Socioeconomic Effect of COVID-19 in Ethiopia:
A Look into Selected Sectors and the Way Forward

Dr. Kenenisa Lemi
Dr. Mekonnen Bogale
Mr. Shimekit Kelkay
Mr. Wubishet Mengesha
Dr. Zerihun Ayenew
Mr. Abel Worku
Dr. Deresse Mersha
Dr. Leta Sera
Mr. Birhanu Getachew
Mr. Achalu Berecha
Dr. Jemal Abafita

Jimma, Ethiopia
June, 2020
All rights reserved. Reproduction and dissemination of the information in this material for educational or other non-commercial purposes are permitted without prior written permission from the copyright holders provided the source is fully acknowledged. Reproduction of materials from this information product for resale or other commercial purposes is not permitted without prior permission of copyright holders. Application for such purpose permission should be sent to:

∗ deresmersha@gmail.com and nuwami90@gmail.com

Disclaimer

This document and the views expressed here are the contributors’ and do not necessarily reflect the views of Jimma University.

© Jimma University 2020
Contents

Acronyms and Abbreviations ........................................................................................................ iv
Executive Summary ........................................................................................................................ v
1. Effects of COVID-19 on Operations of MSMEs, Tourism and Manufacturing Sectors in Ethiopia 1
   1.1. Introduction .............................................................................................................................. 1
   1.2. Manufacturing Sector in Ethiopia .......................................................................................... 1
   1.2.1. COVID-19’s Effects on Manufacturing Sector in Ethiopia .................................................. 2
   1.3. Micro, Small, and Medium Enterprises (MSME’s) in Ethiopia ............................................. 3
   1.3.1. COVID-19’s Effects on MSMEs ......................................................................................... 4
   1.4. Tourism Sector in Ethiopia .................................................................................................... 6
   1.4.1. COVID-19’s Effects on Tourism Sector in Ethiopia ............................................................ 7
   1.5. The way forward ....................................................................................................................... 10
2. Effects of COVID -19 on the Banking and Insurance Sector in Ethiopia ............................. 14
   2.1. Effect of COVID-19 on the Banking Sector in Ethiopia .......................................................... 14
       2.1.1. Introduction ....................................................................................................................... 14
       2.1.2. Ethiopian Banking Sector before the Pandemic ............................................................... 15
       2.1.3. Responses of Banks to the Pandemic ............................................................................. 16
       2.1.4. The Probable Effect of the Pandemic on Banking Performance ..................................... 18
       2.1.5. The Way Forward to Overcome Banking Sector Challenges ......................................... 20
       2.2. The Probable Effects of COVID-19 on Insurance Business in Ethiopia ....................... 23
       2.2.1. Introduction ....................................................................................................................... 23
       2.2.2. Ethiopian Insurance Industry before COVID-19 Outbreak ........................................... 24
       2.2.3. Insurance Industry Response to the COVID-19 Pandemic ........................................... 24
       2.2.4. Probable Effect of COVID-19 on Insurance Sector in Ethiopia ...................................... 25
       2.2.5. The Way Forward to Minimize the Effect of COVID-19 on Insurance Sector ................ 26
2.3. The Effects of COVID-19 on Tax Administration in Ethiopia ............................................ 27
   2.3.1. Introduction ....................................................................................................................... 27
   2.3.2. Tax Administration before COVID-19 in Ethiopia ............................................................ 28
   2.3.3. Major Response of Tax Administration amid COVID-19 in Ethiopia .............................. 28
   2.3.4. The probable Effect of COVID-19 on Ethiopian Tax Administration ............................ 29
   2.3.5. The Way forward to minimize the Tax Administration challenge .................................. 31
3.1. The Effects of COVID-19 on Export, Remittance, and balance of payment .............................. 35
3.1.1. Introduction ............................................................................................................................. 35
3.1.2. The Effect of COVID-19 on Exports of Ethiopia ................................................................. 40
3.1.3. The Effects of COVID-19 on Remittances ........................................................................... 42
3.1.4. Effects of COVID-19 on Balance of Payment in Ethiopia .................................................. 44
3.1.5. Policy Recommendations ..................................................................................................... 45
3.2. The Effects of COVID-19 Pandemic on Employment in Ethiopia ........................................ 47
3.2.1. Introduction ............................................................................................................................. 47
3.2.1. The effects of COVID-19 on Informal sector employment ................................................. 48
3.2.2. Actions taken to mitigate COVID-19’s effect on unemployment in Ethiopia .................... 53
3.3. Effects of COVID-19 on Service Sector in Ethiopia ................................................................. 55
3.3.1. Introduction ............................................................................................................................. 55
3.3.2. The Ethiopian Service Sector Prior to COVID-19 ............................................................... 56
3.3.3. Effects of COVID-19 on Service Sector .............................................................................. 57
3.3.4. The Way Forward to Reduce the Effects of COVID-19 ..................................................... 59
References ........................................................................................................................................ 61
<table>
<thead>
<tr>
<th>Acronyms and Abbreviations</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>API</td>
<td>Advance Passenger Information</td>
</tr>
<tr>
<td>BOGOF</td>
<td>Buy One Get One Free</td>
</tr>
<tr>
<td>CEO</td>
<td>Chef Executive Officer</td>
</tr>
<tr>
<td>COVID</td>
<td>Corona Virus Disease</td>
</tr>
<tr>
<td>CTTI</td>
<td>Catering and Tourism Training Institution</td>
</tr>
<tr>
<td>DSBD</td>
<td>Department of Small Business Development</td>
</tr>
<tr>
<td>EC</td>
<td>Ethiopian Calendar</td>
</tr>
<tr>
<td>ECA</td>
<td>Economic Commission for Africa</td>
</tr>
<tr>
<td>ETO</td>
<td>Ethiopian Tourism Organization</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GTP</td>
<td>Growth and Transformation Plan</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>KPMG</td>
<td>Klynveld Peat Marwick Goerdeler</td>
</tr>
<tr>
<td>MoE</td>
<td>Ministry of Education</td>
</tr>
<tr>
<td>MOR</td>
<td>Ministry of Revenue</td>
</tr>
<tr>
<td>MoSHE</td>
<td>Ministry of Science Higher Education</td>
</tr>
<tr>
<td>MSMEs</td>
<td>Micro, Small and Medium Enterprises</td>
</tr>
<tr>
<td>NBE</td>
<td>National Bank of Ethiopia</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>PPE</td>
<td>Personal Protective Equipments</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub Subsaharan Africa</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organization</td>
</tr>
</tbody>
</table>
Executive Summary
Currently, the world is being challenged by COVID-19 pandemic outbreak that resulted universal concern and economic hardship for consumers, businesses communities, public finance and general socio economy across the globe in general, and developing countries in particular. The evolution of the disease and the socio-economic effects associated with it are highly uncertain, which makes it difficult for policymakers to formulate an appropriate policy response. Ethiopia is highly exposed to the pandemic because of the long border shared with its COVID-19 affected neighboring countries such as Djibouti, Sudan, South Sudan, Kenya and Somalia; international movements and the level of negligence observed among the society to implement protective measures recommended by World Health Organization and Ethiopian Ministry of Health. This has resulted in rapid community transmission rate with 2056 cases and 35 reported as of June 10, 2020.

In response, restrictions on travel and common business activities were imposed by the government in a bid to save human life backed by public panic, which have been affecting business operations and the socio-economic landscape of the country. Mitigating the negative consequences of the pandemic calls for better understanding of multidimensional socioeconomic effects of the pandemic on micro small and medium enterprise, the manufacturing, tourism, banking and insurance sectors, the tax administration, service sector, import-export and unemployment among others. To this end, a comprehensive desk review was conducted by a multidisciplinary team of experts at the College of Business and Economics of Jimma University for better understanding of the probable effects of COVID-19 on the country’s socio-economy. The main aim was to forward expert opinions on the possible responses that help mitigate its negative impact of the pandemic in Ethiopia, which is outlined below.

Tourism Sector
The review result shows that tourism sector is among the highly affected business sectors which naturally requires human mobility, and close social interaction. In the past few years, tourism sector has been the back bone of Ethiopian economy contributing 9.4% to GDP in 2018, representing 61% of export earnings, 8.3% of the total employment, and generating other benefits such as socio-cultural integration and knowledge spill over effects. However, following the outbreak of Corona Virus, the sector has faced huge damage due to travel ban and human
gathering restrictions declared by the government. The consequences include reduction in hotels occupancy rate from 80-85% to less than 5%, halting of transportation particularly international air travel, los of market by connecting service providers in the tourism sector, ceasing of financial service providers linked to the industry, and the change in behaviour of employees and customers. In order to ease the effect of the pandemic, the government has already decided to lend 3.3 Billion Birr to Hotels and tour operators as bail out finance so that they can cover salary and operational expenses. Private Banks like Enat Bank, Wegagen Bank, Abay Bank and Dashen Bank have also decided to reduce interest rate and reschedule loan for tourism sector. Ministry of Culture and Tourism supported the sector by initiating advertising campaign and re-innovating sites. Some hotels also started shifting their employees to alternative activities such as involving workers in cultivating vegetables in open spaces. However, these initiatives must be supported by strong and systematic implementation procedures. In addition, we recommend tourism businesses take measures like capacity reduction in order to cut some expenses, re-innovate their business models, and introduce e-marketing. Moreover, the government should also give due attention and quick response to integrate as well as coordinate the collaboration among actors in the sector.

**Manufacturing Sector**

Manufacturing sector is also tremendously damaged by the novel Corona Virus pandemic. Prior to pandemic, the manufacturing sector accounts for 25.3% of the industrial output and 4.5% of the total workforce in the country. With the unprecedented outbreak of COVID-19, the sector started to feel the shake with regard to decline in daily sales due to lower demand for products (particularly industrial goods), cut in global and domestic supply chain led to shortage of imported inputs, and shortage of hard currency. For instance, apparel and leather sub-sectors are expected to lose market demand by 25%, beverage industry by 10% and construction (most of small and medium) by 25%. In Ethiopia, the sectors’ problem could be worsened because the sector is highly dependent on international markets for supply chains while those markets were also badly affected by the pandemic. So far stakeholders in the manufacturing sector have been taking measures amid COVID-19. For example, industrial parks were taking measure such as providing preventative measure to workers, repurposed their regular production into other related protective equipment, and continuing production with intensive protection measures. UNDP is also helping manufactures by providing equipment and supplies, and awareness training.
Furthermore, we recommend manufacturing firms to divert their resources towards producing products that could help the public to minimize the transmission of the virus such as producing PPE, making local soaps for hand wash, and masks.

**MSMEs Sector**

Micro, Small, and Medium Enterprises (MSME’s) are also adversely affected by the pandemic. In Ethiopia, MSME’s have long been engines for social and economic wellbeing of nation as they depend on few capital requirements for start-ups and inclusive of diverse categories of population like women and youths. Beyond GDP and employment contribution, MSME’s have been generating more benefits such as accelerating urbanization, bringing balanced regional growth, reducing migration from rural to urban areas, enhancing the transition from agriculture-based economy to industry led economy, and protecting illegal migration of women and youth to foreign countries. However, the results from this rapid assessment shows a significant damage on MSME’s such as cut in raw material supply, shortage of working capital, increased operational cost, and decline in consumers’ consumption.

Various stakeholders have been providing support for MSME’s amid Corona virus. For instance, Jobs Creation Commission of Ethiopia, the MasterCard Foundation and First Consult jointly announced emergency program with initial amount of approximately USD 24.8 million to ensure MSMEs remain solvent, retain their employees, and are able to create increasingly innovative work opportunities during the pandemic. The government introduced finance disbursement to encourage Small and Medium Enterprises (SMEs) and provision of additional liquidity to microfinance institutions to avail credit. Some small restaurants have already started to shift their services to door-to-door delivery service at least in their local areas and such kind of experience should be shared to other MSME’s. Added to these, we forward MSMEs to revise their pricing, promotion, and distribution strategies. Government should also provide financial and technical support to MSME’s. As a technical support, establish national/regional taskforce to assess COVID-19 effects on micro, small and medium scale enterprises. As financial support, the government at federal or regional level has to reduce or postpone tax for MSMEs to strengthen their liquidity position.
Banking Sector

The Banking industry in Ethiopia has been experiencing an unprecedented period of growth and prosperity before COVID-19. However, the pandemic has started disturbing the way the financial institutions are operating at the moment. It changed the way employees do their work and the way clients manage their finances. The number of people visiting bank branches is decreasing from week to week. People are withdrawing their cash from banks to use it for consumption purpose in case the government announces “stay at home” to prevent further transmission of the virus. Creditors are requesting re-scheduling of loan and reduction of interest. Hence, banks are expected to face liquidity problem in short run and solvency problem in the long run if these pandemic stays for a long time.

The pandemic has probable effect on banks’ performance across all dimensions including deposit mobilization, loan and advances, revenue from international banking services, profitability, security threats and challenges for newly coming banks.

As a response to the pandemic disruption, the national Bank of Ethiopia has injected 15 billion Birr of additional liquidity to private banks. In addition to NBE direction, majority of these banks are encouraging clients to use electronic banking modalities and waived the transaction fee charged and removed commission fee in the course of extending their LCs. Furthermore, they have made interest rate reduction ranging from 0.5% to 7% based on the extent of the businesses affected by the pandemic.

Furthermore, Banks should focus on re-assessing the risk profiles of their customers particularly re-classifying borrowers as high and low risk based on the extent to which they are exposed to the pandemic. They should also remain vigilant about liquidity measures to support their customers and make sure that indicators of non-performing loans are monitored with the right level of attention.

Insurance Sector

In Ethiopian financial sector, insurance sector is one of the segments that have been broadly safe, sound, well capitalized and profitable. The sectors have scaled up their services by expanding their network and product diversification by showing visible signs of improvement. However, due to current pandemic COVID-19 outburst that resulted in universal concern and economic
hardship for consumers, businesses communities, public finance and general socio economic across the globe in general and Ethiopia in particular, their operation is disrupted.

This review result shows that before pandemic, Ethiopian insurance sector is the one of the segments which was safe, sound, well capitalized and profitable. But, due to rise in the number of cases, the usual business of insurance in Ethiopia is decreasing. Potential insurees are not willing to be covered for third and damage insurance due to restriction imposed on their usual activities. Furthermore, if the cases increase for additional months, it will have negative probable effects on general insurance, life insurance and health insurance. To reduce, the adverse negative effects, the industry has to work hard and collaborate in this difficult time with government in fighting COVID-19 and they have to be attentive, flexible enough to accommodate emerging scenario and communicative to its core stakeholders.

**Tax Administration**

The role of effective tax administration is vital to safeguard a healthy business environment and promoting economic growth. Ethiopian tax administration practice has shown improvement for the last five years. Though, it is going to be challenged, here after if the pandemic’s effect continues in the future. Because the current pandemic of covid-19 outburst resulted in universal concern and economic hardship it has probable negative effects on tax administration practice in terms of tax assessment, collection, enforcement and litigation.

As a response to the pandemic, the government of Ethiopia has taken so many measures starting from collaborating with and getting international organization to banning tax litigation that have some disputes including their tax liability, interest and penalties. However, if the effect goes beyond three months it has the probable effect of affecting over all public finance structure and well-being of the economy. Hence, to minimize the negative probable effect of the pandemic, the government tax measures is on providing income support to households and improving cash-flow for businesses, once containment of the pandemic is within reach, governments will need to re-assess their medium- to longer-term fiscal strategies to achieve a balance between fiscal stimulus and fiscal consolidation, adapting to a new reality that unfortunately is still largely unknown.
The Service Sector

The service sector is among the worst hit by COVID-19 pandemic in Ethiopia. Specifically, transport, education, and health are heavily damaged as shown by both observed and forecasted analysis in formal reports and media outlets. Following travel restriction and lock-down, Ethiopian Airlines, the biggest Africa’s airline has cut 90 percent of international passenger flights and trying to shift to cargo services. Public transportation services also reduced their capacity to 50 percent to keep their proximity at advisable distance. To implement human contact and to curb the spread of the virus, the government has decided to close schools, colleges and universities. Beyond the direct health effects of COVID-19, it led to an increase government in unplanned expenditure to support hospitals, establish quarantines at schools and other compounds, purchase essential medical equipment and rapid mobilization of emergency health-care and social safety net spending carrying out public awareness campaigns about simple protection measures like hand washing, social distancing and etc. To ease the effects of COVID-19 on service sector different measures were taken. For instance, Ethiopian Airlines began to focus on cargo service. MoE and MoSHE have been encouraging schools and parents to help students continue to learn via online from home through remote learning and e-Learning platforms. Furthermore, the following measures should be taken to mitigate the effects of the pandemic on the service sector. The government should take further measures including stimulate the economy via creation of new employment opportunities, investment in infrastructures like internet and health facilities supporting firms, and protecting workers in work place. Local administrators and school heads should try to establish communication lines between public school teachers and parents in order to follow up closely to offer some advice as children try to learn from home.

