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# The Challenges of Using Country Systems in the Management of European Union Aid in Kenya

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**Abstract:** The Kenyan government has since the 1990s born the pain if being reminded that it has to undertake certain policy reforms in order to receive development aid from the West. This research examines the challenges that the EU and Kenyan government have faced in using Country Systems to manage EU development aid since 2007. The study is guided by conditionality theory. The research uses a mixed method case study research design to gather data from 60 respondents and 3 Key Informants purposely selected from 180 staff members tasked to manage EU funds at the European Union Delegation to Kenya and 6 line ministries. Primary data collection is done through questionnaires containing closed and open ended questions and interview guides. Secondary data collection is through document review. SPSS 18 software is used to conduct data analysis. Findings show that 73.7% respondents agree that Kenya has made significant progress in the use of Country Systems to manage EU aid, but the donor is still adamant on using parallel systems in spite of the legal framework being in place. The challenges of using country systems and the Management of EU Funds show a correlation of 0.905, while the regression analysis $r^2$ for the model is 0.958. The study concludes the Kenya governemnt and EU need to engage in some dialogue to address the barriers that impede the full use of country systems.

**Key words:** Country Systems, Foreign aid management, EU development aid, Kenya Government, EU.

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## I. INTRODUCTION

Kenya like any other country in the world that is aid recipient has for several decades experienced how the country's capacity to manage its future and the donors' sustainability to administer their aid commitments can be undermined by the latter's action to bypass the country systems and policies (OECD, 2012). Already global literature is awash with evidence that a combination of weak capacity, lack of donor trust and their persistent incentives to recipients not to use country systems have contributed to both parties not to commit to the use of country systems. This is in spite of the fact that both aid recipients and donors endorsed the Paris Declaration in 2005, where countries receiving aid undertook to strengthen their systems, and the donors committed to use the systems as much as possible when administering aid. The commitments were deepened in the Accra High Level Forum (AAA, 2008) and agreed upon as the 'default approach' in the Busan 2011 (PBa, 2011).

Several authorities have defined what it means to use country systems. OECD (2009), for instance, considers the use of country systems to involve the use of national procedures and processes in the entire budget cycle - from strategic planning to oversight. CABRI (2014) on its part says that the use of country systems is the delivery of aid using all components of the core budget process regardless of the aid modality, and donors have the choice to use some or all components. However, despite the recognition by United Nations Millennium Declaration (2000) and other international commitments that the achievement of development goals are influenced by the quality and effectiveness of development cooperation, the debate on effectiveness of foreign aid still dominates the international agenda. In recent times, such fora like the International Conference on Financing for Development, Monterey 2002; the High Level Forum on Harmonization, Rome, 2003; the Paris Declaration on Aid Effectiveness, 2005; the Accra Agenda for Action, 2008; and the Fourth High Level Forum on Aid Effectiveness, Busan 2011, have all committed towards improved ways of aid delivery and management. These commitments were also re-affirmed in the Global Partnership in Mexico City (2014) and the Nairobi High-Level Meeting (2016). Further, the second high-level forum - Paris High Level Forum (2005) - which culminated into a partnership of donors and recipient countries, set among other targets, to increase the use of recipient country systems in managing aid.

But even that being the case, review studies on the use of country systems in aid recipient countries continue to show that a lot of these commitments remain idle talk. CABRI (2014), for instance, shows that recent donor trends and approaches towards greater commitments to the use of country systems in Africa are declining. The review established that use of country systems in Kenya between 2005 and 2010 was in decline. Oduor & Khainga (2009) also reviewed the status of the implementation of the Paris Declaration in Kenya, and found out that aid conditionality, tied aid and continued donor use of parallel systems despite improvements in the domestic public finance management, are among the several bottlenecks that continue to hinder effectiveness of aid to Kenya. Further, Colclough & Webb (2010) observed that there were significant gaps between the international commitments of the Paris Declaration and Accra Agenda for Change and aid delivery practices in the education sector in Kenya. The two researchers accused several donors of not using the improved local systems while the funding the education sector in Kenya.

