

PROCUREMENT POLICY AND PROCEDURES

Approved by:

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 Director



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1. PROCUREMENT

Procurement of goods and services for DAG ETEK must be conducted in an open and competitive environment to ensure that prices paid are fair and reasonable. Purchasing activities are conducted in Vehicles and Machinery Department as well as by Technical and Project departmental employees. Purchasing activities include obligations for proper transaction documentation, fiscal responsibility, ethical behavior, adherence to government regulations, and compliance with DAG ETEK procedures and policies.

Department Head provides support to DAG ETEK employee in the selection, acquisition, use and disposal of goods and services by:

- A. Maximizing DAG ETEK's purchasing power by focusing on strategic sourcing and obtaining the best value.
- B. Leveraging its expertise in contract negotiations and supplier management to advantage DAG ETEK.
- C. Streamlining processes and investing in new technologies to provide administrative efficiencies.
- D. Ensuring that purchases are made in accordance with all applicable procedures and policies, regulations and codes.
- E. Minimizing risk exposure while maintaining flexibility in procurement activity.

2. PROCUREMENT AUTHORITY

The procurement of goods and services is the responsibility of the Department Heads. Accounting and Finance Department Head is responsible for assisting DAG ETEK employees in the procurement process and for overseeing all procurement activities.

Through further but more limited delegation of authority to Bind DAG ETEK to External Agreements on Business and Financial Matters, authorized department end users may commit funds on behalf of DAG ETEK using a Purchase Order. Department end users are not authorized to sign contracts; only Director may do so. DAG ETEK is not bound by and does not recognize as binding any promise or obligation made by an unauthorized person. Those signing external agreements or attempting to bind DAG ETEK by any other means without authority may be subject to legal and disciplinary action up to and including termination.

Only Director has the authority to sign agreements, however, it is the responsibility of DAG ETEK employee to:

- A. Understand and uphold DAG ETEK's obligations under the agreement.
- B. Understand and oversee the supplier's performance, and notify Department Head of any significant performance issues.

Additional details on a DAG ETEK employee's responsibilities are available on the DAG ETEK website.

DAG ETEK employees do not have the authority to change agreements; only Department Head may do so, and only after diligent review. Contact Department Head to request a change or extension.

DAG ETEK requires special approval for and/or prohibits the purchase of certain goods and services. These restrictions come from various employees across DAG ETEK. It is the responsibility of those employees to maintain the information and to advise Department Head of any unauthorized purchases.

Special approval does not exempt a transaction from the remainder of the procurement policy, including the competitive bid process. It is DAG ETEK employee's responsibility to be aware of restrictions on the purchases of goods or services. If a DAG ETEK employee has questions about whether an item is restricted, Department Head should be contacted before the purchase is made.

3. ETHICAL CONDUCT

Care must be taken to avoid the intent and appearance of unethical practice in relationships, actions and communications. All procurement activities conducted on behalf of DAG ETEK must be in compliance with the standards outlined in state laws and DAG ETEK policies and procedures. It is the

responsibility of each department and staff member of DAG ETEK to ensure that DAG ETEK does not knowingly enter into any purchase commitment that could result in a conflict of interest. Employees with questions about a particular situation should contact Department Head. Director is the ultimate decision maker on whether a procurement-related activity has the intent or appearance of unethical practice. Department Head may require individuals involved in supplier proposal evaluations or contract activities to sign confidentiality agreements and/or conflict of interest disclosures.

Department Head is charged with the responsibility of maintaining an open and competitive process for procuring goods and services. Bids and proposals from competing suppliers will be evaluated by Department Head which will also award contracts. As part of their stewardship responsibilities, end users are encouraged to compare prices between suppliers even when the purchase amount does not require a formal bidding procedure. An open and competitive purchasing environment requires that information pertinent to the bidding process be kept confidential until the conclusion of the process.

a. CONFLICTS OF INTEREST

DAG ETEK is particularly diligent before entering into purchasing contracts with its employees, their family members or any other individual who would be perceived as having a potential conflict. Situations in which a supplier affiliated with a DAG ETEK employee is seeking a contract with DAG ETEK to provide the same or similar services that the employee provides in his or her position as a DAG ETEK employee require special attention because of the high risk of a conflict. DAG ETEK employees should not make purchasing decisions or otherwise influence DAG ETEK's decisions to do business with any supplier affiliated with DAG ETEK employee, a relative of DAG ETEK employee or any other individual who would be perceived as a potential conflict.

DAG ETEK employees must promptly disclose in writing all actual or potential conflicts to a designated DAG ETEK official as actual or potential conflicts arise or are identified. Similarly, the designated official must disclose in writing all actual or potential conflicts to Director. If found to be significant, the conflicts must be eliminated or managed as described in Section 4.19. of CODE OF ETHICAL BEHAVIOR. DAG ETEK employees who are unsure whether a conflict exists are encouraged to contact Department Head for help in determining whether disclosure is appropriate.

