



FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA



COVID19: Economic Impact Responses Assessment and Policy

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Content

Overview: Impact of COVID-19 on the Global Economy	1
Impact on Major Economies.....	1
Impact on the Ethiopian Economy.....	3
Direct and Indirect Fiscal Impacts of the COVID19 pandemic.....	12
COVID19: Economic Response strategy.....	16
Fiscal Response	16
1. Protecting Welfare of households	16
2. Protecting Jobs: Addressing the Jobs Implication of COVID19	17
3. Support to businesses, including MSMEs	20
Summary of Total Fiscal Costs and Financing need	22
Financing the COVID19 Economic Response Plan.....	23

Overview: Impact of COVID-19 on the Global Economy

The spread of the coronavirus is having a profound and serious impact on the global economy and has sent policymakers looking for ways to respond. Success stories so far show that the right policies make a difference in fighting the disease and mitigating its impact, but some of these policies come with difficult economic costs. In many countries policymakers implemented strict mobility constraints, both at the national and local levels, many cities enforced strict curfews on their citizens. Success in containing the virus comes at the price of slowing economic activity, no matter whether social distancing and reduced mobility is voluntary or enforced.

The estimated impact of the pandemic is changing by the day as the economic impact of the pandemic is getting worse. The extent of the economic impact is not yet clear as more and more countries are taking drastic measures including total lockdowns. According to the latest OECD interim report, growth prospects remain highly uncertain. Global GDP growth is projected to slow from 2.9% in 2019 to 2.4% this year, before picking up to around 3¼ % in 2021 as the effects of the coronavirus fade and output gradually recovers. Macroeconomic policy stimulus contemplated in the most exposed economies is expected to restore confidence as the effects of the outbreak and supply-side disruptions fade.

According to this latest OECD report, a longer-lasting and more intensive coronavirus outbreak, spreading widely throughout the Asia-Pacific region, Europe and North America, would weaken prospects considerably. In this event, global growth could drop to 1½ % in 2020, half the rate projected before the virus outbreak. The adverse impact on confidence, financial markets, the travel sector and disruption to supply chains contributes to the downward revisions in all G20 economies in 2020, particularly ones strongly interconnected to China, such as Japan, Korea, and Australia.

Impact on Major Economies

Impact on US

The US economy is one of the strongly impacted economies by the pandemic. However, the total impact of the pandemic on the US economy is uncertain as the virus is spreading quite

rapidly and the majority of the country remains under lockdown. Even before the pandemic set foot on US soil, its economy has been significantly affected due to strong linkage with the Chinese economy and its dependence on Chinese imports for many consumer products. For instance, recent data shows that the US stock exchange has so far lost over a third of its value.

The latest estimate from Goldman Sachs shows that the US economy is expected to contract by 6% in Q1, -24% in Q2, expand by 12% in Q3 and 10% in Q4, leaving full-year growth at -3.8% on an annual rate basis¹.

Impact on China

Economists are expecting a significant slowdown in China's economic growth. According to OECD report prospects for China have been revised markedly, with growth slipping below 5% this year, slower than the earlier forecast of 5.7%. Output contractions in China are being felt around the world, reflecting the key and the rising role China has in global supply chains, travel and commodity markets.

The latest figures indicate China's industrial production has fallen by 13.5%, fixed asset investments fell 24.5%, and retail sales fell 20.5% year-on-year in the first two months of 2020. The manufacturing sector in China has been hit hard by the virus outbreak. The Caixin/Markit Manufacturing Purchasing Managers' Index — a survey of private companies — showed that China's factory activity contracted in February, coming in at a record-low reading of 40.3. A reading below 50 indicates contraction. Chinese manufacturing slowdown has hurt countries with close economic links to China, many of which are Asia Pacific economies such as Vietnam, Singapore and South Korea. Factories in China are taking longer than expected to resume operations. That, along with a rapid spread of COVID-19 outside China, means that global manufacturing activity could remain subdued for longer.

Overall, forecast by Mackenzie shows that China's GDP is expected to contract by 2.7% in 2020².

¹ <https://www.goldmansachs.com/insights/pages/us-daily-20-march-2020.html>

² <https://www.weforum.org/agenda/2020/03/economic-impact-covid-19/>

Impact on Africa

The recent Economic Commission for Africa (ECA) report shows the crisis was set to deal African economies a severe blow. Africa's GDP growth is expected to fall from 3.2% to about 1.8 % in 2020 due to a number of reasons which include the disruption of global supply chains and the continent's interconnectedness to affected economies of the European Union, China and the United States. According to this release, the continent would need up to US\$ 10.6 billion in unanticipated increases in health spending to curtail the virus from spreading, while on the other hand revenue losses could lead to unsustainable debt. The ECA estimates COVID-19 could lead to Africa's export revenues from fuels falling at around US\$ 101 billion in 2020. Remittances and tourism are also being affected as the virus continues to spread worldwide. These are expected to result in a decline in FDI flows; capital flight; domestic financial market tightening; and a slow-down in investments - hence job losses.

