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Who Controls Whom? Evaluating the  
involvement of Development Finance  
Institutions (DFIs) in Build Own-Operate (BOO)  
Energy Projects in relation to Market Structures  
& Accountability Chains: The case of the  
Bujagali Hydropower Project (BHPP) in Uganda

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## **Who Controls Whom? Evaluating the involvement of Development Finance Institutions (DFIs) in Build-Own-Operate (BOO) Energy Projects in relation to Market Structures & Accountability Chains**

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The case of the Bujagali Hydropower Project (BHPP) in Uganda

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*An aerial view of the Bujagali hydropower dam (The Observer, 2018)*

## Abstract

In each sector, market structures define the permissible partnership and lending models, which shape project networks and the corresponding accountability chains. In this research, I discuss how Build-Own-Operate energy projects involving Development Finance Institutions, i.e. DFIs/BOO, change these structures, networks, hence, chains. I study the Bujagali Hydropower Project in Uganda, evaluating the project hypothesis, recreating the network diagram and analysing the accountability chains it entails. I conclude that DFIs/BOO project models (1) substitute DFIs monopoly for state monopoly; (2) enhance the direct accountability of contracted parties to lenders, but diminish other accountability chains within the project network; and (3) require more rigorous M&E and PDI standards than state-centred lending.

*Keywords: accountability, energy, public-private partnerships.*

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## Abbreviations and acronyms

BEL	Bujagali Energy Limited
BHPP	Bujagali Hydropower Project
BOO	Build-Own-Operate
CAO	Compliance Advisor Ombudsman
CSR	Corporate Social Responsibility
DFIs	Development Finance Institutions
DFIs/BOO	BOO project developed using finance from DFIs
EIB	European Investment Bank
ERA	Electricity Regulatory Authority in Uganda
ESHS	Environmental, Social, Health and Safety
FiT	Feed-in-Tariff
GoU	Government of Uganda
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IPPs	Independent Power Producers
M&E	Monitoring and Evaluation
MEMD	Ministry of Energy and Mineral Development in Uganda
MW	Mega Watt
NGOs	Non-governmental Organisations
OECD	Organisation for Economic Cooperation and Development
OED	Operations Evaluation Department at the World Bank Group
PDI	Public Disclose of Information
PPA	Power Purchase Agreement
PPPs	Public-Private Partnerships
PS	Performance Standards for Environmental and Social Compliance
REA	Rural Electrification Agency in Uganda
SAs	Sub-arguments
SE4ALL	Sustainable Energy for All Initiative by the United Nations
SDGs	Sustainable Development Goals
SPV	Special Purpose Vehicle
SSAs	Sub-sub-arguments
UBOS	Uganda Bureau of Statistics
UEB	Uganda Electricity Board
UEDCL	Uganda Electricity Distribution Company Limited
UEGCL	Uganda Electricity Generation Company Limited
UETCL	Uganda Electricity Transmission Company Limited
WBG	World Bank Group
WCD	World Commission on Dams

## 1 Introduction

Energy is commonly referred to in development contexts as the ‘engine’ for economic growth and a ‘necessary precondition’ for achieving development goals extending beyond the energy sector. There is consensus that inadequate infrastructure in the energy sector impedes social and economic development (Adeyemi & Asere, 2014:1;<sup>1</sup> Heteu, 2015:8).<sup>2</sup> As part of the post-World War II reconstruction efforts in the 1940s, international development organisations, including the World Bank Group (WBG), supported energy access projects in several countries. More recently, the United Nations identified ‘access to affordable, reliable, sustainable and modern energy’ as one of the Sustainable Development Goals (SDGs) (IEG-WBG, 2012;<sup>3</sup> UN-SDGs, 2019).<sup>4</sup> In this research, I focus on one combination of partnership and lending models, promoted by the WBG for developing large-scale energy projects (>100 MW). This Chapter presents the definitions I’m adopting for key terms, and an overview of the research scope, methodology and structure.

### 1.1 Blending private sector lending and PPPs: The DFIs/BOO project model

The WBG consists of five institutions, including the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC). Established in 1944, IBRD was the first to operate by offering direct lending to states and public institutions. The establishment of the IFC and IDA followed in 1956 and 1960, respectively. Whereas IDA builds upon the work of IBRD by facilitating state-centred loans, the primary mandate of the IFC is to support economic development by ‘encouraging the growth of productive private enterprise in member countries’. During the following decades, the IFC grew to become the largest multilateral Development Finance Institutions (DFIs) ‘focused exclusively on the private sector’ (IFC-History-Book, 2016).<sup>5</sup> For the purpose of this research, I adopt the definition by the Organisation for Economic Cooperation and Development (OECD) and use the term ‘DFIs’ to refer to ‘specialised development banks or subsidiaries set up to support private sector development in developing countries’ (OECD-Website, 2019).<sup>6</sup>

In terms of facilitating finance for developmental purposes, I divide countries of the world into ‘lending’ and ‘recipient’ countries. At the time of the WBG establishment, the public sector in both categories was responsible for public service provision and infrastructure development. Lending countries developed their large-scale electricity generation projects from the national treasury and supported the development of the same in recipient countries by facilitating state-centred concessional loans. In the 1990s, private sector participation in the provision of energy-related public services emerged in lending countries, which mandated a shift in the energy market structure; deregulating from vertically integrated public utilities to independent bodies operating within the context of competitive markets (Shikoski & Katic, 2003;<sup>7</sup> Heddenhausen, 2007).<sup>8</sup> This shift

was accompanied by the development of different forms of Public-Private Partnerships (PPPs). Some PPPs rely on public investments, such as 'Lease Contracts' and 'Divestiture'. Other models involve capital investment by private sector entities, who build and operates the project, selling the generated electricity under a Power Purchase Agreement (PPA). When energy projects are developed to increase access for domestic users, 'Build-Own-Operate (BOO)' models are more common since the state is the off-taker, i.e. the party purchasing electricity per the PPA. 'Independent Power Producers (IPPs)' models enable private owners to sign PPAs with private consumers and act as third-party power producers. More recently, Feed-in-Tariff (FiT) schemes emerged. They are similar to BOO projects, except for the competitive bidding component. Unlike BOOs, the tariffs on FiT projects is predefined by the state (Meyer et al, 2018:76;<sup>9</sup> Yong, 2010;<sup>10</sup> Muzenda, 2009:45).<sup>11</sup>

The choice of partnership model shapes the project network and defines the obligations of the contracted project parties to each other and to non-contracted parties. I use the terms 'project network' and 'network diagram' to refer to the linkages between project parties, not the stages and timeline of project implementation. I also use 'non-contracted parties' to refer to entities and groups which are not involved in project-specific contracts, notwithstanding their rights per the social and political contracts with governments and DFIs. The commitment of contracted parties to their obligations is influenced by the level of accountability they have to their organisations and to other parties within the project network. For the purpose of this research, I define accountability as 'the agency capacity and leverage to hold actors responsible for their actions and influence the decision-making processes involved in service provision' (Fox & Brown, 1998:12;<sup>12</sup> Brett, 2003:3).<sup>13</sup> The involvement of DFIs in energy projects influences market structures, project networks, and therefore the accountability relations within the network. My research focuses on analysing the accountability chains on 'DFIs/BOO'; BOO projects developed using finance from DFIs. Appendix-I show the typical network diagram of DFIs/BOO electricity generation projects, highlighting the role of the IFC versus IDA in supporting the private sector and the state, respectively.

The importance of this research emerges from the continuous increase in private sector lending versus state-centred lending for energy projects in Africa, and the limitations of the dominant DFIs standards for Monitoring and Evaluation (M&E) in linking (1) project success indicators to the targeted development objective; (2) project benefits to the long-term Environmental, Social, Health and Safety (ESHS) impacts; and (3) investment decisions to the information made publicly available per the standards of Public Disclosure of Information (PDI). Fifty years after the emergence of DFIs, the long-term impacts of private sector participation in public service provision continues to unfold, in the absence of clear measures to hold the project parties accountable for these impacts. Hence, it is important to evaluate the effectiveness of past DFIs/BOO projects, to gain better understanding of this project model and allow states and DFIs to make informed decisions on future projects.

## 1.2 Research scope, methodology and structure

Bujagali Hydropower Project (BHPP) is a 250 MW hydropower plant financed by loans from the IFC, IDA, and ten other international development organisations and DFIs. The project objective is to increase energy access rates in Uganda. Being the first DFIs/BOO in Uganda, my analysis constitutes an evaluation of the hypothesis that the development of the BHPP as a DFIs/BOO project will lead to an increase in energy access to Ugandans. To this end, I deconstruct the claims embedded in this hypothesis, recreate the BHPP project network, and analyse the resulting accountability chains, including the indirect accountability of lenders to three non-contracted parties, namely: beneficiaries, affected communities, and taxpayers in lending countries. The overarching research question advising my research is: *“How did the development of the BHPP as a DFIs/BOO change the energy market structure in Uganda, the project network, and consequently the accountability chains within the project network, specifically those connecting the lenders to non-contracted parties?”*

Regarding methodology, the research is desk-based, relying on secondary evidence from three sources: (1) academic publications, including literature on lending models, accountability, energy, PPPs and sector reforms; (2) official project-party publications, focusing on the WBG which provided loans to BHPP through the IFC and IDA, jointly amounting to the largest contribution of project co-finance (WBG-ICRR, 2018);<sup>14</sup> and (3) third-party publications, such as relevant media coverage, reports by Non-governmental Organisations (NGOs) and articles by activists. For deconstructing the BHPP hypothesis, I use Cartwright & Hardie’s ‘Policy Effectiveness Prediction’ approach (2012).<sup>15</sup> When studying the BHPP project network, I adopt the ‘Agency Theory’ by Jensen & Meckling (1976).<sup>16</sup>

The research consists of five chapters. Following this introduction, Chapter-2 presents the theoretical framework in which I engage with literature on market structures, the adoption of electricity sector reforms in Uganda to enable private sector participation, the problematisation of accountability and outcome evaluations for DFIs in general, and for the WBG’s hydropower projects in specific. In Chapter-3, I evaluate the claims supporting the development of the BHPP as a DFIs/BOO project by deconstructing the project’s hypothesis using an Argument Pyramid. In Chapter-4, I recreate the BHPP network diagram to include non-contracted parties, analysing the direct and indirect accountability chains it entails and discussing how they differ from other project models. In Chapter-5, I conclude that DFIs/BOO project models: (1) substitute DFIs monopoly for state monopoly; (2) enhance the direct accountability of contracted parties to lenders, but diminish other direct and indirect accountability chains within the project network; and (3) require more rigorous M&E and PDI standards than state-centred lending. I end with presenting the limitations potentially affecting my analysis, and therefore, my conclusions.



