**Liquefied petroleum gas transport and distribution project**

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Bangladesh: Liquefied Petroleum Gas Transport and Distribution Project (Credit 2263-BD)

The Liquefied Petroleum Gas Transport and Distribution Project, supported by Credit 2263-BD for US$67.2 million equivalent, was approved in FY91. The Credit was closed In FY96, as scheduled, with an undisbursed amount of US$66.4 million because the physical components of the project were not implemented. The Implementation Completion Report (ICR) was prepared by the South Asia Reizional Office. The borrower did not submit a separate evaluation report.

The main objective of the project was to substitute liquefied petroleum gas (LPG) for imported

kerosene and commercial fuelwood. Other objectives were: (i) to save on foreign exchange for imported fuel; (ii) to alleviate biomass shortages in the countrv; (iii) to establish economic LPG prices; (iv) to develop a suitable institutional framework for LPG development and operations and facilitate private sector involvement in LPG transport and distribution; and (v) to promote an environmentally and operationally safe petroleum industrv, Project components comprised: construction of LPG storage facilities, an LPG-dedicated pipeline and related river crossing drilling works, and two LPG bottling plants and storage facilities: acquisition of equipment and spare parts for the new facilities; and technical assistance.

The physical components of the project were not implemented. The project was to finance downstream transport and bottling facilities for LPG while an ongoing IDA-financed project, the Second Gas Development Project (Credit 1586-BA), was to finance upstream facilities. These upstream facilities included the construction of the Ashuncanj fractionation plant to separate LPG - propane and butane.- from natural gas liquids. The award of the contract for the plant was made a condition of project effectiveness because the proposed downstream transport and distribution facilities were dependent on construction of the plant. Credit effectiveness was extended three times because Govemment had not awarded the contract for the Ashuncanj plant, partly because of concerns that only two bidders had submitted tenders. Finally, the bid validity period expired and bidders refused to continue to offer the prices bid and the Bank closed Credit 1586 (after three one-year extensions). Subsequent attempts bv the Borrower to find other sources of suitable financing met with no success. Meanwhile, the Borrower requested IDA to make Credit 2263 effective in order to proceed with those project components not affected bv the Ashunaanj plant delays. IDA agreed to the Borrower's request and the project was made effective in September 1992, but disbursements for the pipeline and LPG bottlin-, plants were made conditional on the award of a contract for the Ashunganj plant. However, the Government abandoned its attempts to build the plant in early 199') and IDA finallv closed the project in .June 1996: only USSO.84 million had been disbursed for consultant engineering services for the LPG pipeline.

The Operations Evaluation Department (OED) rates project outcome as highly unsatisfactory and sustainability as unlikely. These ratings are consistent with those in the ICN. OED rates institutional development impact as negligible: no ratino, was given in the ICN. IDA performance is rated as unsatisfactory because of (i) IDA's decision to make the credit effective before the contract was awarded for the Ashunganj plant, despite the Borrower's history of long procurement delays, and (ii) the long time taken by IDA to close the project. The ICR rates IDA's project preparation and appraisal performance as satisfactory and supervision performance as unsatisfactory.

The main lesson to be drawn from the project is that implementation of projects that are part of sequential and inter-dependent investments should allow for longer lead times where there are technical uncertainties about upstream production (such as uncertainty over volume of available gas for LPG production), limited institutional capacity, and a history of long procurement delays by the Borrower. To avoid makinc, premature commitment to dovmstream investments, projects should be only presented to the Board when upstream projects are well under implementation

The ICN satisfactory covers the events during project implementation but did not include a.

separate evaluation report by the Borrower.

No audit of the project is planned.