



The World Bank Group
Integrity Vice Presidency

Republic of Kazakhstan

Uzen Oil Field Rehabilitation Project

Redacted Report

August 9, 2012

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Executive Summary

This Redacted Report (the Report) provides the findings of an administrative inquiry (the investigation) by the World Bank's Group's (The Bank's) Integrity Vice Presidency into allegations of fraudulent and collusive practices related to the procurement of a contract under the Uzen Oil Field Rehabilitation Project (UOFRP or the Project) in the Republic of Kazakhstan.

The investigation focused on Company A, a Kazakhstan company that was competing for contracts to supply materials and equipment for the Project. INT investigated allegations that Company A had submitted a false Manufacturer's Authorization in its bid to satisfy the tender requirement to produce such Manufacturer's Authorizations if Company A was not manufacturing the equipment itself. In the course of its investigation, INT found evidence indicating that: (i) another competing bidder, Company B of the United Arab Emirates had submitted false Manufacturers' Authorizations in its bid to satisfy the same tender requirement; and (ii) Company A and Company B had engaged in collusion by jointly preparing and submitting their bids.

INT's investigation consisted of a detailed review of relevant procurement and contract documents, correspondence, and other materials, as well as interviews of Project officials, representatives of the bidding companies, and local Kazakhstan bank representatives who issued the bid guarantees to Company A. As part of its investigation, INT contacted the manufacturers that purportedly issued the Manufacturer's Authorizations contained in Company A's and Company B's bids and received documents from them.

INT found evidence indicating that, in their bids for the UOFRP contracts, both Company A and Company B:

- i. Submitted false Manufacturers' Authorizations for the materials and equipment that they would supply under the contract; and
- ii. Participated in collusive practices to jointly prepare and submit their bids.

Neither Company A nor Company B was awarded UOFRP contracts.

Background

The Uzen Oil Field Rehabilitation Project (UOFRP or the Project) sought to: (i) help reduce the rate of decline in oil production and generate resources for reinvestment in the Uzen field's operations; (ii) promote the reorganization of Uzenmunaigas (UMG) into commercially viable private corporate units; (iii) assist UMG in assessing the impact of its past operating practices on the present condition of the field's reservoirs, wells, and environment; (iv) contribute to the strengthening of UMG's environmental monitoring and management systems and capacity; and (v) train UMG's staff in modern oil field operating practices and strengthen the organization's capacity to manage the implementation of the rehabilitation program and oil field operations. The Project was financed by a US\$109.0 million International Bank for Reconstruction and Development (World Bank or Bank) Credit that disbursed approximately US\$87.4 million prior to its closing in April 2007.

In May 2006, the Project Implementation Unit (PIU) published an Invitation to Bid (IFB) for 11 packages under a Bank-financed tender for specialist oil field equipment and spare parts. Among the bidders were Company A and Company B. The IFB required bidders to provide Manufacturers' Authorizations that attested to the guarantee and warranty of the equipment produced by the manufacturer and supplied by the bidder. Their required format was detailed in the IFB.

On the last day of the bid period (July 2006), both Company A and Company B submitted bids for 10 packages. The two companies' bids were the lowest-priced respectively for (i) Lot No. 2 under UMG 122 and UMG 124; (ii) Lots Nos. 1 and 4 under UMG 126; and (iii) UMG 128 and 129. Additionally, Company B submitted the lowest bids for Lot No. 2 under UMG 126, and for UMG 131.

During the bid evaluation process, the PIU came to suspect that the Manufacturer's Authorization submitted by Company A was false. The PIU contacted the manufacturer that purportedly issued the Manufacturer's Authorization, to determine its authenticity. Two of the manufacturer's representatives confirmed to the PIU that the Manufacturer's Authorization submitted by Company A for Packages UMG 122-125, 128, 130, 131 and 133 was a forged document not provided by the manufacturer.

Allegations and Methodology

The PIU shared its findings with the Bank's Task Team, which, in turn, referred the case to INT in September 2006. INT's administrative inquiry (the investigation) focused on the PIU's allegation that, in order to meet the tender requirements, Company A submitted a falsified Manufacturer's Authorization for the workover rig tools, spare parts, and equipment that it bid to supply under the contract.

