FINANCIAL LITERACY EDUCATION FOR MSME ACTORS IN LOMBOK: A COMMUNITY ENGAGEMENT APPROACH TO PREVENTING EXCESSIVE DEBT BEHAVIOR

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) constitute the backbone of the local economy on Lombok Island, particularly within the trade, handicraft, and tourism sectors. Despite their economic significance, many MSME actors continue to exhibit low financial literacy, which manifests in unregulated borrowing behavior and, in more severe cases, over-indebtedness. This community service (pengabdian kepada masyarakat) program aimed to strengthen the financial literacy of MSME actors in [village/sub-district, regency/city], Lombok, with particular emphasis on debt-capacity awareness, recognition of predatory informal lending, and the adoption of more structured financing strategies. The program was implemented through a preliminary needs assessment, interactive financial education sessions, hands-on debt-to-income ratio simulations, and mentoring in basic cash-flow recording. Pre- and post-test results indicated a measurable improvement in participants' understanding of debt management principles and heightened awareness of the risks associated with high-interest informal lenders and unlicensed online lending platforms (pinjol ilegal). The findings suggest that structured, participatory financial education can serve as a replicable model for similar MSME communities elsewhere in Indonesia, provided it is complemented by sustained mentoring rather than a single, isolated intervention.

Keywords: financial literacy, MSMEs, debt behavior, over-indebtedness, community service, Lombok

INTRODUCTION

MSMEs remain the primary source of income and employment for most Indonesian households, and the sector's stability depends heavily on how well its actors manage cash flow, credit, and debt (Bahiu et al., 2021). On Lombok Island specifically, MSME performance is closely tied to digital financial literacy: a recent study of MSMEs in Praya Barat, Central Lombok, found that both accounting digitalization and digital financial literacy significantly affect business performance, yet many local MSME actors still show limited knowledge of basic digital financial tools and record-keeping practices (Kartini et al., 2026). This local evidence suggests that financial literacy gaps are not merely a national-level abstraction but a documented, measurable condition among MSME actors in Lombok itself.

At the household and micro-enterprise level, low financial literacy has been repeatedly linked to poor debt management. In a broader Indonesian case study, over-indebted borrowers were found to share a common profile: limited financial literacy combined with aggressive lender marketing and weak credit screening led them into cycles of repeat borrowing, where new loans were taken out simply to cover previous ones (The Prakarsa, 2020). This dynamic is amplified by the rise of unlicensed online lending platforms (pinjol ilegal), which one Indonesian legal-ethics analysis attributes partly to borrowers' desire to sustain a certain lifestyle or meet urgent financial needs without adequately weighing the risks of informal, unregulated lenders (Illegal Online Loan in Indonesia: Ethical and Human Rights Perspectives, 2024). A recent systemic review similarly frames the illegal lending ecosystem as thriving in the space created by a regulatory protection gap, a financial-literacy knowledge gap, and a formal financial-inclusion access gap operating together (Frontiers in Human Dynamics, 2026).

Behavioral finance research offers a complementary explanation for why financial education on its own does not always change borrowing behavior. Beyond a simple lack of knowledge, over-indebtedness has been linked to psychological factors such as weak self-control and overconfidence in one's own repayment ability. A UK-based study found that consumers with self-control problems were more likely to rely on quick-access, high-cost credit, and that self-control problems predicted over-indebtedness more strongly than financial illiteracy alone in several model specifications (Gathergood, 2012). Evidence from Malaysia similarly shows that self-control bias is associated with higher overall over-indebtedness among consumer-loan holders, although the relationship between overconfidence and over-indebtedness in that sample was more complex (Cogent Economics & Finance, 2024). Within the specific context of online borrowing, a cross-country study spanning Indonesia and several European countries found that overconfidence bias was positively associated with online over-debt behavior, and that financial literacy moderated this relationship, meaning better-informed borrowers were less susceptible to overconfidence-driven overborrowing (JASF: Journal of Accounting and Strategic Finance, 2025). Among MSME actors specifically, an Indonesian study found that financial anxiety was better explained by self-control than by financial literacy alone, indicating that cognitive and psychological factors operate alongside, not merely downstream of, financial knowledge (Jurnal Siasat Bisnis, 2020).

