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Dominant Factors for Informal Employment in Manufacturing MSMEs in Tanzania: A Case of Leather Industry

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ABSTRACT

Many studies about informal employment in the manufacturing sectors have attracted high research interest due to its significant role in job creation and contribution to the country's gross domestic product (GDP). Yet empirical evidence indicates few studies have been conducted in the developing countries of Africa. This study was intended to establish the dominant factors for informal employment in Tanzania's macro, small, and medium manufacturing enterprises (MSMEs). A structured questionnaire was used to collect primary data (n = 120) from manufacturing MSMEs in the Mwanza region. The exploratory factor analysis (EFA) and confirmatory analysis (CFA) were performed to establish the dominant factors for informal employment in MSMEs. The results revealed twelve (12) dominant factors for individuals to opt to work informally in the MSMEs of Tanzania as they scored a mean value greater than 3, i.e., loaded values above 0.5 in EFA, and loaded values above 0.3 in the CFA test. A study to explore the variables related to the gendered proportion of unemployed in the regions of Tanzania (i.e., male and female unemployment ratio in the leather industry) is recommended. Hence, the study findings provide critical information about informal employment in the leather industry to policy-makers and planning instruments in Tanzania and beyond.

Keywords: *Leather industry, Informal employment, Manufacturing MSMEs, CFA*

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1. INTRODUCTION

Industrial development has been a global issue of concern in recent years due to its significant role in the national economy. In Tanzania, industrialization dates back to independence in 1961, whereby after independence, industrial development was the least compared to the economic development of Kenya and Uganda (Wangwe et al. 2014). Based on the best practices of Industrialized Nations, there were many efforts by the governments, particularly in Sub Sahara Africa (SSA), including Tanzania, to raise the country's industrialization level, such as the post-independence of 1961 - 1967, state-controlled 1967 - 1986 and market liberalization of 1987 (Debrah and Ofori, 2005). The industrialization process, in all phases, has been characterized by low productivity, low market share, lack of innovation and entrepreneurship skills, and technical and bad infrastructures to support industrial activities. Despite the low pace of industrialization, the government of the United Republic of Tanzania recognizes the role of the industrial sector in transforming the country's economy from low to middle income by stimulating other sectors that were found to add value to the national income, i.e., Gross Domestic Product (GDP) as well as generation of employment. To achieve this, various policies have been devised in Tanzania, including the Sustainable Industrial Development Policy (SIDP) of 1996 - 2020, which aimed at enhancing the sustainable development of manufacturing industries (URT 1996).

The SIDP was devoted to the National Development Vision 2025, which strictly focuses on developing a diversified and semi-industrialized economy with a significant industrial sector towards middle-income countries with a competitive economic base. Also, the same emphasis on industrialization is given by the National Five-Year Development Plan 2016/2017 - 2020/2021 under the theme, "Nurturing Industrialization for Economic Transformation and Human Development", which intends to enhance progress towards industrialization (URT 2016). To realize the policies' objectives, the 5th phase of the Government of Tanzania has greatly emphasised industrial development. Many old Micro, Small and Medium Manufacturing Enterprises (SMEs) have been revived, and new enterprises have been introduced. The main goal has been to stimulate national economic growth and employment creation. However, there have been debates among developing countries on the rise of employment and unemployment. Much of these debates are primarily focused on the informal economy and employment. It is an indisputable fact that in many countries of the world, particularly developing countries in the SSA, there has been a substantial increase in informal employment in all sectors (Sparks and Barnett, 2010; Page, 2016; Karpushkina et al., 2021; Akinyele et al., 2023).

