

COVID-19 Pandemic and Service Sector in Ethiopia

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Abstract

The outbreak of COVID-19 at the end of 2019, become a global emergency following the declaration of World Health Organization (WHO) as pandemic on 11 March 2020. Beyond its impact on human health, it has been causing a massive damage on global economy. Given the nature of the sector, COVID-19 pandemic hit hard the service sector. This paper tried to assess the effect of COVID-19 on service sector and its impact on Ethiopian economy. The assessment was made based on summative assessment result of the key service sub-sectors: transportation, tourism and hospitality, education and health sector, based on official reports and some statistical figures from secondary data sources given after 'partial lock-down'. The study found that as a 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. In sum, currently in Ethiopia service sector is one of the most affected by the corona virus pandemic. The study recommends that cooperation of all stockholders is required to save the sector from the bad impact of COVID-19 pandemic.

Keywords: *COVID-19, Service Sector, Pandemic*

1. INTRODUCTION

After the outbreak of the coronavirus disease in China at the end of 2019, it has continued to spread across the world. On 11 March 2020, World Health Organization (WHO) declared it as pandemic; and COVID-19 has become a global emergency, given its impact on the entire world population and the economy. Beyond its impact on human health, international sources and individual writers have been predicting a recession in global economy in 2020 due to the direct and indirect effects of the COVID-19 pandemic.

Although, it is difficult to measure the exact impact of COVID-19 on the world economy; some stylized facts can show how the world economy will be affected. According to the Regional Economic Outlook of the International Monetary Fund (IMF) forecast, global growth could fall by 0.5 for the year 2020. The OECD downgraded its forecast for the world economy to half the rate projected prior to the COVID-19 outbreak indicating that global growth could drop to 1.5 percent in 2020 (AU, 2020; IMF March, 2020; OECD March, 2020; Triggs and Kharas, 2020).

According to impact analysis of COVID-19 on the African economies by AU (2020), some key sectors such as tourism, air transport, and the oil sector of the African economy are already experiencing a slowdown as a result of the pandemic. As a result of 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 Corona virus 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 expected to reduce the economy 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 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 a result of corona virus pandemic. Alemayehu (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) stated, depending on different scenarios, the Covid-19 pandemic could reduce gross domestic product of Ethiopia by 2.2 to 9.9 percent. And 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 all important informal sectors.

CEPHEUS (2020) research team has concluded that under a limited virus spread scenario, Ethiopia's economy growth will decrease 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 study is to examine the

effect of COVID-19 on Ethiopian economy focusing on service sector such as transportation, tourism and hospitality, education and health sectors.

2. METHODOLOGY AND STRUCTURE

The paper presents the current economic situation of the country focusing on service sub-sectors and its potential impact on national economy. Though, the economic consequences of the pandemic are already started, it is too early to have overall statistical data of COVID-19 impact on each sector of economy.

The study used secondary source of data, which were obtained from document review of various reports and research results focusing on some key service sub-sector included in this study. Due to movement restriction we are unable to collect primary data; hence, secondary data were collected from national (NBE) and international (IMF) institution reports, newspapers, websites and published articles. The study used exploratory and descriptive research analysis on the most affected sub-sectors by COVID-19 pandemic, and tries to show its implication on the entire economy. Finally, the paper ends with a conclusion and recommendations.

3. RESULTS AND DISCUSSION

3.1. Share of Service Sector in Ethiopian Economy Prior to COVID-19

According to official data of NBE (2019), the Ethiopian economy had exhibited 9.9 percent average annual growths 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.

The following sub-sectors including: wholesale and retail trade, hotels and restaurants, transport and communication, real estate renting and business activities have been the major contributor to growth in service sector.

Given the nature of the sector, COVID-19 is expected to hit the service sector significantly. Currently, in Ethiopia service sector is one of the most affected by the corona virus pandemic. Based on official reports and some statistical figures from the sector; the next section tries to discuss impact of COVID-19 on each sub-sectors: transportation, tourism and hospitality, health and education sector, given partial lock-down. The section does not fully capture the entire service sector, but try to address the key and the most affected subsectors by the pandemic.

3.2. Impact of COVID-19 on Selected Service Subsectors

a. Transportation Subsector

As part of the service sector, transport subsector 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 stakeholders 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 African 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 was forced to fly to only 19 international destinations out of 110 it used to fly before the pandemic. As a result, Ethiopian Airlines has already reported \$550 million lost revenue over the last two months and it begins to focus on cargo to sustain the business through this difficult period.

Other public transportation services also slowed down or reduced their travellers at least by 50 percent to keep their proximity at advisable distance. As a result, the sector is facing double challenges. On one hand, the limitation of number of transportation reduces economic activity; on the other hand it leads to raise cost of transportation which affect income of the consumer.

b. Tourism and Hospitality Subsector

Tourism is an important sector of the economic activity in Ethiopia. Ethiopia has been benefited from tourism 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 tourism 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 a 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 subsector is facing almost complete loss of customers. In Addis Ababa, reports show that hotels, restaurants and bars are remaining 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 the economy.

c. Health Subsector

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. 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).

d. Education Subsector

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 the students are living in rural area, the challenges of providing online education and support all students is not simple. Learning at home is challenging in Ethiopia, particularly in rural area since 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 student 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 uncertainty.

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 gaps between

the advantaged and the disadvantaged), student drop out and poor productivity in the long term (Dawit T. 2020; UNICEF Ethiopia 2020).

4. CONCLUSIONS AND RECOMMENDATIONS

To sum up, as a result of travel restrictions and closing of borders; travel industry, tourism and hospitality and other services that are directly or 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 are very important at this critical time. "Crises can be arrested only by attacking their source." For the COVID-19 pandemic, the first and foremost action should be investing on public-health infrastructures and the use of the science of COVID-19 containment and mitigation mechanisms.

Stimulating the economy, new employment creation, supporting firms, protecting workers in work place should be undertaken to support the economy of the country. Immediate support for most-affected service sectors and highly risked groups also requires great attention.

To protect the education subsector, the following recommendations were provided: Instructors should be committed in preparing and uploading reading materials and address their student. MoSHE and other stakeholders should 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 stakeholders in the sector is important to save the sector from the COVID-19 pandemic impact.

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