A Review of the World Bank's Inspection Panel Report on the Bujagali Hydropower Project

International Rivers Network, June 10, 2002

1. Summary and Recommendations

A new report by the World Bank's Inspection Panel on the Bujagali Hydropower Project in Uganda offers the first independent evaluation of the project after a long, acrimonious debate. The report, which has not yet been officially released to the public, was submitted to the World Bank's Board of Directors on May 30, 2002. This is a welcome step.

Some background information on the Bujagali project is given in section 7 of this paper. The World Bank Group, through the International Development Association (IDA) and the International Finance Corporation (IFC), approved loans and guarantees to the project in December 2001. When several other financial institutions declined to become involved in Bujagali, the Bank's management decided to increase support to the project through the Multilateral Investment Guarantee Agency (MIGA). The Board of Directors was scheduled to approve MIGA's participation on June 4, 2002, but this was delayed following the release of the Inspection Panel report. International Rivers Network and other groups appreciate the decision taken by the Board to postpone further action on Bujagali in order to allow for a discussion of the Panel's findings.

The purpose of this review is to highlight major findings of the Panel report, and to recommend corrective action which is needed to rectify the problems documented in the report before the project goes forward. The review focuses on the Bujagali project, and does not look into the earlier Uganda power projects which are also covered by the Inspection Panel's report.

The Ugandan groups and individuals who filed the complaint with the Inspection Panel have come under strong pressure from Uganda's government for allegedly acting against the national interest. **The Panel report vindicates many of the civil society concerns.** It finds the Sectoral and the Cumulative Environmental Impact Assessments – which would be essential for the analysis of the project's overall impacts – to be lacking or insufficient. The report notes that the Resettlement Action Plan is incomplete, and that the Community Development Action Plan is inadequate. Furthermore, the project-affected people in the tourism industry are not being compensated for the loss of their livelihoods. The report does find that most project-affected people received adequate compensation packages, that the Environmental Impact Assessment was generally of high quality, and that the project sponsor acted in good faith in attempting to mitigate the cultural consequences of losing the Bujagali falls.

Importantly, **the Panel report finds the economic and financial analysis of the project to be seriously deficient.** The forecast of future electricity demand and the analysis of tariff affordability used by the Bank are flawed; the risks implied by the delay of policy reforms are neglected: and the Power Purchase agreement is not always up to International Best Practice. Even if the optimistic assessments of the demand forecast are realized, the power tariff would reach an unaffordable 14 cents/kWh because of Bujagali, if it were not for debt relief. A mild annual depreciation of Uganda's currency would send the power tariffs through the roof. Any combination of factors – a further delay of privatization, continued macroeconomic problems, a depreciation of the currency – would compound the problems even more. This is not at all an unlikely scenario. The Bank's management calls Bujagali a “high risk/high reward” project. The Panel report suggests that management did not adequately analyze these risks, and the project’s economic viability. **The risk must be considered high that Bujagali turns into “very substantial stranded costs”, as the Panel puts it, and will add to Uganda’s unsustainable debt burden.**

The Panel report also finds that in preparing Bujagali, the World Bank neglected the analysis of alternative power supply options. This is particularly true for Uganda’s promising potential of geothermal power. The Panel notes that management violated the Bank’s information disclosure policy when it withheld the Economic Review of the Bujagali project from the public. And it says that a release of the Power Purchase Agreement is not required by the disclosure policy, but would be “vital” to allow Uganda’s public to understand the project and participate in the discussion about its viability.

In conclusion, the Panel report finds that in preparing the Bujagali project, the Bank’s management violated the following Operational Policies: OP 4.01 on Environmental Assessment, OP 4.04 on Natural Habitats, OD 4.30 on Involuntary Resettlement, OP 10.04 on Economic Evaluation of Investment Operations, OD 13.05 on Project Supervision (regarding the Power III Project), BP 17.50 on Disclosure of Operational Information and the Operational Manual on Disclosure of Factual Technical Documents. OP 4.01, OD 4.30 and particularly OP 10.04 were violated on several accounts.

