Determinants of Micro, Small and Medium Enterprise in West Java Province

Agus Supandi[1], Pudji Astuti[2], Wahyu Murti[3]
{agussupandi72@gmail.com , Pudjiastuty1106@gmai.com[2], murti_why@yahoo.com[3]}

Universitas Borobudur, Jakarta, Indonesia[1,2,3]

Abstract. In 2019, micro, small, and medium enterprises (MSMEs) in West Java contributed 13.24% to national economic growth. This has a positive impact on poverty reduction and employment. Given the importance of MSMEs, a study was conducted to analyze the influencing factors of the growth of MSMEs. The research method used in this study is the ordinary least square with multiple linear regression on the data panel. The independent variables are infrastructure, MSMEs investment growth, gender empowerment index, and inflation; while the dependent variable is MSMEs growth. The study results show that: (1) there is a significant effect of infrastructure, MSMEs investment growth, gender empowerment index, and inflation simultaneously on the growth of MSMEs; (2) there is no effect between infrastructure and the growth of MSMEs; (3) There is an influence of MSME investment growth on MSMEs growth; (4) The gender empowerment index has a considerable impact on MSMEs' development; and (5) inflation has a big impact on MSMEs' growth. The study's findings are projected to give an overview of how to boost MSMEs' growth during the Covid-19 epidemic by taking into account increased MSMEs investment, the women empowerment index, and inflation management.

Keywords: Infrastructure; Investment; Gender Empowerment Index; Inflation; MSMEs Growth

1 Introduction

The Covid-19 epidemic has impacted a variety of industries, including micro, small, and medium businesses (MSMEs). This outbreak disrupted supply and demand, so that the wheels of the MSME economy stalled. The government's efforts to restore MSMEs' condition are providing direct cash assistance (*Bantuan Langsung Tunai/BLT*), encouraging business actors to use the marketplace, financing MSMEs through people's business loans (*Kredit Usaha Rakyat/*KUR), postponement of installments and interest programs, etc. Furthermore, the government needs to consider other external factors that can support MSMEs [1].

According to Sitharam and Hoque (2016) [2] and Siswanti (2020), MSME growth is influenced by two factors, namely external and internal factors [3]. Expertise, finance, and management are internal factors. Meanwhile, external issues include inflation and interest rates, as well as criminals, corruption, labor, infrastructure, and laws. Isah et al. (2019) stated that entrepreneurship, companies, and the environment are important factors in the

sustainability of MSMEs [4]. Entrepreneurial factors include gender, age, education, experience, psychology, and entrepreneurial orientation. Company factors include a length of business, company size, network, marketing strategy, competence, managerial, product and service quality, customer satisfaction, human resources, and company finances. Meanwhile, environmental factors outside the company include politics, economy, culture, technology, regulation, government involvement, financial support, and infrastructure.

Internal and external variables impact the growth of MSMEs, according to Rizal et al. (2017). Entrepreneurial traits, management, marketing competence, and technological capability are the internal factor factors considered. Meanwhile, the variables of external factors used are regulation, access to funding, and workforce expertise [5]. Similar results were obtained by Hanggraeni et al. (2019), showing that external and internal factors affect the growth of MSMEs [6]. The influence of external and internal variables on the growth of MSEs is 51.8%. Other studies that only discuss the influence of external factors on the growth of MSMEs are Dananjaya and Kuswanto (2015) [7] and Govori (2013). The variables used are financial access, government regulations, corruption, and competition [8]. The difference between the two studies is the object of sampling, where the research by Dananjaya and Kuswanto (2015) was conducted in Indonesia while the research by Govori (2013) was conducted in Kosovo. Siswanti (2020) found that internal and external factors influence the growth of MSMEs in Bekasi [3]. The influence of the two independent variables on the growth of MSMEs is 46.4%.

Based on previous studies and existing phenomena, an analysis of the determinants of MSME growth was conducted in West Java Province. West Java was chosen because it was ranked as the third contributor to economic growth, which is supported by MSMEs. The growth factors for MSMEs are limited by infrastructure variables proxied by road length, gender empowerment index, MSME investment growth, and inflation in 7 cities of West Java Province. Meanwhile, MSMEs were chosen because MSMEs have a contribution to economic growth. The variable of road length was chosen because it can increase the growth of MSMEs as it is a means that can facilitate the flow of traffic, goods, services, and people. It is hoped that the increasing road length in good condition will make it easier for MSMEs in the distribution process, delivery of raw materials, and ease of consumers to reach the location of these MSMEs.