CODE OF ETHICAL BEHAVIOR prohibits DAG ETEK employees from soliciting, negotiating, renegotiating, approving or otherwise representing DAG ETEK or the supplier affiliated with DAG ETEK employee in transactions. In accordance with CODE OF ETHICAL BEHAVIOR, DAG ETEK may not enter into a contract with any supplier affiliated with a DAG ETEK employee without first disclosing certain information to the Department Heads and receiving approval by Director. This disclosure is official record. Director approval must be obtained before proceeding with the transaction. A person who violates this law is guilty of a misdemeanor. DAG ETEK can avoid violating contracts.

b. GRATUITIES FROM SUPPLIERS

DAG ETEK employees should neither solicit nor accept money, loans, credits, entertainment, favors, services or gifts from current or prospective suppliers. Such gratuities, even if of seemingly low value, can give rise to a conflict of interest or the appearance of a conflict of interest. In particular, DAG ETEK employees should never accept gratuities from a current or prospective supplier that has submitted or may submit a bid for a DAG ETEK contract for which a bid solicitation is being contemplated, developed or is actively accepting bids. If it is deemed necessary to visit a supplier site for a demonstration, DAG ETEK pays all related expenses.

c. CONFIDENTIALITY

DAG ETEK employees must handle confidential or proprietary information with due care and proper consideration of ethical and legal ramifications and governmental regulations. DAG ETEK employees may not tell outside parties the prices, terms, or conditions quoted by other suppliers. Department Head must pre-approve all communications with outside parties regarding potential or anticipated procurement-affiliated relationships.

4. PURCHASING THAT REFLECTS DAG ETEK'S VALUES

Diversity, social responsibility and environmental sustainability are part of DAG ETEK's mission. DAG ETEK is committed to providing business opportunities to suppliers who help DAG ETEK honor these values. Visit the DAG ETEK website for detailed information about how DAG ETEK promotes supplier participation that reflects these values.

5. DONATIONS AND CONTRIBUTIONS

DAG ETEK resources are to be used to further DAG ETEK's mission. DAG ETEK CODE OF ETHICAL BEHAVIOR is strictly limiting the donation of DAG ETEK resources to any person or entity. DAG ETEK employees with questions about whether a transaction constitutes a donation should direct questions to Director. Director must approve any donations.

6. FINANCIAL CONTROLS

Financial controls provide reasonable assurance of the effectiveness and efficiency of operations, compliance with laws and regulations, and reliability of financial reporting. Procurement internal controls focus on ordering, approving, receiving, and reconciling. Each DAG ETEK employee should have the appropriate policies and procedures in place to provide for adequate controls in each of these steps within the procurement process and must separate among two or more people the duties of these steps; whenever possible, there should be no direct reporting relationship among these individuals.

7. INFORMATION TECHNOLOGY SECURITY AND PRIVACY

All DAG ETEK acquisitions of information technology or data goods and services are required to have a security addendum as part of their contract; and, where required, undergo a privacy and security assessment to ensure compliance with DAG ETEK's security program and governmental regulations. Please see the DAG ETEK website for more information.

Any vendor with access to personal or corporate information must follow DAG ETEK rules to safeguard this information. When a vendor has access to this type of information, employees must involve Department Head in the transaction.

8. PROCURE-TO-PAY PROCESS

All purchases of goods and services must be done in an open and competitive environment to ensure that the prices that DAG ETEK pays are fair and reasonable. Below is an outline of the appropriate steps to take each time a purchase is made. While Department Head' involvement is required for some of these steps, its staff can assist with any and all steps. Note that purchases of \$100,000 or more must also follow the competitive bid process, as described in the Competitive Bid Process section below.

a. DETERMINE NEEDS

The first step in the purchasing process is to determine the need. The specifications, performance standards and/or scope of work should be outlined. These items should be general in nature to allow for sufficient competition in meeting them; they should neither reference nor be written specific to a particular brand, model or company.

b. IDENTIFY POTENTIAL SOURCES

DAG ETEK requires and encourages competition among suppliers in providing goods and services to DAG ETEK. Competition provides the greatest opportunity for DAG ETEK to procure goods and services at the best value. Accordingly, those involved in supplier selection have the responsibility to search broadly and completely for viable suppliers. Sources for the goods or services should be considered in the following order:

i. Local Service Provider

A Local Service Provider is a Legal Entity that manufactures goods in Turkmenistan and/or provides services to DAG ETEK utilizing resources produced in Turkmenistan.

