Terms of Reference

Consultants for Baseline Verification

 (For System Houses and Third Batch of Foam Enterprises)

(CS-7)

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 at the 77th ExCom Meeting. In December 2019 at its 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 ExCom at its 86th meeting in September 2020. Under the revised action plan, China commits to ban all HCFC-141b consumption for PU foam manufacturing by 2026.
3. In November 2023, FECO published a notice on inviting the system houses (SHs) and foam enterprises (the third batch of individual phase-out sub-projects) to submit the application on the HCFC-141b phase-out projects. According to the sector plan, these phase-out sub-projects will contribute to the HCFC-141b phase-out target in 2025 and the final target in 2026.
4. **Objectives**
5. The objective of this assignment is to have an accounting firm assist FECO in the verification of the applicant SHs’ and foam enterprises’ (third batch) baseline HCFC-141b consumption, evaluate the financial status and management capacity of the enterprises, and provide financial appraisal and recommendations to FECO whether the beneficiary enterprise is eligible and financially sound to carry on with a subproject. The accounting firm will be responsible for inviting technical expert(s) of PU foam sector to assist the verification.
6. **Work Content**
7. After preliminary evaluation of project applications, it is estimated that no more than 27 qualified enterprises will be willing to participate in the phase-out projects covered by this assignment in 2024. For those enterprises, the investigation teams will carry out the on-site investigations. The financial and technical experts from the selected accounting firm will be part of the investigation team to visit the enterprises and verify the financial and technical status, baseline HCFC-141b consumption of the enterprises and relevant HCFC-141b pre-blended polyol sales status and number of downstream 141b clients of the SHs concerned. The accounting firm will recruit technical expert(s) and seek advices from the experts on the verifications.
8. It is suggested that each investigation team should consist of at least *one ISA staff,* one team leader, one financial person, and one technical expert from the selected accounting firm. The essential materials and invoices, verification report, and financial report related to the project will be copied and filed and all the copies from the enterprises should be stamped. The detailed work content for the accounting firm will include:
9. **On-site Verification.** According to the requirements of Multilateral Fund as well as the project implementation manual, the financial experts will examine the eligibility of enterprises including the cut-off date, foreign ownership, etc., evaluate financial data, calculate the baseline HCFC-141b consumption, and carry out the following activities, but not limited to:
	* + 1. Verify the data on enterprises start of foam production with HCFC-141b establishment, Chinese, non-Chinese A5 and non-A5 countries ownership share proportion of Chinese investment in the corporate capital, eligibility of equipment and whether share of the products are exported to non-Art.5 countries;
			2. Collect the information on the production, baseline foam injection or foam blending equipment (including make and model) and the HCFC-141b consumption in recent three years; (including stock at beginning and end of year, HCFC-141b procured (HCC-141b in bulk and/or141b preblended polyols and HCFC-141b used per year.)
			3. Collect recent three years’ financial data in order to analyze the business condition of enterprises and provide information for the available counterpart funding;
			4. If applicable, calculate the HCFC-141b baseline consumption from the final products produced and sold during the three year should be included in the report and compare it with HCFC-141b baseline consumption calculated from raw materials;
			5. Collect HCFC-141b and HCFC-141b pre-blended polyol purchase invoices in the three year designated years;
			6. For SHs, collect the information on whether any and what substitute foaming agent the SHs may already be using and what sub-sectors SHs related to, and the list of downstream clients that purchase HCFC-141b based polyol (as verified with sales receipts) with the average yearly quantity of HCFC-141b-preblended polyol purchased and location of the downstream enterprise noted;
			7. Collect other important information related to field investigation and selection of beneficiary enterprises.
10. **Preparation of Financial and Technical Verification Report.** The accounting firm will prepare a baseline verification report for each of the enterprises to be visited. The baseline verification reports should consist of the results of on-site investigation and basic information of the enterprises, including but not limited to:
	* + 1. Basic information on the HCFC-141b consumption in recent three years and final products produced and sold in those years, i.e. purchasing records for HCFC-141b and HCFC-141b pre-blended polyol, calculation method used, the suppliers of polyol and MDI, quantity of annual production and etc.;
			2. The copies of business license and documents, if any, to prove the proportion of Chinese investment in the corporate capital;
			3. The information of sub-sectors and clients related, equipment, production capacity, quantity and quality of equipment, etc. and copies of invoices and receipts;
			4. Conclusions of evaluation of the financial/technical status of the enterprises and financial/technical ability to carry out sub-project;
			5. The copies of invoices and receipts or sale record for raw materials and final products;
			6. Information on international customers if any (which countries and the % of export to non-A5 countries)
			7. Other important information related to the verification for selection of proposed beneficiary enterprises.
11. **The technical expert(s) recruited.** The technical expert(s) willhelp the accounting staff to identify the correct and useful information for the baseline consumption and equipment verification, the MLF eligibility and PIM requirements, and the formulation of the verification reports, especially through the way of crosscheck and calculation of the HCFC-141b consumption and production volume and industry average index, verify the technical status of the enterprises, identify related sub-sectors of the products produced by the enterprises and SHs downstream clients, etc.; and to formulate a technical verification report for each enterprise visited.
12. **Outputs**
13. The outputs of the project are baseline verification reports (one for each verified enterprise). The baseline verification reports should give conclusion of financial/technical status of enterprises, appraisal of eligibility, and level of funding taking into account non-A5 ownership and exports of products to non-A5 countries as well as the baseline consumption of HCFC-141b, and should have appendixes which include:

1) **Technical verification reports** prepared by experts. The content should at least include: a) information gathered during the verification, b) technical methods used in consumption calculation (including share of HCFC-141b in preblended polyols, c) Comments on the alternative technology strategy suggested by the enterprise, including specific consideration on safety considerations and capability of the enterprise to cope with the new safety requirements; d) other inputs provided to the accounting firm. If there is any different opinion existing between the expert(s) and the accounting staff, the technical verification report should reflect the dissenting opinion and the financial report should make judgment and final conclusion.

2) **The copies of essential documents** include, but are not limited to: invoices and receipts or sale records for raw materials, equipment, and products (sales), financial/technical reports related to the project, other essential documents deemed related to the project. All documents from enterprises should be copied and filed and all the copies from the enterprises should be stamped.

1. **Qualification of consultant**
2. The procurement method of Consultant Qualification Selection will be used for this assignment. The Consultant should meet the following requirements:

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

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) Being familiar with ExCom mechanism and the MLF eligibility criteria, Ozone Layer protection, and PU Foam Sector in China.

4) Have conducted similar verification assignment within last 5 years.

1. **Schedule**
2. The duration of this contract is estimated to be 6 months. The workload is around 324 days. The number of enterprises is estimated to be 27. 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:

.

|  |  |  |
| --- | --- | --- |
| **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.
 | 108 |
| Technical expert | 1. At least 5 years of experience with PU foam sector 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.
 | 108 |
| 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.
 | 108 |

1. **Payment Schedule**

|  |  |  |
| --- | --- | --- |
| **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 6 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.