The Panel report suggests, explicitly or implicitly, a number of measures to address the problems of the project. They include:

- a **Sectoral Environmental Assessment**, including a Cumulative Impact Assessment, should be carried out to analyze the cumulative impacts on the Nile from multiple dams;

- a legally binding agreement should be reached to **protect the downstream Kalagala waterfall** as part of the project’s mitigation measures;

- the outstanding issues regarding **compensation, the Resettlement and the Community Development Action Plans** need to be resolved to avoid an ongoing violation of Bank policies;

- an analysis of the **costs and benefits of the debt relief measures** necessary to bring down the power tariffs to an affordable level after Bujagali;

- an analysis of the **impacts of currency depreciation** on the power tariffs;

- an analysis of the impacts which a **more realistic range of demand forecasts** would have on the project’s viability;

- an analysis of the **problems associated with the privatization process** and the related implications for the development of power distribution;

- **amendments to the Power Purchase Agreement** in order to cover the risks which escalating tariffs and low electricity demand pose to Uganda’s government;

- a more thorough **investigation of the potential of geothermal energy;**

- and the **public release of the Economic Review** of the Bujagali project.

The Bank is in a position to make the **public release of the Power Purchase Agreement** (PPA) a condition for further action on the Bujagali project. Since this is "vital" for a public understanding of the project's impacts, the Bank should ensure the publication of the PPA immediately.

Most of the measures listed above need to be implemented before a decision on Bujagali – or more generally, a next expansion project for Uganda's power sector – is taken. **Carrying out a realistic economic analysis and risk assessment is an absolute necessity, but would be futile after the project has been approved.**

The Panel report points out that the "optimal timing" for Bujagali is actually 2007, and not 2006. At the same time, AES does not seem to be able to come up with the full equity for the Bujagali project anyway. Its stock has lost more than 40% of its value only in the last ten days, and so the company needs to look for an investor partner in the project. **This allows for time to carry out the measures suggested by the Panel report before a new Uganda power project is proposed for Board approval.** Meanwhile, the report of the Inspection Panel should be officially released for public comment in Uganda and internationally as soon as possible. A thorough debate is needed in order to address the problems of Bujagali, and to overcome the rift which has been created by the preparation of the project.

2. Economic and Financial Assessment

The Panel report looks at several critical factors which affect the economic and financial viability of the Bujagali project. While its comments and conclusions are cautious, it presents strong evidence on flaws in the economic analysis of the project which need to be corrected.

The demand forecasts

A number of "load forecasts" were conducted in order to examine whether sufficient demand exists to absorb the electricity generated by the Bujagali project. The World Bank commissioned Electricite de France (EdF) to conduct these studies. EdF prepared a forecast in 1998, and updates in 2000 and 2001. The Panel report notes the following concerns regarding the demand forecasts:

?? **The project is based on exaggerated assumptions regarding electricity demand from Uganda's industry.** The Panel report notes: "It is clear that, despite the downward trends in the growth rates over time, the 2001 Update growth rates of industrial product are everywhere significantly above those of the 2000 Update." (Para. 164)

?? **The World Bank fails to provide evidence for its optimistic expectations regarding the reduction of power losses.** Uganda's power sector suffers from high system losses, which are mainly due to poor maintenance and high rates of power theft. The World Bank assumes that the privatization of Uganda's power distribution will significantly reduce the system losses, from 32% in 1999 to about 18% in 2010. The Panel report points out that "[n]either of the Updates presents any detailed analysis of how and why the forecast loss reductions are to be achieved – except broadly through the process of network rehabilitation and privatization" (para. 168).

- ?? **The Bank fails to justify its optimistic assumptions regarding the expansion of the customer base.** As the 2001 Update notes, electricity connections are "the most important" but "also one of the least predictable" factors of future residential demand (EdF Update quoted in para. 165). Uganda saw a sudden upsurge of new residential connections from 4,200 in 1999 to 19,800 in 2000. Rather than using average values, EdF's demand forecast used this extraordinary spike for calculating the future increase of connections – a decision which the Panel report notes "is not properly justified" (para. 166).

