

## ISSUES OF MANAGEMENT OF INVESTMENT RISKS IN THE SPHERE OF AGRICULTURE OF THE REPUBLIC OF ARTSAKH

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### **Abstract**

In the current stage of post-war reconstruction of the economy of Artsakh, especially the agriculture which is its leading sector, the study of issues of investment attraction, their sketching and implementation of urgent steps for their solution have gained great importance and significance.

The process of attracting investments in Artsakh is subject to additional risk effects in the current new realities for the identification and the effective management of which the solution and identification of the problems of ensuring the development and application of modern and scientifically justified methods and approaches is signified.

**Key words:** investment risk, concept, methodology, financial loss, uncertainty, model, effectiveness.

### **Introduction**

The issue of attracting investments in the Artsakh Republic has been and still remains one of the important issues of the economic policy implemented in the country. The organization of the process of securing the investments in the agricultural sector as leading branch of the economy has become urgent for the post-war recovery of the country's economy.

It should be noted that the ways to identify and solve the problems of improving the investment environment in the country are outlined in the priority reform programs of the Government of the Republic of Artsakh.

### **Conflict setting**

Remarkable research and studies have recently been carried out in the native scientific-professional sphere dedicated to increasing the efficiency of investment risk management. They mainly address issues related to investment risk management in the financial –banking sector or the general level of the economy.

In the current period of post-war recovery of the Artsakhi economy, there is an urgent need to deeply study the issues of ensuring the efficiency of the management process of investment especially at the level of individual sectors of the economy.

### Research results

The work on further improvement of the investment environment will be carried out in the following main directions:

- Awareness of a large number of foreign investors about the opportunities of investment environment in Artsakh,
- Study of the economy and also separate spheres gaining competitive advantages and developing target investment programs based on them,
- Regular monitoring of the progress of large investment projects, identification and settlement of problems hindering their implementation [1].

The investment project in the field of agriculture, like any other project, is accompanied by many potential threats in modern conditions: untested technologies, lack of resources, changes in the goals and objectives of the project etc. This is due to the fact that there is always the possibility of undesirable events. That is why investment risk management is one of the main processes when considering the possibility of investing capital.

Investment activity, like any economic activity, is subject to impact of various risks due to possible uncertainties in economic processes. Therefore, it is obvious that the effectiveness of the investment project, the attractiveness of the market including the existing risks can be extremely important for making investment decisions [2].

Investment risks can be defined as the possibility of changes in the level of return on investment, and the objects of risk in the case of investments are the property interests of the person investing in the project [3].

Risk management is very important for investors during investment activities which ensures consistent control over the investment process to minimize their possible unfavorable effects [4].

Investment risk management is a multi-step process to reduce or compensate the organization's losses in the event of an unfavorable situation. This process, first of all, presupposes an accurate assessment of the degree of possible risks, which will allow to form an objective picture of the extent of possible losses, to find ways to prevent or reduce them, and in case of impossibility of risk prevention to ensure their compensation.

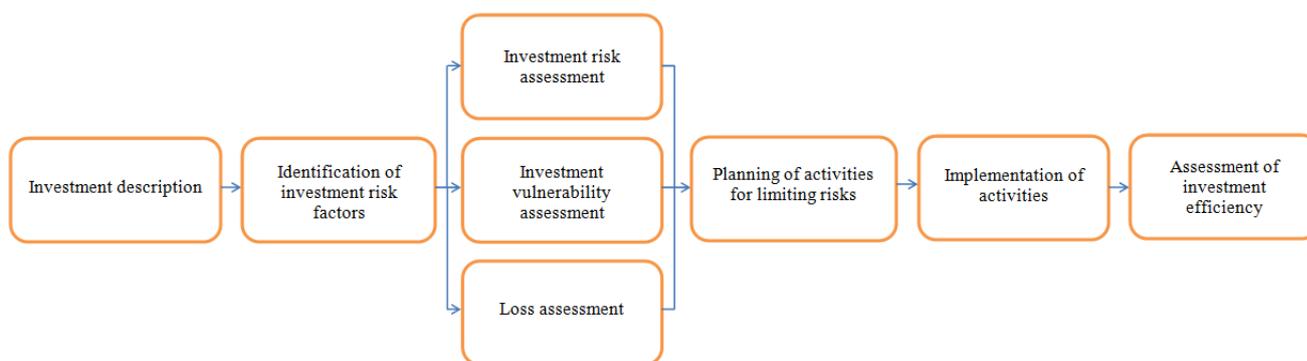
Investment risk management can be defined as the identification, analysis and assessment of risks associated with investment activities. It is a set of unique measures aimed at reducing the negative impacts of risks arising from various factors (economic-political changes, price fluctuations, supply chain disruptions, etc.), acting as a link between weak and strong systems as well as a set of effective operations which includes all measures taken to avoid losses.

A review of the professional literature suggests that there are a number of methodological approaches of risk management that can be used to successfully mitigate the risks posed by the investment.

