INTERNATIONAL JOURNAL OF FINANCIAL ECONOMICS (IJEFE) e-ISSN: 3063-3648
Vol. 1 No. 3 September 2024, page 724-732

A SYSTEMATIC REVIEW OF FINANCIAL MANAGEMENT PRACTICES IN DEVELOPING COUNTRIES: TRENDS, CHALLENGES AND FUTURE DIRECTIONS

Teguh Prakoso *[1]
STIE Manajemen Bisnis Indonesia
teguhprakoso1610@gmail.com

Rina Apriliani
STIE Manajemen Bisnis Indonesia
apriliani2683@gmail.com

Abstract

Trends, Challenges, and Future Directions is a comprehensive and structured study that analyses, evaluates, and synthesises current information on financial management practices in developing countries. The research method used is literature. The results show that there is an increasing adoption of financial technology, the importance of financial inclusion, and the need for adaptive regulation. Significant challenges include infrastructure limitations, digital divide, and macroeconomic instability. The research also explores future directions, including the potential of blockchain, artificial intelligence in risk management, and the development of sustainable finance models. In conclusion, despite facing various obstacles, financial management practices in developing countries show dynamic development with significant opportunities for innovation. The implications of these findings are relevant for policymakers, industry practitioners, and researchers in optimising financial management strategies in emerging contexts.

Keywords: Financial Management, Developing Countries, Trends, Challenges, Future Directions.

Introduction

Financial management is a crucial aspect in the economic and social development of a country. Financial management is the process of planning, organising, directing, and controlling the financial resources of an organisation or company to achieve its financial objectives effectively and efficiently. It includes various activities such as budget planning, investment analysis, working capital management, financial risk management, funding decision-making, and financial reporting. (Cengiz & Manga, 2023). The main objective of financial management is to maximise the value of the company for shareholders while maintaining a balance between risk and return, as well as ensuring sufficient liquidity to meet short-term obligations and support the long-term growth of the organisation. (Almarayeh, 2024).

Financial management plays a crucial role in the success and sustainability of any organisation or company. By applying effective financial management principles, a company can optimise the use of its financial resources, make informed investment

[1] Correspondence author

decisions, and better manage risks. This enables the organisation to maximise value for shareholders, maintain financial stability, and achieve long-term strategic goals. (Arshad, 2021). In addition, good financial management helps in accurate budget planning, effective cost control, and maintenance of adequate liquidity to meet operational and financial obligations.

Furthermore, the importance of financial management is seen in its ability to support sustainable growth and adaptation to changing market conditions. With in-depth financial analyses and accurate reporting, management can identify new opportunities, address challenges quickly, and make strategic decisions based on solid data. (Pham et al., 2022). Financial management also plays an important role in building trust with external stakeholders such as investors, creditors, and regulators through transparency and accountability in financial reporting. Ultimately, effective financial management not only ensures the financial health of the organisation but also contributes to competitive advantage and long-term success in a dynamic business environment. (Restrepo-Echavarria & Grittayaphong, 2022)..

In developing countries, financial management practices face unique challenges that differ from developed countries. These differences are due to various factors such as limited infrastructure, low levels of financial literacy, economic and political instability, and limited access to financial resources. (Nkwunonwo, 2023)..

In recent decades, developing countries have experienced significant changes in their financial landscape. Technological innovations, such as the rise of fintech and mobile banking, have opened up new opportunities for financial inclusion. However, the adoption of these technologies also poses new challenges related to regulation, security and accessibility. Meanwhile, economic globalisation has increased the connectedness of financial markets around the world, creating both opportunities and risks for developing countries. The 2008 global financial crisis and the recent COVID-19 pandemic have underlined the vulnerability of financial systems in developing countries and the importance of robust financial management practices. (Mann, 2021).

Despite progress, the gap in financial management practices between developed and developing countries is still significant. Many developing countries are still struggling with underlying issues such as high inflation, currency volatility, and limited access to formal financial services. This hinders economic growth and social development. In addition, demographic changes in many developing countries, such as increasingly younger populations and rapid urbanisation, are creating new challenges and opportunities in financial management. The need for innovative and inclusive financial products and services is increasing. (Mintzberg, 2020).

Given these complex dynamics, it is important to conduct a systematic review of financial management practices in developing countries. This review will help identify recent trends, analyse challenges faced, and project future directions. A better understanding of the financial management landscape in developing countries can assist policymakers, practitioners, and researchers in designing more effective strategies to enhance financial inclusion, economic stability, and sustainable development.