ii. Supplier with a Strategic Contract

Strategic Contracts are contracts with suppliers that have been through a competitive process and the terms have been secured at the best value and are available to authorized DAG ETEK employees. These suppliers provide goods and services with favorable terms for pricing, delivery and other factors and thus are the preferred source for purchasing goods or services from external entities. Department Head should be contacted before placing large-quantity orders off of Strategic Contracts, as the orders may be eligible for additional discounts.

iii. Other Supplier

When neither of the aforementioned sources offers the goods or services that DAG ETEK needs, Department Head should be contacted to identify other suppliers. Department Head may establish a department-level contract if there is a purchasing need unique to a specific project and either 1) the employee will be making repetitive purchases of a good and/or service from the same supplier over a period of time or 2) a contract is necessary for commissioning of the goods and/or services to be provided.

c. COLLECT QUOTES AND SELECT BEST VALUE

It is generally good practice to price transactions and collect quotes from a variety of sources before selecting one. The lowest price may not always be the best value; employees should consider the total cost of ownership, which includes the purchase price, transportation, handling, inspection, quality, rework, maintenance, disposal and other associated costs. employees should purchase from responsible sources possessing the ability to perform successfully under the terms and conditions of DAG ETEK with consideration given to such matters as supplier integrity, compliance with public policy, record of past performance, and financial and technical resources. For purchases under \$100,000, department end users should obtain pricing from the supplier before creating a Purchase Order. Purchases of \$100,000 or more must follow the competitive bid process, as described in the Competitive Bid Process section below.

d. PLACE THE ORDER

If ordering from a Local Service Provider, Legal Entity providing the good or service should be contacted for instructions on how to place the order. If not ordering from a Local Service Provider, authorized DAG ETEK employees may order goods or services using a Purchase Order. Because Purchase Orders offer DAG ETEK the best legal and financial protections, they are the preferred method for ordering goods and services. Department Head, however, should be contacted before any repetitive purchases made with a Purchase Order, as a supplier contract may be more appropriate and efficient.

The Purchase Order is the mechanism that places the order with the supplier and provides a method for payment of the invoice; goods and services should not be obtained prior to the supplier receiving the Purchase Order. The order quantities, pricing and payment schedule on the Purchase Order should be established in the same way as the supplier will invoice.

e. RECEIVE THE GOODS OR SERVICE

DAG ETEK employees have a number of responsibilities related to receiving goods and services. DAG ETEK's system of internal controls requires that the proper separation of duties in completing these tasks, i.e., different individuals perform the various functions of the procurement process. Persons who are authorized to procure goods and services may not approve those transactions or be connected to the payment of those transactions.

It is DAG ETEK practice to have suppliers' direct shipments to either the location of the end user or to an appropriate receiving point. Suppliers may only direct shipments to either a DAG ETEK address or other DAG ETEK-approved location. Guidance for help in choosing the appropriate address for receiving goods is available at request to Department Head.

Upon receipt, DAG ETEK employee should immediately inspect the shipment to be sure that it is correct, complete and not damaged.

1. If there are any order-related problems, including discrepancies in pricing or amount, incorrect or missing items, etc. the supplier should be contacted immediately.
2. If the goods are damaged, save all materials and the shipper should be contacted to come and inspect the items.

3. If either of these situations arise or if there are delivery or supplier performance issues, contact Accounting and Finance Department before the payment terms expire to request a hold on payment. Once an invoice is paid, Department Heads ability to provide assistance in resolving disputes is diminished.

If there is a problem with goods or services received and they were purchased through a Strategic Contract, then Department Head can provide assistance in resolving disputes with suppliers. For supplier performance tracking, DAG ETEK employees should notify Department Head of any significant supplier performance issues.

Finally, DAG ETEK employee is responsible for returning items that need to be returned and for verifying that the proper credit, if needed, is made.

f. INVOICING AND PAYMENT

Accounting and Finance Department is responsible for processing the payment of goods and services to suppliers in compliance with DAG ETEK policies and procedures, external regulations and legal requirements. It is standard process for suppliers to send invoices directly to Accounting and Finance Department. Suppliers that send invoices to DAG ETEK employees may experience delays in payment. If a DAG ETEK employee receives an invoice, it should be scanned immediately and a copy of that invoice should be emailed to Accounting and Finance Department.

When a DAG ETEK employee approves a payment, it is attesting that it received the good or service, where applicable; that the payment amount is correct; that the payment should be made; and that the payment is business appropriate.

g. RECONCILE STATEMENTS

DAG ETEK employees must reconcile their Financial Statements on a timely basis to:

- ✓ Verify the business appropriateness of each transaction.
- ✓ Confirm that all purchases were allowable and within budget and spending limits.
- ✓ Ensure proper reporting of payments to suppliers.
- ✓ Resolve any errors as soon as possible.
- ✓ Check that proper credits have been made.
- ✓ Ensure that the appropriate buying method was used.

