



# African Governments as Customers and Contractors

# 14

How German Small and Medium-Sized Enterprises can Manage to do Business in Africa Successfully for Decades

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## Abstract

GAUFF Engineering, a medium-sized engineering firm from Nuremberg, has been successfully operating in Africa for decades. To date, a large number of major infrastructure projects in the fields of transport, water, wastewater, and energy have been implemented on behalf of the governments of various countries. Stefan Tavares Bollow, the Managing Director responsible for Africa, reports on his experiences, the peculiarities, and the specific challenges that project business in Africa entails. He presents various business models and the key success factors, and provides an overview of the most important conditions to succeed in the African market. Because successful business in Africa requires more than just a good concept and good products.

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## 14.1 Introduction

African governments can act as customers and clients in a wide variety of different types of business. The range is very broad. It extends from pure supply transactions (for example, of buses for local transport) and supply transactions with sometimes extensive maintenance or operator tasks (including maintenance and update tasks for delivered IT equipment; delivery, maintenance and operation of technically complex systems for the production of counterfeit-proof documents) to consulting and consulting contracts and direct investments on behalf of governments. For these direct investments, the Build-Operate-Own operator model (BOO) is usually sought, in which a company or a consortium of companies makes an investment (such as the construction of a port; development of a mine), takes over the operation and becomes the owner of the facility for a time or permanently. In addition, there are Build-Operate-Transfer (BOT) transactions, in which the facility is operated for a while after construction until it is taken over by the partner government, or Public-Private-Partnership (PPP) projects, in which a private company invests in a project together with a government or a government agency and operates it jointly.

The list is not complete and mixed forms between the models presented are possible. However, it is unmistakable that the different types of business and projects place different demands on the presence of the implementing company on site. In addition to close contact and close coordination with the respective contracting government or its subordinate authorities, the projects often also require cooperation with local and international partners. With the exception of pure supply transactions, almost all types of projects present companies with the central challenge of every commitment in Africa: to deal intensively with the conditions and peculiarities of the country in which one wants to become active, and to respond to these with empathy and cultural understanding. This is the key to the success or failure of a project.

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## 14.2 Business Models for Infrastructure Projects in Africa

For the Nuremberg company GAUFF Engineering, Africa has been at the center of business activities for decades. As a medium-sized, independently consulting engineering firm, GAUFF Engineering implements infrastructure projects in the areas of transport, water, wastewater and energy and is represented worldwide on four continents (as of December 2020). The focus of business activities is in Africa, especially on projects in Angola, Ivory Coast, Gabon, Guinea, Mozambique, Senegal and Uganda, where the company has its own offices. The language areas of these countries—francophone, lusophone and anglophone—also reflect the enormous cultural diversity of Africa. The projects are usually developed and implemented with the help of loans covered by state Export Credit Agencies (ECAs) (Euler Hermes and its equivalents in other countries).

There are various models for the implementation of infrastructure projects for African governments. They range from turn-key projects, which private companies create for governments or government agencies from planning through construction to acceptance and handover, to projects that are planned, financed and implemented by institutions of official bilateral or international development cooperation for African governments.

GAUFF Engineering has specialized in contracts according to the business model Engineering-Procurement-Project Management including Commercial Financing Solutions—in short EPPM&F. In this business model, GAUFF Engineering creates the technical design in close coordination with the client, prepares the tenders for the procurement of devices, building materials etc., selects the local and international implementing companies and takes over the project management including quality control. In addition, GAUFF Engineering can arrange commercial financing including coverage by state ECAs. Euler Hermes usually provides the coverage, possibly supplemented by other export insurances, if foreign companies are involved in the implementation or if the value creation partly takes place abroad.

For African governments, this EPPM&F model is interesting because it can be implemented quickly compared to other project models and brings cost savings through a rapid start of the project. In addition, it guarantees the client a high contract reliability, a secured financing and allows him—in contrast to the often rigid turn-key projects—to bring in his wishes at any stage of the project.

GAUFF Engineering thus has a model that deviates from that of many other companies that implement infrastructure projects in Africa. Particularly important here—as for other companies—is insurance through Euler Hermes. This requires that a large part of the value creation takes place in Germany. Since GAUFF Engineering, as a consulting engineering firm, acquires, develops and supervises the projects but does not carry them out itself, other German companies must almost always be brought on board as suppliers, service providers and implementers. Through this business model, GAUFF Engineering has become a multiplier of the commitment of German companies in Africa over the past decades and has enabled and mediated many, especially medium-sized companies, to enter the Africa business.