Research Methods

In this study, researchers used the literature research method. The literature research method, also known as a literature study or literature review, is a research approach that focuses on collecting, analysing, and synthesising information from various written sources relevant to the research topic. This method is very important in academia and research because it allows researchers to build a comprehensive understanding of a topic based on previous research. (Firman, 2018); (Suyitno, 2021)

Results and Discussion

Trends in Financial Management Practices in Developing Countries

The concept of Financial Management is a systematic approach in managing the financial resources of an organisation or individual to achieve predetermined financial objectives. It includes various aspects such as financial planning, budgeting, cash flow management, investment, risk management, and financial reporting. (Wahab & Kasim, 2023). The main objective of financial management is to maximise firm value or shareholder wealth through effective decision-making in terms of funding, investment, and dividend distribution. The concept also involves in-depth financial analyses, an understanding of financial markets, and the application of sound accounting principles. In a broader context, financial management plays an important role in ensuring financial stability, sustainable growth, and an organisation's ability to adapt to changing economic conditions. (Ismaila & Tanko, 2023).

Developing countries have a set of characteristics that distinguish them from developed countries. Generally, these countries are characterised by relatively low per capita income, suboptimal levels of industrialisation, and a high dependence on agriculture or raw material exports. Inadequate infrastructure, high unemployment rates, and significant income disparities also characterise developing countries. (Williams et al., 2023). In addition, they often face challenges in terms of access to quality education, adequate healthcare, and modern technology. Rapid population growth, poorly planned urbanisation, and political or economic instability are also common issues. Although many developing countries show rapid economic growth, they still struggle to overcome poverty, raise living standards equitably, and achieve sustainable development. These characteristics form the foundation for development efforts and international co-operation aimed at accelerating socio-economic progress in such countries (Mirzaei & Moore, 2021)..

Trends in financial management practices in developing countries have shown significant changes in recent years, driven by globalisation, technological advances and the need to improve economic efficiency. One of the key trends is the widespread adoption of financial technology (fintech). Developing countries are increasingly utilising digital solutions to improve financial inclusion, expand access to banking services, and facilitate faster and cheaper transactions. Mobile banking, e-wallets, and digital payment platforms have become increasingly popular, enabling millions of people who previously did not have access to traditional banking services to participate in the formal economy. (Elatroush, 2023).

The second prominent trend is an increased focus on risk management and better corporate governance. As global economic integration increases, developing countries increasingly recognise the importance of sound financial management practices to attract foreign investment and ensure long-term economic stability. This has fuelled the adoption of international financial reporting standards, increased transparency, and the development of stricter regulatory frameworks. Many countries are also investing in capacity building of their financial supervisory agencies and strengthening enforcement mechanisms to prevent fraud and corruption. (Tesega, 2022).

The third trend is the shift towards a more sustainable and socially responsible approach to financial management. Developing countries are increasingly integrating environmental, social and governance (ESG) considerations into their financial management practices. This includes the development of green bond markets, increased investment in renewable energy and sustainable infrastructure projects, as well as the adoption of policies that encourage corporate social responsibility. (Kumar, 2023). In addition, there is an increasing awareness of the importance of inclusive finance, with many initiatives aiming to expand access to credit and other financial services for small and medium-sized enterprises (SMEs) and underserved groups. These trends reflect a shift towards financial management practices that focus not only on economic growth, but also on sustainable and inclusive development. (Okoyeuzu & Ukpere, 2022)..

In addition to these trends, there is also an increasing focus on financial literacy in developing countries. Governments and financial institutions are increasingly recognising the importance of financial education for the general public to support better financial decision-making and improve economic well-being. Financial literacy programmes targeted at different groups of people, including women, youth and rural communities, have become more common. These initiatives aim to build a better understanding of basic financial concepts, debt management, savings, and investments. (Gnangnon, 2020).

Another trend is increased collaboration between the public and private sectors in financial management. Public-private partnerships (PPPs) are increasingly being adopted as a model for financing and managing large infrastructure projects and public services. This model allows developing countries to utilise private sector expertise and capital, while retaining control over strategic assets. In addition, there is an increasing use of innovative financial instruments, such as social impact bonds and blended finance schemes, which combine public and private resources to address development challenges. (Stotsky, 2020).