Export and Remittance

COVID-19 pandemic has brought tremendous effect on the economic outcome obtaining from some export generating sectors and remittance. The export segment, specifically, flower and textile face considerable uncertainty as major markets in US, European and Chinese are suspending orders. Another affected segment is remittance. Remittance to Ethiopia, mostly coming from migrants in developed countries, shows a sharp decline because migrants working in abroad either lost their jobs or unbale to send money to their country due to lockdown and
travel restrictions amid the pandemic. However, balance of payment shown improvement to some extent as a result of the trade-off between import and export during the pandemic period. Thus, to mitigate the effects of COVID-19 on export, remittance, and balance of payment, different measures were taken and also recommendations were forwarded in this study. This includes credit provision for firms, government intervention through financial assistance, and other policy responses to mitigate the human and economic effects of the pandemic.

**Unemployment**

The initial lockdown and the second state of emergency due to COVID-19 pandemic has made business nonfunctioning in Ethiopia. This has disrupted the value chain of the economic system. As a result, resources have been idled. The unemployment problem of developing countries such as Ethiopia has been aggravated. Both the formal and informal sectors unemployment is increasing. Especially the informal sector, due to its untamed nature is severely affected, and thus cooperative action is crucial to overcome the consequences of the crisis. The initiative by our government is encouraging in this respect. Civil servants and other citizens have been contributing to alleviate the suffering of the pandemic up on citizens. The “meal sharing” project of the Prime minster, the assistance from foreign governments and Ethiopian origin migrants may help to tackle the problem in the short run. The relaxation of some of the orders of the state of emergency has helped, even though the long-run consequences are not known. The government of Ethiopian needs to give attention to the most affected section of the society, such as elderly, informal sector workers, women and children.

To sum up, the pandemic has got substantial effect on overall business operations and the way government administer taxes to insure that the businesses are doing as expected and the socioeconomic outcome of the businesses. To minimize the effects of the pandemic, integrated involvment of all stakeholders is required. The government is expected to coordinate public and private organizations for possible reduction or re-scheduling of payments such as tax, loan, utility pay, etc until they recover from the crises. It should also ensure the provision of hard currency to sensitive sub-sectors like manufacturing firms. Businesses revisit their marketing strategies including pricing, product, distribution, and promotion; and shift employees to alternative activities such as involving workers in cultivating vegetables in open spaces, and integrating horizontally as well as vertically to share resources and minimize costs.
1. Effects of COVID-19 on Operations of MSMEs, Tourism and Manufacturing Sectors in Ethiopia

1.1. Introduction

The outbreak of COVID-19 pandemic has disturbed the political, economic, social, religious and financial structure of the world. To put this in economic perspective, as noted by Duffin (2020), the global economic growth forecasted to decrease from 3% to 2.4%. The writer attributed the economic damage to restriction on travel and fall in demand. The pandemic is also expected to affect more African countries. African economic growth, as per prediction by Economic Commission for Africa (ECA, 2020), decreases to 1.8 percent in the best-case scenario and a contraction of 2.6 percent if the worst case happens.

In Ethiopia, with the increase in the number of people infected with COVID-19, the government declared state of emergency aiming to curb the spread of the virus in the country. The state of emergency puts restriction on travel and human mobility which caused adverse effect on economy in general and business operations particularly in manufacturing, tourism, and small business sectors.

Although reports being provided through different media outlets, further evaluation is required to reveal the effect of the unprecedented pandemic on the business operations. So far, no study is conducted on this issue. Thus, it is time to respond to fill the gap through rapid assessment of the effect of COVID-19 pandemic on business operation and provide insight for decision makers in the sector and for researchers to conduct further investigation.

1.2. Manufacturing Sector in Ethiopia

The Ethiopian manufacturing sector is characterized as dominated low-value and low-technology products, and weak inter-Sectorial and intra-Sectorial linkages (Oqubay, 2018). The sector plays a marginal role in GDP contribution, job creation, and export amount. To put this in perspective, industry sector contribution rose to 27 percent to GDP in 2017/18 from 26 percent in 2016/17 (National Bank of Ethiopia, 2018). However, the same source shows that manufacturing sector increased by 5.5 percent and constituted about 25.3 percent of the industrial output.

In terms of export of outputs, manufacturing sectors accounts less than 13% between 2001 and 2016/17(National Bank of Ethiopia, 2018). The annual employment contribution of the sector
grows by 4.8% in years between 1998 and 2013 and in 2013 the sector contributes 4.5% of the total workforce on the country. Meanwhile, 80 percent of enumerated wage employment in manufacturing was in food products and beverages, other non-metallic mineral products, textiles and apparel, rubber and plastic products, wood and wood products, furniture, and chemicals and chemical products (Oqubay, 2018).

1.2.1. COVID-19’s Effects on Manufacturing Sector in Ethiopia

The current pandemic of Corona Virus is having been hardly hitting the manufacturing sector as it is spreading in the country. As the number of infected people increase, the government enforced partial lockdown and stay-at-home advice was given by health professionals in order to contain the spread of the virus. Both actions placed restriction on travel and social interaction. As a result, the manufacturing sector is faced with the challenges in the supply as well as demand side of operation due to the real effect of the pandemic and artificially created market deliberation.

In the supply side, businesses in the sector faced shortage of imported raw materials as global supply chain disrupted. In Ethiopia, most manufacturing sub-sectors are dependent on international markets for supply chains. The slowdown of manufacturing operation led to reduction of demand for local inputs which adversely affect many small supplier businesses. In addition, hard currency shortage which can be used to purchase major inputs from abroad is also another challenge facing the sector.

The challenge faced in the supply side also affects the demand side of manufacturing sector. The interview with some owners of businesses show that a daily sale is declining as consumer consumption decreases both in type and number of products. For instance, most industries which produce their product for the consumer market (like food products, breweries and beverages) are declining their products as the consumption pattern decreases due to the pandemic. This means loss of income in the sector due to decline in a daily sale leads to lose of millions of jobs as sub-sectors like food, breweries and beverages, and other non-metal mineral producers generates 80% of employment in manufacturing sector. The highest drop in demand is expected to be in the textile, apparel and leather sectors, as well as a 50 percent drop in construction.

Wholesale and retail business which are making their lives with the products of manufacturing and constructions such as textile, beverages, breweries, and other construction materials like,
cement, gypsum, ceramics, cables, and other utilities, etc demand is highly affected by the partial lock down and social distancing measures. For instance, the supply chain of cement is distorted in two ways. One is producer’s access for raw material is badly damaged as the global supply chain is almost cut. Second is due to artificial market deliberation shortage of cement was occurred and the price went high in the country. Consequently, these adversely affected the construction sector which generates the highest number of job opportunity for the nation. In additions, retailers encounter a drop of 65% of their turnover over the past month.

Beyond observed effects, forecasts by different organizations shows more adverse consequence poised by the pandemic on the sector. For example, as per International Labour Organization (ILO, 2020) most textile manufacturing in Ethiopia faced production decline in quarter I of 2020, their capacity utilization rate is decreased by 30% as we compare with that of quarter I of 2019. They are also obliged to cancel already agreed orders. This report added that the sector is also facing challenges such as lack of access to raw materials, increased cost of production as well as employee safety protection costs of Personal Protective Equipments (PPE), hand sanitizer, and transportation costs making the manufacturing firms to pay price which in turn aggravate production costs.

In order to mitigate the effects of COVID-19 on manufacturing sector, so far, stakeholders have been taking measures. For example, industrial parks were taking measure such as providing preventative measure to workers, repurposed their regular production into other related protective equipment, and continuing production with intensive protection measures. UNDP is also supporting manufactures in terms of supporting the health of workers by providing equipment and suppliers, awareness and providing training and psycho-social support to workers, and supply and logistics chains continue to operate (UNDP, 2020). The private sector is also responding to ease the effect of COVID-19 on manufacturing sector. For example, Dashen Bank announced a cut different kind of service charges and interest rates to those that are affected by Novel Corona virus (Capital Ethiopia, 2020).

1.3. Micro, Small, and Medium Enterprises (MSME’s) in Ethiopia

Micro, Small and Medium Enterprises (MSMEs) have long been engines for social and economic wellbeing of nations in every corner of the world. They play pivotal role in reducing
poverty through creating massive employment opportunities, socio-cultural integration, and adds value for GDP growth.

Evidences from World Bank (2020) show that MSME’s account 90% of businesses and more than 50% of the jobs around the world. As cited by Elsabeth (2020, cited in World Bank, 2017) small businesses account for two-thirds of the globe’s jobs and more than 40% of world GDP. In developed economies, MSMEs contribute 60-70% of employment opportunity and 55% of GDP (Christopher, 2019). For example, in Europe, the sector contributes 58% of GDP and 67% of employment.

Linking this to developing world, MSME sector take 33% share of the GDP and 45% of employment (OECD, 2017). This employment includes opportunities for women, youth, and other categories. For instance, 30-37% of small business owners are women in developing economies (Word bank, 2017). In Africa, MSME sector contributes 50% of GDP and employment (World Bank, 2013). Specifically, in countries like Uganda and Tanzania, the sector contributes 62.2% and 49.8% of employment respectively.

In Ethiopia, micro and small-scale enterprises are the second largest employment creating sector next to the agricultural sector. The sector is growing from time to time in the country. For example, according to a report by National Bank of Ethiopia dated 2018/19 indicated that a total of 110,253 new MSMEs were started operation (Federal Urban Job Creation and Food Security Agency, 2019). These enterprises employed about 882,098 people and received more than Birr 7.3 billion in loans for operations. This shows that the sector contributes to employment and GDP is worthwhile. Beyond GDP and employment contribution, micro and small-scale enterprises have been generating more benefits such as accelerating urbanization, bringing balanced regional growth, reducing migration from rural to urban areas, enhancing the transition from agriculture-based economy to industrial led economy, and protecting illegal migration of women and youth to foreign countries.

1.3.1. COVID-19’s Effects on MSMEs

After the first Corona virus case was reported on March 3 2020, in Ethiopia, the number of people infected started to slightly increase. Then, by prioritizing human life, the government put restriction on human mobility by declared state of emergency and health professional advice measures such as stay-at-home as well as physical distancing which led to a massive response
public response the advice. In contrary, these actions caused a massive damage on MSMEs operation by affecting both the supply and demand side.

In the supply side, trade of goods and services of MSMEs was hardly heated due to destruction on long distance supply chain. MSMEs production was also facing difficulty as raw material supply chain was stopped. Supply of workers also hindered due to stay-at-home and physical distancing advice practiced which affected production of MSMEs goods and services. In addition, financial institutions like Micro finances has paused financial supply for MSMEs leading to shortage of working capital for existing and start-ups capital for new entrants. In other way, the operational cost of MSMEs has also increased due to an increase in utility expenses, rent, salary, and raw material costs.

From demand side, MSME’s are adversely affected primarily due to public fear to purchase of goods and services produced. As the raw material cost increased, small businesses increased price of commodities which in turn led to decline in public consumption. As result, in particular for manufacturing small businesses, finished goods inventory increased leading to an increase in carrying cost. Service providing MSME’s like beauty salons are also heavily heated to the extent of a complete shutdown. Small businesses in the tourism sector are among heavily affected as travel ban led to forced decline of demand in both domestic as well as international visitors. Likewise, small clinics and health centres also adversely affected due to public fear that they will be infected if just in case contacted with people with Corona virus. There are educational schools and colleges in the MSME’s category which are massively affected. Schools are ordered to close until further notice and their future fate remains unknown. Meanwhile, government and other stakeholders are unable to register new MSME’s as the existing ones are struggling to survive. MSME’s are also expected to pay their loans and taxes while their income is declining which jeopardizes their operation and business continuity.

Consequently, MSME’s contribution to national GDP and creation of employment opportunity will be hampered in general and specifically other benefits, such as accelerating urbanization, bringing balanced regional growth, stabilizing the market, reducing migration from rural to urban areas, enhancing the transition from agriculture based economy to industrial led economy, and protecting illegal migration of women and youth to foreign countries, may not be realized.
Various stakeholders have been providing support for MSME’s amid Corona virus. For instance, Jobs Creation Commission of Ethiopia, the MasterCard Foundation and First Consult jointly announced emergency program with initial amount of approximately USD 24.8 million to ensure MSMEs remain solvent, retain their employees, and are able to create increasingly innovative work opportunities during the pandemic (All Africa, 2020). The government introduced finance disbursement to encourage Small and Medium Enterprises (SMEs) and provision of additional liquidity to microfinance institutions to avail credit (Fanabc, 2020). Some small restaurants have already started to shift their services to door-to-door delivery service at least in their local areas.

1.4. Tourism Sector in Ethiopia

The growth of tourism has had an economic, environmental and social-cultural importance. In terms of this, it has long been one of the fastest growing industries in the world. Evidence shows, at the end of 2019, it was a huge global business that account for 10.4 percent of global GDP and 10 percent of global employment. In Africa, the growth of the sector and its contribution were comparatively in a wonderful position. It was frequently registered as one of the key growth drivers of the continent’s economy, contributing 8.5% (or $194.2 billion) of the GDP in 2018; from 8.1% and 7.8% in 2017 and 2016 respectively (Jumia, 2019). This growth record placed Africa as the second-fastest growing tourism region in the world, with a growth of 5.6% in 2018 after Asia Pacific and against a 3.9% global average growth rate. The sector also directly and indirectly provided employment for about 24.3 million people in 2018, accounting for approximately (6.7%) of total employment (Jumia, 2019). Moreover, the sector also contributes to environmental protection and sustainability as well as socio-cultural integration.

Linked to the context of Ethiopia, a report from Ethiopian Tourism Organization (ETO) shows that the sector had tremendous growth over the last few years. One indicator of growth of the sector is the number of international tourist arrivals in Ethiopia. To put this in numbers, according to data from World Bank (2017 as cited in Altes, 2018), the number of tourist arrivals has grown from 596,341 in 2012 to 933,344 in 2017 as shown in figure 1 below.
The growth of the tourism sector brought multi-dimensional contribution to national economy in terms of GDP, employment, and export earnings. For instance, the direct contribution of tourism sector to GDP has increased from 51.3 billion birr (USD 2.26 billion) which is 4.1 percent of the total GDP in 2015 to $7.4 billion in 2018 (9.4% of Ethiopia’s total economy). In terms of employment, according to the report of World Travel and Tourism Council (2019), the industry contributes 2.2 million jobs or 8.3% of the total employment. It also shows the sector represents 61 percent of Ethiopia’s exports in 2019. The other dimensions of contribution that Ethiopia benefited from the sector are socio-cultural integration and knowledge spill over effects. The mentioned contributions of the sector were expected to increase further because of human mobility as the result of rapid advancement of transportation and communication technology and improvement of hospitality service facility.

1.4.1. COVID-19’s Effects on Tourism Sector in Ethiopia

Tourism sector is one of the sectors massively hit by spread of Corona virus in Ethiopia. As corona virus emerged in Wuhan, China, and spread to the rest of the world and causing toll of human life, governments and institutions (like WHO) declared travel restrictions as well as human gathering by giving priority to human life. In addition, as COVID-19 is transmitted from people to people in various ways, the public lost its confidence to appear in public gatherings like cultural events and occasion which contributed to loss of income and markets for the sector. Thus, supply and demand in the sector has collapsed resulted a high adversarial effect on sub-
sectors such as the hotels, transport, food and beverage, entertainment, and other connecting operators.

Looking at the current performance of the hotel from accommodation sub-sector gives us the clear picture of the effect of the pandemic. According to interview conducted by the Reporter Magazine with Aster Dawit, Catering and Tourism Training Institution (CTTI) director and Fehe Woldesenbet, President of the Ethiopian Hotel and Related Service Provider Employers’ Association, hotels occupancy rate reduced from 80-85% before the outbreak of the Corona virus to 50% immediately after the first case was announced on March, 2020 (The Reporter, 2020). The same source also added that, in April, very few hotels are operating with only 2-5% of the capacity while 80% of hotels in Addis Ababa are in the way to shutting down and thus, they are forecasted to lose $35 million per month. This leads to loss of jobs which increase unemployment in the country. Moreover, according to a business discussion held on LTV Ethiopia, 82% of hotels in Ethiopia have bank loans and banks are expecting them to re-pay their debt. Due to above discussed reasons hotels are not performing in full capacity and unable to generate income. Hence, they are not in a position to pay their loans and even salaries for workers if this crisis continues more than three months. Added these, they are also expected to pay utility expenses (like electricity, telephone, and water supply), and taxes which jeopardize their operation causing total collapse of the business.