- ?? **Delays in the privatization process greatly increase the project's risk.** The key factor in the World Bank's projections regarding new connections and the reduction of power losses is the privatization of power distribution. As the Panel report notes, this process "is now significantly behind schedule. In a reversal of earlier intentions, it was decided in November 2001 that the project would be recommended to the Board without conditions on this privatization, a decision that significantly increased the project's risks." (Para. 169, see also para. 208) The report concludes: "[G]iven the importance of distribution sector performance for new connections and non-technical loss reduction, the institutional risk to sustainability through delayed distribution, privatization, and/or underperformance, should have been more thoroughly explored." (Para. 170)

- ?? **The Bank's forecast did not consider the full range of macroeconomic trends which could influence electricity demand.** The Panel report notes that the load forecasts used a very narrow range between the low and high cases, which did not consider the full range of GDP growth rates used in the assumptions. As the Panel states, "[t]his merits discussion, since GDP and its sectoral components play a key role in influencing demand" (para 173, p. 50). And, more fundamentally: "In view of the 'high risk/high return' nature of the Project, and the central role of the load forecast (…) it might have been anticipated that the process would take special care to address the dangers of a relatively narrow range between the high and low load forecasts. In the Panel's view, there is little evidence to suggest that it did so." (Para. 175, p. 51, and para. 213) [Note that separate paragraphs 172-175 reappear on pp. 51ff.]

Tariffs and affordability

The Panel expressed a number of concerns about the project's affordability to Ugandans. High electricity tariffs could greatly reduce demand for Bujagali, which would result in a big stranded investment for which the government would have to pay. The World Bank believes that with a price range of up to 10.5 US cents per kWh, its demand forecast can be achieved. The Panel report notes the following concerns regarding electricity tariffs and affordability:

- ?? **The Bank hides the fact that because of Bujagali, tariffs will become unaffordable without debt relief.** The Panel points out that the figures provided by the Bank's project documents "provide limited information about the estimated retail tariffs originally required because of Bujagali. In the Panel's view, such a lack of transparency is inappropriate." (Para. 181) The Panel report notes that because of Bujagali, "the tariff rises above 14 cents per kWh" without debt relief measures (para. 182). This is considerably more than the 10.5 cents considered a critical threshold by the World Bank. The panel concludes that "even if all the underlying assumptions hold (…) there is still a potentially serious affordability problem that could be addressed through financial arrangements that include debt restructuring, and tariff leveling mechanisms. The analysis does not address the net economic costs and benefits of these devices, although it would be appropriate to do so since they might add to the net costs of the Project." (Para. 183)

?? **Even a mild currency depreciation would make power from Bujagali unaffordable.** The Panel reveals that a depreciation of the Ugandan shilling against the US dollar "could have a potentially major impact on affordability", but this is not discussed in Bank documents (para. 184). "A mild depreciation of the USh of 10% p.a. against the dollar would double the price to Ugandan consumers in 7 years, to the equivalent of 13-15 cents wholesale, or up to 20 cents on lower output [the retail level] – surely unaffordable." (Para. 194) As the Panel report elaborates, this is the scenario which has wrought havoc on Indonesia's power sector since the late 1990s. The Panel concludes that the effects of currency depreciation "should have formed part of the risk analysis and/or discussion relating to affordability" in the Bank's Project Appraisal Document (para. 214).

?? **The tariff analysis may no longer be accurate.** In 2000, after EdF carried out the demand forecasts, a one-off power tariff increase was implemented by Uganda's government. EdF estimated the tariff increase to amount to an average of 63%. In fact, the tariff increases amounted to an average of 74%, and were structured differently than assumed by EdF. As the Panel report points out, "[t]his raises some questions about whether the EdF tariff analysis accurately represents the range of affordability" (para. 179).

?? **The Bank seems to believe that consumers use the same amount of power irrespective of whether they have to pay for it or not.** The Panel notes that the demand forecasts seemed to assume that consumers who had so far stolen power would not reduce their consumption once they had to pay for it. The Panel comments that "if so, it would be a source of under-estimation of the downward response of demand to the new tariff structure" (footnote 152 to para. 179).

The Power Purchase Agreement

The Panel report takes a critical look at the Power Purchase Agreement (PPA) and its associated agreements – contracts which have been kept secret in spite of repeated requests from Ugandan and international NGOs. Among others, the Panel notes the following concerns:

?? **With costs of $2910/kW, Bujagali is an expensive project.** Based on a confidential study of over 20 leading independent power producers, the Panel report assumes the average cost of hydropower projects to be $1800/kW (para. 192). The project documents, incidentally, estimate the cost of geothermal power plants to be $2000/kW.