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### 14.3 Financing of Projects

An important aspect in the implementation of projects for African governments is financing. Many African clients expect private companies that want to carry out projects to also offer financing with the project offer. The advantage for the governments is that commercial loans with a guarantee by state export insurances often have better conditions than loans that the governments would have to take out themselves.

The guarantees by the state credit insurance institution Euler Hermes thus play a central role for the competitiveness of German companies in Africa. The German Hermes

guarantees are bound by basic rules set by the OECD, just as is the case for the export credit insurers of other Western countries. Only here are the rules roughly comparable; a level playing field. Loans and credit insurances from other countries that are not bound by these OECD rules often put companies from Western countries in difficult competitive situations.

The conditions for risk coverage of exports and investments by German companies in Africa have been improved recently. This helps the companies in the Africa business. However, it would be desirable to extend the improved conditions. For example, the deductible for Hermes guarantees, which has already been reduced from ten to five percent for some selected countries, could be reduced for even more countries. This would be possible without much additional risk for the insurance carriers—at least for particularly worthy projects and investments—after a risk-based individual examination.

German companies have to compete with international competitors in projects in Africa, who—like Chinese companies—enjoy strong state support, or—like companies from the former major colonial powers—have advantages due to historical, linguistic and cultural affinities. Improved risk coverage would strengthen the competitive situation of German companies.

Many projects in Africa are financed from funds of bilateral or international development policy cooperation. Here the conditions are better than for commercial loans that private companies can offer. But they also have disadvantages. As a rule, commercial loans can be realized faster and the projects financed from them can be started more quickly. For projects financed from funds of development policy cooperation (EZ funds), however, complex bilateral negotiations at government level between donor and recipient country or between the government of the recipient country and the financing international organizations such as the World Bank, African Development Bank or other multi-lateral development banks must be conducted. The financing of a project from EZ funds is also tied to international tendering procedures for procurements, project implementation etc., which often do not allow rapid realization.

As a rule, both the bilateral and the international partners of development policy cooperation with the African governments determine in multi-year programs which projects are to be carried out or in which sector projects are to be financed. For interested companies, it can therefore be useful to inform themselves about these funding programs.

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## 14.4 Success Factors

Even if a company has received the commitment for a project, this is usually only the starting point for negotiations on the design of the actual project. Until the contract is signed and the funds are released, it is usually still a long way. Here it is first of all important to know the administrative structures and decision-making mechanisms of the partner country. Which authorities, offices or departments are responsible or need to be involved? Who has to grant which approvals? Who has to document his consent? What

approvals, co-signatures, declarations of consent etc. are necessary at all before a project decision can be made? Who ultimately decides? Who is the contract partner?

Most African states have adopted the administrative structures of their respective former colonial masters and these are often complex. Contract negotiations for infrastructure projects are often a juggling act with many balls. Usually involved are the relevant specialist ministries and their subordinate authorities, for example for road construction or water supply. In addition, the Ministry of Finance and the bodies responsible for budget management. Many projects involve provincial governments and local authorities. Since for almost all larger projects, especially those guaranteed by state credit insurances, an examination of environmental compatibility and the social and economic impacts is required, the Ministry of Environment and the ministries and authorities responsible for the social and economic impacts must also be involved. In almost all African states, the presidential administration forms a kind of super government. The green light for a project and the release of funds often take place by presidential decree or decision of the Council of Ministers. Close exchange with the presidential administration or the Council of Ministers is therefore usually a must.

Based on our experience with infrastructure projects, it is the responsibility of the company carrying out the project to coordinate and obtain the various participations, approvals, co-signatures and participations of the government partners; a multi-layered, laborious and sometimes exhausting task that requires good personal contacts and often a lot of patience and perseverance. If a single approval, participation, cooperation or similar is not available, the entire project may stall. And if things don't move forward, the implementing company usually has to find out for itself where things are currently stuck and look for solutions. A good network of personal contacts on site is a prerequisite for this.

