

The impact of COVID-19 on Amhara National Regional State's economy



In brief

- Since the first COVID-19 case in the Amhara National Regional State (ANRS) was detected on March 27, 2020, it has been feared that the virus would seriously damage the region's economy.
- This study examines the impact of the pandemic on tourism and hotels, remittances, and government finance. It then conducts macro-level growth accounting and SAM-based general equilibrium multiplier analysis to study the effects of the virus in the economy.
- Results show that domestic tourism increased more than the decline in international tourism, resulting in an overall increase in aggregate tourism in 2020. The hotel sector experienced a painful negative shock, with most hotels not even able to cover their employee wages and bank loan payments.
- The analysis indicated that shocks to remittances have the biggest effect on ANRS' economy, and that poor households that live in urban areas face the sharpest decline in their income.
- While direct tax revenues did not show any decrease during the pandemic, indirect taxes showed a modest decline. In the worst-case scenario, GDP growth in ANRS could come to a near standstill.

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Introduction

The novel coronavirus has posed a series of challenges to individuals and governments all over the globe. These challenges created health, economic, social, and political crisis at the same time.

Since the first COVID-19 case in the Amhara National Regional State (ANRS) was detected on March 27, 2020, it has been feared that the virus would leave scarring damage to the region's economy. It is, therefore, necessary to examine the potential damages it could cause to the region's economy, with particular emphasis given to sectors that are highly exposed to external exogenous shocks. To this end, this study examines the impact of the COVID-19 pandemic on a few carefully selected sectors: tourism and hotel, remittances, and government finance. It then conducts macro-level growth accounting and SAM-based general equilibrium multiplier analysis to study the economywide effects of the virus.

The main results of the study are the following:

First, domestic tourism increased more than the decline in international tourism to result an increase in aggregate tourism in 2020. The increase in domestic tourism is likely because most religious events had already taken place by the time the first coronavirus was detected in ANRS. In addition, the fall in international tourism is alarming since international tourism brings in a significantly higher revenue per capita wise.

Second, the hotel sector experienced a painful negative shock, with most hotels not even able to cover their employee wages and bank loan payments.

Third, remittances are expected to decline, and this decline is going to affect the consumption expenditure of all households in the region, with the effect being more pronounced for urban households.

Fourth, while direct tax revenues did not show any decrease during the pandemic, perhaps due to government regulations that prevent laying off employees, **indirect taxes showed a modest decline.**

Fifth, growth decomposition exercise shows that in the worst-case scenario, GDP growth in ANRS could come to a near standstill.

Finally, the SAM-based multiplier analysis indicated that shocks to remittances have the biggest effect on ANRS economy, and that poor households that live in urban areas face the sharpest decline in their income.

Policy recommendations and coping mechanisms

1. Availability of accurate, recent and disaggregated data

Accurate and recent data are the basis for any sound public policy and for any effective implementation of risk and disaster prevention policies. In addition to being accurate and timely, the datasets should also be at the lowest possible level of disaggregation. Both survey and administrative data are crucial. The research team has observed that there is a significant gap in the availability of data ready for analysis. The data that are available do not come in a standardised format as well.

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It is to be noted that we are aware of the data collected by the Central Statistics Agency at regional level which we have utilised to produce some of the results of this study. We also believe that these datasets are important sources of data for policy analysis in the region. However, taking into account the frequency of CSA’s data collection, the time lag in making the data accessible for users after it is collected, and the context the data is collected, CSA’s data might not be suitable for the region’s needs of risk assessment and disaster management.

We specifically suggest that periodic and frequent data should be collected on vulnerable areas to respond quickly to any economic and non-economic (artificial, natural) shocks taking into account the region’s context. It is in with this insight in mind that we recommend regional government’s offices to closely work with federal government agencies to create rich and readily accessible databases. We recommend two specific ways this can be done:

- Existing regional government structures like the ANRS branch of the Planning Commission Office could take up further duties and responsibilities to create rich and standardised secondary data source. The office has a good track record of collecting and organising datasets for the purpose of estimating the region’s gross domestic product. Thus, the already existing work could be made more thorough, say by increasing data frequency, and comprehensive to collect and store data beyond those that are currently used for regional GDP estimation. For example, a department in the ANRS Tourism Bureau keeps a periodic record of tourism inflows and revenues. Another department in the Tourism Bureau keeps a record of monthly data related to hotels and restaurants. These offices could send the data to the ANRS Planning Commission within an agreed frequency, which will keep a standardised data on the region’s economic activities.
- A second way the region can alleviate problems surrounding data collection is to have the region’s Planning Commission Office work in tandem with the Central Statistics Agency. This helps the region’s Planning Commission Office have quicker access to CSA’s surveys which otherwise would take several years to become available.

2. Hotel and tourism

Whether the tourism sector recovers and regains its attractiveness to international tourists will ultimately depend on how quickly and efficiently the government is able to fight COVID-19 and instil confidence on potential tourists to travel. This will depend on what other countries are doing as much as it depends on what the Ethiopian government is doing. Hence, the speed with which things will get back to life as usual is, at least in part, outside the control of the Ethiopian government. However, in addition to what is already being done, the federal and regional governments could take some measures to mitigate the impact of the virus on the tourism sector, to boost the chances of speedy recovery, and to make sure that critical lessons are drawn from the current crisis: lessons that would mean the sector stands prepared in the event of future exogenous shocks.

