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# SmartLessons

*real experiences, real development*

## GEDOEL: A Powerful Regional Trade Facilitation Tool

*Given the strong trade flows among the United States, Central America (Costa Rica, Honduras, Guatemala, Nicaragua, and El Salvador) and the Dominican Republic, the ratification of the Central America and Dominican Republic Free Trade Agreement (CAFTA-DR) represents an opportunity for the trade community in signatory countries to benefit from preferential tariff treatment through the correct application of rules of origin (ROO) and origin procedures—a series of provisions at the heart of the CAFTA-DR that set forth the requirements for goods to be considered originating from a particular country and, therefore, to gain access to preferential tariff treatment. From an importer, exporter, or producer perspective, the key to benefiting from CAFTA-DR is the ability to access preferential tariff treatment, which relies on understanding and using the ROO, not in a theoretical sense but in a real, hands-on way that permits the correct categorization of goods. This SmartLesson describes how the U.S. Agency for International Development (USAID)-funded Regional Trade Program for CAFTA-DR (CRT) developed an innovative information technology application to facilitate the understanding and use of complex rules of origin in order to make it possible for the trade community in CAFTA-DR countries to fully benefit from the agreement.*

### Background

ROO and origin procedures under the CAFTA-DR are complex and difficult to understand and interpret. Traditionally, countries have tried to deal with this issue through extensive training programs hosted by chambers of commerce, customs agencies, and others. These programs have relatively limited coverage and have not proved to be very effective. Furthermore, given the reduced number of local resources specialized in the area of ROO, it is not uncommon that companies either make mistakes in the process of origin determination and in the completion of the corresponding origin certifications, thereby exposing themselves to harsh legal and financial sanctions, or are forced to contract the expensive services of specialized consultants to assist them with this task. The incorrect interpretation of ROO and the associated legal and financial implications disproportionately affect small and medium enterprises (SMEs).

#### Chemonics International Inc.

Chemonics is an international development consulting firm that promotes meaningful change to help people live healthier, more productive, and more independent lives. Around the world, we design and implement projects in financial services, private-sector development, health, environmental management, gender, crisis prevention and recovery, democracy and governance, and agriculture.

Implemented by Chemonics International, the USAID-funded Regional Trade Program for CAFTA-DR (CRT), developed an innovative software tool to guide users in the origin determination process and also in the issuance of electronic Certificates of Origin. This software system (called GEDOEL for its Spanish acronym) is accessible for free through the Internet at <http://www.gedoel.sieca.org.gt/> as a resource for producers, exporters, and

importers to determine if a specific product being traded is eligible for preferential tariffs, and it has been accepted by all the CAFTA-DR countries as a legitimate trade practice.

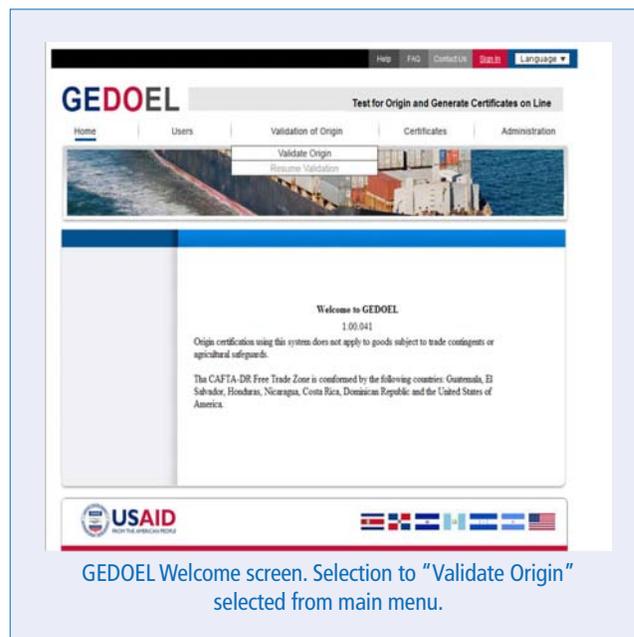
Chemonics' vision, maintained throughout the development of the system, was to provide the trade community within CAFTA-DR countries with an intelligent solution that would allow users without specialized knowledge in the area of ROO to correctly determine the origin compliance of goods under CAFTA-DR. For example, if a producer of jeans wants to export its product from Honduras to the United States, the producer can use GEDOEL to determine if the product meets the CAFTA-DR origin criteria to qualify for preferential import tariffs. To this end, the producer enters into the system the HTS<sup>1</sup> code that corresponds to this specific product, as shown in the screen samples below. After guiding the user through a series of easy-to-understand questions regarding the materials (thread, buttons, cotton, etc.), production process, and expedition mechanisms used to produce and ship the final product, the system determines if the product meets the origin requirements under CAFTA-DR.

Given the dynamic nature of foreign trade, the system needs to be flexible enough to allow changes in the underlying ROO without the need to constantly require the assistance of computer programmers. To this end, our consultants worked intensively to translate the intricate set of rules included under the agreement into decision trees comprising easy-to-understand, close-ended questions that lead users to the correct origin determination of the goods they want to trade. These decision trees can be easily modified and uploaded into GEDOEL without the intervention of information technology (IT) specialists or computer programmers.

