A REVIEW ON MACRO-ECONOMIC VIEW IN ETHIOPIA’S ENTREPRENEURSHIP UNDER COVID-19

The COVID-19 pandemic has caused a greater challenge for the investors and policymakers to mitigate the consequences of this pandemic. Through a review of the literature on the economics of the coronavirus (COVID-19) pandemic, this study explores the effects of the pandemic on the entrepreneurship taking into account the gross domestic product, employment, and inflation (consumer price index) of Ethiopia during the first years of the pandemic. The review reveals that adverse economic effects have been observed due to the COVID-19 pandemic in addition to fatalities. The pandemic has influenced in a negative way the country’s economy by reducing the GDP growth which has been recorded as one of the fastest economies for the last decade. The partial shutdown taken by the government as a response of the pandemic has led million lose their work increasing the unemployment rate and thus triggering inflation on consumers goods.

Keywords: COVID-19, entrepreneurship, employment, gross domestic product, inflation.

1. INTRODUCTION

On the 100th anniversary of the 1918 influenza pandemic the deadliest infectious disease outbreak in recorded history with estimated death of 50 million people and 500 million estimated confirmed cases numerous other outbreaks of disease have set up a persistent presence among modern-day headlines. Among these are severe acute respiratory syndrome (SARS), H1N1 influenza pandemic, middle east respiratory syndrome (MERS), Ebola, Zika, Nipah virus, cholera, yellow fever, and Lassa fever. The frequency and diversity of disease outbreaks are expected to grow steadily, as they have for the past 30 years (World Economic Forum, 2019).
The recent pandemic discoveries of COVID-19 have led many governments to take drastic measures. Pandemic and related restrictions are creating a global crisis, shaping the economic landscape, and challenging entrepreneurs (Kuckertz et al., 2020; Brown and Rocha, 2020).

The lockdown of large parts of society and economic life has come as an exogenous shock to many economic actors, mostly innovative startups. The lockdown measures as a response to the spread of the new coronavirus threaten the existence of many innovative startups. In countries which constitute the world’s largest economies, sparking fears of an impending economic crisis and recession (Buck et al., 2020).

In Ethiopia from January 2020 to March 2021, there were 167,133 confirmed cases and 138,639 recoveries of COVID-19 with 2,442 deaths (World Health Organization, 2021). Country wide state of emergency was declared from April 2020 for six months thus restricting the economic activity.

As we are in the middle of a pandemic outbreak, it is very difficult to estimate its long-term effects. Although society has been hit by several pandemics in the past, it is difficult to estimate the long-term economic, behavioral, or societal consequences as these aspects have not been studied to a great extent in the past therefore large number of research are needed (Donthu & Gustafsson, 2020).

This research will aim to explore the influence of pandemics on entrepreneurship in Ethiopia by taking macroeconomics indicator of gross domestic product, inflation, unemployment during COVID-19.

In fulfilling the research aim, three more specific research questions were set:

RQ 1– How entrepreneurial gross domestic product of Ethiopia has been impacted by COVID-19?
RQ 2– How entrepreneurial employment of Ethiopia has been affected by COVID-19?
RQ 3– How entrepreneurial inflation of Ethiopia has been influenced by COVID-19?

2. LITERATURE REVIEW

In its most basic modern definition, entrepreneurship is the act of an individual starting their own business. However, in economic terms, the majority would agree the general view that entrepreneurship involves the creation of a new business enterprise and bearing its risks in exchange for foreseen profit opportunities. Others would also agree with both of the following definition of entrepreneurship: being the container for innovations hitting and shifting the market, or the act of simply monitoring the current market to satisfy demands that are presently unfulfilled (Leonaris, 2011).

Even in calmer times innovative startups face susceptibility of newness and smallness (Stinchcombe, 1968) that threaten their continued existence. This situation is likely to deteriorate in times of pandemics thus menace a tremendous potential for innovation that has been accumulated in recent years and was meant to generate economic and potentially societal and ecological value.