To date, many studies have defined the term informal employment differently. Aikaeli and Mkenda (2014) described informal employment as the type of employment not bound by formal contractual arrangements. According to Lewis (1955), people in informal employment are employed by employees who do not have job security and are likely to go without social security at retirement age. This means informal employment is explained as a system that needs to consider the legal and social protection of employees, which is risky job security and employee rights due to a lack of legal agreements between parties concerning the roles and obligations of employer or employee. In this study, Aikaeli and Mkenda (2014) were used as a working definition because it states that informal employment involves an unregistered business in which her employees have no formal contract. Thus, the owner has little/no obligations to government organs. Moreover, this study adopted the URT (2012) approach to classifying SMEs, such that the criteria of the total number of employees, total investment, and sales turnover were employed. Based on these criteria, enterprises in Tanzania are categorized into four (4), namely Micro, Small, Medium and Large Enterprises (MSMEs), as presented (Table 1).

Table 1: Categories of Micro, Small, Medium and Large Enterprises in Tanzania

Category	Employees	Capital investment in Machinery (TZS)
Microenterprise	1 – 4	Up to 5 million
Small Enterprise	5 – 49	Above 5 million to 200 million
Medium enterprise	50 – 99	Above 200 million to 800 million
Large enterprise	100+	Above 800 million

Source: URT, (2012)

The Micro, Small and Medium Enterprises (MSMEs) in Tanzania have demonstrated a large economic share and employment growth whereby employment in the manufacturing sector between 1990 and 2010 has increased from 1.4 to 2.7% while her GDP has risen from 10 to 10.6% (Page, 2016). However, a large share of employment and GDP in many Sub Saharan Africa (SSA) countries such as Tanzania has been derived from the informal sector, which was estimated to account for 42% of GDP in SSA, and particularly 34% of the national economy in Tanzania (Aikaeli and Mkenda, 2014). Despite the significant contribution of the informal sector to job creation and the country's economic

growth, informal employment receives less or no government support. For example, Webb et al. (2020) and Lyakurwa (2021) revealed that, although the coronavirus (COVID-19) pandemic appears to affect those in informal employment disproportionately, they regularly receive less government support than those working in the formal sectors of the economy. The International Labor Organization (ILO) (2020) argued that what compounds the fears of the governments in many African countries over COVID pandemic isolation strategies, including lockdowns, is the fact that several sectors of the economy, such as mining and agriculture, operate informally. Informal employment is characterized by a lack of job security in which, globally, job insecurity has been due to deeds of laying off employees, unsafe working conditions, as well as the absence of social benefits, i.e., pensions, sick pay and health insurance. Historically, informal employment was created in many countries as a temporary solution for reducing unemployment; instead, it has become a permanent entry to many. For example, the Integrated Labor Force Survey report of 2006 documented that the informal economy of Tanzania is expanding instead of contracting, which is evidenced by a significant increase in the number of households participating in informal activities, i.e., 35% of households operated informally in 2001 while 40% in 2006 (NBS, 2007).

Over the past several decades, Tanzania has been among the countries with a large livestock population, ranking 3rd in Africa after Ethiopia and Sudan (NBS, 2012). Despite these facts, the contribution of the leather industry to the national GDP still needs to be higher (China and Ndaro, 2016; REPOA, 2020). This might have been contributed by many leather industries operating at a tiny scale or informally. Leather commodities are most widely traded in many countries. Its growth is estimated to be more than US$100 billion in annual earnings (UNIDO 2010; World Bank 2015). The demand for leather and leather products worldwide is ever-increasing against decrease or constant supply, which signifies untapped opportunities in the leather industry. In Tanzania, there are many unexploited opportunities from the leather industry. For instance, the livestock population in Tanzania is ranked third in Africa, with a livestock population of 22 million cattle, 15.2 million goats, and 6.4 million sheep (Majaliwa and Nkwame 2016, Lwesya 2018). A large number of livestock means opportunities to stimulate the country's economy, but contrary to that, the rate of tanning hides and skins to leather in Tanzania is meager (Mbassa et al. 2014, China and Ndaro2015). Yet the leather sector contributes 2% to the national GDP compared to the 80% contribution by the leather sector to Ethiopia's GDP (REPOA 2015). This brings many questions that seek to understand the leading causes

of low-value addition in hides and skin products by the leather industry, including the manufacturing of MSMEs.

