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The Costs of Denial

 Shantayanan Devarajan

Abstract

Noting that the recent performance of developing countries is significantly worse than it was in the first decade and a half of this century, this paper suggests that the latter may have contributed to the former. Drawing on cases from the Middle East, Africa, and South Asia, I show how rapid growth and poverty reduction can lead policymakers and the international community to deny the existence of governance problems such as corruption and elite capture. When this denial increases distrust between citizens and the government, it often leads to political and economic turmoil that can result (and has resulted) in civil wars, instability, and slowdown in economic growth. Moreover, growth-fueled denial works against transparency, which is an important tool for addressing governance problems. It also represents a lost opportunity to build domestic consensus for reform, which is easier during periods of economic growth. In sum, the costs of denial are huge.

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1. Introduction

We enter the second quarter of the twenty-first century on a pessimistic note. Global economic growth is expected to average 2.5 percent in the 2020s, the slowest pace of any decade since the 1960s. Faced with trade tensions, policy uncertainty, armed conflict, high debt, and extreme weather events, many developing countries are unlikely to reduce extreme poverty in the coming decades (World Bank 2025). Countries in the Middle East and North Africa (MENA), beset by civil wars and high dependence on oil, are barely achieving positive per capita GDP growth; the recent conflict between the U.S./Israel and Iran will make the situation worse. In sub-Saharan Africa (hereafter “Africa”), home to the world’s poorest people, growth is anemic, conflict and fragility spreading, and half the countries are either in, or at high risk of, debt distress. In South Asia, Sri Lanka’s economy collapsed in 2022 and has yet to sustainably resume growth; Bangladesh had a revolution in 2024, with the ensuing uncertainty leading to steep downgrades in growth prospects; Nepal saw a massive, nationwide “Gen-Z” protest in 2025 that burned parliamentary and government buildings and overthrew established leaders.

This pessimism stands in stark contrast to the optimism around these countries in the beginning of the century. In the first decade of the 2000s, every country in the MENA region experienced rapid economic growth and poverty reduction (Devarajan and Mottaghi 2015). Human development indicators such as education enrolment and child mortality improved faster than in any other region (Iqbal and Kiendrebeogo 2015, 2016). International conferences had titles such as, “Tunisia: A Model Country.”

After 25 years of slow growth and rising poverty, from 1995–2015, African countries saw their GDP growth rates double and poverty rates decline. *The Economist* newspaper, which had previously called Africa “the hopeless continent,” ran a cover story entitled, “Africa Rising.”

The richest sizeable country in South Asia, Sri Lanka, was enjoying steady economic growth and enviable human indicators. Bangladesh, which started out as one of the world’s poorest countries, was increasing its growth rate by one percentage point each decade and improving human indicators to surpass those of India. Since the end of the civil war in 2006, and especially after the 2015 earthquake, Nepal has seen rapid, albeit volatile, growth, averaging nearly 7 percent a year over the last ten years. It has reduced its extreme poverty rate to two percent—the lowest in the subcontinent.

To be sure, in the early 2020s, the world had a major pandemic that led to a global recession followed by high inflation and rising interest rates, all of which help explain part of the contrast. However, in this paper, I suggest that the strong economic performance of these countries up to about 2015 may itself have contributed to the reversal they are experiencing now. The reason is that all of these countries had been suffering from long-standing problems of poor governance. The economic growth enabled governments and the international community to downplay and in some cases overlook the corruption and elite capture in these societies. Meanwhile, the citizens, who experience

the effects of poor governance in their daily lives, grew increasingly disenchanting with their governments and sometimes with the international community. Eventually, the resentment reached a boiling point. In the 2011 Arab Spring, the 2022 *Aragalaya* in Sri Lanka, the 2024 July Revolution in Bangladesh, the 2025 Gen-Z movement in Nepal, citizens rose up and toppled the incumbent leader. In many countries, civil wars broke out. The increased instability as well as violent conflict undermined growth and delayed poverty reduction.