?? **Once commercial operations have started, the parent company AES is not obliged to support its Ugandan affiliate, the project company, in any way.** The Panel notes that this "is no doubt desirable for AES", but "could significantly increase risks for other stakeholders" (para. 187).

?? **The penalties for under-performance are not up to best practice.** As the Panel points out, the penalties on the project company for sustained under-performance by the power plant "should result in better compensation for the purchaser" and do not match with "[i]nternational best practice" (para. 188).

In the Panel's view, "the strategic risks just examined in relation to the PPA suggest the value of additional risk mitigation measures", and **the report presents the following "illustrative types of measure which could be (or might have been) applicable to Bujagali"** (para. 197f.):

?? "A provision to terminate for commercial rather than default reasons", which would allow either party to initiate a renegotiation process if for example a specified price was reached (para. 199).

?? "A provision to treat low demand (…) as a special category of force majeure", which could also lead to a termination or renegotiation of the contract (para. 200).

Conclusions regarding economic and financial issues

The Inspection Panel raises crucial issues regarding the economic and financial viability of Bujagali. They include the projections for power demand and how they will be affected by tariff increases, the relations between system losses and the lagging privatization process, the impacts of currency depreciation on the power tariffs, and the unfavorable terms of the Power Purchase Agreement. The report discloses that even without currency devaluation, Bujagali would make power tariffs increase to 14 cents per kWh (if it were not for debt relief measures). It notes that a mild annual depreciation of Uganda's currency would send tariffs through the roof. And it reveals that in its zeal to promote Bujagali, the Bank management simply dropped an important policy condition regarding privatization when it became clear that Uganda could not comply with it.

The findings of the Panel are even more serious if the various shortcomings of the economic analysis are compounded. An unrealistic base case for the rate of new power connections, a power tariff which becomes unaffordable without debt relief measures, and the massive impacts which a mild currency depreciation would have on power tariffs would be serious problems even if they were isolated events. Yet the forces behind these problems are at work all at once. So the risk of Bujagali turning into "very substantial stranded costs against the PPA obligations" (para. 191) or a so-called white elephant project is very real.

The Panel report does not question the extremely high interest rate of 13% at which deferred capacity payments will accrue under the PPA. (See para. 4 of the President's report on Bujagali). It does not discuss the potential impacts of climate change on the Nile's hydrology, and thus on the economics of the project. And it does not discuss the realism of the macroeconomic projections, including projections for export revenues and aid flows, from which the project's economics depend. (See IRN's May 2002 report, "Pervasive Appraisal Optimism", http://irn.org/programs/bujagali/wb.bujagalipaper.pdf, for a discussion of the climate change risks and macroeconomic projections.) Even so, the Panel report finds that the economic analysis "occasionally conveys an impression of being rushed or unfinished" and raises "questions about the completeness of the analysis" (para. 212). **In other words, Bank Group's management proposes a high risk project to MIGA's Board which is based on a seriously flawed economic analysis.**

The Panel report suggests, or implies, a series of measures which need to be taken to adequately assess the project risk for Uganda (and the Bank Group) before it is too late. These measures include:

?? an analysis of the net economic costs and benefits of the devices planned to bring down the power tariffs to an affordable level (para. 183);

?? an analysis of the impacts of currency depreciation on the power tariffs (para. 184 and 214);

?? an analysis of the impacts which a wider range of demand forecasts would have on key features of the project (para. 213);

?? an analysis of the risk which a delayed or under-performing privatization has on the development of the power distribution system (para. 215);

?? adding a provision to the PPA to renegotiate the contract for commercial reasons (para. 199); and

?? adding a provision to the PPA to treat low demand as a category of force majeure (para. 200);

These suggested analyses and contractual clauses would have a direct impact on the basic economics of the Bujagali project. The necessary changes to the PPA cannot be effected once the project has been approved. And it would be an effort in futility to carry out analyses on the economics of the project after it has been approved. **The Executive Board should insist that the necessary analyses and contractual changes be carried out before the project is presented for approval.**

3. Consideration of Alternatives

The Panel report shows that alternatives to Bujagali received a very spurious treatment in the project's preparation. It reveals an interesting remark from the July 2001 draft of the economic review of Bujagali by Acres International. "When interviewed on the subject", Acres noted after a visit to Uganda, "all stakeholders in the sector indicated that *they had not considered any alternatives as a possible replacement for the 200 MW Bujagali project*." (Para. 220, emphasis in the original) The final version of the Acres report omits this sentence. This is one example of how critical information was withheld from the Bank's Executive Board in the preparation of the Bujagali project. The Panel concludes that "this evidence that alternatives to Bujagali had not been considered (as opposed to having evaluated and rejected them), confirms the importance of IDA's responsibility to scope and evaluate them thoroughly" (para. 221).

