Youth Employment and Empowerment Programme (YEEP): Macroeconomic Policy and Employment

A Study for the United Nations Development Programme, Freetown, Sierra Leone

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Executive Summary

The Youth Employment Strategy

This report builds on previous studies and policy analysis for UNDP to develop a macroeconomic policy in support of the government's national strategy for youth employment, 2010-2012. In keeping with the urgency expressed by the government, this study has a short run focus, placed within a longer term context of macroeconomic policy. Following the terms of reference, this study does not consider supply side measures such as skill acquisition or demand issues at the microeconomic level, which have been treated comprehensively by other work.

The proposed strategy is based on the reality in Sierra Leone that in the medium term the private sector cannot rapidly expand employment. This is due to the legacy of civil war. The temporary weakness of the private sector is compensated by a public works programme that expands rapidly from 61 thousand jobs in the initial year to 174,000 in the fifth (notionally set as 2011-2015). During the five years the public investments would lower the operating costs of private enterprises by improving infrastructure. There would be a partial overlap of employment and infrastructure projects. At the end of the five years the benefits of lower infrastructure costs would provide for rapid private sector employment growth. Public works employment would level off and employment grow would be in the private sector. Under the scenario, combined unemployment and underemployment would fall from fifty percent of the youth labour force in 2010 to twenty-five percent in 2025.

Why youth?

Youth played a major role as combatants in the civil war that devastated Sierra Leone, and that role resulted in great part from the lack of employment opportunities or the inadequacy of the opportunities available to them. Economic growth and political stability require adequate employment for youth.

Youth (those aged 15-35 years) accounted for almost sixty percent of the population in 2011. This statistic implies that a macroeconomic policy for employment creation focused on youth would target far more than half the potential labour force. It is not a "safety net" exercise. It addresses the predominant employment issue in the country, the solution to which is essential to long term economic and political stability.

In Sierra Leone the poverty head count is so high and poverty is so geographically widespread that targeting youth cannot avoid being a programme of national poverty reduction. The vast majority of unemployed and underemployed youth of Sierra Leone live below poverty level. Any suggestion that a large proportion of youth is privileged relatively to the population as a whole betrays a lack of familiarity with events in the country since the 1980s.

Expansion of youth employment in Sierra Leone faces economic, social and institutional constrains that cannot be substantially changed in the short run. The most important of these constrains are legacies of the civil war. Sierra Leone has not yet returned to full domestic tranquillity, nor has the destruction of productive assets and infrastructure been repaired. Before the country can enter into the normalcy of private sector led growth (as specified in the PRSP-II), it must pass through a period of reconstruction of markets, social networks and human skills (Cunningham and Peeters 2006). Overcoming the constraints to the creation of youth employment is essential to that reconstruction process. The most important constrains are:

1) the majority of unemployed youth are poorly educated, even illiterate;

2) current youth employment initiatives have insufficient coordination, and they deliver skills that are not directly job creating; and

3) the employment potential of agricultural exports and foreign direct investment will not be realized in the short run due to institutional limitations.

Macroeconomic policies and youth employment

Post-civil war governments of Sierra Leone faced a situation in which economic policy in Sierra Leone would to a great extent be determined by the generosity of donors and lenders. The government had little capacity to collect taxes, and legal exports had collapsed. As a result, external assistance provided the resources for public expenditure and import capacity. Excess capacity and the activation of repairable infrastructure provided the basis for recovery during 2000-2006. Even with substantial donor support, growth rates during this period were unsustainable at prevailing rates of investment and import capacity.

Sustaining a growth rate of five percent, the bare minimum to recover to pre-war national income per head within the foreseeable future, would require a private investment rate of eleven percent. The principle economic constraint to private investment, domestic or foreign, is the poor state of infrastructure. Correcting this problem, especially in electrical energy generation, has been a priority of the government, and has met with some success.

As exports recovered and public domestic revenue rose into double digits as a proportion of GDP in the mid-2000s, the government of Sierra Leone asserted a more active and purposeful macroeconomic policy. However, soon after the new government was elected in 2007, the global financial crisis and the resulting contraction in international trade struck the economy. For the economy to overcome the effects of that crisis and generate adequate employment, all instruments of policy should be coordinated.

