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Evaluating and Determining Risk Levels

The Key Equation: Likelihood x Consequence

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Risk Management

- The systematic method of identifying, analyzing, treating, and monitoring the risks involved in an activity or process.
- Risk management is an operational philosophy that is applicable to almost all Customs controls.



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Risk

- The potential for non-compliance with Customs laws.
- The chance of an event occurring that will adversely affect compliance with import and export laws in either the travelers and commercial environments.
- The combination of the likelihood of an event and its consequences.



Likelihood and Consequence

- Likelihood is the chance that some event will occur and is used as a qualitative description of probability and frequency.
- Consequence is something that logically or naturally follows from an action that impacts on your mission



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If you forget everything else, remember this

$$R = L \times C$$



$$R = L \times C$$

Likelihood

Almost certain

Likely

Moderate

Unlikely

Rare

Consequences

Catastrophic

Major

Moderate

Minor

Insignificant



Quantifying Consequences

	Insignificant	Minor	Moderate	Major	Catastrophic
Society	No readily quantifiable widespread impact	Issues relating to product safety, sanctity of cultural icons, etc.	Injuries or illnesses requiring medical treatment; localized harm to environment	Localized destruction of property, serious injuries or illnesses requiring hospital, serious environmental damage	Widespread destruction of property, loss of life, terrorist act; widespread environmental damage
Business	Routine Customs-Trade meetings are adequate to prevent escalation	Increased business complaints, decreasing compliance levels	Small to medium businesses placed at competitive disadvantage	Major industries placed at competitive disadvantage	Major industries significantly affected, closures, etc.
Customs Reputation	Routine Customs internal checks are adequate to prevent escalation	Scrutiny required by internal committee or internal audit to prevent escalation	Scrutiny required by external auditors or commission	Intense public, political and media scrutiny; front page headlines, TV, etc.	Assembly inquiry or Commission of Inquiry
Financial	0-2% of previous year's revenue	>2% of previous year's revenue	>5% of previous year's revenue	>10% of previous year's revenue	>20% of previous year's revenue



Defining Likelihood

- Almost certain – expected to occur in most circumstances
- Likely – probable
- Possible – of uncertain likelihood
- Unlikely - not likely; improbable
- Rarely - seldom, hardly ever



Quantifying Likelihood

Level	Probability	Description
5	$\geq 90\%$	Almost certain
4	51 - 89%	Likely
3	31 - 50%	Possible
2	11 - 30%	Unlikely
1	$\leq 10\%$	Rarely



CUSTOMS RISK ANALYSIS MATRIX			CONSEQUENCES				
			1	2	3	4	5
LIKELIHOOD			Insignificant	Minor	Moderate	Major	Catastrophic
5	>=90%	Almost certain	5	10	15	20	25
4	51- 89%	Likely	4	8	12	16	20
3	31-50%	Possible	3	6	9	12	15
2	11-30%	Unlikely	2	4	6	8	10
1	<=10%	Rarely	1	2	3	4	5

Acceptable	Medium	High
1-5	6-12	15-25



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Practical Exercise

- You have been working on drafting your own risk matrix, complete with definitions that you consider appropriate for your environment
- Your work will be submitted to the Chairman or Director for approval
- Please prepare a 10 minute oral presentation to Mark, who is going to act the part of the Chairman