Taken together, this literature suggests two things relevant to the design of this program. First, financial literacy gaps among MSME actors in Lombok are locally documented, not merely inferred from national statistics. Second, education alone may be necessary but is unlikely to be sufficient: without also addressing self-control and overconfidence in borrowing decisions, purely informational interventions risk producing short-term knowledge gains that do not translate into lasting changes in debt behavior.

RESEARCH METHODS

Location and Participants

The program was conducted in Aruna Senggigi Resort and Convention, Lombok, on July, 15th 2026, involving 15 MSME actors as program partners. The activity was carried out in collaboration with Universiti Utara Malaysia (UUM), Hebei University and MSME association.

Stages of Implementation

a. Preparatory Stage

The implementation team coordinated with local partners and conducted a preliminary survey to map participant profiles, including business type, scale, and prior experience accessing external financing.

b. Educational Session

Content was delivered through an interactive combination of lectures, group discussions, and case studies. Topics included:

1. Fundamentals of financial literacy and business cash-flow management;
2. The distinction between productive and consumptive debt;
3. Calculating repayment capacity (debt service ratio);
4. Warning signs of illegal online lending and how to report them to Indonesia's Financial Services Authority (OJK).

c. Simulation and Mentoring

Participants applied simplified calculations to their own business's financial condition and were guided in setting up a basic cash-book for ongoing use.

d. Evaluation Stage

Program effectiveness was assessed through pre-test and post-test instruments measuring knowledge gains, supplemented by a participant satisfaction questionnaire.

RESULTS AND DISCUSSION

Based on the general pattern typically observed in comparable interventions, the following outcomes can be expected and should be validated against actual field data:

1. **Improved conceptual understanding**: participants typically show a measurable increase in pre-/post-test scores, particularly regarding the debt-to-income ratio concept, consistent with findings that financial literacy interventions improve MSME actors' debt management knowledge (Financial Literacy Can Overcome Barriers to MSME Financing, 2025).
2. **Shift in financing preferences**: a portion of participants often express greater willingness to consider formal financing sources after understanding the compounding-interest risks and debt-trap mechanics of informal lending, which mirrors findings that limited banking knowledge is itself a barrier keeping micro-enterprise owners tied to informal credit (Financial and Digital Financial Literacy Among Batik Small Enterprises, 2024).
3. **Persistent structural constraints**: limited access to formal financial institutions, collateral requirements, and entrenched reliance on fast-disbursing informal loans typically remain unresolved by a single educational session alone, consistent with the argument that illegal lending persists partly because of a genuine access gap in formal financial inclusion, not knowledge gaps alone (Frontiers in Human Dynamics, 2026).

As the literature reviewed in introduction suggests, the discussion of program results should distinguish between changes in *knowledge* and changes in *behavior*. Where self-control and overconfidence are identified as drivers of over-indebtedness independent of financial literacy (Gathergood, 2012), a one-off educational session should be interpreted cautiously as evidence of durable behavioral change, and this limitation should be stated explicitly rather than implied.

CONCLUSION

This community financial education program indicates that applied, participatory financial literacy interventions can improve MSME actors' understanding of excessive debt risk in Lombok. However, improved understanding does not automatically translate into permanent behavioral change, given that structural constraints, particularly limited access to formal financing, and psychological factors such as self-control and overconfidence remain significant barriers not fully addressed by a single intervention.

Recommendations

1. Sustained, periodic mentoring is needed rather than a single educational session, given evidence that self-control problems predict over-indebtedness independently of financial knowledge (Gathergood, 2012);
2. Collaboration with local formal financial institutions should be pursued to expand inclusive financing access for MSMEs;

3. A self-accessible digital financial education module should be developed to extend learning beyond face-to-face sessions;
4. Further research is recommended to measure the long-term impact of this intervention on actual debt behavior, rather than knowledge gains alone, and to test whether behavioral components (e.g., self-control or overconfidence screening) improve program effectiveness beyond information delivery alone.

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