With nearly two-thirds of African countries being net importers of basic food, according to ECA, shortages are feared to severely impact food availability and food security. Furthermore, negative consequences are expected to worsen, if COVID-19 develops into an outbreak in Africa. In addition, a decline in commodity prices could lead to fiscal pressures for Africa's major economies such as South Africa, Nigeria, Algeria, Egypt and Angola.

An initial analysis by the consulting firm McKinsey indicates that Africa's GDP growth in 2020 could be cut by three to eight percentage points. The pandemic and the oil-price shock are likely to tip Africa into an economic contraction in 2020, in the absence of major fiscal stimulus

Impact on the Ethiopian Economy

Macro + Development Performance in Ethiopia Pre-COVID

Ethiopia is facing the coronavirus pandemic while it is undergoing major economic, social and political reform to sustain the growth success and strengthen the foundations of the economy. It is important to bear in mind that Ethiopia's macro and development situation

pre-COVID-19 brought with it distinct advantages and disadvantages as well as specific vulnerabilities.

Advantages

- Clear policy directions for the medium-term based on the Homegrown Economic Reform Program (HGER).
- Strong real GDP growth, 10.4% per annum on average in the past 10 years. Ethiopia starts from a solid foundation of robust growth.
- Prudent fiscal management with the budget deficit kept at 2.5% of GDP in 2018/19 and 3.2% and 2.3% in the preceding two years. This has been accompanied by recent gains in fiscal mobilization with tax revenues beginning to rise.
- Growth in remittances which have risen from USD 4.4 billion in 2016/17 to USD 5.7 billion in 2018/19.
- Growth in ODA commitments and disbursements, the latter rising by about 17.6% in 2018/19 to USD 4 billion from USD 3.4 billion in 2017/18 with per capita ODA increasing from USD 32.2 in 2017 to USD 41 in 2019.
- A high level of foreign investor interest triggered by major policy shifts that have created fresh opportunities for investors, foreign (and domestic).
- Good trends in income and multi-dimensional poverty. Income poverty declined from 29.6% in 2010/11 to 23.5% in 2015/16 and multidimensional poverty from 88.4% to 83.5% over the same period.
- An extensive safety net exists already. Ethiopia has one of the largest safety net program in Sub-Saharan Africa – the 5-year Productive Safety Net program (PSNP), established in 2005 by the Government with support from development partners, with a budget of USD 500 million. The PSNP is designed to support chronically food insecure people and build their livelihood with eventual graduation to becoming food secured. The PSNP supports about eight million people before the COVID19 breakout.

Disadvantages

- Slowing real GDP growth decelerating from 9% in 2018/19 to perhaps 6.2% in 2019/20.

- While there has been progress recently, as noted above, domestic resource mobilization is still too low: 10% of GDP in 2018/19, considerably below the Sub-Saharan African average of 19%.
- Despite a high level of investor interest in Ethiopia, declining FDI inflows, from USD 4.1 billion in 2016/17 to USD 3 billion in 2018/19.
- A high debt burden, with the country's external debt stock at USD 27 billion or 28.1% of GDP and total debt at USD 54 billion or 56% of GDP in 2018/19 albeit recent efforts by the Government to restructure external debt (reduced stock, longer maturities) has brought some breathing space.

Vulnerabilities

- Persistently high food and non-food inflation of 19.8% and 10.2%, respectively, in 2018/19, mostly reflecting supply side constraints and forex issues, with the most recent annual inflation for February 2020 showing an acceleration to 25.1% and 17.9%, respectively.
- A trade balance in structural deficit, amounting to 12.5% of GDP in 2018/19 primarily reflecting a low level of exports from a mostly undiversified basket of commodities (USD 2.67 billion in 2018/19) and a high level of dependence on imported intermediate inputs, capital goods, fuel and food (wheat).
- Reflecting challenging external accounts, forex reserves at less than 2.4 months of import coverage³. Reflecting this, there has been an acute shortage of forex which has negatively impacted economic activity and investment as well as put considerable pressure on the Birr which is subject to a managed float. In the context of double-digit inflation, the managed float has led to an overvaluation of the real effective exchange rate which undermines competitiveness of exports.
- Relatively high levels of un- and under-employment. Due to seasonality of agriculture, there continues to be chronic under-employment. In 2018 urban unemployment is high estimated, at 19.1% with youth unemployment of 25.3%⁴.

³ Ibid.

⁴ Jobs Creation Commission (JCC), *Plan of Action for Job Creation*, 2020.

