



ZAMBIA PUBLIC PROCUREMENT AUTHORITY

Stand No. 11790 SUB-J, Procurement House, Off Alick Nkhata Road, Longacres,
P.O. Box 31009, Lusaka- Zambia

OFFICE OF THE DIRECTOR GENERAL

Our Ref:

16 June 2021

CIRCULAR No. 4 of 2021

To: All Permanent Secretaries and Controlling Officers
All Chief Executive of Parastatal and Statutory Bodies
All Town Clerks and Council Secretaries of Local Authorities

GUIDELINES FOR PRICE REASONABLENESS ANALYSIS AND TEMPLATES:

METHODS OF DETERMINING PRICE REASONABLENESS

As you all maybe aware, the Public Procurement Act No. 8 of 2020 came into effect on 16th April 2020 following issuance of the Commencement Order through Statutory Instrument No. 26 of 2021.

Section 12(4) of the Public Procurement Act requires procuring entities to, where an item to be procured is not covered in the quarterly Market Price Index, undertake a Price Reasonableness Analysis. The main purpose of undertaking a price reasonableness analysis is to assure that the price to be paid for the goods, works or services is fair and reasonable. This is essential to ensure value for money and that public funds are utilized in a cost-effective manner to preserve funding particularly where resources are limited.

Pursuant to Section 111(1) of the Public Procurement Act, the Authority is hereby issuing the guidelines on undertaking Price Reasonableness Analysis. Each price analysis MUST be documented in writing.

PEs may employ various techniques, in isolation or combination to obtain a more reasonable/market reflective estimate, as guided by the Zambia Public Procurement Authority Circular No. 2 of 2021, such as Historical Price Analysis, Similar Procurements by other Procuring Entities Analysis, Budget and Procurement Plan estimates Analysis, Published Prices by relevant Government institutions analysis, Inflation, Insurance and Demurrage rates/or charges Analysis.

The Authority is hereby providing procuring entities guidelines and associated templates that may be employed as PEs conduct Price Reasonableness Analysis on the **best evaluated bidder** for procurement of goods, works and services:

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1. Historical Price Analysis

If a procuring entity or another procuring entity in the public sector (if this information is available to the procuring entity) has a history of having procured goods, works and services, over several years, use of this historical information, considering inflation factors/rates prevailing, could be used to determine a price under scrutiny as being fair and reasonable. The historical pricing summary must be supported by appropriate documentation (copies of purchase orders or Invoices) and published notices by other procuring entities' web portals and other widely PE published contract prices/sums in print media.

It may be that only one bidder will make an offer in a procurement proceeding such as Direct bidding. If this is the case and the item was previously procured based on a competitive proceeding, this may be acceptable and reasonable. In such cases, cite the price of prior procurement and note if it was competitive. An increase in price, with no current competition, should be about the rate of inflation between the time of the last competition and the commitment of the current order.

Table 1 below summarizes the analysis to be undertaken:

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Table 1: Historical Price Analysis

Historical price & Qty procured	Difference between Best Evaluated bidder & historical price	**Official rate of inflation	Historical price as adjusted by inflation	Budget Estimate variances with the Best Evaluated bidder Price	Percentage difference between historical price adjusted & best evaluated bidder price	Explanation of the percentage difference of historical price and Best Evaluated bidder price in comparison with the inflation rate for goods, works & services	Quantity to be procured	Contract sum/price	Recommendations

***The Procuring Entity should obtain the official rate of inflation from Zambia Statistics Agency.*

**BEB-Best Evaluated Bidder.*

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2. Similar Procurements by other Procuring entities

When two or more procuring entities in the public sector have procured similar goods, works and services in the recent past or fiscal year and the lowest evaluated price was selected in accordance with the entity's budget estimates or annual procurement plan estimates, then the price of the best evaluated and lowest price can be concluded to be fair and reasonable. It is advised that the best evaluated price should be within the tolerable + or - 25% of the future estimated contract sum.

Table 2 below summarizes the analysis to be conducted.

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Table 2: Similar Procurements by other Procuring Entities

Best Evaluated Bidder	Date when procured & Qty	Difference between Evaluated bidder Price and Similar PE lowest bidder Price paid	Budget estimates variances with Evaluated bidder	Percentage difference between Evaluated and Similar lowest price: within <or = 25% of future contract	Quantity to be procured	Total contract price/sum	Recommendations
A							
B							
C							

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3. Comparison with Published Prices by Relevant Government Institutions

Certain public institutions such as Zambia Statistics Agency, produce and publish monthly consumer price indices for a basket of goods and services that procuring entities may benchmark against as they conduct price reasonable analysis.

For the works related price indices, the National Council for Construction and Engineering Institute of Zambia also produce independent cost estimates for building and road related constructions that procuring entities may also benchmark against.

Table 3 below summarizes the analysis to be undertaken.

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Table 3: Comparison with Published Prices by relevant Government Institutions

Best Evaluated Bidder	Published price/ Cost estimator by NCC/EIZ etc	Difference between Best Evaluated Bidder Price & Published Price by Government Institution	Budget Estimates variance with Best evaluated price	Percentage difference between Best Evaluated and Published Price	Explanation of the differences, if any	Quantity to be procured	Contract sum/price	Recommendation
A								
B								
C								

F.C

F.C

4. Insurance and Demurrage Rates/Fees

Where an item being procured has a published or pre-established price list such as insurance or demurrage charge rate, available to the general public, which sets forth the price of goods, works or services, this fact can be used to find the price fair and reasonable.

The insurance or demurrage rates should be current (within one year, generally). It is advised that procuring entities provide a dated page from the sector catalogue along with the page where pricing rate/charge is identified (this could be a printout of a web page). It is a good idea to obtain a name of another recent purchaser and confirm that this was the price rate paid. Often, discounts of the price rates/charges list are offered. If this is the case, it should be noted in the written analysis.

Where an item has an established market insurance rate, demurrage rate per day or month, verification of an equal or lower price also establishes the rates or charges to be fair and reasonable. Example: the purchase of imported commodities such as grain, crude oil, refined petroleum products like petrol, diesel and aviation fuels. Table 4 below summarizes the analysis to be undertaken.

Table 4: Insurance and Demurrage Rates/Fees

Best Evaluated Bidder	Insurance/Demurrage rate/customs duties	Difference between Best Evaluated bidder price and Insurance Rates or Demurrage Charge	Budget Estimates variance with Best Evaluated bidder	Percentage difference between Best evaluated bidder & Insurance Market Rates or charges for Demurrage	Explanation of the difference, if any	Quantity to be procured	Total Contract price/sum	Recommendation
A								
B								
C								

F.C

F.C

5. Documentation

Each Price Reasonableness Analysis **MUST** be documented in writing in accordance with the templates provided in this circular.

All addressees are urged to ensure that the contents of this Circular are brought to the attention of all staff under their supervision.



Idah C. Chella (Mrs.)
DIRECTOR GENERAL

cc: The Secretary to the Cabinet
Cabinet Office
LUSAKA

The Auditor General
Office of the Auditor General
LUSAKA

The Secretary to Treasury
Ministry of Finance
LUSAKA

The Principal Private Secretary
State House
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