Many studies have been conducted globally to determine the dominant factors for informal employment by manufacturing MSMEs'. Aikaeli and Mkenda's (2014) study on determinants of informal employment in Tanzania's construction industry using Logit regressions revealed that higher earnings in the informal sector compared to formal sectors are among the reasons for informal employment. Similarly, lack of capital, low salaries from formal employment and low education among workers have forced many people to choose informal employment in Tanzania's construction industry. Ngui, Muniu, and Wawire (2014) analyzed the determinants of informal sector performance in rural areas of Kenya using the profit model that was developed by Ngui (2008). This study revealed that working capital, licensing, and stiff competition in the formal sector have forced the majority to engage themselves in self or informal employment. Besides, Resham (2014) analyzed factors determining whether a person should work in the formal or informal sectors using a simple probit regression model. This study found that gender, geography, educational level, marital status, employee age, and ethnicity determine whether an individual works in the informal or formal sector. The study concluded that these factors should be considered when formulating social security policies. Likewise, the survey by Rodin et al. (2012) on the determinants of informal employment among working mothers in Mexico revealed that human capital constraints, family responsibilities, challenges in meeting the needs of both their employers and their families as well as earning adequate income trigger the majority of individuals to work in informal sector employment.

Additionally, Ghosa et al. (2016) established that factors such as unemployment, a need to be autonomous/self-employed, corruption of government officials/agencies, participants' desire to pay less tax, and participants' need to survive are among the factors that result into the expansion of informal sector employment. The factors mentioned above for informal employment are also supported by the study by Stoevska (2012) in Jordan, which found that factors such as loss of jobs and decreased earnings stimulate people to work in informal employment. Rodman (2007) on employment and shared growth in North Africa and the Middle East emphasized that lack of formal employment and government controls, including tax hassles, increase informal employment. Low incomes make employees reluctant to accept informal employment due to a shortage of well-paying, decent jobs. Therefore, the reviewed literature shows that there are no universal factors determining the choice to

work in the informal sector. In addition, following the opportunities and challenges facing the informal economy, the fundamental question remains: Why has formalization been so slow? What have been the dominant factors that led individuals to join the informal sector? Understanding these questions provides necessary information to the government's decision-making organs, particularly in implementing the national industrialization agenda. Using a case study of the leather industry in Tanzania, the present study explored the dominant factors for informal employment in manufacturing MSMEs in Tanzania.

The concept of informal employment by informal sectors has been explained by various theories such as the Dualist, Legalist, Rationalist, and Labour supply theories. These theories supplement each other in informing this study on the dominant factors for informal employment in most Micro, Small, and Medium manufacturing enterprises (MSMEs) in most developing countries, including Tanzania. The International Labor Organization (ILO) popularized the Dualist theory in the 1970s. This theory advocates that the informal sector is mainly dominated by poor people who depend on it as a source of income and safety when there is an economic recession in the country. The theory further argues that informal employment exists when there is a shortage or insufficient formal jobs in the market to care for the surplus labour (Becker, 2004). Based on this theory, an individual decides to go for informal employment because of the lack of formal employment in the country. Hence, the informal sector was introduced to absorb the available labour demand (Gorden 1982). Despite the argument of this theory, some usually go for the informal sector to avoid government regulations and bureaucracy in formalised businesses.