Had these governments and the international community addressed the governance problems in the early 2000s or earlier, some of the violent uprisings and ensuing turmoil could have been avoided. But the temptation to celebrate development success is irresistible. It can, however, lead to a denial of the serious governance problems lurking below the surface. When these problems come to the fore, there is such deep distrust of the government that the result is regime change and, sometimes, violent conflict. The economic downturns that accompany such developments can have long-term consequences. Broadberry and Wallis (2025) show that economies that experience more frequent and severe contractions end up with lower per-capita incomes. Countries in civil war suffer slow economic growth that continues long after the fighting stops (World Bank 2011). These are the costs of denial.

In the next section, I describe how the actions of governments and international partners contributed to the instability and poor economic performance that we are seeing today. In section III, I propose strategies for governments and international agencies to reduce the chances of recurrence of these phenomena. Section IV concludes.

2. How favorable economic outcomes lead to denial of governance problems

The ways in which good economic performance stands in the way of addressing weak governance vary across countries. In this section, I first describe the MENA region, followed by Africa and finally South Asia.

Middle East and North Africa

Although different along many dimensions—for instance, Qatar has a per-capita income of \$76,000 and Yemen \$433—the countries of the MENA region had a remarkably similar social contract since independence. The state would provide free health and education, subsidized food and fuel, and jobs in the public sector. In turn, and in order not to jeopardize the largesse of the state, the citizens would keep their voices quiet (Devarajan and Ianchovichina 2018). In particular, they would overlook the corruption and elite capture that pervaded many of these regimes.¹

¹ This arrangement has also been labeled “the authoritarian bargain” (Yousef 2004).

Through the first decade of the 21st century, this social contract delivered. Almost every country enjoyed better-than-five percent average annual GDP growth. Extreme poverty rates declined to single digits. There was nearly universal primary enrolment, and high rates of secondary enrolment. Most childhood diseases were eliminated. Importantly, and contrary to popular perceptions (e.g. Ncube and Anyanwu 2012), inequality was low and declining in these countries (Devarajan and Ianchovichina 2018, Shaban 2016).

Consequently, the world was caught by surprise when, in 2010, a fruit seller's setting himself on fire in Sidi Bouzid, Tunisia sparked widespread protests, not only in Tunisia, but throughout the Arab World, a phenomenon that came to be known as the Arab Spring. In Egypt, Libya, Tunisia, and Yemen, long-standing, autocratic leaders were forced from office. Civil wars erupted in Libya, Syria and Yemen that continued for at least the following decade and a half.

The economic costs of the aftermath of the Arab Spring have been huge. The civil wars have been devastating. Syria's and Yemen's GDPs have declined by two-thirds; Libya's oil production is averaging half its pre-2010 levels (Devarajan 2025a). In the other Arab-Spring countries, political turmoil has slowed economic growth to a fraction of its pre-2010 levels. MENA is the only region in the world where the poverty rate, defined at the lower-middle-income and upper-middle-income thresholds, is increasing (Gatti et al. 2024).

The Arab Spring was a surprise because all of the traditional development indicators—growth, poverty, and even inequality—were moving in a favorable direction. But one indicator was not: life satisfaction. A subjective measure of well-being, life satisfaction monitors people's answers to the question of how closely their life fits their standard for a good life. In the four years before 2011, life satisfaction indicators were low and declining in the Arab world, and falling particularly steeply in Arab-Spring countries such as Egypt, Tunisia, Syria, Libya and Yemen (Arampatzi et al. 2018). MENA was the unhappiest region in the world.

The disconnect between traditional development indicators and life satisfaction can be explained by considering the social contract that was common among Arab countries. While it delivered on growth, poverty reduction, and human development, the social contract was beginning to fray during the first decade of the 21st century. In particular, because of the high levels of subsidies for food and fuel, not to mention free health and education, fiscal deficits were rising and governments were having difficulty providing public-sector jobs. This was especially frustrating to the large number of young people entering the labor force. Better educated than their parents, these youths aspired to middle-class lives only to be disappointed by the job market.

