorded 'In-Principle and Final Approval' to the project proposal of Ministry of Home Affairs/UT Administration of Lakshadweep for Development of Eco-tourism resorts in Minicoy Island, Lakshadweep under PPP mode on DBFOT (Design, Build, Finance, Operate and Transfer) and recommended the proposal for approval of the competent authority with the above-mentioned observations and decisions and following conditions:

- a. MHA and UTLA to decide on appropriate technical capacity threshold to ensure which balances the imperatives of generating good competition and participation of competent bidders.
- b. MHA and UTLA to devise an appropriate mechanism at their level for finalization and disclosure of Reserve Price for the annual concession fee after receiving the financial bid but before opening the same so as to safeguard the interests of the Authority.
- c. MHA and UTLA to revise bid documents to fix yearly increment in annual concession fee at 5% on year-on-year basis.
- d. MHA/UTLA to ensure that only those infrastructure development and improvements are committed in the bid documents which UTLA is sure of accomplishing before award of the concession to avoid litigations.
- e. MHA/UTLA to ensure that concessionaire take prior permission of UTLA before undertaking Optional Development Obligation/Additional Services.
- f. MHA and UTLA to revise bid documents to keep Actual Revenue for computing revenue share from Optional Development Obligations and Additional Services.
- g. MHA and UTLA to devise a suitable mechanism for appropriately segregating and fully capturing revenues from Optional Development Obligations and Additional Services in consultation with NITI Aayog. Clause 24.1 to be amended to capture revenues from both (Optional Development Obligations & Additional Services) and not 'either' of the two.
- h. MHA/UTLA to ensure that at the end of the concession period all project assets revert back to the Project Authority free of cost.
- i. MHA/UTLA to ensure that all the applicable clearances required for the project are obtained within the stipulated period of time and UTLA would act as a proactive facilitator for the same.
- j. MHA/UTLA to ensure that legal vetting of all revised documents (RfP & DCA) is obtained within the stipulated period of time.
- k. MHA/UTLA to obtain prior approval of the PPPAC for any further change in the scope of work or project configuration.

9. The meeting ended with a vote of thanks to the Chair.

\*\*\*\*\*



**Annexure-I**

**List of participants of the 102<sup>nd</sup> Meeting of PPPAC to consider project proposal for Development of Eco-tourism resorts in Minicoy Island, Lakshadweep under PPP mode**

<b>Sl.No.</b>	<b>Name</b>	<b>Designation and Department</b>
1.	Shri Ajay Seth	Secretary, EA - in Chair
2.	Shri Govind Mohan	Additional Secretary, Ministry of Home Affairs
3.	Shri B. Purushartha	Joint Secretary (IPF), DEA
4.	Shri Avinash Mishra	Adviser, PAMD/PPP, NITI Aayog
5.	Shri A. Anbarasu	Advisor to Administrator, UT Lakshadweep
6.	Dr. R.J.R. Kasibhatla	Deputy Legal Adviser, D/o Legal Affairs
7.	Shri AmitSatija	Secretary Tourism, UT Lakshadweep
8.	Shri S Asker Ali	MD Sports & Director Tourism, UT Lakshadweep
9.	Shri Harjot Singh Sandhu	Deputy Secretary, Ministry of Home Affairs
10.	Shri Rangin Murmu	Deputy Director, Department of Expenditure
11.	Shri Manoj Kumar Madholia	Deputy Director (PPP), DEA
12.	Shri Kartik Agrawal	Deputy Director(PPP), DEA
13.	Ms. Arpana Bhatt	Consultant, NITI Aayog