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Sector Director
Sustainable Development Department
Africa Region

June 6, 2007

Ms. Lori Pottinger
Africa Program Director
International Rivers Network (USA)
1847 Berkeley Way
Berkeley, CA 94703

Dear Ms. Pottinger,

Thank you for your letter of April 24, 2007, co-signed by several organizations, regarding the Uganda Bujagali Hydropower Project to World Bank Vice President for Sustainable Development Kathy Sierra, who has asked me to reply on her behalf. We want to again assure you that we take seriously the issues that IRN and other NGOs have raised regarding the project's potential environmental and social impact.

As noted by the World Bank Group Management at the time of the project's approval by the Board of Executive Directors on April 26, 2007, the Bujagali project is an integral component of Uganda's strategy to close its energy supply gap, which is seriously constraining the country's social and economic development agenda. The project's approval reflected a shared view by Management and the Board of the critical importance of providing a new source of electricity expeditiously to Uganda, and confidence that thorough economic, environmental, and social due diligence has been undertaken to identify and realize that source.

I note that the Bank's independent Inspection Panel — a World Bank accountability mechanism — subsequently recommended that the Executive Directors approve an investigation of the project. Additionally, it should be noted that, following an Inspection Panel case related to the previous effort to develop the Bujagali hydropower project, Management prepared, and the Board approved, an Action Plan that addressed environmental and social concerns raised at the time, which has been taken into account in the preparation of the more recently approved project.

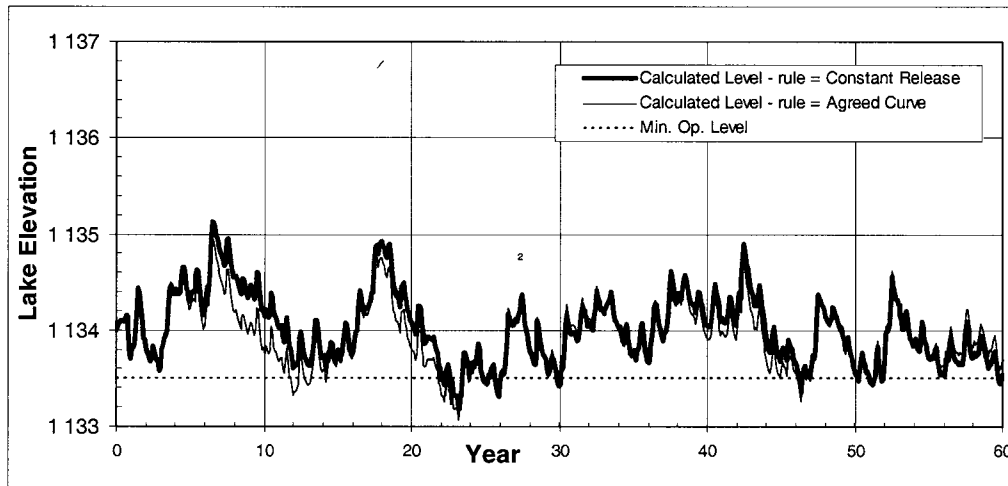
We have reviewed the other concerns mentioned in your letter and provide responses for your reference below. Please note that this information is (and has been for a few months now) publicly available on the World Bank Group Bujagali website at www.worldbank.org/bujagali. The information below has been taken from the website.

Hydrology and climate change: Despite statements to the contrary, the economic analysis undertaken by Power Planning Associates Ltd (PPA Ltd) does include

