Terms of Reference

Consultants for Beneficiary Enterprises Performance Verification (2019)

(CS-4)

1. Background
2. The Stage II Sector Plan for phase-out of HCFC-141b in the PU foam sector in China was finalized in January 2016 by the joint effort of FECO/MEE and World Bank and was approved on the 77nd ExCom. Taking into account the large remaining quantity of HCFC-141b to be phased out in the sector of 40,451 MT and the readiness of the various remaining sub-sectors for conversion in relation to viable technologies, China proposes that all HCFC-141b consumption for PU foam manufacturing shall be banned by 2026.
3. At present, 11 conversion sub-projects were financed by the committed funding of Stage II PU Foam Sector Plan. The 11 conversion projects, involving insulation panel, pipe insulation, solar water heater and integral skin foam sub-sectors, when completed, will eliminate HCFC-141b demand of 1,189 MT.
4. According to the contracts signed with the beneficiary enterprises, 7 contracts with water/HFO technology have three payments for the funding of incremental operating cost (IOC), 4 contracts with hydrocarbon (HC) technology have five payments for the funding of incremental capital cost (ICC) and IOC. To guarantee the phase-out performance, financial management and fund disbursed by the companies have followed the regulations from both the World Bank and FECO, it is necessary to hire an independent accounting firm to carry out the on-site disbursement verification before the final payments to be made to the beneficiary enterprises.
5. **Objectives**
6. The objective of this project is to select an accounting firm to carry out on-site disbursement verification of 11 beneficiary enterprises, in order to examine phase-out performance, project funding status, evaluate the utilization of project grant, verify the management of the project funds, whether any stock of HCFCs or HCFC-preblended polyol remains, and baseline equipment dismantled (if any), and provide on-site financial reports per visit with recommendations on the payments made and to be made.
7. **Work Content**
8. Considering the differences on payment schedules stipulated in afore-mentioned contracts, it is planned to have on-site IOC disbursement verification before the project commission for each of the 7 contracts with water/HFO technology.
9. With regard to the contracts that convert to HC technology, all the 4 companies have five installments. Therefore, on-site ICC and IOC disbursement verifications are planned to be conducted for each of these 4 contracts.
10. The disbursement verifications will be carried out by accountants from the selected accounting firm. An independent foam technical expert will be hired by the accounting firm and join one disbursement verification per contract. The table for the type of contract and number of disbursement verification reports are indicated below.

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| --- | --- | --- | --- |
| Number of Enterprises | Alternative technology | Number of verification reports | Time of each verification |
| 7 | Water/HFO | 1 each | before project commission |
| 4 | HC | 2 each | - before project commission  - before IOC disbursement |

1. The detailed work content of the financial verification includes:
   1. **On-site verification.** According to the financial requirements of the World Bank and FECO and rules described in the Project Implementation Manual (PIM), the accountant will examine the performance of phase-out, funding status of project, evaluate the fund disbursement and financial management, and carry out the following activities:
2. Verifying the performance, payment status and conditions, includes the payments made to the supplier for purchasing pre-blended polyol containing alternatives and MDI and/or foam facilities, the financial records of disbursement, original pre-blended polyol with alternatives and MDI purchase invoice or invoice of foam facilities, and etc.
3. Collecting the information on the new, purchased foam equipment and disposal of the HCFC-141b foam equipment, if any.
4. Collecting the information on the HCFC-141b and/or pre-blended polyol containing HCFC-141b consumption and procurement after the signature of contracts, and the date of each HCFC-141b purchased and stock of pre-blended polyol containing HCFC-141b should be indicated in the report.
5. Review the bidding document or procurement contracts using Multilateral Fund (project) funds, if any, and enterprise production log book and other official record of foam production.
6. Review the SOE prepared by the beneficiary companies and purchase and use of raw material to verify foam production and polyol containing water/HFO and MDI or containing the HC that were actually used in the production.
7. Review enterprise financial records, including costs of baseline raw materials and alternatives; production costs per unit of foam, sales and production volume of foam products, as well as the sales contract and sales channel of foam products related to the conversion or after conversion.
8. Other documents as deemed necessary by the auditors to perform satisfactory verification.
9. **Preparation of IOC and ICC Verification Reports.** The IOC and ICC verification reports will be prepared by the accounting firm and will be submitted to FECO for review. The verification reports shall consist with the results of on-site verification, including but not limited to: a) financial status, b) evaluation of financial management of project funds, c) disbursement status and conditions, d) information on the polyol and MDI consumption and procurement (if any), e) information of relevant equipment procured if any, f) comparison of cost of production of unit of foam based on baseline technology and alternatives (for phase-out contracts) and f) other information required by FECO.
10. **Outputs/Deliverables**
11. The outputs of the project are a) IOC verification reports per enterprise, b) ICC verification reports when applicable, and c) other essential financial report or proposal required by FECO.
12. **Qualification of consultant**
13. The procurement method of Consultant Qualification Selection will be used for this assignment. The Consultant should meet the following requirements:

1) Have at least five years of experience of carrying out enterprise financial verification and preparation of project financial verification reports with concrete successfully completed similar assignments before;

2) Have the ability to customize feasible and reasonable verification plan and staff qualified financial and technical experts for the assignments;

3) Have conducted similar verification assignments within last 5 years.

1. In order to duly implement the sector plan, taking into account, among other things, the extensive knowledge on the PU foam sector, the experience on the disbursement verifications, and the same methodology applied for the consecutive verifications, FECO reserves the right to renew the contract with the successful bidder.
2. **Schedule**
3. The duration of this contract is estimated to be 1.5 year. The workload is around 132 days. It is recommended at least three persons, with one team leader, one technical expert and one team member, to undertake this activity. The minimum qualification requirements for the key personnel is indicated as following:

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| **Position** | **Qualification Requirements** | **Estimated Work Time (Day per person)** |
| Team leader | 1. Strong influence and ability of coordination; 2. Responsible for the assignment to ensure satisfied performance of the team and report to PMO regularly on project progress; 3. Certified Public Accountant; 4. At least 5 years of experience with financial appraisal or verification on Chinese enterprises; 5. Familiar with ODS phase-out activities in PU foam sector. | 44 |
| Technical expert | 1. At least 5 years of experience with PU foam manufacturing or research; 2. Capable to formulate feasible and reasonable technical verification report; 3. Being familiar with the equipment and the alternative technologies in PU Foam Sector in China. | 44 |
| Team members | 1. Be cooperative and have excellent inter-personal skills 2. At least 2 years of experience with financial appraisal or verification on Chinese enterprises; 3. Willing and able to travel frequently within China. | 44 |

1. **Payment Schedule**

The estimated maximum number of the verification report is 15 within the duration of contract. The duration of this contract is estimated to be 1.5 year. The unit cost for each report will be the amount of total contract price divided by the estimated maximum number of verification reports.

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| --- | --- | --- | --- |
| **Installment** | **Payment Condition** | **Percentage of the total contract amount** | **Estimated Pay Date** |
| First Installment | Submission of the verification Reports which is satisfactory/acceptable to FECO | unit cost of one verification report multiplies the actual number of verification reports | 9 months after the contract signed |
| Second  Installment | 18 months after the contract signed or all verification reports of designated enterprises submitted and approved by FECO. |

Note: If there is any discrepancy of payment schedule between this TOR and contract, the contract content shall prevail.