In the course of its own review of the Bid Evaluation Reports and the correspondence between the Task Team and the PIU, INT noted that the PIU had detected Company B's submission of a forged Manufacturer's Authorization letter for Packages UMG 122-125, 128, 130, 131, and 131. The Authorization claimed a local company representing a U.S. based company as its official distributor, but the PIU's inquiries revealed that neither of these two companies had ever issued a Manufacturer's Authorization to Company B. Both of these companies also stated that the letter in question was forged.

INT reviewed procurement and contract documents, correspondence, and other materials, and interviewed Project officials, representatives of the bidding companies, and the representatives of the bank that issued the bid guarantees to Company A. INT also contacted the manufacturers that purportedly issued the Manufacturers' Authorizations contained in Company A and Company B's bids and received documents from them. Additionally, INT analyzed both Company A and Company B's bids for indications of possible fraudulent and collusive activities.

As detailed below, employees of both Company A and Company B, respectively admitted to jointly preparing bid submissions and to submitting falsified Manufacturers' Authorizations for workover rig tools, spare parts, and equipment for the Project.

Findings

1. Evidence suggested that Company A and Company B submitted falsified Manufacturers' Authorizations with their bids in order to meet the tender requirement to provide such Authorizations.

Company A and Company B are not equipment manufacturers, so their bids proposed to supply the required equipment from various manufacturers. As noted above, the IFB required bidders to provide Manufacturers' Authorizations relating to the equipment they would supply. To comply with this requirement, in its bids Company A provided a Manufacturers' Authorization from an American company. Company B provided Manufacturers' Authorizations from four companies: 1 local company purportedly representing an American company, 2 Russian companies and a German company.

INT's investigation uncovered evidence that indicated each of the Manufacturers' Authorizations submitted by Company A and Company B from the above-mentioned companies listed above was false.

Company A's bid included a Manufacturer's Authorization purporting to be from an American company, which was to supply workover rig tools, spare parts, and equipment for the contract. The Authorization purportedly was signed by Witness A, an employee of the American company. However, when interviewed by INT, Witness A stated that the signature on the Authorization was not his signature, and he showed INT copies of his signature to confirm that the Authorization provided by Company A was a forgery.

Another employee of this company, Witness B, stated that the letterhead on the forged Manufacturer's Authorization was not one used by the company and explained that the company logo on the purported Manufacturer's Authorization was of lower quality and incorrectly located on the document. Witness B added that the contact information on the forged Manufacturer's Authorization was incorrect and should have listed the Moscow office, not the Houston office, as the document was purportedly signed by a staff member based in the Moscow office. Witness B also stated that the Manufacturer's Authorization was false because it incorrectly stated that the American company was an authorized dealer for several companies that manufactured worker rig equipment. Witness B noted further that the American company had never dealt with Company A.

Witness A and Witness B each stated that they did not have the authority to sign a Manufacturer's Authorization on behalf of the American company.

Company B's bid included a Manufacturer's Authorization purporting to be from a local company, which was to supply workover rig tools, spare parts, and equipment for the contract. The Authorization purportedly was signed by an employee of this company, Witness C, and stated that this local company was the official distributor of an American company. However, when interviewed by INT, Witness C confirmed that the Manufacturer's Authorization was falsified.

Witness C explained that the falsified Manufacturer's Authorization was an altered version of another letter that his company had provided by email to a Company B representative, Witness G. Witness C told INT that the letter sent via email contained general information about the company and its business, and that the electronic letter also contained his electronic signature. He stated further that Company B had modified this letter without his consent and knowledge to include false representations that the local company: (i) authorized Company B to "submit a bid and subsequently to negotiate and sign a contract"

for packages UMG 122-125, 128, 130-131, and 133; and (ii) extended warranty for goods manufactured and distributed by this company. Witness C noted that Witness G had never mentioned Company B in Witness G's prior limited interactions with Witness C.

Witness C stated that he was not authorized to write or sign Manufacturer's Authorizations on behalf of the local company, and noted that, upon learning about the forged Manufacturer's Authorization, the local company sent letters to all concerned parties, including the management of the local company and Witness G, to inform them that Company B had fraudulently used the local company's letterhead and his signature. Witness C added that the letter warned its recipients to disregard all of the local company's letters concerning projects in Kazakhstan. Witness C stated that Witness G had never replied to this letter.