The COVID-19 pandemic has generated anomalous human loss and financial difficulties worldwide. The outbreak has forced many businesses to close, leading to an exceptional disruption of commerce in most industry sectors. Retailers and brands face many short-term and long-term challenges, such as those related to health and safety, the supply chain, the workforce, cash flow, consumer demand, sales, and marketing (Donthu & Gustafsson, 2020).
As of late 2021, the COVID-19 pandemic has infected more than 230 million people, claiming the lives of close to five million individuals globally while the United States leads the world in both the total number of cases (over 43 million) and deaths (close to 700,000) (Johns Hopkins University, 2021). Aside from the incalculable cost resulting from the loss of human life at such a massive scale, COVID-19 has shaken economies and is predicted to continue to do so in the future (Erikson, 2020).

Ethiopia is already struggling to escape poverty before the pandemic reaches its maximum level of outbreak, with deficits and debt financing, which is now affected by falling revenue from exports and tourism and decreasing remittances from Ethiopians living overseas (Tesso, 2020).

The federal and regional governments announced measures such as suspending large gatherings and inter-city public transport, authorities have not introduced a comprehensive lockdown to try to contain COVID-19 (International Crisis Group, 2020). Even with those measures the country’s economy has been declining at an alarming rate.

2.1. Over all facts about ethiopian economy

Ethiopia has designed a successive growth and transformation plans (GTP) for the period 2010–2015 as GTP I and 2016–2020 as GTP II by retaining agricultural sector growth as the prime driver of economic growth and poverty alleviation. The sector’s strategy was further informed by the Agriculture Growth Program (AGP) I and II and lessons drawn from implementation of the past development plans (National Planning Commission, 2016).

During the GTP I and II phases, much emphasis was given that preparation to transit industrial base will be paved by embarking on a new journey of strengthening the small and medium manufacturing enterprises and by engaging in light manufacturing enterprises. In this connection, the manufacturing sector growth registered an average of 20% during the GTP I. To ensure this transformation, ranges of public investments were set within the plan for continued scale-up of the successes registered in the past. Transparent and efficient agricultural marketing system were attempted to be strengthened (Tesso, 2020).

The agricultural strategy directed on placing major effort to support the intensification of marketable farm products both for domestic and export markets, and by small and large farmers. Fundamentals of the strategy included the shift to produce high value crops, a special focus on high-potential areas, facilitating the commercialization of smallholder agriculture, and supporting the development of large-scale commercial agriculture where it was feasible (National Planning Commission, 2016).

During the past 10 years, Ethiopia has registered a fast growth rate and has become the fast African growing economy. Strong but slowing real GDP growth was averaged to 10.4% per annum on in the past 10 years but decelerating from 9% in 2018/19 to 6.2% in 2019/20 (IMF, 2019).

The country experiences a continuous trade balance deficit, amounting to 12.5% of GDP in 2018/2019 primarily reflecting a low level of exports from a mostly undiversified basket of commodities (USD 2.67 billion in 2018/2019) and a high level of dependence on imported intermediate inputs, capital goods, fuel, and food (wheat). There has been a high level of investor interest in Ethiopia but declining FDI inflows, from USD 4.1 billion in 2016/17 to USD 3 billion in 2018/2019. A bright spot, however, is remittances which have risen from USD 4.4 billion in 2016/17 to USD 5.7 billion in 2018/2019. The same can be said for official development assistance (ODA) disbursement which rose by about 17.6%
in 2018/2019 to USD 4 billion from USD 3.4 billion in 2017/2018 with per capita official development assistance (ODA) increasing from USD 32.2% in 2017 to USD 41 in 2019 (National Bank of Ethiopia, 2019).

The other economic characteristic of Ethiopia is 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 2018/2019 (Tesso, 2020).

Ethiopia’s Debt Sustainably Assessment (DSA) by the World Bank and IMF placed at high risk of debt distress although recent efforts by the government to restructure external debt (reduced stock, longer maturities) has brought the country some breathing space (IMF, 2019).

