U.S. Position
IFC proposed refinancing for Bujagali Energy Limited – Uganda
Thursday, March 8, 2018

In 2007, the United States supported the World Bank Group's investments in Bujagali. At the time, and despite our reservations about Bujagali's expected environmental impacts, the United States was hopeful that the first privately financed hydropower project in sub-Saharan Africa would not only deliver affordable, clean, and much-needed energy for Uganda, but also send a powerful signal that the private sector can and must play a critical role in addressing the region's vast infrastructure needs. Bujagali soon became a much-touted example of a viable public-private-partnership in a developing African country and an early model of the Bank's Maximizing Finance for Development (MFD) approach.

Now, more than a decade after offering our support, one must question whether the project's benefits outweigh the environmental and social costs and challenge Management's claim that Bujagali is a positive example of MFD in action. Reaching a meeting of the minds on this will be important if the Bank Group is to be successful creating markets and mobilizing private finance.

- *On private sector participation.* With this refinancing, there will be no private sector equity investors in Bujagali, and by 2023 the two remaining commercial banks will have been repaid. The proposed restructuring is quite simply a rotation of private capital with official capital. MIGA for its part will be insuring other official sector investors, including two pre-existing investors – Aga Khan and CDC – which did not seek MIGA insurance previously.

- *On the high cost of energy.* The government's interest in lowering average tariffs is understandable. However, the Corporate Income Tax (CIT) waiver is not necessarily a financially sound approach. Given that Uganda's industrial sector consumes 65 percent of the electricity produced in the country, the CIT waiver is largely a subsidy to Ugandan firms. This approach only indirectly supports the poorest, so may not be consistent with the World Bank's general policy advice on targeting energy subsidies to the neediest. If the true objective were to mitigate the impact of higher tariffs on low-income consumers, then the authorities could have provided cash transfers directly to the poorest households under a targeted subsidy approach. When new power generation comes online from two concessionally financed hydropower projects in 2019 and 2020, some of Bujagali's production will likely be partially displaced with the alternatives sources coming online. The World Bank's ability to assess the impacts of the new hydropower projects, which will directly benefit from the World Bank's other investments in power transmission and distribution, are hindered by the lack of transparency around the terms of those projects. Given this, it is essential that the Ugandan authorities take the necessary steps to make those projects as transparent as those funded by the World Bank and other development partners.

- *On environmental impacts and legal remedies.* Bujagali's construction and flooding caused significant, adverse environmental impacts, requiring the establishment of the Kalagala Falls Offset Area (KOA) whose status was protected in an indemnity agreement between IDA and the authorities. For the record, this agreement was a critical component of U.S. support in 2007. As is now clear, the completion of Isimba and the subsequent flooding will inundate part of the KOA, which would violate the existing agreement, leading to an amendment of the indemnity agreement and modifications to the boundaries of the KOA to ensure compliance. The United States opposes offsetting any impacts to an offset area, which sets a poor precedent. This situation could have been avoided had IDA engaged early with the authorities and used, or threatened to use, some of the available remedies. In the interest of avoiding a similar situation, the Board should review the remedies toolkit to ensure they are fit for purpose and so that Management has a variety of options for engaging clients when issues of potential non-compliance arise.

- *On legacy issues and the way forward.* As detailed in recent CAO cases, there are several outstanding and unresolved complaints related to Bujagali. While IFC's intent to address these outstanding issues is welcomed, the commitments lack specificity and a timeline for completion. The IFC should commit to reporting back to the Board on progress related to these outstanding issues. It is imperative that these legacy issues be resolved in the coming months. The negative impacts of World Bank Group investments cannot fall on the shoulders of the poor and vulnerable. Allowing this to happen would create a reputational risk and undermine credibility.

Rather than a model, Bujagali is at best, a cautionary tale, one that requires some reflection by the Bank to ensure future MFD projects avoid similar pitfalls. Regrettably, given recent developments and with issues unresolved, the United States cannot support this investment. We respectfully request to be recorded as abstaining.