- Employment status depends on location, with a high reliance on self-employment or unpaid work: much of employment in rural areas is either self-employment or unpaid work whereas self-employment (mostly in the informal sector) and wage employment are dominant in urban areas. In terms of numbers, total employed in agriculture, industry and services stand at 35.8 million, 7.4 million and 8.7 million, respectively⁵.
- Firm structure of the economy is heavily tilted towards SMEs: over 162,000 of them, both formal and informal, that are the largest wage employers, especially in urban areas.
- Structure of growth is heavily reliant on private consumption on the demand side (66.8% GDP, three-year average, 2016/17 – 2018/19) and public investment in infrastructure on the supply side: in terms of sectors, the contributions of industry, services and agriculture to three-year average growth were 41.6% (mainly driven by a construction boom), 39.3% and 19.1%, respectively.
- Non-economic vulnerabilities remain at an elevated level: uncertainties leading up to postponed elections, a major locust invasion and erratic rains (and, in the recent past, drought).
- There may be an underestimation of poverty: Ethiopia's poverty line is Birr 7,184 per annum or Birr 19.628 per day based on 2015 prices and 2015/16 household survey data. While basic needs have not changed dramatically since then, purchasing power has been eroded significantly due to relatively high inflation.
- A significant proportion of the population are unbanked: only 35% of adults are estimated to have an account at a formal financial institution.⁶ This means, for example, that direct transfers through mobile money is not yet feasible for many though it could work in urban areas.
- Graduation from the PSNP has proven more difficult than envisaged initially. This creates a risk of long-term dependence.

Potential Transmission Channels in Ethiopia

⁵ Data from JCC.

⁶ World Bank, *Ethiopia: The Path to an Efficient and Stable Financial Sector*, 2019.

Assessment of socio-economic impacts on Ethiopia depends on identifying the most critical channels for direct and direct impact and then assessing and, where possible, modelling effects.

Based on country-specific conditions and experiences as well as regional and cross-country analysis from the ECA⁷, ILO, the World Bank , IMF, World Economic Forum and McKinsey and Company⁸, among others, we can envisage the following channels of transmission:

- A further slowdown in private consumption, fueled by a drop in consumer demand as economic activity is disrupted and consumers ‘save’ in an uncertain environment.
- A slowdown in private and public sector investment.
- A reduction in output – especially manufacturing and services - triggered by loss of demand as well as disruption of supply chains, whether domestic or global, that will constrain even larger, better-financed, formal sector firms that are highly dependent on imported intermediate inputs or raw materials sourced from rural areas.
- Slowing of construction which accounts for the lion’s share of industry in sectoral GDP and is a substantial source of jobs, in urban areas and through work on large national infrastructure projects.
- Knock-on effects on small businesses/enterprises and self- as well as wage employment in both the formal and informal sectors, especially in the services sector, affecting larger urban centers most sharply.
- Broader supply and production disruptions, for both food and non-food items (domestic and imported).
- Loss of export orders, especially from the industrial parks and horticulture, as well as a slowdown in shipments of traditional export commodities, which will have wide-ranging negative multiplier effects on employment as well as incomes on both rural and urban areas, and on forex availability and fiscal space.
- An almost complete loss of tourism revenues for at least 9 months.

⁷ ECA, *Economic Effects of the COVID-19 on Africa*, Presentation, 19 March 2020.

⁸ McKinsey and Company, *Tackling COVID-19 in Africa*, 2 April 2020.

- A major decline in revenues for Ethiopian Airlines, a major exporter of services, that will reduce profits and have collateral effects if it triggers cost-cutting and lower investment.
- A reduction in remittances from abroad, a major source of forex accounting for 6% of GDP, negatively impacting on external balances but also directly diminishing the consumption levels of affected households.
- A further reduction of FDI, potentially lasting well into 2021.
- Pressure on the exchange rate of the Birr.
- Rising inflation (food and non-food), especially in urban areas, hitting the self-employed and casual labor (e.g. in construction) the hardest.
- Escalating pressure on the budget to help fight the pandemic – whether for prevention, testing, isolation or care.
- Contraction of domestic revenues arising from the broader economic contraction.
- Uncertain effects on ODA from donors that now face major fiscal demands at home with financing from IFIs constrained by debt considerations.
- Pressure on public systems – e.g. for procurement – as demand for essential drugs, equipment and supplies threatens to overwhelm capacities to source and procure globally and regionally, especially at a time when production and supply chains have been disrupted.
- Potential adverse impact on the continuity of critical government functions – from social services to law and order – that may arise if there is a sharp reduction in operations, in the worst-case scenario, due to the virus infecting significant numbers of civil servants, leading to closures or lockdowns.

In light of the aforementioned discussion, the concept note presents an exercise that assesses the direct and indirect impact of the pandemic on the Ethiopian economy. Direct impacts include the health and fiscal cost of dealing with the pandemic. Indirect impacts include the consequences of both supply disruptions and demand shocks as a result of the spread of the virus and required preventive measures.

Thus, the following discussion highlights the findings of preliminary impact assessments on key macroeconomic sectors, including Balance of payments and Fiscal burden.

Growth of Real Gross Domestic Product

The general baseline expectation is that COVID-19 will disrupt economic activity substantially in Q2 and Q3 2020 and potentially beyond. Previous experience with shocks e.g. the severe drought caused by El Nino in 2005 which slowed growth by 3% (in absolute terms) noting that COVID-19 is a substantially greater shock.