<table>
<thead>
<tr>
<th>Table 1. Ethiopia economy data</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (million)</td>
<td>89.8</td>
<td>91.2</td>
<td>92.7</td>
<td>94.1</td>
<td>95.6</td>
</tr>
<tr>
<td>GDP per capita (USD)</td>
<td>828</td>
<td>897</td>
<td>910</td>
<td>1,021</td>
<td>-</td>
</tr>
<tr>
<td>GDP (USD bn)</td>
<td>74.3</td>
<td>81.8</td>
<td>84.4</td>
<td>96.1</td>
<td>-</td>
</tr>
<tr>
<td>Economic growth (GDP, annual variation in %)</td>
<td>8.0</td>
<td>10.1</td>
<td>7.7</td>
<td>9.0</td>
<td>-</td>
</tr>
<tr>
<td>Fiscal Balance (% of GDP)</td>
<td>-2.3</td>
<td>-3.2</td>
<td>-3.0</td>
<td>-2.5</td>
<td>-</td>
</tr>
<tr>
<td>Public debt (% of GDP)</td>
<td>55.8</td>
<td>57.7</td>
<td>61.1</td>
<td>57.6</td>
<td>-</td>
</tr>
<tr>
<td>Money (annual variation in %)</td>
<td>21.7</td>
<td>25.1</td>
<td>29.8</td>
<td>22.5</td>
<td>12.4</td>
</tr>
<tr>
<td>Inflation rate (CPI, annual variation in %, eop)</td>
<td>10.0</td>
<td>6.7</td>
<td>16.5</td>
<td>10.6</td>
<td>19.5</td>
</tr>
<tr>
<td>Inflation rate (CPI, annual variation in %)</td>
<td>10.1</td>
<td>7.3</td>
<td>10.9</td>
<td>13.8</td>
<td>15.8</td>
</tr>
<tr>
<td>Exchange rate (vs USD)</td>
<td>21.26</td>
<td>22.40</td>
<td>27.58</td>
<td>28.20</td>
<td>32.00</td>
</tr>
<tr>
<td>Exchange rate (vs USD, aop)</td>
<td>20.76</td>
<td>21.90</td>
<td>24.07</td>
<td>27.63</td>
<td>29.28</td>
</tr>
<tr>
<td>Current account (% of GDP)</td>
<td>-10.8</td>
<td>-8.2</td>
<td>-7.0</td>
<td>-5.3</td>
<td>-</td>
</tr>
<tr>
<td>Current account balance (USD bn)</td>
<td>-8.0</td>
<td>-6.7</td>
<td>-5.9</td>
<td>-5.1</td>
<td>-</td>
</tr>
<tr>
<td>Trade balance (USD billion)</td>
<td>-13.8</td>
<td>-13.6</td>
<td>-12.9</td>
<td>-12.6</td>
<td>-</td>
</tr>
<tr>
<td>Exports (USD billion)</td>
<td>2.9</td>
<td>2.8</td>
<td>3.0</td>
<td>2.7</td>
<td>-</td>
</tr>
<tr>
<td>Imports (USD billion)</td>
<td>16.7</td>
<td>16.4</td>
<td>15.9</td>
<td>15.3</td>
<td>-</td>
</tr>
<tr>
<td>Exports (annual variation in %)</td>
<td>-13.4</td>
<td>-3.6</td>
<td>7.6</td>
<td>-10.7</td>
<td>-</td>
</tr>
<tr>
<td>Imports (annual variation in %)</td>
<td>8.8</td>
<td>-1.8</td>
<td>-3.2</td>
<td>-3.6</td>
<td>-</td>
</tr>
<tr>
<td>International reserves (USD)</td>
<td>3.8</td>
<td>3.0</td>
<td>3.0</td>
<td>4.0</td>
<td>-</td>
</tr>
<tr>
<td>External debt (% of GDP)</td>
<td>28.3</td>
<td>29.1</td>
<td>31.6</td>
<td>29.2</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: (Focus Economic, 2021).

