Millennium Challenge Corporation

Program Procurement Guidance

Guidance on the Price-Reasonableness Analysis

August 2007

Reducing Poverty Through Growth

MCC Guidance on the Price-Reasonableness Analysis

This paper provides guidance to the MCA Entity[1] on conducting price-reasonableness analyses in accordance with the applicable provisions[2] of the MCC Program Procurement Guidelines[3]:

MCC Program Procurement Principles

According to the MCC Program Procurement Guidelines, no more than a commercially reasonable price (as determined, for example, by a comparison of price quotations and market prices) shall be paid to procure goods, works, consultant and non-consultant services.[4] To ensure compliance with this principle, MCC requires that all MCA Entities conduct a price-reasonableness analysis of the prices offered in a procurement process (both for competitive and single-source procurements for goods, works, consultant and non-consultant services).

The main objective of the price-reasonableness analysis is to ensure that the quoted prices of the selected contractor, supplier or consultant are neither unreasonably high (which could happen, for example, when there is a poor response to the Invitation for Bids or Request for Proposals, or collusion) nor unreasonably low (which could happen, for example, when there is severe price competition, or poorly understood description of the objective of the procurement). This analysis provides a secondary check by the MCA Entity that the MCC funds will be utilized in a cost effective manner, and that the selected contractor, supplier or consultant will be able to meet the requirements of the procurement as set out in the solicitation documents.

Definition

The price-reasonableness analysis is a review of the prices proposed by a contractor, supplier or consultant to ensure that the prices[5] offered in the bids or proposals are fair to both parties (neither too high nor two low) considering the effort required to complete the task, the quality of the bid or proposal, and the comparability of the prices on similar projects in local and international markets.

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1 The MCA Entity is the entity designated by the government of the country receiving assistance from the Millennium Challenge Account as responsible for the oversight and management of implementation of the Compact on behalf of the government.

2 MCC Program Procurement Guidelines Part 1, Section 1.A, Paragraph 1.2.1(d); Section 1.B, Paragraph 1.4.1(d).

3 The Millennium Challenge Corporation (*"MCC"*) provides funding to foreign governments under the authority of Section 605 of the Millennium Challenge Act of 2003 (the *"MCA"*) (each a *"Compact"*) or under Section 609(g) of the MCA (each a *"609g Grant Agreement"*). The MCC Program Procurement Guidelines are set out in supplemental agreements between the MCC and foreign governments and apply to MCC-funded contracts between the MCA Entity and contractors, suppliers and consultants. Contracts entered into directly by MCC are governed by the Federal Acquisition Regulations, not the MCC Program Procurement Guidelines.

4 MCC Program Procurement Guidelines Part 1, Section 1.A, Paragraph 1.2.1(d); Section 1.B, Paragraph 1.4.1(d).

5 A price-reasonableness analysis is different from a cost analysis. The major difference is that a price-reasonableness analysis looks at the total price while a cost analysis examines the individual cost elements of this total price. Depending upon the project, the cost elements may vary but generally include labor rates, material costs, overhead or indirect rates, a cost of money factor, general and administrative expenses, and a profit or fee. Price-reasonableness analysis is usually conducted for fixed-price contracts. Cost analysis is usually conducted for reimbursable cost contracts.

Methods for Conducting a Price-Reasonableness Analysis

There are several ways a price-reasonableness analysis may be conducted without examining the individual components of the total price.

(a) Competitive Prices: In an open competitive bidding process where price is an evaluation factor and several acceptable and qualified bids or proposals are received, it can be safely assumed that the prices are reasonable as determined by the market conditions, but only if there are minimal discrepancies among the offered prices. If there are significant discrepancies between any two bids or proposals, the MCA Entity should ensure that the description of the procurement is clear enough not to be misunderstood, and that there are no calculation errors.

(b) Historical Prices: If the prices offered are comparable to the prices offered in the past for similar contracts either by the same or other contractors, suppliers or consultants to the MCA Entity, to other large government buyers, or to a donor agency in the country of the project, then the prices can be assumed to be reasonable. When comparing current prices with historical prices, inflation and a reasonable margin for increased profits should be taken into account.

(C) Catalogue Prices: This method is suitable when purchasing off-the-shelf commercial goods, where the supplier is likely to have a catalogue, and the supplier is willing to provide a current, dated page from the catalogue that lists the price of the item being procured and any discounts that may be available to large buyers. In this case, the supplier may be requested to provide a reference of another large buyer, whether inside the country of the project or outside, who can verify the prices that were paid by that buyer to this supplier.

(d) Published Prices: Some commercially traded commodities such as grains, petrol, or copper have international or national prices that are published in popular press. If the prices offered are the same or lower than these published prices, then it can be assumed that the prices are reasonable.

(e) Independent estimate or planned budget. If an independent estimate has been prepared, such as a realistic and reasonable budget during the Compact development process or during the Procurement Plan[6] development process, this estimate can be used as a reference for reasonable prices.

(f) Comparison with prices of a similar item: In the procurement of goods, if a supplier can demonstrate the prices of a similar item, and justify its price difference based on additional or different features, the MCA Entity can accept the proposed prices based on these two factors. The differences between the supplier's price and the price of a competitor should be detailed and justified, and the referenced prices should be available from verifiable independent sources (not only from the supplier itself).

6 MCC Program Procurement Guidelines Part 1, Section 1.A, Paragraph 1.16.1-1.16.3; MCC Program Procurement Guidelines Part 1, Section 1.B, Paragraph 1.24.1-1.24.3.

Right of the MCA Entity to Conduct Price-Reasonableness Analysis

The MCA Entity should insert the following language into solicitation documents prior to issuing the solicitation for the contract:

> "Prior to execution of a contract, [MCA Entity] shall reserve the right to conduct a verification of the market-reasonableness of the prices offered. A negative determination (either unreasonably high or unreasonably low) could be a reason for rejection of the bid or proposal at the discretion of [MCA Entity]. The contractor, supplier or consultant shall not be permitted to revise its submission after a determination that it's offered price is unreasonable."

Responsibility and Documentation

The price-reasonableness analysis should be conducted for the potential winner of the contract during the financial evaluation of the bids/proposals. The Procurement Agent,[7] with the help of the MCA Entity, is responsible for conducting this analysis. The price-reasonableness analysis should be documented in the record of the procurement (including the Technical Evaluation Report[8] if applicable.)

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7 MCC Program Procurement Guidelines Part 1, Section 1.A, Paragraph 3.10; MCC Program Procurement Guidelines Part 1, Section 1.B, Paragraph 3.17.

8 *See* MCC Guidance on Preparing the Technical Evaluation Report.