These suggest a range for real GDP growth in 2020⁹:

- **Optimistic:** using effects from earlier shocks as a reference point but assuming that Ethiopia now has much stronger policy tools at its disposal and benefits from some upside developments as well – a major fiscal boost, a large drop in the import bill, debt relief, substantially greater ODA - suggesting a range of 7% - 4.23%.
- **Mid-range:** using the ECA benchmark of a regional drop in growth of 40%, the range is 5.4% - 3.7%.
- **Pessimistic:** using effects from earlier shocks as a yardstick but with sharper impact, of a reduction in growth of 4% (in absolute terms), the range is 5% - 2.23%.

Inflation (CPI)

Inflation, both food and non-food, is likely to accelerate due to supply side disruptions (including the locust invasion) and pressure on the exchange rate (see below). Ethiopia's experience during the 2007-08 oil price shock was a record surge in food inflation to 62% in August 2008, the driver then being imported inflation (exogenous). Given the magnitude and combination of factors at play right now, a surge in food inflation significantly above the current rate of 25% - that is, to around 30%+ - is possible mirrored by a large increase in non-food inflation as well, again approaching 20%+. The overall CPI for 2020 could potentially go well above 20%. Barring further shocks, there could be a significant slowing in 2021 although single digit would be a convergence of much improved economic conditions, including on the supply and forex side, and continued effective use of monetary and fiscal tools.

⁹ Using both the official estimate of 9% and the IMF's projection in late-2019 of 6.23%.

Balance of Payments

As highlighted above, the COVID 19 pandemic is ushering in an unprecedented disruption to global goods and service markets. Moreover, it is expected that the pandemic's impact on the global economy will affect the flow of remittance and investment. This section provides a summary of the anticipated impact of the COVID 19 pandemic on the balance of payment in Ethiopia.

Trade Balance

Given the composition of Ethiopia's exports and their destinations, the impact is already serious and like to worsen considerably over the next two quarters. Ethiopia exports mainly to Asia (41%), Europe (25.4%) and Africa (20%). In terms of countries, the list is as follows: Saudi Arabia (16.5%), China (13.1%), UAE (11.9%) and Japan (11%). With the exception of China, all of these export destinations are either in the middle of the pandemic or just at relatively early stages, suggesting that access to these markets will remain severely constrained during Quarter 2 and 3 of 2020 and, in the worst-case, beyond. A 20-25% drop in exports of goods and services during 2020 is, therefore, conceivable and needs to be considered in policy-making. There will be upsides as well, some unwelcome, such as reduced imports as economic activity contracts but others welcome, such as a lower fuel import bill. The net impact on the already large trade deficit is estimated, however, to be negative implying the need for increased financing from other sources.

Goods Market

The flower industry, which has brought 256 million USD in 2019, is teetering on disaster risking 150,000 jobs along with it. Companies in the sector are exporting only 5% of what they normally do as demand in Europe and the Middle East collapse following the outbreak. Some companies have discontinued exporting altogether¹⁰.

UNCTAD reports that global demand is expected to suffer as 57 percent of Multinational Enterprises it tracks warn of sever global demand shocks. This will dump the demand for

¹⁰ <https://addisfortune.news/covid-19-outbreak-puts-flower-exports-in-danger/>

Ethiopia's export such as textile and leather. Moreover, with the closure of cafes around the world, Ethiopia's export commodities such as coffee are expected to face depressed demand and prices.

On the upside, Ethiopia can expect significant relief from the sharp fall in oil prices which could persist through 2020 if not longer. The forex savings could be considerable here with estimates that the last sharp fall in prices in 2014 led to a reduction in the import bill of hundreds of millions of dollars.

The Service market

The largest decline as a result of COVID 19 is expected in passenger travel per World Trade Organization's Services Trade Barometer¹¹. Ethiopian Airlines, the largest carrier in the continent, he airline lost \$550 million from January to April because of the coronavirus outbreak. By the end of March, Ethiopian Airlines has suspended flights to ninety destinations across the world and the airline is working at only 10% of its flight capacity¹². As a result, a further slump in revenue is forecasted that would last at least through June 2020.

Closely associated with the travel industry is the hospitality industry. Already a significant reservation cancellation has been recorded, which makes the sector vulnerable. Tourism contributed USD 868 million in 2018/19 and this will take a very hard hit with the severe restriction of air travel and its possible continuation into the summer holiday season and beyond. This will undoubtedly have wide, substantial and negative multiplier effects on a wide range of business and enterprises and their ability to sustain employment.

Transfers

Remittance is another important source of foreign currency in Ethiopia and its importance has increased in recent years. Data from the National Bank of Ethiopia shows that remittances/private individual transfers represented the single biggest source of foreign

¹¹ https://www.wto.org/english/news_e/news20_e/wtoi_11mar20_e.htm accessed on 4/1/2020

¹² <https://af.reuters.com/article/ethiopiaNews/idAFL8N2BV655> accessed 4/8/2020

currency inflow to Ethiopia in 2019 - 5.7 billion USD in the fiscal year ending July 2019¹³. Ethiopia is already experiencing a reduction in remittance beginning February and it is expected to get worse as the United States, which hosts a large number of Ethiopians diaspora, is going through a difficult time¹⁴. Since the crisis started, more than 10 million Americans have filed for unemployment benefits.