Trade policy should be export promoting in order to close the country's persistent gap between exports and imports. As part of export promotion, the authorities have been remarkably successful in maintaining a stable real effective exchange. Maintaining this outcome will be essential to an effective employment strategy.

Fiscal policy had short term and a medium term components. An on-going countercyclical intervention from the second half of 2009 sought to keep the economy near its short term productive potential and minimise "overheating". The medium term component uses public investment to "crowd-in" private investment by providing directly complementary public services (such as energy) and lower transport costs. Fiscal management during 2007-2010 by any objective standard was consistent with the principles of so-call "sound" policy. The annual overall fiscal deficit increased in 2008, but declined as a share of GDP during 2009-2010, when the countercyclical stimulus was implemented.

Monetary policy supported the countercyclical fiscal intervention and should continue to complement fiscal policy. The government's broad measure of the monetary base increased by twenty-two percent in 2008, followed by twenty-eight percent in 2009, with domestic financing of the stimulus achieved by monetisation. Not withstanding a prejudice against monetisation in some quarters, it should be the preferred form of deficit finance in the circumstances of Sierra Leone.

The fiscal stimulus combined with exchange rate depreciation and monetary accommodation appears to have achieved its purpose with impressive effectiveness. The stimulus helped turn a predicted decline in GDP of 1-2 percentage points into real growth of over three percent, compared to the 1.3 percent average for sub-Saharan countries (World Bank 2011). This success in managing the economy through a period of global instability indicates the government's capacity to implement effective macro policy to foster youth employment.

Youth employment through sustained growth

The proposed Youth Employment and Macroeconomic Programme (YEMP) Strategy is a programme of temporary employment creation that over ten years is replaced by private sector led growth. The success of this sequence depends on the growth process creating a sustainable trade account, defined operationally as a trade deficit that is covered by foreign direct investment flows. Using these realistic assumptions, closing the trade gap for consumption imports would require an annual growth of export in real terms of slightly over eleven percent.

A trade sustainability scenario would not be achieved through market signals alone. It would require the active and purposeful macro policy that the government implemented during 2007-2010, with management of a competitive exchange rate. Success in reducing youth under- and unemployment would also require active public investment to facilitate increases in agricultural productivity. If the trade account can be made sustainable, a successful youth employment strategy becomes feasible, because private sector led growth would allow for the emergency employment programmes to phase out.

Monitoring outcomes

A macroeconomic strategy requires monitoring to discover if the policy instruments achieve their objectives, and identify the interventions required if outcomes are counter to those objectives. The first step in monitoring is the selection of the objectives, then specification of the instruments to achieve those objective, and next identification of the indicators that allow assessment of progress toward the objectives. <u>The trade objective</u> would be the easiest to monitor. The Ministry of Finance and Economic Development has access to monthly and quarterly trade data. <u>Public works employment</u> will require close coordination between MoFED experts and those responsible for expenditure tracking. <u>Private sector employment</u> monitoring requires new procedures for data collection because the government does not currently implement employment surveys on a regular basis.

I. Introduction

> The [civil] war [in Sierra Leone] led to the displacement of …almost half the country's population, the death of more than 20,000 people, and immeasurable suffering. At the core of the conflict lay a class of marginalized young people, especially from rural areas, lacking education and access to livelihood opportunities.
> (Peeters *et. al*. 2009, 1, World Bank study of youth employment)

> Youth employment should be addressed as part and parcel of the national employment policy. Unless the overall quantity and quality of employment are increasing, it is not possible to design and implement successful programmes to integrate young women and men into the labor market.
> (Joint statement of the UN, WB, GDC, EU and IFAD in Sierra Leone)

I.1 Why youth employment?

Some argue that youth are not the poorest group in the population in the sub-Saharan region, and therefore focusing programmes on young people is a misplaced priority (Godfrey 2003). This argument dates from the 1960s, made in opposition to programmes to employ secondary school leavers in sub-Saharan countries. However, in the twenty-first century the social and economic context in the sub-Sahara is dramatically different, and the argument is false. The reasons it is false show why promoting youth unemployment in Sierra Leone is and should be high priority for the government and its international partners, including the United Nations.