A related source of the disconnect is that traditional development indicators did not capture what was happening to the middle class. The old social contract enabled poor people to escape extreme poverty and the rich to increase their wealth through elite capture, but it squeezed the middle class by not creating jobs. Unemployment in MENA was the highest in the developing world, and

particularly high for secondary-school and university graduates. This may explain the inequality statistics. While the poor were slightly better off, and the rich considerably better off, the middle class was becoming poorer, so they increasingly resembled the poor, reducing overall inequality (Assaad et al. 2018). It is worth noting that in MENA, the life satisfaction level of the top 60 percent relative to the bottom 40 of the income distribution was *declining* (Arampatzi et al. 2018).

Since the government was not holding up its end of the social contract when it came to jobs, the citizens felt that they need not keep their end of keeping their voices low, and rebelled.

Could the Arab Spring have been anticipated and the ensuing economic hardship mitigated?

As mentioned above, there were indicators such as the life satisfaction scores that suggested all was not well despite the favorable development indicators. But the favorable indicators themselves could have been the problem. They enabled autocratic leaders, many of whom were enriching themselves from the old social contract, to ignore and suppress dissenting voices. There is now considerable evidence that Presidents Ben Ali of Tunisia and Mubarak of Egypt provided protection to industries in which they and their families owned firms (Rijkers et al. 2017, Diwan et al. 2020). For example, whereas the “Ben Ali firms” accounted for less than one percent of Tunisian output and employment, they earned 21 percent of the economy’s profits (Rijkers et al. 2017). This information, some of which was known before the Arab Spring, was kept out of the public domain. The World Bank undertook an analysis, entitled *From Privilege to Competition* (World Bank 2009), but was allowed to publish it only if the country names were removed. International organizations praised these countries for their reform of business regulations, which superficially seemed to be working but hid the fact that some of the unreformed sectors were captured. The World Economic Forum’s Global Competitiveness Index of 2010 ranked Tunisia highest in North Africa and 32nd out of 139 worldwide, thanks to its “efficient government institutions” (World Economic Forum 2010).

The denial of the deep governance problems in these countries, by both national leaders and the international community, fed the public’s resentment and fueled the protests. Had the information about cronyism been made public earlier, it may have helped diffuse some of the conflict and helped forge a domestic consensus after the Arab Spring. This denial has also done long-term damage to the international organizations’ and researchers’ credibility. When the World Bank did publish the research on cronyism in Tunisia in 2015, many NGOs asked why this information was not available earlier, when it could have provided rigorous empirical evidence for what they were saying. The Bank admitted that it had the evidence but could not publish it because of the government’s wishes. The NGOs then asked why they should believe any research by the World Bank if it is politically motivated (World Bank 2014).

Sub-Saharan Africa

After nearly three decades of GDP growth barely exceeding population growth (average per-capita income in 2000 was the same as in 1970), Sub-Saharan Africa experienced a doubling of GDP growth

rates in the first decade of the 21st century, averaging almost 5 percent a year. Unlike previous episodes of growth that were driven by commodity price spikes, this one was widespread: about 20 non-oil-producing countries managed better-than-four-percent growth between 1998 and 2008 (Devarajan and Fengler 2013). Thanks to this acceleration in growth, extreme poverty rates, which had previously been rising, started falling. Between 1995 and 2015, the share of people living on less than \$3 a day fell from 64 percent to 45 percent. Human development indicators such as secondary school enrolment and life expectancy were improving rapidly, and for the first time, the continent was attracting more private capital than foreign aid.

Everyone, not just *The Economist*, was celebrating “Africa’s Economic Boom,” and explaining it by pointing to the improvements in economic policy, especially macroeconomic policies, starting in the early 2000s. One indicator, the World Bank’s Country Policy and Institutional Assessment, found that Africa’s macroeconomic policies were on par with those of all developing countries (Devarajan and Fengler 2013). The region also benefited from increased foreign aid (as a result of the debt-relief initiatives of the early 2000s) and higher commodity prices. But this time was different: previous commodity booms such as those in the 1970s did not translate to sustained growth of a decade or more. The end of the Cold War ended several civil wars in Africa and ushered in multiparty democracy in many countries. The number of technocrats in economic policymaking positions was increasing, and policies were being formulated in Africa rather than in donor capitals (Devarajan, Dollar and Holmgren 2001).