The government of Kenya and the European Union (EU) signed a Comprehensive Partnership Agreement – The Cotonou Agreement (2000) - that provides a legal basis for cooperation. Since then, Kenya has received development grants from the European Development Fund (EDF) and from development instruments of the General Budget of EU. The Kenya government appointed the National Treasury as the main contact point for aid delivery process. Further, the government has since 2007 through the Kenya Joint Assistance Strategy (KJAS) embarked on implementing the resolutions agreed in the Paris Declaration. The Government also prepared the Kenya External Resources Policy (KERP) and created the Aid Effectiveness Unit within Treasury as part of reforms to enhance ownership and leadership in aid management. The Constitution of Kenya (2010) has also established new institutions and expanded the mandates of other institutions in a bid to strengthen the country systems.

However, an OECD (2012) report on how Kenya had progressed in implementing the Paris Declaration showed that despite the country's progress in aligning aid to the national plans, untying aid, and reduced project implementation units, a large proportion of official development assistance (ODA) was not being channeled through the Kenyan public financial management systems. The OECD evaluation identified financial years mismatch between donors and the government, unmet donor reporting requirements, and the timelines of audits. A further progress report carried out by OECD/UNDP (2014) still showed a decline in use of country systems in administering aid in the country. This paper is a summary of a study that investigated how the EU employed the use of country systems in managing development aid in Kenya.

## II. LITERATURE REVIEW

The term "country systems" emanated from the Paris Declaration on Aid Effectiveness (2005). (OECD (2005) says that the Paris Declaration defines "country systems" as the national level arrangements and procedures that are put to use in the entire public financial management system including procurement, monitoring and results frameworks. The Declaration in its monitoring framework further selects the quality of Public Financial Management systems (PFM) and procurement systems as the two main pointers to using country systems. In the Busan Partnership for Effective Development Co-operation (2011), the partner countries agreed, with respect to both parties' governance structures, to use country systems as the default approach in public sector management. Both parties agreed for joint and mutually agreed assessments of country systems that would allow flexibility for donors to choose what parts of country systems to use. Consequently, CABRI (2014) simplified the definition of country systems to suit the willingness of donors to plan, manage, monitor, report, audit and evaluate aid using the recipient systems. CABRI came up with seven dimensions as shown in table 1 below.

**Table 1: Dimensions of use of Country Systems**

| Term | Definition |
|---|---|
| Planning | Aid is integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions. |
| Budgeting | Aid is integrated into budgeting processes and is reflected in the documentation submitted with the budget to the legislature. |
| Parliament | Aid is included in the revenue and appropriations approved by parliament. |
| Treasury | Aid is disbursed into the government's main revenue funds and is managed through the government's systems. |
| Procurement | Procurement using aid funds follows the government's standard procurement procedures. |
| Accounting | Aid is recorded and accounted for in the government's accounting system, in line with the government's classification system. |
| Auditing | Aid is audited by the government's auditing system. |
| Reporting | Aid is included in ex post reports by the government. |

**Source: CABRI (2008)**

But according to Chandy (2011), meeting the Paris targets has proven to be difficult indeed. Van de Walle (2001) says that many developing countries have weak and ineffective the bureaucratic structures that are riddled with corrupt practices, which make donors to prefer the use of parallel structures in the implementation of aid thereby undermining the established government systems (Sogge, 2002). Yet it is evident that development aid can be more effective if donors were to support the development of local institutions and capabilities instead of creating inefficient parallel structures (Van de Walle, 2001; Sogge, 2002). According to Van de Walle (2001), when every donor imposes its own accounting, procurement, reporting, and auditing and evaluation procedures on the aid recipient, the exercise on the overall leads to foreign aid fragmentation with a high transaction for the recipient government.

Similarly, scholars now agree that the rent seeking behavior of most development agencies has only contributed to the reduction of the impact of aid, thereby making aid expensive and ineffective (Van de Walle, 2001). As a consequence most recipient countries have had to do with high staff turnover and the draining of skills of the public sector personnel. Again the numerous donor delegations, missions and meetings arising from the fragmentation of foreign aid overburden recipient governments because public sector staff spend a lot of time in preparations and meetings than focusing on the development of their countries (Djankov et al., 2009.