Summarizing we can present the model of risk management in Fig. 1.

The process of management of investment risks mainly includes the following stages:

- Identification of risks and analysis.
- Choice of ways of impacts on the risks based on assessment of their relative efficiency.
- Taking corresponding decisions.
- Direct impact on the risk.
- Clarification and control of the process of investment risk management [5].



**Fig. 1 Model of investment risk management**

Touching up the methods for the management of investment risks, we should mention that that they are mainly four [6]:

- Method of risk prevention. This method suggests refusal from investment or transaction to exclude the risk which means no revenue for the investor.
- Method of risk withstanding which foresees the conscious undertaking of the risk by the investor.
- Method of neutralization of risk in the case of which all the measurements are taken to minimize the potential losses in systematized way.
- Method of risk transference which supposes the transfer of investment risk to other members of the market to decrease the risk.

Concerning the main tools applied for managing investment risks, we can say that they are mainly four:

- Risk distribution among the participants of investment,
- Insurance,
- Storage,
- Diversification,
- Hedging.

While taking any management decision, investment decisions are made in a risk or uncertainty. Therefore, the main tasks by investors when investing are accurate and the possible objective assessment of the current situation, early detection, assessment and management of risks. The latter are carried out at the initial stage of investment activity as a rule contributing to the formation of stable and sensible management decisions in the field.

The stages of the process of risk management are given below.

**Defining the purpose** supposes health care and family welfare in the event of income loss in case of death of a breadwinner as well as insurance protection of property, vehicles and other cases for a person, for example. The main goal for business entities is to ensure the existence of the organization in case of unforeseen circumstances (fire, theft, etc.).

Every risk-taking action is always purposeful as the lack of purpose makes the risk-taking decision meaningless. The purpose of the risk is to get the result you need. It can be profit, revenue and income.

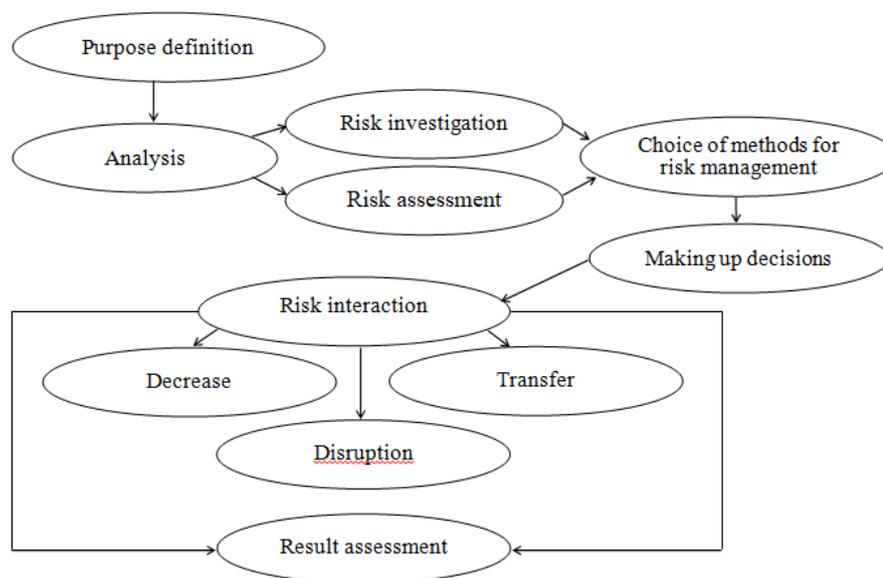
**Investigating the risk** expresses in the consciousness of the risk by the business entity or individual. The latter goes on within social environment and is based on social practice as a rule.

**Assessing the risk** is the definition of seriousness of possible loss from the point of view of its amount.

**Choosing the methods for investment risk management** includes clarification of risk, prevention of loss and control, insurance and absorption. Choice of the method depends on the risk type and practically it meets simultaneous application of several methods of risk management.

**Making up decisions** define the further steps:

- **Interaction on the risk** and a comparison of efficiency of different methods of interaction take place in this stage.
- **Assessment of results** is done based on systematized and correct information system which enables to discuss the current losses and those actions the implementations of which will make loss prevention possible.



**Fig. 2 Stages of the process of risk management**

The risk management system is a rather complex unity the development and implementation of which is a comprehensive process. It is a multi-stage process of providing the initial conditions for the formation of the risk management system and the organization of primary procedures.

To ensure an effective solution to the problems posed by the risk management system, it must include the following key components without which targeted and effective operation of the risk management system is impossible. They are:

- Retrieving information and its processing,
- Analysis of risks by defining corresponding criteria to favorable factors for their existence and existence conditions and assessment of loss amounts as a result of risk,
- Development and implementation of processes of risk management in all stages,
- Analysis of admitted performances and their efficiency aimed at developing the offers.

