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RISK MANAGEMENT METHODS FOR INVESTMENT PROJECTS

Maftuna Khakimzoda

Abstract

This article discusses the key properties of the risk management system, analyzes the essence and features of building an effective risk management system. The main methods of risk management in relation to investments and investment activities are defined and schematically presented.

Keywords: risks, risk management, insurance, hedging, limiting.

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1. Introduction.

Investment projects are crucial for the economic development of any country. However, investment projects are often associated with risks that can lead to financial losses. Therefore, risk management is an essential component of investment project management.

Risk management is a set of methods, techniques and measures that, to a certain extent, allow predicting the onset of risk events and taking measures to eliminate or reduce the negative consequences of the onset of risk.

It should be noted that risk management is a complex activity, as it is associated with the ambiguity of the concept of "risk" and with a variety of its manifestations, as well as opportunities to overcome the negative consequences of a risky event.

The implementation of risk management practices in investment projects in Uzbekistan can have a significant impact on the investment climate in the country. Effective risk management can increase investor confidence, reduce the likelihood of financial losses, and improve the overall performance of investment projects. The government of Uzbekistan has recognized the importance of risk management in investment projects and has taken several measures to promote its implementation.

2. Literature review.

Building an effective risk management system for an investment project based on recognized international approaches is an opportunity to avoid a negative event or mitigate the effect of its occurrence.

According to Vyatsky N.A. risk management methods in a broad sense should be understood as a set of methods, techniques, measures and activities purposefully applied to any potential or real risks in all their manifestations in order to achieve certain performance results.

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According to Muzalevsky A.A. The strategic goal of risk management is the desire to improve the welfare of society (maximization of material and spiritual benefits) with the obligatory fulfillment of the condition: no practical activity aimed at achieving the goal can be justified if the benefit from it for society as a whole does not exceed the damage caused by it (justification of practical activity)

According to the analyzes of Korneeva V.M., and Pupentsov S.V. risk management methods are directed actions to reduce the degree of existing threats and possible losses. They only work when they are chosen correctly. Therefore, when choosing a risk management method, company management should rely on general methodological approaches, refracting them to a specific economic situation. The diversity of companies and their fields of activity has given rise to a large number of types of risk and, accordingly, methods of managing them, but globally we can divide all methods into two large groups: avoidance and risk management.

3. Research methodology.

The methodological basis of the study is represented by theoretical provisions. As a basic research method, a logical-structural analysis of theoretical and empirical data presented in the public domain was used. The main methods are analysis and synthesis, allowing, on the one hand, to single out separate areas of investment risk insurance - generalizing and linking together the main development trends.

4. Analysis and results.

The key features of the risk management system are:

Systemic nature of risk management. This characteristic of the risk management system involves a comprehensive study of the totality of possible risks as a whole, taking into account their interrelations and expected results. Along with the obtained overall picture of a possible risk situation, this allows not only to find a risk management tool, but also to determine the interaction of risks depending on their place and connections within the system, as well as the likelihood of new risks. Such a study involves consideration of the following aspects of risk management:

-integrity, i.e. focus on a general assessment of the totality of risks and the exclusion of negative results, taking into account the nature of their interaction;

-complexity, i.e. study of the totality of risks, including their interrelation, the set of possible outcomes of a risk event and the measures taken to eliminate or reduce the risk;

- the ability of the system to integrate new elements, i.e. the possibility of a flexible response of the entire system to the emergence of new risks, including those generated by the risk management system itself.

The complex structure of the risk management system. This property involves an analysis of the totality of risks, i.e. significant heterogeneity of the nature of their manifestation, as well as the features of interaction and the possibility of using a risk management system to solve problems of different levels. In addition, the presented property of the risk management system explores the nature and degree of influence of a combination of factors on the development of a risk event and the possibility of obtaining negative outcomes.