## 2 Theoretical framework

The literature of relevance to my research topic can be divided into four clusters. The first studies the emergence of privatisation, and the theories necessitating specific energy sector reforms to create an enabling environment for private sector participation. The second studies the electricity sector in Uganda and documents the push towards implementing energy sector reforms to enable PPPs for electricity generation. The third is concerned with accountability in development context and the limitations of existing M&E systems. The fourth investigates the WBG's implementation of M&E systems and raises accountability concerns on DFIs/BOO energy projects, specifically hydropower. In this Chapter, I engage with literature from these different clusters to establish the theoretical framework within which I will conduct my analysis of the BHPP.

### 2.1 Privatisation and the sector reforms enabling BOO energy projects

In lending countries, governments encouraged private sector investments in the energy sector to overcome two primary constraints: (1) fiscal deficits prohibiting grid expansion, and; (2) poor performance of state-run utilities. The shift towards privatisation was accompanied by a 'new standard model' for managing the energy sector, marked by three fundamental elements: establishing an independent regulator, de-bundling of the generation, transmission and distribution functions, and introducing IPPs to the market. The third came as an independent element because IPPs do not require the independence of the regulator or sector de-bundling as prerequisites. A private sector developer who has an electricity generation license can build a power plant and sell electricity to another private sector entity. Hence, from a market structure perspective, IPPs present a unique form of 'regulation by contract' allowing its implementation within 'imperfect' sector structure. On the contrary, BOOs are concerned with energy access to the population – not private-private PPAs. They involve competitive bidding by developers, and therefore cannot operate in markets which preserve the traditional vertical integration of the regulatory, generation, transmission and distribution. In a typical BOO electricity generation project, the state develops the tender documents, supported by contracted consultants, then publishes an open call for project development. The technology, capacity and location are predefined in the tender documents. The contract is awarded based on technical and financial evaluation, where developers compete in showing strong technical capacity and offering low tariffs. Managing these tendering processes necessitates the independence of the regulating body within the electricity sector and the de-bundling of generation, transmission and distribution. For these reasons, literature on energy infrastructure development considers BOO as the typical form of PPPs and a main driver for encouraging specific sector reforms (Meyer et al, 2018:76; Yong, 2010).

In recipient countries, public investments in state-owned power projects often involved concessional loans from DFIs. Hence, as lending countries shifted their energy policies from vertically integrated

utilities towards encouraging marketing competition, they also shifted their aid policies in the area of increasing energy access from state-centred to private sector lending, accompanied by publications normalising the de-bundling of generation, transmission and distribution as the 'new standard' for its effectiveness to increase private sector investment, prevent monopolies, decentralise commercial decisions, hence, prevent discrimination by public utilities in licensing and contracting (Meyer et al, 2018:76; Muzenda, 2009:51). In 2007, the OECD developed a set of principles to 'facilitate the collaboration' between governments and private entities on the development and finance of infrastructure projects, including power supply. In this publication, the need to encourage private investment in infrastructure is posed as an option that governments 'cannot afford to ignore'. It recommended reforms targeting the elimination of vertically integrated state-owned structures through applying 'horizontal separation', i.e. independent agencies for generation, distribution, and transmission, as well as 'vertical separation' of the supply chain into competitive elements, such as contracting, procurement and consultancy (OECD-Infrastructure, 2007:9,16,17).<sup>17</sup> Another example came in 2010, when the Commonwealth Secretariat published a reference guide for PPPs noting that private sector participation 'must be encouraged', and encouraged member countries to create an 'enabling environment for increased private sector involvement' (Yong, 2010).

## 2.2 The adoption of electricity sector reforms in Uganda

The Government of Uganda (GoU) has been struggling with the problem of electricity access for several decades. Presently, the national energy mix in Uganda constitutes about 90% biomass, and only 4% electricity. Hydropower constitutes 90% of the total electricity generation, which translates to only 1% contribution to Uganda's overall energy supply. In per capita consumption, Uganda is among the lowest in the world in universal access rates of energy and electricity. Some studies recognise Uganda's hydropower potential and identify large-scale hydroelectric development as 'the most economical way' towards universal access. Other studies suggest that universal access plans 'driven by grid expansion and densification' ignore that many Ugandans are living below the poverty line, and therefore, have low capacity for electricity consumption and tariff payment. These studies propose 'increased implementation of off-grid solutions' as a parallel policy to the ongoing efforts towards connecting households to the national grid (Adeyemi & Asere, 2014:1; Heteu, 2015:9).

In 1997, the GoU initiated a series of power sector reforms with the objective of 'creating a financially viable sector capable of supplying electricity efficiently and at reasonable prices' (IDA-PAD, 2016).<sup>18</sup> At the time, Uganda Electricity Board (UEB) was the body in charge of regulating and operating the electricity sector, which was becoming an outdated form of 'vertically integrated monopoly'. In addition to global influence and the pressure from the change in aid policies, the reform of the electricity sector was part of country-specific recommendations offered by the WBG to the GoU.

In 2000, the IDA developed the WBG Country Assistance Strategy for Uganda, which focused on ‘poverty reduction through sustained growth’. The report included a plan to improve the infrastructure for electricity access through ‘the least-cost development of the power system, sector reform, and privatisation’ (IDA-ICRR, 2009).<sup>19</sup> Aside the universalised views on the reforms, there were country-specific concerns regarding the effectiveness of de-bundling in Uganda. The first was the small capacity of the national power system in Uganda, which makes the benefits from introducing competition in generation questionable. The second concern questioned the ability of the GoU to manage the transmission and distribution sectors efficiently and effectively enough for the increased generation to translate into socio-economic development (Meyer et al, 2018:75). Nevertheless, the GoU approved the Electricity Act of 1999, de-bundling the UEB into five independent agencies. Uganda Electricity Generation Company Limited (UEGCL), Uganda Electricity Transmission Company Limited (UETCL), and Uganda Electricity Distribution Company Limited (UEDCL) report to the Permanent Secretary of the Ministry of Energy and Mineral Development (MEMD). The Electricity Regulatory Authority (ERA) and the Rural Electrification Agency (REA) are also independent, but on a higher hierarchal level, reporting directly to the Minister of State for Energy. Appendix-II presents the post-reform structure of the electricity sector in Uganda (MEMD-Website, 2019).<sup>20</sup>

With the reform in 1999, Uganda became among the first in Sub-Saharan Africa to de-bundle its electricity sector and enable energy-related PPPs. International commentators considered the reform plan as the ‘most ambitious’ in Africa and hailed the de-bundling of UEB as a ‘great success’ (Meyer et al, 2018:75; Muzenda, 2009:50). However, the reform did not attract the anticipated flow of private investment. Until 2005, only 55% of the electricity generation capacity in Uganda was commercialised (IFC-PPT, 2011:4),<sup>21</sup> but the environment was finally deemed enabling for private sector participation, hence, suitable for DFIs to step in. The construction of BHPP started in 2007. In 2011, the Ugandan MEMD finalised a ‘Power Sector Investment Plan’ estimating that an investment of about 9 billion US dollars is required to accommodate the rising demand in electricity and achieve close to universal access by 2030 (Adeyemi & Asere, 2014:1; Heteu, 2015:9). In 2012, the Uganda Bureau of Statistics (UBOS) conducted a national-level survey documenting that the total electricity access rate in Uganda was 26.1%. Only 14.9% of household had access to the national electricity grid (UBOS, 2014).<sup>22</sup> The same year, 2012, witnessed the commissioning of the BHPP.

### 2.3 Problematising accountability on DFIs/BOO projects

There is consensus that DFIs/BOO projects change the structure of energy markets, but the literature is divided between whether the change is positive or negative. One of the strong foundations supporting private sector lending is the theory of ‘positive externalities’; the idea that the benefits to societies from private-owned development projects exceed the direct returns to investors and project

owners (Carter, 2015). A fundamental critique to this foundation is based on the idea that countries should not leapfrog to liberalisation without structural transformation. In lending countries, the shift to liberalised market structures, and consequently, transferring part of the accountability for public service provision to the private sector, was a natural development of an existing, functional, private sector, allowed to flourish using government support, subsidies and protection (Chang, 2002;<sup>23</sup> Whitfield, 2012).<sup>24</sup> In this critique, PPPs offer a way of managing existing collaboration between the public and private sectors, not a tool to drive it, whereas DFIs involvement in PPPs inherently indicate that the market does not genuinely encourage this collaboration. As such, DFIs/BOO is an attempt to mimic commercial BOOs, but lacks the basic ingredient for success, resulting in capital accumulation with little, to none, positive externalities, and no clear plan for redistribution.

Whether the change is positive or negative, development interventions require the ability to track this change, manage finances and improve elements of accountability. Therefore, M&E mechanisms are standard components of development projects. The commencement of the 'Paris Declaration on Aid Effectiveness' in 2005 increased the attention of development organisations and DFIs to the importance of having efficient M&E systems and introduced the notion of 'chains of accountability' as central to project assessment (Jensen & Winthereik, 2013).<sup>25</sup> The term was originally used to refer to M&E documentation and reporting cycles, but in this research, 'accountability chains' also include the elements of leverage and control entailed in the relationship between the parties within a project network. In my analysis, I differentiate between direct and indirect accountability chains. 'Direct accountability chains' occur under a direct contract between parties, in which one provides a service in exchange for a payment and could suffer from sanctions in case of failure to perform their contractual obligations. This might involve a state failing to repay a loan, or a supplier failing to complete a contract. 'Indirect accountability chains' refer to the relationship linking contracted to non-contracted parties. It reflects the leverage of citizens, NGOs, etc. to influence the decision makers of contracted parties such that they reward efficiency and impose sanctions as appropriate.