On the other hand, the Legalist theory was first polarised by Feigie (1981) and later by De Soto (1989). The study by Kirshner (2009) postulates that the theory believes that an individual decides to work in the informal sector or goes for informal employment because of exorbitant, inefficient, cumbersome, and costly government rules and regulations. This theory, therefore, postulates that there is a need for an intervention from the government to ensure that laws and regulations regarding business are well enforced for the survival and growth of the informal sectors, as they are vital for the socioeconomic development of any country. The Rationalist theory is centred on explaining the behaviour of human beings in making decisions of either being formal or shifting to the informal sector. The theory postulates that an average person always wants to maximize their satisfaction given their actions' available benefits and costs (Jamela, 2013). Therefore, this theory evidences that economic factors and personal issues significantly influence someone's decision to operate formally or informally. Lastly, the

labour supply theory was postulated by Pederson, who postulated it in the early 1998s. The theory states that many entrepreneurs opt for informal employment because of the high level of unemployment in formal sectors. From this theory, it is believed that people tend to go for informal as a solution for employees who cannot be absorbed in the formal economy. Stoevska (2012) and Rodman (2007) argued that informal employment is spurring due to the lack of formal employment in the formal sector, supporting the theory.

2. MATERIALS AND METHODS

2.1. Research design

This study employed a cross-sectional survey design to identify the guiding factors for individual selection to work with informal manufacturing MSMEs. According to Krishnaswami and Ranganathan (2005) and Ndunguru (2007), this design enabled one to collect a large amount of data at one location in time and in an economical way. Besides, Yin (2003) supported the selected research design by pointing out that cross-sectional survey design is primarily appropriate when the study intends to answer the questions of who, what type, where, how many, and how many questions are revealed in the present study.

2.2. Study area

This study was conducted in the Nyamagana district of Mwanza. This area was selected because the region is ranked 3rd in Tanzania based on the livestock population, and the number of live cattle in the region was found to be 2,088,719 (NBS, 2016). Besides, Nyamagana district is one of the commercial districts of the Mwanza region, whereby value addition of livestock products by manufacturing MSMEs is mainly practised. Moreover, some efforts have been made to improve the productivity of the leather processing industry in the district, such as training about 400 artisans in the productive manufacturing of leather products (Yumkella and Vinanchiarachi 2003).

2.3. Population, sample size, sampling procedures and data collection process

The targeted population was leather processing and manufacturing MSMEs in the Nyamagana district. The sample size of a study can be determined by using various approaches, including census for a small population, imitating a sample size of similar studies, using published tables, and applying formulas to calculate the sample size (Masuku, 2012). This study used the imitating approach to determine the sample size. By imitating the sample size of similar previous studies, the existing study used a sample

size (*n)* of 120 respondents. The sample size was found to be representative in this study because previous similar studies used sample sizes ranging from 100 to 400 respondents. The study employed a multi-stage probability sampling technique to select respondents to choose MSMEs' owners. In the first place, the 12 wards of Nyamagana District were identified. Of the 12 wards, nine were purposively selected depending on their proximity to the City Center of the Mwanza, where most business activities are concentrated.

The nine wards which were purposively selected were Nyegezi, Buhongwa, Mkolani, Butimba, Pamba, Isamilo, Mbugani, Mkuyuni and Igogo. In that case, all the informal businesses dealing with leather products in the district were found to have an equal chance of inclusion in the study, in which whoever business owner dealing with leather products was approached and was willing to participate in the study, he/she was given a questionnaire to fill in. The study used only primary data because most business owners do not document their business operations. Therefore, the absence of secondary data among the business owners imposed the need to collect only the primary data in this study (Nsubili, 2012). In collecting the primary data, well-structured questionnaires were administered to business owners of different manufacturing MSME in the district.

2.4. Data analysis

The analysis process was done in three stages: preliminary, descriptive and inferential. The preliminary analysis involved checking the quality of collected data and testing the assumption of Exploratory Factors Analysis (CFA). In particular, missing values were checked, and inconsistencies in filling out the data were checked. After that, the normality of the data was checked to evaluate where the data were suitable for CFA. The further analysis involved descript and inferential analysis. Specifically, descriptive analysis was done to group data in different groups such as gender of respondents, education level, number of employees and capital involved in the business. The descriptive analysis was intended to give an insight into some findings, which might need to be the focus of the study-specific objectives. The descriptive analysis also involved calculating the mean values of respondents' opinions, which informed the study about the factors that lead one to opt for informal employment in MSMEs. Later, the inferential analysis, EFA and Confirmatory Factor Analysis (CFA) were done. The EFA was done to the group and confirmed items in different groups of the factors that lead one to opt for informal employment and dominant factors for informal employment by manufacturing MSME.

