

The Impact of Government Policies and Micro, Small, and Medium Enterprises (MSME) Empowerment on the Development of the Coffee Processing Industry: A Case Study of Banda Aceh

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ABSTRACT

This study examines the impact of government policy and micro, small, and medium enterprises (MSMEs) empowerment on the development of the coffee processing industry in Banda Aceh, Indonesia. Using a quantitative approach with a sample of 30 coffee MSMEs, data were collected through surveys and interviews, and analyzed with multiple regression. The results reveal that government policy, including training, equipment assistance, and licensing facilitation, has a significant positive effect on industry development, although challenges remain in financing access and equitable support. Similarly, MSME empowerment, particularly in human resource capacity building and managerial guidance, also demonstrates a significant positive effect, yet programs tend to be short-term and lack sustainability. Simultaneously, both variables explain 53.2% of the variation in industry development, while the rest is influenced by factors such as market access, innovation, and local coffee culture. This study highlights the crucial role of adaptive government policy and continuous MSME empowerment in fostering a competitive and sustainable coffee industry in Banda Aceh.

Keywords – Government Policy, MSMEs Empowerment, Coffee Processing Industry Development

INTRODUCTION

The Indonesian national economy is strongly influenced by the contribution of Micro, Small, and Medium Enterprises (MSMEs). This sector not only absorbs a large amount of labor but also plays an important role in improving community welfare and strengthening economic resilience, especially during times of crisis. According to data from the Ministry of Cooperatives and MSMEs, this sector contributes more than 60% of Indonesia's Gross Domestic Product (GDP) and absorbs around 97% of the workforce. This confirms that MSMEs are the backbone of the national economy.

One of the most potential MSME subsectors in Aceh Province, particularly in Banda Aceh, is the coffee processing industry. The city is widely known for its strong "coffee culture," which has become part of its social identity. Coffee shops are spread across the city, serving not only as places of consumption but also as spaces for social, political, and cultural interaction. This phenomenon creates great opportunities for MSMEs engaged in coffee processing to develop at local, national, and even international scales. The uniqueness of Aceh coffee, especially Gayo Arabica which is globally recognized, becomes an important asset in strengthening the competitiveness of the coffee processing industry.

However, the development of MSMEs in the coffee processing industry in Banda Aceh faces several challenges. Based on a preliminary survey conducted by the researcher, many entrepreneurs face limited capital, restricted market access, and minimal utilization of modern technology in production processes. Some informants even stated that their businesses ceased operations after the Covid-19 pandemic due to financial difficulties and declining demand. Moreover, government support is still perceived as limited to administrative training, such as business licensing, without any real follow-up on the daily problems faced by entrepreneurs. Some also admitted to being uninterested in training programs because they did not provide concrete solutions, resulting in no significant improvement in their business management skills.

This condition reflects a gap between the actual needs of MSMEs and the government's policies and empowerment programs. In fact, the government has a strategic role in empowering MSMEs, both

as a facilitator (providing facilities, access to financing, and mentoring), regulator (formulating policies and regulations conducive to MSME growth), and catalyst (accelerating MSMEs' transformation into more advanced and competitive enterprises). The synergy of these three roles should ideally accelerate the development of the coffee processing industry in Banda Aceh.

These findings are consistent with previous studies. Maulida et al, (2023) emphasized that the government's role in empowering MSMEs has often been less than optimal due to the lack of sustainable programs. IQBAL et al. (2021) highlighted the importance of Islamic microfinance institutions in strengthening MSME access to capital. Meanwhile, Asghar et al. (2011) found that capital, business location, and technology significantly affect MSME income, although the government's role only partially moderates these factors. These studies illustrate that the government's role in empowering MSMEs has not yet fully addressed the real needs of entrepreneurs, especially in facing market dynamics and global challenges.

On the other hand, international studies also highlight the importance of government policy support. (Abu et al., 2025; Khan, 2022) found that financial inclusion policies and institutional support play a major role in strengthening MSME resilience against global economic uncertainty. Le et al. (2024) emphasized that empowering MSMEs through sustainable innovation and digitalization enhances both economic performance and environmental sustainability. Furthermore, Surya et al. (2021) showed that adaptive public policy support can accelerate MSMEs' digital transformation, thereby improving their competitiveness in global markets.

Based on these gaps, research on the impact of government policy and MSME empowerment on the development of the coffee processing industry in Banda Aceh becomes highly significant. Empirically, this study identifies the extent to which existing policies and empowerment programs have had a real impact on the development of MSMEs. Theoretically, it enriches the literature on the role of government in MSME empowerment, particularly in the creative economy sector based on local wisdom. Practically, the findings are expected to provide strategic recommendations for the Banda Aceh government in designing more adaptive, participatory, and sustainable policies for strengthening coffee-based MSMEs.