Infrastructure projects have long-term economic and strategic benefits and immediate negative impacts, which raises the political contestation and resistance they face. Theoretically, indirect accountability chains on DFIs/BOO energy projects depend on the strength of the non-project-specific social and political contracts connecting non-contracted parties to states, lenders and private sector entities. In practice, these contracts are weak and complicated. Hence, the leverage of non-contracted parties over contracted parties on a particular project depends on the contracted parties' voluntary commitment to their own policies, and willingness to abide to internationally approved best practices. That said, there are instances where indirect accountability chains proved to be influential and powerful. In 1999, NGOs in lending countries held one of the largest campaigns against the WBG in objection to the latter's sponsorship of a project in Qinghai, China, and successfully pressured the

WBG to withdraw from the project (Wade, 2009:25).<sup>26</sup> This example demonstrates that while indirect accountability chains lack the control power that comes with direct accountability chains, it is possible for non-contracted parties to influence the DFIs' decision making processes.

Furthermore, development interventions affect the accountability relations between the project parties by placing public accountability at the core of a private investment. In addition to the financial accountability associating lending processes on BOO projects in lending countries, the involvement of development organisations or DFIs in a project adds the dimension of public accountability, which emerges from the loan being facilitated to achieve what the governments in recipient countries should be accountable for under the social contract with their citizens. Hence, accountability on DFIs/BOO energy projects can be categorised into the leverage of parties according to their contractual powers and obligations, which shape the accountability of contracted parties to each other, and their obligations to non-contracted national and international parties, shaped by their own standards and internal policies. The latter fall into the category of positive externalities. However, economy-wide benefits of investments are often difficult to trace because they're indirect and require time before they become evident. This means that the 'positive externalities' of DFIs/BOO will not be captured in the standard M&E procedure for outcome evaluations (Carter, 2015).<sup>27</sup> In other words, the tools available for M&E during loan disbursement are insufficient to confirm or invalidate the strongest justification for developing an energy project using the DFIs/BOO model, therefore, research work, like the one I'm conducting, is required and has to be performed several years after project completion to capture long-term, economy-wide, externalities.

## 2.4 The contested accountability of the WBG

As an organisation, the WBG has been frequently criticised for being 'formally accountable only to funders, not beneficiaries.' It has one of the most rigorous M&E systems, but commentators argue that there is an 'enormous gap' between the description of projects in the WBG's official publications and in the internal reporting including on-site observations by evaluators. Moreover, most evaluations are conducted by 'stakeholders at the risk of being judge and party' such that the results can be used to promote 'façade claims to sustainability.' Increasing private-sector investments is perceived as a way for the WBG to and escape its own standards (Fox & Brown, 1998:1-2; Goldman, 2005;<sup>28</sup> Montclos, 2012:154).<sup>29</sup> In 1990, the WBG published the World Development Report (WDR) on poverty. In January 2000, the Operations Evaluation Department (OED), an internal, yet independent, unit that reports directly to the WBG's Board of Executive Directors, published a report 'examining the direction set for the Bank by the 1990 strategy' to provide guidance for the development of the Bank's Poverty Reduction Strategy Initiative (PRSI) and WDR 2000/2001. The OED report highlighted 'overall

lack of systematic attention to M&E' and noted that the criteria in place for evaluation does not explicitly require demonstrating that projects result in benefits directly to the poor (Evans, 2000).<sup>30</sup>

In the arena of energy access, large-scale energy hydropower is among the most contested. The WBG is the 'world's biggest financier' of large dams. It receives considerable criticism ranging from accusations of ignoring the impacts of building large dams on livelihood and biodiversity to allowing government's use of force and armed mercenaries in the displacement of affected people. In 1997, the WBG responded to increasing criticism by reducing its hydropower lending and establishing the World Commission on Dams (WCD), in collaboration with the International Union for Conservation of Nature. WCD had two mandates: reviewing 'the development effectiveness' of large dams and developing 'internationally acceptable guidelines' for future projects. The WCD's final report was published in 2000, yet, the WBG refused to endorse WCD's recommendations and continues to follow standards for hydropower projects which have been developed internally by WBG staff or other contracted consultants. In 2009, the WBG announced that increasing its lending to hydropower has been driven by 'demand from developing countries' and the role of hydropower in 'poverty alleviation and sustainable development.' However, lending via the private sector model is concerned with increasing the generation capacity. It does not involve commitments regarding energy access to end users (Goodland, 2010;<sup>31</sup> International-Rivers, 2019;<sup>32</sup> WBG-Hydropower, 2009).<sup>33</sup>

### **3 The change in market structure: BHPP hypothesis & causal claim**

BHPP is the first large-scale DFIs/BOO energy project in Uganda. It is a run-of-river hydropower plant with a capacity of 250 MW, owned by Bujagali Energy Limited (BEL) and located on the Victoria Nile River near the city of Jinja, Southern Uganda. At commissioning in 2012, the BHPP was the largest power generation plant in Uganda and immediately alleviated the country's power deficit. It presently provides Uganda with 45% of its annual electricity generation. Although Uganda witnessed an increase in the population with access to electricity since BHPP commissioning, but the GoU still has an excess capacity of about 53 MW at peak (WBG-Factsheet, 2018;<sup>34</sup> SE4ALL, 2016;<sup>35</sup> ITA, 2019).<sup>36</sup> As portrayed in the theoretical framework, the development of DFIs/BOO projects changes the market structures by mandating the implementation of specific sector reforms. In this Chapter, I evaluate the claims embedded in the hypothesis supporting the development of the BHPP as a DFIs/BOO project, aiming to analyse whether the change in market structures, associating the adoption of this combination of partnership and lending models, brought benefits or had downsides.

#### **3.1 Problem definition and BHPP hypothesis**

The development of a hypothesis for an intervention constitutes the prediction that the proposed intervention will cause expected outcomes, leading to targeted impacts. The expected outcome of the

BHPP is an increase in the electricity generation capacity. In the publications by DFIs, the primary objective, i.e. targeted impact, of developing BHPP is to increase energy access rates in Uganda. Since my analysis focuses on the partnership and lending models selected for developing the BHPP. Therefore, the intervention is not merely the development of the BHPP, rather the development of BHPP as a DFIs/BOO. Hence, the hypothesis justifying the involvement of DFIs in BHPP is that developing BHPP, as a DFIs/BOO project, will increase energy access rates in Uganda. There are two pre-conditions required for developing BHPP as a DFIs/BOO project: (1) that the energy market structure in Uganda permit the development of BOO projects; and (2) that private sector entities are willing to engage in PPA with the GoU. The following figure presents my analysis of the hypothesis underlying the development of the BHPP.

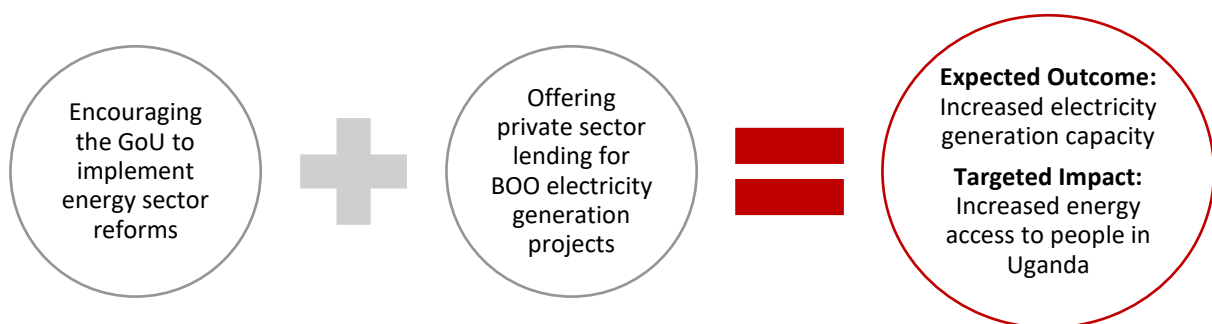


Figure-1: Fundamental hypothesis of developing the BHPP

### 3.2 Prediction of effectiveness: The BHPP Argument Pyramid

The effectiveness of a prediction, and therefore a hypothesis, depends on the validity of its causal claim; the truth of the arguments that supports the prediction. To evaluate the effectiveness of the prediction entailed in the BHPP hypothesis, I deconstruct the BHPP hypothesis into premises, sub-arguments (SA) and sub-sub-arguments (SSA) using the 'Policy Effectiveness Prediction' approach (Cartwright & Hardie, 2012). In the above hypothesis, DFIs treat the problem of energy access as financial and institutional. To address both, DFIs call for sector reforms to create an enabling environment for private sector participation and offer private sector lending to support their participation in electricity generation projects. Hence, the development of the BHPP as a DFIs/BOO constitutes the following major premises: (1) BOO project models help overcome public sector constraints; (2) BHPP is eligible for private sector lending by DFIs; and (3) Increasing the generation capacity leads to an increase in energy access rates. The following figure presents my analysis of the BHPP in the form of an 'Argument Pyramid', followed by a more detailed analysis of each of the three premises, sub-arguments and sub-sub-arguments - focusing on the claims marked in red.