In conclusion, trends in financial management practices in developing countries reflect a shift towards a more integrated, inclusive and sustainable approach. Technology adoption, improved governance, a focus on sustainability, increased financial literacy and public-private collaboration are key elements in this evolution. These trends aim not only to improve the efficiency and effectiveness of financial management, but also to ensure that economic growth delivers broader benefits to society and supports long-term sustainable development. However, challenges remain, particularly in terms of addressing the digital divide, ensuring effective regulation for financial innovation, and balancing the needs of economic growth with sustainability goals. Going forward, developing countries will need to continue to adapt and innovate their financial management practices to face complex global challenges and capitalise on emerging opportunities in the changing financial landscape.

Challenges in Financial Management Practices in Developing Countries

Developing countries face various challenges in their financial management practices. One of the main challenges is the limited financial infrastructure. Many developing countries still lack strong banking systems, developed capital markets, and sophisticated financial technology. (Eunah et al., 2024).. This leads to difficulties in managing cash flows, conducting efficient financial transactions, and accessing capital for investment. Moreover, these infrastructural limitations also hamper financial inclusion, leaving a large proportion of the population without access to formal financial services (Bouchet, 2021). (Bouchet, 2021).

The second challenge is economic volatility and political instability. Many developing countries are vulnerable to external economic shocks, such as fluctuations in commodity prices or changes in global capital flows. Political instability can also disrupt long-term economic policies and create uncertainty for investors. These conditions make financial management more complex, especially in terms of budget planning, risk management, and long-term investment decision-making. (Gomado, 2023).

Corruption and weak governance represent a third significant challenge. Corrupt practices can undermine financial resources, reduce the efficiency of fund allocation, and undermine investor confidence. Weak governance, including a lack of transparency and accountability in public financial management, can lead to inefficiency and misuse of funds. This not only hinders economic development but can also lead to public distrust of financial institutions and the government (Kotaskova et al., 2014). (Kotaskova et al., 2020)..

Finally, the lack of skilled human resources in the field of financial management is a challenge. Many developing countries are experiencing a shortage of qualified finance professionals, especially in areas such as complex financial analysis, risk management, and strategic financial planning. This situation is exacerbated by the "brain drain" phenomenon, where many skilled personnel choose to pursue careers in developed countries that offer better opportunities and compensation. This shortage can hinder the implementation of effective and innovative financial management practices, as well as limit the country's ability to fully capitalise on existing financial opportunities (Asma et al., 20). (Asma et al., 2023).

Future Directions of Financial Management Practices in Developing Countries

Financial management practices in emerging economies are expected to undergo significant transformation in the coming decades. One of the main directions is the increasing adoption of financial technology (fintech). Developing countries are likely to utilise fintech solutions to overcome the limitations of traditional financial infrastructure. (Karmaoui, 2023). The use of mobile banking, digital payment platforms, and blockchain technology is projected to increase rapidly. This will enable wider access to financial services, improve transaction efficiency, and promote financial inclusion. Innovations such as peer-to-peer lending and crowdfunding also have the potential to open up new sources of funding for small and medium-sized enterprises. (Ercan, 2023).

The focus on sustainability and green finance will also be an increasingly important trend. As global awareness of climate change and sustainable development increases, developing countries will increasingly integrate environmental and social considerations into their financial management practices. This may include the development of green financial instruments such as green bonds, the implementation of environmental, social and governance (ESG) criteria in investment decisions, as well as the development of policies that encourage capital allocation to environmentally friendly sectors (Oladokun et al., 2023)..

Increased regional and international co-operation in financial management is also expected to be an important trend. Developing countries are likely to increase their collaboration in terms of financial regulatory harmonisation, information exchange, and regional capital market development. This co-operation can help reduce systemic risk, enhance financial stability, and open up new opportunities for cross-border investment. In addition, the role of international financial institutions such as the World Bank and IMF in providing technical and financial support for financial sector reforms in developing countries is likely to grow in importance. (Baruti, 2020).

Finally, emphasis on education and capacity building in financial management will be a key focus. Developing countries are expected to increase investment in financial education, both at the school and professional levels. Programmes to improve the financial literacy of the general public will also be a priority. In addition, efforts to develop a skilled financial workforce, including through cooperation with international educational institutions and exchange programmes, will intensify. This will help address skills gaps and enhance local capacity to implement sophisticated and effective financial management practices.

