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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

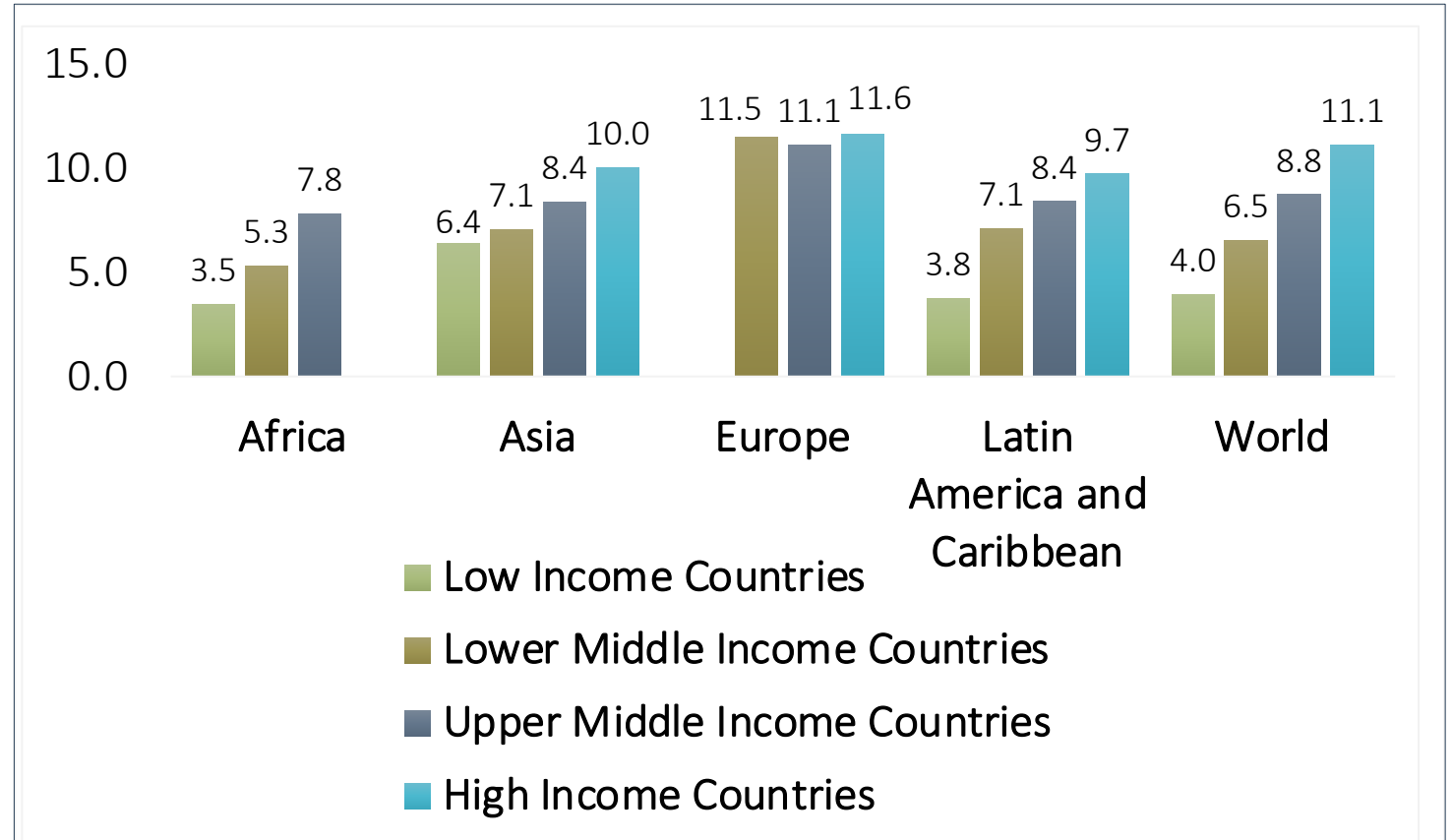
Focus on:

- 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 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, this gap is expected to even widen. Reversing this trend would be an enormous fiscal burden for many African countries.