2.2. Macroeconomic influence of pandemics

The first and most crucial aspect of an epidemic or pandemic is, and will always remain, human suffering and the loss of lives. Nevertheless, the spread of a virus can also have important economic implications. Several studies focusing on this aspect of the impact of epidemics and pandemics have found that the effects across the economy can be significant (Sohrabi et al., 2020).
Outbreaks and epidemics are causing more economic damage when they occur. Recent work on pandemics suggests that the potential economic losses from outbreaks of infectious disease are massive and similar in magnitude to the annual impact of climate change framing economic losses on a global scale (World Economic Forum, 2019).

As research indicates that pandemics are reoccurring events, the current pandemic has had enormous but hopefully short-term effects on all our lives. Countries have closed their borders, limited the movement of their citizens, and even confined citizens in quarantine within their homes for months. Infrastructure and routines to monitor citizens to limit the spread of the virus have been rolled out, exerting a great pressure on the economy to execute these rules and regulation (Donthu & Gustafsson, 2020).

In many studies of pandemics, analysis has understandably focused on short-term impacts. Even then, direct measures based on data from past episodes are not generally available (Meltzer, Cox & Fukuda, 1999). An alternative would be to look at microeconomic outcomes of a given population in episodes for which high-quality administrative data are available (Karlsson, Nilsson & Pichler, 2014). Absent such data, economic historians must use more aggregated data at the regional or national level to study the relationship between pandemic incidence and economic outcomes (Brainerd & Siegler, 2003; Barro, Ursua & Weng, 2020).

The micro, small and medium enterprises (MSMEs) a sector generate substantial employment and output in many countries (Nichter & Goldmark, 2009). The sectors’ share of overall employment is higher in developing countries, which are typically more focused on small-scale production.

In addition, studies in five African countries (Botswana, Kenya, Malawi, Swaziland and Zimbabwe) found that MSEs generate nearly twice more level of employment than registered, large-scale enterprises and the public sector do (Mead & Liedholm, 1998). A study examining firms with fewer than 10 workers found that they generated 58% of total employment in Paraguay, 54% in Mexico, and 53% in Bolivia. The contribution of the MSE sector to total output differs across countries. For example, MSMEs contribute approximately 31% of overall GDP in the Dominican Republic, 13% in Kenya, and 11% in Pakistan (SMEDAF, 2002).

2.2.1. Gross domestic product

According to assumptions and estimates from rating agency S&P, COVID-19 could reduce the baseline GDP growth rate for 2020 for the world by 0.3 percentage point (ppt); for China by 0.7 ppt; for Asia-Pacific by 0.5 ppt; and for the USA and Europe by 0.1 to 0.2 ppt. The virus created a shock for oil demand: over the past years, China has grown to account for around 50% of world oil demand, so when demand in the country dropped by around 25% because of the quarantine measures, the impact on the price of oil was significant (SPX | S&P 500 Index | MarketWatch, 2020).

According to Angelus and Nicole the estimated impact of such a pandemic upwards, bringing the total cost to 2.2 %-8 % of global GDP (US$3 trillion). The report further notes that, in such an event, South Asia’s GDP could potentially fall by 2 % (US$53 billion), and sub-Saharan Africa's GDP by 1.7 % (US$28 billion) (Angelus and Nicole, 2020).

Ethiopian real GDP growth of the year was the lowest seen in 17 years, affected in part by the COVID pandemic, though it remains among the highest rates seen globally in 2020 (Cepheus Research and Analytics, 2020). GDP is expected to grow at a quicker pace this fiscal year (8 July 2021 – 7 July 2022) as the reopening of economies releases pent-up
demand and supports the external sector. However, risks are heavily skewed to the downside: Rising public debt levels, protracted instability, and high susceptibility to Covid-19 flare-ups due to a low vaccination rate all cloud the outlook. Focus Economics panelists see the economy growing 6.5% in FY 2021, which is down 0.1 percentage points from last month’s forecast, and 6.4% in FY 2022 (Focus Economic, 2021).