This study should take into account some aspects of risk management:

-multifunctionality and versatility, i.e. the ability to exclude risks with different nature of manifestation and their possible outcomes;

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-modularity, i.e. a combination of possible risk management procedures in different situations, which allows taking into account the specifics of a particular risk situation and, if necessary, finding a solution for an individual case;

- multilevel, i.e. finding the best management decision-making algorithm that provides an adequate distribution of powers and responsibilities [1].

High efficiency of the risk management system. This property implies the ability of a set of risk management measures to reduce the likelihood of a negative outcome of events and to overcome their consequences. The specified hierarchical risk management system should quickly respond to changes in external and internal factors, i.e. should own the formed feedback loops, as well as generate effective solutions aimed at obtaining the desired result and reducing financial losses. The risk management system to ensure the submitted requirements must comply with the following aspects:

- flexibility and adaptability, i.e. significant speed of response, the ability to adapt to constantly changing conditions to quickly cope with adverse situations;

- adequacy, i.e. the compliance of the risk management measures being implemented is expressed in the ability to quickly identify possible resources necessary to achieve the expected results;

- efficiency, i.e. the ability to overcome the influence of negative outcomes of negative situations with the minimum amount of possible resources. The risk management system should provide a net effect, i.e. the costs of risk management and the amount of potential damage as a result of the implementation of management methods should be less than the possible damage before taking measures to protect the occurrence of a risk event [1].

Thus, the risk management system is characterized as a separate management system adopted in relation to a certain risk situation.

Investment risk management is the development and justification of optimal programs designed to effectively implement investment decisions. The main element of such programs is the process of optimal allocation of limited resources to reduce various risks.

The presented features of the risk management system are general and universal. Nevertheless, the risk management system has a certain specificity, which manifests itself in key principles and is determined by the characteristics of the object, goals and management methods.

From many principles of risk management, the main ones can be distinguished:

- you can not risk more than your own capital can afford;
- it is necessary to think about the consequences of the risk;
- you can't risk a lot for a little.

The first principle requires that the entrepreneur:

- determined the maximum damage as a result of a negative deviation from the average expected value;
- assessed the likelihood of a catastrophic risk.

Second principle. Make a decision on risk management (risk rejection; risk transfer, i.e. insurance or hedging; risk taking on one's own responsibility) based on the forecast values of maximum damage in the event of a risk situation.

The third principle involves comparing the forecasted income with the expected losses.

Entrepreneurial activity is characterized by a wide range of risks, so risk management should be a comprehensive system of effective measures to overcome the adverse consequences of

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a risk event. It follows that risk identification should be carried out in two stages:

- identification of certain types of risks, which allows risk managers to determine the specifics of a possible risk situation and its features as a result of a pessimistic development of events. Such an analysis allows you to find effective management tools for each type of risk;

-a study of the totality of risks, which allows to determine the complex impact of risks on the object. Such an analysis allows us to come to a unified point of view on the totality of risks inherent in a particular company, therefore, to identify effective risk management measures.

The risk management system should be based on two levels of risk identification and combine tools and methods specific to each of them. Failure to comply with this requirement can lead to adverse consequences of a risky situation [1].

The study of risk in combination with the sources of uncertainty associated with the manifestation of individual risks involves another aspect - the degree of correlation between risks. As a rule, there is a lack of complete information about such a correlation. In this regard, this aspect is an important source of uncertainty.

In addition, the nature of risks is different, so the risk management process must be comprehensive and take into account the peculiarities of internal relationships between risks. Thus, the risk management process is very complex, especially for large facilities. In this regard, the study of risks in their totality provides the following advantages:

- effective organization of the receipt of information arrays, which will allow finding a comprehensive solution to the problem;
- ensuring the security of decisions made, including the absence of information leaks, the timeliness of decision-making and overcoming administrative barriers;
- full consideration of possible resource and time constraints for decision-making for the most efficient resource management.

The combination of all requirements, taking into account the characteristics of specific risks based on an individual approach, makes the risk management system adequate and flexible.