The confirmed factors were later analyzed using CFA to identify the relative importance of the factors which lead to informal employment in the leather industry.

3. RESULTS

3.1 Respondents profile

Table 4.1 presents the demographic characteristics of respondents operating informally in various leather manufacturing MSME in the Nyamagana district in Mwanza City.

Table 4.1: Respondents profile

Variable measure	Category	Frequency (n)	Percent (%)
Gender	Male	102	85.0
	Female	18	15.0
	Total	**120**	**100.0**
Level of education	Graduate	9	7.5
	College	10	8.3
	Secondary school	44	36.7
	Primary school	46	38.3
	No schooling	11	9.2
	Total	**120**	**100**
Number of Employees	1 -5	81	67.5
	5-49	39	32.5
	Total	**120**	**100.0**
Estimated Capital Invested	Less than 5M	110	91.7
	5M-200M	7	5.8
	200M-800M	1	0.8
	Total	**118**	**98.3**

The results revealed that the majority of respondents, 102(85%) were male, while 18(15%) were female. This might have been caused by such businesses involving heavy-duty heavy duty activities, which in most cases favour more men than women. They also need entrepreneurial mindsets, whereby many men can afford such attempts more than women. In terms of education acquired by the respondents, the study portrays that 46 (38.30%) respondents had acquired primary-level education, 44

(36.70%) had secondary education, and 11(9.20%) respondents had not acquired any type of formal education. Also, the results indicate that 10 (8.30%) respondents have attained college education while 9 (7.50%) respondents had a graduate level of education. The majority of respondents are either primary or secondary education holders because the majority of these groups of people need help to secure formal employment in public and private sectors as these sectors employ individuals with higher education. Referring to the theories guiding this study, one of the reasons for informal employment in this sector, therefore, is that most personnel do not have other options than seeking a job in the informal sector despite the challenges there.

For the number of employees working in manufacturing MSME, the results showed that the majority of firms, 81 (67.50%), have between 1 and 5 employees. In the other categories, 39 (32.50%) of firms were found to have between 5 and 49 working staff. The study concludes that the majority of enterprises involved in the study were micro manufacturing enterprises, which are obvious engaged in the informal sector. Few of the firms involved in the study were Small or Medium manufacturing enterprises. In addition, the study revealed that a large percentage of manufacturing MSMEs (91.70%) invested capital of less than TZS 5 million, while 8.3% of manufacturing MSMEs have invested more than TZS 5 million. This implies that most firms were Micro Enterprises based on the number of employees involved in a business. Business formalization strategies aim to empower this kind of enterprise in terms of awareness of the benefits and costs of operating informally, such as access to bank loans and training on business risk management and entrepreneurship.

3.2. Dominant factors for informal employment in manufacturing MSMEs

The dominant factors for informal employment in manufacturing MSMEs in Tanzania are presented (Table 4.2). The results revealed that twelve factors scored a mean value greater than 3 while two scored mean values less than 3. The factors which scored mean values greater than 3 are the driving factors for someone to choose informal employment in manufacturing MSMEs.

Table 4.2: Factors for informal employment in manufacturing MSMEs

Factors for informal employment in Tanzania MSMEs	**Frequency (N)**	**Mean response**
B1: Support from families	120	3.01
B2: Need for self-employed	119	4.19
B3: Be able to generate personal income	120	4.33
B4: Government regulation and taxation	120	2.79
B5: Lack of enough capital to invest in formal businesses	120	4.13
B6: Lack of knowledge of the procedures to formalize businesses	120	3.58
B7: No need for employment contract and legal or social protection in MSMEs	120	3.26
B8: Shortage of government employment	120	4.03
B9: Shortage of well-paying decent jobs	120	4.36
B10: Due to Low income from formal employment	120	4.05
B11: Low level of education of the business owners	120	3.37
B12: The gender of the owner is a dominant factor for informal business	120	2.82
B13: Inadequate investment in technology	120	3.98
B14: Poor infrastructure to support large formal businesses	120	3.98