As part of this process, the statement should be matched to the Purchase Order and packing slip or other documentation that documents the transaction.

h. MAINTAIN RECORDS

DAG ETEK employees must maintain records for all transactions. When purchasing with project related funds, the retention requirements may be much longer; questions regarding retention requirements should be directed to Accounting and Finance Department.

9. COMPETITIVE BID PROCESS

The Department Heads require that all transactions \$100,000 and greater be competitively bid. Competitive bidding is the process that allows DAG ETEK to properly survey the marketplace and secure goods and services at fair and reasonable prices. It helps ensure that DAG ETEK receives goods and services of the best value while also satisfying government and DAG ETEK requirements. Department Head is the authorized person to conduct the competitive bid process. For transactions less than \$100,000, employees may request Department Head to conduct a competitive bid process.

Goods or services bought from Local Service Providers are exempt from this requirement. Similarly, because Department Head has already completed a competitive analysis for suppliers with Strategic Contracts, it is not necessary to hold another competitive bid process for purchases from those contracts.

Splitting a transaction into smaller amounts, delaying, staggering purchases, and using multiple staff members to purchase the same or related items to avoid the competitive bid process are serious policy violations. All transactions found to be in violation of DAG ETEK's competitive bid process will be reported to the Department Heads as unauthorized purchases. Employees responsible for violating transaction(s) may be subject to disciplinary action up to and including termination.

Although Department Head conducts the competitive bid process, DAG ETEK employees have responsibilities as well. Upon request, Department Head will assist DAG ETEK employees with any of their responsibilities related to the competitive bid process.

a. SUBMIT SPECIFICATIONS

DAG ETEK employees must outline and submit to Department Head the detailed specifications, performance standards and/or scope of work of the goods or services needed. These items should be generic in nature to allow for sufficient competition in meeting them; they should neither reference nor be written specific to a particular brand, model or company. If a supplier's assistance is required to develop the bid specifications that supplier cannot submit a bid without approval of the Director.

b. SOLICIT BIDS

Informed by the specifications that DAG ETEK employee provides, Department Head develops and issues a Request for Information (RFI), Request for Quotation (RFQ) or Request for Proposal (RFP) to solicit bids from suppliers. Each supplier receives the same directions, information, terms and conditions. Department Head only considers valid those submissions from suppliers that meet the bid requirements and are sent to Department Head by the specified deadline.

c. EVALUATE PROPOSALS

Department Head works with DAG ETEK employee to assess each proposal to determine which represents the best value to DAG ETEK.

An open and competitive purchasing environment requires that information related to the bidding process be kept confidential; DAG ETEK employees must conduct themselves ethically, as described above, at all times. Suppliers must contact Department Head to obtain bid results.

d. NEGOTIATION THE AGREEMENT AND MAKE THE AWARD

Accounting and Finance Department is the only DAG ETEK department with the authority to negotiate and sign procurement contracts. Other employees are not authorized to sign contracts; only Director and those individuals given such authority by official order of Director may do so.

10. SOLE SOURCE PROCESS

Turkmenistan government, our Clients and other stakeholders, expect DAG ETEK to make purchases in an open and competitive environment to ensure that DAG ETEK receives fair and reasonable pricing. Because a sole source process doesn't include a survey of the marketplace nor competition among suppliers, it makes it difficult for DAG ETEK to meet these expectations. Despite these drawbacks, there are some situations in which a sole source process is in the best interest of DAG ETEK:

- ✓ If only one supplier provides the good or service.
- ✓ If an emergency purchase is necessary to avoid or mitigate a significantly disruptive event.

In such a case, DAG ETEK employees must first contact Department Head to approve the purchase.

When submitting a request to deviate from the standard competitive bid process, DAG ETEK employee must complete the Sole Source Justification Form and submit all necessary attachments. Completion of this form does not guarantee that Department Head will approve the request. Goods or services available from more than one supplier are subject to the competitive bid process described above. Department Head will help the employee identify suppliers and facilitate a competitive bid process.

Employees must not create or attempt to create sole source situations through delay or other manipulation of the procurement process. Department Head will work with employees to determine whether a sole source situation exists and, in such cases, reserves the right to negotiate pricing or solicit additional information. For those non-competitive transactions, a report is developed for quarterly submission to the Director.

11. BEST PRACTICES

DAG ETEK continually strives to improve its practices to ensure the integrity and effectiveness of its procurement processes. As a member of Union of Industrialists and Entrepreneurs of Turkmenistan

and Chamber of Commerce and Industry of Turkmenistan DAG ETEK is committed to competitive and modern business practices. DAG ETEK is also a member State Commodity and Raw Material Exchange of Turkmenistan, an association of major companies executing projects in Construction and Oil&Gas Industries of Turkmenistan. DAG ETEK regularly exchanges information about best procurement practices with other SCRMET members as part of its ongoing effort to improve its practices.