## Hypothesis: Developing BHPP as a DFIs/BOO project will increase energy access rates in Uganda

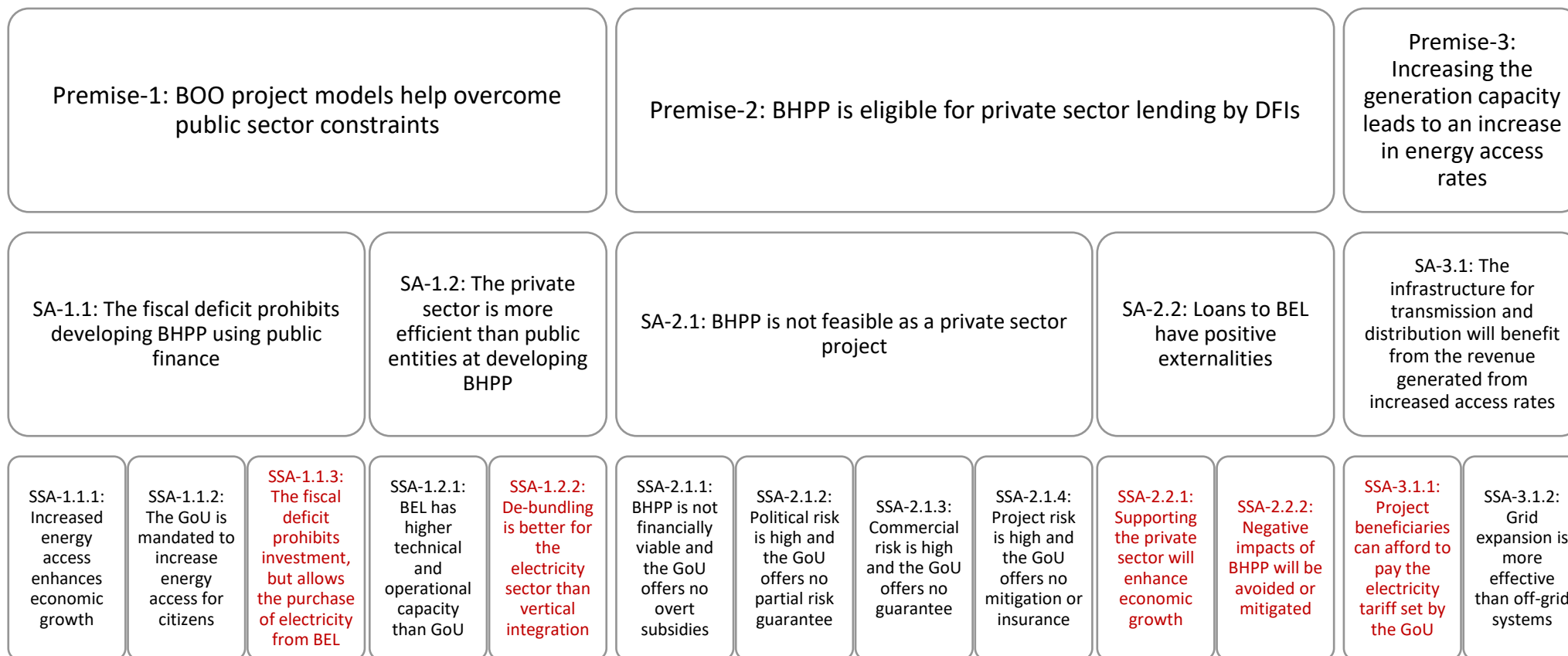


Figure-2: BHPP Argument Pyramid



### *3.2.1 Premise-1: BOO project models help overcome public sector constraints*

Premise-1 in the BHPP hypothesis is that BOO models help overcome public sector constraints. As part of establishing the theoretical framework in Chapter-2, I presented the justification offered in the literature for the shift to PPPs in the energy sector, and how private sector participation helps governments overcome the problems of (1) insufficient public funds for grid expansion; and (2) poor performance of public utilities. I build upon these justifications in my analysis of Premise-1 and deconstruct it into two sub-arguments. SA-1.1 claims that the fiscal deficit prohibits developing BHPP using public finance and that there are indeed financial constraints prohibiting grid expansion. SA-1.2 claim that the private sector is more efficient than public entities at developing BHPP, capturing the existence of technical/operational constraints to overcome by privatisation. Validating these two claims contributes to validating the decision to develop BHPP as a BOO project.

Looking further into SA-1.1, it entails three sub-sub-arguments. SSA-1.1.1 and SSA-1.1.2 claim that increased energy access enhances economic growth, and that the GoU is mandated to increase energy access for citizens, respectively. These two sub-sub-arguments justify the placement of BHPP on the list of priorities which the government should finance using public funds, if available. They are well established claims in my theoretical framework, with no further validation required. The same cannot be said about SSA-1.1.3, which claims that the fiscal deficit prohibits investment, but allows the purchase of electricity from BEL. Recent developments in relation to the BHPP does not support the truth of this claim. The fiscal deficit indeed affected the ability of the GoU to adhere to its commitments per the PPA. In 2018, the WBG approved a 'refinancing package' of 823 million US dollars. The amount is almost equivalent to the initial investment by DFIs in the BHPP and is facilitated to provide cost savings in the electricity costs, i.e. allow BEL to sell the electricity at lower prices to the GoU. The refinancing is conditioned by the GoU's commitment to pass on these cost savings to consumers. A step which presents a retreat from the subsidy reductions, which associated the commissioning of the BHPP (MIGA-PR, 2018).<sup>37</sup>

Analysing the claim captured in SA-1.2, I deconstruct it into two sub-sub-arguments. SSA-1.2.1 claims that BEL has higher technical and operational capacity than GoU. To assess the validity of this claim, a comparative analysis is required to compare BHPP to a state-run project, which is beyond the scope of this research. SSA-1.2.2 claims that de-bundling is better for the electricity sector than vertical integration. It reflects that sector reforms are a pre-requisite for the development of BOO projects. This validity of this claim is difficult to establish for the BHPP. As discussed in Chapter-2, the GoU implemented the reforms in 1999, which enabled the development of BHPP. Since then, official calls for reverse-reforms occurred twice. In 2009, the Minister of Electricity initiated a retreat from the reforms, as part of an anti-fraud investigation targeting inflated power prices. He presented the

proposal to the Cabinet of Ministers, but did not obtain approval (Kapika & Eberhard, 2013).<sup>38</sup> Later in 2018, the issue of retreating was revived when the Cabinet on Ministries submitted a recommendation to the Ugandan Parliament involving re-bundling of UEGCL, UETCL and UEDCL. The recent trial is part of a larger plan for merging ‘redundant agencies’ in several sectors aiming to ‘harmonise wages’ among employees in the public sector and ‘streamline the legal and institutional frameworks’ to ensure that the different agencies are ‘aligned and more accountable to the citizens and mainstream Government Ministries’ (Tentena, 2018).<sup>39</sup> Critiques to the recently announced plan are concerned that the re-bundling would create a ‘de-facto monopoly’ similar to the power concentration before the de-bundling of UEB (Kakembo, 2019),<sup>40</sup> but these developments demonstrate that the GoU has been reconsidering the benefits of implementing these sector reforms, which invalidates the claim expressed in SSA-1.2.2.

### 3.2.2 Premise-2: BHPP is eligible for private sector lending by DFIs

The second premise in the BHPP hypothesis emphasises the difference between BOO projects in lending and recipient countries. For BEL, the decision on whether BHPP is bankable is largely determined by the balance between risk and reward. For DFIs, the eligibility criteria are concerned with encouraging private sector participation in emerging markets, which I breakdown into two sub-arguments. SA-2.1 is the claim that BHPP is not feasible as a private sector project, hence, requiring the involvement of DFIs. The following figure presents the chain of decisions used by DFIs to assess the feasibility of a project for purely private or public investment. Infrastructure projects, like BHPP, often face deficiency in one or more of the risks presented (Dzenan et al, 2015:106;<sup>41</sup> Head, 2006:31).<sup>42</sup>

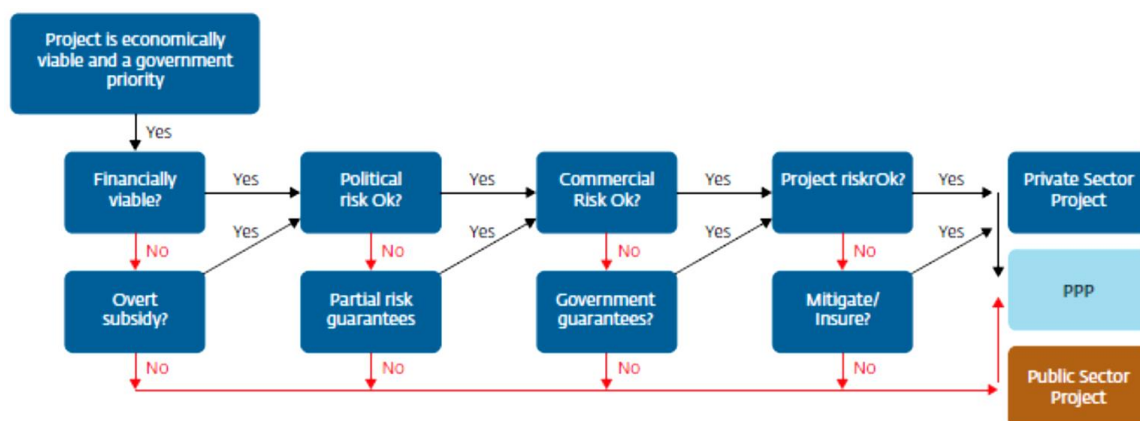


Figure-3: Chain of decisions capturing project development risks (Dzenan et al, 2015)

Since the commissioning of the BHPP, the GoU developed only two large-scale hydropower projects; Isimba and Karuma Hydropower Projects. Both projects are owned by the GoU, operated by UEGCL, and received 85% finance from the Export–Import (EXIM) Bank of China (UEGCL-Website, 2019).<sup>43</sup> I consider the absence of large-scale hydropower projects developed by private investors and commercial banks as confirmation on the validity of the claim under SA-2.1, without the need to

explore each of the sub-sub-arguments it entails. On the contrary, I consider the second sub-argument in this premise to be invalid, for the invalidity of the two sub-sub-arguments it entails.

