Empathy and Client Relationships in Development Finance

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THE IMPORTANCE OF EMPATHY IN DEVELOPMENT FINANCE RELATIONSHIPS

Development finance is multifaceted, but empathy is a rarely discussed characteristic of the relationship between providers and clients. That is probably due to our preference as development specialists to focus on tangible financial investment—resource transfer—rather than the intangible emotional investment in a relationship.

Empathy can be broadly defined as the capacity to feel and experience another person's outlook from their perspective or by placing oneself in the position of another. So, what does an empathetic relationship in development finance look like and why is it so important to maximising development impact?

The role of development finance is to shift the production and policy frontiers forward from business as usual. A project or policy officer at a development finance institution (DFI) is essentially arguing the case for why a client should do something differently, outside of their range of experience, in order to create a wider societal benefit. A couple of illustrative examples: at the level of a project client, this might mean adopting new technology that will improve a production process and bring wider environmental benefits; at the level of a government, it could mean the adoption of a policy reform that will reduce barriers to entry for new investors and so provide a competitive challenge to existing firms. For both the project client and government leader, this represents change. And change represents challenging established interests and ways of doing things.

The DFI official has to make the case for why established norms should be challenged. This is where empathy in particular starts to play a role. To make the case for moving away from business as usual, the official must start by understanding the context that favours the status quo. Too often, however, DFI staff are surprised that a decision-maker at project or government levels would prefer to leave things be. They ascribe irrational motives to the client. The reality, of course, may be that the change the DFI is arguing for is just too difficult for the client: in our examples, because the adjustments in the production process may lead to greater efficiency at the cost of jobs, or the firms that are protected from international competition are close to the government and may even pay the governing party's election bills. In other words, the recipient is behaving rationally within their context.

So, the DFI official must start by investing time and energy in understanding the perspective of the client. This requires investing time in building a relationship with the client, with a lot of face-to-face contact, ideally on the ground in the very habitat where the decision to change or not has to be made. It requires, in particular, a strong interest in understanding local and national political economies.

The DFI official then has to comprehend and openly acknowledge that, where the pull of business as usual is so strong, change requires the client to be courageous. The client lives in the same community as those that will be laid off as a result of adopting a more efficient production process. The government leader may find the funds his party relies on at election time drying up as a response from those domestic firms that now face competition from foreign investors as the investment climate improved. A second part of the empathetic relationship in development finance is all about fostering courageous decisions. This requires being explicit in discussions about the risks and returns to courageous actions, thereby showing an understanding of the calculations that the client is having to make.

The third facet of a successful empathetic relationship between a DFI official and client is the ability of the former to offer tailored solutions. Plain vanilla solutions whatever the context usually fail in development because they lack grounding in the local context. Of course, part of the DFI official's value comes from having observed similar issues in other markets, a range of experience that the client is unlikely to possess. At a high level—for example, how a tender process should be run or how a privatisation should be carried out—such knowledge is valuable and transferable from one market to another. But at a more granular level, the solution for client "a" in market "a" is unlikely to be the same for client "b" in market "b." The empathetic relationship is more likely to work when the DFI offical's advice on solutions, including on the sequence and pace of actions, is granular and responsive to local conditions. And the more one can use the empathetic relationship to co-create solutions, the better to build the client's ownership of the approach.

The DFI official is more likely to persuade the client to move away from business as usual if the latter knows and feels that the former has a stake in the success or failure of the chosen approach. This goes beyond the financial stake in the project or policy reform to shared feelings over project and policy success and failure. In our examples, the financier builds an affective empathetic relationship if personally checking in with the client on the progress of the project or policy reform and celebrating more at completion than at signing and inception.

At the heart of empathy in successful development finance relationships is trust built on understanding the context and perspective, possessing what it takes to make courageous decisions and work up solutions that are fit for local purpose, and to have a shared stake in outcomes. This is not unique to development finance but is vital to its success.

PUSHING AT AN OPEN DOOR: AN EXAMPLE OF EMPATHY IN DEVELOPMENT FINANCE

The experience of DFIs is mostly about coaxing change. But perhaps the most exciting cases are when clients—government or business leaders—are already committed to systemic transformation; for example, after the fall of communism, where the DFI is advising more on the pace and sequencing of change because the first hurdle—why change at all—has already been cleared. The example of Uzbekistan in the last few years and its relationship with the European Bank for Reconstruction and Development (EBRD) illustrates this well.

Uzbekistan was for many years after the fall of the Soviet Union a polity that was ossified. Political and economic reform made little headway, so EBRD's own impact on the country was slight. The relationship came to an unfortunate head at the EBRD's Annual General Meeting in Tashkent in 2003 when the then president of Uzbekistan, the host, was publicly criticised. That led to a total breakdown in the relationship between Uzbekistan's political leadership and EBRD.

Fast forward to December 2016 when Shavkat Mirziyoyev was elected president of Uzbekistan. From that point on, under President Mirziyoyev's determined and skilful leadership, Uzbekistan has been undergoing a period of unprecedented economic and political reform, during which EBRD returned as a much more serious player in the country, both as a project investor and as a trusted adviser on policy change.