In order to ensure the effectiveness of investment risk management in the current conditions it is necessary to take into account the circumstance of conceptual approaches to the organization of this process.

Three main concepts are currently distinguished which form the basis of risk management system in terms of the purpose of risk management:

- Concept of applicable risk,
- Concept of decreasing risk (zero risk),
- Concept of balance (obtaining balance between risk and investment profit) [7].

Meanwhile, the expediency of applying the third concept is substantiated as it allows to increase the efficiency of risk management due to the fact that during the risk management the perspectives of the development of organization will be related to the influence of external and negative internal risk factors and the peculiarities of investment projects will be taken into account [8].

Within the framework of the mentioned main concepts, scientific directions (approaches) are distinguished which differ in their content, in the accuracy of the methods of influencing the risk, in the tools for analysis as well as in the possibility of calculating the subjective attitude towards the risk. They are:

- Approaches based on subjective perception of risk (concept of calculating subjective perception of the person taking decisions over risk (PTD)),
- Theoretical- possible approaches,
- Unclear multiple approach (based on the theory of unclear multiple approach),
- Value approaches (oriented to application of market cost of financial tools in risk management) [9].

The research conducted by us among individual business entities engaged in agricultural activity in the current year shows that the process of investment risk management in Artsakh is not organized with the required depth and required methodology. These issues are reflected in the business plans for including financial means from banks or investment funds taking into account non-comprehensive and modern professional approaches.

### **Conclusion**

A number of summaries and conclusions can be made based on the study of scientific-theoretical and practical materials on investment risk management.

First of all, it should be noted that a complete and scientifically substantiated methodology of investment risk management has not yet been developed by the relevant authorities both in the Republic of Armenia and in the Republic of Artsakh.

The need to improve the risk management process of the Artsakhi economy, particularly in the field of agriculture as its important part in the conditions of modern realities is conditioned, first of all, by external factors, undesirable developments in the military-political situation, internal and external inflationary pressures, imperfect legislative regulations and especially by the absence of methodological developments by authorized bodies.

Banking institutions, credit organizations, “Artsakh Investment Fund” and “Fund for Rural and Agriculture Support” which have to deal with the development and implementation of modern approaches of assessing and managing the risks more in details must strictly require to apply new methods and tools of investment in investment programs.

In order to develop an effective system of investment risk management in Artsakh it is necessary to establish:

- the peculiarities of the formation and implementation of that system,
- the main methods used in different stages of the process of risk management and peculiarities of their application,
- methodology of investment risk management.

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## ԳՅՈՒՂԱՏՆՏԵՍՈՒԹՅԱՆ ՈԼՈՐՏՈՒՄ ՆԵՐԴՐՈՒՄԱՅԻՆ ՌԻՍԿԵՐԻ ԿԱՌԱՎԱՐՄԱՆ ՀԻՄՆԱՀԱՐՑԵՐԸ ԱՐՑԱԽՈՒՄ

**Շինդյան Կ.Ն.**

*Շուշիի տեխնոլոգիական համալսարան*

Արցախի տնտեսության, հատկապես նրա առաջատար հատվածի՝ գյուղատնտեսության ոլորտի հետպատերազմյան վերականգնման արդի փուլում մեծ կարևորություն ու նշանակություն է ձեռք բերել ներդրումների ներգրավման հիմնահարցերի ուսումնասիրությունը և դրանց լուծման անհետաձգելի քայլերի նախանշումն ու իրականացումը:

Ներկայիս նոր իրողությունների պայմաններում ԱՀ-ում ներդրումների ներգրավման գործընթացը ենթակա է լրացուցիչ ռիսկերի ազդեցությունների, որոնց հայտնաբերման և արդյունավետ կառավարման նպատակով կարևորվում է գիտականորեն հիմնավորված արդիական մեթոդների ու մոտեցումների մշակման ու կիրառման ապահովման հիմնահարցերի հայտնաբերումը և լուծումը:

**Բանալի բառեր.** ներդրումային ռիսկ, հայեցակարգ, մեթոդաբանություն, ֆինանսական կորուստներ, անորոշություն, մոդել արդյունավետություն:

## ПРОБЛЕМЫ УПРАВЛЕНИЯ ИНВЕСТИЦИОННЫМИ РИСКАМИ В СФЕРЕ СЕЛЬСКОГО ХОЗЯЙСТВА АРЦАХА

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На современном этапе послевоенного восстановления экономики Арцаха, особенно ее ведущей отрасли - сельского хозяйства, изучение вопросов привлечения инвестиций, обозначение и осуществление неотложных шагов по их решению приобрели большое значение.

В условиях нынешних реалий процесс привлечения инвестиций в РА сопряжен с дополнительными рисками, с целью выявления и эффективного управления которыми придается важность выявлению и решению проблем разработки и применения научно обоснованных современных методов и подходов.

**Ключевые слова:** инвестиционный риск, концепция, методология, финансовые потери, неопределенность, модель, эффективность.

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