As discussed in Chapter-2, private sector lending stands on the foundation of causing positive externalities. SA-2.2 is the claim that loans to BEL have positive externalities. SSA-2.2.1 is the claim that supporting the private sector will enhance economic growth, which I find questionable for two reasons. The first is that in the context of DFIs/BOO, the most important beneficiaries of large-scale project development are the private sector entities in lending countries who supply most goods and services to recipient countries under development contracts (Goldman, 2005). The second is that in the case of BHPP, the development of the BHPP lead to an increase in the overall fiscal deficit since the loans from DFIs almost doubled with the refinancing package discussed under SSA-1.1.3.

As second part of the claim of positive externalities is SSA-2.2.2; the claim that negative impacts of BHPP will be avoided or mitigated. I take one example of a negative ESHS impact to demonstrate the invalidity of this claim. Between 2000-2017, local organisations in Uganda reported several ESHS violations related to the development of BHPP, including a request for independent inspection and direct complaints to the Compliance Advisor Ombudsman (CAO) of the WBG. The complaints included concerns over the protection of the Kalagala Falls, a national forest reserve in Uganda. As part of the loan agreement signed in 2007 between BEL and the WBG, the latter and the GoU signed the 'Kalagala Offset Indemnity Agreement' to ensure the protection of the Kalagala Falls. Upon commissioning of BHPP, the GoU initiated a new hydropower project, Isimba, potentially flooding the same presumably protected area. The WBG raised concerns to the GoU, but eventually signed away its legal obligation. Controversies around the WBG's use of this non-binding agreement to 'skirt its own rules' are ongoing (WBG-IP, 2001;<sup>44</sup> CAO, 2018;<sup>45</sup> WBG-Brief, 2015;<sup>46</sup> WBG-Factsheet, 2018; Adventure-Tourism-Petition, 2013;<sup>47</sup> Isimba-Petition, 2015;<sup>48</sup> International Rivers, 2018).<sup>49</sup>

### *3.2.3 Premise-3: Increasing the generation capacity leads to an increase in energy access*

The third, and last, premise in the BHPP's hypothesis is what links the project outcome, increasing the generation capacity, to the targeted objective, increasing energy access rates for Ugandans. One could say that a necessary sub-argument for this premise to be true is that the infrastructure for transmission and distribution is available. Looking into the Ugandan electricity sector beyond the BHPP, I believe it would be inaccurate to claim that DFIs summed the problem of accessibility to the insufficient capacity. In fact, there have been several loans by development organisations and DFIs facilitated to support projects targeting expanding and rehabilitating the infrastructure for electricity transmission and distribution in Uganda. That said, the official publications by DFIs emphasise that the BHPP falls under the area of development finance targeting energy access. The WBG constantly refers to the low energy access rates in Uganda to justify the involvement in BHPP and attributes the slight

increase in the former to the latter, with no reference to the necessity of facilitating complementary finance to achieve the BHPP objectives (WBG-Factsheet, 2018).

Therefore, instead of stating an inaccurate claim that the infrastructure is available, I consider SA-1.3 to be the claim that the infrastructure for transmission and distribution will benefit from increasing the generation capacity, deconstructing it into two sub-sub-arguments. SSA-3.1.1 is the claim that project beneficiaries can afford to pay the electricity tariff set by the GoU, hence generating revenue for the GoU to use for further grid expansion. As discussed in the analysis of SSA-1.1.3, five years following the commissioning of BHPP, the high electricity tariff for consumers was identified as one of the reasons limiting the increase in access rates, which lead to the WBG's 'refinancing package'.

The second sub-sub-argument embedded in the sub-argument supporting infrastructure development is SSA-3.1.2; the claim that grid expansion is more effective than off-grid systems. As presented in Chapter-2, data for 2012 indicate that about 42% of the Ugandan population with electricity access are off-grid users who rely on off-grid renewable and non-renewable systems. In my review of literature to validate this claim, I found no consensus on grid expansion being more effective than off-grid planning. Both suggestions have been endorsed by the GoU and supported by international development organisations. In 2015, Uganda developed an integrated country-level Action Agenda supporting the implementation of a parallel policy for off-grid systems, to complement existing policies for grid expansion. The development of the plan was part of a Technical Assistance offered by the European Union and was required for compliance with Uganda's membership in the Sustainable Energy for All (SE4ALL) – a United Nations initiative that aim to drive 'further, faster action' toward achieving the targets of SDG-7 (Hetu, 2015:8; SE4ALL, 2019;<sup>50</sup> SE4ALL-Africa, 2019;<sup>51</sup>). Hence, different lenders follow different approaches to the achievement of energy access with neither being remarkably more successful than the other in increasing energy access rates for Ugandans.

#### **4 The change in accountability: Network diagram and accountability chains**

In Chapters Two and Three, I theorised the problem of accountability on DFIs/BOO projects, then analysed the changes in market structures associating this project model. In this Chapter, I recreate the BHPP network diagram such that it includes non-contracted parties and analyse the accountability chains within this network adopting the 'Agency Theory' which defines 'agency relationships' as the 'contracts under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent' (Jensen & Meckling, 1976:308). In my analysis, I focus on the indirect accountability of DFIs to beneficiaries, affected communities and taxpayers in lending countries.

#### 4.1 Recreating the BHPP network diagram

The owner of BHPP, BEL, is a Special Purpose Vehicle (SPV) co-founded in 2007 by a subsidiary of Blackstone Group - an investment firm, in partnership with the GoU and Aga Khan Fund for Economic Development - a for-profit development agency having branches operating as commercial entities in their countries of residence (Blackstone, 2012;<sup>52</sup> AKDN, 2019).<sup>53</sup> To develop the BHPP, BEL received loans from several DFIs, including the IFC, while the GoU was supported by loan guarantees from IDA. The following figure presents the contractual structure of BHPP at the time of project development.

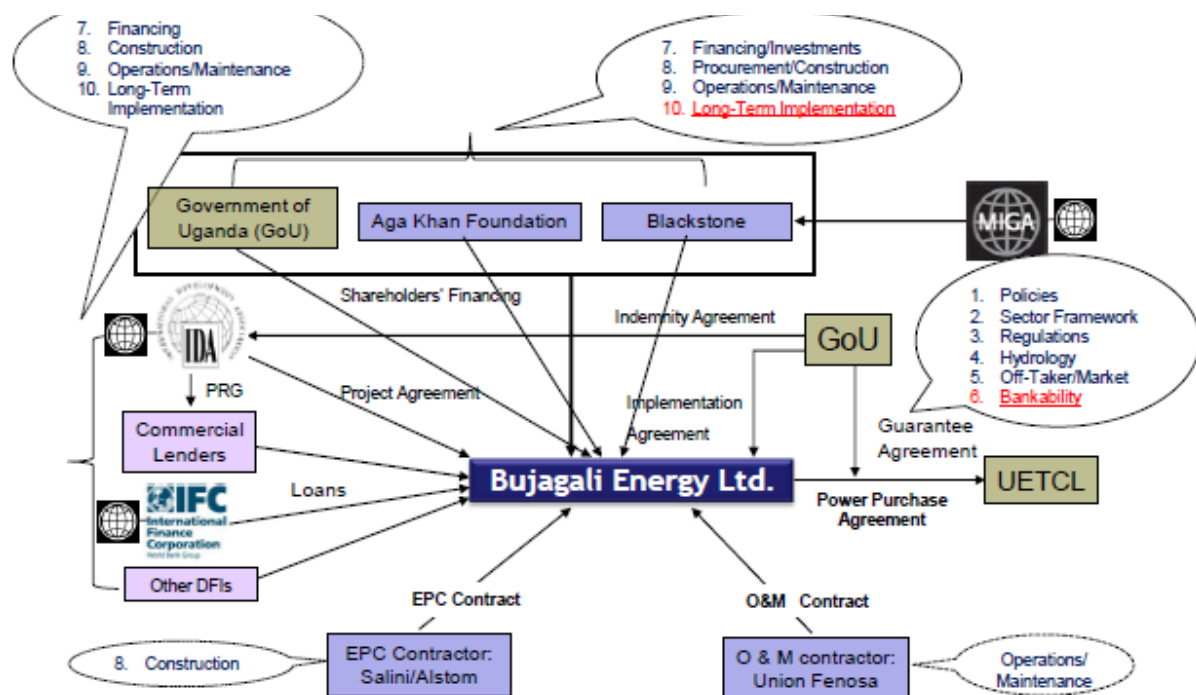


Figure-4: BHPP Contractual Structure (IFC-PPT, 2011)

Typical network diagrams like the above focus on contractual structures. To study the BHPP project network from an accountability lens, I recreate the BHPP network diagram, adding non-contracted parties to the contractual project network. In this recreation, direct accountability chains between contracted parties is the same as those presented in the contractual structure. For indirect accountability chains linking BEL to non-contracted parties, I assume that they do not change with the involvement of DFIs, and therefore are not within the scope of my analysis. This is because BOO infrastructure projects do not involve interaction between project owners and project beneficiaries. Consumers do not have leverage on the service provider and cannot choose to obtain electricity from one plant and not the other. Like most private sector entities, BEL has incentives to maintain a good reputation through public relations and Corporate Social Responsibility (CSR) initiatives, but both are managed at the sole discretion of BEL. The following figure presents the BHPP project network and the direct and indirect accountability chains of relevance to my analysis of the project hypothesis.