But this is not only the case with infrastructure projects. Similar experiences are likely to be made by companies that carry out complex Build-Operate-Transfer, Build-Operate-Own or Private-Public-Partnership projects.

Decisions are made top-down in most African countries. For large projects, the final word often lies with the president himself. He makes the final decision when the green light has been given at the ministerial level—involved specialist ministers, finance minister, prime minister, council of ministers. In addition to good contacts at the working level of the ministries and authorities, it is therefore important to know the ministers personally in order to coordinate project developments directly with them.

In addition to presence on site, personal contacts and knowledge of administrative structures and decision-making processes, good communication and good interpersonal dealings are other important success factors. Based on my personal experience in many years of professional activity in Africa, tact, respect and tolerance are more important here than crash courses in intercultural competence, as they are often offered. Such courses can be helpful to become aware of the dimension of the difference of our neighboring continent. They may also help to avoid the worst faux pas. But they can never even come close to doing justice to the tremendous diversity of Africa—a continent with 54 countries and more than 2000 languages and idioms.

## 14.5 Practical Experience Tips

From everyday practice, some things can be noted that are important for business engagement. Personal contacts are—stronger than in Europe or elsewhere—a prerequisite for successful business. They only work in the long run if the partners feel sincere respect and appreciation. Pure verbal assurances are quickly seen through.

Plans in Africa are less rigid and are often adapted. Things usually develop more slowly or differently than agreed. This can have many causes, from lack of budget funds for a project to the revision of decisions by higher authorities. Here patience, flexibility and possibly improvisation are required (“Can I adapt the project? Can I shift costs and resources? Can I agree to payment extensions?”). Blaming partners who are not responsible for the changes is forbidden. Loud reproaches or even outbursts of anger contradict all African rules of civilized communication and are taboo.

There are also some things to consider in communication. The well-known cliché that Europeans and especially Germans like to get straight to the point at business meetings, while Africans first exchange extensive courtesies, often applies. But there is nothing wrong with exchanging courtesies. It improves the conversation atmosphere!

Negotiations with African government or authority representatives are usually no more difficult or complicated than with European government and authority representatives and follow similar rules. However, there are differences that need to be considered. For example, Europeans often have the impression after talks and negotiations with Africans that they were in agreement or largely in agreement. They are then sometimes surprised when they later find out that the agreement was not that great. The reason can lie in a different communication style. Europeans prefer direct communication and address critical points clearly. Africans are often less confrontational in personal conversation and negotiations, avoid a “no” or harsh arguments and express non-agreement rather indirectly through questions, polite objections or body language. For Europeans, it is then often wrong to believe that they have “disputed” doubts if counter-arguments and arguments put forward remain unchallenged.

In addition, what is not said can be more important than what is said. One should not assume that a negative aspect for the African side, which this suddenly no longer addresses in negotiations, no longer plays a role.

Further small tips from practice that have proven useful: After talks or negotiations, one should send a written summary to the partners to document the state of the talks. This can bring an additional benefit for the partners, as they usually also have to document the state of the talks for their own institution. When submitting new documents, documents or written statements, one should include a copy of the previous correspondence, so that the addressee is not dependent on obtaining the things from the usually poorly kept registries and file administrations himself.

Successful business in Africa requires more than just a good concept, good products and technicians and attractive financing. What is needed above all are risk-taking, flexibility, curiosity, frustration tolerance and the willingness to engage with this fascinating continent and its people.

## 14.6 Excursion: China as a New Player: Competitor or Potential Partner?

Within a decade, China has become Africa's largest economic partner, surpassing Europeans and Americans in all areas, whether it be trade, investment, infrastructure, or services. While Europeans in the past tended to perceive African countries more as recipients of development aid, China recognized the potential for business on an equal footing and was extremely successful with this approach. For German and other Western companies, the question arises: "How do we deal with this new super player? How do we handle it?"

GAUFF Engineering asked this question very early on, because the core business, the construction of infrastructure facilities, was the first area in which Chinese companies pushed onto the African markets with all their might. Here, Chinese companies were competitive from the start and have even expanded this competitiveness. Today, for example, Chinese companies are the biggest winners in international tenders for projects of the World Bank and the African Development Bank. In addition, the Chinese willingness to invest seems unbroken. At the seventh "Forum on China-Africa Cooperation" in Beijing in September 2018, China's President Xi Jinping announced further funds for Africa amounting to 60 billion US dollars for investments, aid and loans for the next three years; an amount that, if realized, will dwarf German and European development efforts and investments in Africa.

