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Structural vulnerability and transformation: their links and the LDC5 Monitor consistency

Patrick GUILLAUMONT



PATRICK GUILLAUMONT, President of Ferdi

The purpose of the LDC5 Monitor is twofold: firstly, to assess the vulnerability of LDCs and the means used to deal with it, and secondly, to examine the structural transformation of LDCs in line with the Doha Development Agenda (DDA). Vulnerability and structural transformation, neither of these terms, although used since the early days of development economics, is used in a perfectly clear and unambiguous way, while their importance is largely recognised. And the link between the two needs to be clarified.

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► Structural vulnerability

The concept of vulnerability refers to the risk of a country's development being hampered by shocks of exogenous origin. This concept and the means of measuring it, for LDCs as for other groups of developing countries, have made significant progress in recent years. There now seems to be a consensus that the measure of vulnerability should be universal (applicable to different categories of countries and comparable between them), multidimensional (economic, environmental and social) and available in two versions, one purely structural and the other more general (see Guillaumont and Wagner, 2022). In the context of the Monitor, we are primarily interested in structural vulnerability, i.e., vulnerability that is independent of the present will of governments or that they have in some way inherited as a result of history or geography - in short, exogenous vulnerability. It was with this in mind that the *Multidimensional Vulnerability Index* (MVI), prepared under the aegis of UN OHRRLLS and UNDESA by a High-Level Panel convened for this purpose from 2022 to 2023, was developed and proposed to the President of the United Nations General Assembly, and published in its final form in February 2024 (United Nations, 2024).

Even when we agree that the desired vulnerability index must have the three characteristics indicated above (universality, multi-dimensionality, exogeneity), there may certainly be differences of opinion in the choice of the most relevant components¹ and in the way they are measured. It is desirable to move towards a consensual index, but it is easy to imagine that each institution required to use this type of index can configure it in its own way as long as the three characteristics indicated are retained. It should also be noted that there are two other indices

1. Due to differing views on the MVI among UN member states, two facilitators have been appointed to find a consensus on what will be presented to the General Assembly.

which claim to have the desired characteristics, the one drawn up by the Commonwealth Secretariat (UVI, *Universal Vulnerability Index*) (2021) and the one used by the United Nations Committee for Development Policy to identify the LDCs, although the latter is much less multidimensional than the other two (an index introduced in 2000 and transformed several times). In order to monitor changes in the structural vulnerability of LDCs over the course of the Doha Development Agenda, it would seem logical to use an index derived from the MVI, which Ferdi will be able to adjust and update regularly.

► Structural transformation

The notion of structural transformation itself has a long history. Very fashionable today, often presented as new and the essential condition for sustainable development, it is in fact as old as development economics. In its early days, 70 years ago, a particularly renowned author such as François Perroux repeatedly stressed that development involved structural transformation. And similar remarks could be found among many other "pioneers" of development economics, as well as in the major texts that have fuelled the evolution of this discipline. For some economists, the term is now the key to sustainable development. But for others, it is a "Spanish inn", in the sense that everyone finds in it what he brings to it or wishes to put into it. It is certainly possible to include all sorts of transformations (economic, environmental, social) under this expression, multidimensional as is vulnerability. The obvious implication is that structural change can only be a good change, i.e. change that promotes development, perhaps forgetting that what is considered good change can vary over time or according to ideological positioning (e.g. specialisation based on comparative advantage versus diversification). It should be added that the right structural transformation today is a "green transformation", which brings

it closer to the notion of energy transition. But here again an ambiguity arises: while in North thinks of growth leading to carbon neutrality (and therefore geared towards mitigation), the South more spontaneously considers growth that is resilient to climate shocks (and therefore geared towards adaptation).

For many economists, however, the notion of structural change has a precise meaning. It is a reallocation of factors of production from the least productive sectors to the most productive ones. It is therefore possible to attribute part of economic growth to this structural change, with the other part resulting from productivity growth in each sector (which is quickly described as technical progress). This type of measurement can lead to apparently curious results, particularly for LDCs, as highlighted by Alassane Drabo in *Out of the Trap* (Guillaumont, Edr, 2019): the growth observed in LDCs since the turn of the century is more due to productivity progress in each sector than to structural change, understood in the sense of reallocation of factors between sectors. In fact, this traditional definition of structural change as a factor of growth is somewhat too horizontal and linked to the very broad segmentation of the sectors considered. From a less horizontal, more sectorally focused and more dynamic perspective, structural change implies just as much, if not primarily, an increase in productivity in the least productive sectors. Take the case of agricultural development, which is essential in many LDCs. Increasing productivity in the agricultural sector is obviously necessary both to feed the country's population without making it too dependent on the outside world, to provide the jobs for young people that urban expansion is unable to offer, and to reduce poverty, which is higher in rural areas. This increase in agricultural productivity obviously implies real structural change (in rural infrastructure and services, in access to energy and credit). This is also the case for agroindustrial activities, the "industrialisation", which is

sometimes taken for structural transformation, being a change in the production process as well as the broadening of a sector. We cannot, therefore, limit ourselves to a "inter-sectoral" approach to structural change.