But why is it that many development partners want to stick to their ways even when it has been proven that their style amounts to waste of time and resources? According to Knack & Euban (2009), the use of country systems is like ‘a prisoners’ dilemma game theory, where trust is an efficient but non-equilibrium outcome. Knack & Euban concluded that donor trust in recipient country systems determines the quality, level of tolerance to risk and recognition of the benefits of using the systems. However, risk acceptance and management by donors helps to strengthen capacities and enhance trust in the systems (OECD, 2009). According to Chandy (2011), aid alignment to country priorities depends on the ability of donors to manage risk. A strong aversion to fiduciary and reputation risk hinders support to institutions in the recipient country (Chandy, 2011).

This phenomenon is best explained by the conditionality theory. According to Friedman (1962) the theory rests on the fundamental assumption that a voluntary and informed bilateral economic transaction benefits both parties. It is on this principle that the Washington Consensus comprising of the International Monetary Fund (IMF), the World Bank (WB) and western capitalist countries subscribe to conditionality theory, for they believe that imposing conditions as a strategy to bring political and economic reforms in the recipient country (World Bank, 1998; Nelson & Eglinton, 1992). The World Bank (2005) also subscribes to the view that demanding policy reforms as a condition for aid makes it more effective as it decreases distortions (Adam & O’Connell, 1999), increases consumption (Azam & Laffont, 2003), and brings about shifts in politics that effect macroeconomic variables (Boone, 1996; Svensson, 2000a), which are necessary for improving the lives of citizens in recipient countries (Santiso, 2001). The Washington Consensus has since the late 1980s added the promotion of democracy as a necessary condition for the disbursement of aid in recipient countries (Montinola, 2007).

However, different researchers have criticised the notion that imposing conditions on aid has a net effect in improving the lives of citizens of the recipient country; and they have instead argued that the approach might do harm than good (Fine, Lapavitsas, & Pincus, 2001). According to Collier (2007) aid conditionality as promoted by the World Bank reflected two fundamental weaknesses: governments reneged on their promises by manipulating the system; and, the Bank’s coercive nature in promoting policy reform made governments to resist policy change, thus lending credence to Hirshman’s (1991) perversity theory that when a society is pushed in one direction, it tends to move in the opposite direction. Killick (1997) also thinks that aid conditionality has had no impact because it lacks influence on reform initiatives and all what it does is to undermine the responsibility of the recipient country. Easterly (2006) sums this view by stating that policy reforms as envisaged by the Washington Consensus will only be effective once the recipient countries get to own the process.

**The Challenges that Kenya Government faces in the use of Country Systems**

There is no doubt that Kenya has made considerable progress in strengthening her institutions and systems. Through the Kenya’s Vision 2030 Medium Term Plan MTP II (2013-2017) the government has prioritized public finance management reforms so as to enhance good use of public resources. The Kenya Constitution (2010) has also created new PFM institutions and mandated the expansion of existing one under The PFM Act (2012) and further specified additional public financial management roles for the National Treasury and Parliament.

But that being the case, a global evaluation on the implementation of the Paris Declaration by the World Bank in 2011 (in which Kenya participated) found that Kenya still has some business to do. The survey pointed out that despite strong evidence that a number of countries around the world had made progress in strengthening country systems, less than 50% of donors used country systems. Even where the systems were reliable, donors were increasingly not using them (UNDP, 2011), and no matter how the recipient institutions and processes were improved, aid providers continued to circumvent them (Abdel-Malek & Koenders, 2011). Most donors complained of financial mismanagement, corruption and lack of trust in systems thereby avoiding fiduciary risks (Abdel-Malek & Koenders, 2011), and in most cases, they left little room aid recipients to build and strengthen institutions and governance structures (Wood, 2005). Indeed, OECD (2011) found that the connection between the qualities of a country's PFM system and the possibilities of being used by donors is weak globally.

In Africa, a research by CABRI (2013) established that there was greater willingness and momentum by African Countries towards increased use of country systems. However, the Global Partnership Monitoring Report (2014) shows a declining commitment from donors across Africa. CABRI (2014) established that despite improvement in the PFM system and processes in Burundi, the general budget support from the multilateral donors including the EU was on a decline. The donors cited systems weaknesses and capacity challenges at ministry levels. The donors opted to deliver aid through NGOs and projects that did not use country systems. Only in Tanzania was there a relatively high use of government systems as funds for budget support and basket funds are disbursed through the Treasury. The donors appreciated the PFM reforms and the general budget support dialogue in Tanzania, and the funding modalities were reflected in the government plan and budget; while disbursement, accounting, internal audit, reporting and oversight systems of the government are used (CABRI 2014).

