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**MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE
INSPECTION PANEL INVESTIGATION REPORT**

UGANDA:

**THIRD POWER PROJECT (CREDIT NO. 2268-UG),
FOURTH POWER PROJECT (CREDIT NO. 3545-UG), AND
BUJAGALI HYDROPOWER PROJECT (PRG NO. B 003-UG)**

June 7, 2002

**MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE
INSPECTION PANEL INVESTIGATION REPORT No. 23998**

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PROJECT (CREDIT 3545-UG) AND THE BUJAGALI HYDROPOWER
PROJECT (PRG B 003-UG)**

Pursuant to paragraph 23 of the Resolution Establishing the Inspection Panel (IBRD Resolution 93-10 and IDA Resolution 93-6), attached for consideration by Executive Directors is Management's Report and Recommendation in response to the findings set out in the Investigation Report No. 23998 dated May 23, 2002, of the Inspection Panel on the captioned Projects (Inspection Panel: Request for Inspection: Uganda: Third Power Project – Credit 2268-UG; Fourth Power Project – Credit 3545-UG and the Bujagali Hydropower Project – PRG No. B 003-UG, IPN Request RQ01/3 of August 7, 2001).

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LIST OF ACRONYMS AND ABBREVIATIONS

AES	The AES Corporation
AESNP	AES Nile Power Limited
AfDB	African Development Bank
BP	Bank Procedure
CDAP	Community Development Action Plan
EA	Environmental Assessment
ECAs	Export Credit Agencies
EDF	Electricité de France
EIA	Environmental Impact Assessment
EIRR	Economic Internal Rate of Return
EPC	Engineering, Procurement and Construction
ERA	Electricity Regulatory Authority of Uganda
ERR	Economic Rate of Return
ESMAP	Energy Sector Management and Assistance Program
GEEP	Geothermal Energy Exploration Project
GoU	Government of Uganda
IA	Implementation Agreement
IDA	International Development Association
IFC	International Finance Corporation
kV	Kilovolt
kWh	Kilowatt hour
MIGA	Multilateral Investment Guarantee Agency
MOU	Memorandum of Understanding
MW	Megawatt
NBI	Nile Basin Initiative
NELSAP	Nile Equatorial Lakes Subsidiary Action Program
NGO	Nongovernmental Organization
OD	Operational Directive
OPEC Fund	Organization of Petroleum Exporting Countries Fund
OMS	Operational Manual Statement
OP	Operational Policy
OPN	Operational Policy Note
PAD	Project Appraisal Document
PAP	Project Affected Person
PPA	Power Purchase Agreement
RAP	Resettlement Action Plan
SAR	Staff Appraisal Report
SEDD	Summary of Economic Due Diligence
SSEE	Strategic/Sectoral Social and Environmental Assessment
UEB	Uganda Electricity Board
UETC	Uganda Electricity Transmission Company
UNDP	United Nations Development Program
USD	US Dollar
USh	Ugandan Shilling
WBG	World Bank Group

LIST OF OPERATIONAL POLICIES, OPERATIONAL DIRECTIVES, OPERATIONAL MANUAL STATEMENTS, AND OPERATIONAL POLICY NOTES

OMS	2.20	Project Appraisal, January 1984
OMS	2.21	Economic Analysis of Projects, May 1980
OMS	2.36	Environmental Aspects of Bank Work, May 1984
OD	4.00	Environmental Assessment, October 1989
OD	4.30	Involuntary Resettlement, June 1990
OD	13.05	Project Supervision, January 1996
OPN	11.03	Management of Cultural Property in Bank-Financed Projects, September 1986
OP/BP	4.01	Environmental Assessment, January 1999
OP	4.04	Natural Habitats, June 2001/September 1995
OP	4.37	Safety of Dams, October 2001/September 1996
OP/BP	10.00	Investment Lending: Identification to Board Presentation, June 1994
OP	10.04	Economic Evaluation of Investment Operations, September 1994
OP/BP	13.05	Project Supervision, July 2001
BP	17.50	Disclosure of Operational Information, September 1993