The Panel finds that the approach of the Acres Report to wind and solar energy seemed "outdated", which "risk[ed] unnecessarily narrowing the range of alternatives considered" (para. 230). Even more importantly, **the Panel finds that "[t]he treatment of geothermal power generation in the development of the counterfactual scenarios seems curious"** (para. 241). It refers to a World Bank website which indicates a price range for geothermal power plants of 2.5 to 6.0 cents per kWh, which is much less than for the power produced by Bujagali. The Panel mentions that the World Bank's Energy Sector Management Assistance Programme (ESMAP) recommended in 1999 that geothermal energy should be evaluated in the framework of Uganda's power system expansion. Yet this recommendation was never implemented. Instead, the Acres Report used a "pessimistic" estimate for the construction time of geothermal plants (para. 238).

It is noteworthy that while the Bank's appraisal of the Bujagali project was over-optimistic in many instances, the analysis of alternatives to the project appears consistently pessimistic. The Panel report concludes, cautiously: "A more thorough investigation of the potential of geothermal energy might have enabled the reviewers to say with greater confidence whether or not it stood the chance of being a viable alternative, and if so in what circumstances." (Para. 241)

The Panel notes that "although the developer's schedule is for Bujagali in 2006, the optimal timing that emerges from the least cost expansion plan is actually for 2007" (para. 238). **This timing allows for the rapid appraisal of Uganda's promising potential of cost-effective geothermal power before any new expansion project is presented to MIGA's Executive Board.**

4. Environmental Compliance

While the Panel finds the Bujagali project's environmental studies to be generally up to World Bank standards, it does find a number of instances in which the Bank has violated its own environmental policies, and it expresses serious concerns about broader environmental issues associated with the project. These include the Bank's failure to adequately protect an important downstream waterfall area (Kalagala) as mitigation for the loss of Bujagali, the lack of a sector-wide environmental assessment or a related cumulative impacts assessment for the multiple dams existing or proposed on the river, and acknowledgement of some of the outstanding questions about the Nile's hydrology and its potential impact on the viability of hydropower.

The Panel report is clear that **the measures taken to protect Kalagala Falls as mitigation for the loss of Bujagali (the so-called "Kalagala Offset") are inadequate**, and that because of this failure, the Bank is in violation of its safeguard policy on natural habitats. As the report states, "Management and staff (…) confirmed that the Bujagali Project was not to take place unless a valid environmental offset were created in accordance with OP 4.04 on Natural Habitats" (Executive Summary, para. 48). It goes on to say that management continued to represent Kalagala Falls as protected, to be conserved in its present state in perpetuity, despite the fact that the legal agreement arranged between the Bank and the Government of Uganda does not make any such pretension. "[T]he Panel finds that the GoU has assumed no obligation *whatsoever* to preserve Kalagala Falls as an offset" (para. 153, emphasis in the original). In fact the agreement "contains a *direct expression* of potential development of the Kalagala site" (para. 154, emphasis in the original). The Panel engaged the World Bank's legal department to analyze the agreement, which confirmed that there is no binding obligation for Uganda's government to preserve Kalagala, and that management has been "inconsistent" in its statements on the topic (para. 153). The preservation of Kalagala was also intended to make up for some of the losses to the tourism industry that is now thriving at Bujagali Falls – a group of project-affected businesses that have not been included in the project's plans for compensation and resettlement (see below).