The twelve dominant factors were further subjected to an Exploratory Factor Analysis with Principal Component Analysis (PCA) as an extraction method and Varimax as a rotation method to ascertain these findings. However, before the test was run, the necessary condition was tested. In it was found that the Keiser- Meyer-Olkin (KMO) measure of sampling adequacy was 0.623, and Bartlett's test of Sphericity had a Chi-square of 305.676 at a *P* value less than 0.05. From these results, it was revealed that the correlation structure is adequate for factor analyses whereby the maximum likelihood factor analysis with a cut-off point of 0.3 and the Kaiser's criterion of Eigen Values greater than 1 yielded a five factors solution as the best fit for the data, accounting for 61.26% of the variance (Filed, 2009). The analysis results are presented in Table 4.3.

Table 4.3: Confirmed dominant factors for informal employment in manufacturing MSMEs

Factors for informal employment	**Factor Loading**					
	1	**2**	**3**	**4**	**5**	**Commonalities**
B7: MSMEs have no contract, no legal or social protection	0.75					0.62
B6: Lack of knowledge of procedure/ requirement to formalize	0.65					0.45
B11: Low education leads to opting for informal business	0.51					0.40
B1: Getting support from families		-0.73				0.57
B5: Lack of sufficient capital/finance		0.70				0.56
B13: Inadequate investment in technology		0.60				0.63
B14: Poor infrastructure to support the business		0.41				0.67
B3: Being able to generate personal income			0.76			0.63
B2: Need for self-employed			0.74			0.61
B8: Lack of formal employment leads to informal business				0.73		0.71
B10: Due to Low Income				-0.68		0.62
B9: Shortage of well-paying decent jobs					0.89	0.82
Eigen Values	2.92	1.78	1.61	1.16	1.12	
% of variance explained.	18.51	11.81	10.59	10.40	9.95	

A further analysis was done to determine the relative importance of factors influencing one to opt for informal employment in manufacturing MSMEs. At this stage, twelve factors were subjected to Confirmatory Factor Analysis (CFA). The results of the analysis are presented in Table 4.4.

Table 4.4: Relative importance of dominant factors one to opt for informal employment

Factor	**Influence**	**Informal Employment**	**STd Estimates**	**Estimate**	**S.E.**	**C.R.**	P_{value}
B1: Support from families	<---	D_F_I_E	0.537	1			0.000
B2: Need for self-employed	<---	D_F_I_E	0.197	0.137	0.069	1.968	0.049
B3: Be able to generate personal income	<---	D_F_I_E	-0.164	-0.083	0.05	-1.635	0.102
B5: Lack of enough capital to invest in formal businesses	<---	D_F_I_E	0.151	0.103	0.069	1.505	0.132
B6: Lack of knowledge on the procedures to formalize businesses	<---	D_F_I_E	0.583	0.614	0.095	6.445	0.000
B7: No need of employment contract and legal or social protection in MSMEs	<---	D_F_I_E	0.743	0.852	0.097	8.812	0.000
B8: Shortage of government employment	<---	D_F_I_E	0.234	0.199	0.085	2.356	0.018
B9: Shortage of well-paying decent jobs	<---	D_F_I_E	0.244	0.179	0.073	2.463	0.014
B10: Due to Low income from formal employment	<---	D_F_I_E	0.339	0.285	0.082	3.484	0.000
B11: Low level of education of the	<---	D_F_I_E	0.515	0.608	0.11	5.547	0.000