I. INTRODUCTION

1. A Request for Inspection (Request) was submitted to the Inspection Panel (the Panel) on July 27, 2001 by the National Association of Professional Environmentalists of Kampala (NAPE), Uganda Save Bujagali Crusade (SBC) and other local institutions and individuals (the Requesters). The Requesters claimed that failures and omissions of the International Development Association (IDA) in the design, appraisal, and implementation of the Power III, Power IV and the Bujagali Hydropower Projects have materially affected their rights and interests and were likely to jeopardize their future social, cultural and environmental security. The Executive Directors and the President of IDA were notified by the Panel of receipt of the Request.
2. The Management responded to the claims in the Request on September 13, 2001, noting that several current Bank policies and procedures were not applicable when the Power III Project was appraised in 1990. The appraisal of the Power III was robust, as was that for Power IV, and both were conducted in compliance with the relevant guidelines and policies in effect at the time. As for the Bujagali Hydropower Project, it was also in compliance with the relevant Bank policies and procedures.
3. In addition, Management acknowledged deficiencies in three areas not identified by the Request. First, the Staff Appraisal Report (SAR) and the Development Credit Agreement for the Power III Project were not fully consistent in their description of capacity expansion, due to ongoing modifications to the design of the Owen Falls Extension. Second, although not required by applicable directives and policies, the Government was to have produced a Sectoral Environmental Assessment (SEA) under the Power III Project, but did not do so and, instead, other studies were undertaken over time which yielded analyses that accomplished the objective of the SEA. Third, the Category "B" Environmental Assessment (EA) for the Power IV Project was sent to the Infoshop prior to appraisal, but was not disseminated in Uganda until after the appraisal.
4. The Panel in its Report to the Board found the Request eligible and recommended that the Executive Directors authorize an investigation. The investigation was authorized by the Executive Directors on October 10, 2001.
5. On May 23, 2002, the Panel issued its report outlining the findings of the investigation. At the outset, Management acknowledges the Panel's extensive and in-depth analysis of compliance issues associated with the projects under review. This analysis has brought into focus key issues and provided valuable input for World Bank projects.
6. This report, responding to the findings of the Panel, is organized in eight sections. Section II below describes the status of the Projects under review. Section III addresses issues related to "appraisal optimism." Section IV discusses Public-Private Partnerships, a new modality for World Bank Group (WBG) support. The disclosure requirements in private sector projects are discussed in Section V. Section VI summarizes the findings of the Panel. Section VII presents the Management's Action Plan in response to the Panel's findings, and Section VIII contains the conclusion. The Panel's findings, along with the Management's responses, are described in detail in Annex 1.

II. STATUS OF THE POWER III, POWER IV AND BUJAGALI HYDROPOWER PROJECTS

7. As a landlocked country, Uganda has continually suffered economic disadvantages because it imports its petroleum about 1,000 kilometers overland from Mombasa, Kenya or from Dar es Salaam, Tanzania. Uganda's special advantage is considerable hydropower potential, primarily from the Victoria Nile, to meet its energy requirements.

8. IDA has assisted Uganda for over 20 years in developing this potential through several projects, beginning in 1980 with an emergency repair operation for the Owen Falls Dam – now called Nalubaale dam (originally financed by the United Kingdom). Along with the Owen Falls Extension (now called Kiira), this complex on the Nile River has been constructed and extended over a period of about 50 years. Other IDA financed projects include Power II in 1985 for the rehabilitation of the Owen Falls Dam, Power III in 1991 for the construction of the Owen Falls Extension, a Supplemental Credit to Power III in 2000, and the recently approved Power IV, Energy for Rural Transformation (ERT) and the Bujagali Hydropower Project.

9. The strategy underpinning IDA's involvement in the power sector has evolved, reflecting the recognition that shortfalls in the performance of the sector were becoming a key constraint to sustaining the country's growth momentum. The strategy is designed to assist the Government of Uganda to restructure the power sector, improve its overall efficiency and performance, promote the least-cost development of the sector, and meet the energy needs of unserved rural populations, so as to broaden the base of economic growth, improve living standards of the populations at large and reduce poverty in a sustainable manner. The three recently approved operations – Power IV Project, ERT and the Bujagali Hydropower Project – are all an integral part of this assistance strategy.

