Terms of Reference

For 2016 Baseline Verification on HCFC Phase-out Project

in PU Foam Sector in China

Ref. No. CS- 32

1. Background
2. At the 19th Meeting of the Parties to the Montreal Protocol on September 17-21, 2007, the Parties agreed to adjust their commitments related to the phase-out of HCFCs. China, as an Article 5 country, should freeze production and consumption of HCFCs in 2013 and reduce HCFCs production and consumption by 10% in 2015, by 35% in 2020, by 67.5% in 2025 with the complete phase-out in 2030, while allowing for servicing an annual average of 2.5 per cent during the period 2030 to 2040.
3. The Stage I Sector Plan of HCFC-141b in the PU foam sector in China was approved on the 64nd Ex.Com. meeting in 2011. It aimed to completely phase out HCFC-141b consumption in the three targeted sub-sectors: (i) refrigerators and freezers; (ii) reefer containers; and (iii) small household appliances. At present, 54 conversion projects and 6 system house projects were financed by the Stage I PU Foam Sector Plan. The 54 conversion projects, when completed, will have eliminated HCFC-141b demand of 12,762 MT out of the targeted phase-out of 14,685 MT. The remaining phase-out will be achieved through the HCFC-141b ban in the three targeted sub-sectors. The three sub-sectors were experiencing significant growth, and the consumption was concentrating in larger enterprises. Moreover, technical capacity of manufacturers in these sub-sectors was, in general, more advanced and capable of handling alternatives. However, the implementation of the Stage I PU Foam Sector Plan also rendered its support to enterprises in other sub-sectors that were ready and capable.
4. 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/MEP and World Bank, and was approved on the 77nd Ex.Com with the total funding of $141,471,210. 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 30% reduction in 2018, 50% reduction in 2020, and 80% reduction in 2023. Obligatory HCFC phase-out in the spray foam will be pushed back to the end of the Stage II sector plan. 3,000 MT of HCFC-141b will be produced in 2025 for the use of the spray foam in that year, if needed. As of 1 January 2026, all HCFC-141b consumption for foam manufacturing shall be banned.
5. **Objectives**
6. The objective of this project is to select an accounting firm to assist FECO in the verification of baseline HCFC-141b consumption, evaluation of the financial status and management capacity of the PU foam enterprises, and providing financial appraisal and suggestion for selection of the beneficiary enterprises. The accounting firm will be responsible for inviting technical expert(s) of PU foam sector to assist the verification.
7. **Work Content**
8. After preliminary evaluation of project applications, it is estimated that no more than 25 qualified enterprises will be willing to participate in the phase-out projects covered by this assignment. 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 and baseline HCFC-141b consumption of the enterprises concerned. The accounting firm will recruit technical expert(s) and seek advices from the experts on the verifications. FECO will recommend a short list of candidate technical experts for the accounting firm.
9. It is suggested that each investigation team should consist of at least one FECO or association staff, one technical expert and two financial persons 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:
10. **Field Investigation.** According to the requirements of Multilateral Fund, the financial experts will examine the eligibility of enterprises, 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 establishment, proportion of Chinese investment in the corporate capital, eligibility of equipment and whether the products exported to non-Art.5 countries;
        2. Collect the information on the PU foam production, foam equipment and the HCFC-141b consumption in 2014, 2015, 2016;
        3. Collect recent three years’ financial data (2014–2016) in order to analyze the business condition of enterprises and provide information for the available counterpart fund;
        4. If applicable, calculate the HCFC-141b baseline consumption from the final products sold at base year 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 designated years;
        6. Collect other important information related to field investigation and selection of beneficiary enterprises, particularly considering the situation of local competitors.
11. **Preparation of Financial Verification Report.** The accounting firm will prepare a financial verification report for each of the enterprises to be visited. The financial 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 2014, 2015, 2016 and final products produced 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 foam 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 foam equipment, production capacity, quantity and quality of equipment, etc. and copies of invoices and receipts;
        4. Conclusions of evaluation of the financial status of the enterprises and financial ability to carry out sub-project;
        5. The copies of invoices and receipts or sale record for raw materials and final products;
        6. Other important information related to the financial verification for selection of beneficiary enterprises.
12. **The technical expert(s) recruited.** The technical experts willhelp the accounting staff to identify the correct and useful information for the baseline consumption verification 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, etc.; and to formulate a technical verification report for each enterprise visited.
13. **Outputs**
14. The outputs of the project are financial verification reports (one for each verified enterprise). The financial verification reports should give conclusion of financial status of enterprises, appraisal of eligibility, 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, c) suggestion on alternative technology strategy, 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 not limited to: invoices and receipts or sale records for raw materials and final products, financial 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. FECO will issue an invitation to collect and review at least three candidate consultant companies based on the qualification documents provided.
3. The consultant should:

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. Experience with ODS phase-out activities verification is preferred;

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

3) Being familiar with ExCom mechanism, Ozone Layer protection, and PU Foam Sector in China.

4) Have conducted similar verification assignment within last 2 years.

5) Have a team consisting of at least one financial expert and one technical expert with the qualifications as specified below.

The requirement for personnel of the consultants includes:

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| Name of position | No. of personnel | Estimated total working days | Professional specialty and  Experience |
| Project Manager | 1 for each enterprise | 25 enterprises\*3persons\*4 days (2 for field visit and 2 for reports preparation)=300working days | * Certified Public Accountant; * 5 years of experience with financial appraisal or verification on Chinese enterprises; * Familiar with ODS phase-out activities in PU foam sector, |
| Financial Expert | 1 for each enterprise | * 2 years of experience with financial appraisal or verification on Chinese enterprises; |
| Technical expert | 1 for each enterprise | * 5 years of experience with PU foam manufacturing or research; * Capable to formulate feasible and reasonable technical verification report; * Being familiar with the equipment and the alternative technologies in PU Foam Sector in China. |

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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 baseline 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 assignment is estimated to be one year. The number of enterprises is estimated to be 25. FECO will be responsible for reviewing the quantity and quality of the work during the contract duration.
4. **Payment Schedule**

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| **Installment** | **Payment Condition** | **Percentage of the total contract amount** | **Estimated Pay Date** |
| First Installment | Reports submission and satisfactory with FECO | unit cost of one enterprise verification\*actual numbers of enterprises visited and verified | 6 months after the contract signed |
| Second  Installment | 12 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.