Islamic Republic of Afghanistan

Short Term Urban Water Supply and Sanitation Project

REDACTED REPORT
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Executive Summary

This Report provides the findings of an administrative inquiry (the investigation) by the World Bank Group’s (Bank’s) Integrity Vice Presidency (INT) into allegations of fraud related to the procurement of a contract under the Short Term Urban Water Supply and Sanitation Project (UWSS or the Project) in the Islamic Republic of Afghanistan.

The investigation focused on Company A, which was awarded a contract to supply equipment to the Project. INT investigated allegations that: (i) Company A’s bid submission was incomplete and failed to meet the technical specifications of the bidding requirements; and (ii) Company A had misrepresented details of its business registration information in its bid. INT investigators interviewed bid evaluation committee members, as well as the complainant’s representatives, and reviewed available documentation related to the bid submission and evaluation process. As part of its investigation, INT contacted, and received documents from, both Company A and the manufacturers that purportedly issued the Authorizations contained in Company A’s bid.

INT’s investigation found:

1. Evidence indicating that Company A submitted falsified Manufacturer’s Authorizations for the equipment that it supplied under the contract; and

2. Evidence indicating that, in its bid, Company A misrepresented its registration information by including documents stating that its principal place of business was at an address in either Oregon or Austria, and that it had an office in Russia. In fact, the address in Oregon was the residential address of Company A’s registered representative, the address in Austria was for a hotel, and Company A is not officially registered as a commercial entity in either Austria or Russia.
Background

The Short Term Urban Water Supply and Sanitation Project (UWSS or the Project) sought to provide sustainable, improved water supply and sanitation services to the urban Afghan population, including through the extension and refurbishment of the water supply and sanitation infrastructure in Kabul municipality and the Islamic Republic of Afghanistan’s (Afghanistan’s) principal provincial towns. The US$41 million Project, which came into effect in February 2005 and closed in December 2010, was financed by the Bank-administered Afghan Reconstruction Trust Fund (ARTF).

Following an international competitive bidding tender, the Ministry of Urban Development (MUDH) signed a contract with Company A to supply goods to the Project.

Allegations and Methodology

INT’s administrative inquiry (the investigation) focused on two allegations originating from Company B, that:

1. Company A’s bid submission was incomplete and failed to meet the tender’s technical specification requirements, and that the Bid Evaluation Committee members’ negative comments about Company A’s bid had been excluded from the bid opening minutes; and

2. Company A misrepresented its business registration information, in that the company’s bid stated that its principal place of business was at an address in country X and provided contact details for the company’s office in country Y, but the address in country X was for a hotel.

INT’s investigation consisted of a detailed review of relevant procurement and contract documents, correspondence, and other materials, as well as interviews of the complainant’s representatives and other witnesses. As part of its investigation, INT contacted, and received documents from, both Company A and the manufacturers that purportedly issued the Authorizations contained in Company A’s bid.

Findings

1. **Evidence indicates that Company A submitted falsified Manufacturer’s Authorizations with its bid, presumably in order to meet the tender requirement to provide such Authorizations.**

Company A’s bid proposed to supply equipment from various manufacturers. In such cases, the Invitation for Bids (IFB) required bidders to provide Manufacturer’s Authorizations relating to the equipment that they would supply. These Authorizations attested to the guarantee and warranty of the equipment produced by the manufacturer and supplied by the bidder, and their required format was detailed in the IFB.

To comply with this requirement, in its bid Company A provided Manufacturer’s Authorizations from Companies C, D, E, and F. INT’s investigation uncovered evidence indicating that three of
these four authorizations were false. Absent these false documents, Company A would not have met the tender requirement and would not have qualified for the award of, or won, the contract.

**Company C**

Company A’s bid included a Manufacturer’s Authorization purporting to be from Company C, which was to supply equipment for the contract. The Authorization purportedly was signed by a senior Company C manager. However, this senior manager informed INT investigators that although Company A had contacted Company C seeking pricing for equipment, Company C never finalized any contract with Company A and never supplied Company A such materials. He confirmed that the Manufacturer’s Authorization that Company A submitted was not a document that he or anyone at Company C had provided to Company A.

**Company D**

Company A’s bid included a Manufacturer’s Authorization purporting to be from Company D, which was to supply equipment for the contract. The Authorization purportedly was signed by a senior Company D manager. When interviewed by INT investigators, this senior manager stated that Company D had sold one piece of equipment to Company A. However, he also stated that the Manufacturer’s Authorization submitted by Company A in its bid was a forged document because the purported signature on the document was not his signature. He provided INT with the actual contract between Companies D and A, and also provided a copy of his signature to confirm that the Authorization provided by Company A was a forgery. In subsequent communications with INT, Company A never provided a response to this fraud claim.