In the subsequent decade (2015–2025), Africa’s economic boom came to a grinding halt. Growth decelerated to half that of the previous decade (per-capita income hardly changed), and poverty rates have been stagnant. The enthusiasm around foreign capital inflows has been dampened by the fact that about 20 low-income African countries are in, or at high risk of, debt distress. Civil conflict has increased, especially in the Sahel and Horn of Africa. Despite a secular decline in the number of coups d’état worldwide, there was a sharp increase after 2020 in Africa, spanning Chad, Central African Republic, Gabon, Mali, Burkina Faso, Niger, Guinea, and Sudan (Cebotari et al. 2024).

To be sure, the Covid pandemic, the ensuing global recession and the rise in world interest rates contributed to the slowdown in Africa’s growth. But many observers pointed to underlying weaknesses in Africa’s growth trajectory. Despite rapid economic growth, the continent had not come close to achieving structural transformation, namely the shift in production from agriculture to manufacturing that characterized other regions’ growth experience (McMillan, Rodrik and Verduzco-Gallo 2014). The share of manufacturing in GDP had hardly changed since the 1970s. One reason was Africa’s huge infrastructure deficit—access to electricity, water, and transport was far below the levels of other countries at the same level of per-capita income (Fay et al. 2021). Others were concerned about the weak progress in human development. Despite increased enrolment rates, nine out of ten children leaving primary school could not read a paragraph in their own language (One Campaign 2022). Finally, many of Africa’s resource-rich countries such as Angola, Gabon and Equatorial Guinea were not reducing poverty commensurate with their economic growth.

Giugale and Nguyen (2018) showed that if these countries converted about 30 percent of their resource revenues to universal cash transfers, they could eliminate extreme poverty.

Devarajan and Fengler (2013) pointed out that the problems of infrastructure, human development and resource revenues have their roots in poor governance. Road transport costs in Africa are high not due to road conditions but because the trucking industry in almost every country is a monopoly—and is likely to stay that way since the head of the trucking company is close to the political leadership (Raballand and Teravaninthorn 2009). Children in primary schools are not learning because teachers are absent about 20 percent of the time (Gatti et al. 2021). When present, only about 15 percent of the fourth-grade teachers had the knowledge to teach fourth grade (Bold et al. 2017), suggesting that they were appointed not on merit but for political patronage. Resource-rich countries rely on resource revenues rather than tax revenues for public expenditures. Consequently, governments are not accountable to the citizens for public spending (as they would be if it were tax-financed), leading to massive corruption and waste (Devarajan 2019).

In the last century, these governance problems also plagued macroeconomic policy in Africa—overvalued exchange rates, for instance, benefited the urban elites at the expense of the rural poor. Since African countries had overcome these obstacles on the macroeconomic front, Devarajan and Fengler (2013) suggested that they would be able to do the same in the structural areas such as infrastructure and education, concluding that Africa's economic boom was likely to be sustained.

Not only did their prediction fail to be realized—the average growth rate from 2015–2025 was half that of the previous decade—but Devarajan and Fengler's reasoning turned out to be precisely backwards. Instead of leveraging the experience of macroeconomic policies to overcome the governance problems in infrastructure and human development, the underlying governance issues undermined even the macroeconomic success of the previous decade and a half. When resource prices fell in 2014, most countries that had embarked on an ambitious public investment program (to alleviate the infrastructure and human development deficits) continued to spend, rather than adjust to the change in terms of trade. When global interest rates rose, the debt became harder to sustain. Many of the fast-growing countries, such as Ethiopia, grew because of public investment. This did not translate to higher volumes of exports because the base was so low. As a result, Ethiopia faced a debt crisis. Likewise, many resource-rich countries, such as Niger, Mali, and Sudan, suffering from poor management of these resources in the past, experienced further austerity that contributed to the eruption of conflict.

In sum, the exuberance around Africa's growth acceleration in the first decade and a half of the 21st century led observers to under-emphasize the deep governance problems that had plagued the continent for the previous quarter century. Rather than going away, these problems resurfaced when the continent was hit with terms of trade shocks in the mid-2010s, undermining macroeconomic management alongside much needed structural reforms. The result is that almost every country is facing debt problems today. Moreover, the combination of poor governance and shocks triggered

conflicts and coups d'état in a number of countries. If past experience is a guide, the resulting instability is likely to last for a long time.