Similarly, transportation is the key contributor of the economy in general and the tourism sector in particular. At normal situation Ethiopian airlines, for example, 5.7% of the nation GDP valued at 4.2 billion dollar and about 1.1 million jobs will affect the tourism industry. After spreading of COVID-19, because of Visa restrictions, grounded flights, prevailing lockdowns, travellers cancelling their current as well as future visit schedules are significantly hindering the Tourism industry benefits flows from the transportation sector. According to International Air Transport Association (2020), the economic effects of the COVID-19 pandemic in Ethiopia pertaining to the airline industry and allied businesses cost the country some USD 1.2 billion and affect more than 323,000 jobs. On the press released (March 21, 2020) by Twolde G/Mariam, CEO of the Ethiopian Airlines, revealed that the airline registered loss of $190 million because of seizing flight from 80 countries. As of April 8, 2020, the airline announced that it lost $550 Amid COVID-19. The demand of local passenger flight also reduced to 50%. Land transport restriction
made by the government has also highly affected the sector. This loss is directly or indirectly shared by the tourism sector.

Small and medium sized enterprises, which make up around 80% of the tourism sector, such as connecting services-like travel agents and tour operators, entertainment, cafeteria, beauty salons, supermarket, catering, pastry, bar and café, night clubs, etc are now about seizing their operations due to the outbreak of COVID-19. Consequently, millions of Ethiopians are endangered including those vulnerable communities who rely on tourism sector as a means to their livelihoods.

Financial service providers, linked to the tourism industry, like insurance and banks which offer service-related financial protection during emergency situations and currency exchange are also adversely affected as the influence posed by COVID-19 unfolds. In addition, tourism colleges and training centres are also affected and temporarily closed. This hinders the production of trained human power to the sector. Moreover, the colleges and training centres lost revenue which is generated from their services while they are incurring expenses like rent, tax, utilities, and paying salary.

As this challenging time persists, employees and customers may even face emotional and psychological issues. These issues are associated with threat and risk perception which commonly occurred during and after crisis like COVID-19. Threat Perception is one of the central emotional responses as a result fear of this pandemic. Employees and customers, of the sectors, are in the state of negative emotions resulting from the threat posed by contagion which is affecting buying decision of customers and employees working behaviour. According to interview held with Aster Dawit, CTTI director, 25% of customers perceive that they will be infected with Corona virus if they go to hotels and other recreational centres. If the crisis lasts for longer, organizations in the sector are forced to a complete shutdown and their employees will perceive risk of job insecurity due to unknown future fate. An emotional response to a risky situation can influence thinking making employees frustrated and frightened.

In order to ease the effects of the pandemic on Tourism sector, government and other stakeholders have been taking various measures. For instance, the government decided to lend 3.3 Billion Birr to Hotels and tour operators as bail out finance so that they can cover salary and operational expenses (Ethiosports, 2020). The source indicated that some 1,300 hotels and 500
tour operators have requested for some 6.6 billion birrs in bailout financing. However, responding to the request, the 3.3-billion-birr soft loan, via NBE, is based on a six-month impact analysis that banks should provide for their clients’ financial needs, explicitly to address salary and operational expenses. Private Banks like Enat Bank, Wegagen Bank, Abay Bank and Dashen Bank had also decided to reduce interest rate and reschedule loan for tourism sector. For example, Wegagen Bank also announced that a 53 percent interest rate cut to hotel, tourism and tour operators and Dashen Bank in its part also cut different kind of service charges and interest rates to the sector (Capital Ethiopia, 2020). Ministry of Culture and Tourism in collaboration with other stakeholders had also supporting the sector by initiating advertising. The new national tourism recovery plan which is projected to help revive the sector quickly as COVID-19 status goes down, according to Ministry of Culture and Tourism (Ethiopian Press Agency, 2020). The news added that the plan jointly prepared by Ministry of Culture and Tourism, Tourism Ethiopia, Hoteliers and Tour Operators Associations, was ratified by a national committee established for this purpose. In addition, some hotels also started shifting their employees to alternative activities such as involving workers in cultivating vegetables in open spaces.

1.5. The way forward

In Ethiopia, the spread of COVID-19 had massively affected businesses in manufacturing, tourism and small business sector. The manufacturing sector is massively damaged by the outbreak of COVID-19. Although government enforcement of travel ban and stay-at-home advice was aimed at containing the spread of the virus, it led to a significant consequence on the sectors’ performance and contribution to national economy. The sectors’ supply and demand side was adversely affected causing shortage of imported raw materials as global supply chain disrupted, slowdown of manufacturing operation led to reduction of demand for local inputs, hard currency shortage occurred, decline in a daily sale, and wholesale and retail business linked to the sector lost market as well as income.

The pandemic led to a massive damage on MSME’s in particular following restriction on human mobility by the government and stay-at-home advice. Specifically, COVID-19 negative consequences on MSME’s include raw material supply was stopped, shortage of workers happened, shortage of working capital created, their operational cost increased, and decline in
consumers consumption. As a result, MSME’s contribution to national GDP, creation of employment opportunity, and other benefits are being hampered.

Beyond toll of human life, the outbreak of COVID-19 pandemic has devastated Ethiopian tourism sector. Before the outbreak, the tourism sector has been growing continuously over the past few years and contributing a lot to Ethiopian economy in terms of GDP, employment, and export earnings as it does for many of countries in the world. However, as the Corona virus emerged in the world, travel restriction and stay-at-home advice was ordered leading the tourism sector to be highly devastated which naturally requires human mobility and close social interaction. International and home travel restrictions instantly affected the tourism sector through influencing actors in the tourism systems. Contribution from international and home tourists stopped, benefits from meetings and festivals are collapsed. The occupancy rate of accommodation like hotels dwindled to less than 5%. Transportation particularly international air travel has stopped, MSME’s around the tourism sector that provides connecting services lost their market. Financial benefits obtained from travellers’ life insurance and foreign currency are ceased. The behaviour of thousands of employees in the sector has panicked a lot due the high possibility of losing their jobs. Therefore, in order to ensure the survival and continuity of manufacturing, tourism, and small businesses in Ethiopia, the following are some of the already taken measures and recommendations form this study.

In order to ease the effect of the pandemic on Tourism sector, government and other stakeholders have been taking various measures. For instance, the government decided to lend 3.3 Billion Birr to Hotels and tour operators as bail out finance so that they can cover salary and operational expenses. Private Banks like Enat Bank, Wegagen Bank, Abay Bank and Dashen Bank had also decided to reduce interest rate and reschedule loan for tourism sector. Ministry of Culture and Tourism had also supporting the sector by initiating advertising and re-innovating sites campaign. Some hotels also started shifting their employees to alternative activities such as involving workers in cultivating vegetables in open spaces.

So far stakeholders in the manufacturing sector have been taking measures amid COVID-19. For example, industrial parks were taking measure such as providing preventative measure to workers, repurposed their regular production into other related protective equipment, and continuing production with intensive protection measures. UNDP is also supporting
manufactures in terms of supporting the health of workers by providing equipment and suppliers, awareness and providing training and psycho-social support to workers, and supply and logistics chains continue to operate.

In addition, various stakeholders have been providing support for MSME’s amid Corona virus. For instance, Jobs Creation Commission of Ethiopia, the MasterCard Foundation and First Consult jointly announced emergency program with initial amount of approximately USD 24.8 million to ensure MSMEs remain solvent, retain their employees, and are able to create increasingly innovative work opportunities during the pandemic. The government introduced finance disbursement to encourage Small and Medium Enterprises (SMEs) and provision of additional liquidity to microfinance institutions to avail credit. Some small restaurants have already started to shift their services to door-to-door delivery service at least in their local areas and such kind of experience should be shared to other MSME’s.

Leaders of all sectors should adopt crises management (or crises leadership) amid the pandemic. According to Saltz (2017), crises plans and crisis management (crisis leadership) play pivotal role in overcoming crisis. Similarly, Bernard (2003) on his research on business environment revealed out that dynamic and chaotic situations demand flexible and adaptive leadership style which gives impetus for overcoming crisis that business encountered. As per Olivia and Eugene (2012) a good crisis leader exhibits characteristic such as coordinated, make right decisions during contingencies, goal oriented, communicator, have emotional and mental stability, adapt and respond to the unique aspects of crisis and changing circumstances, etc. The managers should also use the crisis as an opportunity to train their workers and make them ready for long term success after the pandemic is ended.

Government should provide financial and technical support to businesses. As a technical support, establish national/ regional taskforce to assess COVID-19 effect on businesses of mentioned sectors. This task force may take the responsibility of identifying possible areas of support for businesses by private and government at various levels, make suggestion for policy change, and coordinate between private, public, and government initiatives. As financial support, the government at federal or regional level has to reduce or postponing tax, reducing utility expenses, and local government should easy rent for working facilities or determining ceilings for rental of shops.
Businesses in each sector should shift their operation system in line with nations need for fighting against COVID-19. For instance, manufacturing firms including MSME’s can divert their resources towards producing products that could help the public to minimize the transmission of the virus such as producing PPE, making local soaps for hand wash, and masks. South Africa’s experience could be adopted in this regard. After President Ramaphosa’s declaration of Covid-19 pandemic as a National State of Disaster, the Department of Small Business Development (DSBD) has identified MSME’s and cooperatives as essential contributing partners in assisting the Country to combat this national and global pandemic. The DSBD requires textile and clothing MSME’s and cooperatives to submit information proving that they can make or manufacture the face/ cloth masks for the South African public.

Hotels and restaurants, for example, may also shift to delivering their goods and service in door-to-door. In Ethiopia, some small restaurants have already started door-to-door delivery service at least in their local areas and such kind of experience should be adopted others. Businesses should improve their existing business model by introducing electronically supported door-to-door delivery service. In addition, organizations in the mentioned sectors should to apply cost reduction options like capacity reduction in order to cut some expenses (for example utility expenses). This option may include also voluntary based executive pay cut with boosting their morale, suspending advertisement contracts, introduce cost sharing modalities with employees like creating credit access, and initiate voluntary service by agreeing with employees.

Firms should introduce innovative additional services using existing facilities such as cleaning services for their corporate clients(for example hotels can provide such services); use tactical pricing strategies like time based discount pricing; introduce e-marketing, for example, during post Corona era check-in check-outs will be performed virtually(hotels and restaurants); and shifting employees to alternative activities such as involving workers in cultivating vegetables in open spaces (if any).

Academic institutions such as universities, training centres, colleges on the field, research institutes, and others should provide knowledge base advice and support for all sectors on how to be successful during and after the Corona virus. Health center and clinics should provide professional training to businesses with regard to panic and fear of Corona virus. This is because they are responding to COVID-19 with panic and fear rather than taking protective measures.
This effort should be supported by government and media in order to reach the wider public in the country.

2. Effects of COVID-19 on the Banking and Insurance Sector in Ethiopia
2.1. Effect of COVID-19 on the Banking Sector in Ethiopia

2.1.1. Introduction
As deposit gatherers, credit grantors, and payment facilitators, Banks play a vital role in the functioning of the economy. They are not only commercial enterprises but also responsible to provide critical financial services to individuals and organizations. Specifically, Banks sit at the heart of the economy and provide funding to Institutions and individuals. Their health and continuity of their operations are therefore critical to keep the whole economic system up and running.

Banking crisis is a financial crisis that affects these healthy banking roles. Banking crisis arises in a series of stages including: banking run which affect single bank; banking panics which affect many banks; and systemic banking crises in which a country experiences many defaults and financial institutions and corporations face great difficulties repaying loans. Banking crises begin with bank runs that lead to the demise of the whole financial institutions if not managed properly. There have been many financial crises in history which have left remarkable effects on the global economy including: the 1930 Great Depression, the 1980 Latin American debt crisis, the 1997 Asian financial crisis and the 2008 global financial crisis. In the Ethiopian banking sector, the effects of all these crises were not significant since our financial system was not integrated with the global financial system at that time (Paul, 2010).

In addition to its health effect, the COVID-19 is greatly affecting our economy. The service sector of the country especially, the banking industry is facing problems. We are facing with a unique time in banking history in Ethiopia as a result of the pandemic than else were in the world. Banks in other countries came into the coronavirus pandemic much stronger as they have learned much from the 2008 financial crisis. But we do not have the experience of managing such crises as compared to other countries in the world.

To better understand the probable effect of COVID-19 on banking services in Ethiopia, the researchers have made exploratory desk review on the extent of the problems and its probable effects. The main objective is to shade light on the problem in the context of Ethiopian Banking
Industry. Data for this purpose were gathered from websites, published articles and local newspapers since it is not possible to collect primary data because of movement restriction as a result of the pandemic.

2.1.2. Ethiopian Banking Sector before the Pandemic

Although the history of banking system dates back to 15th century, modern banking in Ethiopia started in 1905 with the establishment of Abyssinian Bank in agreement with the Anglo-Egyptian National Bank. In 1932, the Ethiopian government purchased the Abyssinian Bank and renamed it as the Bank of Ethiopia which is the first nationally owned bank on the African continent. During the five-years of Italian occupation (1936-41), all other banks were closed and branches of Italian banks were opened in the main towns. After independence from Italy’s five-year occupation, where the role of Britain was dominant owing to its strategic planning during the Second World War, Barclay Bank was established and it remained in business between 1941 and 1943. Following this, in 1943, the government established the State Bank of Ethiopia. The bank was operating as both commercial and central bank until 1963 when it was remodelled into today’s National bank of Ethiopia (NBE) and the Commercial Bank of Ethiopia. After this period, many other private banks were established; and just before the 1974 revolution all these banks were in operation (Gedey, 2002).

All privately owned financial institutions including three commercial banks, 13 insurance companies, and two non-bank financial intermediaries were nationalized in January 1975 by the military regime. Subsequently, the nationalized banks were reorganized in to: National Bank of Ethiopia (NBE); Commercial Bank of Ethiopia (CBE); Agricultural and Industrial Bank which was renamed lately as the Development Bank of Ethiopia (DBE) and Housing and Saving Bank renamed lately as Construction and Business Bank which was merged with CBE few years ago. Following the regime change in 1991 and the liberalization policy in 1992, many private banks came in to existence the first of which is Awash Bank (Obo, 2009).

To day, there are 18 commercial banks that are in operation out of which two are state owned and the remaining 16 are private banks. In addition, recently about ten private banks are in the process of establishment and they are mobilizing the capital required for banking business. All these banks are domestic and the Ethiopian banking sector is closed to foreign influence.
Before the outbreak of COVID-19 in December 2019, the Ethiopian banking sector has been broadly safe and profitable. The 2018/19 annual report of National Bank of Ethiopia (NBE) shows, Commercial banks opened 807 new branches in 2018/19 alone which increased the total number of branches to 5,564 from 4,757 a year ago. The banks also increased their deposit mobilization by 23.2 percent, loan collection by 18.1 percent and loan disbursement by 42.5 percent. Their non-performing loan was within the required ceiling of 5 percent. Further, the 2019/20 quarterly report of national bank of Ethiopia shows that, total deposit liabilities of the banking sector reached Birr 917.2 billion by the end of September 2019, indicating a 22.2 percent annual growth due to cumulative effect of the expansion of bank branches, improved access to finance, growing saving culture of the society and an increase in per capita income. Total outstanding borrowing of the banking system stood at Birr 73.8 billion, showing 11.1 percent annual increase. During the first quarter of 2019/20, Birr 39.6 billion was disbursed in fresh loans, indicating a 31.8 percent annual increase. During the first quarter, the loan collection of the banking system reached Birr 36.6 billion and total outstanding credit of the banking system (excluding credit to government) increased to Birr 574 billion, about 28.1 percent higher than last year the same quarter. Further, Development bank of Ethiopia, which has been incurring loss for the last subsequent years, has reported profit before tax of about 950 million with in six months in this fiscal year (NBE, 2019). These are indicators that our banks have been doing well before the outbreak of the pandemic.

2.1.3. Responses of Banks to the Pandemic

Though banks are not being hit by coronavirus directly as other retail businesses, they are at the forefront of public attention. As a result, in a matter of only a few weeks, our banks are experiencing a level of disruption that will change everything that had been the norm in financial services. Interview with bank president by Ethiopian reporter dated April 12, 2020 indicates that, there has not only been a major change in the way financial institutions conduct business, but in the way employees do their work and the way clients manage their finances are changing. The number of people visiting bank branches is decreasing from week to week. People are withdrawing their cash from banks to use it for consumption purpose in case the government announces “stay at home” to prevent further transmission of the virus. Creditors are requesting re-scheduling of loan and reduction of interest. Hence, banks are expected to face liquidity problem in short run and solvency problem in the long run if these pandemic stays for a long
time. To prevent this from happening, the national Bank of Ethiopia has injected 48 billion Birr of additional liquidity to commercial banks.

