



<b>1. Project Data:</b>		<b>Date Posted :</b> 05/22/2003	
<b>PROJ ID:</b> P002929		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Ug Power Iii	<b>Project Costs (US\$M)</b>	335.0	320.5
<b>Country:</b> Uganda	<b>Loan/Credit (US\$M)</b>	125	153
<b>Sector(s):</b> Board: EMT - Power (50%), Renewable energy (50%)	<b>Cofinancing (US\$M)</b>	168.3	153.0
<b>L/C Number:</b> C2268			
	<b>Board Approval (FY)</b>		92
<b>Partners involved :</b> AfDB, DANIDA, EIB, NDF, NORAD, NTC	<b>Closing Date</b>	12/31/1996	12/31/2001

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**2. Project Objectives and Components**

**a. Objectives**

The project supported a major part of the sectoral development program implemented by the Uganda Electricity Board (UEB), the physical component being specific to Extension of the Owen Falls Dam (OFE) and associated generation and transmission facilities. The objectives according to the SAR were : -

1. To provide least-cost capacity additions to Uganda's power generation and prevent power supply bottlenecks which would otherwise hinder economic development.
2. Increase the safety of the Owen Falls Dam.
3. Enhance the Utility's operating and management capability and improve its financial performance through policy reforms and institutional strengthening, including establishment of realistic tariffs and agreement on a sector investment program.

**b. Components**

At closure the total costs of \$320.5 million comprised:

1. OFE (70.3%) - civil works and spillway, electrical and mechanical equipment and engineering supervision .
2. Technical Assistance (3.0%) - to UEB and Ministry of Energy and Mineral Development (MEMD.)
3. Next major site study and repayment of project preparation facility (.6%.)
4. Dam Remedial Works (3.1%.)
5. Transmission and Distribution (21.9%.)
6. Power Sector Reform (1.1%.)

**c. Comments on Project Cost, Financing and Dates**

Based on economic optimization the project design was altered, substituting installation of 3 x 34MW generation units for 2 x 40 MW. This apparent reduction in design capacity was however to be supplemented by the addition of 3 further 40MW units to be housed in the enlarged power house for a total capacity of 200 MW. The first of these was financed by Norway and Sweden and installed in May 2002, and the remaining two will be financed under a Bank follow-on Power IV Project Credit. During the period 1992-2001 the Ugandan currency declined from \$1=670 to 1790 Shillings. However there were periods of appreciation and since the tariff agreements were expressed in US\$ equivalents, this was one factor explaining why there were no changes of retail tariff from January 1993 (raised from \$.048 to \$.073/kWh) until 2001 (raised to \$.056/ kWh.)

**3. Achievement of Relevant Objectives:**

1. The spillway canal and powerhouse were completed, and the expansion of capacity achieved with considerable delay (10 years to bring the capacity online as against 5 years at appraisal.) At closing the generating plants operated at full capacity and the volume of energy delivered was 22.4% above appraisal estimates. But overall demand for electricity has continued to outstrip supply - 88 GWh of load was shed nationally in 2001. The ICR revised the EIRR from 16.5% to 13.7% but this makes no allowance for the economic effects of unanticipated load shedding or social / environmental costs. The financial covenant of 8% ROR on revalued assets was not complied with during the implementation period. The outcome is considered *moderately unsatisfactory*.
2. The outcome of rehabilitation work was satisfactory as the dam now meets international safety standards .

3. The project and other donor assistance have expanded power facilities but failed to improve power sector efficiency and performance. The reform strategy was a failure and recognizing this in 1999, Government then modified the policy framework and switched to a strategy of private sector management and unbundling UEB into generation, transmission and distribution companies. The progress that has been made in implementing reform has been facilitated by follow-on IDA credits for power, but is threatened by the political fall-out from unresolved controversies over the upstream Bank-supported Bujagali Dam. Achievement of this objective was *unsatisfactory*.

**4. Significant Outcomes/Impacts:**

1. The OFE construction and dam safety remedial work at Owen Falls were successfully completed and the new generating units are operating at full capacity.
2. The power sector reform program is continuing under subsequent IDA credits.

**5. Significant Shortcomings (including non-compliance with safeguard policies):**

1. An Inspection Panel, investigated complaints about the proposed Bujagali Dam and active Power III and IV projects, reported in October 2001. The Panel concluded that: - (a) supervision was inadequate; (b) failure to conduct a Sectoral Environmental Assessment was a violation of terms and conditions under which the Board approved the credit ("this violation has led directly to many of the concerns related to the Bujagali Project"); (c) design changes early in the project; were not appraised adequately - even management has acknowledged that "there was not full and frank disclosure of this situation"; (d) "economic appraisal of externalities was not carried out as it should have been"; and (e) there was inadequate attention in the economic analyses of all three projects to sensitivity analysis and consideration of alternative to hydropower (including electricity imports.)
2. Social effects from the loss of income by the tourist industry were neglected in violation of safeguard policies.
3. Both the Bank and Borrower failed to ensure that the prime contractor had adequate qualifications and international experience, leading to a two year delay after the termination of the original civil works contract.
4. The increase in \$-equivalent retail tariff only reached 17% while at least 90% had been covenanted.
5. UEB's financial performance was further aggravated by poor collection rates and high system losses. Government, as the UEG owner, failed to take adequate actions in a timely manner and in other cases interfered in day-to-day operations. Failure by government agencies to pay their bills further contributed to UEB's financial difficulties.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Moderately Unsatisfactory	Only one objective was achieved fully (safety), the other two were <i>moderately unsatisfactory</i> (physical and economic) and <i>unsatisfactory</i> (institutional and policy reform.) Improvements in UEB's performance did not materialize.
<b>Institutional Dev.:</b>	Modest	Negligible	Any progress can be attributed to the failure of the institutional and policy component and it being taken up in subsequent power sector loans.
<b>Sustainability:</b>	Likely	Unlikely	The rating would be <i>highly unlikely</i> were it not for the strong commitment of the Bank and other donors to sustaining the reform process in Uganda. Any grounds for optimism about sustainability have little to do with what was achieved under the Power III Project.
<b>Bank Performance:</b>	Satisfactory	Unsatisfactory	The assessment is not based on the ICR but the much more thorough evaluation by the Inspection Panel.
<b>Borrower Perf.:</b>	Satisfactory	Unsatisfactory	The government did not implement its covenants on tariff policy and the reform of UEB.
<b>Quality of ICR:</b>		Satisfactory	

NOTE: ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

The lessons from this project are similar to those learnt from other Bank supported projects :-

1. Improvements in institutional and financial performance should be achieved before major new investments are made.
2. Procurement capacity should be built prior to commencement of implementation. Such capacity need not be

developed in-house.

3. Dispute Review Boards are of limited use if their findings are not binding, and may even delay the resolution of disputes.

**8. Assessment Recommended?**  Yes  No

**Why?** To help resolve outstanding issues about participation, social and environmental impacts . This may enable the program to continue but it is currently hostage to the Bujagali Dam controversy .

**9. Comments on Quality of ICR:**

Satisfactory