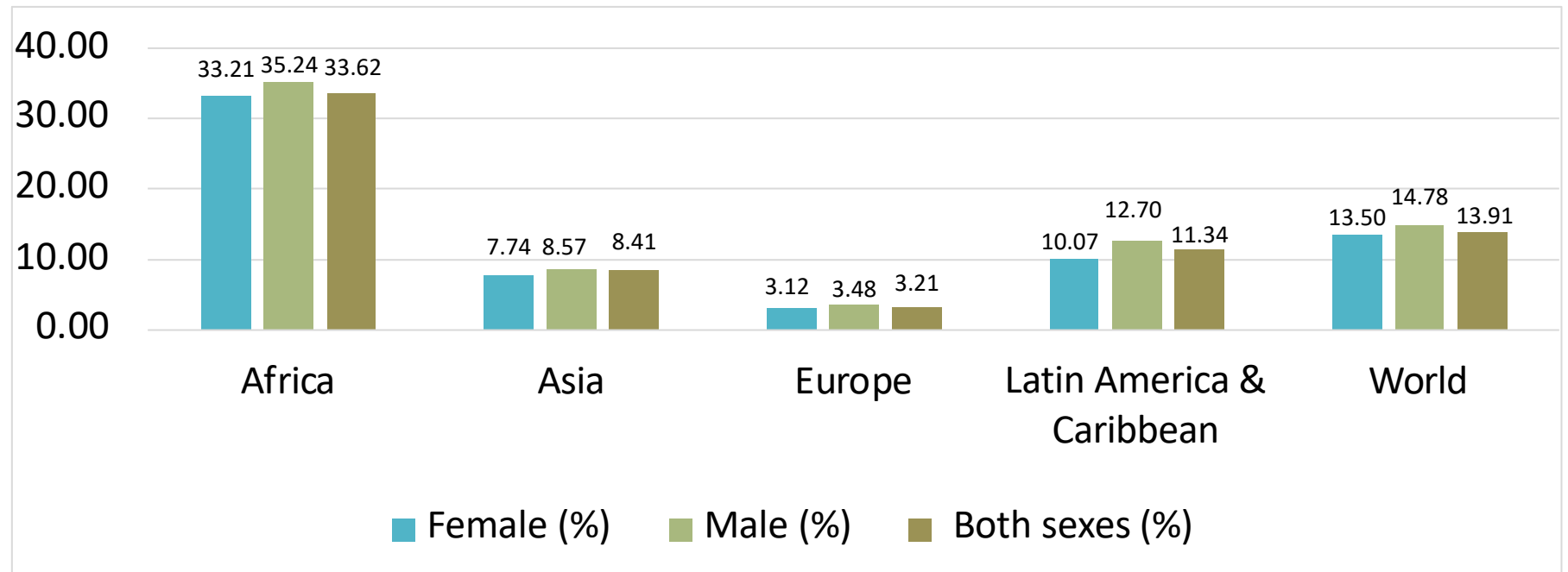


Average years of schooling in the population aged 25 years and older by region and level of income 2010-2017: computed from World Penn Tables

Building human capital needs a shift in both policy and investment

On education:

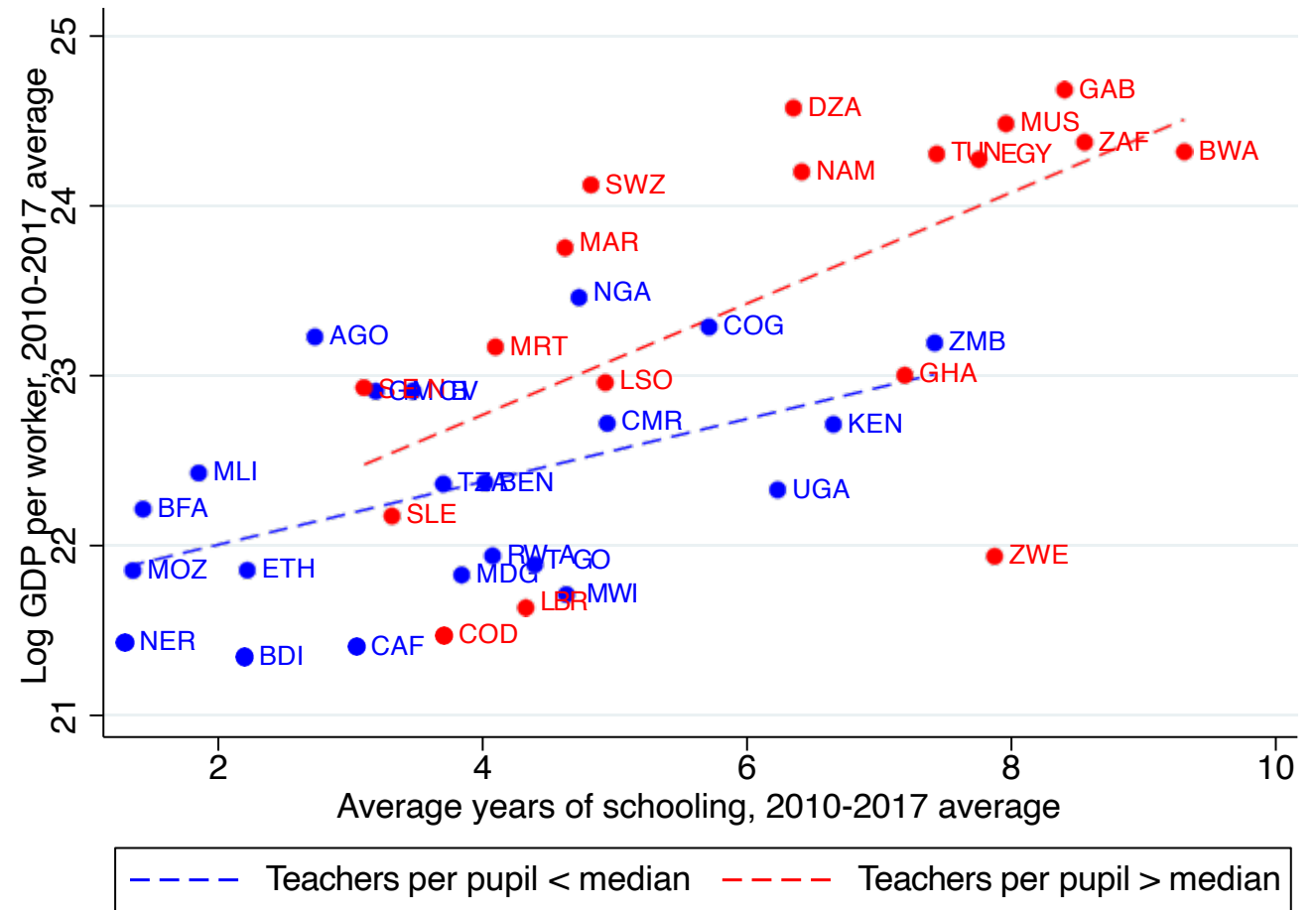
- Reducing drop out rates would improve educational outcomes significantly