10. **Power III Project (Credit 2268-UG).** IDA approved a Credit of USD 125 million equivalent on June 13, 1991, and a supplemental credit of USD 33 million equivalent on January 20, 2000 for the Power III Project. The main objectives of the Project were to develop Uganda's hydropower resources and expand its transmission and distribution system to provide electricity at least cost to a greater portion of the population, and to improve the efficiency of the power sector. The Project included the construction of the Owen Falls Extension power house and installation of 2x40MW generating sets, remedial works at Owen Falls dam, as well as technical assistance to the Uganda Electricity Board (UEB) to improve its operational and financial performance and implement the Government's power sector reform program. The Project was closed on December 31, 2001. The Implementation Completion Report is under preparation.

11. **Power IV Project.** IDA approved a credit of USD 62 million equivalent on July 3, 2001 for the Power IV Project. The main objectives of the Project are to expand power supply to meet demand at least cost, and strengthen Uganda's capabilities in managing the energy reform and privatization process. The Project includes the installation of between 40-80 MW of generating capacity at Owen Falls Extension and technical assistance for energy sector development and reform. The credit was declared effective on April 4, 2002, and Project implementation is proceeding satisfactorily.

12. **Bujagali Hydropower Project.** An IDA Partial Risk Guarantee of USD 115 million and IFC support of: (i) an "A" loan of up to USD 60 million; (ii) a "B" loan of up to USD 40 million; and (iii) a risk management instrument of up to USD 10 million for the Bujagali Hydropower Project were approved by a joint IDA/IFC Board on December 18, 2001. The Project involves the installation of a 200MW run-of-the-river power plant at Bujagali Falls as well as the construction of about 100 km of transmission lines and associated substations. The latest financing plan

envisages that AES Corporation (AES), the private sponsor, will provide USD 111.3 million in equity for the Project. Other financiers include the African Development Bank (USD 55 million) and export credit agencies (ECAs) for USD 219.5 million. AES Nile Power (AESNP) will construct the hydropower plant on a build-own-operate-transfer basis. AESNP, a privately owned and operated project company, will sell electricity to the Uganda Electricity Transmission Company (UETC) under a 30-year Power Purchase Agreement (PPA).

13. Under the original financing plan, the ECAs were to jointly provide comprehensive insurance cover to Swedish Export Credit Corporation and Exportifinans who were financing the ECA tranche, then estimated at USD 234 million. In January 2002, the Swiss ECA approved its participation in the Project (USD 54 million). Also in late January 2002, the Swedish ECA decided not to participate in the Project because of the country risk and apparent exposure constraints. Similarly, the Norwegian and Finnish ECAs were concerned about the Ugandan country risk, and indicated that they would probably follow the Swedish ECA's decision, which would have resulted in a total financing gap of about USD 180 million.

14. In February 2002, MIGA began actively discussing with the ECAs an option under which MIGA would provide political risk coverage to the lending institutions, and Swedish Export Credit Corporation and Exportifinans alongside the ECAs would provide commercial risk coverage. The Norwegian ECA approved its participation in the Project on May 16, 2002, and the Swedish and Finnish ECAs approved their participation in the Project on May 30, 2002. MIGA has circulated a Board paper to its Executive Directors seeking concurrence for aggregate MIGA guarantees of debt and equity of up to USD 250 million for Breach of Contract coverage, of which up to USD 100 million would be to MIGA's net own account.

15. The Engineering, Procurement and Construction (EPC) contract expired at the end of December 2001. It is currently under re-negotiation. In addition to minor changes in its terms, a key change to the contract relates to the new price escalation clause, which has led to an increase in the value of the contract of about USD 0.8 million per month. The EPC contract price is also subject to adjustment for foreign exchange rate fluctuations until financial closure, which is scheduled for end June 2002.

III. APPRAISAL OPTIMISM

16. A persistent theme emerging from the debate concerning the Bujagali Hydropower Project has been "pervasive appraisal optimism" with respect to Uganda's economic prospects and the demand forecast for power in the country. While Management agrees that the construction of a large infrastructure project in Uganda is subject to considerable risk, it should be recognized that project selection was made within the context of a reasonably well managed macro-economy and power sector, and a track record of adherence to reform dating back over a decade. As discussed in "Uganda: Country Assistance Strategy FY 2001-2003," Uganda's "record in maintaining macroeconomic stability and its demonstrated ability to live up to its commitments," are the basis for the Bank considering a high case assistance program as realistic.

