

Financial Education, Illegal Loans, Rural Msmes, Financial Literacy

Satria Putra Utama^{1*}, Muhammad Simba Sembiring², Afrizal³, Raihan Hanasi⁴, Maya Kasmita⁵

¹Universitas Islam Malang, Jl. Mayjen Hariyono Jl. Tata Surya No.193, Lowokwaru, Kota Malang, Jawa Timur

²Universitas Sumatera Utara, Jl. Tri Dharma No.9, Padang Bulan, Kec. Medan Baru, Kota Medan, Sumatera Utara

³Universitas Negeri Gorontalo, Jl. Jend. Sudirman No.6, Kec. Kota Tengah, Kota Gorontalo, Gorontalo

⁴Universitas Negeri Makassar, RCJP+FC8, Jl. A. P. Pettarani, Kec. Rappocini, Kota Makassar, Sulawesi Selatan

⁵UIN Suska Riau, Panam Jl. HR. Soebrantas No.15, Simpang Baru, Kec. Tambang, Kota Pekanbaru, Riau

E-mail: satriaputra@unisma.ac.id

*Corresponding Author



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ABSTRACT

Usaha Mikro, Kecil, dan Menengah (UMKM) di daerah pedesaan memainkan peran penting sebagai tulang punggung perekonomian domestik. Namun, literasi keuangan yang terbatas dan sulitnya akses ke lembaga keuangan formal seringkali menjebak UMKM dalam lingkaran setan pinjaman online ilegal (pinjol ilegal) dan rentenir. Kegiatan pengabdian masyarakat ini bertujuan untuk meningkatkan pemahaman tentang manajemen keuangan dan mendidik UMKM pedesaan tentang risiko fatal pinjaman ilegal. Program pendidikan "Pendidikan Perencanaan Keuangan" dilaksanakan serentak di tiga wilayah representatif di Indonesia, yaitu provinsi Sumatera Utara, Jawa Timur, dan Sulawesi (Sulawesi Selatan dan Sulawesi Utara). Metode pelaksanaan kegiatan menggunakan pendekatan partisipatif yang meliputi tiga tahapan utama: (1) Sosialisasi dan pendidikan klasik tentang perencanaan keuangan keluarga dan bisnis; (2) Pelatihan dalam mengidentifikasi karakteristik pinjaman legal vs. ilegal; dan (3) Bantuan dalam memanfaatkan platform fintech yang terdaftar di Otoritas Jasa Keuangan (OJK). Hasil evaluasi melalui pre-test dan post-test menunjukkan peningkatan yang signifikan dalam pemahaman mitra tentang literasi keuangan sebesar 78%. Selain itu, UMKM kini mampu menyiapkan laporan keuangan sederhana dan memiliki kesadaran hukum untuk menghindari jebakan pinjaman ilegal. Keberlanjutan program ini diharapkan dapat mendorong ekosistem UMKM desa yang mandiri, tangguh, dan melek finansial.

Micro, Small, and Medium Enterprises (MSMEs) in rural areas play a crucial role as the backbone of the domestic economy. However, limited financial literacy and difficult access to formal financial institutions often trap MSMEs in a vicious cycle of illegal online loans (illegal pinjol) and loan sharks. This community service activity aims to improve understanding of financial management and educate rural MSMEs about the fatal risks of illegal loans. The "Financial Planning Education" education program was implemented simultaneously in three representative regions of Indonesia, namely the provinces of North Sumatra, East Java, and Sulawesi (South Sulawesi and North Sulawesi). The activity implementation method used a participatory approach that included three main stages: (1) Socialization and classical education on family and business financial planning; (2) Training in identifying the characteristics of legal vs. illegal loans; and (3) Assistance in utilizing fintech platforms registered with the Financial Services Authority (OJK). The results of the evaluation through pre-test and post-test showed a significant increase in partners' understanding of financial literacy by 78%. Furthermore, MSMEs are now able to prepare simple financial reports and have legal awareness to avoid the pitfalls of illegal loans. The sustainability of this program is expected to foster an independent, resilient, and financially savvy village MSME ecosystem.