Ethiopia’s economy experienced strong, broad-based growth averaging 9.4% a year from 2010/11 to 2019/20. Ethiopia’s real gross domestic product (GDP) growth slowed down to 6.1% in 2019/20 due to COVID-19. Industry, mainly construction, and services accounted for most of the growth. Agriculture was not affected by the COVID-19 pandemic and its contribution to growth slightly improved in 2019/20 compared to the previous year. Private consumption and public investment explain demand-side growth, the latter assuming an increasingly important role (The World Bank, 2021).

Focus Economy stated that Ethiopia economic activities weakened more through the second quarter of financial year 2020 (8 July 2020–7 July 2021). Restrictive measures to minimize the spread of the coronavirus remain largely in place. As such, domestic demand is set to be dented in the quarter. Moreover, rising new Covid-19 cases globally will likely challenge the external sector and further weaken foreign demand, thereby dragging on the economy in the quarter (Focus Economic, 2021).

2.2.2. Inflation

2.2.2.1. Consumer Price Index

One of the powerful economies of the world United States has reported a significant higher inflation for the all-items consumer price index for the first three months of the pandemic, as social-distancing rules and preferences induced more consumer expenditure in food and groceries and prevented spending in categories such as transportation. By May, the annual inflation rate of the US COVID-19 index was 0.95%, compared to only 0.13% of the official CPI (Alberto Cavallo, 2020).

Laborde et al. (2020), Swanned & McDermott (2020), & Torero (2020) estimate that due to the COVID-19 pandemic over 140 million people – many of them in sub-Saharan Africa will fall into extreme poverty and suffer from food insecurity and hunger. A major contributor to the increased food insecurity is the reduction of income among vulnerable populations.

Because of reduced demand due to the global recession, some researchers predict that commodity prices will decrease globally (Laborde et al., 2020). Meanwhile, others predict price increases, at least in the short run, due to hoarding and changes in purchase and storage patterns (Reardon et al., 2020). Increased marketing costs due to complications in logistics linked to the pandemic (Hahn, 2020) may further widen the wedge between farm and consumer prices (Narayan & Saha, 2020; Reardon et al., 2020). While significant food price movements have been seen in some cases, they seem highly context specific (Akter, 2020; de Paulo Farias & de Araújo, 2020; Yu et al., 2020), with price rises noted in some cases most often for perishables such as meat, fish, and vegetables (Akter, 2020; Lele et al., 2020; Mogues, 2020) and declines in others (Harris et al., 2020; Narayan & Saha, 2020).

Few of the many reasons that contributed to farm and consumer price changes during the pandemic in Ethiopia were. First, the ban on international trade and disruptions to inter-regional trade led to a more localized marketing system. It seems that this wider market access before the pandemic played a price-stabilizing role, leading to large price swings
during the pandemic. Second, urban demand fell due to income losses and the widespread fear that eating raw vegetables would increase the likelihood of contracting the virus. Changes in production costs and local supply changes likely also played a role for some products (Hirvonen et al., 2021).

According to Mood’s Analytics which bases it report on the international financial statistics fund the second populated country in Africa, Ethiopia’s consumer price index has been considerable rising during the period of the COVID-19 (Moody’s Analytics, 2021).

![Figure 1. Consumer Price Index of Ethiopia](source)

The value chain agents in Ethiopia under study indicated that their businesses were seriously affected by the COVID-19 pandemic. Most agents reported a decrease in demand, turnover, and clients; increased losses; less competition; higher transport costs; and changes in procurement areas (Hirvonen et al., 2021).

### 2.2.3. Employment

Labor markets around the world were disrupted in 2020 on a historically unprecedented scale. In 2020, 8.8 per cent of global working hours were lost relative to the fourth quarter of 2019, equivalent to 255 million full-time jobs. Working-hour losses in 2020 were approximately four times greater than during the global financial crisis in 2009 (International Labour Organization Monitor, 2021).

Ethiopia is having 40% of national under employment rate with the average two million number of people entering to the market annually (Job creation Commission, 2021).