17. The experience of 2001 is worth mentioning. Notwithstanding continued adverse movements in the terms of trade, GDP growth was a robust 5%. The latest power sector data indicate electricity consumption increased by about 8.1% compared to 2000. This occurred within the context of a major mid-year electricity tariff increase, an ongoing power privatization program, a national election and the lowest coffee prices in decades.

18. Notwithstanding this resilience, Management recognizes that the economy remains subject to considerable risk, as is the Bujagali Hydropower Project, a large and lumpy investment in a relatively small power system. However, electricity demand forecasts have been thoroughly analyzed under a variety of macro and sector conditions less favorable than the base case, and the Project remains financially and economically viable and affordable. This continues to be the judgment of the private sector investors as well. It should also be noted that while the Project does not depend on exports of electricity for its viability, this remains an option for Uganda in the unlikely event that domestic demand does not materialize on the scale envisaged in the PAD.

IV. PUBLIC-PRIVATE PARTNERSHIPS

19. The Bujagali Hydropower Project, representing a new modality of support for investments in infrastructure, involving the joint participation of IDA, IFC and potentially MIGA, is the first operation of its size to be implemented in Sub-Saharan Africa. Unlike public sector operations, which are the responsibility of governments, privately funded projects, like the Bujagali Hydropower Project, while achieving the same outcomes, are structured to mobilize private capital. In private sector operations, returns relative to risks must not only be ensured but be competitive with other investment opportunities. This need for rewards commensurate with risks is especially true for infrastructure projects with non-tradable outputs and in developing countries where the institutional, regulatory and legal framework is evolving. Thus, these projects differ in important ways from public financed projects. The salient features of these public-private partnerships are outlined below.

20. ***Potential Role of Private Sector in Uganda.*** The Bujagali Hydropower Project has been structured and developed as a private sector project. This approach would release resources for social sectors and harness the inherent benefits of private ownership. It is also consistent with the Bank Group's Country Assistance Strategy and the World Bank Group's objective of mobilizing private resources for infrastructure development.

21. Despite the tremendous strides made by Uganda and notwithstanding its considerable track record of policy reform, the country's credit is rated low. Because this affects capital adequacy requirements and lenders' provision for losses, poor creditworthiness severely constrains the ability of Uganda to mobilize significant private capital, and on terms (maturities and at interest rates) necessary for ensuring the financial viability of projects. In fact, the number of institutions willing to invest debt and equity in developing countries, such as Uganda, is extremely limited. However, even these lenders would provide long term financing only if the political risks, including credit risks of the Ugandan Government, are fully mitigated. Risks have been allocated under the Bujagali Hydropower Project in a manner that reflects market perceptions of the country. The lenders' perception of credit risks, particularly in frontier markets, has changed because of recent events in the United States, the global slowdown and the Enron collapse; these have all severely reduced the markets' appetite for debt and equity financing in developing countries such as Uganda.

22. ***Risks and Rewards.*** Public projects depend upon sovereign borrowings and public revenues for financing as well as government guidance regarding the return to be generated on the resources invested. On the other hand, financing for private projects is mobilized from private equity and debt markets, which impose different market-based criteria of risk and return. These criteria are often more stringent than for public financing and are more effectively enforced by the market and commercial banking institutions whose profitability and future depend on their ability to generate competitive returns. Privately financed projects are predicated on risks being

allocated to the entity most capable of bearing them. In addition, in projects involving limited recourse financing, the private sector requires that the legal and regulatory regime be defined at the outset in order to ensure that adequate financial provisions can be made for fulfilling these obligations when the project is structured. The Project Finance Structure for the Bujagali Hydropower Project reflects these requirements.