In contrast to poverty *alleviation* measures the design of poverty *reduction* programmes countries has not should not be necessarily guided by the principle of focussing on the poorest households. For example, it is frequently argued that increasing agricultural exports would be the key to reducing poverty in sub-Saharan countries. The households that control the land producing export crops are not usually among the poorest. The justification of the pro-export policy is that its wider effects would be more poverty reducing than alternative growth strategies.

Second, it is frequently the case that the poorest households face the greatest obstacles to exiting poverty. This is a major reason for their absolute deprivation. Reducing their poverty might be more effectively achieved indirectly, for example through a general "tightening" of the rural labour market. The reduction of extreme poverty in several Asia countries followed this pattern. Third and related to the second, unemployment and inadequate employment is a waste of national resources, and especially for youth. Considerable research shows that failure to find gainful employment early in one's career results in loss of skills, political alienation and anti-social behaviour (ILO 2010, 6-7; Peeters et. al. 2009). As US President Franklin Roosevelt said in a radio address in September 1934, "no country, however rich, can afford the waste of its human resources," a statement all the truer if the word "rich" is replaced with "poor".

Fourth, and specific to Sierra Leone, the poverty head count in the country is so high, and poverty is so geographically widespread that targeting youth cannot avoid being a programme of national poverty reduction. The vast majority of unemployed and underemployed youth of Sierra Leone live below poverty level. Any suggestion that a large proportion of youth is privileged relatively to the population as a whole suggests a lack of familiarity with events in the country since the 1980s.

Fifth, and of great practical importance, youth played a major role in the civil war that devastated the country. That role resulted directly from the lack of employment opportunities or the inadequacy of the opportunities available to them (Yukiko, Cissé and Sock 2010). The importance of youth in the civil war in Sierra Leone should not be interpreted as an example of directing economic policy to the most politically active or vocal. This is not a case of "the squeaky wheel gets the oil". The institutional and social factors that provoked civil war in Sierra Leone are the same that blocked rural and urban youth from finding productive employment. Solving the youth employment problem in Sierra Leone is an integral part of solving the country's development problems.

I.2 Clarifying concepts and disclaimers

This report uses the Sierra Leone government definition of youth, ages 15-35. Defining employment is more complex, because with the exception of Botswana, Swaziland and South Africa, in no country south of the Sahara is formal wage employment greater than twenty percent of the labour force (Weeks 2010). In Sierra Leone the percentage is considerably less than this. The probable percentage is about five when one includes all public employment, mining and quarrying, manufacturing, and wholesale and retail trade, though the 2004 household survey suggested slightly over ten percent (reported in Peeters *et. al*. 2009). At present the vast majority of youth in Sierra Leone, as for all other parts of the labour force, must find work outside the formal sector.

Evidence indicates that many youth in Sierra Leone fail to find work, though complete lack of remunerated labour or family work seems more characteristic of boys and young men than girls and young women. The difficulty of applying the employed/unemployed dichotomy appropriate in developed countries to sub-Sahara countries, where its inappropriateness is obvious, has promoted attempts to apply more nuanced categories. One approach is to categorise labour market status with terms describing degrees of employment, with modifiers to "employed" such as "partial", "somewhat" and "truly" (Peeters et. al. 2009, 17).

While these distinctions can be useful for many purposes, the formulation of public policy requires more precise categories less dependent on the subjectivity of the interviewer or respondents. For policy purposes in Sierra Leone, the most important task is to specify the number and type of jobs required to solve the youth employment problem. I shall use the term "underemployment", which I define to include 1) those willing to work but unable to do so (unemployment), 2) those working less time than they wish (short time employment), and 3) those in full time activities which generate incomes below the international poverty guideline of one US dollar a day (the working poor). Available data does not permit the measurement of this definition of "underemployment" (nor of any other). Therefore, I make the arbitrary assumption that one half of youth in Sierra Leone are underemployed. The per capital income of the country indicates that this is an underestimate.