In this light, we believe the ANRS government should implement the following strategies:

- First and foremost, policies that prioritise domestic tourism need to be passed and implemented. This could be achieved with efforts to advertise, promote, and encourage tourism to the ANRS in coordination with the Ministry of Tourism. ANRS is already home to major tourist attraction sites for international tourists. However, the region's tourism office should ramp up its efforts to promote the region's attractions to Ethiopians. One way of doing this is for its tourism office to transmit short, paid advertisements on national TV stations during primetime. TV commercials advertising tourist attraction sites is ubiquitous in other countries, and the ANRS government should emulate this experience. Paid promotions that are one-minute or thirty-second-long will introduce and remind major tourist attractions, and thereby encourage the viewers to come and visit the region.
- Second, the efficacy of actions taken to mitigate the effect of the pandemic is maximized when they are implemented in a coordinated fashion. In a pandemic, or even any other exogenous shock for that matter, multiple government agencies will be involved to lessen adverse effects. When this happens, there will be weak coordination and some efforts will be unnecessarily duplicated. To avoid this issue, the region should use the Disaster Prevention and Food Security Program Coordination Office to facilitate the actions of federal and regional government agencies. The region's tourism bureau should work closely with the DPPC to identify the tourism sector's bottlenecks.

3. Remittances

The ANRS government should address the consequences of COVID-19 that has come through international remittances in two stages.

Priority should be given to the following short-term responses:

- Although there is a limit to what the ANRS government can do to help migrants in host countries to regain their pre-COVID-19 work status, the regional government can work with the relevant office in the federal government to normalise the crisis with the Ethiopian diplomatic missions in the countries where the problem is severe. More importantly, migrants in Saudi Arabia and Kuwait, which are sources of huge amount of remittances, are being forcefully returned to Ethiopia. As of 4 September 2020, more than 3 thousand and more than a thousand returnees have already come from Saudi Arabia and Kuwait respectively registered through the International Organization for Migration.
- The regional government should identify households who are hit by the drop in remittances and help them through emergency cash/non-cash transfers. This should focus on urban and rural poor who are heavily dependent on international remittances.
- Furthermore, as a long-run strategy of coping mechanism, the regional government can help recipient households to invest in small and medium scale enterprises and promote entrepreneurship by creating supportive business environment through relaxing regulations (e.g., tax breaks, compliance).

Expand channels of remittance transfer in rural areas by trying to link international transfer agents with micro financial institutions in the rural areas. This can be done through Amhara Saving and Credit Institution (ASCI). This helps not only reduce transfer fees but also provides better access to households receiving remittances.

4. Government Finance

As a medium-to-long term coping mechanism to shocks from COVID-19 and similar possible shocks, the region should depend on a sustainable and domestic resource mobilisation strategy. The region should look for potential resources for generating tax revenues. The first step for this is to identify and estimate the tax potential of the region. Tax potential is the maximum amount of tax revenue the region could reasonably raise at a given point in time conditional on its prevailing characteristics (Langford, 2015). Assessing the tax system of the region and estimating tax revenues potential that could be collected if the existing tax laws and policies are implemented efficiently have far-reaching policy significance. Particularly, providing accurate information on the maximum amount of tax revenue potential in the region is central to policy decisions about public expenditure financed by own revenues. Two examples may be given:

- **Agriculture income tax.** This tax is collected from small-holder farmers based on the area of land cultivated. As discussed in Section 4 on “Government Finance,” agricultural income tax is very low (155 million in 2019/20) and its role has been declining over time (from 11 percent in 2010/11 to 1.6 percent in 2019/20). There seems to be huge tax revenue potential in agriculture given the region has the largest cultivated land of 4.5 million hectares (Central Statistics Agency, 2019)-of the total area

of land cultivated for grain crops in Ethiopia 35 percent is in ANRS, the second largest following Oromia regional state having 45 percent of total cultivated land in the country.

- **Urban property tax:** This tax is levied on properties (such as buildings) in urban areas and is collected by the municipality of the town/city. Currently, urban property tax is only 0.3% of the total tax revenue in the ANRS. Given the rapid rate of urbanisation in the region, property tax can become a huge source of tax revenue for the region.

The second step to achieving actual collection to potential is easing tax administration problems. Given the administrative constraints that the region currently has in collecting tax revenues, and that tax effort is low (i.e. the extent to which actual tax revenue reaches estimated capacity), the region might not quickly achieve to collect all the potential tax revenue. Realising potential tax revenue assumes an ideal and smooth tax administration infrastructure. Achieving collection performance of the amount estimated is therefore highly dependent on whether the region is committed to reduce the existing tax administrative problems in the region.

5. Employment

While it is essential to minimise the effect of the pandemic on current employment, it is equally important to make sure that workers get back to pre-pandemic employment very quickly.

- The most vulnerable jobs need to get priority from the ANRS government. These are jobs in services and informal sector in urban areas.
- Micro-, small- and medium-scale businesses employ the bulk of the workforce, and they need special consideration from fiscal policy.
- One way of avoiding mass employee lay off is for the federal and the region's administration to pay a portion of the salaries of workers. This could also be indirectly done by requiring employers keep their workers to be legible for government support. The salary share that come from the government could be determined based on pre- specified metric, such as the vulnerability of the businesses to coronavirus-like shocks. This will keep employees at work and ensures the pandemic does not leave a scarring effect on the labour market.
- Implement public infrastructures that will employ workers released from the informal sector. Alternatively, the region's administration could provide education and training to workers while the pandemic unfolds.