V. DISCLOSURE REQUIREMENTS

23. Because private projects are structured in a competitive environment, analyses by the private sector concerning a project's economic viability and agreements for transactions are normally proprietary in nature and include commercially valuable information. Release of such information can compromise the competitive advantage of private sponsors and the negotiating position of governments for subsequent transactions as they also need flexibility in structuring each transaction to the country's advantage. Moreover, because of the complexity of documents, straightforward comparisons of project documentation/agreements across transactions may not be possible. Governments and private sponsors, therefore, follow a different approach to the release of project documentation in order to protect the interests of the parties. AES is unwilling (Letter of June 3, 2002) to release the PPA and the Acres economic analysis for proprietary reasons. Likewise, the Government of Uganda has advised that it is not Government policy to release public investment documents that contain sensitive commercial information. Under the Bank's Disclosure Policy, "some documents and information are provided to the Bank on the explicit or implied understanding that they will not be disclosed outside the Bank.... The Bank must treat such information accordingly. A related consideration is the obligation to respect property rights over documents held by the Bank but owned by, or jointly with, other parties. The Bank, as a legal matter, does not publish such documents, nor does it distribute them to the public without the permission of the owner of such documents." The Inspection Panel Clarifications of 1996 recognized the differences between private and public projects.

VI. FINDINGS OF THE PANEL

24. Management is pleased to note the conclusions of the Panel's Report that (i) *the incremental approach to the extension of Owen Falls capacity ... was and is appropriate*; that (ii) *the economic appraisals of the Power III and Power IV Projects do not provide evidence to suggest that the evaluations were pessimistic and/or disadvantaged the Owen Falls Extension projects relative to the proposed Bujagali Hydropower Project, thereby advancing the latter*; (iii) that *Management is in compliance with the Operational Policy on Safety of Dams*, with respect to the Power III, Power IV and the Bujagali Hydropower Projects.

25. With respect to the **Power III Project**, Management is also pleased to note the Panel Report's conclusions that Management is in compliance with Operational Manual Statements on Project Appraisal (OMS 2.20) and Economic Analysis of Projects (OMS 2.21); and that *no additional Environmental Assessment* was required for the Supplemental Credit for the Power III Project. The Panel Report further concludes that, although the requirements of the Operational Directive (OD) 4.00 for categorization and involvement of affected groups and for use of an environmental advisory panel were applicable and were not met, the Panel was satisfied that the Power III Project was analyzed and found Management in partial compliance of this policy. The Panel Report, however, concludes that Management was not in compliance with OD 13.05 on Project Supervision insofar as the Sectoral Environmental Assessment was concerned, with OMS 2.21 as regards the treatment of externalities in the economic analysis of the Project, and with the

requirements of OD 10.00 on Disclosure, as Management had already acknowledged in the Management Response dated September 10, 2001.

26. The Panel Report accurately notes that the *Power IV Project* did not involve any new construction and, as such, no significant environmental impacts were envisaged. Management, therefore, was in compliance with the Operational Policy on Environmental Assessment (OP/BP 4.01) in assigning the Project to EA category “B” and also as regards the environmental analysis, environmental management plans, environmental monitoring and capacity enhancement. Management, however, was found to be not in compliance with the OP 4.01 on public consultations and disclosure.

27. On the *Bujagali Hydropower Project*, the Panel’s Report explicitly recognizes that *extensive environmental studies have characterized the Bujagali EA process* and that *the EA procedures followed in the preparation of the Bujagali Hydropower Project are in compliance with the requirement of the OP/BP 4.01*. It also concludes that Management is in compliance with OP/BP 4.01 with respect to: (i) the protection of rare fish species; (ii) evaluation of alternatives from an environmental perspective; (iii) public disclosure and consultation on environmental matters. Management’s decision not to disclose the PPA was also found to be consistent with IDA’s Disclosure Policy.

28. Management welcomes the Panel Report’s conclusion that the *sponsor has allocated considerable time and resources to the problem of community spirits...* and the *Cultural Property Management Plan appears to meet applicable policies and its implementation to date is satisfactory*. Equally welcome, is the Report’s conclusion that *with few exceptions, most of the people resettled ended up not worse off, but better off than they were prior to their physical relocation and, in this sense, the main objective of the OD 4.30 was achieved*. The Resettlement Action Plan (RAP) component of the Rural Community Development Action Plan (CDAP) also was found to be formally in compliance with OD 4.30, though there were some requirements that still had to be met.