**Company E**

Company A’s bid also included a Manufacturer’s Authorization purporting to be from Company E, which was to supply equipment for the contract. The Authorization purportedly was signed by a “Ms. X.” However, Company E representatives informed INT that, as of both the Authorization’s date and the time of INT’s inquiry, the company did not have any employees named “Ms. X” and that they did not know who provided Company A with the Authorization. In subsequent communications with INT, Company A never provided a response to this fraud claim.

**Company F**

Company F informed INT investigators that it had provided Company A with the Manufacturer’s Authorization that Company A submitted in its bid.

**Company A’s Response**

In a series of communications with INT, Company A made two claims regarding the evidence found by INT’s investigation. First, Company A stated that it had received a revised version of the original Company C Manufacturer’s Authorization, though Company A failed to provide INT with a copy of this version. Company A further stated that it had procured the equipment through a Company C affiliate, and Company C confirmed that it had sold some equipment to a third party through this affiliate. However, Company C maintained that it did not provide Company A with the Manufacturer’s Authorization submitted in Company A’s bid.
Instead, Company C provided INT with copies of an email sent to Company A containing a Manufacturer’s Authorization, and this Authorization differed from the Authorization submitted by Company A in its bid. The submitted Authorization purported to extend the full guarantee and warranty of Clause 27 of the General Conditions of Contract, while the Authorization provided to INT by Company C stated that the guarantee and warranty were extended in accordance with Company C’s General Conditions. The Company C version made no reference to Clause 27 of the General Conditions of the Contract; this clause was a key requirement for successful IFB compliance because it regarded the guarantee and warranty of the goods or equipment by the supplier.

Second, Company A claimed that Company C was biased against Company A because Company C was part of a group of companies that included Company B, a losing bidder to Company A. (Company B also was the complainant in the case.) Company A further claimed that the technical consultant involved in the award of the contract might also be connected to Company B. Although Company C and Company B are connected because both are affiliates of another firm, this relationship does not disprove Company C’s claim of fraud, nor does it explain the discrepancies between the Manufacturer’s Authorization emailed by Company C to Company A and the different version submitted by Company A with its bid.

As noted above, Company A provided no explanation of the other two false Manufacturer’s Authorizations.

2. Evidence indicates that Company A misrepresented its business registration details in its bid and contract.

Company A’s bid and contract provided several different sets of business registration details:

- Company A’s Bidder Information Form stated that it maintained representation at an address in Russia and that it maintained a bank account in Latvia;
- Company A’s Articles of Organization, which it included in its bid, listed the company’s principal place of business as an address in Austria; and
- Company A’s contract listed the company’s principal place of business as an address in Oregon.

INT’s investigation found evidence indicating that Company A misrepresented its business details in three respects:

- **Evidence indicates that Company A provided an incorrect principle place of business in its bid for the contract.** Company A’s Articles of Organization, as filed with the Oregon Secretary of State and provided in its bid, list the company’s principal place of business as an address in country X. However, this is the address of a luxury hotel, and INT confirmed that there were no businesses other than the luxury hotel operating at this address. Further, in contrast to its claim of an Austrian principal place of business, Company A is not registered as a commercial entity in Austria.

- **Evidence indicates that Company A provided false contact information for its office in Russia.** In the Bidder Information Form submitted by Company A for the tender,
Company A claimed to maintain representation in Russia at a particular address. However, Company A is not officially registered as a business in that city, or in Russia generally.

- **Evidence indicates that Company A provided an incorrect principal place of business in its contract.** In the contract, Company A’s principal place of business is listed as an address in Oregon. However, Company A does not have a physical presence at this address; rather, it merely maintains registration there via an agent. When interviewed by INT investigators, the agent confirmed that Company A was one of his current clients and stated that he had never met or personally dealt with any Company A representatives. According to the Oregon Secretary of State, the agent works for a company that provides registered agent services and personally acts as registered agent for over two thousand business entities at the address stated by Company A. According to Articles of Organization filed by Company A with the Oregon Secretary of State, and included in Company A’s bid, the corporate members of Company A were two other companies in Belize and Niue. Company A’s principal place of business was listed at the Austrian address discussed above.

In a series of communications with INT, Company A defended its business registration information by stating that its Articles of Organization only obliged it to mention a “probable” place of business. This does not explain, however, why it was probable that Company A would have operated from the address of a luxury hotel in a country where it had no presence and was not registered. Company A also asserted that only its Russian office address (where the company admitted it is not officially registered) had been provided in its bid, but Company A also included its Articles of Organization detailing the Austrian address in its bid. Moreover, Company A’s contract stated that its principal place of business was its registered address in Oregon, which evidence indicates was untrue.

**Sanction Results**

The World Bank announced the debarment of Company A and the Director of Company A for having engaged in fraudulent practices related to a Bank-financed project.

Company A and the Director of Company A are ineligible to be awarded contracts under any Bank Group-financed or Bank Group-executed project or otherwise participate in the preparation or implementation of such projects for three years.