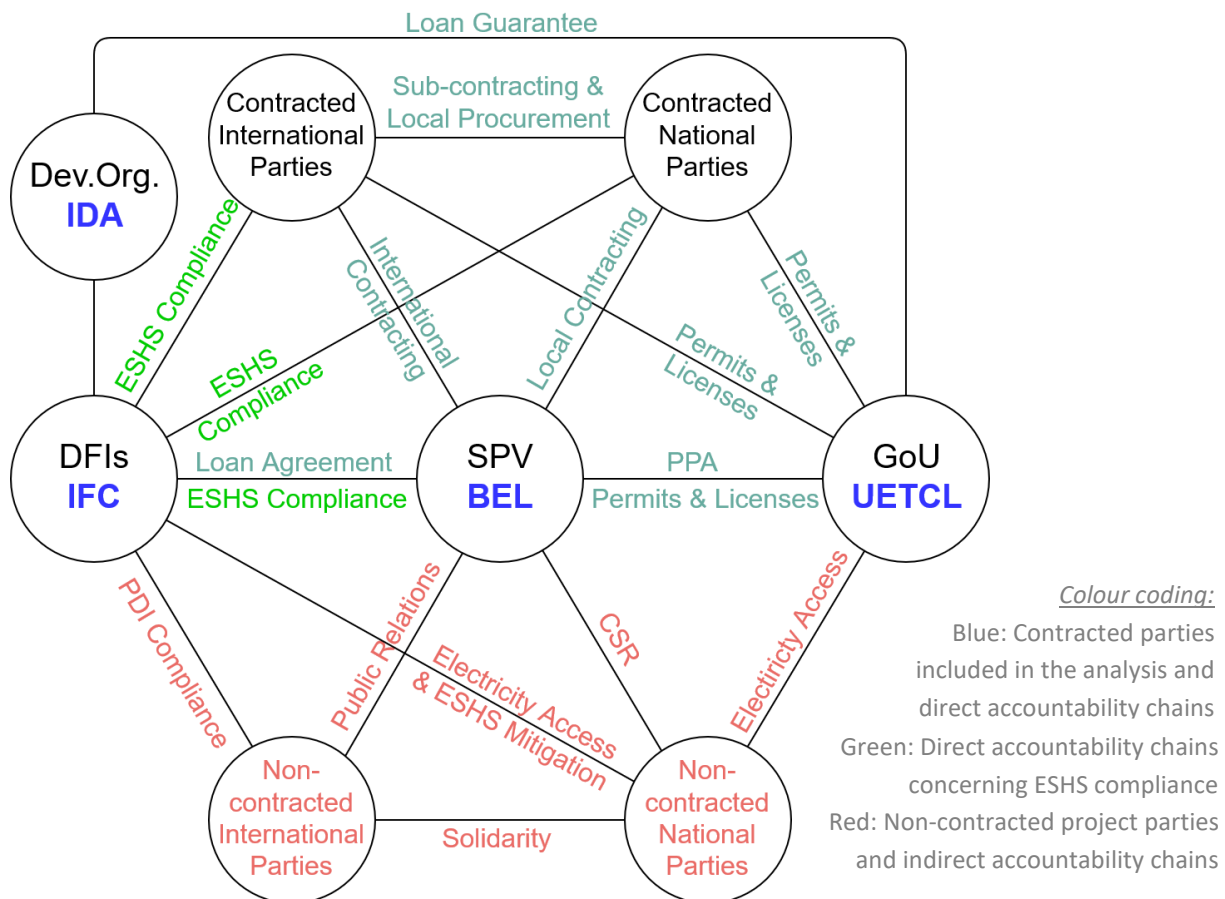


Figure-5: Accountability Chains in the BHPP Project Network

#### 4.2 Direct accountability between contracted parties

I start with analysing the direct accountability chains between contracted parties. Using the designations of the Agency Theory, BEL is an 'agent' on the PPA with the GoU and the loan agreement with the IFC. Therefore, if unable to generate electricity, BEL is accountable to both, the GoU and the WBG. The situation is different for the GoU, where it has varying designations on a DFIs/BOO project. It is a 'principal' on the PPA, purchasing a service against a contracted tariff, yet, an 'agent' on the loan guarantee agreement with IDA. Hence, if unable to purchase the generated electricity per the PPA, the GoU is accountable more to the WBG than to BEL. In this three-party relationship, only the WBG is a 'principal' in all its contracts, which gives it higher leverage on the direct accountability chains linking it to contracted parties, than its counterpart, whether BEL or the GoU. Furthermore, as I theorised in Chapter-2, the partnership between BEL and the GoU is possible only provided the involvement of the WBG. Hence, direct accountability of the contracted parties to the WBG becomes higher than their accountability to each other.

Another change in direct accountability relations within a DFIs/BOO project network relates to the incentives for different parties to engage in clientelism and corruption. In mainstream literature, corruption takes most of the blame for the failure of public sector projects in Africa (Goldman, 2005).

One of the reasoning provided by the OECD in developing their Principles for Private Sector Participation in Infrastructure, discussed in Chapter-2, is that the monopoly structure in energy supply provides 'political protection' and that state intervention 'blurs financial accountability' and 'provides cover' for corruption. By shifting to private sector lending and overseeing public tendering and procurement processes, DFIs theoretically obtain enough leverage to combat public-sector corruption and achieve 'open and non-discriminatory investment environment' (OECD-Infrastructure, 2007:16-17). In practice, the success of a development project financed using private sector lending allows governments, DFIs, and the capitalist class creating the private sector in lending countries to 'prosper financially and politically' (Goldman, 2005). Hence, while PPPs may reduce the incentives for public sector corruption, it enhances the incentives for systematic corruption on the sides of the private sector and DFIs who jointly conduct risk assessments and have higher leverage on the selection of project types and partnership models.

Moving to analysing indirect accountability chains, I consider that the term 'contracts' in the definition of 'agency relationships' includes non-project related contracts. This allows for the adoption of the Agency Theory to analyse indirect accountability chains involving non-contracted parties, created by virtue of social and political contracts.

#### 4.3 Indirect accountability to beneficiaries: Energy access

In 2009, following the submission of requests for inspection to the WBG, a group of local and international NGOs submitted a complaint to the European Investment Bank (EIB), one of the DFIs of the BHPP, explaining that the BHPP will benefit only those already connected to the national grid (5% of the population) and will lead to an increase in electricity tariffs (EIB, 2009).<sup>54</sup> As discussed in Chapter-3, the BHPP evidently led to an increase in the electricity tariff, which required a refinancing package by the WBG. However, the consumers benefiting from the recent tariff reduction are the 'extra-large industries' who now pay the lowest tariff in the Ugandan market. The GoU justified directing the cost savings to this sector by the 'impact they have on the industrialisation of the economy' (Mbanga, 2018).<sup>55</sup> These incidents indicate that the claims supporting the BHPP development were rightfully questionable since project start, yet the leverage of beneficiaries was insufficient to influence the decision making by DFIs during project appraisal and construction, and is presently insufficient for them to overcome the downsides BHPP has caused to the energy market.

This disregard of formal complaints and redirection of recent cost saving to large industries raises the question of whether the domestic consumers of electricity were ever the real beneficiaries targeted by the BHPP. Presently, energy access was not among the measurable outcomes of BHPP project. The beneficiaries are not part of the formal accountability chains included in M&E systems, except for 'weak stakeholder participation' in public consultations (Brett, 2003:5). The success indicators used to



evaluate BHPP focuses on electricity generation, not accessibility to end users. Using outcome indicators for project evaluation, BHPP has been successfully operating since its commissioning, and evidently increased the electricity generation capacity in Uganda. However, this notion of success does not account for neither the additional debt which the GoU was obliged to undertake nor the stagnation of energy access rates in Uganda. As it stands, there is no clear measure in the M&E planning for DFIs/BOO energy projects that can be used to assess whether the project objective, for which finance was facilitated, was achieved. Hence, no leverage for beneficiaries to hold DFIs accountable for not realising its claimed objective.

With regards to the GoU indirect accountability to its citizens for energy access, the social contract does not change with the choice of partnership and lending models on an energy project. Whether state-owned or BOO, involving DFIs lending or not, the GoU is accountable for increasing energy access to the people of Uganda. However, on DFIs/BOO projects, the state can only act as a 'principal' if it has the money to pay for the generated electricity. On the BHPP, the GoU is in debt to IDA and struggling to meet its obligations per the PPA. Instead of a 'principal' purchasing the service, the GoU becomes an 'agent' with not much control over project operation, which affects its ability to meet its obligations to beneficiaries. Therefore, the involvement of DFIs in BOO energy projects may not change the indirect accountability chains connecting the GoU to beneficiaries, but I argue that DFIs/BOO weakens these chains by weakening the GoU's agency over the BHPP.

#### 4.4 Indirect accountability to affected communities: ESHS impacts

In Chapter-2, I discussed the contested accountability of the WBG on hydropower projects, and its refusal to endorse WCD's recommendations for ESHS compliance. According to the WBG internal standards, a hydropower project is deemed sustainable when its ESHS impacts are minimised while optimising the project's electricity generation potential (WBG-EFlows, 2018:31).<sup>56</sup> However, when evaluating the claims under SSA-2.2.2, I shared examples of how this optimisation was not achieved on the BHPP, which has been generating electricity at the expense of affected communities. Furthermore, the complaint to EIB highlighting problems of energy access also included complaints regarding inadequate implementation of mitigation and involuntary resettlement plans (EIB, 2009).

Arguably, affected communities are neither agents nor principals in relation to contracted parties. They're the group sacrificed under notions of pseudo-optimality. Nevertheless, there is an indirect accountability chain, by virtue of solidarity, connecting them to other non-contracted national and international parties. The designation of affected communities along this chain depends on their social status, education, ability to mobilise, etc. They can be 'principals' making demands to the GoU through beneficiaries and to DFIs through international parties. If underprivileged or lacking capacity, they become 'agents' in the indirect chains connecting them to other non-contracted groups.



Whether agents or principals, the leverage of affected communities is influenced by the strength of the chains they have with non-contracted parties through solidarity, but also the indirect chains which these non-contracted parties have with contracted parties. The double-indirect formula makes the leverage of affected communities on DFIs/BOO projects almost negligible. In addition, when affected communities are agents in their chains with non-contracted international parties, the strength of solidarity becomes dependent on the transparency of DFIs in the PDI; another contested aspect of indirect accountability.