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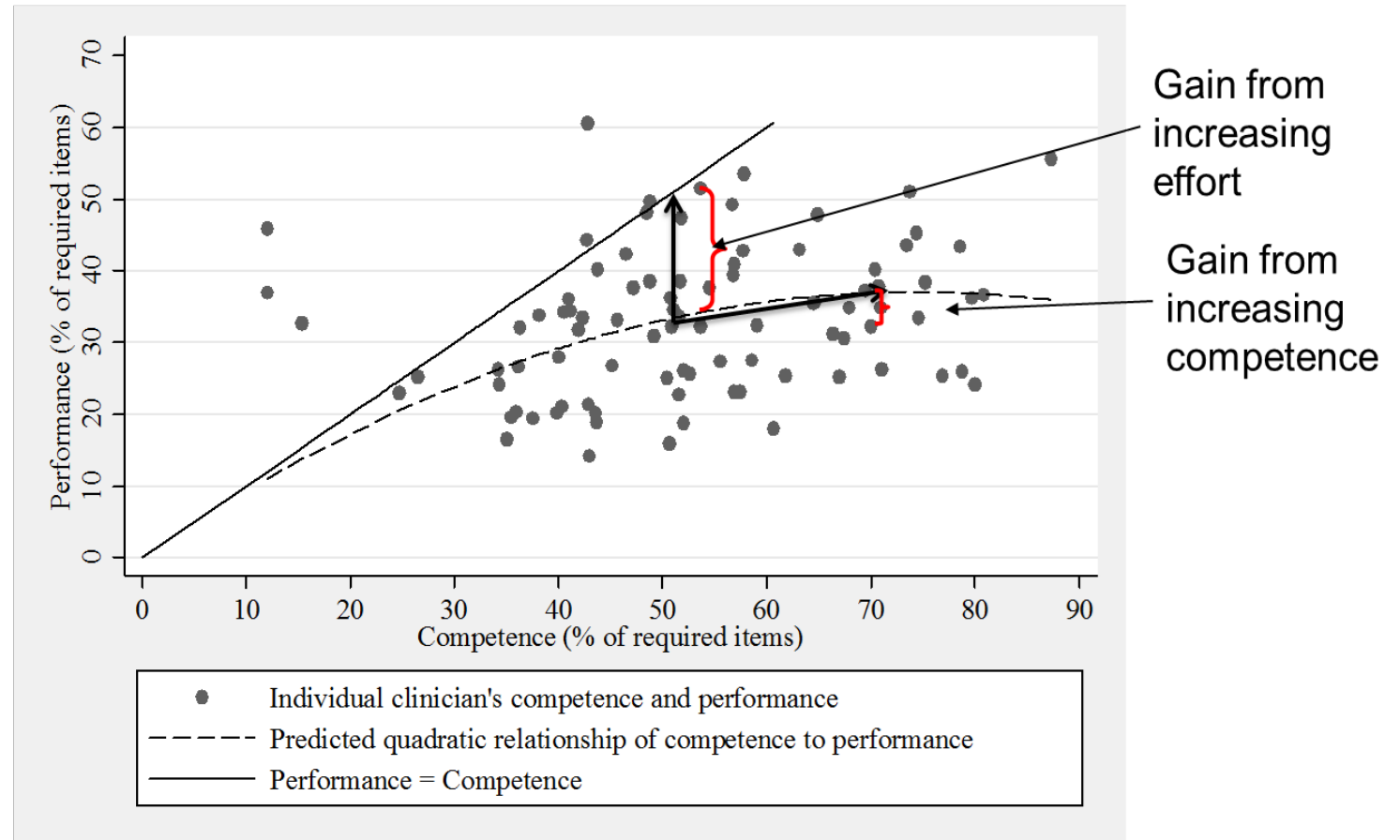
A focus on quality improves the productivity threshold of human capital