If early indications from other remittance-reliant economies is any guide, a drop of 10-15%, around USD 570-850 million, is possible due to job losses in the major Western and Gulf State labor markets and possible repatriation of workers from these regions.

Foreign Direct Investment

National Bank of Ethiopia report shows that FDI is another important source of foreign currency with over 3 billion USD in 2019¹⁵. Ethiopia is already experiencing a reduction in remittance beginning February and it is expected to get worse.

Capital outflow due to the outbreak is another area that could affect the Ethiopian Economy. According to IMF, Investors have already removed US\$83 billion from emerging markets since the beginning of the crisis, the largest capital outflow ever recorded¹⁶. This is particularly concerned to low-income countries in debt distress such as Ethiopia.

Exchange Rate

The current managed rate may come under considerable pressure with the chances of a widening of the gap between the official and parallel markets a distinct possibility that will require careful monitoring and policy action.

Direct and Indirect Fiscal Impacts of the COVID19 pandemic

Direct impact: the health and fiscal cost of dealing with the pandemic;

¹³ NBE (2019), Annual Report.

¹⁴ https://cenfri.org/wp-content/uploads/2018/11/Barriers-study-volume-4-Remittances-in-Ethiopia_November-2018.pdf

¹⁵ NBE (2019), Annual Report.

¹⁶ <https://www.imf.org/en/News/Articles/2020/03/23/pr2098-imf-managing-director-statement-following-a-g20-ministerial-call-on-the-coronavirus-emergency> Accessed on 8/04/2020

The direct fiscal cost of the pandemic arises from the cost of providing health care to those that suffer from the virus and making testing available to the targeted segment of the population. A tentative analysis that accounts for the younger profile of the country's population is conducted. Moreover, the direct cost includes the intervention to humanitarian needs arising from income loss of individuals due to economic slowdown and social distancing. Another aspect of the direct cost is the expense that will be incurred to subsidize industries that might otherwise go bankrupt.

Indirect impact: the lost government revenue due to decreased economic activity

The indirect cost of the pandemic on the fiscal situation of the country arises from the decline of government revenue. The following are channels through which the revenue impact will be felt:

International Trade Tax: A decline in imports will impact negatively revenue from foreign trade tax collection. In fiscal year 2018/19, 74.8 billion Birr was collected from foreign trade tax. The significant rebound in international trade, the introduction of the revised excise tax regime, and improved revenue mobilization effort were producing signs of strong revenue growth from international trade tax during the first half of 2019/20 fiscal year. In total, it was planned to collect 98.3 billion Birr during the current fiscal year. However, a decline in economic activity and the disruption of the global supply chains for imported items is expected to significantly reduce revenue from foreign trade taxes. Revenue losses due to the impact of the epidemic is estimated to be around Birr 38.3 billion under a conservative scenario.

A slowdown in domestic economic activities will impact negatively the revenue from domestic indirect taxes. During fiscal year 2018/19, 77.8 billion Birr was collected from domestic indirect taxes. With the significant resource mobilization effort in the 2019/20 fiscal year, it was planned to collect Birr 97.8 billion tax revenue from this source. A decline in economic activity and reduction in household consumption is expected to highly affect the government revenue mobilization from domestic indirect taxes such as value-added and, excise taxes. The government revenue loss from these sources is estimated to reach Birr 4.3 billion under a conservative scenario.

A significant slowdown in domestic economic activities will also impact negatively the revenue from direct taxes including employment income tax (with the private firms to lay-off

employees). In fiscal year 2018/19, 115.9 billion Birr was collected from the direct tax sources. With the significant resource mobilization effort in the 2019/20 fiscal year, the tax revenue planned to be collected from this source stood at 147.4 billion Birr. A decline in economic activity is expected to reduce income tax, business profit tax and other direct taxes. The revenue loss from this component is estimated to reach Birr 1.74 billion under a conservative scenario.

Non-tax revenue collection from government services to be impacted. During fiscal year 2018/19, 42.8 billion Birr was collected from non-tax revenue sources. It was planned to mobilize Birr 51.6 billion resources from this source in fiscal year 2019/20. A decline in an economic activity specifically the pandemic impact on public services provision and the service sector is expected to reduce revenue from non-tax sources such as administrative fees, and other related non-tax sources due to the social distancing measures. The revenue loss from non-tax sources is estimated to reach Birr 1.5 billion.

Impact of Enterprises and Jobs

A significant proportion of the 162,000 SMEs in Ethiopia could come under pressure, even with a crisis lasting a single quarter let alone two or more successive quarters. If China's better capitalized and more profitable SME sector is used as a benchmark – with 14% unable to survive more than a month on a cash flow basis and 50% beyond three months – then the implications for SMEs in Ethiopia could be very serious, again depending on the severity of the pandemic¹⁷. Another survey done in China showed that 30 percent of the companies have seen their income drop by more than 50 percent; another 28 percent reported a 20 - 50 percent drop.¹⁸

Since a minimum duration of 6 months is to be expected, anywhere north of 30% of Ethiopia's SMEs could be in jeopardy, mostly in urban areas and those embedded in food production, export, construction and service industry supply chains.