Aimed at assisting businesses that will be affected by the spread of the COVID-19, the majority of the banks including Commercial Bank of Ethiopia, Development of Bank of Ethiopia, Awash Bank, Dashen bank, United Bank, Wogagen Bank, NIB International Bank, Oromia International Bank, Oromia Cooperative Bank, Zemen Bank, Berhan Bank and Abay Bank have started taking action.

The majority of these banks are encouraging clients to use electronic banking modalities such as ATM, Mobile banking, Internet banking instead of physically coming for service to branches. They made this to minimize customers visit to the branches that contributes on the limitation of movements, which is one of the major reason to expand the virus. The banks have increased the amount of daily cash withdrawal using ATM cards to more than 10,000 Birr from the previous 5,000 Birr. The majority of the Banks have also waived the transaction fee charged in using these electronic banking facilities.

For those engaged in the import and export businesses; which are highly affected since the major market destinations in the world have closed their doors fearing the pandemic, the majority of the banks removed commission fee in the course of extending their LCs. The majority of the banks have also re-scheduled instalment payment on loans and advances for some months depending on the nature of the effect by the pandemic. For instance, Commercial Bank of Ethiopia has extended loan repayment for condominium house owners for three months. The majority of the banks provide interest rate reduction ranging from 0.5% to 7% based on the extent of the businesses affected by the pandemic. Hotel and Horticulture industries are the largest beneficiaries of these interest rate reductions. Specifically, Zemen Bank tried to support the floriculture industry by suspending loan interests, which is the industry highly affected by the COVID-19 outbreaks. Development Bank of Ethiopia also arranged interest free working capital for project loans highly affected by the pandemic. The majority of the banks have also promised that further supports will be provided based on the prevailing situation in the future.

Further, our Banks are extending their hands and providing millions of Birr to support the low income citizens and combat the challenge of the Virus. About 14 financial institution have contributed more than 71 million Birr for these purposes and some banks have also commenced
an initiative to mobilize money from its employees to provide further support. The majority of the banks are letting older employees who are over 55 years old and pregnant women employees stay home for 15 days following the coronavirus preventive measures. They are spending millions for purchase of sanitary supplies for both customers and employees such as equipments for hand wash, sanitizer, alcohol, and face mask. They have also started use of infrared non-contact thermo-meter for corona screening on its customers to check their body temperature (Ethiopian Reporter dated April 1, 2020).

2.1.4. The Probable Effect of the Pandemic on Banking Performance
As we have seen earlier, before the pandemic, the banking industry in Ethiopia was experiencing an unprecedented period of growth and prosperity. But what is the effect of the pandemic on their performance and how long do they continue doing this if the effect of the virus stays for an extended period of time is the question at hand. It was anticipated that banks’ performance will be hit across all dimensions including deposit mobilization, loan and advances, revenue from international banking services, profitability, security treaties and challenges for newly coming banks. Of course, the effect may vary from one institution to the other because of the variation by sector and customer segment.

A. Effect on Deposit Mobilization
Because of the pandemic, customers are withdrawing their savings for personal consumption. Further, it is difficult to mobilize deposit at this time since it is challenging to convince customers to open an account and start saving. The majority of the businesses have slowed down and organization’s revenue has reduced and their deposit has decreased significantly. If this is to continue for a longer period, it could lead to cash flow challenges for banks and their clients. As a result, banks may face liquidity problem. It is with this understanding that the government has injected 15 billion Birr to the financial system.

B. Effect on Loan and Advance
Although businesses have slowed down, banks may face many more requests both from borrowers looking for forbearance and from would-be borrowers looking for a deal. Depending on how the situation evolves, lending standards may also tighten leading to more credit losses. In contrary to this expectation, the president of Oromia International bank argue that this will not be
a problem to the banking sector as clients are requesting loan re-scheduling and interest rate reduction leave alone requesting additional credit (Ethiopian reporter, 2020).

C. Effect on International Banking

The international business was highly affected since the major market destinations have closed their doors because of the pandemic. The majority of Import and export activities were temporarily stopped and clients are requesting extension of LC. Remittance from Ethiopian origin coming through banks has greatly reduced as a result of the lockdown in different countries. This will bring foreign currency shortage and highly affect the revenue generated by banks from these sources.

D. Effect on Profitability of the Banks

The lending interest rates may be lower for longer period and this interest rate cuts could affect bank profitability. Those banks whose revenue is tied to interest income, are already dealing with this problem. For instance, the president of oromia international bank estimates that his bank’s income may decrease by 200 million as a result of the action they are taking to support their clients (The reporter, 2020). Further, Wogagen bank’s president has also expressed his fear that his bank may lose up to 150 million because of the decision they are taking to support their clients (The Reporter dated February 2, 2020). Awash and United bank estimated, their profit will go down by birr 60 million and 50 million respectively as a result of the response they are taking (The Reporter, 2020). On a more fundamental level, banks will be watching to see if the business environment degrades enough to cause real stress for companies with good operating status. If that happens, defaults and bankruptcies will undoubtedly occur and their non performing loan loss will increase. These will further affect profitability, the earning per share and dividend per share of stockholders which intern leads to investors’ loss of confidence.

E. Cyber Attack

Since consumers will fear the infection, they may switch to a cashless society and the adoption of alternative integrated payment features may be powered by mobile wallets. Personal mobile devices will become a user’s central operating device, enabling payments to peers and to businesses. Internet banking may also become more viable as the functionality of e-banking systems grows, and customers adapt to the new ways of conducting their financial activities. E-
banking has the potential to be a very rich and pleasant experience, and may provide more opportunities for banks to develop mutually satisfying, tailor made services to enrich relationship with customers. However, a considerable concern rises in cyber attack and fraud, as consumers, businesses and employees adapt to this new environment. Crises and rapid change always create an opportunity for bad actors, and COVID-19 will be no different (Lukic, 2015). In connection to this, Ethiopia National Intelligence and Security Service (NISS) reported about 538 cyber attacks in the country; the majority of which occurred after coming of the pandemic. Specially, NISS reported control of 110 million-dollar theft attempt from commercial bank of Ethiopia using cyber attack on May 10, 2020.

F. Effect on Newly Intering Banks

In addition to the existing 18 banks in the country, about ten private banks are mobilizing capital by issuing shares planning to join the banking industry very soon. However, it might be challenging for them to start operation at this time. It will be very difficult to penetrate the market and start providing financial services if the pandemic stays longer and as a result, shareholders’ money will be tied up.

2.1.5. The Way Forward to Overcome Banking Sector Challenges

COVID-19 which originated from outside the banking system has tumndious effect and also provides the opportunity for banks to prove their role as systemic stabilizers, delivering services at least in part for social good. Supporting clients in these critical times will deepen customer relationships and re-affirm the role of banks as key enablers of the economy. Therefore, Banks should show empathy to their customers while making sound business decisions since how they respond to their customers at this difficult time could be pivotal to how banks are seen for years to come. Some of our banks are already considering relaxed payment schedules, interest rate reduction and availability of working capital credit free of interest. Though banks have taken some of these relief measures as part of natural-disaster response at the moment, the situation will require a much broader support to clients’ identified as follows.

Banks should focus on re-assessing the risk profiles of their customers and particularly re-classifying borrowers affected by the coronavirus as high risk and low risk. They should identify which industries and segments are in most imminent danger and quickly analyze and monitor data for early warning signals. Banks should rapidly identify most affected sectors and customers
in order to decide how they can be most supportive to their clients. This will include proactively engaging with clients to understand their situation, segmenting portfolios based on expected needs, developing an internal view of where support measures will be the most effective, and adjusting risk-mitigation actions for early delinquencies and for nonperforming exposures.

Strong internal liquidity-management practices will be required for Banks to be maximally effective in supporting market liquidity and the changing customer borrowing needs. The severity of the crises is likely to lead to larger-than-expected drawings on credit lines. The liquidity coverage reserve per month may not be enough to capture all the risks to liquidity from a longer period contagion. Banks should remain vigilant about liquidity measures to support their customers and make sure that indicators of non performing loans are monitored with the right level of attention.

Usually retired employee will go to bank branches for collecting their pension in which case they are highly exposed to the virus. They don’t use online banking since they are intimidated by technology. Banks need to work toward digitising such payments to these type beneficiaries. Now is the time to educate and support to use digital channels. They need to reach out and offer training on basic transactions. Also, they need to use it as an opportunity to connect and talk to these clients, many of whom are the most vulnerable in the community. Further, identify who is avoiding online or digital banking and start helping them to master basic transactions like checking a balance and making payments.

Banks should further encourage and support other customers to use digital and other virtual channels, wherever possible. To encourage customers to use existing digital products, they should launch positive and safety-oriented promotion aimed at reducing reliance on branches for services that are digitally available. Banks can also enhance their current digital offerings, identifying key functionalities that can be improved quickly; for example, they can simplify the procedures for accessing the services. Besides, banks should strictly inform customers and employees about being suspicious of emails from unfamiliar sources to counteract attempts of theft. They need to inform customers to keep their e-banking cards and passwords in a very safe place. Strengthen their system using security tools to identify threats before bad actors can intrude. Fortify their endpoint protection, and make sure devices and software are hardened and patched.
The advancements in digital technology are making the crisis more bearable and are enabling businesses to keep working with access to key services (communication, payments, credit, collaboration, etc.), while enabling social distancing and helping to fight COVID-19. We, Ethiopians are urged to switch to digital payments to reduce the coronavirus risks associated with exchanging cash. We need to learn from our neighbouring countries such as Kenya, Uganda and Tanzania in which digital payments is already the currency of choice for everything from daily shopping to paying bills. This outbreak should be used as an opportunity to increase usage and include more people in the digital economy. The use of e-banking and digital payment systems may place extra pressure across networks; so EthioTelecom need to work hard on network expansion in this regard.

Since banks are providers of essential services to customers and communities, and the markets more broadly, they will need to adopt a carefully segmented approach to workforce management. Particularly, careful attention is required for those in the workforce who provide critical services that are either customer facing or that require infrastructures only available at work places. These include, for example, branch managers, customer service officers, employees in the Treasury function, as well as some facilities and custodial staffs. Further, banks should keep on encouraging staffs and customers to sanitize themselves frequently and avail the necessary sanitation supplies to them. They should continue to limit office movement and re-design office space to increase the distance between employees. Use their IT development teams to automate routine work and avoid physical contacts.

National Bank of Ethiopia is playing its supervisory role by responding to this fast-moving and extraordinary situation. It should further give banks time to meet rules if they fall short, and hold off on implementing new initiatives so that they will remain focused on maintaining ongoing operations, given the increased difficulties of conducting such operations. NBE has to allow and communicate clearly that capital and liquidity reserves should support continued bank lending, without adverse consequences for bank management.

All of these suggestions assume that economic activity could restart shortly, but Banks have to also consider more adverse scenarios. Under more severely strained circumstances, Banks should have to rethink and strategically plan what they should do.
To sum up, as the banking sector plays a critical role in the country’s economic activity, its healthy operation is mandatory. Especially, in the current difficult time of COVID-19, bank managers need to be vigilant in scanning the existing situation of their client and provide their support accordingly. They need to think strategically so that they will pass this difficult time with minimum loss. National bank of Ethiopia should also strengthen its supervising capacity and provide its leadership to the sector in this difficult time than ever.

2.2. The Probable Effects of COVID-19 on Insurance Business in Ethiopia

2.2.1. Introduction
Insurance industry plays pivotal role during times of economic stress by helping companies and households manage risks and cushion against losses. Yet, as one of the biggest groups of investors, they are also vulnerable to volatility in financial markets. Volatile financial markets and the global economic downturn have had relatively greater effect on insurers, particularly life insurers, due to large holdings of fixed income securities and, correspondingly exposure to movements in interest rates. Global economic recession, which is becoming increasingly likely, might affect insurers in several ways. These include lower demand for insurance products, higher surrenders of certain life insurance and disruption of normal operation. This is true during pandemic COVID-19 crises.

Ethiopian insurance industry has identical fate with the same industry in other country, though there is context difference due to closed financial system. Though performing well, the industry couldn’t be totally free from effect of the pandemic. As the broader economy recovers and responds to the pandemic, insurers will face a number of challenges but may encounter many new opportunities in medium to long term. Lower demand for insurance products and higher surrenders of certain life insurance are among the challenges. Whereas, the increased insurance demand to be created to get covered against possible damage by the pandemic is an opportunity to be utilized by the industry.

To better understand the probable effect of COVID-19 on and opportunity to insurance sector in Ethiopia, and forward possible mechanisms to mitigate the negative effects, authors conducted desk review on sector’s before and after pandemic performance. The main objective is to highlight the extent of the problem and provide feasible recommendation.
2.2.2. Ethiopian Insurance Industry before COVID-19 Outbreak

The insurance industry is one of the vital industries in the economy. It performs a lot of functions that are indispensable for many modern economy and society. Insurance industry is the prerequisite for sustainable economic growth and prosperity (Kahase, 2018). Insurers contribute significantly to the financial security of private households and take on risks from companies, laying the foundation for economic activities, innovation and sustainable economic growth. In case of major losses e.g natural disasters, the insurance industry quickly provides the affected insureds with financial means, thereby contributing to macroeconomic stability. In addition to that, insurers are the biggest group of institutional investors and their focus on long term investments makes them an announcer of stability in the financial markets. Risks and insecurity are an integral part of our daily lives. Managing these risks in the best possible way is one of the major challenges for each individual, business as well as society as a whole.

Prior to pandemic, Ethiopian insurance sector is one of the segments which was safe, sound, well capitalized and profitable. The sector has scaled up their services by expanding its network and product diversification by showing visible signs of improvement. Although the number of insurance companies remained at 17, in 2018/2019 their branches rose from 532 to 568 following the opening of 36 new branches. As a result, this brought for the decrement of insurance to population ration from 181,396 to 173,848 for one insurance company. The industry’s capital also improved well by 49.5 percent to Birr 8.2 billion, of which, the share of private insurance companies was 68.3 percent and that of public insurance company was 31.7 percent (NBE, 2019).

2.2.3. Insurance Industry Response to the COVID-19 Pandemic

COVID-19 outburst resulted universal concern and economic hardship against different socio-economic landscape across the globe in general and Ethiopia in particular. The usual insurance business in Ethiopia is decreasing. Potential insure are not willing to be covered for third and damage insurance due to restriction imposed on their usual activities. Furthermore, recently risk is rising all over the country.

The number of people visiting insurance companies for new subscription and premium payment is decreasing from week to week. As a response to current pandemic consequence, the industry has decreased the number of employees deployed on work for the purpose of maintaining
physical distance. Besides, they are taking precautionary measures for their employees to keep their personal hygiene with hand wash, sanitizer and mask wearing. Additionally, some insurance companies are extending their hands and providing millions of Birr to support the low income citizens and combat the challenge of the virus. Moreover, the government has started to provide health insurance coverage for health professional that will join this anti COVID-19 campaign during pandemic period.

2.2.4. Probable Effect of COVID-19 on Insurance Sector in Ethiopia

The potential effect of COVID-19 on insurance sector increased insurance claims from death, hospitalization, events cancellation and business interruption cover, among other eventualities. However, these have not significantly affected insurers’ solvency so far. This may be due to delays in claims submission because of restrictions on movement, exclusion of pandemic events from insurance contracts, protracted loss adjustment process or diversification effects (eg higher insured death pay-outs being offset by lower annuity payments or lower claims from motor insurance). In some emerging market economies, low insurance penetration rates mean that most of the financial losses are not covered by insurers. COVID-19 has different probable effect on different line of insurance business.

**General Insurance**

The effect of COVID-19 Pandemic on general insurers vary depending on the products and types of coverage offered by the insurers. The pandemic has significant effect on new premiums on certain lines of business, such as international trade, travel, events, and losses from these lines of business may become significant. Other lines of business such as motor and home have remained relatively stable because, their transaction nature is not frequently happening events, claims volumes for personal lines (e.g., motor) have greatly decreased due to partial lockdown on transportation after state of emergency declaration in Ethiopia.

**Life Insurance**

COVID-19 has great probable effect on life insurance business;

It has significant effect on economic activity and employment levels at a local, regional and national level; consumer spending power has reduced significantly over a short period. Insurers are responding with payment breaks in an effort to stem a potential large level of lapses.
Coupled with the reduction in consumer spending power is the effect of market volatility and general uncertainty on consumer confidence and, therefore, on willingness to spend. Life assurers expect this to translate into significantly lower new business volumes for a period of uncertain duration. In addition to the expectation of lower new business volumes coupled with increased lapses, there has been a significant drop in market values and interest rates. The effect of this on life assurer income levels in some cases may lead to financial tension and the need to consider unfavorable actions such as expense cuts.