The responses provided by users permit GEDOEL to establish whether the specific goods comply with ROO under CAFTA-DR. To ensure that users understand the concepts included in the questions, GEDOEL provides extensive and detailed help files that, using simple language and examples, help users understand ROO concepts and respond the questions posed by GEDOEL correctly. In addition to origin determination, GEDOEL allows registered users to issue origin certifications used during the customs clearance of their shipments. The application allows for two types of users: registered users, who, in addition to traversing decision trees for origin determination, can issue and produce origin certifications; and unregistered users, who can only take advantage of the origin determination functionality of GEDOEL but cannot issue or produce certifications.

The application development was completed in August 2009 and was subject to strict quality control tests to ensure the correct application of the CAFTA-DR ROO. In November 2009, the application was installed in the servers of the Central American Secretariat for Economic Integration (SIECA), a multinational institution that assumed responsibility for hosting the application, administration, and sustainability. Between December 2009 and January

<sup>1</sup> An internationally standardized system of names and numbers for classifying traded products developed and maintained by the World Customs Organization (WCO)



GEDOEL Welcome screen. Selection to "Validate Origin" selected from main menu.



User inputs HTS Code for goods subject to origin determination.



Sample question asked by GEDOEL during the origin determination process.



Sample Help Screen provided by GEDOEL during the origin determination process



Sample showing final origin determination generated by GEDOEL based on information provided by user.

2010, the application was presented to the trade community through public events hosted in Costa Rica, Nicaragua, El Salvador, Guatemala, and the Dominican Republic at which more than 300 private-sector representatives witnessed the system's functionality.

## Benefits and Impact

The adoption of GEDOEL provides the following benefits to the trade community in CAFTA-DR countries:

- *It facilitates the correct application of CAFTA-DR ROO to customs operations, thereby reducing the risk of incurring legal violations.*
- *It enhances the knowledge of users in the area of ROO.*
- *It lessens the costs for trade users by reducing the need to hire specialized services for the origin determination of goods.*

- *It facilitates trade by reducing the possibility of errors in origin certifications that may lead to clearance delays and/or refusal to access preferential tariff treatment.*

Given the short life span of GEDOEL to date, the impact generated by the system is still modest. However, as more and more users start to use and benefit from GEDOEL, we expect its impact to grow exponentially. As of February 2010, the GEDOEL Web site received more than 13,000 hits and had more than 300 registered users who were issued Certificates of Origin. If we conservatively assume that only 10 percent of the users that visited the site benefited from the use of GEDOEL, and we consider the approximately \$1,000 fee charged by a specialist to perform a determination of origin, we conclude that trade users in the region have achieved potential savings of approximately \$1.3 million.

## Lessons Learned

In retrospective, there are many things that could have been done differently regarding GEDOEL. However, to expand the systems' benefits going forward, the following lessons learned should guide future actions to ensure its sustainability:

### 1) Employ an aggressive, structured plan aimed at broad dissemination.

The presentation of the system in public events where the CRT and SIECA made presentations of GEDOEL's functionality to private-sector representatives in the CAFTA-DR countries was a positive start, but a more aggressive and structured dissemination plan is needed to broaden the user base. These are some possible actions now being considered:

- *Hiring the services of a massive regional marketing campaign through a marketing company to develop and execute a comprehensive dissemination plan;*
- *Enhancing engagement with government agencies and private-sector associations involved in foreign trade so that they can promote the use of GEDOEL among producers, importers, and exporters; and*
- *Holding additional dissemination events in CAFTA-DR countries, building on other events in the region that discuss foreign trade to promote and enhance the participation of private-sector representatives.*

### 2) Ensure the adequate administration, support, and maintenance of the system.

Late in 2009, the GEDOEL system was transferred to SIECA, which is responsible for the system's administration, hosting, and maintenance. At the time of the transfer, CRT trained SIECA employees in the tasks and procedures required to effectively administer and maintain GEDOEL. Nonetheless, given that a long time has elapsed since the training and that no maintenance to the system has been performed by SIECA employees so far, CRT is concerned about SIECA's ability to make the necessary changes to the decision trees associated with ROO changes derived from the newest

version of the Customs Harmonized Coding System. To mitigate this risk, USAID and SIECA are considering taking the following actions:

- *Providing additional training to SIECA employees, enabling them to make changes to decision trees; and*
- *Entering into a service agreement with the consultants that developed the decision trees for GEDOEL.*

## **Conclusion**

GEDOEL is a useful resource for foreign trade, with the potential of providing great economic benefit for producers, importers, and exporters alike. The tool has replicability and scalability features that can be used, with minor modifications, in other free trade agreements beyond CAFTA-DR. This tool helps facilitate the complex task of applying ROO for the origin determination of goods, which is central to gaining access to preferential tariffs under a free trade agreement. The broad dissemination of tools such as GEDOEL to implementing partners, counterparts, and the private sector in beneficiary countries is the gateway to its success.



### **DISCLAIMER**

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