#### 4.5 Indirect accountability to taxpayers in lending countries: PDI

The WBG's funding pool comes from contributions by the governments in lending countries. The direct accountability of the WBG is to its Executive Board, but the latter is accountable to the governments providing the funds, who are accountable to their taxpayers. Hence, taxpayers in lending countries are indirectly the financiers of the BHPP, which creates an indirect accountability chain between taxpayers in lending countries and the WBG in relation to the BHPP. The standards for PDI are designed to ensure that these taxpayers are informed of how the WBG is spending/investing their contribution. When analysing PDI, I assume that all entities have incentives to demonstrate their success and none to disclose their failures, except to comply with PDI standards. I find that indirect accountability chains hold the WBG accountable for disclosing information, but non-contracted parties have no leverage on the accuracy and transparency in PDI.

One example is a document presented in Appendix-III; a one-page 'BHPP Factsheet' published by the WBG in 2018. This document presents a chart showing the increase in the percent of people with access to electricity from 2005 to 2017, and another showing the number of people connected to the grid for the same period. The commissioning date of the BHPP is correctly included in the text as 2012, but given the impact of visual figures compared to lengthy text to non-specialists, I consider the insertion of these charts an attempt to mislead readers by inaccurately attributing a positive change to the BHPP to make it look more successful. The same document states that BEL's contribution to CSR in the project area amounts to 14 million US dollars (51.7 billion Ugandan Shillings). BEL has a website and section dedicated for their 'sustainability' initiatives. It does neither include evidence to support this figure nor news of mega-projects that can absorb this value (BEL, 2019).<sup>57</sup> The figure may be referring to the CSR work by Aga Khan Development Network in Uganda, on the basis that one of its companies is a shareholder in BEL. Like the charts, this would be a deliberate attempt for misleading the readers using inaccurate attributions.

The above example applies to the WBG's state-centred and private sector lending alike, yet the situation on DFIs/BOO is more sensitive because the taxpayers are not being informed that their funds are contributing to capital accumulation by private entities. In 2007, Blackstone owned 66% of BEL

against an initial investment of 120 million US dollars. Following the news of the WBG's refinancing package in 2018, Blackstone transferred its stakes to a Norwegian hydropower developer for 277 million US dollars (Mungombe, 2018).<sup>58</sup> The role of the refinancing package in the trade deal between the two private entities is not included in publicly available documents, and the WBG's Factsheet does not mention the transaction. Hence, the reality is that the project is struggling on several fronts, while in WBG publications it is a huge success, with no leverage for taxpayers over the transparency of PDI and no accessibility to what is practically shaping the WBG's investment decisions.

## 5 Conclusions and limitations

When DFIs facilitate loans to private sector entities, such as BEL, for the development of DFIs/BOO energy projects, such as BHPP, the result is a change in energy market structures, project networks and the accountability chains within these networks. The purpose of this research is not to undermine the effort of DFIs or the importance of private sector participation, rather to analyse the changes associating the involvement of DFIs in BOO energy projects in a way that helps improve DFIs practices on future projects. Hence, I raised an overarching research question to guide my analysis of these changes, then focused the discussion towards the end on the accountability aspects of DFIs/BOO to explore who is accountable to whom when DFIs/BOO projects fall short of their objectives, when ESHS impacts are not properly mitigated, and when PDI is selective, lacking accuracy and transparency?

I started with introducing the definition for key terms and the methodology I adopt in conducting this research. In Chapter-2, I presented a theoretical framework conceptualising the shift towards private sector participation in the energy sector in lending countries and the corresponding shift towards private sector lending. Within this framework, I problematised accountability on DFIs/BOO and introduced the contested accountability of the WBG for its involvement in hydropower projects. In Chapter-3, I identified the BHPP hypothesis justifying the development of the BHPP as a DFIs/BOO project and developed an 'Argument Pyramid' to evaluate the validity of the embedded claims in this hypothesis, using recent data of relevance to the BHPP. In Chapter-4, I recreated the BHPP network diagram such that it includes non-contracted parties and analysed the 'agency relationships' and accountability chains within this network. In this last Chapter, I present my conclusions and the research limitations.

### 5.1 Conclusions

My first conclusion is that DFIs/BOO project models substitute DFIs monopoly for state monopoly. Market liberalisation occurs when the private sector is genuinely interested in participating in service provision. When the environment enables market competition, private entities make profit and are accountable for the provision of the services they offer. At its core, private sector lending is an attempt

by lending countries to support recipient countries by encouraging private sector participation. However, DFIs/BOO projects leapfrog institutional and economic transformation, resulting in a partially enabling environment, neither monopolised by the state, nor feasible for private investment. On the institutional level, DFIs mandate the governments of recipient countries to implement specific electricity sector reforms, aiming to mimic the new models of liberalised energy sectors in lending countries. Financially, DFIs engage with private sector entities like a commercial bank would, except for the loan being concessional. In theory, DFIs carry the investment risks on behalf of the private sector for the purpose of supporting a sustainable development goal. In practice, the risk is carried by the governments of recipient countries, for the involvement of DFIs is bound by loans and guarantees to recipient countries, straining the fiscal deficit further. Based on my analysis of the change in market structure associating the development of BHPP, it is my opinion that the involvement of DFIs in BOO energy projects presents a new form of market distortion. It eliminates state monopoly by creating new market structures which are not suitable for private sector participation unless gaining the support of DFIs and the approval of international development organisations.

My second conclusion is that DFIs/BOO project models enhance the direct accountability of contracted parties to lenders, but diminish other direct and indirect accountability chains within the project network. When energy project is developed as BOO in lending countries, without the involvement of DFIs, the private sector is solely responsible for loan repayment, with no interruption to the direct accountability chains between the project owner and the state in relation to the PPA. Similarly, when energy projects are developed using public investments or state-centred loans from development organisations, the state is solely responsible for loan repayment and the PPA is uninterrupted. However, on DFIs/BOO project models, both parties engaging in the PPA are receiving loans from the same funding pool, which enhances the leverage of lenders over the contracted project parties. Yet, with the responsibilities scattered over different parties, none of them become solely accountable to non-contracted parties.

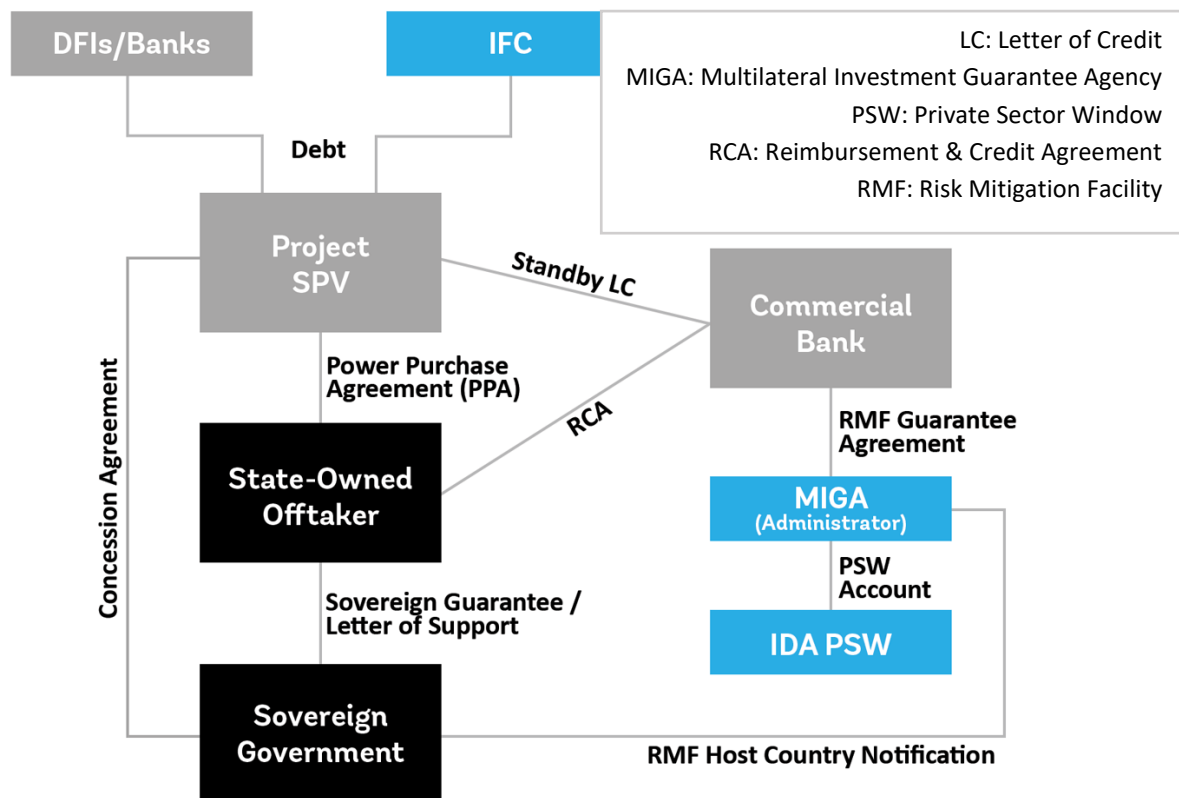
My third, and last, conclusion is that DFIs/BOO project models require more rigorous M&E and PDI standards than state-centred lending. This is for two reasons. The first is that private sector lending is more of an investment than development aid. Non-profitable DFIs/BOO would fail to encourage further private sector participation. Hence, the model pushes emerging markets into capitalism, which operate with a 'broader moral latitude' than it preaches (Mkandawire, 2001:299)<sup>59</sup> requiring closer M&E and more transparent PDI to ensure integrity and effectiveness. The second is that positive externalities are not merely long-term impacts of DFIs/BOO projects, rather a fundamental claim made at project start to justify the eligibility of the project for DFIs involvement. Existing M&E systems are designed to track progress during the project lifetime. They neither account for the lack of redistribution resulting from the project being private-owned in a premature market structure, nor

the overall project impacts on the economy, which can only be evidenced years after project completion as demonstrated in Chapter-3. Improved M&E and PDI standards is required to strengthen indirect accountability chains, by mandating DFIs to answer to the claims they make at project start.