The Panel reports that there is no Sectoral Environmental Impact Assessment (SEA) for the Bujagali project, and that the World Bank did not produce a promised SEA as part of its work on the Owen Falls Dam, just upstream of the Bujagali site. Such a study would broadly analyze the environmental impacts of the numerous dams proposed for the Nile in Uganda. On the Bujagali project, the Panel states that the Bank is in violation of its safeguard policy OP 4.01, which requires an SEA for projects, such as Bujagali, which are part of a comprehensive sector reform process. On the Owen Falls project, the Panel report states: "Management admits that [the SEA] was never undertaken. (…) The failure to perform a SEA (…) was a violation of the terms and conditions under which the Board approved the Credit" for the Owen Falls project (Executive Summary, paras. 20, 21). The Panel notes that at the time of project approval for Owen Falls, it was common knowledge that other hydropower schemes were being proposed and investigated by sponsors. Although management promised an SEA, it did not produce one, and is therefore in violation of its Project Supervision policy. The Panel suggests that "[t]o be consistent with IDA policies", such a report may still need to be undertaken (para. 136).

Cumulative Impact Assessments are not required by Bank safeguard policies per se, but would need to be part of an SEA. The Panel notes that World Bank staff required such a study for Bujagali, but this promise "was not brought to successful fruition" (para. 137). **"The cumulative effects analysis is the weakest component of the Bujagali Hydropower Facility EIA"**, the Panel report notes (para. 128). One study commissioned by IFC acknowledges that cumulative impacts would be particularly acute if Kalagala were dammed along with Bujagali and Owen Falls dams. Loss of tourism earnings would be particularly acute with multiple dams. "The Panel consequently concludes that the issue of cumulative effects (…) is of real significance and is deserving of greater attention" (para. 136).

5. Social Compliance

The Panel reports that the planning for resettlement, compensation, and the development of dam-affected communities under the Bujagali project fell short of the World Bank's requirements in several key areas. Problem areas include the compensation of affected people, the Community Development Action Plan, and the Resettlement Action Plan.

The Panel found that the Community Development Action Plan (CDAP) is under-funded, short-sighted, and generally lacking in detail. Its report says the CDAP "is weak and sketchy in the extreme; it focuses almost entirely on short-term exercises; its targets are poorly laid out; and it makes no significant or systematic effort at achieving long-term poverty alleviation" (para. 273). The Panel notes other problems with the plan, including an emphasis on "short-term construction projects rather than institution building or social fundamentals", and a small amount of resources committed to the plan over the long term (para. 273). The Panel states that as a result of the inadequacies of the CDAP, Bujagali "is not in compliance with IDA's policy on Involuntary Resettlement" (para 273). In short, the Bank does not have a sufficient plan to ensure the well-being of communities affected by Bujagali Dam.

The Panel finds that the people who lost their land to the project were adequately compensated, although the process was acrimonious. It notes however that **one key group of dam-affected people was overlooked for compensation.** The rights of those who will lose their livelihoods as a result of the Bujagali project's impact on the tourism industry are not reflected in the compensation policy save for access to a small loan program. Because of this serious shortcoming, "the Panel finds that Management is not in compliance with OD 4.30" (para. 307).

The Panel notes that resettlement planning suffered from a lack of adequate socio-economic data for the affected population. Successful resettlement plans are based on a clear understanding of the socioeconomic status of project-affected communities. This is determined through well-executed socio-economic surveys. The Bank did carry out these surveys, but according to the Panel, "there is no real evidence of their use or utility in planning" (para. 259). The surveys did not inform the Resettlement Action Plan, so the Bank fell short of the intentions behind its Policy on Involuntary Resettlement. The lack of a clear set of baseline data ultimately led to serious problems during the compensation process, particularly in regards to the payment for crops, which, the Panel notes, "continue to be disputed by a significant number of affected people" (para. 260). The lack of clear baseline data also does not bode well for thorough socioeconomic monitoring of the project.

6. Disclosure of information

Ugandan NGOs had repeatedly requested a release of the Acres Report, "Economic Review of the Bujagali Hydropower Project". The World Bank refuses to release this document. The Panel finds that in this case, Bank management "is not in compliance with IDA's Disclosure Policy" (para. 332), and particularly with an Operational Manual on Disclosure of June 1994, which stipulates the release of factual technical documents. As a consequence, Bank management should release the Acres Report without further delay.