The gender empowerment index variable was chosen because it has a role that can move people's businesses, given that most MSME actors are women. They tend to have more flexible working hours. Meanwhile, the MSME investment growth variable was chosen because investment in the MSME sector can overcome financial difficulties for MSME owners in managing their business. Another variable chosen is inflation because it can affect income. If inflation is high, people's income will decrease and will result in public demand for MSME products decrease.

2   Literature Review

Research related to the determinants of MSME growth has been carried out many times. Sitharam and Hoque (2016) and Siswanti (2020) found that MSME growth is influenced by two factors [2], namely external and internal factors. In contrast to the previous research, Sentiago and Hidayatulloh (2019) stated that internal factors do not affect the performance of MSMEs in Yogyakarta [9]. Meanwhile, Hati & Irawati (2017) found that external factors do not affect MSMEs in Batam [10].

The research results conducted by Olowale & Grawe (2010) show that new MSEs must be able to produce a business plan that estimates cash flow requirements, has an operational plan, and demonstrates feasibility and sustainability to secure debt finance [11]. Government support agencies should assist new MSEs by providing soft loans with low-interest rates to ease the loan burden on emerging businesses. In addition, it is also necessary to carry out an up-to-date training program that focuses on entrepreneurial needs for general managers. The next strategy is to target inflation and review interest rates in favor of the new MSEs. Furthermore, it needs to facilitate transportation and communication to increase competition. Based on the explanation above, the provision of credit, human resource training in MSEs, inflation targeting, and transportation and communication facilities have a relationship with the growth of MSEs.

Priyadi & Riyanto (2014) concluded that GRDP, working capital credit, and minimum wage have a positive and significant influence simultaneously or partially on the development of MSEs in the province of the Special Region of Yogyakarta [12]. Tange (2015) revealed that the MSE sector in South Sumatra declined during the study period [13]. Data on MSEs reveal negative growth sectors in terms of the number of firms and employment rate, although the same cannot be said in terms of MSE output due to the unavailability of data. However, the causes of the decline in the MSE have not been determined, the impact of credit, education, and taxes show their indispensable role in the MSE sector.

Halim et al. (2017) conclude that interest rates and inflation significantly affect the development of MSMEs [14]. Interest rates have a favorable association with MSMEs' development, whereas inflation has a negative relationship with MSMEs' development. Another finding is that the development of MSMEs in Malaysia is unaffected by economic growth. Cahayani and Anjaningrum (2017) found that the quality of human resources, production systems, financial management systems, marketing strategies, partnership systems, and the quality of infrastructure and regulations influence the development of small businesses in the manufacturing sector in Malang City [15].

Hasugian & Panggabean (2019) [1] and Martalina (2018) concluded that the role of women and financial statements had a positive and significant influence on the development of MSMEs [16]. Mugo et al. (2019) found an influence of infrastructure on the growth of MSMEs in Kenya [17]. Isah et al. (2019) concluded that there is an influence between physical and non-physical infrastructure variables on company growth [4]. The research gap proposed in this study compared to the previous research is the selection of variables used and the research location, namely road length, gender empowerment index, MSME investment growth, and inflation; meanwhile, the research setting is in West Java Province.

3 Methodology

The sample in this study is infrastructure data, which is proxied through road length data in good condition, gender empowerment index, MSME investment growth, inflation, MSME growth, unemployment, and poverty in 7 cities in West Java Province from 2012 to 2019. The research sampling uses purposive sampling technique, by selecting 7 cities in West Java Province, namely Bandung, Bekasi, Bogor, Cirebon, Depok, Sukabumi, and Tasikmalaya. They were chosen because they complete inflation data. The year chosen starts in 2012 because 2012 is the base year for calculating inflation. The data used in this study came from the Central Statistics Agency (BPS) of West Java Province. The conceptual and operational definitions of the variables used are presented in Table 1.