China's enormous commitment to construction and infrastructure in Africa, which is often competitively priced and driven by state-owned companies and financed by loans from Chinese state banks, was not a reason for GAUFF Engineering to resign, but an opportunity to bring in its own strengths to participate in the demanding part of the value chain.

For 30 years now, GAUFF Engineering has been monitoring the quality of Chinese major projects on the African continent. Initially, construction supervision as a representative of African governments was in the foreground. For example, GAUFF Engineering has supervised road construction projects of Chinese companies of well over 1000 km length on behalf of the Angolan government. However, Chinese companies have now recognized the added value of cooperation with a company that is experienced, respected and well-reputed in Africa. Today, GAUFF Engineering is responsible for quality and environmental management as well as special engineering services for complex infrastructure projects in Africa on behalf of Chinese companies.

The most recent project was the construction of the Maputo-Katembe Bridge in Mozambique, which was completed in 2018. It is the longest suspension bridge in Africa and represents an important link between Mozambique and South Africa. In this project, GAUFF Engineering revised the technical design of the bridge, ensured construction supervision and quality control, and created the Project Quality Management Plan. The bridge was twice awarded the international "Fulton Award" for engineering achievements and by the Engineering News Record in New York with the "Global Best Pro-

jects Award” and was the subject of numerous publications in daily newspapers and trade journals. It was visited by high-ranking delegations, including Chinese President Xi Jinping and numerous heads of state and government and ministers from around the world. From the German side, the Federal Minister for Economic Cooperation, Dr. Gerd Müller and the Hessian Prime Minister Volker Bouffier visited the GAUFF Engineering team on site. The international attention for this example of a successful German-Chinese-African cooperation is also highly appreciated by the Chinese partner, the China Road and Bridge Corporation (CRBC).

Certainly, Chinese companies in Africa are primarily competitors for many German and Western companies. But German companies have their own special strengths, abilities and experiences, which are often complementary to the strengths of Chinese companies. If they are brought in, business scenarios can be identified in which the added value of German products and services can lead to effective trilateral cooperation of German, Chinese and African partners. Several German companies have already successfully taken this path.

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## 14.7 Support and Backing From Official Side

Recently, there have been developments in German Africa policy that are very positive from a company’s perspective. Particularly worth mentioning are the “G20 Compact with Africa” initiative launched by the Chancellor in 2017 and the new approaches of the individual federal ministries. Based on the realization that only the private sector is capable of creating a sufficient number of jobs in Africa, these initiatives aim to facilitate and encourage private investment in Africa. This new approach is to be welcomed and can be a valuable help for companies that want to get involved in Africa.

Support and backing from the official side is also an important factor in the day-to-day business of German companies in Africa. From GAUFF Engineering’s experience, close contacts with the embassy and—if available—the local chamber of commerce or the delegate of the German economy are useful. This applies to general information exchange, but also to bring concerns to the government. Often the embassy can act as a door opener and arrange an appointment with a minister more easily than a private company.

Special bilateral consultation formats have also proven their worth. For example, there is a partnership agreement between Angola and Germany that provides for biennial bilateral commission meetings at the level of state secretaries. In addition to politics, economic issues are at the center. This provides German companies with a good forum to bring their concerns to the government level, which at the same time creates a certain pressure to find solutions. As part of the new Africa initiatives of the federal ministries, the creation of additional consultation formats with African countries is planned. German companies should take them at their word here.

A special opportunity to advance business concerns and projects are high-level visits by African politicians to Germany and German politicians to Africa. They stimulate the will to agree on or sign concrete projects and can break blockades that previously



seemed insurmountable. It is therefore a special privilege to accompany the Federal President, the Chancellor, the Foreign Minister or a specialist minister on a trip as a business representative.

Visits by high-ranking representatives of African states to Germany are equally important. This is especially true for visits by African presidents, who are usually accompanied by a whole host of ministers. The conferences and specialist forums that the Africa Association of German Business e.V. regularly organizes on such visits are an important contact exchange and offer the opportunity to speak with the ministers and bring up concerns.

