

Procurement Control Methodology

1. Objectives

The main objective of the procurement control is to ensure that the purchasing authority implements the procurement process of the agreement between the two parties (Cities and Villages Development Bank and the beneficiary), as well as the documented policies and procedures, as well as to address certain provisions to prevent Prohibited Practices which are not explicitly covered under the Procurement Bylaw.

These policies and procedures must ensure compliance with internationally and locally accepted standards to ensure fair and transparent procurement. Accordingly, the objective of procurement control is to ensure a fair procurement process and lead to financing for investment in projects in the best way.

To achieve the objective of procurement oversight, the Cities and villages Development Bank has developed specific guidelines and methodologies described below. In addition, the Bank has sufficient organizational resources to monitor procurement undertaken by external parties that implement projects on behalf of the Bank. This methodology is applicable to all CVDB staff and partners.

2. Value for Money

Procurement decisions within CVDB are guided by a commitment to achieving optimal "Value for Money" (VFM). This principle ensures that our procurement processes prioritize not only cost-effectiveness but also the highest quality, sustainability, and overall performance of the goods or services acquired.

1. Definition of Value for Money:

"Value for Money" is the concept that encapsulates the optimal balance between cost, quality, and performance. It goes beyond mere cost considerations, emphasizing the maximization of benefits and outcomes within the resources allocated.

2. Key Principles of Value for Money:

- **Economy**: Acquiring goods or services at the best possible cost, considering the whole life-cycle cost, including maintenance and operational expenses.
- **Efficiency**: Achieving the desired results with the least amount of resources, avoiding waste and unnecessary expenditure.
- **Effectiveness**: Ensuring that procured goods or services meet the intended objectives and performance standards, contributing to overall organizational goals.
- **Quality**: Prioritizing the highest standards of quality to guarantee longevity, reliability, and functionality in line with organizational requirements.
- **Innovation**: Encouraging the integration of innovative solutions that enhance efficiency, effectiveness, and long-term value.

3. Application of Value for Money in Procurement Procedures:

- **Cost-Benefit Analysis**: Conducting thorough cost-benefit analyses for potential procurements to assess the overall value and benefits.

- Life-Cycle Costing: Considering not only upfront costs but also ongoing operational and maintenance expenses over the product or service life cycle.
- Performance Metrics: Establishing clear performance metrics and standards to evaluate the effectiveness and efficiency of the procured goods or services.
- Competitive Sourcing: Encouraging fair and open competition to ensure the selection of suppliers that offer the best value in terms of cost, quality, and performance.
- Continuous Improvement: Regularly reviewing and refining procurement procedures to adapt to changing market conditions and technological advancements, ensuring continuous improvement in value delivery.

3. Third-Party Oversight

Most of the project executing agencies, whether local or international, implement projects through other parties (beneficiaries - a third party), and the procurement process is one of the important areas in project implementation and is usually classified according to the bases of risk assessment from high risk to medium risk. This requires strong policies and procedures, especially those related to transparency and follow-up, and this reinforces the need to develop those policies and procedures to control purchases implemented by the beneficiaries of projects financed by the Cities and Villages Development Bank.

CVDB monitors procurements carried out by external beneficiaries (third parties) through the use of one or more of the following methods:

1. Verify the validity of the procurement procedures and policies of the beneficiary.
2. Implementation of procurements through the Cities and Villages Development Bank.

3. Periodic review of the procurements executed by the implementing beneficiary agencies.

Regardless of the method used in carrying out the procurement processes, there is an item for reviewing the procurement processes for all projects, where the extent and frequency of the audits are determined based on the risk assessment of the procurement that was prepared when selecting the implementing agency (the beneficiary), and all such audits are conducted by one or more of the following entities:

- a. The specialized staff in the Cities and Villages Development Bank.
- b. Specifically designated third party.

1. Inconsistency with approved policies, procedures or procurement plans:

The necessity of following the approved procurement rules and procedures is part of the project implementation document. Therefore, in cases where the entity does not comply with the agreed policies and procedures, the CVDB has the right to take appropriate measures that can be in the form of:

- a. Withhold funds for those incompatible procurements.
- b. Termination of the project or financing agreement.
- c. Any other action decided by the Board of Directors of the Bank.

In addition, all procurements must be carried out in compliance with the prevention policy guidelines of interest conflict and by the applicable GOJ and CVDB policies and procedures, including the Procurement Bylaw, as these requirements apply to the staff of the Bank participating in the executed procurement operations and the staff of the implementing agency itself, and if compliance with the

prevention policy of interest conflict is not taken into account, the Bank has the right to take the appropriate action as mentioned above.

2. *Preparing reports:*

CVDB will prepare annual evaluation/review reports related to the monitoring of project procurements carried out by the beneficiary, the report will also include a summary of the procurements made and the control activities taken, highlighting the strengths and weaknesses, as well as a list of development opportunities and lessons learned. Where the report will be prepared by the specialized staff in the CVDB, in cooperation with the beneficiary (implementing) party within (120) days from the end of the year and submit it to the Director General.