For reasons of operational practicality, I take wage employment to be the objective of a youth employment programme. While self employment can provide livelihoods above the poverty level, they are so diverse in the skills they require and the markets in which they would flourish that it is extremely difficult to design a general programme to foster them. This is especially the case given the constraints on this study, which do not allow for field work. Investment in education, business skills, and other training relevant to self-employment lie outside the terms of reference of this study. Those terms of reference have the specific title, "Youth Employment and Employment Programme (YEEP), Macroeconomic Policy and Employment" (UNDP 2010). The terms of reference instruct the study to carry out the following tasks:

1. Make an analysis of the current macroeconomic policies of the Government of Sierra Leone with regard to their influence (positive or negative) on promoting employment creation, especially for the youth (15-35 years).

2. Recommend realistic changes to the current macroeconomic policies that will have a positive effect on employment creation in the next 2 to 5 years.

3. Develop a framework that can be used for the periodic review of macroeconomic policies in relation to employment creation in Sierra Leone.

As noted in the terms of reference, several important studies were recently competed on education and skills for Sierra Leone, based on extensive field work (Arai, Cissé and Sock 2010; Peeters, *et. al* 2010; MoFED 2010b). Policy useful recommendations for skills and training require detailed knowledge of the education system of the country, both public and private. The constraints binding on this study made acquiring that knowledge impossible, and would duplicate that work done recently by others. The contribution of this report is to provide a macroeconomic framework complementary to the education and skills discussion produced within the country and based on careful field work.

As a final point, it must be repeated that the available data do not permit reliable estimation of most aspects of the labour market in Sierra Leone. It would be extremely useful for policy purposes to have an estimate of the relationship between output growth and employment generation. The accepted measure of this relationship, the elasticity of employment with respect to output, is impossible to calculate for Sierra Leone. Defining this elasticity is extremely difficult in the context of Sierra Leone. If the intention is to measure the elasticity for wage employment, neither the sector output nor employment data exist. If the calculation seeks to capture non-wage employment, then it is a tautology, because employment and income cannot be distinguished from each other.

I.3 Constraints on youth employment

Consistent with other government programmes and macro policies, this report proposes a medium term strategy in which the public sector generates the majority of new jobs in anticipation of the emergence of a private sector led growth process. In 2011 a private sector led growth has the perquisite that the public sector brings about cost reducing infrastructure in transport, energy and communications. The need for this phased process, involving an active public sector fostering private sector led growth, results from the legacy of a devastating civil war in the 1990s.

Expansion of private sector youth employment in Sierra Leone faces economic, social and institutional constrains that cannot be substantially changed in the short run. The most important of these constrains are legacies of civil war. In 2011 Sierra Leone had not completely returned to domestic tranquillity, nor had the destruction of productive assets and infrastructure been repaired. Before the country can enter into the normalcy of private sector led growth (as specified in the PRSP-II), it must pass through a period of reconstruction of markets, social networks and human skills (Cunningham and Peeters 2006). Overcoming the constraints to the creation of youth employment is part of that reconstruction process.

The most important constrains are:

1) the vast majority of unemployed youth are poorly educated, some illiterate, which leaves them "not prepared for employment" (UN *et. al*. 2010, 5);

2) the current youth employment initiatives are "geographically scattered" and have insufficient coordination (UN *et. al*. 2010, 7), and deliver skills which while necessary are not directly job creating; and

3) the considerable employment potential of expanding agricultural exports and foreign direct investment will not be realized *in the short run* due to institutional limitations.

An effective short term macroeconomic policy for creation of youth employment must overcome these obstacles to provide unskilled jobs. The proposed programme could be initiated within a few months. A strategy to achieve an employment outcome that is consistent with these binding constraints is a programme of employment-intensive public works with low skill requirements, centrally coordinated through the Ministry of Finance and Economic Development, located throughout the country on the basis of population. The short term creation of youth employment through public works would be supported by an active fiscal policy whose dominant component would be construction of infrastructure to lower private sector costs. The lower costs would be complemented by a competitive exchange rate, which may require some degree of official management.