According to International Crisis Group in Ethiopia there could be at least one million job losses because of COVID-19 when around two million young Ethiopians annually enter the labor market, and the urban unemployment rate is approximately 20% (International Crisis Group, 2020).
Unemployment is up and inactivity is decreasing, as households need additional members to start earning an income. Precarious work is growing as formal employment shrinks and informal work progresses; the crisis is hitting the weaker much harder. Rising unemployment and loss of income have been much more marked for the least educated, who are also those for whom earning an income is a matter of survival in the very short term. While incomes from employment have remained stable in the formal sector, they have dropped significantly in the informal economy (-30%); the outlook in August was gloomy; 60 per cent of workers were afraid of losing their jobs in the coming weeks, and two out of three businesses expect sales in 2020 to be “much worse” than in 2019 (Job Creation Commission, 2021).

3. RESEARCH METHODS

The research questions under study have focus generally on influence of pandemic on entrepreneurship in Ethiopia it has also looked in to the specific like influence of COVID 19 on the entrepreneurial at macroeconomics level taking gross domestic product, employment, and inflation (consumer index price) of Ethiopia. The methodology followed in this study is mainly an assessment of the overall situation and specific review at Ethiopia level about economic turmoil due to COVID-19 pandemic and its repercussion on the macroeconomic performance. Narrative or traditional literature reviews was used with the principal purpose to give the author and reader a comprehensive overview of the topic and to highlight significant areas of research.

4. RESULT

Significant macroeconomic after-effects of pandemics persist for years and decades. As a part of major contributors to the economy startups face immediate and tangible consequences of the pandemic outbreak especially in the form of reduced sales while fixed costs remain; a combination that threatens startups liquidity and long-term survival.

To understand the influence of the pandemic on the entrepreneurship in macroeconomics level in Ethiopia the study used narrative literature review the following result were found.

The pandemic has influenced in a negative way the country’s economy by reducing the GDP growth which has been recorded as one of the fastest economies for the last decade. The partial shutdown taken by the government as a response of the pandemic has led one million people lose their work increasing the unemployment rate which were 40% and the unemployment in the informal sector has increased by 30% while the formal sector unemployment was stable. Inflation on consumers goods during the pandemic has shown the following characteristics reduced demand due to the global recession, price increases, at least in the short run, due to hoarding and changes in purchase and storage patterns.

5. CONCLUSION

The economic climate is currently unfavorable for innovation because of the COVID-19. Key partners, customers, and investors are themselves fully engaged in responding to the crisis and the uncertainty as to how the crisis will develop discourages any experimentation.
The study concluded that when markets are gridlocked, startups are forced to deal with barriers to access for funding which can adversely affect their onward growth trajectories, and which also leads most of them to shutdown reducing or even eliminating their contribution to the gross domestic product. As businesses lost revenue because of COVID-19 lockdowns, they passed the shock on to their employees by downsizing and temporary layoff which in turn is increasing unemployment country wide. As lock down continue because of the COVID-19 consumers spending increase on food, grocery and essential items putting pressure on the supply chain that is already operating at the maximum capacity. Because of the COVID-19 unhealthy and sudden demand rise has been seen that the system is not equipped to handle it increased the average price paid by consumers for goods and service which directly affect the inflation rate to rise.

Future research should focus on the effects of the COVID-19 on capital flows, exchange rates, and various sectors of the economy. It will be a challenging task for the policymakers to face the health crisis or to correct the macroeconomic and financial issues posed by the COVID-19. Furthermore, there is greater scope for future research to examine how the developed and emerging economies function in the pandemic situation and adopt policies to face the health crisis as well as macroeconomic and financial issues.

REFERENCES


Focus Economic (2021). Ethiopia Economy – GDP, Inflation, CPI, And Interest Rate (Focus-Economics.com).


A review on macro-economic... 79


DOI: 10.7862/rz.2022.mmr.06

The text was submitted to the editorial office: December 2021.
The text was accepted for publication: March 2022.