29. The Panel’s Report concludes that the socioeconomic survey requirements of OD 4.30 had been met in respect of process but not in respect of substance. Also, Management was found to be in partial compliance with OD 10.04 on the grounds that: (i) *the institutional risk to sustainability through delayed distribution, privatization, and/or underperformance, should have been more thoroughly explored*; (ii) special attention was not accorded to addressing *the dangers of a relatively narrow range between the high and low load forecasts*, in view of the high risk/return nature of the Project; (iii) SEDD (Summary of Economic Due Diligence) should have presented the underlying assumptions relating to the estimation of costs associated loss of white water rafting (particularly those involved in the Monte Carlo analysis) and the findings in a transparent fashion; and (iv) the treatment of geothermal energy was inadequate in the development of counterfactual planning scenarios.

30. **Findings of the Panel.** According to the Panel’s Report, there are four operational policies and procedures with which Management has not complied in the Bujagali Hydropower Project. These are:

- OP 4.01 - a Sectoral Environmental Assessment and, related to it, a cumulative impact assessment, was not prepared.

- OD 4.04 - IDA failed to ensure the establishment and maintenance of the appropriate and technically justified mitigation measures to protect the natural habitats from the impacts of the Project.
- OD 4.30 - the Community Development Action Plan does not meet the requirements of the OD and the interests of people who will be affected as a result of the Project's impacts on the tourism industry have not been fully addressed.
- BP 17.50 - IDA's refusal to release the Acres report on Economic Review of the Bujagali Hydropower Project.

Each of the Panel's findings, along with the Management's response and proposed actions to be taken, is presented in detail in **Annex 1**.

VII. MANAGEMENT'S ACTION PLAN IN RESPONSE TO THE FINDINGS

31. Based upon Management's technical and legal analysis of the Panel's findings, Management proposes ten specific actions. These actions are outlined below.

Findings	Actions to be Taken
POWER III PROJECT	
1. Sectoral EA	See Bujagali, items 1 and 2.
POWER IV PROJECT	
1. Disclosure of Information: Environment	In order to remedy this lack of policy compliance, Management proposes to include full and comprehensive discussions of the Power III and Power IV Projects and their relationship to the Bujagali Hydropower Project. This would be accomplished through the stakeholder consultation strategy currently being designed (TORs have been drafted) in connection with the proposed Bujagali Technical Assistance Project (FY03). The consultation strategy would be implemented by the Ugandan National Environmental Management Agency.
BUJAGALI PROJECT	
1. Sectoral EA	Consistent with the proposal of the Panel, the governments taking part in the Nile Basin Initiative (NBI) have requested, and IDA has agreed, to support the preparation of an inclusive, participatory and riparian-owned Strategic/Sectoral Social and Environmental Assessment (SSEA) as an element of the work program for the Nile Basin Initiative (NBI). IDA will support this riparian-owned SSEA as part of the strategic planning for the Nile Equatorial Lakes Subsidiary Action Program (NELSAP). The SSEA will evaluate power generation options and associated transmission interconnections to meet these multiple objectives: transboundary, economic and political cooperation; sub-regional integration; poverty reduction; dispute resolution; environmental sustainability; energy substitutions to reduce depletion of forestry resources; and sharing of mutual benefits in the context of multi-purpose projects. The outcome of the process is anticipated to be a power strategy that will put forth the power options, including their economic and engineering feasibility as well as environmental and social impacts, to allow for informed and transparent decision-making in the selection of power investments by the Nile Basin riparian countries. The SSEA has an estimated cost of USD 1.0 million and would be an integral part of the NELSAP process. It also would be a prerequisite to IDA investments in selected power generation facilities under NELSAP.