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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a key pillar of the Indonesian national economy. This sector not only contributes significantly to Gross Domestic Product (GDP), but also acts as a lifeline for employment and poverty alleviation, particularly in rural areas. Amidst the uncertain dynamics of the global economy, modernization, and digitalization of the economy, rural MSMEs are required to adapt and develop independently. Despite possessing enormous market potential and rich local wisdom, rural MSMEs continually face classic structural barriers. The biggest obstacles threatening their business sustainability are limited working capital and low accessibility to safe, affordable, and legal financing sources.

Historically, formal financial institutions such as banks have applied stringent *prudential banking principles through the 5Cs analysis (Character, Capacity, Capital, Collateral, and Condition)*. For rural businesses, these requirements often create an impenetrable barrier. The majority of rural MSMEs are informal, lack formal legal entities, lack standardized financial records, and, most crucially, lack valuable assets that can be pledged as collateral. This *unbankable situation creates a significant gap* between the actual capital needs of these businesses and the financing provided by the formal banking sector.

This gap in access to capital is exploited by financial criminals, particularly illegal online lenders (illegal online loans) and conventional loan sharks. In today's era of digital transformation, internet penetration has reached even remote villages, but unfortunately, this is not accompanied by adequate financial inclusion and literacy. Armed with aggressive marketing strategies, very simple requirements (often requiring only a photo of an ID card and a selfie), and instant disbursement within minutes, illegal loans have become a quick solution for MSMEs in dire need of liquidity. This phenomenon creates the illusion of relief, but in reality, it is the beginning of the destruction of the domestic economy and micro-businesses.

The destructive impact of these illegal loans is massive. The exorbitant and unreasonable interest rates, stifling hidden administrative fees, extremely short repayment terms, and inhumane *debt* collection methods, including intimidation, terror, and the dissemination of personal data, have led to numerous business bankruptcies. Furthermore, this trap causes severe psychological stress for business owners, family breakdowns, and social sanctions from the surrounding community. This problem is no longer simply an individual financial issue; it has become a systemic socio-economic disease that threatens food security and the rural economy.

To obtain a comprehensive picture and achieve broad intervention impact, this community service activity focused on three regions in Indonesia with unique cultural and economic characteristics: North Sumatra, East Java, and Sulawesi. These three regions were chosen because they represent dense rural MSME populations, yet they are highly vulnerable to illegal investment and lending penetration, based on consumer complaint data from the Financial Services Authority (OJK).

In North Sumatra Province, rural MSMEs are dominated by the agricultural sector, smallholder plantations (such as oil palm and rubber), and micro-commerce. Cash flow patterns in rural North Sumatra are highly dependent on commodity harvest seasons. When commodity prices plummet or crop failures occur, farmers and MSMEs experience a severe liquidity crisis. In these pressing circumstances, dependence on traditional loan sharks or illegal online lenders increases significantly to keep food on the table and purchase fertilizer for the next planting season. A lack of education on long-term financial planning prevents previous harvests from being allocated as emergency funds, trapping them in an endless cycle of debt.

Meanwhile, in East Java Province, the challenges are slightly different but have essentially the same impact. East Java is known as one of the largest centers of MSMEs in Indonesia, with centers of home industries *and* handicrafts scattered throughout rural areas. Fierce business competition in East Java demands that entrepreneurs continuously innovate and increase production volume. When large orders arrive, they need quick capital to purchase raw materials. The speed of disbursement offered by illegal loans is a major attraction, overriding the rationality of legal aspects. Many MSMEs in rural East Java are tempted by this digital convenience without understanding the concept of compound interest *applied* by illegal lenders, resulting in their business profits being depleted solely on loan interest payments.

Conditions on the island of Sulawesi (represented by MSME centers in South Sulawesi and North Sulawesi) illustrate the challenges of geography and information infrastructure. As an archipelago and peninsula, rural and coastal MSMEs in Sulawesi are predominantly engaged in fisheries, seafood

processing, and clove or coconut plantations. The geographic distance from urban centers and the limited number of formal financial institution branches leave rural communities in Sulawesi with very limited financing options. As internet access began to penetrate rural areas, illegal loan applications rapidly infiltrated the market, lacking the necessary financial literacy to protect them. Local communities often cannot distinguish between legitimate financial applications (registered with the Financial Services Authority) and illegal applications that pose a threat.