Conclusion

Financial management practices in developing countries have undergone significant developments in recent decades. Key trends identified include increased adoption of financial technology, a greater focus on financial inclusion, and efforts to strengthen financial sector regulation and supervision. Developing countries have shown progress in building stronger financial infrastructure, improving access to financial services, and developing local capital markets. However, there is still significant variation in the level of development and sophistication of financial management practices among developing countries.

Despite progress, developing countries still face various challenges in their financial management practices. These challenges include infrastructure limitations, low levels of financial literacy, macroeconomic instability, and vulnerability to external shocks. In addition, many developing countries still struggle with issues of weak governance, corruption, and inadequate legal frameworks to support sound financial practices. The digital divide and unequal access to financial services between urban and rural areas also remain significant issues in many countries.

Going forward, the direction of financial management practices in emerging economies is projected to be increasingly orientated towards technological innovation, sustainability and inclusion. The adoption of fintech solutions is expected to expand, enabling wider access to financial services and improving operational efficiency. The focus on sustainable finance and the integration of environmental, social, and governance (ESG) factors in financial decision-making is also expected to increase. In addition, efforts to improve financial literacy and develop local capacity in financial management will be prioritised. While challenges remain, the outlook for improved financial management practices in developing countries remains positive, with the potential to drive more inclusive and sustainable economic growth.

References

Almarayeh, T. (2024). Audit committees' independence and earnings management in developing countries: Evidence from MENA countries. *Journal of Financial Reporting and Accounting*, *Query date: 2024-10-05 15:00:36*. https://doi.org/10.1108/jfra-11-2023-0652

Arshad, A. (2021). *Author response for 'Impact of financial inclusion on food security: Evidence from developing countries'*. *Query date: 2024-10-05 15:00:36*. https://doi.org/10.1108/ijse-08-2021-0462/v2/response1

Asma, R., Hayat, A., & Juniar, A. (2023). Financial Technology Issues from Developing Countries Perspective: Role and Challenges of a Systematic Literature Review. *International Journal of Innovative Research in Multidisciplinary Education*, *2*(11). https://doi.org/10.58806/ijirme.2023.v2i11n05

Baruti, B. H. (2020). Insurance Sector Development and its Effect on the Financial Markets in Developing Countries: The Case of Kosovo. *European Journal of Business and Management Research*, *5*(1). https://doi.org/10.24018/ejbmr.2020.5.1.217

Bouchet, M.-H. (2021). Financial institutions and developing countries' debt cancellations: How to get rid of moral hazard? *Journal of Risk Management in Financial Institutions*, *14*(2), 131-131. https://doi.org/10.69554/abbz7102

Cengiz, O., & Manga, M. (2023). Analysing the dynamic relationship between financial development, financial inclusion, and institutional quality in developing countries. *Reference Module in Social Sciences*, *Query date: 2024-10-05 15:00:36*. https://doi.org/10.1016/b978-0-44-313776-1.00067-2

Elatroush, I. (2023). *Does Financial Development influence Environmental Quality? Evidence from Emerging and Developing Countries*. *Query date: 2024-10-05 15:00:36*. https://doi.org/10.21203/rs.3.rs-3355936/v1

Ercan, H. (2023). Gelişmekte Olan Ülkelerde Yurt içi Gelir Mobilizasyonu ve Kamu Mali Yönetimi (Domestic Income Mobilisation in Developing Countries and Public Financial Management). *Turk Turizm Arastirmalari Dergisi*, *Query date: 2024-10-05 15:00:36*. https://doi.org/10.26677/tr1010.2023.1235

Eunah, K., Eta, M. N., & Shepherd, M. (2024). Entrepreneurship pedagogy enhancing entrepreneurship intention in secondary school students in developing countries. *International Journal of Financial, Accounting, and Management*, *6*(1), 117-133. https://doi.org/10.35912/ijfam.v6i1.1996

Firman, F.-. (2018). *QUALITATIVE AND QUANTITATIVE RESEARCH*. *Query date: 2024-05-25 20:59:55*. https://doi.org/10.31227/osf.io/4nq5e

Gnangnon, S. K. (2020). *Effect of Poverty on Financial Development in Developing Countries*. *Query date: 2024-10-05 15:00:36*. https://doi.org/10.20944/preprints202011.0144.v1

Gomado, K. (2023). Financial reforms and income inequality: Evidence from developing countries. *WIDER Working Paper*, *Query date: 2024-10-05 15:00:36*. https://doi.org/10.35188/unu-wider/2023/396-3