Findings	Actions to be Taken
2. Cumulative Impacts	<p>The NBI has made considerable progress in bringing the Nile riparians together to identify potential power investments as well as investments in water resources management, agriculture, fisheries, and water hyacinth control. This initiative recognizes the need for early and upstream consideration of environmental and social impacts and public involvement in a program of collaborative action to promote cooperative management of the Nile River Basin. A participatory SSEA will be supported as part of the strategic planning for the NELSAP. The SSEA would address future regional power options, which will analyze and rank power options, based upon multiple criteria. These are: assessment of direct, indirect/induced and cumulative impacts of multiple activities; additional costs and benefits through multi-purpose use of storage reservoirs; risk of rainfall variability; and sharing of benefits at the local and regional level. The studies previously performed in order to make the decision to proceed with the Bujagali Hydropower Project will serve as part of the information base for the SSEA.</p> <p>The Government has furnished a clear commitment to abide by the provisions of the Indemnity Agreement, and further clarify the Government's intention to set aside Kalagala entirely to protect its natural habitat, environmental and spiritual values, and for tourism development, and not use the site for hydropower development purposes.</p>
3. Kalagala Offset	<p>The letter is provided as Annex 2. It notes that: "I am writing to confirm the Government's intentions with respect to the Kalagala Falls site. The Government will set aside Kalagala exclusively to protect its natural habitat, environmental and spiritual values and for tourism development, and not subject the site to hydropower development, as required by OP/BP 4.04 on Natural Habitats."</p> <p>"To this end, we have established a task force of stakeholders to identify sustainable investment programs to facilitate tourism, with appropriate mitigation measures to protect the spiritual and natural habitat values. We have requested IDA financing to develop this plan further."</p> <p>Annex 2 also provides the Government's agreed revision to the text of the Indemnity Agreement. The revised text, in the replacement section 3.08a, reads: "Uganda will set aside the Kalagala Falls site exclusively to protect its natural habitat and environmental and spiritual values and to develop tourism, and will not develop the site for power generation, without the Agreement of the Association." The Indemnity Agreement will be revised accordingly and signed as soon as possible.</p>
4. Load Forecast Scenarios	<p>Management plans to closely monitor electricity demand growth, billing and collection management, and tariff levels under the ongoing supervision of the Bujagali Hydropower and Power IV Projects. In addition, the proposed Bujagali Technical Assistance Project (FY03) will include power sector financial and contractual advisory services to the Government as well as assistance in developing a contingent liabilities management program with particular emphasis on the Bujagali Hydropower Project. These actions will help to develop an early warning system on the Project and power sector such that financial and other issues can be identified at an early stage, and measures can be undertaken appropriate to the circumstances.</p>
5. Institutional, Tariff and Affordability Risks	<p>Through IDA's ongoing macro-economic dialogue, Management will monitor the exchange rate and the affordability of electricity. Similarly, through supervision of the Bujagali Hydropower and Power IV Projects and the proposed Bujagali Technical Assistance Project (FY03), the evolution of distribution system development, electricity consumption and tariff levels will be monitored at regular intervals to ascertain whether remedial measures are warranted. Finally, Management proposes to enhance the collection and analysis of household income and expenditure data vis a vis electricity consumption.</p>
6. Examination of Power Generation Alternatives	<p>Since other sources of funding for geothermal exploration and drilling have not been forthcoming, IDA proposes to include a component in the proposed Bujagali Technical Assistance Project (FY03), to assist the Government with these activities in Western Uganda assuming that the ongoing technical and market studies financed by the AfDB determine that it is an economically and financially viable option for power.</p>

Findings	Actions to be Taken
7. Social Compliance (RAP-Socio-economic Survey)	AESNP will be requested to carry out focused surveys, during the construction phase, to support design, implementation and monitoring of relevant components of the CDAP. During IDA supervision, following financial close, IDA will revisit the crop payments with assistance from PAPs, PAP's legal counsel, Witness NGO and local land commission authorities to identify and resolve any cases where legitimate, non-speculative crop payments were not made. IDA supervision showed that, as of April 2002, only 5 of about 4,000 compensation cases for the hydropower facility were disputed or outstanding. IDA will continue to monitor this issue and will inform the responsible parties of any problems identified.
8. Social Compliance (CDAP)	IDA will continue supervision to ensure that required RAP actions are met and that the best practice objectives of the CDAP are achieved.
9. Compensation for Tourism	IDA will verify that the five MOUs are signed with tourism operators and monitor implementation of the MOUs' provisions. During supervision, IDA will work with IFC to reiterate to the sponsor its commitment to proactively identify and give first priority for employment to people affected by Project-induced loss of income/employment. The sponsor will monitor, track and report on all cases where employment priority has been given to those economically displaced. IDA will also examine other measures that could be taken to address re-employment of Ugandan citizens affected by loss of tourism-related jobs.

VIII. CONCLUSION

32. Management believes that the Action Plan addresses the concerns raised by the Panel.