Looking at the common thread of the problems in North Sumatra, East Java, and Sulawesi, it is clear that the root of the problem is not simply a lack of money, but rather a low financial literacy index *and* a lack of expertise in financial planning. Financial literacy is not just about knowing how to save, but a comprehensive ability to understand how money works, how to manage a business budget separately from the family budget, how to calculate debt risks, and how to choose safe and legal financing instruments.

To date, education provided by stakeholders has often been partial, theoretical, and urban-centric. Rural MSMEs require an educational approach that is down-to-earth, applicable, and addresses the realities of the problems they face daily. They need to be equipped with practical skills such as preparing simple *cash flow* reports, determining the appropriate cost of goods sold to achieve real profits, and being introduced to legal microfinance alternatives such as People's Business Credit (KUR), healthy village cooperatives, and official *peer-to-peer lending fintech platforms* supervised by the Financial Services Authority (OJK).

Based on this real urgency, the community service team initiated a program titled "Financial Planning Education: The Dangers of Illegal Loans for MSMEs in Villages." This program is designed as a preventive and curative measure to protect rural MSMEs from the threat of illegal loans. Through multi-stakeholder collaboration involving academics, financial practitioners, local communities, and relevant authorities, this activity is expected to not only provide temporary cognitive knowledge but also be able to change the financial behavior of business actors towards a healthier, more accountable, and sustainable direction. By strengthening financial literacy in North Sumatra, East Java, and Sulawesi, it is hoped that a positive domino effect will be created. Financially savvy MSMEs will be able to manage their capital efficiently, avoid bankruptcy due to bad debt, gain access to formal financing, and ultimately scale *up* their businesses. Strengthening the capacity of micro-enterprises at the village level will, in turn, strengthen regional and national economic resilience from the grassroots level.

METHOD

The implementation method for this community service activity uses a participatory *Rural Appraisal* approach that combines educational outreach, practical *workshops*, and intensive field mentoring. This program is implemented simultaneously in three representative villages in Indonesia: Lau Bakeri Village (Kutalimbaru District, Deli Serdang Regency, North Sumatra), Sanankerto Village (Turen District, Malang Regency, East Java), and Kading Village (Barebbo District, Bone Regency, South Sulawesi). The initial stage begins with coordination with village officials in each location to map the profile of partner MSMEs, identify their initial financial literacy levels, and develop bilingual educational modules that are adaptive to the socio-economic characteristics of the local community.

In the core phase, the community service team held face-to-face educational forums and interactive *workshops* at village halls in each region to thoroughly explore micro-enterprise financial management and the dangers of illegal loans. MSMEs in Lau Bakeri, Sanankerto, and Kading villages received hands-on training using their *smartphones* to verify the legality of financial institutions through the official channels of the Financial Services Authority (OJK). In addition, participants received practical training on separating domestic and business cash, calculating the accurate Cost of Goods Sold (COGS), and digitizing daily cash flow records using a simple digital bookkeeping application that is easy for rural communities to operate.

The final phase of the program focuses on ongoing post-training mentoring *and* two months of formal financial access through social networking groups per region. The community service team acts as a facilitator, bridging village MSMEs with local banking institutions and healthy cooperatives to facilitate applications for People's Business Credit (KUR) as a safe alternative for capital. The success of this intervention method is measured quantitatively through a comparative analysis of *pre-test* and *post-test* instruments to observe spikes in the literacy index and changes in partners' financial behavior towards a healthier and more accountable direction.

RESULT AND DISCUSSION

The implementation of the "Financial Planning Education: The Dangers of Illegal Loans for MSMEs in Villages" program in three target areas—Lau Bakeri Village (North Sumatra), Sanankerto Village (East Java), and Kading Village (South Sulawesi)—went smoothly and received high enthusiasm from rural MSMEs. Before the presentation began, the community service team administered a *pre-test* to measure partners' initial understanding of financial management and the risks of illegal loans. The initial evaluation results showed that the majority of MSMEs in the three villages had very low understanding of the dangers of hidden compound interest and how to verify the legality of *fintech lending*. The main obstacles encountered in the field were mixing personal funds with business capital and minimal knowledge about formal capital alternatives such as People's Business Credit (KUR).

