

**Uganda – Private Power Generation (Bujagali) Project:  
Management Response to the Inspection Panel Investigation Report  
December 4, 2008**

**U.S. Position**

The Panel has raised legitimate safeguards policy-compliance issues arising from the Bujagali Hydropower Project. The U.S. reaction to the Panel's report, and Management's response to the findings, follows. Although not a formal part of this process, we also heard from the Requesters.

**Bujagali Hydropower Project**

When this project was brought to the Board in April 2007, the United States supported the Bujagali Hydropower operation and welcomed the potential contribution of Bujagali to much-needed power-generating capacity in Uganda. Notwithstanding the safeguards issues that the Inspection Panel has raised, the U.S. continues to believe that projects such as Bujagali are critical for Sub-Saharan African countries to reach their long-term economic potential.

Once Bujagali is fully operational, this hydropower plant will provide an additional 250 MW of power generation capacity to Uganda's national grid – critical to overcoming obstacles to growth posed by Uganda's energy crisis of recent years. Even with this additional 250 MW, access to electricity in Uganda will still be extremely low, and additional investments in transmission and distribution infrastructure, as well as capacity building for the Energy Ministry, are required. The U.S. has spoken previously in support of regional approaches to African infrastructure challenges. In this vein, the U.S. welcomes the link between Bujagali and other Bank-supported projects such as the Nile Basin Initiative and the proposed regional transmission-interconnection investments that will further support access to electricity in Uganda.

Further, as the Panel acknowledges, the findings of this report should *not* be seen as an argument for the Bank to avoid hydropower projects for Sub-Saharan Africa. On the contrary: Africa needs to be electrified to bring sustainable development and poverty reduction to its people and only a fraction of its abundant hydro potential is currently being exploited. The key is to incorporate the lessons from the Panel's findings and apply them to this and future hydropower projects. Enhanced staff resources, including a social and an environmental specialist in the country office in Kampala, should support the effective application of these lessons as well.

The U.S. commends the extensive work of the Inspection Panel on this complex and sensitive matter. The U.S. believes that some of the concerns raised by the Panel might have been resolved far earlier in this process had there been greater communication between Management and the Panel closer to the time of the Request. Management acknowledges the value of the Panel's institutional role and notes the lessons-learned from this investigation. This is precisely the intent of the Inspection Panel -- to improve the way projects are designed and executed, in full compliance with Bank safeguards

policies, to protect the interests of local communities. The U.S. would welcome efforts to improve communications between both sides to, where possible, shorten the duration of the IP investigation process and identify remedial actions "along the way".

### **Inspection Panel's Findings and Management's Response**

The Bank Group's Safeguards Policies and Performance Standards are intended to protect the interests and rights of project-affected persons. The U.S. remains supportive of the important role of the Inspection Panel in identifying lapses in complying with these policies and standards, to help ensure that Bank Group projects achieve their development objectives. In particular:

Environmental Management Plan: The U.S. concurs with the Inspection Panel that an Environmental Management Plan (EMP) should have been prepared and disclosed in advance of the April 2007 Board discussion of Bujagali.. An EMP would have provided critical information on mitigation measures and their adequacy. While we acknowledge that this is a Bank *Group* project with IFC financing and an IDA guarantee, with unique sequencing issues associated with private sector projects, the U.S. does not agree that compliance only with IFC Performance Standards, to the exclusion of IDA safeguards policies, is acceptable. *This was a policy judgment call by Management not within its competence. Management should have complied with OP 4.01 or if unable to do so, requested a waiver from the Board.* In this regard the U.S. welcomes the formation of the IDA-IFC Secretariat, and looks forward to their work on coordinating the environmental and social safeguards policies between the two institutions. Such coordination may help avoid compliance issues in future projects. The United States emphasized, *however, that this exercise cannot change policy without Board approval.*

Independent Panel of Experts: The U.S. concurs with the Inspection Panel's concerns regarding the importance of appointing an independent panel of experts (POE) earlier in the project-design process, per OP 4.01. The United States acknowledges Management's response that there was a POE for the initial (AES) Bujagali project. However, the United States considers that a new POE (or a reconstituted version of the previous one) would have provided critical input to the project sponsor on developing the terms of reference of the Environmental Assessment (EA). The United States stressed that in these situations private sector sponsors should be told at the outset that this is a Bank policy requirement that must be satisfied in a timely manner. The U.S. welcomes plans for the POE to continue operating throughout the project duration, and for their reports to be submitted both to the Bank and IFC as well as to BEL.