South Asia²

Starting in the 1990s, the seven countries of South Asia (India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan and Maldives) grew rapidly and reduced poverty substantially. Prominent among them were: Sri Lanka, which had the highest per-capita income among the sizeable economies of the region and enviable levels of human development (child mortality rates were comparable to those of Europe); Bangladesh, which started out as one of the world's poorest countries and surged in income while reducing poverty and achieving human indicators that were better than India's; and Nepal, which reduced its extreme poverty rate to two percent.

Yet, in 2022, Sri Lanka defaulted on its debt. The economy collapsed—GDP contracted by 7.3 percent, and another 2.3 percent the following year; inflation hit 70 percent; shortages of food, fuel, and medicines caused an increase in poverty and under-nutrition; and a widespread protest movement, the *Aragalaya*, forced a democratically elected President out of office.

In Bangladesh in 2024, a student movement, objecting to reservation of public-sector jobs to descendants of freedom fighters, led to a nationwide protest against the government. In August of that year, Prime Minister Sheikh Hasina was forced to flee the country and an interim government was appointed. The resulting uncertainty has led to a downward revision of Bangladesh's growth forecasts.

The 2025 Gen-Z protests in Nepal began as a peaceful march among like-minded 20-year-olds that, when the government banned social media, grew into a Kathmandu-wide protest and spread to other cities as well (Ninglekhu 2025). After several buildings including the Parliament and Hilton Hotel were set on fire, the government resigned and the Chief Judge of Nepal, who had prosecuted some officials for corruption, was named the interim Prime Minister. Fresh elections ushered in a new party with a government of young people. It is too early to gauge the economic effects of this disruption, although tourism and foreign direct investment have declined, and GDP growth is projected to be only 2.1 percent

In short, three of the most successful economies in South Asia faced deep political turmoil that not only overturned democratically elected leaders but accompanied an economic downturn that may take years to reverse. As in MENA and Africa, the turmoil was the result of long-standing governance problems that the apparent economic progress served to deny or hide.

In the case of Sri Lanka, while the default on the debt in 2022 was the proximate cause of the economic collapse, the seeds of the crisis were sown at least three years earlier. In 2019, the newly

² This section draws on Devarajan 2025b.

elected government of Gotabaya Rajapaksa cut taxes to their lowest levels in the nation's history and, at 8 percent of GDP, one of the lowest tax-to-GDP ratios in the world. In April 2020—before the economic impact of the Covid-19 pandemic materialized—the credit rating agencies downgraded Sri Lanka's debt, effectively cutting it off from private capital markets. Economists inside and outside the country called for what most countries do in this situation: a “pre-emptive debt restructuring” and an IMF program. Asonuma and Trebesch (2016) show that pre-emptive debt restructurings are associated with smaller output losses and shorter duration than post-default restructurings; and IMF programs are associated with higher growth (Independent Evaluation Office 2021).

The Sri Lankan government refused to do either. Denying that they had a problem, the government continued to repay its creditors by drawing down reserves. It financed the fiscal deficit (which, because of the tax cut, had ballooned to 13 percent of GDP) by borrowing from the central bank. A little over two years later, in early 2022, Sri Lanka ran out of foreign exchange reserves and was forced to default on its external debt. The method of financing the fiscal deficit (often referred to as “printing money”) caused inflation to spike to 70 percent. The lack of foreign exchange led to shortages in food, fuel and medicines. Sri Lankans took to the streets in protest in what became known as the *Janata Aragalaya*, or “people's struggle.” Importantly, the protesters put the blame squarely on President Gotabaya Rajapaksa (“Go home Gota”), rather than on the Covid pandemic or the Russia-Ukraine war, both of which had an impact on the economy. In July 2022, President Rajapaksa resigned and Sri Lanka entered into an IMF program; the debt restructuring was completed two and a half years later.