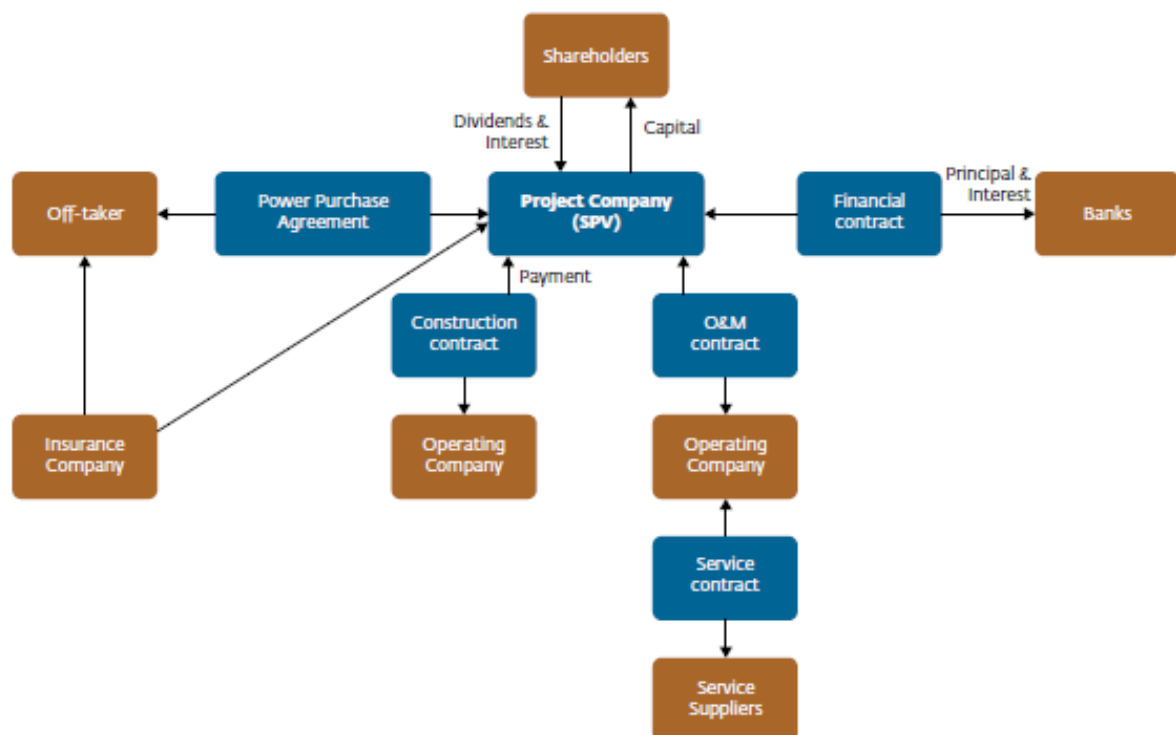
## 5.2 Limitations

As part of my analysis, I identified four limitations potentially affecting my findings. Firstly, my research relies on secondary evidence to analyse changes and relations which do not exist in isolation. The evidence I used to analyse the BHPP is potentially affected by personal biases by authors and the incentives of different organisations. However, conducting field visits and interviews to collect primary data was not feasible due to financial and time constraints. Secondly, my analysis is contextualised around the structure of energy markets, which limits the scope of generalisability. Hence, my findings and conclusions potentially apply to other DFIs/BOO energy projects, but not to DFIs/BOO in general. Thirdly, I rely on the Agency Theory, which focuses on written-based relationships. Other theories may have been useful in providing more nuanced understanding of the complexity of project networks by including accountability relations resulting from organisational structures, and possibly non-human relations. Lastly is a limitation attributed to my positionality. I worked as an M&E Consultant on several large-scale energy projects, including hydropower projects. In my analysis, my work experience served as a form of previous 'participant observations'. However, to enhance my objectivity, I selected a case study project from Uganda; a country in which I have no previous work experience. I also chose to use the IFC/WBG as an example of DFIs because I have not been professionally involved in any of the WBG's hydropower projects.

## Appendix-I: DFIs/BOO project networks

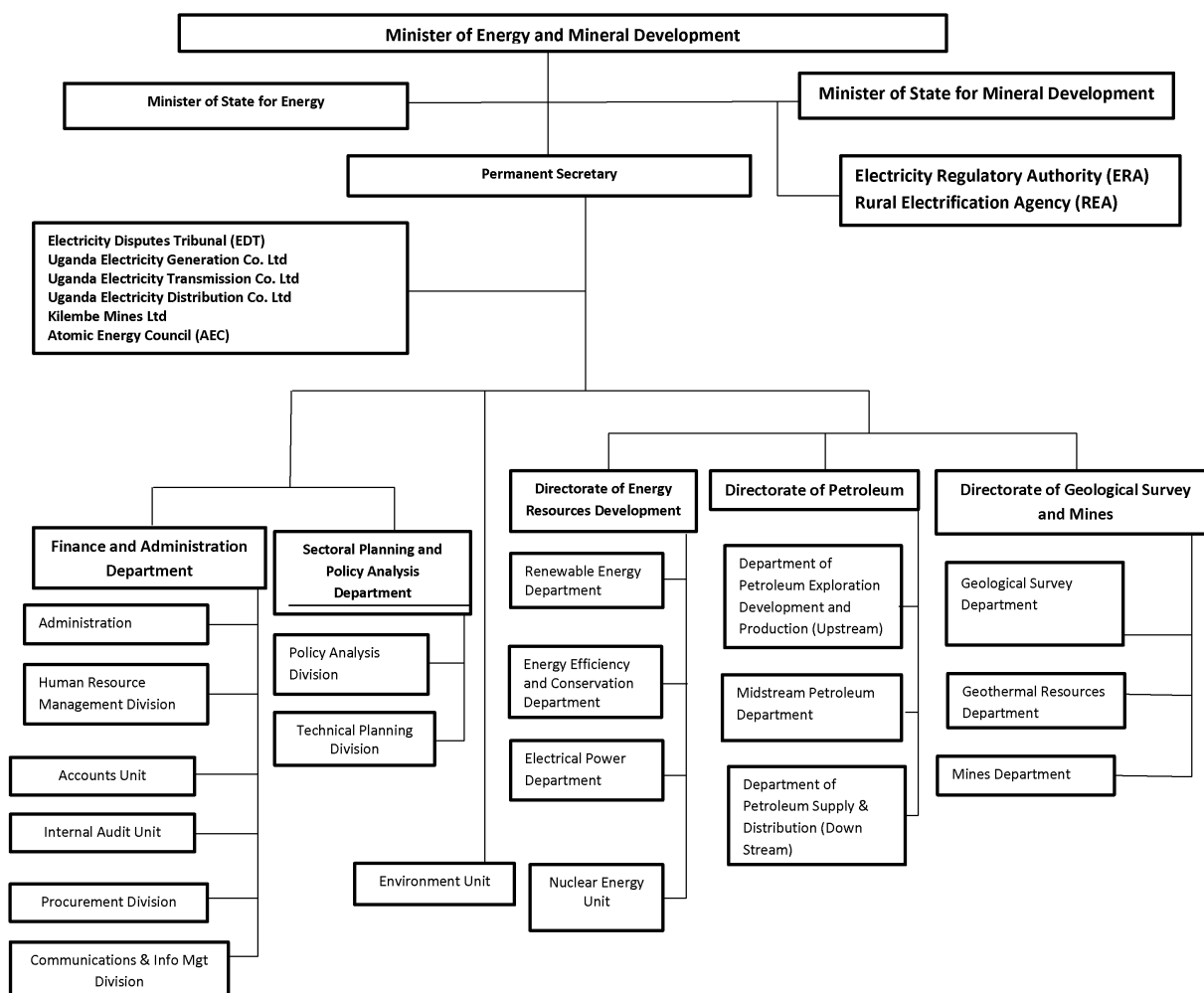


Source: IDA-Website, 2019<sup>60</sup>



Source: Dzenan et al, 2015

## Appendix-II: MEMD post-reform organogram



Source: MEMD-Website, 2019



## Appendix-III: BHPP Factsheet

### World Bank Group Support for Uganda's Bujagali Hydropower Project



#### Development Impact

- The Bujagali hydropower plant is one of the largest power generation plants in Uganda, providing **low-cost, clean, reliable baseload energy**. It contributes close to 45 percent of the country's annual electricity generation.
- Since the Inauguration of Bujagali in 2012, **more than 90 percent of Uganda's electricity has been generated by renewable sources**.
- Bujagali's Inauguration allowed the retirement of more than 100 MW of backup diesel power plants. This has allowed the government to **nearly eliminate annual subsidies to the electricity sector**.
- Bujagali provides electricity at prices that are roughly **2/3 lower than the thermal generation sources it replaced**, which cost more than 30 U.S. cents per kilowatt hour.

#### Environmental and Social Protections

IFC is involved in ongoing monitoring of the Bujagali project to ensure conformance with **IFC Performance Standards**. IFC is also engaged with the Office of the Compliance Advisor/Ombudsman (CAO) to address concerns surrounding its construction.

The **Indemnity Agreement** between the World Bank and the Government of Uganda was amended in January 2018 to reflect the changes in the Kalagala offset boundaries and strengthen the legal protection of the extended Kalagala offset area. The Government will also prepare a sustainable management plan that will specify Institutional arrangements and funding needs.

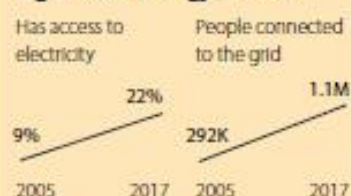
#### Community Engagement

Bujagali Energy Limited has contributed \$14 million to community development programs in the project area, including building schools, homes, and health centers, providing job training and microfinance support, and extending local water services and electrical services.

#### World Bank Group Support

- IFC loans
- IDA Partial Risk Guarantee
- MIGA guarantee

#### Uganda's Energy Sector



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**N.B.:** All links to website were accessed on August 18, 2019