Although the tragic loss of life will resound across society, from an insurance perspective life assurer may not see a large volume of life claims as many of those that succumbed to the disease were of the age cohort that may not have coverage. However, there is a risk that mortality for other cohorts may increase arising from fear of seeking hospital or medical care or the general stress of self-isolation.

**Health Insurance**

There is a wide diversity of health systems across the globe; the effect on health insurers will not be uniform. For instance, in Ireland the government has mandated that private hospital services are redirected to support the COVID-19 surge, while in other countries private health providers have volunteered their services to support the response. This and the enforced self-isolation rules have meant that elective procedures and consultations have been greatly curtailed and subsequently claim volumes have reduced in the short term. However, in the circumstances where customers are paying for private health insurance but are not being distinguished from a public patient, it is possible that some customers will expect credits or rebates. In Ethiopian context, even though health insurance is not prevalent like other insurance type, it has positive externality as government planned to cover health professionals that assumed related to the pandemic.

### 2.2.5. The Way forward to Minimize the Effect of COVID-19 on Insurance Sector

Insurance industry has major role in stabilizing and sharing the effect of risk among its policy holder. Hence, insurance sector plays significant role in the country’s economic activity. Particularly, the industry has to work hard and collaborate in this difficult time with government in fighting COVID-19 and they have to be attentive, flexible enough to accommodate emerging scenario and communicative for its core stakeholders. As a regulatory body, National Bank of
Ethiopia should enhance its supervising capacity and provide leadership adopting emerging scenarios and international practice to country context.

Insurance business is expected to face liquidity problem in short run and solvency problem in the long run if the pandemic continues for long period of time. To prevent such events the sector is supposed to take precautionary measures and National Bank of Ethiopia has to support to maintain liquidity.

There is an opportunity for health insurance business in Ethiopia as the government entered into agreement with the Ethiopian Insurance Corporation but did not disclose the value of the cover. As COVID-19 cases continue to raise in Ethiopia several doctors, nurses and other health professionals in emergency rooms remain at high risk. Hence, they need to get coverage from government to do their job with full confidence.

2.3. The Effects of COVID-19 on Tax Administration in Ethiopia

2.3.1. Introduction

An effective tax administration is essential to ensure a healthy business environment and promoting economic growth. Tax administration should be effective in the sense of ensuring high compliance by taxpayers, and efficient in the sense that administrative costs are low relative to revenue collected. However, this administration is challenged by existing COVID-19 pandemic. This challenge has the tendency to increase due to quick rising number of COVID-19 cases around the world, with major adverse effects on health and mortality. To fight the outbreak and the spread of the virus, countries are imposing unprecedented measures, such as restrictions on the free movement of people and goods, and are shutting down large parts of the economy. The result is that economic activity has fallen sharply in many countries and increased global uncertainty has further eroded confidence and tax revenue collection.

Accordingly, for better understanding the probable effect of COVID-19 and the way forward to minimize its negative effect on tax administration in Ethiopia, authors have made desk review on the prior to pandemic, response given by the sector, pandemic’s probable effects and the way forward. The main objective is to highlight on the extent of the problem in the context of Ethiopia and provide feasible recommendation. Data for this purpose were gathered from
websites, newspapers, published articles, and government reports (NBE) and press conference release.

2.3.2. Tax Administration before COVID-19 in Ethiopia

Ethiopian Fiscal policy continued to focus on increasing tax revenue by strengthening tax administration and enforcement while covering greater proportion of government expenditures from domestic resources. These government expenditures have largely been geared towards supporting capital expenditure and enhancing pro-poor social spending programs and safety nets. Even though, there is an improvement on the performance of tax administration as domestic revenue record shown a 15.5 percent annual growth while general government expenditure showed a 16.6 percent increment resulting in a budget deficit equivalent to 2.5 percent of GDP which was lower than the 3 percent of GDP target set in the GTP II plan and as well there is increasing trend on total tax revenue collection for the last five years (2015 to 2019) (NBE, 2019). However, there is challenge for tax administration practice as it affects every corner of business.

2.3.3. Major Response of Tax Administration amid COVID-19 in Ethiopia

The effect of pandemic COVID-19 has resulted businesses to break around the globe. Different countries are looking to adjust income, consumption and corporate tax systems as a way to response for confronting worst scenarios. The frameworks that have been in place for decades to collect and remit tax payments are in many cases, the fastest way for governments to get relief to their citizens at a time when every passing day creates more economic disorder. This is true in Ethiopia, though there is difference on the magnitude of the problems.

Hence, Ethiopian government has taken different measures related to tax administration. Among these, it issued different cooperation call for international communities to fill its public financing gaps. Government’s proposal is not limited to the country, rather for the continent too. This call has gone swift response from international organization, such IMF with grant of $411 million, World Bank $82.5 million, Bill gate and Jackma foundation support, extending interest payment period for previously borrowed public debt from international funding institutions and getting medical equipment for fighting against COVID 19. Besides, as additional measures, the ministry has taken different measures of precautionary for its employees and tax payers to maintain physical distance and keep personal hygiene.
Other mitigation measures taken by Ethiopian government were accelerated processing of VAT refunds to help in the cash flow of the private sector to enable them better manage the effects of COVID-19 on their businesses and tax exemption on importation of products related to curbing the coronavirus outbreak (KPMG 2020).

Furthermore, government action towards removing penalties and tax liabilities with the purpose of subsidizing companies not to reduce employee is appreciable decision. On April 16, 2012 E C. the Council of ministers have decided to give mercy which is limited to the following time frame; 2007 EC and from 2008 to 2011 EC, if their account is closed, they will free from tax liability. For tax liability before 2007, their main tax penalty and interest have got mercy. Whereas, those who have tax liability and that pays 25 percent of their tax liability can be free from interest. Besides, for those who will pay their entire tax liability, they will get 10 percent tax liability deduction.

2.3.4. The probable Effect of COVID-19 on Ethiopian Tax Administration

Estimation of OECD (2020) stated by General Angel Gurría, shown that the lockdown will directly affect sectors amounting up to one third of GDP in the major economies. For each month of containment, there will be a loss of 2 % in annual GDP growth. The tourism sector alone faces an output decrease as high as 70%. Business closures have the probability of getting reduced by 15% or more in the level of output throughout advanced economies and major emerging-market economies. In the median economy, output would decline by 25%.

Due to the aforementioned factors many economies have the probability to fall into recession, if they are not working well to continue fighting the pandemic. This will in return bring negative effect on tax revenue assessment, collection, enforcement and litigation. The difficulty of this public finance management leads for disabling the public health financing. As a result, if the government have no other source of finance for administering its basic expenditures, it will exacerbate the pandemics effect on general wellbeing of the society.

In developing economies, without further debt accumulation and support from the global community, mobilizing government revenue targets will remain very challenging in general and specifically for Ethiopia. As we can see Ethiopian tax collection performance of the last 9 months, it is not more than 42% (83 billion Birr) of annual budget requirement (Br 386.4 billion) or 67.78% of its collection plan (www.fanabc.com). This gap will further exacerbate due to
Investment activities decrement. According recent United Nations Conference on Trade and Development report (2020), global FDI is anticipated to be cut between 5% and 15% in 2020. In February 2020, the global completion rate of cross-border acquisitions fell below USD10 billion, from normal monthly values of around USD50 billion, which has severe implications on international trade and in return government revenue too not only for Ethiopia, but Africa as a whole, and especially countries that have outlined their medium-term growth strategies to be supported by large inflows of FDI.

Growth in Sub-Saharan Africa has been significantly effected by the ongoing coronavirus outbreak and is forecasted to fall sharply from 2.4% in 2019 to -2.1 to -5.1% in 2020, the first recession in the region over the past 25 years, according to the latest Africa’s Pulse, the World Bank’s twice-yearly economic update for the region (Ghanem, 2020).

COVID-19 will cost the region between $37 billion and $79 billion in output losses for 2020 due to a combination of effects. They include trade and value chain disruption, which affects commodity exporters and countries with strong value chain participation; reduced foreign financing flows from remittances, tourism, foreign direct investment, foreign aid, combined with capital flight; and through direct effects on health systems, and disruptions caused by containment measures and the public response (Ghanem, 2020).

Hence, if the pandemic is not controlled with in short period of time, it will have probable effect on disconcerting the overall tax administration performance in terms tax assessment, collection, enforcement and litigations.

i. **Tax Assessment:** if the challenge goes to worst scenario, the government tax assessment will be challenged significantly because the normal operation of different economic sector will interrupt and tax assessment becomes challenging task for the authority.

ii. **Tax Collection:** the failure to conduct tax assessment has spillover effect on the subsequent tax administration functions. Because failure to assess effectively leads to distortion and ultimately may lead to waiver of different tax. This will result in decreased government tax collection performance.
iii. **Tax Enforcement**: since tax authority is not in a position to conduct effective tax assessment and collection, it becomes difficult to enforce different tax laws enacted by the legislative body.

iv. **Tax Litigation**: if the scenario goes to worst case due to failure to enforce the existing laws, the litigation process will not be fruitful. Even, for the betterment of existing different business sectors sustainability and not to reduce their employees their previous litigation might be aborted in addition to current government action taken as a mercy up to 2008 EC and as a result, it will lead to reduction in tax revenue.

2.3.5. **The Way forward to minimize the Tax Administration challenge**

Since tax administration is essential to ensure healthy business environment and promoting economic growth, it should be effective in the sense of ensuring high compliance by taxpayers, and efficient in the sense that administrative costs are low relative to revenue collected. Hence, government has to focus on the following tax measures. Providing income support to households and improving cash-flow for businesses, once containment of the pandemic is within reach, governments will need to re-assess its medium- to longer-term fiscal strategies to achieve a balance between fiscal stimulus and fiscal consolidation, adapting to a new reality that unfortunately is still largely unknown.

To look some of the measures taken by many countries, they have reduced value-added taxes, allowed more companies to access deductions more quickly and deferred tax payments. More than 30 countries have offered some kind of VAT relief (Asquith, 2020). For instance, Japan considered cutting its overall VAT rate in half, whereas countries such as Vietnam, South Korea and Thailand are implementing consumption tax relief for specific industries and products. Meanwhile, other countries are offering more modest and targeted relief for companies that can demonstrate financial difficulties due to the outbreak (Parkers, 2020).

In addition to the aforesaid measures, advanced economies are working on long-term projects like tax co-operation among countries, international standards to eliminate double taxation, and the mobilization of domestic resources which have prioritized work on a range of targeted and temporary tax policy and tax administration measures governments could consider as part of their immediate response (OECD, 2020).
In Ethiopia, even though there are different measures taken it needs to look ahead for probable challenges that we may face if the pandemic is not controlled with in short period of time. Accordingly, it is better if the government look at the following recommendations to reduce the probable effect of COVID-19 on socio economic effect in general and tax administration in particular.

In connection to personal income tax, it is better to waive or defer employer and self-employed social security contributions as well as payroll related taxes by organizations. This will help for badly hit sectors and those affected by a shutdown could benefit from the waiver of payroll related taxes and social security contributions, paid by the employer or the self-employed, to immediately reduce labor costs. In order to reward people for working extra hours in potentially dangerous conditions, governments could provide tax concessions (e.g. exempting overtime income from labor taxation) or could incentivize retired workers to temporarily re-enter the workforce by ensuring that their pension entitlements are not affected. Particularly, this tax reduction and insurance coverage has to be provided for workers in health and other emergency-related sectors.

In connection to tax payer’s service, since the nature of the pandemic appeals for physical distancing, Ministry of revenue should follow different strategies while they deal with tax filling, adjusting tax return, payment requirements, advance payment schemes, and refunds to taxpayers. This can be done by setting different shifts and providing additional time for dealing with tax affairs that will enhance taxpayer services and implementing clear communication strategies.

In relation to VAT administration, it is better to postpone payments of VAT, customs or excise duties for essential items imported, particularly on food, medicine, capital goods which is assumed to be relevant for helping and controlling the pandemic campaign with great careful administration of system or policy abuse. Furthermore, if there are better finance options, it is better to make it free till the pandemic is under control. To limit fraud risks or system abuse, it is better to speed up refunds of excess input VAT or simplifying procedures for claiming relief from VAT on bad debts.

In connection to business profit tax, adjusting the required advance payments of business income taxes on the basis of a revised expected tax liability that more closely approximates the
taxpayer’s likely final tax liability, taking into account the expected effect on business turnover is recommended. In addition, waiving taxes that are levied on a tax base that does not vary with the immediate economic cycle, e.g. recurrent property taxes or business turnover taxes is suggested.

In addition to domestic revenue collection, assessment and enforcement, Ethiopian government has to look forward on its customs work for mitigating the effects of the COVID-19 Pandemic. In connection to facilitating Cross-border Movement of Relief and Essential Supplies, the ministry should: Coordinate and cooperate with other government agencies with the objective of speeding up the clearance of relief goods. Prioritize the clearance of relief consignments on the basis of a list of essential items. Clear relief consignments as a matter of priority, provide for the lodging of a simplified Goods declaration or of a provisional or incomplete Goods declaration, provide for pre-arrival processing of the Goods declaration and release of the goods upon arrival, apply risk management and perform inspections on relief goods only if deemed high risk. Ensure inspections by other government agencies and inspections by Customs are coordinated and, if possible, carried out at the same time. Advocate for or support the waiving or suspension of import duties and taxes for relief items.

In relation to Supporting the Economy and Sustaining Supply Chain Continuity: Introduce tax relief measures, such as extending payment of duties, payment of duties in instalments, and duty drawback. Waive penalties for delays that are due to late arrival of commercial documents from exporting countries. Introduce facilitative measures with regard to the requirements to submit original documents or to stamp certain documents. Set up crisis teams to ensure the overall performance of Customs tasks. Take measures to guarantee personnel availability in the long term. Operate a 24/7 Customs clearance system. Create a Helpdesk to resolve issues faced by importers/ exporters. Apply risk management to keep physical inspections to the necessary minimum and speed up Customs clearance. Optimum use of non-intrusive inspection equipment. Designate priority lanes for freight transport and introduce measures to guarantee the supply chain continuity. Facilitate the continuation of transport by road, including for goods in transit, in cases where the driver of the means of transports has COVID-19 symptoms.
In connection to Protecting Staff and the society: Provides personal protection equipment to staff, such as masks, gloves, sanitizers, etc. Apply physical distancing measures. Encourage the use of electronic services in conducting business with Customs. Ensure appropriate integration in the preparedness and response mechanisms of Customs administrations with health and safety responsibilities. Make COVID-19 related information available on official web-site and social media accounts. In this regard Ethiopian MOR and Custom authority they lag behind, because they will not update their website timely. Share advance passenger information (API) with sanitary control authorities. Measure certain indicators and provide statistical data to the government to inform decisions in the response to the disaster. Intercept the trafficking of counterfeited medical supplies. Expand the tax-free import for the purposes of disinfectants production. Donate seized alcohol for the production of disinfectants.

3.1. The Effects of COVID-19 on Export, Remittance, and balance of payment

3.1.1. Introduction

COVID-19 pandemic has brought tremendous, devastating and catastrophic damage to the global economy. As a consequence of the pandemic, investors’ fear of the spread of the virus has led to deterioration of the global economic growth; major industrial production chains have been brought to halt; industrial production, sales and investment have fallen in the first three months of the year, compared the same period in 2019; restrictions have affected the supply chain of big companies such as industrial equipment manufacturers and car makers. Containment has led to further downward predictions of world GDP growth. The global economy is expected to experience its worst recession since the great depression of 1930s (IMF, 2020). The current depression witnessed surpasses the deep economic slump following the global financial crisis a decade ago (i.e. 2008/09). United Nation’s Department of Economic and Social Affairs (UNCESA, 2020) estimated the world economy could contract by up to 1 percent. According to OECD (2020), the lockdown in the advanced economies inevitably results in significant decline in GDP growth.

This section seeks to present an overview of the initial effect the pandemic will have on the Ethiopian economy. Given the strong interconnectedness and interdependence among economies in today’s globalized world, it would be logical to get a glimpse of what is happening at global and continental (Africa) level before directly delving into reviewing effects on Ethiopian economy as outlined below.

