

Key industry group trends in post-pandemic Africa



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In the midst of the planetary emergency of climate change, Covid-19 is testing modern civilisation's preparedness for shocks, across the spheres of finance, economics and technology; global, national and regional governance; global and population health; social cohesion and food security. This is according to Baker McKenzie's new report, *Unprecedented: Converging Crises*, which notes that while the vast majority of businesses around the world are now in the throes of the immediate impacts of the pandemic, the consequences of this abrupt global change will reverberate for decades to come. With the acute phase of the Covid-19 response mostly complete, business leaders have begun to look at how to position themselves to succeed in a turbulent world, with organisations in different sectors having to adapt to specific industry challenges brought about by the pandemic.



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EMI sector

In the Energy, Mining & Infrastructure Energy (EMI) sector, the report notes that demand shocks, the oil price war, and disruption to global supply chains are likely to affect investment considerations for energy and mining concerns, and for investors in both sectors.

In the energy sector in Africa, access to power has been hampered by the lack of competitive funding, the dire state of the continent's utilities infrastructure and the need for energy policy and legislation to be adapted so that it can boost investment in the sector. Post Covid-19, new solutions are needed to address Africa's power crisis and switch on a continent-wide strategy for its recovery and renewal. Such solutions will have to take into account the energy transition and in particular, the utilisation of renewable energy, the focus on smart power technologies and cost effective solutions, as well as the global drive towards a decentralised, decarbonised and secure energy supply that addresses climate change and stimulates economic growth.

Across Africa, new systems and networks can be designed around future environmental stressors and energy demands, without having to consider the limitations of old infrastructure. With advanced use of mobile technology in Africa and the lack of existing electricity transmission networks, these developments provide an opportunity for communities in Africa to gain access to power by leapfrogging the traditional model of centralised generation and transmission of power.

Further, investment in Africa has always been a story of infrastructure and that has not changed in 50 years. Among African leaders, there has been a strong consensus that the infrastructure impediment must be addressed so as not to restrict increased trade integration that will be the result of the African Continental Free Trade Area (AfCFTA). Over the past decade, Africa has made progress in overcoming the infrastructure financing shortfalls. In 2019, the AfDB announced at the Africa Investment Forum in Johannesburg that infrastructure investment in Africa amounted to more than US\$100 billion in 2018, and around \$25 billion came from China. Of the overall amount, 40% went to energy infrastructure.

China, through its Belt and Road Initiative (BRI), is Africa's largest trading and infrastructure investment partner, but the opportunities for investment and collaboration extends beyond China to other Asian nations, such as Japan, as well as Europe and the United States. The pandemic, however, has had an impact on China's BRI projects in Africa in that the ripple effects of Covid-19 affected the nature, pace and scope of China's BRI activity in Africa, although mostly for the short term.

Financial sector

For financial institutions, the report notes how regulators and investors were already challenging Global Systemically Important Banks (G-SIBs) and Global Systemically Important Financial Institutions (G-SIFIs) for their potential vulnerabilities to climate scenarios of 1.5 degrees Celsius, 2 degrees Celsius, and more. According to the report, the Covid-19 pandemic should expose risks within portfolios and may also make it harder for G-SIBs and G-SIFIs to rebuild the capital buffers they might need to deal with anticipated impacts of the climate crisis at all temperature ranges (even those that may appear benign).

In the post-pandemic environment in Africa, financial institutions will have to navigate not only an economy in recession, but one where there will be many disruptors to existing business models and a rapid acceleration of existing trends such as digitalisation, cybercrime and environmental, social and governance (ESG) factors.

A long and protracted recession due to the impacts of the pandemic will have major implications for financial institutions, as it does for other all sectors of the economy. At a high-level, while organisations currently remain well-capitalised, the position could deteriorate. Financial institutions are expected to face increasing levels of non-performing loans, with corporates drawing down pre-existing credit lines.

African financial institutions are, on the whole, in good health at this stage, with adequate funds set aside to ease them through difficult times. While the big banks have been affected by the pandemic, they still have liquidity and strong capital levels and should not need to raise capital as a result of the impact of Covid-19. However, pandemic relief programmes will soon need to be paid back and it remains to be seen how this debt will be managed in the current economic environment.

There is also a trend towards increasing regulation and supervision of financial institutions. Regulations requiring organisations to act in clients' best interests over and above strict contractual obligations - paying close attention to their regulators' expectations - has received added impetus in light of the flexibility and forbearance shown towards customers in the opening stages of the lockdown.

The financial services regulatory frameworks in Africa have improved substantially in recent years, which has aided regulators in their response to the Covid-19 crisis. Over the past decade, African regulators have been improving financial sector stability through the adoption of regulations that, for example, promote competition, improve access to credit information, support tighter lending and more stringent capital ratio requirements, encourage financial innovation and ensure the improved monitoring and governance of financial institutions. Challenges, such as limited enforcement power and the lack of independence of regulators in some countries, still exist.

Media, technology transformation and regulation

The Technology, Media and Telecommunications (TMT) sector has a positive role to play in transforming businesses in Africa, opening it up to competition, introducing new services and disrupting incumbent business models. The immediate impact of Covid-19 is expected to boost existing trends, for example, digitalisation and the remote delivery of services. Well before Covid-19, businesses in Africa had been turning to technology to reduce costs, improve processes, grow customers and enhance innovation. For example, in terms of crypto-based financial solutions, there is already an abundance of local mobile and e-payment platforms easing the transfer of money across the continent. Countries in Africa that have seen a rapid growth in cryptocurrency use and are beginning to contemplate or adopt regulations in this regard, including in Kenya, South Africa, Nigeria and Ghana.