The COVID19 pandemic will have a significant impact on employment as well. It will diminish new jobs creation and increase unemployment. Job losses are expected in the construction,

¹⁷ IFPRI, *COVID-19's impact on China's small and medium-sized businesses*, 17 March 2020.

¹⁸ RAND Corporation, *Assessment of COVID-19's Impact on Small and Medium-Sized Enterprises: Implications from China*, 10 March 2020.

manufacturing and service sectors as global value chains breakdown, businesses close, and small businesses fail under the pressure of extended shutdowns. For an economy like Ethiopia's which already faces significant youth unemployment, job losses due to severe restrictions on movement to limit the spread of the virus, capital budget reallocation and cut, supply shocks and failed demand will have severe economic and political ramifications.

Poverty and Safety Nets

It is very likely that those hovering just above the poverty line will drop below it. A closer look at the most recent household income and expenditure data would be needed to estimate the magnitude.

The national food poverty index is estimated to be 24% which indicates that 24 million people will be vulnerable to food insecurity. 8 million people are already included in the PSNP plan and the transfers are being implemented in all targeted regions. The humanitarian assistance program is targeting 5.9 million food insecure people and resources are being transferred for the first two distribution rounds

Therefore, an additional 10 million food insecure people will require emergency food assistance during this crisis period. In addition to the food insecure segment of the population, an estimated five million additional people would require food assistance due to the COVID19 pandemic. Households engaged in the informal sector, wage employees, service providers face a loss of livelihood as mandatory social distancing requirements force the closure of businesses.

An estimated 15 million people would require food assistance during the corona virus pandemic.

Gender-Differentiated Effects

COVID-19 is likely to intensify existing economic inequalities between men and women for variety of reasons. These could be very serious, given the nature of their participation in the economy: much more likely than men to be unemployed (in urban areas), in non-wage employment concentrated in the informal sector with no or few social protections; the dominance of women as workers in the services sector; the large proportion of the

workforce in industrial parks that are female; and women's heavy reliance of activities such as street trading in urban areas that are especially vulnerable to negative consumer spending and reduced foot and other traffic in and around market areas.

COVID19: Economic Response strategy

Fiscal Response

To cushion the economic impact of COVID-19, various measures were proposed to help alleviate cash flow pressures on affected businesses.

Economic and social policy responses will aim to prevent the pandemic from developing into a protracted economic crisis with significant welfare losses to the society through increased unemployment and bankruptcies. With the available resources, it is necessary to mitigate the looming crisis using a mix of timely and targeted policies on hard-hit sectors and populations. Although the impacts of the pandemic can be felt in the short-, medium- and long-term, this response plan focuses on quick-win interventions that can be immediately implemented to minimize the adverse effects of the virus on the economy.

1. Protecting Welfare of households

Given the scarcity of health workers relative to the size of the population in the country, it is necessary to strengthen the health sector with skilled health professionals and health care facilities to detect, isolate and treat COVID-19 cases. A detailed plan is developed under the COVID19 emergency response plan.

The Urban productive safety net program could be key in providing temporary income support quickly to the most affected urban population in vulnerable employment. This could include daily laborers who recently lost their jobs due to the economic downturn, self-employed/micro-business owners who can no longer sell their products on the street, and possibly others. Further, emergency food assistance will be extended to up to 15 million people.

Ensure availability of food stocks and emergency supplies at national and regional levels that can be used during the outbreak of the pandemic. Use and scale up the existing rural and urban safety nets programs to reduce the impact of the outbreak on the most vulnerable and

low-income segments of society. Interventions may include cash transfers, food assistance, and other temporary shelter and holistic care services such cushion the adverse effects of the pandemic. A detailed plan is given under the COVID19 emergency response plan.

It is also important to ensure supply chains will not breakdown and food and essential items will be available to people while they are under restricted mobility or quarantine. Cooperative agencies (both federal and regional) can be used to store grains and avail food supply, especially during movement restrictions. Cooperative agencies can ensure supply chains uninterrupted by ensuring the movement of goods between rural and urban areas. For this, there is a need to equip and alert Cooperative agencies to serve this purpose, especially when private actors are unable to provide such services during an epidemic outbreak. Also, the Ministry of Trade and Industry and regional trade bureaus will continue strengthening the measures aimed at ensuring the supply of key goods and mitigating price spikes.

2. Protecting Jobs: Addressing the Jobs Implication of COVID19

The COVID19 pandemic will have a significant impact on employment. It will diminish new jobs creation and increase unemployment. Job losses are expected in the construction, manufacturing and service sectors as global value chains breakdown, businesses close, and small businesses fail under the pressure of extended shutdowns. For an economy like Ethiopia's which already faces significant youth unemployment, job losses due to severe restrictions on movement to limit the spread of the virus, capital budget reallocation and cut, supply shocks and failed demand will have severe economic and political ramifications.

