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Factors Influencing the Financing Decisions for Acquisition of Capital Equipment in Uganda: A Focus on the Dairy Sector

The study investigated the factors influencing the financing decisions for acquisition of capital equipment in the dairy sector in Uganda. The study objectives related to determining the financing decisions used by dairy dealers in Uganda; establishing the relationship between cash flow and financing decisions for dairy dealers; determination of the extent to which the level and nature of control desired affects the choice of financing for dairy dealers; and establish the relationship between the availability of alternative sources of financing and financing decisions among diary dealers in Uganda. The study used a cross-sectional survey design using both quantitative and qualitative approaches focusing on the diary dealers who were in the milk transportation, storage and retailing in the capital city, Kampala. The data were collected from a sample of 145 respondents using a questionnaire and interview guide. The data collected were analysed using frequency, percentage, mean, standard deviations, and correlation and regression analyses. The study found out that most diary dealers use both equity and debt financing although there was a higher tendency to use equity financing than debt financing. The study also found out that most of the dealers desired a closed level and nature of control. The study also found out there was both internal and external alternative sources of financing. The study concluded that cash flow, level and nature of control desired and alternative sources of financing had a significant positive relationship with the financing decision. The study recommends that the government of Uganda with other relevant stakeholders should create an enabling framework for debt financing. This should relate to favourable loan terms, promote the use of hybrid financing such as vendor financing, lease, franchise and hire purchase. The study also recommends leasing as a form of debt financing for firms with limited capital and credit history or small businesses without a history of financial statements to quickly boost their operations, as long as the cash flow from operations is sufficient to cover the lease service payments, the leased asset can be used as the primary security. The study also recommends that financing choices should be in the following order: first, internal funding; then debt; and last, external equity. In addition, the study recommends that firms need to increase on their business networks in order to have wide choice of sources of financing. The study found out that cash flow, level and nature of control and availability of alternative sources of financing all combined predicted 76.7% of capital equipment financing decisions in the diary sector of Uganda. Further research should be done to investigate the link between the level of education of an entrepreneur and the type of business ownership and how this relationship influences equity financing decisions.

Key Words: Finance, Decisions, Capital, Equipment, Dairy