A difficulty with high visits from Africa is often the appropriate perception at the political level. For example, during the visit of an African head of state, in whose country German companies were able to acquire billion-dollar public contracts, no minister was willing to open an economic forum organized by the Africa Association together with him—an affront not only from an African perspective.

Another example: A minister of an economically and politically significant African country, who is one of the most important ministers in the cabinet, speaks fluent German as an alumnus and was personally entrusted by the president with the development of economic relations with Germany, was not received by a single minister or state secretary of the federal government during his visit to Berlin.

Both examples show that the importance of Africa, which we often invoke, and the “relationship on an equal footing” are often contradicted by political reality. This is very accurately perceived by the protocol-conscious African partners. Some of our European neighbors assign much higher priority to African visitors. Here, German politics still has some catching up to do.

Undeniably, however, the promotion of private sector engagement and private investment in Africa has been improved recently. But—as so often in life and politics—more could be done.

With the new Africa initiatives of the federal government, for example, the possibility was created to promote particularly development-relevant private investments. This should also be possible for investments that African governments themselves make to eliminate development deficits (for example in the infrastructure sector), and in which German companies are entrusted with the implementation.

In such projects, for example in road construction or to improve energy supply, companies usually have to train and educate local skilled personnel and professionals anyway. They spend considerable own resources on this. It would make sense to supplement such measures with state funding for the training of personnel for later operation, maintenance and upkeep. An expansion of the “Training and Employment” initiative launched by the Federal Ministry for Economic Cooperation and Development (BMZ) would offer a good opportunity here with its commendable practice-oriented approach. This would bundle the development efforts of African governments with the commitment of German companies and official development cooperation—a double lever for the funds from the BMZ budget.

## 14.8 Concluding Remarks

“Doing Business in Africa” is not easy, but it is worth it if you approach it correctly. With this credo, GAUFF Engineering has been active in Africa for decades and remains optimistic. The Federal Minister for Economic Cooperation and Development, Dr. Gerd Müller, said in an interview in 2018: “More will be built in Africa in the next ten years than in Europe in the last 100 years”. He could be right. The population of Africa will double to about 2.5 billion people by 2050. Of the 80 million people by which the world’s population grows each year, two thirds are born in Africa.

In terms of area, Africa is also much larger than it appears on most maps, because the Mercator projection used in cartography makes areas near the poles appear larger and those near the equator smaller. In fact, Africa covers an area as large as the USA, China, India, Japan and all of Europe combined.

The population growth and the huge area of Africa require great efforts to develop the continent. Certainly, positive development will not occur equally quickly and well in all countries in Africa and some are still far from it. Nevertheless: Many observers expect considerable leaps in development, for example in the areas of energy and infrastructure. Some African states have already shown Europeans a thing or two in the expansion of fast mobile networks, simply skipping the expansion of line-bound networks. But also the consumption and the demand for investment goods and services will increase dramatically.

In the perception of the general public, Africa is unfortunately too often associated with negative topics. However, the continent—often less noticed—has respectable success stories to tell. The best example is the handling of the Corona pandemic. As late as April 2020, the World Health Organization WHO predicted that Africa would be particularly badly affected. In fact, most African governments acted very decisively and accepted major restrictions on the economy and public life. The pandemic remained largely under control in Africa, while the number of victims continued to rise in Europe, the USA and South America until the end of 2020.

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## 14.9 Personal Conclusion

Africa offers enormous opportunities, we should seize them. Many companies hesitate to get involved in Africa because they uncritically adopt the widespread clichés and reservations against African governments. Much of this may be justified. But my personal experience and the experiences of our company have taught one thing: African governments, African ministers and also employees in ministries, authorities and offices are primarily interested in the success of the projects they have to carry out and are responsible for. In this, they do not differ from Europeans and others. Meeting them on an equal footing and offering good solutions and projects is the best way to success.



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As Managing Director at GAUFF GmbH & Co. Engineering KG, Mr. Tavares Bollow is responsible for the Africa and Latin America regions. In addition to his expertise in the core areas of civil engineering, he has extensive experience in project development and structuring project financing.

He has been living predominantly in Africa for 15 years, reliably supporting the customers and partners of GAUFF Engineering.