Why did the government refuse to adjust to the debt downgrade for two years, leading to a collapse of the economy and years of hardship? One reason, expressed by the head of a leading government think tank, was “Sri Lanka has never restructured its debt.” This was a symptom of the denial: every other time that Sri Lanka faced an economic crisis, it was able to recover—mostly by good luck. In the 1970s, when the youth bulge was entering the labor market but the then-socialist economy was not creating jobs, the Middle East opened up and hundreds of thousands of young Sri Lankans found jobs in the Gulf. When there was a balance of payments crisis in the mid-1980s, a drought in Kenya sent tea prices soaring. A similar crisis was brewing in late 2004 when the Indian Ocean tsunami hit. Although it had a devastating effect on people's lives and livelihoods, the tsunami also brought in much-needed foreign exchange as emergency aid that prevented a default.³

The ostensible reason the government did not want to enter into an IMF program was that these programs typically cause severe austerity. But as pointed out above, the evidence is that countries with IMF programs are associated with higher, not lower, growth. Some observers think the real reason was the government did not want the IMF looking into the corruption in government—another instance of denial.

3 Observing these events, a former Vice President at the World Bank quipped, “God is a Sri Lankan.”

A different kind of denial was in the perceived difference between private and official creditors. The rating agencies only downgraded the bonds held by private creditors. This is not surprising because private creditors are interested solely in the economic return on their investment. Official creditors such as China, Japan, and India lend for multiple reasons, some of which are geopolitical. When Sri Lanka was closed out of private capital markets, policymakers thought that one or two of the official creditors would continue to lend to the country, mitigating the need for a debt restructuring. But this never happened.

Finally, as mentioned earlier, Sri Lanka is one of the most successful economies in Asia. Despite a 26-year civil war, terrorist uprisings, a devastating tsunami, and other shocks, the economy continued to grow and improve human development. There was a sense among policymakers that the economy was robust—and different from other developing countries. When told that Bangladesh had embarked on an IMF program before it encountered debt distress, the response was, “Don’t compare us to Bangladesh.”

Bangladesh has been a consistently strong economic performer. Its per-capita GDP more than tripled in the last 30 years. It has developed an export-oriented, ready-made garment sector that employs over 4 million people, mostly women. Poverty has fallen to the point where Bangladesh’s extreme poverty rate is lower than India’s. The country’s human development indicators—school enrolment, child mortality, etc.—have improved dramatically since independence.

Meanwhile, Bangladesh has had consistently high levels of corruption. Its standing in Transparency International’s Corruption Perception Index is far below the South-Asian average (which itself is quite low). In the early 2000s, Bangladesh was ranked the most corrupt country in the world. In the Worldwide Governance Indicators, Bangladesh ranks in the bottom quartile in almost all indicators. In the Global Competitiveness Index, which looks at the effect of governance on competitiveness, Bangladesh ranks far below Sri Lanka and India.

Instead of addressing these serious governance problems, the government continued to emphasize its strong development results. The international community not only praised Bangladesh for its achievements but tried to explain away the apparent contradictions with governance. In 2005, the then-chief economist for South Asia at the World Bank [full disclosure: it was me] wrote, “In Bangladesh, there was development despite the corruption because people found ways of going around the government. The other side of this is that the government made space for the NGOs and private sector to function.” (Devarajan 2005). As recently as 2024, the World Bank’s website opens with “Bangladesh has an inspiring story of growth and development, aspiring to become an upper middle-income country by 2031. Since 1972, the World Bank has committed more than \$39.5 billion to support Bangladesh’s development journey.”

Despite all of this optimism, in 2024, there were signs that Bangladesh was in danger of becoming a fragile state. The Fragile States Index categorized it as “High Warning”, ranking it between Iran and

Equatorial Guinea. The Rule of Law Index ranked Bangladesh 127th of 142 countries, below Iran and above Mozambique. The World Press Freedom Index listed Bangladesh 165th of 180 countries, just above Saudi Arabia and below Azerbaijan.

Consistent with these signs, in mid-2024, students began protesting the persistence of quotas for government jobs allocated to descendants of liberation fighters. The government responded with violence. Rather than subsiding, the protests grew to include garment workers, rickshaw drivers, storekeepers, university students, and professors. The Prime Minister was forced to resign.