I.4 Releasing the constraints

A private sector-led strategy of employment generation and poverty reduction through expansion of agricultural and mineral exports may be a sound long term strategy. The disarray of markets and the poor condition of basic infrastructure on limits the private sector development. The serious youth employment problem requires direct and immediate measures for job creation on a substantial scale. The macroeconomic programme summarized above would achieve that goal. Employment-intensive public works, active fiscal policy and a consciously competitive exchange rate regime will enable private sector led growth in the second half of the 2010s.

The short term employment programme and the long term development strategy should be consistent with solving the most important structural problem of the economy of Sierra Leone, reducing the trade deficit to a sustainable level. Solving this problem requires a conscious export promotion policy that includes maintaining a competitive exchange rate. It is probable that maintaining a competitive exchange rate will require some degree of exchange rate management.

In 2011 the population aged 15-35 was approximately 1.3 million. This study assumes that half of that population was gainfully engaged in wage or self employment at and above poverty income level, and half was idle or underemployed.[1] Poverty is defined as one US dollar a day, and underemployed was defined above. The assumptions imply that the economy needed to generate approximately 650 thousand jobs for youth, plus a growth in the youth labour force of two percent per annum, implying 700 thousand jobs in 2015.

In keeping with the urgency of the youth employment problem as stated by the government and international agencies,[2] the programme proposed here would raise the

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[1] This assumption is based on several studies that indicate high rates of underemployment and high incidence of youth leaving the labour market because of the lack of opportunities. For example,

> Average unemployment rates fail to capture discouraged workers, people who are inactive in the labor market, the underemployed, and people with very low-paying, poor-quality jobs. Nearly 10 percent of Sierra Leoneans 20–24 — but just 3 percent of adults who are inactive in the labor market — are discouraged workers, reflecting the much higher level of hopelessness among youth. (Peeters 2009, 6)

[2] The government's national youth employment strategy states:

> …[T]he fact that the majority of the fighters on all sides of the civil conflict were youths, gainful engagement and employment and the subsequent employment of youths has been a major policy objective of government since the end of the war in

gainful employment rate for youth from the assumed fifty percent in 2011 to approximately three-quarters in 2015, over 250,000 new wage jobs. Of these new jobs, eighty thousand would be generated in the private sector through an export oriented process in which GDP grows at five percent and exports at eleven percent (these rates explained and justified below). The remaining jobs, over two-thirds, would be created through public employment programmes, as suggested in several studies (see, for example, Peeters 2009, 7). The proposed public sector component is a medium term programme, intended to rapidly reduce unemployment and underemployment of youth until the economy achieves rapid and sustainable private sector growth on the basis of dramatically improved infrastructure and foreign direct investment in mining, manufacturing and agriculture.

The box summarises the proposed strategy. It has two phases, leading to sustained and rapid growth. The civil war destroyed much of Sierra Leone's capacity for private sector growth, most obviously in infrastructure and electrical energy, and also the skills of the population. Those now in their late twenties and early thirties grew up without a functioning education system. The public works programme of the proposed Youth Employment and Macroeconomic Programme (YEMP) would combine with existing training schemes to enhance jobs skills.[3] In the first phase, 2011-2015, public current expenditure would fund employment-intensive public works, with outlays increasing as economic growth generated more public revenue. The emergency public employment would peak in 2015 at about 175,000 jobs.

Simultaneously, public investments, some of them part of the YEMP, would put in place the infrastructure that would allow for private sector led growth. Essential in this phase would be export promotion measures, especially depreciation to maintain a competitive exchange rate. The export promotion measures would progressively narrow the trade gap. Failure to achieve this narrowing would mean that the emergency employment schemes would have little long term impact.

