Terms of Reference

Consultants for Beneficiary Enterprises Performance Verification (For signed beneficiaries in 2022)

(CS-6)

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 77th ExCom. In December 2019 at the 84th meeting, the ExCom decided to approve the revised targets and funding of the agreement between the Government of China and the Executive Committee for stage II of the HPMP and requested China to submit the revised action plan to the 86th meeting. The revised action plan for the PU Foam Sector in China was submitted and approved by the 86th ExCom meeting in September 2020. China proposes that all HCFC-141b consumption for PU foam manufacturing shall be banned by 2026.
3. In 2022, a second batch of 12 conversion sub-projects were financed by the committed funding of Stage II PU Foam Sector Plan. The 12 conversion projects, involving insulation panel, pipe insulation, solar water heater and spray foam sub-sectors, when completed, will eliminate HCFC-141b demand of 1,068 MT.
4. According to the contracts signed with the beneficiary enterprises, 9 contracts with water/HFO technology have three payments for the funding of incremental operating cost (IOC), 3 contracts with hydrocarbon (HC) technology have four payments for the funding of incremental capital cost (ICC). 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 linked to sub-project performance 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 linked to sub-project performance of 12 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 in payment schedules stipulated in afore-mentioned contracts, it is planned to have on-site IOC disbursement verification before the project commissioning for each of the 9 contracts with water/HFO technology.
9. With regard to the contracts for enterprises that convert to HC technology, it is planned to have on-site ICC disbursement verification before the project commissioning for each of the 3 contracts with HC technology.
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 verification per sub-project contract.

8. The detailed work content of the financial verification includes:

* 1. **On-site verification.** According to the requirements of the World Bank, FECO, and the Multilateral Fund Executive Committee, 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:

1. Verifying the performance, quantities, costs and payment status and conditions, including 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, etc.
2. Collecting the information, including payment amounts from the grant proceeds, on the new, purchased foam equipment as compared to planned procurement in the contract, and on the disposal of the HCFC-141b foam equipment (including disposal type and transaction records with waste collectors or other relevant companies), if any and as compared to what was planned in the contract.
3. Collecting 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.
4. Review the bidding document or procurement contracts using Multilateral Fund (project) funds, if any, and enterprise production logbook and other official record of foam production.
5. Review the SOE prepared by the beneficiary companies and purchase and use of raw material to verify foam production and amount of polyol containing water/HFO and MDI or containing the HC that were actually used in the production.
6. Review enterprise financial records, including costs of baseline and post-conversion 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.
7. Other documents as deemed necessary by the auditors to perform satisfactory verification and in the cases of significant divergence from baseline and planned phaseout, costs, and, production and consumption levels.
8. **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 of 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), g) information related to actual performance compared to contract provisions, and h) other information required by FECO or relevant to the aforementioned requirements and rules (para. 1).
9. **Outputs/Deliverables**

9.The outputs of the contract are a) verification reports per enterprise for water/HFO including specific information on IOC, b) verification reports per enterprise for HC including specific information on ICC.

1. **Qualification of consultant**

10.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;

2) Have the similar experience to customize feasible and reasonable verification plan for the performance verification within last 5 years, and have the financial staff and technical experts for the assignments;

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

1. **Schedule**
2. The duration of this contract is estimated to be 1.5 year. The workload is around 144 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 are 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. Certified Public Accountant; 3. At least 5 years of experience with financial appraisal or verification on Chinese enterprises; 4. Familiar with ODS phase-out activities in PU foam sector. | 48 |
| Technical expert | 1. At least 5 years of experience with PU foam manufacturing or research; 2. Have the experience on formulate feasible and reasonable technical verification report with in last 5 years; 3. Being familiar with the equipment and the alternative technologies in PU Foam Sector in China. | 48 |
| 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. | 48 |

1. **Payment Schedule**

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| **Payment Condition** | **Percentage of the total contract amount** | **Estimated Pay Date** |
| Submission of the verification Reports which is satisfactory/acceptable to FECO | unit cost of one verification report multiplies the actual number of verification reports submitted | Within 18 months after the contract signed and 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.