

November 2, 2006

Ms. Judy O'Connor  
Country Director for Uganda  
World Bank  
1818 H Street NW  
Washington, DC 20433

**Re: Bujagali Dam Project**

Dear Ms. O'Connor:

We have urgent concerns about the Bujagali Dam project in Uganda now under consideration for support from the World Bank Group. We understand that the revised Bujagali project will come before the Boards of Directors of the World Bank and International Finance Corporation (IFC) for approval in the first quarter of 2007. The Ugandan government has put the project on a fast-track, and news reports indicate that construction may begin as early as March 2007. We are aware of the country's electricity crisis and the need for urgent interventions. However, we believe that fast-tracking the Bujagali project may have serious consequences for Lake Victoria, for the Nile River, and for affordable energy access for Uganda's population.

We have been closely following a number of the environmental and social assessments of Bujagali currently underway, and are concerned that because of the rushed timeline, important outstanding issues are not being addressed. These ongoing studies appear to neglect the implications of recent hydrological trends for Bujagali's viability and the cost of Bujagali's electricity. They also appear to neglect the cumulative impacts of having three dams so close to each other and to Lake Victoria. As a result, we are concerned that a comprehensive assessment of the Bujagali project may not be completed before decisions are taken on financing for the dam. *There is need for greater caution and transparency in the project process.*

The most urgent outstanding issues we have identified include:

- **Hydrologic trends:** The continuing decline in the water levels in Lake Victoria and the Nile River, and the impact on Bujagali's viability.
- **Economic analysis:** The continued secrecy surrounding the Power Purchase Agreement (PPA) and the Least Cost Energy Study/economic viability analysis.
- **Cumulative impact and sectoral environmental assessments:** Lessons to be learned from the World Bank's Inspection Panel findings.
- **Transparency and openness regarding Bujagali and alternative energy options.**

## Hydrologic Trends: Lake Victoria Levels

We are extremely concerned about the continuing decline of Lake Victoria's water levels, the impact of this on the economic viability of the Bujagali project, and the impact of a third dam (after Nalubaale and Kiira) on the lake's long-term health. Various experts have recently confirmed concerns about the impacts of existing dams on the hydrology of Lake Victoria and the Nile, and the implications for future hydropower production, at recent conferences in East Africa and in reports and articles in the media. For example:

- A workshop on the Lake Victoria decline held in Kampala on October 17, 2006 revealed widespread agreement (including from Uganda government experts) that the lake's water levels were continuing to decline and would continue to have negative hydrological implications for power generation from Nalubaale and Kiira. In addition, Ugandan government representatives admitted at the same workshop that Bujagali will not realize its projected hydropower capacity, if the lake level continues to decline. Engineer Paul Mubiru, the Commissioner for Energy, stated at this meeting: "Despite the continuing decline of Lake Victoria water levels, we will still go ahead with Bujagali dam, even if it produces just 50MW instead of 250MW, because government anticipates that after the rains, the lake will recover and allow Bujagali to produce to capacity."
- A report by the Norwegian Agency for Development Cooperation,<sup>1</sup> in discussing Uganda's recent power crisis, states: "One explanation is that the water table in Lake Victoria is on its return to its 'normal' (100 year average) level, i.e., there is not enough sustainable water inflow to allow a discharge that can fully utilise existing hydropower capacity installed at Owen Falls. This risk has been pointed out by many experts, however; others have disputed it, especially consultants promoting the Owen Falls Extension project. In the end, the most optimistic prediction was used as basis for investment decisions. Another is that after the commissioning of three new units at the Kiira Power Station, UEB was running them in parallel with the existing Nalubaale plant to meet growing demand. The result has been discharging substantially more water than the inflow i.e. high above the 'agreed curve' with the other riparian states..."
- A new study by the East African Legislative Assembly reportedly states that the drop in Lake Victoria's water level is costing an estimated US\$60 million annually in loss of services and fish sales. An article in the Tanzania "Daily News" (Oct. 24, 2006) says that the new report puts the blame for more than half of the lake's lower levels on "discharge at Kiira and Nalubaale dams in Uganda for hydroelectric power," adding "[the] dams have not adhered to agreed discharge of water levels." According to the newspaper, the EALA report calls for "investment in other alternative sources of energy."

The considerable concern over this situation as well as the potential impacts of climate change on the basin's hydrology seem to have had little impact on the World Bank's evaluation of Bujagali. "Development Today" (Sept 21, 2006) reported that: "The [World] Bank is still assessing the hydrological data for the [Bujagali] project, but underlines that the project is justified even based on existing hydrological studies."

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<sup>1</sup> *Review of the Norwegian Support to the Energy Sector In Uganda (1997-2005)* commissioned by the Norwegian Agency for Development Cooperation, June 13, 2006

Given the connection between the Kiira Dam and Lake Victoria's declining levels,<sup>2</sup> and the World Bank's role in promoting what appear to have been overly optimistic hydrological assumptions for Kiira, the Bank's conclusions about hydrological data for Bujagali require close inspection. *Any data or studies which would shed light on these hydrological issues should be publicly released by the Bank without delay.*

### **Power Purchase Agreement**

The original Bujagali project's Power Purchase Agreement was shown to be unfavorable to Uganda. This PPA remained a secret between the government, the World Bank and the developer despite several demands from the public that it be released. Only after the High Court of Uganda issued a precedent-setting ruling, declaring the PPA a public document, was the agreement disclosed. In addition, the Inspection Panel's 2002 report on Bujagali called disclosure of the PPA "vital" for public understanding of the project's impacts.