Thus, this study not only contributes to the academic field but also carries practical significance in strengthening the role of coffee MSMEs as a driver of the local economy. Ultimately, government policy and MSME empowerment strategies are expected to foster a resilient, innovative, highly competitive, and sustainable coffee processing industry that supports inclusive and equitable economic development in Banda Aceh.

LITERATURE REVIEW

Government Policy

Government policy is a set of regulations, programs, and interventions designed to support the development of the economic sector, including MSMEs. In the context of MSMEs, the government has three main functions: as a facilitator, regulator, and catalyst (Habiburahman et al., 2019). As a facilitator, the government provides support in the form of capital assistance, training, and production infrastructure facilities. As a regulator, the government issues policies and regulations that create a conducive business climate, such as the provision of People's Business Credit (KUR), simplified business licensing, and tax regulations favorable to MSMEs. Meanwhile, as a catalyst, the government

accelerates the transformation of MSMEs toward becoming more competitive enterprises through digitalization, certification, and market integration. (Abu et al., 2025; Khan, 2022) assert that financial inclusion policies and institutional support from the government can strengthen MSME resilience against global economic uncertainty. Thus, well-targeted government policy is a key factor in driving the growth and competitiveness of MSMEs, including those in the coffee processing industry in Banda Aceh.

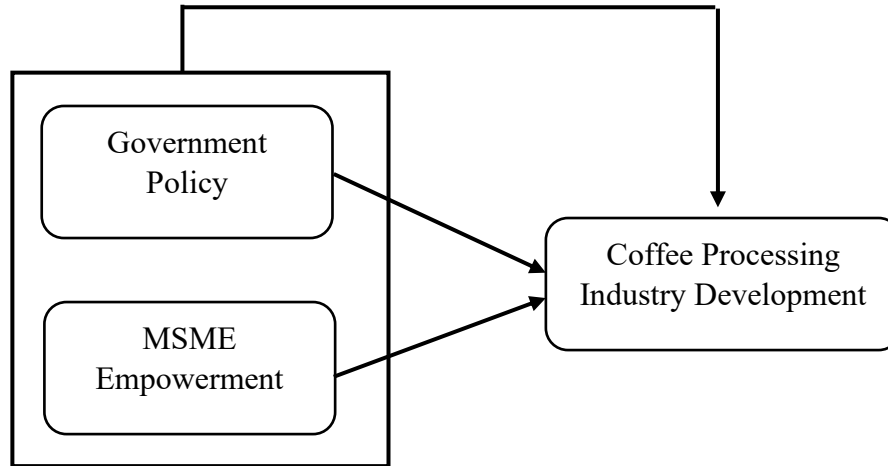
MSMEs Empowerment

MSME empowerment is a systematic process aimed at improving business capacity to become more independent, competitive, and sustainable. According to Larasati, (2022), empowerment includes strengthening the internal potential of business actors as well as providing external support so that they are able to survive and grow. Forms of empowerment include improving managerial skills, providing access to capital, expanding market access, and strengthening institutions through cooperatives or business associations. (Habiburahman et al. 2019) mention that the indicators of successful empowerment include improved entrepreneurial skills, access to finance, availability of marketing facilities, and institutional strengthening. Empirical studies in Indonesia show that empowerment is often still suboptimal. Gemala et al. (2022) found that empowerment programs at the village level are often short-term and lack sustainability. IQBAL et al. (2021) emphasized the importance of access to financing through Islamic Microfinance Institutions, while Maulida et al. (2023) proved that capital, business location, and technology positively affect MSME income. From a global perspective, Le et al. (2024) showed that empowerment based on green innovation and digitalization can enhance both the economic performance and environmental sustainability of MSMEs. This reinforces the notion that empowerment is not merely training, but a comprehensive strategy to improve the competitiveness of coffee-processing MSMEs.

Development of the Coffee Processing Industry

The development of the coffee processing industry in Aceh, particularly in Banda Aceh, cannot be separated from the “coffee culture” that has become part of the community’s social identity. This industry not only produces consumer products but also acts as a driver of the region’s creative economy. According to the Banda Aceh Industrial Labor Office (2022), there are 27 active coffee-processing MSMEs in the city. Industry development can be observed through indicators such as an increase in the number of business units, turnover, product innovation, market expansion, and contribution to employment. According to Julio Vartan, (2023), the quality of coffee processing whether using the wet or dry method greatly affects product quality and competitiveness in the market. Study Vicol et al. (2018) emphasized that coffee MSMEs in Indonesia face challenges in accessing global markets and meeting quality standards, although they have significant opportunities in international value chains. In addition, Chen et al. (2021) showed that digitalization in agro-industry, including coffee, can increase global market penetration and strengthen competitiveness. Thus, the development of the coffee processing industry in Banda Aceh strongly depends on the synergy between government policies, MSME empowerment, and the adaptive capacity of business actors in facing market dynamics.