Tabel 1. Conceptual And Operational Definition

Variable	Conceptual Definition	Operational Definition	Scale
Infrastructure	Infrastructure is a public good related to the provision of physical systems. In this study, the infrastructure used is the road length in good condition.	Infrastructure data was obtained from data on the road length of roads in good condition in 7 cities in West Java Province published by BPS from 2012 to 2019.	Ratio Data
Gender empowerment index	The gender empowerment index measures how women have an active role in economic and political life. The index value are obtained from the average involvement of women in parliament, women as professionals, and women's income.	Data on the gender empowerment index in 7 cities in West Java Province were obtained from data published by BPS from 2012 to 2019	Ratio Data
Investment Growth	Investment is an investment made by an individual or business entity within a certain time with the expectation of profit. The investment growth variable is obtained by subtracting the investment amount in year t with the previous year divided by the number of previous investments.	Investment growth in 7 cities in West Java Province was obtained from data published by BPS from 2012 to 2019	Ratio Data
Inflation	Inflation is an increase in the price of a product that lasts a long time and is caused by excess demand.	Inflation in 7 cities in West Java Province was obtained from data published by BPS from 2012 to 2019	Ratio Data

This research used ordinary least square multiple and simple linear regression on panel data. The stages are as follows:

a) Stationary Test

Stationary test using the method of Levin, Lin & Chu t. The criteria are if the probability value of Levin, Lin & Chu t. < 0.05, then the data is stationary; and if the probability value of Levin, Lin & Chu t. > 0.05 is declared non-stationary.

b) Fit Test

The model suitability test was carried using Eviews 11. The descriptions are as follows:

1) Chow Test

The Chow test is used to determine whether FEM or CEM is the most appropriate in estimating panel data. If the probability value is more than or equal to 0.05, it means that CEM will be selected. Meanwhile, if the probability value is less than 0.05, it means that FEM will be selected.

2) Lagrange Multiplier Test

If the Chow test results state that CEM is the best model, the Lagrange Multiplier Test will be carried out. In this test, the CEM or REM models that will be used are compared. If the probability value is more than or equal to 0.05, then CEM will be selected; otherwise, if it is less than 0.05, then REM will be selected.

3) Hausman test

If the results of the Chow test state that FEM is the best model, then further tests will be carried out, i.e., the Hausman test. In this test, the FEM or REM models that will be used are compared. If the probability value is more than or equal to 0.05, then H0 is accepted, meaning that REM will be used. On the contrary, if the probability value is less than 0.05, then FEM will be chosen.

c) Hypothesis Test

The following is a description of the hypothesis testing carried out in this study:

1) Coefficient of Determination

The value of the coefficient of determination (R^2) is used to measure the contribution of the independent variable to the dependent variable. The coefficient of determination is shown by the calculation of the R-value adjusted square; if the value of the coefficient of determination is close to one, the correlation between the two variables is categorized as good.

2) F test

The F-statistical test is used to determine the effect of independent variables on the dependent variable together. The hypothesis used is as follows:

H_0 : $\beta_1 = \beta_2 = \cdots = \beta_k = 0$

H_1 : at least there is one that is not equal to zero.

If Prob (F-statistic) $< \alpha$, then H_0 is rejected, it means independence variable affects MSMEs Growth.

3) t-test

The t-statistic test is conducted to test whether the independent variable partially affected the dependent variable. The hypotheses used are:

H_0 : $\beta j = 0$

H_1 : $\beta j \neq 0$

If the value $sig < 0,05$, the independent variable partially affects the independent variable.

d) Feasibility Test

The model's feasibility test aims to find out whether the model has complied with the specified requirements. According to Wirasasmita (2008), the requirements for the results of the model feasibility test consist of:

1) Theoretical Plausibility

In this test, it will be shown whether the test results are following economic theory.

2) Accuracy of the Estimate Parameters

In this test, the measurement of the value (p-value) is carried out. If the value (p-value) is less than 0.005, it is assumed that the probabilistic statistical error of the model is very low. The purpose of this measurement is to find out whether the regression coefficient estimator is accurate and significant.

3) Explanatory Ability

At this stage, the standard error estimates (SE) and the coefficients of each variable (β_i) are compared. If $\frac{1}{2}SE < \beta_i$, then the proposed model can describe the relationship between variables well.

4) Forecasting Ability

The criteria in this test are that if the model's coefficient of determination is close to or more than 50%, then the proposed research model can predict the dependent variable well.

4 Results and Discussion

4.1 Results

4.1.1 Stationary Test

The results of the stationary test shows that all the variables used were stationary at Level (0). This is evidenced by the prob value of less than 0.05.

4.1.2 Fit Test

Based on Chow and Hausman Test, REM is a good model to estimate panel Data. The models are as follows:

$$\ln(\hat{Y}_{it}) = 2{,}66 + 0{,}009\ln(X_{1it}) + 0{,}134\ln(X_{2it}) + 0{,}25\ln(X_{3it}) - 0{,}19\ln(X_{4it}) \qquad (1)$$

The representations of regression equation are infrastructure, gender empowerment index, MSMEs investment growth, and inflation.