Risk management is a dynamic process, as a business operates in a rapidly changing environment, therefore it is impossible to consider risk management as a one-time action, even if it is detailed and justified. Thus, the collection of information, assessment and analysis of risks, as well as finding decisions on the implementation of certain risk management methods should be constantly in the overall business management process. In this regard, risk management is an integral and important element of overall management, which must meet all the requirements of dynamism and flexibility for making business decisions.

An analysis of the economic literature showed that most authors distinguish mainly four methods of risk management:

1) risk avoidance;
2) diversification;
3) risk insurance;
4) limitation.

Let's dwell on these methods in more detail.

1. The proposed method of risk management is the simplest and most radical in the system of internal risk neutralization mechanisms, which consists in developing internal methods that exclude a risky situation, avoid potential losses, but at the same time do not allow making a profit. In addition, risk avoidance is not possible in some financial transactions, and risk avoidance may

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give rise to other risks. Therefore, the use of this method is relevant in relation to very serious and major risks. The decision to avoid risk can be made at any stage of the financial activity of the enterprise by refusing to operate. As a rule, decisions to avoid risk are made at a preliminary stage, since the refusal of a financial transaction may be difficult due to the contractual obligations of the company and lead to financial losses [2].

Risk avoidance methods are common in economic practice. These activities include:

- Refusal to implement financial transactions with a high degree of risk. The proposed method is highly effective, but its application is limited, since financial transactions are related to the production and commercial activities of the enterprise, which ensures the regular receipt of income and the formation of its profit;

- refusal to continue economic relations with partners who systematically violate contractual obligations. The considered method of avoiding risk is one of the most common and effective. A systematic analysis of the state of fulfillment by partners of their obligations, identifying the reasons for their non-fulfillment is a necessary condition for avoiding a risky situation at the enterprise;

- refusal to use large amounts of borrowed capital. Reducing the share of borrowed funds will avoid the risk of loss of financial stability of the enterprise. However, such risk avoidance implies missing out on the possibility of obtaining additional profit on invested capital, i.e. we are talking about reducing the effect of financial leverage; rejection of excessive use of current assets in low-liquid forms.

Evasion of the risk of insolvency of the enterprise is possible by increasing the level of liquidity of current assets. This method deprives the enterprise of additional income from expanding the volume of sales of products on credit and generates new risks associated with a violation of the rhythm of the operating process due to a decrease in the size of insurance stocks of raw materials, materials, finished products; refusal to use temporarily free monetary assets in short-term financial investments. This method allows you to avoid deposit and interest risks, however, losses from inflation risk and the risk of lost profits are possible.

2. Reducing risk involves diversifying your investment. In this case, diversification is understood as the investment of financial resources in several projects, the profitability of which is weakly correlated with each other, i.e. it is necessary to find investment projects with a negative correlation. Diversification of investments is based on the principle that it is much safer to implement several small investment projects than one large project, while maintaining their total volume unchanged.

The diversification mechanism is used to neutralize the negative financial consequences of non-systematic (specific) risk. The diversification mechanism is based on risk sharing.

The main forms of risk diversification are:

-diversification of financial activities. Search for alternative opportunities for profit from possible financial transactions: short-term financial investments, the formation of a loan portfolio and a portfolio of long-term financial investments.

- diversification of the currency portfolio ("currency basket") of the enterprise. This direction is used in foreign economic transactions using several types of currencies and involves reducing financial losses associated with changes in the foreign exchange rate;

- diversification of the deposit portfolio. Distribution of temporarily free funds for storage in several banks. The presented direction of diversification reduces the occurrence of a risk event

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without changing the level of profitability of the deposit portfolio;

-diversification of the loan portfolio. Expanding the circle of consumers of the company's products involves reducing the level of credit risk. The diversification of the loan portfolio is carried out together with the limitation of the concentration of credit operations by establishing a credit limit differentiated by types of consumers;

-diversification of the portfolio of securities. The presented direction of diversification reduces the degree of influence of non-systematic risk, but at the same time the level of profitability of the securities portfolio does not decrease;

- diversification of the real investment program. Reducing the overall investment risk is possible by including in the investment program possible alternative investment projects of industry and regional focus.

