



CHARACTERISTICS OF THE MOST COMMONLY USED RISK ANALYSIS METHODS, QUALITATIVE AND QUANTITATIVE ANALYSIS

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Abstract: Investment activity is one of the most important aspects of the functioning of any commercial organization. The reasons that determine the need for investments are the renewal of the existing material and technical base, the increase in production volumes, and the development of new types of activity.

Key words: Investment activity, agricultural enterprises, index method, production, costs, sale, economy.

Introduction

The investment process plays an important role in the economy of any country. Investment largely determines the economic growth of the state, employment of the population and is an essential element of the base on which the economic development of society is based. Therefore, the problem associated with the effective implementation of investment deserves serious attention.

The importance of economic analysis for planning and implementing investment activities is difficult to overestimate. In this case, preliminary risk analysis is of particular importance, which is carried out at the stage of developing investment projects and contributes to the adoption of reasonable and justified management decisions.

The focus of the preliminary analysis is to determine the indicators of possible economic efficiency of investments, i.e., the return on capital investments provided for by the project. As a rule, the time aspect of the cost of money is considered in the calculations.

The risk factor is significant in investment activities. Investment is always associated with the immobilization of financial resources of the enterprise and is usually carried out in conditions of uncertainty, the degree of which can vary significantly.

In a market economy, there are many opportunities for investment. At the same time, the amount of financial resources available for investment is limited for any enterprise.

Methods

In the financial analysis of production investments, the problem of uncertainty of costs, returns and measurement of risk and its impact on investment results arises.

Investments are not so many investments in a project as in people capable of implementing this project. Investments are preceded by lengthy studies and are accompanied by constant monitoring of the state of the enterprise, at the initial stages of which the probability of all possible risks is determined.

The term "risk" is understood ambiguously, its content is determined by the specific task where it is used. Most often, risk is understood as some possible loss caused by the occurrence of random unfavorable events. In some areas of economic activity, stable traditions of understanding and measuring risk have developed. The greatest attention to risk

measurement is shown in insurance. In other areas of financial activity, risk is also understood as some loss. The latter can be objective, determined by external influences on the course and results of the economic entity's activities. However, risk as a possible loss can often be associated with the choice of one or another solution. In some areas of activity, risk is understood as the probability of the occurrence of some unfavorable event. The higher this probability, the greater the risk. This understanding of risk is justified in cases where the event may or may not occur.

Discuss

It is well known that the implementation of most investment projects on any stock market is associated with a significant risk of losing part or even all of the invested capital, and the risk of loss is higher, the higher the level of income expected from investments. In this regard, it is extremely important to have a clear idea of the system of risks that can be called investment risks, and which includes all the risks inherent in investment activities in general. There are many types of investment risks. All investment risks are usually divided into systemic and non-systemic, depending on how wide a range of stock market instruments is exposed to the risk of their impact in each specific case.

By spheres of manifestation:

Economic. This includes the risk associated with changes in economic factors. Since investment activities are carried out in the economic sphere, they are most susceptible to economic risk.

Political. This includes various types of emerging administrative restrictions on investment activities associated with changes in the political course implemented by the state.

Social. This includes the risk of strikes, the implementation of unplanned social programs under the influence of employees of invested enterprises, and other similar types of risks.

Environmental. This includes the risk of various environmental disasters and calamities (floods, fires, etc.) that negatively affect the activities of invested objects.

Other types. These include racketeering, theft of property, fraud on the part of investment or business partners, etc.

Risk analysis is a procedure for identifying risk factors and assessing their significance, essentially an analysis of the probability that certain undesirable events will occur and negatively affect the achievement of project objectives. Risk analysis includes risk assessment and methods for reducing risks or reducing the associated adverse consequences.

The first stage involves identifying relevant factors and assessing their significance. The purpose of risk analysis is to provide potential partners with the necessary data to make decisions on the advisability of participating in the project and developing measures to protect against possible financial losses.

By investment forms:

Real investment. This risk is associated with an unsuccessful choice of location for the construction site; interruptions in the supply of construction materials and equipment; a significant increase in prices for investment goods; the choice of an unqualified or unscrupulous contractor and other factors that delay the commissioning of the investment object or reduce income (profit) during its operation.

Financial investment. This risk is associated with an ill-considered selection of financial instruments for investment; financial difficulties or bankruptcy of individual issuers; unforeseen changes in investment conditions, direct fraud of investors, etc.

By source of occurrence, there are two main types of risk:

Systematic (or market). This type of risk arises for all participants in investment activities and investment forms. It is determined by a change in the stages of the country's economic development cycle or cyclical development of the investment market; significant changes in tax legislation in the field of investment and other similar factors that the investor cannot influence when choosing investment objects.