However, despite Kenya having made considerable achievements in addressing aid effectiveness in the country, the use of country systems, parallel systems and lack of mutual accountability still challenge the management of aid in Kenya. Many donors in Kenya have cited matching donor programmes to the Kenya budget cycle as a challenge; and getting all development partners to agree on procedures owing to different planning and budgeting timings has also proved difficult (Oduor & Khainga, 2009). OECD (2014) also observes that the introduction of Mid-Term expenditure framework that links planning and budgeting processes has not done much to erase implementation blockages, off-budget spending and budget reallocations as impediments to the effective use of country systems. Hence, as observed by Borter (2017), donor attitude towards the Kenyan systems has not substantially changed when compared to the 1990s when all western donors attached certain conditions before disbursing aid.

This might explain why an evaluation of the EU Development Cooperation to Kenya in 2015 concluded that despite good overall alignment between the EU support and the priorities of the government of Kenya there is still limited ownership of aid activities by the government; and a difficult policy dialogue and slow progress in policy and institutional reforms have negatively affected the performance of EU support to Kenya. This paper reports the impact of conditionality ideology contributes to escalating the challenges of using country systems in the management of EU assistance to Kenya.

## III. METHODOLOGY

The study employed a case study research design to bring forth an understanding of complex issues on development aid management. In line with Yin (2003) the study used both qualitative and quantitative approaches to assess country systems in managing EU development aid in Kenya. The target population comprised the staff charged with the management of EU development aid in 21 government ministries, departments and agencies, and the EU Delegation staff. The research used purposive sampling to select three (3) ministries, three (3) government agencies, and the EU Delegation to Kenya drawn from the EU focal sector of development for Kenya that include sectors of: food security & resilience, sustainable infrastructure, and accountability of public institutions. These sectors are in line with the Kenya's MTP II (2013-2017) and are spread in the ministries of agriculture, roads & infrastructure, and the National Treasury. The National Treasury was selected because it is the main contact point for the aid delivery process as it is in charge of the country's finances and planning processes. The government agencies selected included: National Drought Management Authority (NDMA), Kenya Bureaus of Standards (KBS) and Kenya Agricultural & Livestock Research Organization.

This study adopted a non-probability sampling technique to select 60 respondents out of 180 staff in the identified institutions. According to Mugenda and Mugenda (2003) a sample size that is within 10-30 % of the target population is good for research. The study therefore settled for 30% of the target population which was approximately 60 respondents (see table 2 below) who had sufficient knowledge and adequate experience in managing EU funds. They included project managers, planners, accountants, auditors, monitoring and evaluation officers, technical assistance staff responsible for policy formulation. Further, 3 key informants were drawn from the National Treasury.

**Table 2: Sampling Frame**

| | Target Population | Sample size |
|---|---|---|
| Ministry of Agriculture, livestock and fisheries | 26 | 9 |
| Ministry of Roads & Infrastructure | 30 | 10 |
| The National Treasury | 25 | 8 |
| National Drought Management Authority | 22 | 7 |
| Kenya Agricultural & Livestock Research Organization | 30 | 10 |
| Kenya Bureaus of Standards | 23 | 8 |
| EU Delegation | 24 | 8 |
| **Total** | 180 | 60 |

**Source: Research Data 2016**

Primary data was collected through the administration of a questionnaire containing closed and open ended questions on the 60 respondents, and semi-structured interviews on the 3 Key Informants from the National Treasury. The secondary data was gathered from books, journal articles, and official reports of the government and the EU. The quantitative data was coded and analysed using SPSS 18, while qualitative data was coded and analysed according to the emerging themes. The research carried out a regression to determine the strength of the relationship between the Challenges of using Country Systems and the Management of EU Funds as follows:

$Y = \beta 0 + \beta 1 X_1 + \varepsilon$

Where:

$\beta 0$ = Constant Term;

$\beta 1$ = Beta coefficients

Y = Management of EU funds

$X_1$ = Challenges of using Country Systems

$\varepsilon$ = Error term

The validity of data and the reliability of the instruments were done to determine objectivity, level of trustworthiness and credibility. Three criteria of internal, construct and external validity were used to assess the validity of research instruments (Kirk & Miller, 1986). Cronbach's alpha coefficient test for the reliability of the data collection instrument gave an alpha ($\alpha$) value of 0.856 which means it was quite reliable.