INT interviewed Witness D, another employee of the local company, who corroborated the statements of Witness C to INT that the Manufacturer's Authorization purportedly issued by the local company to Company B was a falsified document. According to Witness D, the letter of Witness C was altered by persons unknown to the local company, was derived from the electronic letter sent by Witness C to Witness G and was likely created using external software. Witness D specified that the alterations, which were inserted as paragraphs 5 and 6 to the original letter, implied an authorization by the local company for Company B to act on its behalf. Witness D stated that the local company had not entered into any such arrangements with Company B.

INT also interviewed Witness E, an employee of the American company for which the local company was a purported representative, who stated that a Manufacturer's Authorization signed by the local company would not legally bind the American company. Witness E explained that the local company was not an official distributor of his employer's products, at least not for the Russian representative office of the American company, and therefore the local company could not provide a Manufacturer's Authorization on behalf of the American company. Witness E also noted that the Russian branch of the American company had never provided price quotations to Company B because Company B was beyond the geographic area of this branch. Witness E stated that none of the equipment listed in the brochures enclosed with Company B's bid was manufactured by the American company.

2. INT's own review of the two companies' bids revealed strong patterns of collusive behavior.

The Bid Evaluation Committee (BEC) observed similarities between Company A's and Company B's bids in the bid evaluation report, but did not provide specific details on these similarities. During its review, INT found indications of collusive practices, such as both bids appearing to have been prepared by the same person(s). The evidence indicative of collusive practices falls into two categories: similarities in bid presentation, and similarities in bid and unit prices.

a) Evidence indicating that the two companies' bid documents were highly similar.

- The contact email address provided by Company A in its bid submission was that of Witness G.
- The "company introduction" sections of the two bids were identical.
- The cover sheets for bid packages UMG 123, 126, 129, and 133 of both companies were similar. This evidence indicates that both companies inserted similar cover sheets in the above-referenced bid packages.
- The PIU's Transmittal Letter, attached to the Bid Evaluation Reports, mentioned that the bids of Company A and Company B were identical in nearly all respects. The Bid Evaluation Reports for packages UMG 126, 128 and 129 contained language that the suppliers' technical brochures enclosed

in Company A's and Company B's bids were unrelated to the particular requirements of these packages, and that the technical specifications of the proposed equipment were missing in both bids.

b) Evidence indicating that the two companies' unit and bid prices were nearly identical.

- An analysis of Company A's and Company B's unit prices, conducted randomly for two lots under UMG package No. 124, suggested that unit prices for many line items were either identical or that they differed by the same ratio.
- As reflected in Table 1 below, in many instances, the difference in the total dollar amounts of the two companies' bids, expressed in percentage terms, was relatively small and, in almost all instances, Company A offered a higher price than Company B:

Table 1

Package	Company B (A)	Company A (T)	T & A Price Difference (%)
UMG-122			
Lot 1	US\$710,000.00	US\$715,400.00	0.8%
Lot 2	US\$50,205.30	US\$53,503.30	6.6%
Lot 3	US\$70,000.00	US\$69,950.00	(0.1%)
UMG-123			
Lot 1	US\$620,000.00	US\$622,300.00	0.4%
Lot 2	US\$80,000.00	US\$85,500.00	6.9%
Lot 3	US\$130,000.00	US\$131,500.00	1.2%
Lot 4	US\$70,000.00	US\$75,500.00	7.9%
Lot 5	US\$664,506.50	US\$666,003.50	0.2%
UMG 124			
Lot 1	US\$707,000.00	US\$715,000.00	1.1%
Lot 2	US\$10,867.90	US\$10,345.70	(4.8%)
UMG 125			
Lot 1	US\$350,451.70	US\$351,623.00	0.3%

Package	Company B (A)	Company A (T)	T & A Price Difference (%)
Lot 2	US\$700,000.00	US\$715,500.00	2.2%
Lot 3	US\$1,030,000.00	US\$1,035,000.00	0.5%
UMG 126			
Lot 1	US\$903,900.00	US\$906,000.00	0.2%
Lot 2	US\$130,350.00	US\$145,800.00	11.9%
Lot 3	US\$489,990.00	US\$490,280.00	0.1%
Lot 4	US\$390,000.00	US\$392,100.00	0.5%
UMG 128	US\$714,720.00	US\$722,165.00	1.0%
UMG 129	US\$270,980.00	US\$273,800.00	1.0%
UMG 130	US\$274,580.00	US\$277,440.00	1.0%
UMG 131	US\$248,580.00	US\$251,160.00	1.0%
UMG 133	US\$1,171,200.00	US\$1,183,400.00	1.0%

3. Representatives of Company A and Company B admitted to submitting falsified bid documents and colluding.

- a) Representatives from Company A and Company B admitted that they: (i) submitted falsified Manufacturers' Authorizations; and (ii) jointly prepared their companies' bids.