The COVID19 outbreak can rapidly transform into a social crisis in the country, as there is a significant share of informal self-employment, 40% of employed being self-employed and the significant share of informality, exposes the country to a potentially important social crisis. Urgent actions are required to protect jobs and reduce the shock on a vulnerable population. The Job Creation Commission preliminary estimations suggest, over the next 3 months, 1.41 million jobs are threatened using a medium- estimate (low-estimate 727K, high-estimate 2.5 M).

Industrial Parks Workers

IP workers face an imminent threat of job loss as demand for the products decline and the pandemic spreads in Ethiopia, the manufacturers will find it difficult to retain the full workforce with full salary and compensation package. Information gathered from the Industrial Parks Development Corporation and Ethiopian Investment Commission indicates that as of date, 13 firms across all parks have stopped operation due to low demand and have given their workers paid leave ranging from 15 days to one month. The paid leave includes only their basic salary, which is minimal as it does not include the other benefits such as attendance payments, bonus payments, two meals per day during work hours, medical services etc. It is therefore difficult for the workers to maintain the same level of life and meet their basic needs during their leave period. It is estimated that more than 22,000 workers are currently affected as a result of the closure of operations.

Currently, a total of 95,000 workers are employed across all industrial parks, who are likely to be affected by the pandemic as the outbreak spreads. The basic salary of IP workers ranges from ETB 800 – ETB 1500, with additional benefit packages of varying amounts ranging from ETB 800 to ETB 1200, bringing total earning to 1,600 to 2,700. Assuming an average earning of 2,200, workers will earn an after-tax salary of 1819.50 ETB. Erring on the side of caution, and with the anticipation that all firms will close operations in the coming weeks and the paid leave will end, there is a need for a rescue package to ensure IP workers will continue to earn enough money to sustain themselves. Additional, 5000 local professional staff and 4,000 Expats are employed in industrial parks.

	Scenario I – Low/Basic Salary	Scenario II - Average Salary
Salary per IP Worker	1,600	2150
Number of Workers	95,000	95,000
Monthly Salary	152,000,000.00	204,250,000.00
3 months' Salary (Birr)	456,000,000.00	612,750,000.00
3 months' Salary (USD)	13,652,694.61	18,345,808.38

Assuming companies can sustain their professional staff salary, a total of 13.7 million USD is required to cover the salary of 95,000 IP workers in both IPDC and private industrial parks for three months with the Basic Case Scenario, 18.4 million USD on the average salary case scenario.

Job Loss outside of Industrial Parks

A total of 1.41 M jobs threatened over the next three months. Most of the job loss is expected to be concentrated in the manufacturing, construction and service sectors.

- Temporary and daily laborers that constitute 90% of jobs in this sector are expected to lose their jobs relatively quickly. As the Job Creation Commission estimate shows, 741 thousands of jobs are threatened over the next three months, representing 34% of the total employment in the sector.
- Manufacturing jobs are estimates a drop of at least 25% of the demand in textile and apparel. A medium- estimate of 340 thousand jobs are threatened over the next three months, with most of the temporary workers and low-skilled workers being laid-off, representing around 11% of total employment in these activities.
- While the impact is visible across sectors, the shock on the service industry appears larger, reflecting the impact of social distancing. JCC estimate a drop of an average 50% of the demand, depending on the segment: Estimation of ~\$265M of income loss for 1.9M of urban self-employed over the next three months.

In an event of strict movement restriction, the government and partners aim to protect livelihoods.

	Estimated Job Loss	Average Wage (Birr)*	Total Salary Monthly (Birr)	Total Salary Three Months (Birr)	Three Months Total Salary (USD)
Construction	741,000	3,247	2,406,027,000	7,218,081,000	216,110,210
Service	265,000	1,867	494,666,667	1,484,000,000	44,431,138
Manufacturing (excluding IPs)	240,000	2,314	555,360,000	1,666,080,000	49,882,635

Total	1,246,000	3,456,053,667	10,368,161,000	310,423,982
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*Source: CSA Urban employment unemployment Survey 2018

To cover the three-month salary of service, manufacturing and construction sector workers who face job loss due to COVID19 outbreak, a total of around \$310 million is required.

3. Support to businesses, including MSMEs

The financial pressure that this crisis is creating on firms in different economic sectors will need to be addressed. Supporting firms and workers through this crisis is important to help them survive this crisis and smoothen the shock on the economy. Providing businesses, including MSMEs financial support, will help them having a financial space, keep them out of bankruptcy, reduce the jobs lay-off, and prepare for them to resume their economic activities once the crisis is over. Helping businesses keeping their current levels of employment would also decrease the transaction costs and the time that would be spent hiring new staff when the crisis is over. This would help the whole economy to have a V-shape recovery instead of a U-shape one.