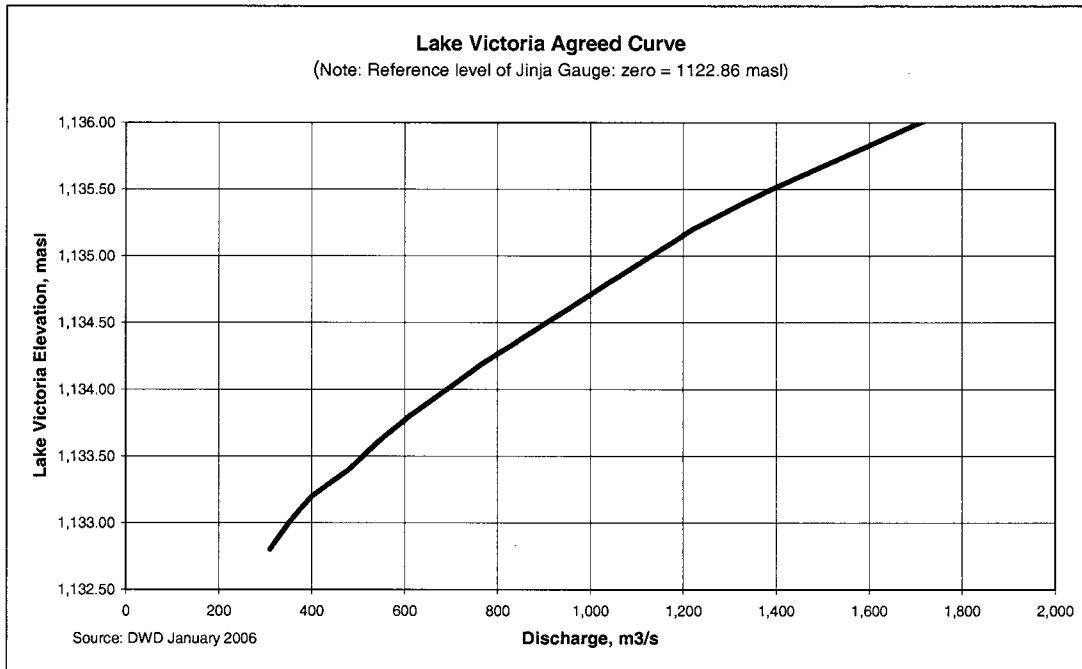
environmental and social costs of US\$26 million for the Bujagali project as identified by R.J. Burnside International Ltd., as part of their preparation of the Bujagali Social and Environmental Assessment, and further confirmed by PPA Ltd's environmental and social specialists as part of their economic analysis for the project. Furthermore, in maintaining a conservative estimation of the project's benefits, the reduction in carbon emissions resulting from Bujagali's displacement of thermal power has not been taken into account in the least cost analysis of the project.

Additionally, the project's economic and financial analysis is based on the hydrological analysis undertaken by Coyne & Bellier for the Bujagali II - Economic and Financial Evaluation Study (the Economic Study). Hydropower generation, as modeled in the Economic Study, is based on a water release rule that they call *Agreed Curve by steps* or "Constant Release", allowing for a constant release to be applied when the lake level fluctuates within a certain range. The Constant Release rule is a convenient analytical tool that makes power generation from the project more predictable. As illustrated in the figure below, under the low hydrology scenario (which was adopted as the project base case scenario) the difference in lake elevation under the Constant Release and the Agreed Curve rules is minimal. In fact, in most years, lake elevation would be slightly higher under the Constant Release rule than under the Agreed Curve.

Lake Victoria level in the case of the Low Release – Low Hydrology Scenario



Furthermore, while the letter received also states that the Agreed Curve dictates a water release of 400 m³/s under lake elevations between 1,133.5 m and 1,135 m, we would like to note that the release at those elevations would in fact vary between 510 m³/s and 1,130 m³/s, if the Agreed Curve is to be followed, as illustrated below. Therefore, it would not be appropriate to critique the Economic Study based on the aforementioned assertion.



Regarding your assertion that hydrology predictions should use recent lower trends rather than full 100+ years of hydrology record, it should be noted that there was a drought in 2003-05, which led to lower lake levels; however, hydrology in those years is not exceptional when compared to the full historical record. In 2006, the net inflow into Lake Victoria was significantly above the historical record, at 1,546 m³/s, compared to 660 m³/s of the low hydrology scenario described in the Economic Study and used as the base case scenario for the project's analysis, which corresponds to the hydrology experienced in 1900-1959 and in 2000-2005, thereby excluding higher hydrology years (1960-1999).

Regarding your questions on the potential climate change impact, I refer to the Strategic/Sectoral, Social and Environmental Assessment (SSEA) prepared by SNC-Lavalin as part of the Nile Basin initiative (www.nilebasin.org or <http://go.worldbank.org/3A48IZBPW0>), which analyzed in detail the impacts of climate change on power development options in the Nile Equatorial Region, including Bujagali. The analysis, which considered the outputs of several General Circulation Models, shows that with rising temperatures due to global warming, there is a high probability of an increase in runoff that will exceed increases in evaporation and evapotranspiration losses, thereby resulting in an increased net supply of water to Lake Victoria. This would translate into a higher potential for power generation than in the past. However, the Economic Study retains a conservative base case scenario, as it does not account for any increase in future water flows.

Further, since there is no expected negative impact due to climate change on Lake Victoria's hydrology and the project economics, the argument that using a discount rate of 10% minimizes the future negative impact of climate change on the project would not apply.