4.1.3 Hypothesis Test

The result of the hypothesis test is shown in Table 2.

Variable	Coefficient	Standard Error	T Statistik	Probabilistic
C	2.660527	0.493180	5.394633	00000
Ln X1	0.009314	0.006899	1.350073	0.1830
Ln X2	0.134119	0.39808	3.369133	0.0014
Ln X3	0.250645	0.115468	2.170691	0.0346
Ln X4	-0.190036	0.018867	-10.07260	0.0000
Adjusted R-Squared				0.85801
Probability				0.0000

Table 2 shows:
1. Infrastructure, gender empowerment index, MSMEs investment growth, and inflation affect MSMEs growth in West Java Province. This is evidenced by the probability value of 0.000.
2. Infrastructure has no effect on the growth of MSMEs, and this is because the probabilistic value is 0.183.
3. MSME investment growth has an effect on the growth of MSMEs, because the value of the probability is 0.0014.
4. Gender empowerment index has an effect on the growth of MSMEs, because the probability value is 0.0346.
5. Inflation has an effect on the growth of MSMEs, because the probability value is 0.000
6. The effect of road length, investment growth, gender empowerment index, and inflation on MSME growth is 88.58%. This is based on the value of Adjusted R Squared = 0.8858. Meanwhile, partially, in the regression results, the variables that have the largest order to the smallest are as follows:
   a. Inflation has the greatest effect on the growth of MSMEs in West Java Province. It is concluded based on the statistical value = 10.07 and the probability value = 0.0000.

b. MSME investment growth has the second highest effect on MSME growth in West Java. It is concluded based on the t-statistic value of 3.37 and the probability value of 0.0014.
c. Gender empowerment index has the third effect on the growth of MSMEs in West Java because the t-statistic value is 2.17 and the probability value is 0.0346.
d. The road length has no effect on the growth of MSMEs, because the probability value is more than 0.183.

4.1.4 Plausibility Test

a) Theoretical Plausibility

This test shows whether the test results are following economic theory. The results of the theoretical plausibility test are shown in Table 3.

Table 3. The Result of Theoretical Plausibility

Relationship between Variable	Pre-Estimation	Post Estimation	Suitability
Infrastructure (X_1)	X_1 : Positive	X_1 : Positive	Suitable
Investment growth (X_2)	X_2 : Positive	X_2 : Positive	Suitable
Gender empowerment index (X_3)	X_3 : Positive	X_3 : Positive	Suitable
Inflation (X_4)	X_4 : Negative	X_4 : Negative	Suitable

Table 3 shows that the test results are following economic theory.

b) Accuracy of the Estimate Parameters

In this test, the measurement of the value (p-value) is carried out. If the value (p-value)) assumes that the probabilistic statistical error of the model is very low. The maximum p-value is 0.05. The purpose of this measurement is to find out whether the regression coefficient estimator is accurate and significant. The results of the accuracy of the estimate parameters test are shown in Table 4.

Table 4. The Result of Accuracy of the Estimate Parameters Test

Independent Variable	$\rho - Value$
	MSMEs Growth (Y)
Infrastructure (X_1)	$0.1830 > 0.05$
Investment growth (X_2)	$0.00014 < 0.05$
Gender empowerment index (X_3)	$0.0346 < 0.05$
Inflation (X_4)	$0.0000 < 0.05$

Table 4 shows that the infrastructure does not meet the Accuracy of the Estimate Parameters test.

c) Explanatory Ability

At this stage, the standard error estimates (SE) and the coefficients of each variable (β_i) are compared. If $\frac{1}{2}SE < \beta_i$, then the proposed model has a high ability to explain the relationship between variables. The results of the Explanatory Ability test are shown in Table 5.

Table 5. The result of Explanatory Ability

Partial Effect	Regression Coefficient (β)	Standard Error (SE)	$\frac{1}{2}\beta$	The Result Test
Infrastructure (X_1)	0.0009	0.006	0.00045	$SE > \frac{1}{2}\beta$
Investment growth (X_2)	0.134	0.03	0.067	$SE < \frac{1}{2}\beta$
Gender empowerment index (X_3)	0.250	0.11	0.125	$SE < \frac{1}{2}\beta$
Inflation (X_4)	0.19	0.018	0.095	$SE < \frac{1}{2}\beta$

Table 5 shows that infrastructure does not meet the explanatory ability.

d) Forecasting Ability

The criteria in this test are that if the model's coefficient of determination is close to or more than 50%, the proposed research model has good predictive ability on the dependent variable. The results of the forecasting ability test are shown in Table 6.