The Global Economy: COVID-19 pandemic has been disrupting the interconnected World Economy through global value chains, which accounts for nearly half of the global trade, abrupt fall of commodity prices, fiscal revenue diminishes, foreign exchange receipt dwindles, foreign financial flow shrinks, travel restrictions, tourism and hotels sectors decline, labor market frozen, etc. Half of world GDP comes from advanced economies such as USA, Japan and Europe. Anything that affects these economies will adversely affect the economy of the rest of the world. The economies of these countries are mainly dependent on trade, services and industries. However, COVID-19 pandemic has forced them to close their borders resulting in drastic
reductions in their economic activities. This will further lead to recessions in some of these developed countries.

The Chinese economy alone accounts for 16 percent of global GDP. It is also the largest trading partner of most African countries and the rest of the world (IMF, 2020). The shock in China’s economy will affect especially African economy through trade including Ethiopia. Likewise, The OECD (2020) forecasts a decline in economic growth rates for those major economies as follows: china’s economy is expected to decline from 5.9 percent to 4.9 percent; Europe’s economy to 0.8 percent from 1.1 percent and the rest of the world declines from 2.9 percent to 2.4 percent. UNCTAD (2020) forecasts foreign direct investment from 5 percent to 15 percent. IMF (2020) announced that investors have withdrawn $830 billion from emerging markets since the commencement of the pandemic. ORCD (2020) also downgraded its forecast for the world economy. Thus, global economy could drop to 1 and ½ percent, a little bit higher than IMF’s estimation.

Although it is difficult to measure the exact effect of COVID-19 pandemic on the world economy, some stylized facts can show how the global economy will be affected:

Commodity prices: Oil prices lost over 50 percent of their values as people consume less and cut down on travels. OPEC (organization for Oil Producing and Exporting Countries) agreed to cut supply by 1.5 million barrels per day until June 2020. However, it failed to succeed because Saudi Arabia feared that this would increase production, which will escalate oil wars as non-OPEC members retaliate, which in turn results in tumbling oil prices. This decline in oil prices will improve Ethiopia’s trade balance in a meaningful way. This is because Ethiopia spends over $2 billion for importing oil. This declines the import cost of the country.

Global prices for key food commodities: As several African countries including Ethiopia are net importers of food grains (i.e. wheat, rice, etc), the fluctuation of these commodities prices will affect these net importer countries. This has an indeterminate effect on Ethiopian economy. If the supply declines, importing these commodities, especially wheat, will affect Ethiopia negatively and vice versa.

Aviation and travel industry: This sector is the most affected sector globally including Ethiopia. Aviation industry revenues were $830 billion in 2019. These revenues were projected to $872 billion in 2020. However, many countries (including Ethiopia) put a halt on long distances. As a
result, the aviation industry loses about $113 billion (International Air Transport Association (IATA), 2020). The pandemic has brought a devastating loss to Ethiopian airlines about USD 550 million

The global financial markets: The main stock markets indices have just experienced one of the worst developments in their history in decades. The banking sector has also lost almost 40 percent of its value in March (2020) and the trend is still bearish. It limits the functioning of world economy.

The official China manufacturing index: This index measures the level of factory activity based on Bloomberg. The global supply chain experienced several disruptions from the pandemic. Since the commencement of the pandemic, output in China drastically fell from 50 percent in January to 37.5 percent by the end of February. This sharp decline in manufacturing has a severe effect on nations, as China is the major supplier of machinery for infrastructure and automobiles. To curb the disease, most factories had to shut down operation. At this junction, it is crucial to note that this decline affects Ethiopia’s construction sector negatively. Agriculture and the construction sector, in Ethiopia, contribute to about 50 percent of GDP. The agricultural sector, in Ethiopia, uses agricultural inputs (fertilizers, insecticides, herbicides) imported from industrialized countries.

These stylized facts help us see the consequences of COVID-19 pandemic on Global Economy. Economists world-wide have suggested different remedies to be implemented by respective governments. Accordingly, some governments have been responding for this serious pandemic.

Measures taken at Global Level: Different from similar previous crises, the current scenario combines supply and demand side shocks across multiple sectors. The Bretton Woods institutions have put in place a fast-disbursement emergency credit financing facility to support their member states. For example, G20 countries planned to inject over $5 trillion into the global economy as part of targeted fiscal policy, economic measures and guarantee schemes – to counter economic fallout from the COVID-19 pandemic. China also lowered reserves and freed up more than $70 billion to boost the economy and announced $154 billion in aid. Likewise, South Korea has reduce interest rates from 1.25 percent to 0.75 percent and announced an aid of 16.7 billion as a response to COVID-19; reduces interest rate from 0.75 percent to 0.25 percent
and announced 37 billion as a response to COVID-19 pandemic. The European central bank has announced a support to EU economy of $750 billion Euro France announced 334 billion Euros as a response to COVID-19 pandemic. Germany initiated $13.34 Euro package as a response to the pandemic. As the world economy is interconnected in this globalization era, it influences Ethiopian economy in general and its export sector in particular.

The African Economy under COVI-19: Knowing the effect of COVID-19 on global economy, particularly on African economy, is essential. African governments are striving to open their economy to African countries and thus establish African markets in the coming years. The effects of the pandemic on African economy directly affect Ethiopian economy, too. To this end, this section provides a brief overview of the effect of the pandemic on Africa.

A recent report of African Union (AU) indicates that regardless of the scenario whether optimistic or pessimistic, the virus will have its toll on the continent’s socio-economy (p.30). Losses related to the global oil price are estimated at $65 billion. Losses amounting $19 million are expected in Nigeria alone. The crisis also affects the manufacturing firms- automobiles (-44 percent), Airlines (-42 percent) energy and basic material industries (-13 percent). The United Nations Economic Commission for Africa (UNECA, 2020) estimated that the virus will affect 29 percent of Ethiopian economic growth in 2020.

The pandemic has also affected the Ethiopian flower industry significantly. After Europe was hit by the virus, the demand for flower has plummeted and the price has dropped by more than 80 percent. Disruption of global supply chain has resulted in falls in value creation and subsequent demand side shocks such as oil, tourism, and remittances. This has in turn slowed down investment (thus job loss). For oil exporters, revenue losses can go up to $ 65 billion. Inflationary pressures due to supply-side shortage (food and pharmacy) are also expected. Unanticipated increase in health spending of up to $10.6 billion is also likely inevitable. Exports are plummeted and capital has flown out. Poverty will increase rapidly. It is expected that Africa will lose 19-22 million jobs. This is concerning especially, as only 17.8 percent of African workers are covered by social protection schemes, compared to 45.2 percent of workers of the world.

Summer et al., (2020), projects up to half a million people could be pushed into poverty (living on less than $1.90 a day) globally if consumption contracts by 20 percent. This amount be an
additional 112 million poor in SSA, (a 25 percent rise), wiping away gains made in reducing poverty over many years. Lower demand and economic contraction are significantly reducing trade flows (as commodity prices fall and supply chains are disrupted). UNECA (2020) estimated that over 50 percent of Africa’s trade takes place with countries highly affected by the pandemic. AU (2020) argues that trade restrictions and crossborder blockage on the movement of people and goods have serious consequences: Prevents the flow of critical pandemic related heal and medical products, increasing their costs up to 23 percent on average (Espitia et al., 2020); Threaten food security by disrupting access to food and further reducing agricultural production (by up to 7 percent) (World Bank, 2020) and Reveals the fragility of the food system globally, as well as critical socio-economic effects, notably through trade linkages (Rizzotto et al., 2020)

UNECA (2020b) argues that compressed demand in important African external markets presents severe risks to livelihoods. The effect of global lockdowns on coffee and tea is one illustration of supply chain links back to Africa that could put 4 million small holders’ farmers in Ethiopia and the same question on value chain resilience arises for garment production in Ethiopia where private firms could shed up to 37, 000 formal workers.

UN secretary general, Antonio guetterez, argues that the millions of women’s job has disappeared. Women are often more vulnerable to the effects of the pandemic notably because of their predominant roles in community-based activities (UNEPA, 2020). The principal caregivers and predominant (formal and informal) healthcare services and their dependence on agriculture and services activities are affected by the pandemic (World Bank, 2020). Women also play a dominant role in informal crossborder activities in Africa, to which the closure of national borders to trade is detrimental. Women entrepreneurs, in both the formal and informal economy, traditionally face more difficulties in getting access to finance, which may be further restricted by the liquidity constraints resulting from the pandemic

McKinse (2020) suggests GDP growth may fall by 3.8 percentage points in 2020-equivalent to a loss of $90 – 200 billion. AU (2020) also suggests that the GDP cost could be 4.5 percent. Studies by UNECA (2020b) and te Verde (2020) forecast around $100 billion short fall in SSA which is 5.6 percent of 2018’s GDP. UNECA (2020) further estimates that the effect on African
economy will lead to about 29 million people being pushed back into extreme poverty of under $1.90 a day.

Ethiopian economy is an open economy. Integrated world economies share prosperity and calamities. The calamity going on globally is severely affecting Ethiopia. The virus is severely effecting manufacturing production in developing countries because: demand from high income countries for manufacturing goods and raw materials is decreasing, value chains are being disrupted due to delays in the delivery of necessary components and supplies from more technologically advanced countries. Other factors that should be included in this scenario are policies- restriction of movement of goods and people and inability of employees to reach the work place which affects the normal production process. The UN economists have estimated a $50 billion decrease in manufacturing production in February 2020. IMF (2020) warns that the negative economic effects will be felt very intensively in developing countries that sell raw materials. All these negative channels will inevitably have an effect on exports from developing countries. The losses in export volume will be further intensified by the decline in energy and commodity prices. UNCTAD (2020) projects that those developing countries as a whole (excluding china) will lose nearly $800 billion in terms of export revenues in 2020

In what follows, we present the initial assessment of the effect of covid-19 on Ethiopian economy: the export-import sectors (using specific components of the sectors) followed the effect of COVID-19 pandemic on unemployment in Ethiopia. The aim is to provide an overview of the initial effect of the COVID-19 on the Ethiopian economy using currently available literature.

3.1.2. The Effect of COVID-19 on Exports of Ethiopia

Flower exporters will be threatened by several quarters of near-zero revenue if conditions in Europe – the primary market- take a long time to recover. First half of this year exports were $225 million and the fiscal year outlook was around $450 million in exports (possibly second largest after coffee). If the last four months of flower exports are zero, then the total exports of the year will be $150 million lower than expected. The recent removal of the NBE’s minimum price set for flowers ($3.8 per KG) is not that much meaningful since the underlying problem is the collapse of flower demand in European Union. Around 150,000 workers are reportedly
employed in the sector (including horticulture). The numbers of newly laid-off employees in a few concentrated areas could potentially be quite significant.

The textile sector also has saved suspension of orders from big US, European and Chinese companies and face considerable uncertainty. Textile exports were $100 million in the first half of the fiscal year and a prolonged suspension may thus cost up to $50 million in foregone exports per quarter.

Global fashion brands are closing down their stores leading to complete halt in demand from brands at a factory level. Some factories closed down their sheds; others shifted their market to produce items needed for combating the pandemic such as PPE. The average capacity utilization rate has been decreased by 30 percent in quarter I of the year 2020 relative to the same period in 2019. Factories are closed in Ethiopia. They need support on sourcing of machinery, raw materials, foreign exchange, training of workers (ILO, 2020).

The African Union Report (2020) proposes three main options to protect African workers who face the prospect of extreme hardship: (i) to subsidize wages for workers (ii) a subsidized training package to retain manufacturing capabilities (iii) retooling of garment factories to produce garments for medical tools. Each option requires different commitments from buyers, factories, workers, the public sector and donors. The sector pays fixed amount of salary per month to workers. This can be financed through a combination of commitments from buyers, factories, workers, the public sector and donors. Workers may be able to face a cut to (e.g. 75 percent of full wages). Factories may be able to contribute a share. The rest need to be financed through grants or loans from public sector and buyers. The central challenge is to keep employees committed so they can keep working, or be re-employed immediately after the crisis. Without such arrangements, they may simply disappear and the value of the training they have received will be lost. A temporary training program consistent with strict social distancing policies would raise productivity. For this to happen, there needs to be a fast supply of fabrics. Factories need to find and stock fabric that is suitable for enduse and be able to transport it to the sewing factory in an environment of rising fabric prices and reduced airfreight options. Factories need the connections to get the requests, the capability to produce according to new specifications. Ports and borders such as those supported by trademarks in East Africa need to
remain open. The orders may come from home countries, which need protective clothing, or donors in Europe and US, which could finance this as part of stimulus package.

Exports: For exports, a slightly negative growth is expected this year (versus 8 percent growth anticipated per annum). It is also expected that a drop in revenue inflows will bring the year total figure just $5.1 billion rather than a previously expected $6 billion. These two factors contribute to a worsening of the current account this year to 4.6 percent of GDP.

Capital Account: Here a sharp drop in FDI is expected to around $2.4 billion for the year 2020. This mostly reflected the delay in privatization and it is assumed that most other items in capital account (government and public sector net foreign borrowing) remain at the previously expected level.

Exchange Rate: regarding the outlook for birr, as the exchange rate is not market determined; Ethiopia will not experience the sharp depreciation seen recently- given the global crisis. Still the NBE (National Bank of Ethiopia) will see the need to pursue a somewhat sharper pace of rate adjusted (versus its pre-pandemic trajectory) to help cope with the net negative balance of payments. Indeed, consistent with this view, the depreciation in March 2019 has picked up pace to a rate of 54 cents per month, more than double the 22 cents monthly depreciation is seen both in January and February. Compared to a year ago level, the rate is now 15 percent lower (32.81 on March 31, versus 28.49 a year ago. This magnitude of annual depreciation is likely to remain within the NBE’s comfort range.

3.1.3. The Effects of COVID-19 on Remittances

According to Alfonso et al., (2020), global remittances picked at $706 billion in 2019. This safetynet is frayed now by job losses in the service sectors most reliant on migrant worker and shutdowns that fail to recognize remittance agents as essential services. Faster adoption of digital financing services, which make remittances cheaper and more convenient, should be a priority once the immediate health crisis has been stabilized. Average cost of sending $200 is 6.82 percent (13.64 USD). Those most reliant on remittances are most exposed to the effects of the COVID-19. Some of the largest remittances sending countries (USA, Switzerland, Germany, France and Italy) are locked down by the COVID-19 pandemic. Service sector jobs have been hard hit from outset of the crisis.
Migrants working in hotels, restaurants, and salons have lost their jobs, without potential government support. They cannot even go back to their countries of origin due to travel restrictions. Those who manage to continue working, (e.g. in healthcare) may struggle to send money amid shutdowns. Even in the best of times, sending and receiving remittances is not straight forward. For many, it requires a ride to the service provider at specific times of the day.

During the mobility restrictions of the pandemic, sending cash remittances can become mission impossible when digital alternatives are taking or people are unfamiliar with them. In many countries, agents are closed without any specific provisions recognizing them as essential services. Where they have been deemed essential services, this information has not fully percolated to local authorities. Clients often face long queues, due to the lower number of agents and the shorter opening hours. When sending digitally is an option, other barriers may exist for senders and receivers. Account ownership and usage of digital payments, for instance, are not yet widespread amount the biggest receiving countries, which limit options. Most developing economies that rely on remittances do not have a combination of high usage of digital payments. Digital financial services not only make sending and receiving easier; they can also reduce the bite of fees into payments through technology-enabled scale (World Bank, 2020)

Remittances flows are expected to fall across all World Bank group regions: in Europe and central Asia (27 percent); SSA (23.1 percent; south Asia (22.1 percent); the Middle East and North Africa (19.6 percent (v) Latin America and Caribbean (19.3 percent). Remittances to LMICs (2019) were$554 billion. Even with the decline, remittance flows are expected to become even more important as a source of external financing

Regional remittance trends: remittances to SSA (i) registered a small decline of 0.5 percent ($48 billion in 2019), (ii) due to the pandemic, it declines to 23.1 percent ($ 37 billion in 2020) (iii) a recovery of 4 percent is expected in 2021. The Eastern Africa region is experiencing a severe outbreak of desert locusts attacking crops and threatening the food supply for people in the region. The World Bank (2020) recommends the following actions to support the remittance sector:

Public authorities should treat remittance service providers as essential services and mitigate any operational effects on their functioning. They authorities should support the remittance industry with appropriate infrastructures to manage their credit and liquidity risks effectively
Over the medium term the World Bank recommended the following key actions to accelerate the efforts to reduce remittance prices to respond to the challenges of widespread unemployment and the plight of migrant communities in host countries. Support the new emerging remittance models, which enable originating and distributing remittances through digital means, suitably addressing regulatory and infrastructure barriers. Support universal financial access in receiving countries and amongst migrant workers in sending countries. Enhance domestic retail payment systems promoting inter-operatability and fast payment services and available leveraging these for remittances. Support development of comprehensive integrated cross section broker payment solutions for MSMEs trade flows, commerce and remittances.