Ugandan NGOs have for a long time requested the release of the Power Purchase Agreement for Bujagali, without success. The Bank's management has refused to release this document, and the Panel finds that this unwillingness is "consistent with IDA's Disclosure Policy" (para. 337), which is silent on the issue. At the same time, the Panel states very clearly: "It seems evident that **full disclosure of the PPA is vital if the intent is to place the public in a position to analyze, understand, and participate in informed discussion** about viability of the Project and its impact on the economy and well-being of Ugandans." (Para. 91, see also para. 337, emphasis added)

If IDA's disclosure policy fails to provide for the release of "vital" information, then the policy itself is flawed. In comparison, IFC's OP 4.01 requires the release of environmental assessments for so-called Category A projects prior to Board consideration even if they are the property of the private project sponsors. "If the project sponsor objects to IFC releasing this information through the World Bank InfoShop, IFC staff do not continue work on the project", IFC's Environmental & Social Review Procedure (para. 43) stipulates. **The release of essential economic information is no less vital for civil society than the release of environmental documents.** Even if the Bank Group's information policies are silent on the matter of Power Purchase Agreements, MIGA's Board is free to require the project sponsors to release the PPA before any further action is taken on the project. It should do so immediately.

In this context, the conclusion of IFC's and MIGA's Compliance Advisor/Ombudsman on the subject should also be recalled. **"If AES wants to maintain a degree of secrecy consistent with a private sector project"**, the CAO summarized NGO concerns in her report on Bujagali in September 2001, **"perhaps public institutions should not be asked to provide guarantees for or subsidize the undertaking."**

7. Background

Bujagali is a 200 MW hydropower project on the Victoria Nile in Uganda. It is being developed by the AES Corporation, based in Virginia/USA. On December 18, 2001, the World Bank's Executive Board decided to support the project through loans and risk management facilities from IFC and partial risk guarantees from IDA.

Several financial institutions, including US OPIC, the United Kingdom's ECGD, and Germany's DEG, declined to become involved in the Bujagali project. EKN and GIEK, the export credit agencies of Sweden and Norway, were only prepared to cover the project's commercial risk, but not the risk of Uganda's government defaulting on its payments to AES. Through MIGA, the World Bank Group now plans to extend a guarantee of $250 million to cover this political risk.

On July 25, 2001, a group of Ugandan NGOs and individuals, including the National Association of Professional Environmentalists (NAPE) and the Save Bujagali Crusade (SBC), filed a claim regarding the Bujagali hydropower project with the Inspection Panel. The Panel is the World Bank's investigative body; it covers the IBRD and IDA, but not IFC and MIGA. The Ugandan groups and individuals claimed that the proposed project violated eleven World Bank policies, including OD/OP 4.01 on Environmental Assessment, OD 4.30 in Involuntary Resettlement, OP 10.04 on Economic Evaluation of Investment Operations, OPN 11.03 on Management of Cultural Property, and BP 17.50 on Disclosure of Operational Information.

The Executive Board authorized the Inspection Panel to carry out an investigation on October 26, 2001. The Panel submitted its report to management on May 23, and the Board on May 30, 2002. According to the procedures, the Bank's management has six weeks to submit its recommendations in response to the Panel's findings to the Board. In the case of Bujagali, management is expected to do so much faster, and may in fact already have done so. The Panel's report has not yet been made available to the claimants, or to the public.

IFC and MIGA are not under the purview of the World Bank's Inspection Panel, but have their own Compliance Advisor/Ombudsman (CAO). On June 19, 2001, NAPE filed a complaint regarding Bujagali with the CAO. The CAO investigated the merits of the complaint, and issued her report in September 2001.

The CAO concluded that "whilst the project is still in the pre-Board approval stage (…), the staff of the IFC's Environment Department have maintained a close watch, and have been diligent in ensuring that the sponsor complies with the IFC safeguard policies". At the same time, she pointed out that there were broader issues not covered by IFC's specific environmental safeguard policies. She concluded that there remained seven "outstanding issues" regarding Bujagali. These issues included "the overarching question of economic viability", "the issue of the hydrological flow rates risks and the cost to Uganda", and "the question of affordability of electricity to the poorer sectors and the least cost alternative".

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International Rivers Network (IRN) supports local communities working to project their rivers and watersheds. IRN works to halt destructive river development projects, and to encourage equitable and sustainable methods of meeting needs for water, energy and flood management. On May 14, 2002, IRN published a critical review of the economic viability of the Bujagali project ("Pervasive Appraisal Optimism", http://irn.org/programs/bujagali/wb.bujagalipaper.pdf).

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