Post-pandemic, many African organisations will be focusing on improving their resilience and increasing their digital due diligence as a result of the increased risk of cyber-attacks and data breaches brought about by increases in digitalisation and remote working. There is currently widespread lack of legislation covering the technology sector in Africa - numerous countries in Africa do not yet have specific legislation around cybersecurity, and data privacy and protection. In countries where regulations do exist, the laws can be vaguely worded, and there are challenges around enforcement. Regionally, for example, the Southern African Development Community and the Economic Community of West African States have data protection policies in place, and the African Union's Convention of the African Union (AU) on Cybersecurity and Personal Data (2014) has been ratified by seven countries so far, but it needs the ratification of 15 member states to become effective.

Legislation governing the digital economy is essential to protect African citizens in terms of both their digital privacy rights and cybersecurity threats, while at the same time ensuring that their online freedoms are not threatened. Considering the current rapid move to digitally focused business models in Africa, the implementation of these legal protections and guidance has become urgent.

Risk mitigation in IMT sector

In the Industrial, Manufacturing and Transportation (IMT) sector, the report notes how the Covid-19 shock has provided a high-pressure, strategic opportunity to rethink supply chain operations for flexibility and adaptability, with improved consideration of reshoring, nearshoring and on-shoring. Such moves could be costly and entail significant risk, but could position entities for a world in which more frequent and powerful extreme weather will take an enormous toll on supply chains. Heeding the consequences — and the warning — of the Covid-19 shock, could make IMT supply chains less vulnerable to a wide range of coming disruptions.

IMT initiatives in Africa after the pandemic are therefore expected to have a heightened focus on improving Africa's capacity for green, low-carbon and sustainable development, via, for example, clean energy, community healthcare, green transport, sustainable water, wildlife protection and low-carbon development projects. A commitment to ESG principles will take centre stage in the quest for post-pandemic funding, with access to capital for large industrial projects now likely to contain sustainability requirements.

Investment in Healthcare and Agriculture

The report further shows how Healthcare and Life Sciences companies have faced challenges with drug pipelines prior to Covid-19 and outlines that it is not unreasonable to assume that drug makers will face even bigger hurdles to profit from

drug pipelines after Covid-19 — and that investor sentiment may sour. The report details how Big Agriculture, on the other hand, is facing the inexorable risk of climate change, with or without Covid-19. That is why investors will focus on growth opportunities in seed innovation, new crop varieties, and precision agriculture, since advancements in these areas will most likely take place among an elite group of agricultural science behemoths.

Further, while some industries and services are forced to shut down, companies in the healthcare and life sciences ambit have been pushed to work even harder, innovate faster, collaborate and be more resilient, all at an unprecedented pace. The increase in the number of legal and regulatory measures arising out of Covid-19, and aimed at combatting its spread, has been truly proportional to the growth of the pandemic. Although the measures affect all industries, many of these have had direct implications for the healthcare and life sciences sectors in Africa.

Retail and the consumer mindset

The report also shows how organisations in the Consumer Goods and Retail sector (CG&R), have had to relook consumer psychology and buyer behaviour during this crisis, in part because of the global scale of the Covid-19 pandemic and its disruption of our daily routines. The report notes that consumers could now be looking for goods and retail experiences that are comforting, nostalgic, needed and new. The report states the data needed to be studied on the trust consumers have in goods and online retail — especially taking into how well consumer goods manufacturers and retailers deliver a product mix that assuages anxiety, while serving the desire for novelty amidst stultifying routine. As such, the report notes that the pandemic may redefine what certain consumer segments believe is essential, with hedonism and austere consumerism both finding a voice.

Competition law also became a core focus of the CG&R industry this year. During the pandemic, there were innumerable complaints of anti-competitive conduct from customers and consumers across Africa, who expressed concerns over sudden price hikes of healthcare and hygiene products as well as identified essential products. Numerous African competition authorities, aware of the effects of unjustified price hikes and excessive pricing on already vulnerable economies, responded by establishing specialised investigation teams, refocusing existing resources to Covid-19 specific complaints and introducing new competition regulations. African competition authorities further noted that collaboration between themselves and consumer protection authorities, as well as between competing essential service providers, had been essential in order to enable countries to adequately respond to the Covid-19 crisis.

Reviving tourism

The report further shows how Hotels, Resorts and Tourism sector could see pandemic-friendly hotels and resorts emerge amidst the devastation of Covid-19, with possible facilities such as sophisticated onsite hospitals, onsite physicians and nurses; outdoor facilities that allow for physical distancing of guests diagnosed with viral infections; gyms designed for physical distancing and/or one-person workouts in sterile gyms; and super food-safe kitchens. Further, tourism may also need to become hyper-local to survive until global travel restrictions relax enough to meaningfully reboot travel.

The pandemic has brought home the importance of ESG concerns - not only environmental - but social and governance issues as well. Businesses in Africa who are prioritising ESG elements such as energy efficiency, sustainability, carbon footprint, community involvement, workplace health, education, skills development, and governance, for example. Successful organisations will have already embedded sustainability in their strategies and will therefore be able to take advantage of favourable regulatory treatment to improve their competitiveness.

The bottom line is there are very few sectors that have not been affected by the pandemic and those that successfully adapt to the challenges will find many exciting opportunities for growth in 2021 and beyond.

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