The (green) structural transformation of LDCs, as used here, is therefore the set of transformations that affect the overall productivity of the economy, whether through inter-sectoral labour migration or intra-sectoral productivity growth (and which respond to the challenges of climate change, through a contribution to mitigation and/or an adaptation strategy).

As there are various forms of structural transformation, for this transformation to be truly sustainable, it must correspond to the preferences of the countries concerned, which is a precondition for ownership, or in other words that it is endogenous.

► What are the links between vulnerability and structural transformation?

The links between vulnerability and structural transformation are fundamental and work both ways.

Vulnerability in its various dimensions is clearly unfavourable to structural transformation and growth, for two reasons which have long been at the heart of the analysis of the effects of instability (particularly export instability) on development. The first is that it increases uncertainty, heightens the sense of risk and slows down investment, particularly in rural and fragile areas, where the risks are particularly high, and which are considerable in the LDCs. The second reason is linked to the lasting effect of shocks due to the asymmetry of the effects of positive and negative shocks: this has been evidenced many times over on variables such as school enrol-

ment, child survival, or on the macro-economic level of debt and the budget deficit (Guillaumont, 1985, 2009, 2023). In short, the asymmetric effect of shocks is that negative shocks not only reduce current income (what could be offset by positive shocks), but also, and above all, irreversibly affect human and material capital.

Conversely, structural change is needed to reduce vulnerability and build resilience. Not just any structural transformation, of course. A good definition of structural transformation is undoubtedly one that reduces structural vulnerability, a major handicap to development. It is for this reason that (structural) vulnerability was introduced in 2000 by the CDP as one of the three criteria for identifying LDCs. Admittedly, vulnerability as it was measured at the time was imperfect (Guillaumont, 2009) and has remained so despite the changes made, but the important thing was that this vulnerability was identified as a structural obstacle to development. As a result, most of the components of the structural vulnerability index, the current CDP index or the MVI, can be considered as elements whose modification corresponds to a structural transformation favourable to development. Admittedly, they do not all lend themselves to immediate action or reduction, precisely because they are structural, but they are indeed medium or long-term targets: for example, reducing the concentration of exports or acting on other factors of instability (in exports, agricultural production, etc.) or structural political fragility (which reduces recurrent violence). Similarly, improving resilience factors (in particular human capital and infrastructure) is largely a structural transformation, since they are also factors of increased productivity (Guillaumont, 2023b). Finally, the link between vulnerability and structural transformation needs to be assessed in its regional context, since regional integration can be both a powerful factor in reducing vulnerability and in structural transformation, particularly for small countries.

► So what is the task of the LDC5 Monitor?

These two types of link show that the two areas proposed for the LDC5 Monitor are closely linked and complementary. The work that will be carried out by the Monitor, with a sharing of tasks, will enable us to take a fresh look at the implementation of measures in support of the Doha Development Agenda by examining whether they help to reduce structural vulnerability, increase resilience and thus enable a structural transformation leading to an acceleration of sustainable development in the LDCs.

It is important to examine how international support measures affect this dual interaction.

It is clear that the Monitor cannot deal with all aspects of structural vulnerability and transformation in all LDCs, which implies examining virtually all aspects of development. There are other institutions with a mandate to do this, and all the capacity to do so (UN-OHRLLS, UN CDP, UN DESA, UNCTAD, etc.). The Monitor's task is to focus on indicators relating to the links between vulnerability and structural change, and on related policies. Its specific feature is that it does this in close association with think tanks based in the LDCs, which is made possible by their membership to the Monitor. For example, within the framework of the LDC5 Monitor and following on from the work carried out for the MVI, it will be possible to establish indicators of the selectivity of financial flows for all LDCs, taking into account the vulnerability of recipient countries, as the Ferdi has planned to do (Guillaumont and Guillaumont Jeaneney, 2024), and also to help establish dynamic profiles of vulnerability and structural transformation for a few LDCs.

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 **Contact**

www.ferdi.fr

contact@ferdi.fr

+33 (0)4 43 97 64 60

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