The AERC Approach to Capacity Building and Knowledge Generation in SSA
The Post Pandemic Economic Recovery - Four Critical Areas

- Protect Private investments
- Protect and develop markets
- Domestic resource mobilization: Refocus
- Adopt the digital evolution to chart the development path for SSA
Protect Private Investments

Focus on:

- Refocusing on education, health financing & health infrastructure and nutrition.
- This will reverse the effects of the pandemic while building a strong human capital development model for the region.
COVID-19 worsened the education gap in Africa

- Prior to COVID-19, Africa’s learning gap with the rest of the world was large. With poor internet penetration and few long-distance learning options, this gap is expected to even widen. Reversing this trend would be an enormous fiscal burden for many African countries.

### Average years of schooling in the population aged 25 years and older by region and level of income

<table>
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<tr>
<th>Region</th>
<th>Low Income Countries</th>
<th>Lower Middle Income Countries</th>
<th>Upper Middle Income Countries</th>
<th>High Income Countries</th>
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</table>

Average years of schooling in the population aged 25 years and older by region and level of income, 2010-2017: computed from World Penn Tables.
Building human capital needs a shift in both policy and investment

On education:
- Reducing drop out rates would improve educational outcomes significantly

Average years of schooling in the population aged 25 years and older by region and level of income 2010-2017: computed from World Penn Tables
A focus on quality improves the productivity threshold of human capital

- Improving the quality of education enhances long-term productivity of labor. Countries with higher teacher-pupil ratio than the median reap large productivity gains.
Similarly increasing spending on health services would not improve health outcomes

- Africa may need to rethink its health financing strategies. A focus on increasing effort rather than competence produces significant improvement on health outcomes.
Policies for human capital accumulation

Skills Development – early childhood and formal education; apprenticeship and vocational training; equipping African youths with skills in digital and technology driven economy.

The big economy in SSA and labour market institutions – need government intervention to develop appropriate regulatory framework (formal and informal sectors).

Closing the Digital divide – Strategies and interventions.

Rethinking FDI policies and North-South cooperation, and natural capital.
Protect and develop Markets

Economic recovery will be stimulated and work through markets.

- Develop markets, support market functioning through better regulation and protection.
- Regional integration - strong institutions to support and protect markets’ growth.
- Markets are where economic rents are shared and distributed. Participation in proper functioning markets as per the rules of the game, that the effects of economic vibrancy and growth can be felt.
- Private sector thrives in functioning markets.
- Policies targeting economic diversification and structural transformation.
Refocus Domestic Resource Mobilization

Domestic resource mobilization architecture:

- Will have to change, be developed and made to work.
- There are important outcomes here:
  - Recover the lost fiscal space;
  - Finance development;
  - External/internal public debt resolution; and,
  - Above all, the DRM should form a set of family measures and appropriate tax instruments to incentivize production and consumption.
  - Digital payments infrastructure for tax payments and revenue administration – Control leakage
Refocus Domestic Resource Mobilization

- Understanding underlying causes of low DRM is important.
- Prior to COVID-19, Africa had low DRM due to:
  - Low-level development
  - Low capacity of the state
- COVID-19 has worsened the fiscal stance of many African countries.
- Public debt has increased from 60% of GDP to 72% in 2020.
- Severe debt distress leading to prolonged growth distress.

Source: World Economic Outlook (2021)
Refocus Domestic Resource Mobilization

- African countries should rethink their DRM strategies.
- Leverage information technology to improve state’s capacity for tax mobilizations efforts.
- Understand taxpayers’ behaviour through periodic surveys and continuous engagement to improve tax compliance.

Note: The tax-GDP ratio for each country is the mean over 38 years. Country classification is the latest according to the UNWIDER data set.

Source: AERC computations based on UNWIDER tax data set
Adopt the Digital Evolution to chart the development path

The economies should take advantage of the digital evolution taking place around them:

- They have succeeded in the financial system – Digital financial services - now need to move to the real sector.
- The 4th Industrial Revolution (4IR) will be driven by technology.
- The future development path will be coordinated by the digital technology in production and value addition, in markets and international trading.
- The digital evolution will coordinate all the other objectives: Private investments; market developments; domestic resource mobilization; and define Africa’s development path.
- Rethink traditional approaches to education and training.
From AERC

Ahsante Sana • Tack så Mycket • Thank You