## IV. RESULTS

Some 57 out of 60 respondents successfully filled in the questionnaire, translating into 95% response rate.

**Demographic Characteristics of Respondents**

The demographic data of the respondents included age, gender, ranks and duration of service. The distribution of the age of respondents is shown in table 2 below.

**Table 2: Age of Respondents**

| **Category** | **Frequency** | **Percentage** |
|---|---|---|
| 20-25 years | 2 | 3.5 |
| 26-30 years | 2 | 3.5 |
| 31-40years | 17 | 29.8 |
| 41-45 years | 20 | 35.1 |
| 46-50 years | 16 | 28.1 |
| **Total** | 57 | 100.0 |

**Source: Research Data 2016**

Majority of the respondents (35.1%) were between 41-45 years, followed by those between the ages of 31-40 years (29.8%), and then those in the category of 46-50 years (28.1%) while those below 30 years only 7%. Some 66.7% respondents were male compared to 33.3% female. Close to 53% of the respondents had spent between 16-20 years in their institutions, and another close to 37% had been in their institutions for more than 10 years (see table 3 below). Only about 7% respondents had served their institutions for less than 10 years. The respondents were therefore in a position to provide adequate information about their organizations and deep knowledge on the phenomenon under investigation. Some 43.9% respondents belonged to economic, finance and accounting department, 22.8% were project managers and technical assistants, 12.2% were monitoring and evaluation experts, while 21.1% were heads of departments (see table 4).

**Table 3: Duration of Service of Respondents**

| Category | Frequency | Percentages |
|---|---|---|
| 1-5 years | 1 | 1.8 |
| 6-10 years | 3 | 5.3 |
| 11-15 years | 21 | 36.8 |
| 16-20 years | 30 | 52.6 |
| over 21 years | 2 | 3.5 |
| **Total** | **57** | **100.0** |

**Source: Research Data 2016**

**Table 4: Positions of Respondents at Place of Work**

| | Frequency | Percentage |
|---|---|---|
| Monitoring and evaluation | 7 | 12.2 |
| Project Manager & technical assistants | 12 | 22.8 |
| Economics, Finance and Accounting | 25 | 43.9 |
| Head of Departments | 13 | 21.1 |
| **Total** | **57** | **100.0** |

**Source: Research Data 2016**

**Challenges of Using Country Systems**

Respondents indicated their views on the challenges they face while using country systems in the management of EU development aid to Kenya. The research investigated 9 parameters and the results are presented on a five point Likert- Type scale from strongly agree to strongly disagree as illustrated in table 5 below.

**Table 5: Challenges of using Country Systems**

| Challenges on the use of Country Systems | Strongly Agree | Agre e % | Uncertain | Disagre e | Strongly Disagree | Total |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| Weak institutional capacities | 0.0 | 59.6 | 22.8 | 15.8 | 1.8 | 100 |
| Weak Policy environment & dialogue | 0.0 | 64.9 | 14.0 | 21.1 | 0.0 | 100 |
| Too many institutional channels/ parallel systems | 11.0 | 40.4 | 39.6 | 3.6 | 5.4 | 100 |
| Donor fragmentation | 12.0 | 56.2 | 29.8 | 2.0 | 0.0 | 100 |
| Lack of trust in country systems | 0.0 | 59.6 | 19.3 | 21.1 | 0.0 | 100 |
| Strong aversion to fiduciary and reputation risk | 80.7 | 0.0 | 7.0 | 12.3 | 0.0 | 100 |
| Perception of weak governance structures and corruption | 0.0 | 68.4 | 22.8 | 8.8 | 0.0 | 100 |
| Difficulties in matching EU programmes to the country budget | 0.0 | 57.9 | 42.1 | 0.0 | 0.0 | 100 |
| Sets of conditionality | 0.0 | 66.7 | 17.5 | 15.8 | 0.0 | 100 |

**Source: Research Data 2016**

Results indicated that 59.6% respondents agreed that weak institutional capacity was a challenge, although all the Key Informants suggested that the government institutions had the right capacities - both human and infrastructure - to manage EU funds. One Key Informant noted that the EU had supported the government with technical assistance on areas of capacity building and reforms. The research established that technical assistance through mobilization of experts and support of PFM reforms was ongoing.