- 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



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.



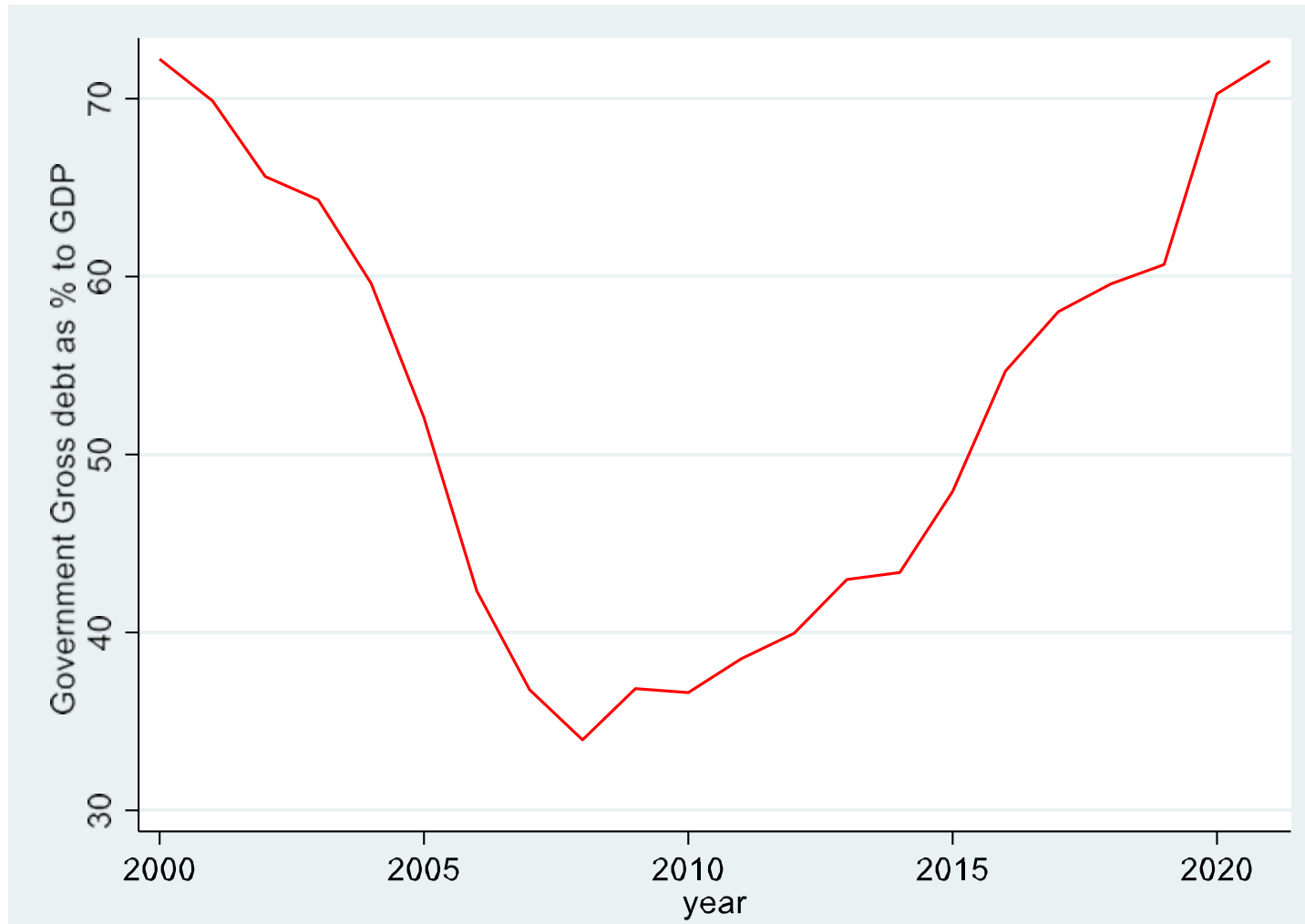
Refocus Domestic Resource Mobilization

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



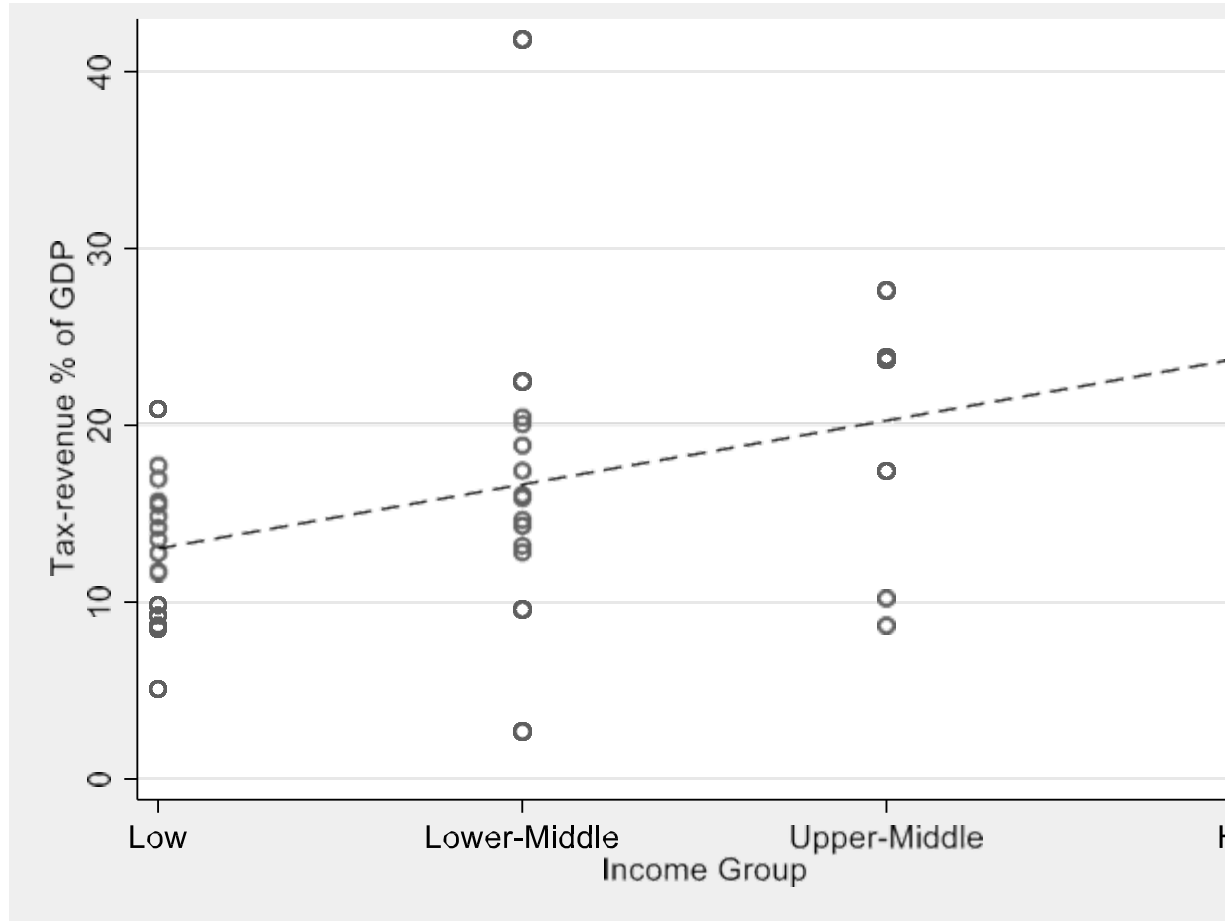
Refocus Domestic Resource Mobilization



Source: World Economic Outlook (2021)

- 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.

Refocus Domestic Resource Mobilization



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

- 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.

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