A huge effort has been made by both the Uzbek and EBRD leaderships over nearly four years to build a very close and empathetic relationship. It started with meetings in London and Tashkent that were aimed not so much at securing new investments immediately, but at constructing a different dialogue. Language mattered, and, as a symbol of throwing off the past, instead of a "reset," EBRD and Uzbekistan's leaders chose "new beginning." EBRD analysed the political economy of what was happening in Uzbekistan in great depth, to understand what motivated the new president, who had been prime minister for 13 years in the previous administration, to chart a very different course that was now opening up the political and economic framework. The new president, of course, faced internal resistance but showed courage in explicitly favouring system change with the goal of improving rapidly the standard of living of Uzbeks.

After this initial period, the next step in the empathetic relationship was to advise the president and his team on the content, sequencing, and pace of reform. A good example of this is the impact that EBRD had on the pace and sequencing of the privatisation programme. As a reformist, President Mirziyoyev wanted to move at rapid pace with an extensive privatisation agenda. But, of course, Uzbekistan had little experience of privatisations. EBRD, given its history of helping dismantle command economies, had plenty of relevant experience, which the president was keen to hear about. Because of the empathy and trust that had developed in the relationship between EBRD and the president, he was open to the advice that privatisations are complex processes that—if not planned properly—can go badly wrong and lead to a loss of public support for broader economic reform and make strategic investors wary. Based on these discussions, the president agreed to an approach to privatisation that was better planned and targeted, with early priority given to the banking sector. The discussion between EBRD and Uzbekistan on the privatisation programme, where factors such as political economy were openly discussed, is a good example of co-creation of reform built on empathy.

Today, the empathetic relationship between EBRD and Uzbekistan has developed into a shared stake in the success of the "new beginning." At EBRD, there is strong sense that the institution has backed an explicit reformer and must continue to do so, that is, the president's success and that of his country is linked to the reputation of the bank. In Uzbekistan, there is a sense that the EBRD is a true friend, taking a chance in 2017 on fresh presidential leadership and sticking with it. There is more and more a focus today on delivering together on policy goals and disbursement of key investments to prove that there is a strong return—for both Uzbekistan and EBRD—to courageous reform. Underpinning this strong empathetic relationship is the president's determination and actions to change his country for the better, the reason why The Economist chose Uzbekistan as its country of the year in 2019. International accolades apart, economic growth and poverty reduction numbers in Uzbekistan have been going in the right direction in recent years because of reform, and Uzbekistan is one of the economies that has been most resilient in the face of COVID-19.

It is also accepted in both EBRD and Uzbekistan that this new empathetic relationship could not have happened without face-to-face contact on the ground. A key ingredient has been a continuous flow of top management visits from EBRD and the sharp build-up of a large local presence to ensure a continuous dialogue.

INCREASING THE EMPATHY QUOTIENT IN DFIs

So, if we know that empathy is important to maximising development impact, what should be done to foster its use in DFIs? Here we touch on nature, nurture, culture, and gender. The starting point, according to scientists, is positive, as we are all born with the capability to feel empathy. Differences in cognitive and affective empathy arise from genetics, gender, socialisation, and other environmental influences.

Perhaps most interestingly, the literature suggests women have more cognitive empathy than men and score higher on the "empathising quotient," the drive to identify and respond, a self-reported measure of empathy. Men score higher on the systemising quotient, the drive to analyse and understand. Additionally, studies find women are faster and more accurate at recognising emotions through body language and facial expressions. Evidence also suggests that women are better at mentalising, deliberately taking the perspective of another and inferring the others' intentions and beliefs. Where there is a need to increase empathy in DFIs, hiring more women and ensuring they are active participants in dialogue and decision-making does seem to be part of the answer.

Of course, cultural differences often play a role in the relationship between DFI and client. Different cultures experience different levels of cognitive and affective empathy within groups and with other cultural groups. The cultural equivalence model suggests empathy can provide a common ground for cross-cultural communication. While these commonalities exist, the cultural advantage model asserts a member of a cultural group will be better at recognising the emotions of other members of the same group. The key learning point here is the strongest empathetic relationships in development finance can only be built by a DFI team that contains staff from within the local culture in order to explain historical perspective and nuances of positioning and approach, as well as to provide greater mutual understanding to achieve shared goals.

While studies show that experiences of empathy can vary by genetics and experience, training and interventions on medical practitioners and students have shown it is possible to increase empathy and improve attitudes toward certain groups. Successful exercises in such training include learning about and relating to situations collaborators may face, discussing empathic abilities and barriers to empathy, and bonding through socialising. All of this suggests that these interventions are transferable to DFIs, and the "empathy quotient" can be increased in DFIs with training, particularly through role playing, as well as through learning by doing.

If empathetic investment in the relationship between financier and client is fundamental to tackling the development challenge—as we believe it is—then DFIs should more explicitly build that capability.

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