Some 64.9% respondents were in agreement that they faced a lot of challenges that were occasioned by weak policy environment, compared to 21.1% who disagreed and 14.0% who were uncertain. However the Key Informants stated that they had put in place certain policies like The Public Financial Management Act (PFM), the Kenya External Resources Policy, the Procurement and Disposal Act and the ICT policy in place which should take care of the problem. Another Key Informant reported that the EU does not consider the PFM system as sufficient for reporting, accounting and oversighting their assistance. According to Prinsloo et al. (2017), the Kenyan government acknowledges that some of its processes do not meet the international best practices.

Some 60.4% respondents also agreed that too many institutional channels or parallel systems was another major challenge that confronted the successful use of country systems in managing EU fund in Kenya, while 39.6% were uncertain. Yet another 56.2% respondents agreed that fragmentation was a challenge, and 12% others were in strong agreement with the statement. All Key Informants agreed that donors have different systems and did not participate in joint planning and programming and joint monitoring and evaluation. This confirms the views of Oduor & Khainga (2009) who observed that the use of parallel implementation systems were a source of disharmony in project implementation in Kenya.

Another 59.6% respondents were in agreement of lack of trust in the use of country systems in Kenya, compared to 21.1% who were in disagreement, and 19.3% who were uncertain. One Key Informant stated that the government ought to build confidence among the donors that there are minimal risks in using the country systems; and another stated that the issue can be resolved if there is political will to fully implement the PFM reform strategy. This finding is in conformity with Knack & Eubank (2009) who concludes that the trust of with the recipient country systems is positively related to trustworthiness or quality of those systems and risk tolerance.

Closely related to the trustworthiness of the country systems is the issue of strong aversion to fiduciary and reputation risk. Our findings indicated that 80.7% respondents strongly agreed, 7.0% were uncertain, and only 12.3% were in disagreement. These findings are in agreement with the study by Abdel-Malek & Koenders (2011) which established that donors tend to avoid fiduciary risk due to fear of financial misuse, corruption and lack of trust in recipient country systems.

Similarly, 68.4% respondents agreed that the governance structures were weak and riddled with corruption, 8.8% disapproved, while 22.8% were uncertain. These results are consistent with a study by Knauk (2014) who found that donors' use of the recipient systems positively relates to perceptions of corruption in the country; and that by Colclough & Webb (2010) which concluded that many donors funding education sector in Kenya remained skeptical of the ability of the government to rid corruption in the sector.

Some 57.9% respondents also were in agreement that it was difficult to match EU programmes to the country budget, but 42.1% were uncertain about the issue. According to Bourguignon & Sundberg (2007), there exist time consistency problems for both donors and recipients, which lead to aid unpredictability and volatility thereby making planning of public expenditures impossible.