Ismaila, H., & Tanko, H. A. (2023). Dividend Decisions and Financial Performance of Listed Firms: Evidence from Developing Countries. *International Journal of Social Science Humanity & Management Research*, *2*(7). https://doi.org/10.58806/ijsshmr.2023.v2i7n30

Karmaoui, A. (2023). Flood vulnerability in developing countries, international collaboration, and network visualisation. *Handbook of Flood Risk Management in Developing Countries*, *Query date: 2024-10-05 15:00:36*, 183-196. https://doi.org/10.1201/9781003160823-15

Kotaskova, A., Lazanyi, K., Amoah, J., & Belás, J. (2020). Financial risk management in the V4 Countries' SMEs segment. *Investment Management and Financial Innovations*, *17*(4), 228-240. https://doi.org/10.21511/imfi.17(4).2020.21

Kumar, V. (2023). Does Financial Inclusion Affect Poverty? An Analysis of Developing Countries. *Asian Economics Letters*, *4*(3). https://doi.org/10.46557/001c.84842

Mann, S. (2021). *Decision letter for 'Impact of financial inclusion on food security: Evidence from developing countries'. Query date: 2024-10-05 15:00:36.* https://doi.org/10.1108/ijse-08-2021-0462/v1/decision1

Mintzberg, H. (2020). Developing Leaders? Developing Countries? *NGO Management*, *Query date: 2024-10-05 15:00:36*, 414-426. https://doi.org/10.1201/9781849775427-43

Mirzaei, A., & Moore, T. (2021). Does bank efficiency enhance industry growth in developing countries? *Inclusive Financial Development*, *Query date: 2024-10-05 15:00:36.* https://doi.org/10.4337/9781800376380.00016

Nkwunonwo, U. C. (2023). Current knowledge, uncertainties, and aspirations of flood risk management policy for developing countries. *Handbook of Flood Risk Management in Developing Countries*, *Query date: 2024-10-05 15:00:36*, 229-246. https://doi.org/10.1201/9781003160823-18

Okoyeuzu, C. R., & Ukpere, W. I. (2022). Dynamics of biodiversity loss and financial system stability nexus in developing countries. *Environmental Economics*, *13*(1), 79-88. https://doi.org/10.21511/ee.13(1).2022.07

Oladokun, V., Proverbs, D., Adebimpe, O., & Adedeji, T. (2023). Handbook of flood risk management in developing countries. *Handbook of Flood Risk Management in Developing Countries*, *Query date: 2024-10-05 15:00:36*, 1-5. https://doi.org/10.1201/9781003160823-1

Pham, H. T., Gan, C., & Hu, B. (2022). Causality between Financial Development and Foreign Direct Investment in Asian Developing Countries. *Journal of Risk and Financial Management*, *15*(5), 195-195. https://doi.org/10.3390/jrfm15050195

Restrepo-Echavarria, P., & Grittayaphong, P. (2022). *COVID-19: Fiscal implications and financial stability in developing countries*. *Query date: 2024-10-05 15:00:36.* https://doi.org/10.20955/wp.2022.028

Stotsky, J. G. (2020). Emerging markets and developing countries. *Using Fiscal Policy and Public Financial Management to Promote Gender Equality*, *Query date: 2024-10-05 15:00:36*, 134-153. https://doi.org/10.4324/9780429298400-7

Suyitno. (2021). *QUALITATIVE RESEARCH METHODS CONCEPTS, PRINCIPLES AND OPERATIONS*. *Query date: 2024-05-25 20:59:55.* https://doi.org/10.31219/osf.io/auqfr

Tesega, M. (2022). Does financial globalisation contribute to financial development in developing countries? Evidence from Africa. *Heliyon*, *8*(10). https://doi.org/10.1016/j.heliyon.2022.e10974

Wahab, B., & Kasim, O. (2023). Developing resilient cities in developing countries. *Handbook of Flood Risk Management in Developing Countries*, *Query date: 2024-10-05 15:00:36*, 266-281. https://doi.org/10.1201/9781003160823-21

Williams, T. H., Iriobe, G. O., Ayodele, T. D., Olasupo, S. F., & Aladejebi, M. O. (2023). Do illiteracy and unemployment affect financial inclusion in the rural areas of developing countries? *Investment Management and Financial Innovations*, *20*(2), 89-101. https://doi.org/10.21511/imfi.20(2).2023.08