While the proximate cause of the crisis was the student protests, the real cause was the fact that development success enabled both the government and the international community to overlook bad governance. But the decades of corruption and misgovernance led to a breakdown of trust between citizens and government—the fundamental characteristic of a fragile state.

Moreover, Bangladesh's success in reducing extreme poverty meant that a middle class was emerging. Whereas those living below \$2.15 a day had declined to a few million people, those living between \$3.65 and \$6.85 a day had risen to over 60 million. These people were highly educated—many were university graduates—and therefore desired white-collar jobs (such as government jobs). But these jobs were sorely lacking. They were also demanding greater voice, freedom and rights. By celebrating the progress in reducing extreme poverty, and denying the important governance challenges and the demands of the middle class, policymakers and the international community paved the way for the crisis that followed.

It is too early to determine the costs of denial to Bangladesh, but everyone expects a slowdown in growth and investment. In September 2024, the World Bank revised its forecast of Bangladesh's growth for fiscal year 2024–2025 by 1.7 percentage points (or about a third of the growth rate). The reduction in investment, triggered by the increased uncertainty around the political situation, not to mention the global economy, could have long-term consequences for economic growth and human development.

In Nepal, while those joining the nationwide protests may have had different grievances, the common refrain was their antipathy to nepotism and corruption (the protest hashtags were #NepoBaby and #Corruption). The elites of the three ruling parties, who took turns being in power, and the private sector were accused of colluding with each other. Accordingly, protestors burned government buildings, houses of leading politicians, and the Hilton Hotel (Ninglekhu 2025).

Do these cases represent a general pattern?

The previous three sub-sections have described cases from MENA, Africa and South Asia where rapid growth and poverty reduction have led governments and international partners to overlook underlying governance problems—until it is too late and popular movements result in a growth

slowdown, if not a collapse. Since these are specific cases (albeit representing a quarter of the world's population), it is natural to ask whether there is systematic evidence that growth episodes are followed by growth declines when there is weak governance. The answer is yes. In a cross-country analysis of over 50 countries in Latin America, Asia and Africa, Rodrik (1999) shows that countries that suffered the sharpest drop in growth after 1975 were those with weak domestic institutions. Poor governance made it harder for these countries to reach a domestic consensus in response to an external shock such as the oil price shock of the mid-1970s. Similarly, in a sample of 60 countries, Acemoglu et al. (2003) find that institutions, rather than macroeconomic policies, causally determine macroeconomic outcomes. A corollary to their study is that countries with weak institutions can sustain periods of high growth for a while—until the weak institutions catch up and create instability. Finally, Khan (2010) shows that countries that grow under “deal-based” institutions, where elite bargains sustain investment, are more likely to experience political instability and fragile growth.

3. How to reduce the costs of denial

As described in the previous section, economic success enabled governments and their development partners to deliberately overlook—that is, deny—the deep governance problems lurking below the surface. The ways in which the denial occurred were different. In MENA, it was through a social contract that, superficially, seemed to be delivering. In Africa, it was the mistaken extrapolation of improvements in macroeconomic policy to other domains. In South Asia, it was the self-confidence from successful development results.⁴ Nevertheless, some common patterns emerge. In each of these cases, the distrust between citizens and government triggered by the denial grew to the point of political and economic turmoil, the fall of incumbent leaders, violent conflict sometimes leading to civil war, and a slowdown in economic growth. The natural question is: What can be done to avoid such sharp downturns in the future?

The fundamental point is to recognize and address underlying governance problems before they grow into a source of economy-wide instability. In terms of recognition, one lesson that emerges from the narrative above is to approach episodes of rapid economic growth with caution. It is natural to celebrate these episodes and give credit to the policymakers and international partners who helped make them happen. But if there are signs of public discontent (such as the life satisfaction surveys in MENA or the Transparency International scores for Bangladesh) alongside the economic growth and poverty reduction, these should be taken seriously rather than dismissed.⁵ Policymakers should have to explain why there is opposition to their policies when the economy is doing well.