Thus, the diversification mechanism selectively influences the reduction of the negative results of individual risk situations. The use of the diversification mechanism is limited, since it is ineffective in neutralizing systematic risks, but it has an undoubted effect in neutralizing complex, portfolio financial risks of a non-systematic (specific) group.

3. Risk insurance is a common and important method of risk reduction.

Insurance is an agreement according to which the insurer (for example, any insurance company) for a certain conditional remuneration (insurance premium) assumes the obligation to compensate for losses or part of them (the sum insured) to the insured (for example, the owner of an object) that occurred due to the dangers and (or) accidents (insured event) provided for in the insurance contract, to which the insured or the property insured by him is exposed [3].

Consequently, insurance is a set of economic relations between its participants in the formation of a target insurance fund at the expense of monetary contributions and its use in order to compensate for damage and pay out sums insured.

The content of insurance is manifested in the avoidance of risk; the investor gives up part of his income, thus he pays for lowering the level of risk and reducing the likelihood of a negative result.

Insurance involves paying a premium (the price you pay for insurance) to avoid loss. By purchasing an insurance policy, it is agreed to incur guaranteed costs (the premium paid for the policy) in exchange for the possibility of incurring much more damage due to the lack of insurance.

Exceptions are losses that at first sight satisfy the conditions of the insurance contract, but nevertheless their reimbursement is specifically excluded.

Limits are the limits imposed on the amount of compensation for losses provided for by the insurance contract.

The deductible is the amount of money that the insured party must pay out of his own funds before receiving any compensation from the insurance company.

4. An important way to neutralize financial risks is to limit their concentration. The mechanism for limiting the concentration of financial risks is usually used for those types that go beyond their acceptable level, i.e. on financial transactions carried out in the area of critical or catastrophic risk. Such limitation is implemented by establishing appropriate internal financial standards at the enterprise in the process of developing a policy for the implementation of various aspects of financial activity.

The system of financial regulations that ensure limiting the concentration of risks may include:

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- limiting size (specific weight) of borrowed funds used in economic activity. This limit is set separately for the operating and investment activities of the enterprise, and in some cases - for individual financial transactions (financing a real investment project; financing the formation of current assets, etc.);

- the minimum size (share) of assets in a highly liquid form. This limit ensures the formation of the so-called liquid cushion, which characterizes the size of the reserve of highly liquid assets for the purpose of the forthcoming repayment of urgent financial obligations of the enterprise. As a "liquidity cushion" in the first place are short-term financial investments of the enterprise, as well as short-term forms of its receivables; the maximum amount of a commodity (commercial) or consumer loan provided to one buyer. The size of the credit limit, aimed at reducing the concentration of credit risk, is established when developing a policy for providing commodity credit to buyers of products;

- the maximum amount of a deposit placed in one bank. Limiting the concentration of deposit risk in this form is carried out in the process of using this financial instrument for investing the capital of an enterprise; the maximum amount of investment in securities of one issuer. This form of limitation is aimed at reducing the concentration of non-systematic (specific) financial risk when forming a portfolio of securities. For a number of institutional investors, this limit is set in the process of state regulation of their activities in the system of mandatory standards; the maximum period for diverting funds into receivables. Due to this financial standard, the risk of insolvency, inflation risk, as well as credit risk is limited.

Limiting the concentration of financial risks is one of the most common internal risk management mechanisms that implement the financial ideology of the enterprise in terms of accepting these risks and do not require high costs [2]

5. Conclusion.

As can be seen from the presented classification, the same type of risk management method can meet several criteria at the same time. Each of the methods differs primarily in the type of risk, the subjective-individual perception of risk, the method and degree of impact on it in a particular situation, as well as the scope and specifics of entrepreneurial activity.

In the current unstable conditions for the functioning of enterprises, the expedient and rational application of a whole range of risk management methods in their various combinations can not only minimize and / or neutralize risks, but also maximize the use of opportunities and chances, thereby contributing to an increase in the efficiency of their life in in general.

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