Factor	**Influence**	**Informal Employment**	**STd Estimates**	**Estimate**	**S.E.**	**C.R.**	P_{value}
business owners							
B13: Inadequate investment in technology	<---	D_F_I_E	0.433	0.313	0.069	4.548	0.000
B14: Poor infrastructure to support large formal businesses	<---	D_F_I_E	0.412	0.332	0.077	4.299	0.000

4. DISCUSSION

Regarding the dominant factors for informal employment by manufacturing MSMEs in Tanzania, all factors with mean score values greater than 3 are the main drivers for the selection of informal employment by an individual (Table 4.2). Hence, informal employment in manufacturing MSMEs is triggered by several factors, including the need to generate personal income, the lack of enough capital to invest in formal businesses and the need for more knowledge about procedures for business formalization. Also, factors such as avoidance of bidding on employment contracts, legal and social protection with employees, shortage of government employment opportunities, shortage of well-paying decent jobs, low income obtained from formal employment, low level of education of the business owners, inadequate investment in technology, as well as poor infrastructure to support formal businesses have been found to contribute significantly to informal employment. The results align with the study by Etim and Daramola (2020). The results in Table 4.3 revealed that all factors in all components were loaded above 0.5 except two factors. This confirms that factors with loading values ≥ 0.5 are the key driving factors for an individual to choose informal employment in manufacturing MSMEs, especially in Tanzania's leather industry. The results align with a study by Lyakurwa (2023),which confirmed that all variables with loading values above 0.5 were the main barriers to manufacturing SMEs' adoption of solar PV for different industrial activities.

In terms of the relative importance of the dominant factors for one to opt for informal employment (Table 4.4), it was found that nine factors are more influential for one to opt for informal employment

in manufacturing MSMEs since their influences are significant at p-value < 0.05 as follows: absence of contractual agreement between the owner of the business and employees (p_{value}=0.000); lack of knowledge about procedure and requirement for formalization (p_{value}=0.000); support from families (p_{value}=0.000); low level of education of the business owners (p_{value}=0.000; inadequate investment in technologies (p_{value}=0.000); poor infrastructure to support the businesses (p_{value}=0.000), low income of individuals (p_{value}=0.000); inadequate investment in technology (p_{value}=0.000); shortage of well-paying decent jobs (p_{value}=0.014); shortage of government employment (p_{value}=0.018); as well as need for self-employed (p_{value}=0.049). The factors with less influence on someone to engage in informal businesses have included the need for self-employment, being able to generate personal income, lack of sufficient capital and finance, lack of formal employment, and government controls, as well as a shortage of well-paying decent jobs in the region. Similar results were found in studies by Etim and Daramola (2020) and Moyo (2022). In contrast, the factors driving informal employment in the country include a lack of awareness about the benefits of business formalization, lack of social protection, excessive tax burden, lack of government employment, inadequate investment in technology, excessive tax burden, and excessive bureaucracy, among others.

5. CONCLUSION

The dominant factors for informal employment in manufacturing MSMEs in Tanzania have been established. Out of the 14 items, 12 items were found to be the dominant factors for an individual to opt for informal employment in manufacturing MSMEs in Tanzania as they scored mean values greater than 3, i.e., loaded above 0.5 in EFA and also found significant at p-value ≥0.05 in the CFA test. Based on their relative importance, the factors were found to be the absence of contractual agreement between the owner of the business and employees, lack of knowledge about procedure and requirement for formalization; support from families; low level of education of the business owners; inadequate investment in technologies; poor infrastructure to support the businesses; low income of individuals; need for self-employment; being able to generate personal income; lack of sufficient capital/finance; lack of formal employment; and government controls lead to informal business and shortage of well-paying decent jobs. The study recommends that owners of manufacturing MSMEs be provided with training on how to formalize businesses and their benefits in general. Also, the business formalizing authority should support business owners in formalizing their businesses, and the owners of informal businesses should improve communication and social networking among businesses. Therefore, this

study's findings provide critical information about informal employment in the leather industry to policy-makers and planning instruments in Tanzania and beyond.

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