The support to firms will need to take into consideration their size and financial capacity and be linked with an obligation to keep the current levels of jobs. In Ethiopia, there are about 880,000 micro-enterprises, 20,000 small and medium enterprises and about 500 large enterprises. Large firms tend to have a high amount of loans, taxes, and VAT. The support to large firms should, therefore, include debt reimbursement postponement, corporate income tax exemptions, and expedition of VAT reimbursement.

For MSMEs, the support should focus on reducing their operational costs during this crisis, and improving their liquidity, and their capacity to keep their current levels of employment.

For that, the following support is required:

- Covering operational costs such as costs for sheds, spaces, and utilities
- Covering a part of the labor costs by providing wage-subsidies
- Providing financial liquidity through the freeze of loan payment for the next six months

- Providing access to capital for micro-firms through the provision of grants during the next six months
- Providing access to capital for SMEs through the access to zero-interest loans to maintain their operations for the next six months
- Providing technical support for targeted MSMEs in the most affected sectors, including access to BDS, and establishing a Business Emergency Centre to link and monitor interventions with MSMEs in difficulty

Type	Quantity	Employees Avg. #	Total No. of employees	Financial Support per firm or individual			Total (USD)	Remark
				Average/firm/ person \$	Survive	Revoke		
Self-employed (Urban)	1.9m	1	1.9M	125	125	0	237.5M	Safety net
Micro enterprise	0.8M	5	4M	1,000	500	500	800M	Grant (R) & zero interest loan (R)
Small Enterprise	12K	30	360K	50,000	15,00	35,0	600M	Zero interest Loan & low interest loan (R)
Medium Enterprise	8K	70	560K	75,000	30,00	45,0	600M	Zero interest Loan & low interest loan (R)
Large Enterprise	5000	200	1M	300	300	0	300M	Availing loan to Cover Salaries of employees for 3 months with 100 USD/month average rate
Total			7.82M				2,537.5M	

Table: Required Stimulus to support self-employed, and Micro, Small, Medium and Large Enterprises

Summary of Total Fiscal Costs and Financing need

Category	Amount (Million)
Revenue loss	1,161.8 USD
<i>Foreign trade tax</i>	388 USD
<i>Domestic indirect tax</i>	129.4 USD
<i>Employment income tax</i>	52.8 USD
<i>Non-tax</i>	45.5 USD
<i>Privatization proceed</i>	546 USD
Emergency Response Resource need	1,600USD
Health intervention	430 USD
Food and other related emergency costs	1,170 USD
Macro-Economic Response Resource	1,828.8USD
Support to Business & MSMEs	1000 USD
Protecting jobs	328.8 USD
BoP Financing (Private sector import)	500 USD
Total Resource Need	4590.5USD
Identified financing	455USD
Reschedule of capital projects government of Ethiopia (fiscal space)	455 USD
Financing Gap	4,135.5USD

In conclusion, it is important to develop an all-inclusive proactive response strategy that addresses the adverse impact of the COVID-19 that arises from the widening fiscal gap, the decline in export of goods and services, inflows of remittance, and foreign direct investment. Therefore, the overall financing gap has estimated to be US\$ 4.6 billion, of which the source of financing for \$4053 million, yet not identified.

Financing the COVID19 Economic Response Plan

Ethiopia, through sustained prudent fiscal management, has earned itself some fiscal space to push the fiscal deficit temporarily beyond 3%. This is an option that the Government is exercising already with the initial allocation of Birr five billion to deal with the immediate fallout from COVID-19.

However, Ethiopia cannot carry the entire burden of financing its health emergency and socio-economic response to COVID-19. Redirecting a larger amount of development financing will also jeopardize the progress made in driving forward The Homegrown Economic Reform Agenda and other national initiatives. Therefore, development partner's increased assistance is needed at this time of severe crisis. The alternative would be to jeopardize one of the most promising – and determined – efforts at economic reform in Africa in recent years.

Bearing the above in mind, the following mechanisms will be used to mobilize the required resource:

- External official non-debt financing – near-grant or grant – will become even more important. It will now need to last at current (or higher) levels for a longer period to sustain the HGER, potentially for 5 years (to 2024).
- Swiftly unlock funding available from IFIs while managing the debt profile of the country as well as any possibility of grant financing from other, non-traditional sources in the region and outside. While new money will be vital, we request development partners to quickly repurpose their resources for 2020-21 – even a 20-30% repurposing of inflows of USD 4 billion estimated in 2020 could make USD 800 – 1,250 million available.
- Accelerated disbursement of existing programs resources from development partners, especially front loading of budget support, during quarter 2 and 3 of 2020 and project spend later in 2020 and heading into 2021.
- Although it is a more complex operation, we believe, in line with the proposals tabled by Prime Minister Dr Abiy Ahmed that debt relief for Africa, measures such as reductions in

principal or extensions of maturity and suspending debt service (deferral or elimination for at least 1-2 years) is essential and could free up significant fiscal space and help maintain the fiscal stance, particularly if this includes relief from non-Paris Club bilateral donors who are more important for Ethiopia.