


Chapter 19

An Analysis of Credit Management and Bank Lending Practices in Developing Countries

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ABSTRACT

The credit system and the banking activities processes increase people's investment practices, enhancing country people's economic condition. The research aims to understand the processes of banking activities and the importance of the credit management system. Concepts and the procedures of the credit management system are the most important things in lending a loan. The theory of banking activities is for understanding the activities of the banned credit system of the banks, including the processes of verification, calculation of loan details, and disbursing of the amount. The primary method has been used for collecting data from the respondents, including quantitative analysis, for a better understanding of all facts. This increases the possibility of earning and promotes developmental activities. Banks' lending practices increase their income, and the credit system increases the scope for developing the economic condition.

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1. INTRODUCTION

Developing countries denote the countries that are still in the stage of development, and the people are engaging in the good practices of life. Several credit management systems of the financial institutions are demarcated, such as verification of the different customers, providing loans based on different categories of customers, and so on (Olabisi et al. 2019). This research work has prepared to analyse the importance of the role of banking and credit system in developing countries to develop people's economies and increase the number of investments (Tambaip et al., 2023).

Effective credit management is crucial for developing countries' financial stability and economic growth. It involves assessing, monitoring, and controlling credit risks to ensure the soundness of lending activities (Tripathi & Al-Shahri, 2023). Banks in developing countries must employ rigorous credit assessment procedures to evaluate the creditworthiness of borrowers. This includes analyzing financial statements, collateral evaluation, and assessing the borrower's capacity to repay the loan. Risk evaluation helps banks identify potential defaults and make informed lending decisions (Priscila et al., 2023).

Banks in developing countries should diversify their loan portfolios to minimize risk exposure. Concentrating loans in a single sector or borrower increases vulnerability to economic shocks or defaults (Srinivas et al., 2023; Yeruva & Ramu, 2023). Diversification across different industries and borrowers can mitigate risks and enhance overall loan portfolio performance (Said & Tripathi, 2023). Collateral requirements play a significant role in lending practices. Banks should establish appropriate collateral policies to protect their interests in case of default. However, limited access to collateral in many developing countries prevents small businesses and entrepreneurs from accessing credit (Singh et al., 2023).

Microfinance institutions (MFIs) are crucial in providing financial services to the unbanked population. MFIs focus on extending credit to small businesses and low-income individuals who lack access to traditional banking services. These institutions employ unique lending practices, such as group lending and peer monitoring, to mitigate risks. Developing countries need robust regulatory frameworks and effective supervision for prudent lending practices. Regulations should address capital adequacy, loan classification, provisioning, and credit reporting issues. Regulatory oversight promotes transparency, accountability, and stability in the banking sector.

Developing countries can benefit from establishing comprehensive credit information systems. Such systems enable banks to access borrower credit histories, reducing information asymmetry and improving credit decisions (Ramos et al., 2023). Accessible and accurate credit information enhances credit management and reduces default rates. Developing countries should promote financial inclusion to broaden access to credit and banking services. Sustainable lending practices prioritize responsible lending and consider environmental and social impacts. Incorporating environmental, social, and governance (ESG) factors into lending decisions promotes long-term sustainability (Venkateswaran et al., 2023).

This research has developed to know the facts between the development of the countries, the role of financial organizations, and the suitable credit system behind the development process. According to the views of Muhammad, Alwi & Muhammad (2020), the credit system of any country depends on the nature of customers and the country's interest rate. This means the credit system is to include the people in the financial activities, increasing the banking sector business.

The above Figure 1 represents the number of credit cards and falsifications that have increased from 2016 to 2020 from 4678 to 5998. The number has increased from 201 to 2020 by 1320, which is remarkable (Statista, 2022). This restricts the involvement of the people, which has gradually increased in banking and financial activities from 2016 to 2020 (Saxena et al., 2023).

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