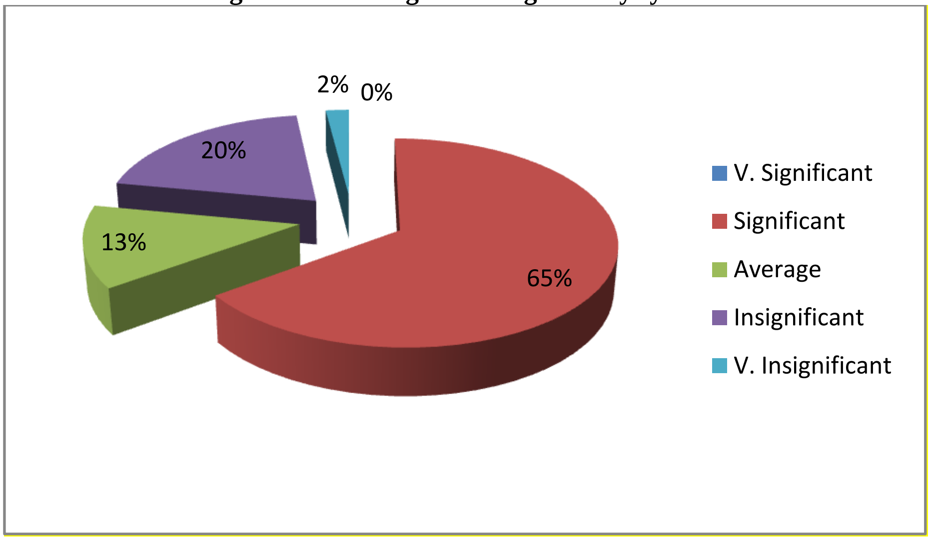
Again, some 66.7% respondents agreed that the set of conditions attached to development assistance funds was a major challenge in using the country systems, 15.8% disagreed, and 17.5% were uncertain. One Key Informant was of the opinion that both the government of Kenya and the EU should reduce the set of conditions in order to allow ease implementation of programmes. Another Key Informant was of the opinion that budget support, which should ideally use country systems in full, has condition. A verbatim excerpt reads:

*'there is need to reduce conditions from both sides, especially if conditions do not add value'.*

In the past the Kenya government received general budget support that was pegged on social sector and human rights indicators. According to the conditionality theory, donors use a set of conditions to bring about political and economic reforms in a country (Nelson & Eglinton, 1992; World Bank, 1998). Another Key Informant indicated that access to EU grants for infrastructure has new conditions of blending grants with loans, a view that is consistent with that of Bourguignon & Sundberg (2007) who argue that external donors always impose policies through aid conditionality. The overall rating of the use of country systems in the management of the EU funds in Kenya is shown in Fig. 1 below.

Most respondents recommended adherence to the Constitution and PFM ACT, better coordination among donors, use of budget support (a modality that uses country systems), and grants instead of program estimates aid modalities. An initial report (unpublished) on Public Financial Management and Accountability Assessment (PEFA) for Kenya indicates a somewhat improved performance of PFM systems since the 2012 PEFA assessment.

**Figure 1: Challenges of using country systems**




**Source: Research Data 2016**

**Statistics**

The Pearson Product Moment correlation coefficient estimate between the use of current systems and the management of EU funds was 0.905. Secondly, the research conducted a regression analysis as:

$$Y = \beta 0 + \beta 1 X_1 + \varepsilon$$

Where:

$\beta 0$ = Constant Term;
$\beta 1$ = Beta coefficient
Y = Management of EU funds
$X_1$ = Challenges of Using Country Systems
$\varepsilon$ = Error term

The $r^2$ for the model was 0.958 meaning that the model fitted the given data, meaning that the challenge of using the country systems variable explains the difficulties of managing EU assistance to Kenya.

**Summary**

The research objective was to analyse the challenges faced by EU and the government of Kenya in using country systems to manage EU development aid in Kenya. The research identified several major challenges that need to be fixed. From the findings of the research, some 65% respondents believed that the challenges pertaining to lack of trust in the country systems, aversion to fiduciary and reputational risks, corruption and aid conditionality, were significant. The study also established that the policy framework that would enable the full use of country systems which encompasses the Kenya Constitution, The PFM Act plus its amendments, the Kenya External Resources Policy, the Procurement and disposal Act and the ICT policy is in place.

## V. CONCLUSIONS

From the findings of this research, we concluded that there are significant challenges that the government of Kenya and the EU face while using the country systems in the management of EU development assistance to Kenya. Key among these challenges were: lack of trust in the systems, corruption, aversion to fiduciary and reputational risk, and aid conditionalities. This study has therefore a series of recommends to the two parties including: the need for dialogue to address the barriers that impede the use of the country systems; the need to adhere to the legal and policy frameworks put in place for the full use of the systems; that parliament should play a greater role in oversight and interrogating of donor funding – beyond the budgetary process; the government should build trust and instill confidence on its systems; the government should address the runaway corruption by sealing loopholes in instill public confidence in aid management; and, that both parties should adopt a risk assessment and management framework to be used for managing and mitigating risks associated with the use of country systems.

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