4 The argument in this paper is different from a critique of the policies, often associated with structural adjustment or the Washington Consensus (see, for example, Sobhan [1993]). Since those policies largely achieved their objectives (as some earlier critics have acknowledged [Easterly 2020]), my concern is how governments and development partners responded in the face of faster growth and poverty reduction.

5 In a recent paper, Asadullah et al. (2025) analyze why, despite rapid growth, there is widespread discontent in Malaysia. Using open-ended focus group discussions with poor and middle-class Malaysians, they find that growth reduces people's social connectedness.

Development partners should answer why they continue to support the government when there is so much corruption.

This recommendation calls into question the increasing tendency of the development community to focus on results. While such a focus makes logical sense, it should not neglect the process of achieving those results. If a country achieved rapid growth by destroying its natural resources and violating the human rights of its citizens, we would certainly not celebrate that growth. But there are milder versions of this scenario that are quite common. As we have seen, the incentives facing policymakers and their development partners are to downplay these problems when there is favorable economic performance.⁶

If the underlying governance problems have been recognized, what should be done about them? There is a large and varied literature on addressing governance problems. Rather than surveying it, I will focus on those recommendations that are affected by the denial when the economy is growing. The first is transparency as a means of strengthening politicians' accountability to citizens (World Bank 2016, 2017). While it is not a silver bullet, informing citizens about government conduct and performance has been shown to improve public policy outcomes. Given these findings, the denial of governance problems, such as the censorship of the work on cronyism in Tunisia during the Ben Ali regime, is particularly damaging.

A second proposition is that self-imposed constraints on governments and societies contribute to overcoming institutional obstacles to progress (Acemoglu and Robinson 2020, Ang 2020). Implementing these solutions is difficult. Convincing governments and civil society that it is in their collective interest to "tie their hands" is a daunting task. If the economy is growing rapidly, the task may be a little bit easier. Put another way, rather than denying the governance problems during a period of economic growth, policymakers and development partners may want to use the growth as an opportunity to address them.

4. Conclusion

This paper began by contrasting the pessimistic state of the global economy today with the optimism in the first decade and a half of the 21st century. Rather than being a puzzle, I suggested that the contrast represented two sides of the same coin: the rapid growth and poverty reduction in developing countries in the 1990–2015 period may have enabled policymakers and development

⁶ In this paper, I have taken the underlying governance problems as inherited from the past, that is, exogenous. However, it could be that the process by which the growth was achieved created or reinforced the conditions for poor governance. Pritchett, Sen and Werker (2018) suggest that growth generated by "closed-order deals" may create rents for powerful groups who have an interest in keeping the order closed. This reinforces the point that the process by which growth was achieved is at least as important as the growth itself.

partners to deny the serious governance problems in these countries.⁷ Yet, the citizens of these countries experienced the effects of misgovernance on a daily basis. Their anger erupted in political turmoil that led to the overthrow of leaders, civil wars, and economic slowdown.

The costs of this denial have been huge. Historically, economic downturns hurt long-term growth more than economic upturns help (Broadberry and Wallis 2025). Fast-growing regions such as MENA and Africa have now experienced at least a decade of slow growth and political and economic instability; Sri Lanka has already lost a decade of economic growth. Those countries that have erupted into violent conflict or civil wars are likely to suffer economic hardship for a long time—even after the fighting stops.

The cost of denial is even greater when one considers what could have been done to address the governance problems before they grew to the point of economic and political upheaval. The literature on governance emphasizes transparency of information as an ingredient in bringing about reform. Inasmuch as denial is the opposite of transparency, the reaction of governments and development partners in fast-growing economies may have contributed to the subsequent economic decline. Secondly, to the extent that governance reforms require a domestic political consensus, periods of economic growth could facilitate that consensus. The denial therefore represents a forgone opportunity to address these problems before it is too late.

In terms of the future, the recommendation to be cautious about growth episodes, since it goes against natural human instincts, will require careful management in implementation. One way would be to look at today's fast-growing countries, such as Rwanda and Vietnam, and ask if any of them suffer from governance problems that could, if neglected, grow into sources of political instability and economic downturn.

7 This is a possible explanation of Easterly et al.'s (1993) finding that the correlation of countries' growth rates between decades is between 0.1 and 0.3.

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