Table 6. Forecasting Test

Independent Variable	*Adjusted R Square*
Infrastructure (X_1)	MSMEs Growth
Investment growth (X_2)	85.8 % > 50 %
Gender empowerment index (X_3)	
Inflation (X_4)	

Table 6 shows that the model has good forecasting ability because the value of Adjusted R Square is more than 50%.

4.2 Discussion

4.2.1 The Effect of Infrastructure, MSMEs Investment Growth, Gender Empowerment Index, and Inflation on MSMEs Growth

The calculation results show that there is a significant effect of infrastructure, MSMEs investment growth, gender empowerment index, and inflation simultaneously on the growth of MSMEs in West Java. The effect of the independent variables on the growth of MSMEs is 85.8%. The results of the study are following the theory and the results of previous studies, where internal factors and external factors affect the growth of MSMEs, by Rizal et al. (2017), Sitharam and Hoque (2016), Rizal et al. (2017), Danandaya and Kuswanto (2015, p. 41), and Hanggraeni et al. (2019). The internal factor in this study is the gender empowerment index. Meanwhile, external factors are infrastructure (road length in good condition), MSME investment growth, and inflation.

4.2.2 The Effect of Infrastructure on MSMEs Growth

The hypothesis testing results show that there is no effect of infrastructure on the growth of MSMEs. The findings in this study contradict the theory, which states that road infrastructure

functions as a liaison between one region to another, so that the mobility of services, people, and production inputs and outputs is easy.

4.2.3 The Effect of MSMEs Investment Growth on MSMEs Growth

The hypothesis test results show that investment growth significantly affects the growth of MSMEs in West Java, where the relationship between the two variables is positive. The higher the growth of MSME investment, the higher the growth of MSMEs. To increase the growth of MSMEs, the government issued Presidential Regulation No. 44 where Domestic Investors (PMDN) are required to partner with Micro, Small, and Medium Enterprises (MSMEs). The purpose of this regulation is that all problems faced by investors and MSMEs can be handled effectively and efficiently following the existing mechanisms. The ratification of this regulation is expected to be a momentum for better growth of MSMEs.

4.2.4 The Effect of Gender Empowerment Index on MSMEs Growth

The study results show that the gender empowerment index had a significant effect on the growth of MSMEs in West Java. According to Wigunawati (2020), women have a role that can move people's businesses, given that most MSME actors are women. Women are interested in MSMEs due to more flexible working hours because married women have a dual role, having to do housework and at the same time, helping the family economy. According to Marthalina (2018), the advantages of women compared to men are:
a. Women can create products that are more attractive and have high purchasing power.
b. Women are more outgoing and have a better approach to easily expand their network.
c. Women have self-restraint and are not easily discouraged.

4.2.5 The Effect of Inflation on the MSMEs Growth

The hypothesis test results show that there is a significant effect of inflation on the growth of MSMEs. The highest inflation occurred in the city of Bandung. The city of Bandung is a tourist destination; this will certainly increase inflation from the demand side as we know that Bandung has the highest number of tourist visits compared to 7 other cities. Meanwhile, Depok City has the lowest average inflation compared to 7 other cities in West Java Province. Inflation affects the growth of MSMEs, because the higher the inflation, the higher the raw price of MSME products, and the higher the selling price of MSME products. This results in a decrease in the demand for MSME products, and in the end, it will reduce the growth of MSMEs. In addition, according to Keynes's theory, inflation is related to income. If inflation is high, then people's income will decrease and will result in public demand for MSME products decrease. Based on the unfavorable conditions, a central government policy is needed to control inflation. Inflation controls that the West Java Provincial government has carried out are market inspection, control market expectation, market revitalization programs, and collaboration between producing and consumer regions.

5 Conclusion

From the research results that have been described, the conclusions of this study are:

a. Infrastructure, gender empowerment index, investment growth, and inflation simultaneously have a significant effect on the growth of msmes in West Java Province;
b. Infrastructure does not partially affect the growth of msmes in West Java Province;
c. Gender empowerment index partially has a significant effect on the growth of msmes in West Java Province;
d. Investment growth has a significant partial effect on the growth of msmes in West Java Province; and
e. Inflation has a significant effect partially on the growth of msmes in West Java Province.

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