Unsystematic (or specific). This type of risk is inherent to a specific investment object or the activity of a specific investor. It may be associated with unqualified management of the company (firm) -- the investment object, increased competition in a separate segment of the investment market; irrational structure of invested funds and other similar factors, the negative consequences of which can be largely prevented by effective management of the investment process.

Risk analysis can be divided into two mutually complementary types: qualitative and quantitative. Qualitative analysis aims to determine (identify) factors, areas, and types of risks. Quantitative risk analysis should make it possible to numerically determine the size of individual risks and the risk of the project.

Risk assessment is a quantitative or qualitative determination of the magnitude (degree) of risks. A distinction should be made between qualitative and quantitative assessment of entrepreneurial risks.

Qualitative assessment can be relatively simple, its main task is to determine possible types of risks, as well as factors affecting the level of risks when performing a certain type of activity.

Quantitative risk assessment is determined through:

- a) the probability that the obtained result will be less than the required value (intended, planned, predicted);
- b) the product of the expected damage and the probability that this damage will occur.

One of the areas of investment project risk analysis is qualitative risk analysis or risk identification.

It should be noted that qualitative risk analysis implies a quantitative result, i.e., the process of conducting qualitative risk analysis should include not only a description of specific types of risks of a given project, identification of possible causes of their occurrence, analysis of the expected consequences of their implementation and proposals for minimizing the identified risks, but also a cost assessment of all these measures that minimize the risks of a specific project.

Qualitative risk analysis is carried out at the stage of developing a business plan, and a mandatory comprehensive examination of an investment project allows for the preparation of extensive information for the analysis of its risks.

The first step in risk identification is to specify the classification of risks in relation to the project being developed.

The point of risk classification is that for risk analysis, assessment and, ultimately, risk management, it is initially necessary to identify possible risks in relation to a specific project, while such important work as searching for the causes of their occurrence or describing the



possible consequences of their implementation, developing risk-compensating or risk-minimizing measures and obtaining a full cost estimate of all indicators can be carried out at subsequent stages.

Risk theory distinguishes between the concepts of a factor (cause), a type of risk and a type of loss (damage) from the occurrence of risk events.

Risk factors (causes) are understood as unplanned events that can potentially occur and have a deviating effect on the planned course of project implementation, or certain conditions that cause uncertainty in the outcome of the situation. Some of these events could have been foreseen, while others could not have been predicted.

Such factors may include direct economic activity; the activity of the entrepreneur himself; lack of information about the state of the external environment that affects the result of project activity.

The main risk factors for investment projects include:

- errors in design and estimate documentation;
- insufficient qualifications of specialists;
- force majeure circumstances (natural, economic, political);
- violation of delivery dates;
- low quality of source materials, equipment, technological processes, products, etc.;
- violation of contract terms, contract termination.

The main results of qualitative risk analysis are:

- identification of specific project risks and the causes that give rise to them,
- analysis and cost equivalent of hypothetical consequences of the possible implementation of the identified risks,
- proposal of measures to minimize damage and, finally, their cost assessment.

In addition, at this stage, the boundary values (minimum and maximum) of the possible change in all factors (variables) of the project, checked for risks, are determined.

The mathematical apparatus of risk analysis is based on the methods of probability theory, which is due to the probabilistic nature of uncertainty and risks. Risk analysis tasks are divided into three types:

- direct, in which the risk level is assessed based on a priori known probabilistic information;
- inverse, when an acceptable risk level is set and the values (range of values) of the initial parameters are determined taking into account the established restrictions on one or more variable initial parameters;
- tasks of studying the sensitivity, stability of the resulting, criterion indicators in relation to the variation of the initial parameters (probability distribution, areas of change of certain quantities, etc.). This is necessary due to the inevitable inaccuracy of the initial information and reflects the degree of reliability of the results obtained in the analysis of project risks.

Conclusion

Investment is one of the most important aspects of any dynamically developing commercial organization.

Preliminary risk analysis and assessment, which is carried out at the stage of investment project development and facilitates the adoption of reasonable and well-founded

management decisions, is of particular importance for planning and implementing investment activities.

The main focus of preliminary risk analysis is to determine the indicators of possible economic efficiency of investments, i.e. the return on capital investments provided for by the project. As a rule, the time aspect of the cost of money is taken into account in calculations.

When analyzing investment projects, certain assumptions are made. Firstly, it is customary to associate a cash flow with each investment project. Most often, the analysis is carried out by year. It is assumed that all investments are made at the end of the year preceding the first year of project implementation, although in principle they can be carried out over a number of subsequent years. The inflow (outflow) of funds refers to the end of the next year.

The indicators used in the analysis of investment efficiency can be divided into those based on discounted estimates and those based on accounting estimates.

The payback period of investments is one of the simplest methods and is widely used in world practice; it does not imply a time ordering of cash receipts. When assessing risks, it is necessary to take into account the impact of inflation. This is achieved by adjusting the elements of the cash flow or the discount rate for the inflation index.

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