Figure 1. Conceptual Framework



- H₀₁ : Government policy does not have a positive and significant effect on the development of the coffee processing industry in Banda Aceh.
- H_{a1} : Government policy has a positive and significant effect on the development of the coffee processing industry in Banda Aceh.
- H₀₂ : MSME empowerment does not have a positive and significant effect on the development of the coffee processing industry in Banda Aceh.
- H_{a2} : MSME empowerment has a positive and significant effect on the development of the coffee processing industry in Banda Aceh.
- H₀₃ : Government policy and MSME empowerment simultaneously do not have a positive and significant effect on the development of the coffee processing industry in Banda Aceh.
- H_{a3} : Government policy and MSME empowerment simultaneously have a positive and significant effect on the development of the coffee processing industry in Banda Aceh.

METHODOLOGY

This research was conducted in Banda Aceh City, Aceh Province, Indonesia. The data sources used in this study consist of both primary and secondary data. Primary data were collected through the distribution of questionnaires and interviews with respondents located across Banda Aceh City. Secondary data were obtained from various information sources related to the research topic on the *Impact of Government Policy and MSME Empowerment on the Development of the Coffee Processing Industry: A Case Study of Banda Aceh*. The study employed a sample of 30 coffee processing business actors, selected using purposive sampling and random sampling techniques. The data analysis was carried out using classical assumption tests, including the normality test, multicollinearity test, and heteroscedasticity test. Subsequently, multiple linear regression analysis was conducted, followed by hypothesis testing using the **t-test** and **F-test** to examine the hypotheses both partially and simultaneously.

RESULTS

This study involved 30 MSME coffee processing entrepreneurs in Banda Aceh City. The majority of respondents were in the productive age range (26–40 years), with educational backgrounds at the

senior high school and undergraduate levels. This indicates a strong potential for business development if supported by appropriate policies and empowerment programs.

The findings show that government policies are considered fairly supportive, with an average respondent score of 3.78. The forms of policy include basic training, equipment assistance, and licensing facilitation, although the main obstacles remain limited access to capital and uneven distribution of support. MSME empowerment was also evaluated positively, with an average score of 3.95, particularly in improving human resource capacity and business management coaching. However, the programs tend to be short-term in nature. The development of the coffee industry shows a positive trend with an average score of 4.05, as reflected in increased turnover, product innovation, and growing customer bases.

The validity and reliability tests confirmed that all instruments were valid and reliable. Classical assumption tests indicated that the data were normally distributed and free from multicollinearity and heteroscedasticity. Multiple linear regression analysis produced the following equation: $Y = 0.412 + 0.365X_1 + 0.428X_2$. The coefficient of determination (R^2) of 0.532 indicates that 53.2% of the variation in the development of the coffee industry is explained by government policies and MSME empowerment. The t-test results show that government policies ($t = 3.821$; $p < 0.05$) and MSME empowerment ($t = 4.213$; $p < 0.05$) both have a significant influence on the development of the coffee industry. The F-test produced $F = 17.892 > F\text{-table} = 3.35$ ($p < 0.05$), confirming that the two variables simultaneously have a significant effect.

DISCUSSION

The research findings indicate that government policies and MSME empowerment have a positive and significant effect on the development of the coffee processing industry in Banda Aceh. Government policies in the form of training, equipment assistance, and licensing facilitation are considered fairly supportive, but remain limited, particularly in terms of access to capital and equitable distribution of support. This aligns with Chen et al. (2021) who emphasize the importance of inclusive public policies to strengthen MSME resilience. MSME empowerment, in the form of human resource capacity building and managerial coaching, has a positive impact; however, it remains short-term in nature. This supports the findings of Maulida et al., (2023) who highlight the lack of sustainability in empowerment programs, and is consistent with Le et al. (2024) who stress the importance of innovation and digitalization. The development of the coffee industry is reflected in increased turnover, product innovation, and a growing base of loyal customers. These results support the study of Vicol et al. (2018) which underscores the critical role of innovation and digitalization in expanding the global coffee market. This study concludes that adaptive government policies and sustainable MSME empowerment are key drivers for accelerating the development of the coffee processing industry in Banda Aceh. The government needs to enhance access to financing, provide continuous mentoring, and promote digitalization of coffee businesses to strengthen MSME competitiveness.

CONCLUSION

Government policies have a positive and significant influence, both partially and simultaneously, on the development of the coffee processing industry in Banda Aceh City. Policies in the form of basic training, equipment assistance, and business licensing facilitation have provided benefits for MSME actors, although challenges remain in the equitable distribution of support and access to capital. MSME empowerment also has a positive and significant influence, both partially and simultaneously, on the development of the coffee processing industry. Programs such as human resource capacity building,

managerial coaching, and institutional support are considered beneficial, yet their implementation is still short-term and lacks sustainability. Simultaneously, government policies and MSME empowerment contribute 53.2% to the development of the coffee processing industry in Banda Aceh, while the remaining percentage is influenced by other factors such as the local coffee-drinking culture, personal capital, market networks, and product innovation.

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