3.1.4. Effects of COVID-19 on Balance of Payment in Ethiopia

Foreign exchange inflows will surely show sharp declines in a number of categories, but the magnitudes are likely to be less severe than appear at first glance after accounting for various offsetting factors i.e. on a net basis. With global demand collapsing for many commodities and transport links also severely disrupted, immediately declines are certainly to be expected for several of Ethiopia’s exports –likely in the range of $300-$400 million during April- June 2020 (from expected levels) considering effects in the flower and textile sectors. Since exports will be affected sharply, including for Ethiopian Airlines revenue (about $1.5 billion on an annualized basis if a 30 percent decline is applied to last year’s $4.1. billion revenues and for tourism (perhaps $500-$700 million if we assume a near total stop of tourist inflows for the reminder of the fiscal year). Remittance will also likely fall as Ethiopians abroad face difficult employment /financial conditions and thus send less funds to families. But this decline can be moderated by those who choose to maintain their past support or provide even greater support to affected families. Some portion of FDI inflows should also be expected to be put on hold as foreign investors- already cautious due to upcoming elections- find another reason to take a wait –and-see approach. As the prospect of recording privatization inflows this fiscal year is now extremely remote (previously projected $1 billion in flows for 2019-2020). FDI inflows links directly to these anticipated inflows will fell by the corresponding amount.

Offsetting factors: going against this anticipated Foreign Exchange declines, however, several offsetting factors. (i) imports will tend to fall in line with lower FDI as well as with reduced consumer demand and lower manufacturing activity. (ii) if the collapse in oil prices is sustained
for the coming year, this should – by itself translate into around $1 billion or more in reduced imports (given last year’s $ 2 billion fuel import bill and global oil prices that are less than half of last year’s levels that is now $26 per barrel for brunt crude versus an average of $50-$60 last year.) potentially increased grants will likely provide extra support (beyond already expected levels) from the World Bank and other institutions. Potential debt services rescheduling from G-20 bilateral leaders (as recently proposed and advocated by IMF/World Bank) may provide another layer of external support beyond already assumed debt relief in Ethiopian case. The size of incremental grant and loan inflows may be limited for the few remaining months of the current fiscal year, but could become significant in 2020/21.

3.1.5. Policy Recommendations

The UN calls for solidarity and widespread cooperation as a means to building more equitable, inclusive and resilient societies that are better prepared to tackle pandemics, climate change, and other challenges.

The short-term objectives

- To address the immediate health situation
- To protect income-generating opportunities
- To safeguard the operation of critical supply chains i.e. necessities and health supplies

The long-term objectives

- Interventions to cushion the economic fallout, emphasize measures to restore supply chains, recover demand and incentivize productive investments

Mitigation policy response to the pandemic

As the pandemic is rapidly spreading across the globe (most governments in developed and developing countries) have developed some type of policy responses to curb the immediate human and economic effects (IMF, 2020).

- Monitoring macroeconomic policies
- Distinguishing between
  - Exchange rate and balance of payment
✓ Monetary and macro financial measures
✓ Fiscal measures

**Policy to support manufacturing**

- PWC (2020) has mapped a host of challenges for industry in light of the ongoing crisis including supply chains and the work forces global mobility. It identifies policy measures such as:
  ✓ Extending lines of credit
  ✓ Reducing infrastructure costs
  ✓ Providing short term funding
  ✓ Lessening the tax burdens
  ✓ Providing supply chain support that could assist manufacturers in responding to and anticipating the necessary adjustments
  ✓ Assisting severely hit business and promoting job retention

**Policy Interventions**

The mix of Economic Policy measures taken so far reveals the following:

**A. Fiscal intervention**

✓ Extra funding for health facilities
✓ Trade tax cuts for corona-related medical imports
✓ Faster VAT refunds to business

**B. Monetary measures**

✓ Birr 15 billion in liquidity support to banks
✓ Priority Foreign Exchange allocations to corona-related medical imports
✓ Higher limits on mobile money transfer

**Specific policy suggestions for Ethiopian government**
Credit provision for firms and businesses: this measure must target to curb the reduction of production which affects supply chain

Strengthening the social protection: COVID-19 pandemic affects particularly small businesses and employees working in the informal sector. These measures shall help to protect such vulnerable section of society from falling into poverty trap

Assistance to the SMEs: There are a lot of people working in this sector and firms may cease functioning due to the pandemic. These businesses largely are producing consumer goods and provide services. The demand for services and consumer goods is declining. This discourages the businesses and finally they might die out. Thus, government intervention through financial assistance is crucial

Committed leadership of the political economy: In order to build up people’s confidence and trust, government’s commitment of handling the crisis is crucial. When people are obedient to their government, economic and other policies can be effective. Furthermore, the authorities must stick their eyes on the economy of the nation so as to give immediate and significant responses to the economic challenges caused (or triggered) by the pandemic.

3.2. The Effects of COVID-19 Pandemic on Employment in Ethiopia

3.2.1. Introduction

The underlying problem with Africa is that, the COVID-19 pandemic has hit the continent at the time when the region is experiencing modest economic growth. The continent’s economic growth was stable at 3.4% in 2019 and was rising to 3.9% in 2020 and expected to be 4.1% in 2021. This is not sufficient enough to tackle the underlying structural challenges of insistent current account and fiscal deficits and debt susceptibility. A very optimistic growth estimate of United Nations Economic Commission for Africa (UNECA, 2020) says that the economic growth could slow down to 1.8%. This optimism emanated from the fact that the full effect of the pandemic is still not clear. Besides, extreme poverty is still a serious problem in the continent with 35% of the population still extremely poor. Moreover, inequalities with respect to economic and social opportunities for its people are the major problems of the continent. These inequalities are harsher for the women and the young and among them those with disabilities and those living with HIV. The African Economic Outlook (AEO, 2020) puts the problem of the continent as
two: (i) to raise the growth path and (ii) to increase the efficiency of growth in generating employment. Thus, there is this fear amongst African leaders today that they lose this energy while they fight COVID-19 pandemic (ILO, 2020).

Most African countries have introduced broad measures to curb the spread of the corona virus. These measures range from barring entry into the countries first for travellers from high-risk countries, then to all countries, closing of borders (to people, but not essential goods), cancellation of crowd gatherings, encouraging social distancing to complete time-bound lockdowns. Most recent confinement measures include closure of schools, universities, restaurants, and shops and cancellation of public and private events. In many countries urban market places are closed, people are lockdown at home, transport system has stopped and many people are not able to operate their income generation activities or to buy their basic consumption goods (ILO, 2020).

3.2.1. The effects of COVID-19 on Informal sector employment

Measures taken by governments to mitigate the spread of the disease include country level lock down and stay-at-home orders for the citizens. There are businesses which as a result are shut down because they cannot cover the costs and as a result, they are fired their workers. Some businesses operate at their minimum capacity where workers work in shift keeping their physical distancing. The education sector, private as well as government, is totally closed starting from Kindergarten up to University. All these will add up to the problem of unemployment. According to UNICEF Ethiopia (2020), it is expected that there will be a drop in employment by 48 percent because of the reduction in production caused by COVID-19 pandemic. The problem of unemployment will be aggravated when it comes to the informal sector. There are many informal sectors in Ethiopia who get their daily income from their sales each day. People are not moving means they are not selling anything and they are not earning any income. The same is true for daily laborers. These are workers who earn their living from whatsoever they do every day. They cannot survive the hunger from the stay at home even if they survive the corona virus.

What make the expected damage from COVID-19 in the Horn of Africa to be severe are the underlying societal features including high rates of poverty, prevalent food insecurity and absence of any effective social safety nets; such as targeted income support, unemployment insurance or disaster preparedness and prevention.
It is not easy to predict the scale of the damage on these fragile HoA nations’ health and economic status, because it depends on the spread and duration of the crisis, and more significantly on the effectiveness measures taken to control the virus. The major signals of this expected damage, however, are the contractions in economic activities and hence reductions in employment that result from the measures of social distancing and mobility restrictions taken by these countries (Capital, 2020).

The pandemic will hit the most the informal sector than the formal one. This is a sector in which people sell food and other goods and services and for the most part live a hand to mouth daily life. People in this sector are already in poverty. A survey in Kampala, for example, indicated that 93 per cent of them are operating below poverty line. The other problem is that, this sector takes the larger share of employment. The International Labor organization (ILO) estimates that this sector takes 66 percent of the whole employment in Africa. These people sustain their businesses and lives based on daily customer flow and face-to-face interaction. That is why lock downs, stay at home and social distancing measures of containing the spread of the virus effectively cuts all revenue generating activities of these people. Besides this, the rising food prices which happened as a result of panic buying and the disruption of food supply chains via border and transport closures have further affected the urban dwellers. Larger formal firms will not scape the problem of COVID-19 either. The initial effect on them came when exports of china fall in the beginning of this year. All these will affect production and sales and it will in turn affect by increasing number of unemployed by the major lay-offs from these big firms (IGC, 2020).

According to other sources, urban employment will be severely hit by the pandemic. This is because of the fact that manufacturing and services (urban based sectors of the economy) currently account for 64 per cent of the GDP in Africa and these are easy targets of the pandemic. Particularly, around 250 million Africans in the informal urban employment (not including North Africa) will be at risk. Small and medium enterprises (SMEs), which employ about 80 per cent in Africa, will also be hit by COVID-19 related effects. Moreover, consumption and expenditure in the urban areas of Africa on food, manufactured goods, utilities, transport, energy and services will probably face a sharp decline due to COVID-related lock downs and restrictions (New Business Ethiopia, 2020).
The Ethiopian government has taken two measures with regard to the COVID 19. The first is the stay at home order beginning from the first case reported. Towns were locked down, there were no transportation especially after University students were sent to their homes, all businesses were stopped with exception of Banks and health services providers, and those people coming from abroad are still quarantined for two weeks. This measure has stayed for almost three weeks. Even though the lack of work from staying at home is a minus, the control of the spread of the virus by staying at home was a plus for the country.

Ethiopian authorities first confirmed the presence of COVID-19 in the country on the 13th of March 2020. For some time after its first confirmed case and infections steadily increasing each day, the Ethiopian Airlines continued flying wherever possible including Chinese and European destinations resisting policies in East Africa. The Federal as well as the Regional Governments took measures like suspending large gatherings and inter-city public transport before they introduced a comprehensive lockdown to control the spread of the virus. The reason for the delay of the comprehensive lock down was the associated fear of around one million job losses as a result (International Crises Group, 2020).

There were economic measures taken in the country with regard to the pandemic. The federal government reserved funds for the pandemic related activities and also gave credit facility from the National Bank of the country. Tax exemptions are introduced on a temporary basis and some rent forgiveness is appreciated. More specifically, a five months state of emergency has been declared April 9th, 2020. During this state of emergency period, no rent increase and no tenant eviction, no firing of workers is allowed. Such extravagant consumptions will be limited because of the fact that bars and night clubs are closed due to the pandemic. Moreover, factories and businesses are encouraged to function by fulfilling all the required preventive measures (Alemayehu and Bart, 2020).

This last statement and other loosed mobility restrictions will give the economy some relief in terms of employment even though it may be against containing the pandemic if things become worse than this. This second measure which came almost three weeks after the first case reported immediately before Ethiopian Easter celebration have paradoxically relaxed the first measure of specially locking down towns and cities. The fact that transport is allowed to move between towns at their half capacity made people to travel away from their homes. Different companies
were also required to re-open and run their businesses by taking all the necessary safety measures. As a result of this second measure, and the divinely low number of cases and deaths in the country, people have almost forgotten the existence of this dangerous world pandemic. Washing hands, physical distancing, staying at home etc. are rarely practiced currently.

By the first strict lockdown measures or the second state of emergency measures, the most effected are the informal sectors and daily laborers. They couldn’t go out and even if they did, there are no people to buy their services or products and there are no jobs for the daily laborers. Thus, they became unemployed. The state of emergency for the coming five months announced just one week before the Ethiopian Easter

People earn their income from being employed either in the formal sector or in the informal sector. Majority of the employments in Africa are in the informal sector. According to ILO Brief (2020), the informal sector includes all economic activities and economic units that are- in law or practice- not totally covered or insufficiently covered by the rules and regulations of the country. The employment in this sector in Africa, as per ILO (2018, 2020), accounts for 85.5 percent of the total employment. Thus, it is the main source of employment. It is the sector in which the majority of the working men and women sustain themselves.

According to ILO (2020), the fear of the governments in Africa in combating COVID-19 arises from this fact. In other words, recent growth of the economy is based on growth in sales of commodities, services, and manufacturing and including mining and agriculture that operate in the informal sector. The share of the informal economy varies with in the region based on the differences in the socio-economic development. Accordingly, the informal economy is 67.3 percent in the Northern Africa while it is 89.2 percent in the Sub-Saharan Africa (ILO, 2020). This is true for Ethiopia, which is one of the Sub-Saharan African countries. Thus, informal economy is 89.2 percent in Ethiopia and it is directly affected by the measures taken to mitigate the spread of the pandemic.

Thus, since jobs are stopped to control the spread of this corona virus, people become unemployed and their income and thus livelihood will be affected. According to ILO (2020), African governments’ concern over the informal economy arises from the underlying truth that the informal economy and those taking part in it are exposed to extreme poverty, hunger and disease, since they don’t have the necessary social protection coverage and support mechanisms.
if they become unemployed because of the COVID-19 pandemic. Among these are waste recyclers, street vendors, transport workers, construction workers, domestic workers and many more including small peasants in rural or peri-urban areas that were producing for the urban market. Migrant workers, whether national or international, are also vulnerabilities since they may become ‘homeless’ under lockdown. When the schools, colleges and universities are shutdown, it not only brings major loss of investment in skills, but also puts many learners in the informal economy at a disadvantage since they may not be able to benefit from distance and e-learning for lack of connectivity. Therefore, measures that are taken to slow the spread of the virus have a direct cost for more than 75 per cent of the population in Africa whose livelihood is dependent on the informal economy. This makes total quarantine impossible in the African countries (ILO, 2020).

The ILO (2020) lists the major ways the COVID-19 affects or is expected to affect the informal economy in African countries, these are:

- Lockdown will make low income and vulnerable groups deprived of income,
- Lockdown will increase the prices of basic goods since it will be difficult to access informal economy markets. This affects the poor urban consumers,
- The loss of income with no alternatives will lead to urban-rural migration, which will spread the COVID-19 in rural areas.
- There will be an incentive for informal trading and flows of basic goods between rural and urban areas, which can contribute to spread the virus.
- Majority of the informal economy workers are women and girls which will worsen the gender stereotypes.

The livelihood of the people depends on their income. They are not earning any income means their livelihood and of those dependent on them will be affected. According to source, it is expected that around 30 million people could face food consumption gaps based on the estimated food poverty index. The poor and the destitute in the urban areas as well as the homeless and those in in the informal sector of the economy are expected to be highly affected. In some cases, the rural community will not be spared either. It will affect those households who rely on market purchase. This is because of the fact that COVID-19 prevention measures will make movements
of commercial goods delayed leading to localized food insecurity due to shortages of food items or increased prices (UN, 2020).

These all added together will affect their reason for existence. As a result, if these measures continue for so long, people will start taking criminal measures either on themselves or on other citizens. These will include suicide, theft, robbery, conflict with the government to open the economy, etc.

3.2.2. Actions taken to mitigate COVID-19’s effect on unemployment in Ethiopia

Governments are getting monetary support from different sources to combat the negative effect of this corona virus. The first is aid from rich countries and international institutions. Huge amount of money has been flowing to developing countries for this reason. The second is the 30% of one-month contribution from the government employees of the workers in Ethiopia. Some amount of money will be obtained from this also. The third is different fund-raising programs. Lots of money has been collected in this category as well.

Thus, government should allocate some percentage of this collected money to support those people who became unemployed. The unemployed people should be screened carefully. For this, the kebele administration can help a lot. Since we have scarce resource, we have to make priorities in this difficult time based on the following comparison. Comparatively, the urban areas are more affected than the rural, the informal sector employees are more affected than the formal, elderly people are more affected than the youth, large family sized households are affected more than small family sized households, etc. Thus, different humanitarian supports should be channeled appropriately.

We should also be prepared and act before things get worse in the areas of urban economic recovery taking such measures as boosting the finances and capacities of local authorities as frontline actors; short term bail-outs and exemptions for SMEs to boost productivity and increase employment capacity; while planning for labor intensive public work programs there should also be social protection for those in informal urban employment (New Business Ethiopia, 2020).