INT interviewed Witness F, a representative of Company A, and Witness G. Each separately admitted that they submitted falsified Manufacturers' Authorizations and that they had jointly prepared their companies' bidding documents.

Witness F

During his first interview with INT, Witness F claimed that (s)he did not remember the details of how Company A obtained the Manufacturer's Authorization from the American company and how Company A's bid was prepared. (S)he explained that (s)he did not have full control over Company A's bid preparation because (s)he was frequently away from the office during that time. (S)he also claimed that (s)he delegated the authority for the bid preparation to a former manager. Witness F also claimed lack of knowledge regarding Witness G's participation in the same tender on behalf of Company B. Given Witness F's inconsistent explanations, INT provided Witness F an opportunity to think over the answers (s)he gave and scheduled a second follow-up meeting to continue the interview.

During Witness F's second interview with INT, (s)he indicated a willingness to fully cooperate with INT. (S)he admitted that the Manufacturer's Authorization letter for Company A was forged, and that it was a "reckless mistake." (S)he then stated that (s)he and Witness G forged the Manufacturers' Authorizations enclosed in Company A's and Company B's bids. However, (s)he claimed that (s)he did not remember which Manufacturer's Authorizations were forged in Company B's bid. (S)he then said that out of the two companies, Company B was a serious bidder, and Company A's bid was a supporting bid to ensure that the tender would not be cancelled because of the limited number of participants. Witness F stated that the owner of Company A, did not know about the forged Manufacturer's Authorization.

Witness G

During an interview with INT, Witness G also admitted that (s)he not only forged the Manufacturer's Authorization from the local company, but that (s)he also forged Manufacturer's Authorizations purportedly received from the other companies, including two Russian firms, and a German firm. With respect to the falsified Manufacturer's Authorizations from the local company, Witness G explained that (s)he added two additional paragraphs to the original letter that (s)he received from Witness C in order to meet the tender requirements. (S)he also stated that the original letter from the German company was addressed to another company, Company G. (S)he stated that (s)he altered the content of this letter as well, by changing the recipient company cited in the Manufacturer's Authorizations from Company G to Company B. Witness G also admitted that (s)he forged the Manufacturer's Authorization letter from the American company, which allegedly was issued to Company A, and added Witness F was aware of this forgery.

Witness G also admitted to helping Witness F prepare Company A's bidding documents, including the pricing section of the bid.

Witness G noted that (s)he was very worried about being responsible for the forged letters and that (s)he felt relieved that Company B did not win the tender. (S)he explained that the potential liability from the failure of Company B to properly execute the contract could have been tremendous and would have prompted the Kazakh government to become involved.

Witness G stated that the owners of Company B were not aware of the forged the Manufacturers' Authorizations. (S)he explained that (s)he obtained a power of attorney to represent the company as a representative through a former business partner and that (s)he personally did not know the principals of Company B. (S)he also explained that (s)he asked this former business partner to find an eligible company for the subject tender.

Witness G said that (s)he and Witness F committed a mistake by forging the Manufacturer's Authorizations of both Company B and Company A. Witness G noted that although these actions could not be justified, (s)he asked INT to take into account Witness G's full cooperation with the investigation and the complete and full admissions made. (S)he attributed this "reckless behavior" to young age and the temptation to earn quick money without realizing the consequences of this reckless behavior.

- b) Company B managers admitted that they provided a power of attorney letter to Witness G, but denied their involvement in the bid preparation and bid submission for the subject tender.**

Although Company B managers claimed that they did not personally know Witness G, they admitted to providing a power of attorney to Witness G that was enclosed in the bid. One manager explained that his business partner in Kazakhstan asked him to arrange for the power of attorney letter to participate in an oil sector-related tender in Kazakhstan. When interviewed by INT, however, both managers denied any

involvement in the subject tender and claimed that they did not know anything about the forged Manufacturers' Authorizations, or about collusion between Company B and Company A. One manager explained that their Kazakh business partner provided assistance to Company B and other companies of their holding group in Kazakhstan, and in return they provided reciprocal assistance to their business partner. They indicated to INT that they would promptly conduct their own internal investigation into the matters raised by INT.