Given the serious concerns that arose around the high cost of the initial Bujagali project, and in view of the dire need for affordable energy supplies for the Ugandan people, there is a strong public interest in the information contained in the new PPA and in the analysis that has led Bujagali's proponents to conclude that it is the least-cost energy option for Uganda. However, it appears the lessons from the previous PPA process have been ignored by the parties involved in the current project.

NAPE has appealed to the government and project developer to release the new PPA for the current Bujagali project, but has had no success. While the Bank Group's policies on disclosure do not specifically require routine release of PPAs, no policy prohibits the Bank or IFC from disclosing such documents. In fact, the IFC's new disclosure policy explicitly recognizes a public interest override when the potential harm from the disclosure of information that may otherwise be considered "confidential" is outweighed by the public benefit from its release. *Therefore, the Bank can and should make the disclosure of the Bujagali PPA a condition for further action on the project. In addition, the Least Cost Energy Study should be released as soon as it is complete, and before any final decision is taken on financing for Bujagali.*

### **Lessons from the Inspection Panel**

The findings presented in the Inspection Panel's 2002 investigation report on the previous Bujagali project provide lessons which should be taken into consideration as the World Bank Group again contemplates financing for a dam at Bujagali falls. However, many of the most significant observations and shortcomings noted by the Panel in the past do not appear to be addressed in the context of the new Bujagali project. In addition to the Panel's view on the release of key documents such as the PPA and economic feasibility studies, mentioned above, other notable Panel findings relevant to the new Bujagali project include:

- The need for a Sectoral Environmental Assessment, including a Cumulative Impact Assessment, to analyse the cumulative impacts on the Nile from multiple dams.
- The need for a more thorough investigation of the potential of alternative sources of energy.

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<sup>2</sup> See *Connections Between Recent Water Level Drops in Lake Victoria, Dam Operations and Drought*, by Daniel Kull, [www.irn.org/programs/nile/pdf/060208vic.pdf](http://www.irn.org/programs/nile/pdf/060208vic.pdf)

### **Sectoral Environmental Assessment**

The Panel noted that: “When the project is likely to have sectoral or regional impacts, sectoral or regional EA is required... Management’s failure to ensure that the SEA ... was carried-out has led directly to many of the concerns related to Bujagali project...” The panel calls the related issue of cumulative impact assessment “of real significance and is deserving of greater attention... The lack of an SEA is a violation of OP 4.01.”

As the Panel notes, “SEAs offer better opportunities for analysing existing policies, institutions and development plans in terms of the environment and they allow for environmentally sound sector-wide investment strategies.”

***We believe the Bank should require the preparation of a Sectoral EA and cumulative impact assessment as part of the Bujagali appraisal process, not after the project has already been approved.***

### **Investigation of Energy Alternatives**

The previous Bujagali project was criticized for failing to fully investigate energy alternatives such as geothermal. Today, the Ugandan economy is in crisis due to over-dependence on hydropower from the Nile and minimal efforts to develop other energy alternatives such as geothermal, solar, micro-hydro, co-generation, bio-fuels, etc.

If the World Bank is committed to helping Uganda out of the current energy crisis, it should put **equal, if not more**, investment into the development of energy alternatives, as it has into the pursuit of large hydropower facilities.

***We urge the Bank and the Government of Uganda to ensure that a comprehensive energy options assessment is publicly disclosed and discussed before final decisions are made on financing Bujagali.***

### **Disclosure of Information**

We are concerned about the Bank’s lack of openness regarding the Bujagali project and efforts to find a sustainable solution to Uganda’s energy crisis. We are aware that the Bank has substantial information regarding the decline of Lake Victoria and its impacts on Bujagali, but have been disappointed at the Bank’s unwillingness to share this information. For example, World Bank staff in Washington, D.C. with whom we spoke in July refused to tell us the title of a forthcoming Bank-supported study on Lake Victoria, let alone commit to disclosing it.

Also, efforts by non-governmental organizations (NGOs) in Uganda to hold meetings with the local World Bank staff concerning Bujagali and the decline in Lake Victoria’s water levels have been rejected. Local Bank staff in Uganda did not honour invitations to attend public meetings in October on the fate of the Lake and its implications for dam operations and the Bujagali project. While there is growing concern in the region about the Lake’s health and the role of dams in worsening the water-level situation, the Bank has not indicated how it intends to help resolve the crisis. Given the precedent of the Bank’s involvement in the Kiira dam project, which we believe bears significant responsibility for the current crisis, we hope the Bank will recognize the

importance of an informed and open dialogue about potential solutions and responsible energy investments.

***We urge the Bank to embrace full transparency with regard to the Bujagali project and energy sector development in Uganda, and to disclose all requested information without delay.***

**In conclusion**, we are concerned that the energy crisis in Uganda is compromising the planning process for Bujagali. We believe the project is proceeding with too little attention to the critical issues raised above, and with too little transparency and public involvement. Rushing forward without addressing these issues could result in even greater setbacks for Uganda, the Nile, and Lake Victoria. Before the World Bank Group takes any decision regarding financing for Bujagali, the Bank should:

- 1. Publicly release any data or studies which would shed light on the hydrological issues without delay.**
- 2. Require disclosure of the Bujagali PPA as a condition for further action on the project.**
- 3. Publicly release the Least Cost Energy Study and all other documents related to the economic feasibility of Bujagali as soon as they are complete.**
- 4. Require the preparation and public release of a Sectoral EA and cumulative impact assessment as part of the project appraisal process.**
- 5. Increase emphasis on and investment in alternative sources of energy in Uganda.**

Thank you for your attention to these urgent matters. We look forward to your response.

Sincerely,



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