Disclosure of Project Documentation: The U.S. shares the Inspection Panel's concern about the importance of the entire suite of project documents – particularly those assessing environmental and social project impacts – being disclosed and posted in a timely manner that is easily accessible to all stakeholders. The United States appreciates Management's clarification that each of the critical documents was prepared and posted publicly. However, the United States requested that websites for projects with complicated documentation should have a 'roadmap' or other master matrix of all project

documents and related web links to ensure transparency and access to these project analyses.

Kalagala Offset: The U.S. acknowledges that the offset arrangements at Kalagala Falls are an improvement over the offset under the original Bujagali project. The Indemnity Agreement, particularly the cross-default provision, provides a powerful remedy in the event that any actions jeopardize the natural habitat and environmental and spiritual values of the Kalagala Falls site. The United States appreciates Management's clarification that BEL is developing a Sustainable Management Plan and that enhanced tree plantings are underway along both sides of the river site, including Kalagala Falls. That said, the U.S. remains concerned with the adequacy of the offset protection and we encourage both Management and the Ugandan authorities to consider additional ways to ensure the integrity of the offset.

Hydrology and Cumulative Impacts of Bujagali: The U.S. shares some of the Panel's concerns regarding the cumulative hydrological impacts of Bujagali as well as broader hydrological issues for future Bank hydropower projects, as noted in the April 2007 U.S. statement. The U.S. welcomes Management's clarification of the use of the 'constant release' approach to abstraction from Lake Victoria in the Economic Study and the projection that successful completion of the Bujagali project could facilitate a return to releases and operations on the basis of the Agreed Curve. Going forward, the U.S. encourages greater transparency and integration of hydrology-based environmental mitigation options into the "upstream" economic analysis of hydropower projects. This is particularly important as the Bank considers a number of ambitious, multi-country river development projects in Africa.

Resettlement and Livelihood Restoration: The U.S. shares the Panel's concerns that a new Resettlement Action Plan (RAP) was not prepared for this new Bujagali project, notwithstanding the preparation of a RAP for the initial Bujagali operation. Management has indicated that the audit of the previous RAP (APRAP) was deemed sufficient as no new land had been taken between the 2001 RAP and the new project. However, the U.S. is not convinced that this will afford the same level of protection to those affected by the project. The U.S. also welcomes BEL's plans to complete an updated baseline socio-economic survey by March 2009, to expand the community development program, and to increase the livelihood restoration budget from \$2 million to \$3.8 million.

Physical Cultural Resources: The U.S. commends the extensive efforts undertaken, through numerous consultations with spiritual leaders and local communities, across a wide range of religious stakeholders, to identify the spiritual values associated with the project site and surrounding areas. These are indeed complex and sensitive issues, and we are eager for this project to be implemented in a dignified and respectful manner. The U.S. also welcomes plans for additional outreach and appeasement ceremonies, notwithstanding the summary statement in Annex 1 of the Management Response "No action required".

Legacy Issues: As several of the concerns raised by the Panel relate to legacy issues from the initial Bujagali project, the U.S. welcomes plans for the Bank to develop guidance

notes for task team leaders taking on projects that the Bank previously financed or considered financing and which were not completed. The U.S. believes that, in the current global circumstances, the number of infrastructure projects that are dropped, and resumed may increase, particularly if the proposed new IFC infrastructure facility proceeds.

The U.S. reiterates its support for the Bujagali project, while concurring with many of the Panel's concerns about inconsistencies with safeguards policies. The U.S. also supports Management's commitment to update the Board on progress toward implementing that Action Plan six months from now, with annual reports thereafter, although that Action Plan should reflect the suggestions above. Finally, the U.S. welcomes Bank Management's commitment to provide an "intensive supervision regime."