Also, under low hydrology assumptions, the least cost expansion plan with Bujagali is expected to lead to a reduction in end user tariff of about 7%. If hydrology were higher than forecasted, the reduction in tariffs would be even larger, because more electricity would be generated both by Bujagali and the existing dams. Additionally, not only would Bujagali allow for such a reduction in tariffs, but also allow for the elimination of subsidies to the sector, which currently represent about one third of the sector costs and are ultimately borne by all Ugandan tax payers.

Fisheries: The project's Social and Environmental Assessment presents the results of the relevant analysis in the section titled "Impacts on Aquatic Ecology and Fisheries." This section identifies the mechanisms through which fish resources in the Nile River can be adversely affected by Bujagali. These changes can result from variations in water depth, flow velocity, and water transparency that occur from daily peak-base load fluctuations and other factors. The conclusions to that section note the following:

"The project area is within the known range of occurrence of three species that are listed as endangered according to the IUCN Red List of Threatened Species. The main threats to these species are competition and predation from introduced fish species (notably Nile Perch) and fish harvesting, including the use of illegal nets. Habitat reduction is a comparatively minor threat. All three species are known to prefer lake or slow-flowing water habitats to fast-flowing (rapids) habitats, and the main habitats for two of the species are listed by IUCN as inshore areas of lakes (principally Lake Victoria) and quiet parts of rivers. The 8 km reach of the Victoria Nile that will be affected by the Bujagali Hydropower Project is not considered to be critical habitat for any of these species. As the project is not located in an area of critical habitat, and is unlikely to cause the loss of any preferred habitat, we consider that the project will not have any significant adverse impact on these species."

Protected Reserves: The Government of Uganda has reaffirmed its position that "environmental conservation is a part of the overall framework for the construction" of the Bujagali Hydropower Project, and the Government's continued commitment to obligations meant to compensate for the environmental and social effects of the proposed Bujagali project. In particular, the Government has reiterated its commitment to "conserve the present ecosystem" of the Mabira Forest Reserve. This commitment includes "developing and adopting a Sustainable Management Program ... which is mutually agreeable to both the Government and the Bank". The Bujagali project's indemnity agreement will incorporate provisions for the Kalagala offset area and the Mabira Forest Reserve. A map defining the boundaries of the Kalagala offset area and a definition of the Mabira Forest Reserve's current ecosystem is also being developed by the Government and the World Bank Group.

As per the World Bank standard operating procedures, staff will supervise the implementation of the project during the active period of the agreements. This will

include ensuring that the Bujagali project remains in compliance with World Bank Group environmental and social policies.

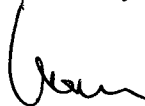
Inspection Panel: As mentioned above, the Inspection Panel is an independent entity created as an accountability mechanism for the World Bank to ensure environmentally and socially sound development in World Bank-supported projects. For that reason, I would like to refer you to the Inspection Panel's secretariat for more information (202-458-5200 or ipanel@worldbank.org).

I would again invite you to visit www.worldbank.org/bujagali. All the documents and studies mentioned here, together with additional information on the project are posted on the site.

As you know, the debate about the best way forward with respect to projects that harness a sovereign state's natural resources for the benefit of its people will endure. The World Bank endorses such debate as a healthy, balancing factor that helps ensure the path chosen is the best option for all parties benefiting from, and affected by, such projects.

In closing, World Bank Management remains committed to the successful implementation of this project, including the appropriate application of the relevant environmental and social safeguards. This project is critical to Uganda's economic development and we will continue to work with the Government to ensure that this project meets high standards.

Sincerely,



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Sustainable Development Department
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Cc:

World Bank Group Board of Executive Directors
Frank Muramuzi, Executive Director, National Association of Professional Environmentalists (Uganda)
Nikki Reisch, Africa Program Manager, Bank Information Center (USA)
Soren Ambrose, Solidarity Africa Network (Kenya)
Liane Greeff, Programme Manager Water Justice - Africa, Environmental Monitoring Group (South Africa)
Magda Stoczkiewicz, Policy Coordinator, CEE Bankwatch Network (Belgium)
Longgena Ginting, Friends of the Earth International (Amsterdam)
Heffa Schücking and Knud Vöcking, Urgewald (Germany)
Grainne Ryder, Policy Director, Probe International (Canada)
Andrew Preston, FIVAS (Norway)
Nick Hildyard, The Corner House (UK)
Christine Eberlein, Berne Declaration (Switzerland)
Sjef Langeveld, Director, Both ENDS (Netherlands)
Paula Palmer, Executive Director, Global Response (ISA)