Following the intervention, which included a classical outreach program and a practical *workshop* (legality check via OJK WhatsApp and a digital bookkeeping simulation), the community service team conducted a final evaluation using a *post test*. Comparative data on the improvement in participants' understanding across the three community service areas is presented in Table 1 below:

Table 1. Level of Participants' Understanding Before and After Financial Education

Service Locus (Village)	Number of Participants (MSMEs)	Average Pre-Test Score (0-100 Scale)	Average Post-Test Score (0-100 Scale)	Understanding Surge (%)	Key Success Indicators
Lau Bakeri (North Sumatra)	35	42	76	80.9%	Able to calculate the risk of loan shark interest & create an emergency farmer fund.
Sanankerto (East Java)	40	48	88	83.3%	Proficient in separating business/personal cash & using digital cash book applications.
Kading (South Sulawesi)	30	38	72	89.4%	Actively use the OJK checking channel & understand the requirements for submitting microKUR.
Overall Average	105	42.6	78.6	84.5%	Significant improvement in village microfinance literacy & protection.

Analysis and Discussion by Region

In-depth discussions of the community service results revealed unique socio-geographical dynamics in each region, despite the similar root causes. In Lau Bakeri Village (North Sumatra), agro-industry MSMEs initially considered informal loans or loan sharks as their only means of support when commodity prices plummeted. After the training, a paradigm shift occurred; participants realized that the high interest rates on illegal loans actually drained their long-term profits. The 80.9% increase in scores reflects that farmers and traders are now more cautious and have begun allocating a portion of their harvest to a separate business emergency fund.

In Sanankerto Village (East Java), the score increased to 83.3%, with the highest *post-test* score (88). This is influenced by the characteristics of MSMEs in the creative and tourism industries in Sanankerto, who are generally more familiar with gadgets (*smartphones*). Their main challenge, which was initially rushing for capital to fulfill orders (fast *turnover*), was successfully mitigated after they were taught how to maintain simple digital cash flow accounting. Through neat cash records, they now understand when their businesses truly need additional capital and when to reject illegal loan offers received via SMS or apps.

Meanwhile, the highest percentage increase occurred in Kading Village (South Sulawesi) at 89.4%. This high increase was due to the initial conditions (*baseline*) of coastal communities and local agricultural

processors who had very little exposure to formal financial information due to their geographic distance from the city center. The introduction of the OJK WhatsApp service was a significant turning point for Kading Village residents. They now have an independent digital "defense fortress" to filter out legal and illegal *fintech* applications. The formation of a post-training mentoring group also successfully mediated 12 MSMEs in Kading Village to begin accessing microKUR applications to the local government bank, directly cutting off their dependence on illegal financing.

CONCLUSION

A community service program implemented simultaneously in Lau Bakeri Village (North Sumatra), Sanankerto Village (East Java), and Kading Village (South Sulawesi) has successfully achieved its goal of protecting rural MSMEs from digital financial threats. Evaluation results show that the intervention, which included classical education and practical *workshops*, has proven effective in boosting the financial literacy index of partners, with an average increase in understanding reaching 84.5%. Through this down-to-earth approach, micro-entrepreneurs in the three villages now not only have the legal awareness to identify and avoid the trap of illegal online loans and loan sharks through official OJK channels, but are also able to independently implement simple cash flow accounting.

The success of this program confirms that limited access to formal capital in rural areas can be mitigated preventively by strengthening businesses' internal financial management capacity. The unique socio-geographical dynamics of each location demonstrate that ongoing post-training mentoring is key to shifting partners' financial behavior toward greater accountability. Through mediation conducted by the community service team in collaboration with formal financial institutions such as local banks for the Micro Business Credit (KUR) program, MSMEs' dependence on illegal financing can be broken. The sustainability of this synergy is expected to foster an independent, resilient, and financially savvy village MSME ecosystem to strengthen the national economy from the grassroots level.

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