In his tweet on his tweeter page, our Prime Minister, Dr. Abiy Ahmed expressed that the government should mitigate the adverse effect of COVID-19 on the economy, by taking critical measures to protect employment and income, by scaling up safety net programs to the most
vulnerable, by maintaining the supply chain of key commodities and by supporting the productive sectors of the economy via all means possible (Ethiopian press Agency, 2020).

On their virtual meeting hosted by Economic Commission for Africa (ECA) in March 2020, the Ministers of Finance of African nations made the following suggestion for financing African response: securing a $100 billion for African Health and safety net fund. This will be used for rescuing the most vulnerable, including feeding for out of school children and unemployment support.

According to ECA (2020), the year has been designated by the African Union as the year of silencing the guns. Governments of African nations should work more seriously now than ever to reduce the unemployment effect of COVID-19. This is because of the fact that mass unemployment and disenfranchisement of their youth will work as fertile breeding ground for civil unrests in the continent.

There should also be a systematic selective sector-wise intervention. It is the tourism and air transport sectors that will be mostly affected by the pandemic in Africa. These sectors directly employ 6.2 million jobs (air transport) and indirectly by giving employment and additional spending to many other industries. These sectors were recently booming in terms of levels of growth and connecting Africa to the rest of the world. It is therefore required to take serious actions to avoid any lasting effects on transportation infrastructure and the associated mass unemployment (Economic Commission for Africa, 2020).

There should also be attention on the food security effect of the pandemic. Government should be prepared to cover the immediate food needs of vulnerable populations. These include more accessible safety net programs among others. Food distribution should be designed in such a way that it combines both public and private mechanisms. We should make use of national grain reserves or public procurements, the productive safety net programs, setting up food distribution centers, encourage and support local civil societies to take part in the distribution of food assistances (Alemayehu and Bart, 2020).

Communal life is still practiced in developing countries like Ethiopia. People have this shared way of life. When they are happy and when they are sad, they stand together. This is what we call social capital in economics. Thus, this is another means of surviving during this difficult time. The rich supports the poor, the still employed (formal sectors) supports the unemployed
(the informal sector and those who were living on remittances), the young and strong supports the old and the weak, the rural people supports the urban people, etc.

This support should continue and it should not be a one-time only move. If we want to control the spread of the virus, most or all people must stay at home until this time passes. As a result, this people to people support should continue in and organized timely manner.

What unemployed citizens should do depends on other factors. We believe that the support from the government and other people will only continue for some time. People should make themselves prepared for some kind of work from home activities. We have to be innovative and come up with COVID-19 friendly businesses. As the virus transmits at contacts with people in less than two meters, we can produce and distribute some important items for the people in need. This should be supported with some form of e-payment like CBE birr payment, or transfer of money from one account to the other, etc.

Doing all these survival techniques at government and people levels may not be enough to pass this difficult time. We have to behave in such a manner that we consume less and save more. We don’t know for how long this difficulty continues. That is why we have to be prepared at all levels for the worst. Otherwise we will end up losing so many things economically and socially so that it will take many years to come back to even where are today.

3.3. Effects of COVID-19 on Service Sector in Ethiopia

3.3.1. Introduction
As a result of outbreak COVID-19 pandemic disease, the world has become locked and faced serious barriers. Ethiopia has declared state of emergency on 10 April 2020 and limited the movement of people to curb transmission of the disease, as many other countries did. Therefore, measures such as national lockdown, related business disruptions, travel restrictions, school closures and any actions taken by governments within and outside of Ethiopia to limit gatherings of people are expect to reduce economic activities through paralyzing the production of goods, provision of services and trade activities.

Before COVID-19 the government and IMF have estimated the growth of GDP for the year 2019/20 to be 9 percent and 6.2 percent respectively (economic condition without COVID-19 effect). International institutions and local studies forecasted that Ethiopia’s economic growth
will be affected by COVID-19. For instance, IMF (2020) forecast Ethiopia’s GDP growth will be reduced to 3.2 percent from 6.2 percent as the result of pandemic. Alemayehu G. (2020) expresses that the economic impact of the COVID-19 pandemic for Ethiopia is staggering; it could shrink Ethiopia’s GDP by 11.1 percent through 2020/21.

As Degye et al (2020) state based on different scenarios, the COVID-19 pandemic could reduce GDP of Ethiopia by 2.2 to 9.9 percent. Some analysts warn the economic impact of COVID-19 will be much worse as many micro businesses are yet to lay off the majority of employees and the collapse of the all-important informal sector.

CEPHEUS (2020) research team has concluded that under a ‘limited virus spread scenario’ Ethiopia’s economy growth decreased to 5 percent; close to $1.5bn in net foreign exchange inflows will be lost; about 1.5mn jobs are potentially affected; around Birr 27bn to 57bn in wage income could be threatened, fiscal resources of up to Birr 90bn (2.3% GDP) would be needed for comprehensive public assistance packages. Therefore, the aim of this section is to illustrate the impact of COVID-19 on Ethiopian economy focusing on service sector such as transportation, tourism and hospitality, education and health sector.

3.3.2. The Ethiopian Service Sector Prior to COVID-19

According to official data of NBE (2019), the Ethiopian economy had exhibited 9.9 percent average annual growth for a decade (from 2007/08 to 2018/19). During this period a structural change is observed as agriculture declined in its share and service sector kept on growing and dominates the economy.

For instance, for the last five fiscal years’ service sector contribute about 43.3 percent in GDP share in average and, more than 48.5 percent in growth, which means about half of the country’s economic growth was attributed to service sector. In 2018/19 the services sector accounts for a large share 39.8 percent of the national economy, followed by agriculture 33.3 percent, and industry 28.1 percent. The sectoral share of employment indicates that service sector accounts for 22 percent of total employment in Ethiopia.
From service sub-sector wholesale and retail trade, and hotels and restaurants, transport and communication, real estate renting and business activities have been the major contributors to growth in service sector.

### 3.3.3. Effects of COVID-19 on Service Sector

**Transportation:** As part of the service sector, the transport has been playing its crucial role reducing transaction cost for transporting people, goods and commodities in different parts of the nations and contributing its own share to the GDP. Several stake holders have engaged directly or indirectly in this sector to play positive roles for the sector's development and GDP growth.

Following travel restriction and ‘partial lock-down’, Ethiopian Airlines, the biggest Africa’s airline has cut 90 percent of international passenger flights and trying to shift to cargo services. According to company’s report in April, 2020, the Airline forced to flying to only 19 international destinations out of 110 it used to fly to before pandemic. As the result, Ethiopian Airlines has already reported $550 million in lost revenue over the last two months and it begins to focus on cargo to sustain the business through this period.

Other public transportation services also slow down or reduce their traveller at least by 50 percent to keep their proximity at advisable distance. As the result, the sector has facing double challenges. On one hand, the limitation of number of transportations reduces economic activity, on the other hand it leads to raise cost of transportation and which affect income of the consumer.

**Tourism and hospitality:** tourism is an important sector of economic activity in Ethiopia. Ethiopia has been benefited from truism which is driven by Addis Ababa, capital city of Ethiopia and the diplomatic capital of Africa; and African giants Ethiopian Airlines. Ethiopia has collected revenue from truism around 10 percent of its GDP in 2018, and employed more than a million people in this sub-sector in Ethiopia (Africa Union, 2020). As the result of COVID-19 with the generalization of travel restrictions and closing of borders; not only tourism and hospitality but also services that are directly and indirectly attached to them; such as, hotels and restaurants, transport providers, tour guides and operators, museums, parks, and other tourist attracting features are affected significantly in Ethiopia. This sector is facing an almost complete loss of customers, in Addis Ababa reports show that hotels, restaurants and bars have been remain empty and they have started giving workers mandatory leave (CEPHEUS, 2020).
According to hotel industry association in Addis Ababa in April, 2020 about 88 percent of hotels in Addis Ababa are forced either to shut down or reduce services due to lack of occupancy arising from corona virus pandemic. The remaining 12 percent are being used as isolation centers of COVID-19 suspects who arrived in the capital from different parts of the world. This leads to large number of people unemployed and significantly impact economy.

**Health:** COVID-19, beyond its impact on human health, it has significant impact on country’s economy by disrupting country’s resource through increasing unbudgeted health spending shifting from other planned development activities.

It increases government unplanned expenditure to support hospitals, establish clinics at schools and other compounds, purchase essential medical equipment and rapid mobilization of emergency health-care and social safety net spending carrying out public awareness campaigns about simple protection measures like hand washing, social distancing and etc. And the crisis will stretch the-already-poor health systems of the country and ultimately create a shortage of medicines and health equipment.

From an economic view of point, the key issue is not just the number of cases of the COVID-19, but the level of disruption to economic activities which in turn aggravate the level of health risks. This again, leads to further depresses productivity and raises health care costs, cause serious harm to economic growth leading to increased poverty, and hence again more disease. This is a “disease-driven poverty trap” (Alemayew, 2020).

**Education:** Ethiopia has been characterized by a remarkable expansion of education sector over last two decade. To reduce contact and to limit the transmission of the disease, Ethiopia has decided to close schools, colleges and universities. The shutdown of schools, colleges and universities not only interrupts the teaching-learning process but also postpone or cancel a key assessment and exams periods. Currently MoE and MoSHE have been encouraging schools and parents to help all students continue to learn online from home through remote learning and eLearning platforms.

However, as most of students are rural area, the challenges of providing online education and address and support all students is not simple. Learning at home is challenging in Ethiopia,
particularly in rural area, because many parents have not themselves been to school and there is a lack of the necessary infrastructure to support remote learning (Dawit 2020).

MoE has advised primary school students to learn from radio lessons, and secondary school students to learn from television lessons from home through satellite television. This is possible for students in urban areas; however, for majority of students in rural area there is no clear evidence on how many parents have access to radios and satellite television.

In most rural area of Ethiopia, with limited or no access to electricity, it is less likely that radio and television lessons would reach all primary and secondary school children in the rural areas. Even when radio and television lessons reach some of the rural children, it is unlikely that those children get sufficient support from their parents at home because their parents have never been to school.

Similarly, college and university students are expected to learn online getting uploaded reading materials and assignments via eLearning, e-mail, Telegram and some social media platforms. Here also students are facing challenges like, poor internet connectivity, high internet costs, lack of appropriate technology, lack of computers or smart phone, lack of awareness and information, difficulties of using online platforms, to pursue their online studies during such an uncertain.

Generally, distance and online education has short and long term negative effect on students; it has negative impact on quality of education, leads to inequality in access to quality education between children in urban and rural areas, and children from parents with higher and lower socio-economic status inequality in addressing education (may further widen the inequality gaps between the advantaged and the disadvantaged), student drop out and negative impact on productivity in long term (Dawit, 2020; UNICEF Ethiopia, 2020).

3.3.4. The Way Forward to Reduce the Effects of COVID-19
To sum up, as the result of travel restrictions and closing of borders; travel industry, tourism and hospitality and also other services that are directly and indirectly attached to them are affected significantly in Ethiopia. In health sector, beyond its impact on human health, it has significant impact on country’s economy by disrupting country’s resource through increasing unbudgeted health spending shifting from other planned development activities.
The shutdown of schools, colleges and universities result in interruption of teaching-learning process, force to learn at home which affect quality of education, raise dropout rate and widen inequities in the learning gap between the advantages and dis-advantages groups. Hence, currently in Ethiopia service sector is one of the most affected by the corona virus pandemic. Therefore;

- Health protection measures; “crises can be arrested only by attacking their source” for the COVID-19 pandemic, first and foremost on public-health infrastructure and the science of COVID-19 containment and mitigation.
- Economic support; stimulate the economy, new employment creation, supporting firms, protecting workers in work place.
- Immediate support for most-affected service sectors and highly risked groups
- Instructors should be committed in preparing and uploading reading materials and address their student.
- MoSHE and other stockholders make sure the availability of internet and its cost affordable for students.
- Local governments and school heads should try to establish communication lines between public school teachers and parents in order to follow up closely to offer some advice as children try to learn from home.
- School teachers in collaboration with district and kebele education officers need to keep close contact with parents to make sure that children are trying to learn at home as much as possible. Such efforts can help and address the challenges related to the equitable provision of education for all children during the present COVID-19 crisis.
- Cooperation of all stockholders in the sector is important to save the sector from the COVID-19 pandemic.
References


Addis Standard (2020); Economic Analysis: #COVID-19’s test to the Ethiopian economy

Africa Union (2020); Effect of the Corona virus (COVID 19) on the African Economy

Alemayehu Geda (2020); The Macroeconomic and Social Effect of COVID-19 in Ethiopia and Suggested Direction for Policy Response; Department of Economics, AAU


Araya (2020); Education at the Crossroads Digital learning on high demand as COVID-19 undermines talk-chalk approach; May 1, 2020


Capital (2020). The Impact of COVID-19 Pandemic in the Horn of Africa (HoA), Retrieved


Cepheus (2020); Macroeconomic Effects of the Corona Virus: A Preliminary Assessment for Ethiopia; March 31, 2020. A Preliminary Assessment for Ethiopia

Christopher, Arnold. (2019). The Foundation for Economies Worldwide is Small Business. [Online](Updated June 26, 2019). Available at: https://www.ifac.org/knowledge-


Dawit Tibebu (2020); OVID-19 School Closures May Further Widen the Inequality Gaps between the Advantaged and the Disadvantaged in Ethiopia; research associate at the Research for Equitable Access and Learning (REAL) Centre in the Faculty of Education, University of Cambridge.


Elizabeth Gibbens (2020). Helping Small Businesses Navigate through COVID-19


Ethiosports (2020). Ethiopia’s Hospitality and Tourism sectors receive 3.3 billion Birr bailout fund. [online](Updated May 19, 2020). Available at: https://www.ethiosports.com/2020/05/19/ethiopias-hospitality-tourism-sectors-receive-3-3-billion-birr-bailout-fund/


Ghanem, (April 9,2020), Covid-19 (Coronavirus) Drives Sub-Saharan Africa Toward First Recession in 25 Years


KPMG,(May 7.2020);Ethiopia: Tax developments in response to COVID-19


New Business Ethiopia, (2020) UN says COVID-19 impact on African cities acute; Retrieved April, 15; 2020; Available at; Https://newbusinessethiopia.com


OECD Interim Economic Assessment: Coronavirus: The world Economy at risk (2020)


Olivia NanaYaa, Glynis Jonah, and Eugene Arnolis(2012) Leadership in Crisis - A Case Study on Leadership during the Economic Crisis in Britain


Silivia_Amaro. IMF says the world will ‘very likely’ experience worst recession since the 1930s: accessed at https://www.cnbc.com/2020/04/14/imf-global-economy-to-contract-by-3percent, on April 25, 2020
The IMF OFFICE IN Ethiopia- International monetary Fund: (April, 2020)


UNCTAD, (2020) adapting the use of asycuda world to customs administrations to the covid-19 situation: guidelines

UNICEF Ethiopia (2020); Socio-economic effects of COVID-19, 7th April 2020


About Contributors

Dr. Kenenisa Lemi Debela is an Associate Professor of Management, College of Business and Economics, Jimma University. https://www.ju.edu.et/beconew/node/238?q=node/397

Dr. Mekonnen Bogale Abegaz is an Assistant Professor of Management, College of Business and Economics, Jimma University. https://www.ju.edu.et/beconew/node/238?q=node/399

Dr. Zerihun Ayenew Birbisa is an Associate Professor of Management, College of Business and Economics, Jimma University. https://www.ju.edu.et/beconew/node/238?q=node/328

Mr Wubshet Mengesha Gebre is an Assistance Professor of Management and PhD candidate in Management, College of Business and Economics, Jimma University. https://www.ju.edu.et/beconew/node/238?q=node/326

Dr. Deresse Mersha Lakew is an Associate Professor of Accounting and Finance, College of Business and Economics, Jimma University. You can visit him online at https://www.ju.edu.et/beconew/node/142?q=node/350

Mr. Abel Worku Tassew is an Assistant Professor of Accounting and Finance, College of Business and Economics, Jimma University. You can visit him online at https://www.ju.edu.et/beconew/node/142?q=node/334

Jemal A. is an Associate Professor of Economics, College of Business and Economics, Jimma University. https://www.ju.edu.et/beconew/node/448?q=node/449

Dr. Leta Sera Bedada is an Assistant Professor of Economics, College of Business and Economics, Jimma University. https://www.ju.edu.et/beconew/node/448?q=node/450


Mr. Achalu Berecha Dhaba is a Lecturer of Economics, College of Business and Economics, Jimma University. You can visit him online at https://www.ju.edu.et/beconew/node/448?q=node/451

Mr Shimekit Kelkay is a lecturer of hospitality and tourism Management, College of Business and Economics, Jimma University. You can visit him online at https://www.ju.edu.et/beconew/node/178?q=node/184