In the second phase, 2016-2020, the improved infrastructure and regularity of energy supplies would allow for the private sector to replace the public sector as the

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2002. Not surprising the first Poverty Reduction Strategy Paper (PRSP) had as one of its main objective, the creation of “jobs for the large and growing number of the unemployed after a decade of devastating conflict”. (MFED 2010b, 5)

[3] "Public works programs targeting low-skilled young people can be effective if they are combined with skill development and attention is paid to prevent corruption" (Peeters *et. al.* 2009, 110).

main driver of growth. This private sector growth would focus on agriculture and mining, with linkages to manufacturing. As this growth proceeds, youth employment in these sectors would replace the temporary jobs in public works and also those in low productivity services and domestic trade.

At the end of the 2010s the trade gap would be reduced to capital imports covered by foreign direct investment, and the training of youth would shift into schools, colleges and on-job programmes. Public employment programmes are essential to achieve sustained private sector led growth. A private sector led process that results in strong growth and a sustainable external account will not occur through market incentives alone, even ones enhanced by public sector action.

In 2011 the infrastructure and energy capacity for the effective operation of market forces was not present. Further, an export promotion process will not unfold automatically, certainly not in mining, nor in agriculture. It is the case, as a World Bank study has argued, that Sierra Leone has considerable potential for agricultural growth, including exports of tree and other crops. However, this potential is not based on idle land.[4] Expansion of agriculture onto land abandoned during the civil conflict, and the recovery of war-damaged production capacity will provide a quite contribution to employment growth. The government's youth strategy recognises the extremely limited potential in the short run of expanding agricultural employment (MEFD 2010b, 16-17).

Since independence some outside observes have asserted that Sierra Leone has a substantial amount of idle agricultural land (see World Bank 1984, iv). This was and is a fallacy that results from a lack of understanding of the role of fallow land in rural Sierra Leone, and the nature of land tenure in the country (Richards 1986, Weeks 1993). More agricultural output and exports will be achieved through increased productivity, which requires reform of land holding and employment practices. Especially important will be an end to the *de facto* forced labour practices in the countryside that cause youth to reject agricultural employment (UN *et. al*. 2010, 15). It may also require reform of access to land, as suggested by statistics indicating

[4] This was suggest in a recent World Bank report, "Increasing areas under cultivation holds significant potential in Sierra Leone, where there is abundant land and low-skilled labor and where most traditional cash crop production was severely curtailed or halted by the war" (World Bank 2006b). The same had been alleged in a World Bank report in 1984 (World Bank, 1984, iv).

that prior to the civil war Sierra Leone had a substantially unequal land distribution.[5] These changes could be accomplished over the decade of the 2010s, when emergency public programmes would provide temporary employment for youth, in anticipation of sustained private sector led growth.

Box
Youth employment and Macroeconomic Programme (YEMP)

Employment drivers/phases	Phase 1: emergency measures 2011-15	Phase 2: transition 2016-2020	Sustained growth 2020 >>
Public sector public works programmes with high employment-intensity	rapid expansion of public works for youth constrained by budget deficit, reaching 175,000 by 2015	skills and micro enterprise training increasingly replace public works for youth (declines towards 50,000)	phasing out of special programmes; training & education through schools, colleges and on-job programmes
Private sector export-led growth based on mining and agriculture, with linkages to manufacturing	private sector growth constrained by poor infrastructure; depreciation used to foster competitiveness, narrowing of trade gap	private sector employment increasingly replaces public works employment; trade gap reduced to capital imports	sustainable trade balance allows for a more balanced growth process

II. Specifying Macroeconomic Policy

II.1 Macroeconomic performance after the civil war

On top of the terrible cost in human life, civil war in the 1990s devastated the economy of Sierra Leone, a devastation that followed severe economic instability in the 1980s. From 1982 through 1990 per capita income declined in every year except one (Weeks 1992, 44-45). This dismal performance was in part the result of inappropriate stabilisation policies that included a disastrous experiment with floating the exchange rate. This prelude to civil war carries a lesson that has informed the economic policies of the current government: in Sierra Leone economic prosperity is an essential ingredient for political stability and social peace. The proposed YEMP derives from that lesson.

Following the collapse of the 1990s, economic policy in Sierra Leone was to a great extent determined by the generosity and flexibility of donors and lenders. The

[5] A survey in 1984/85 found that forty-eight percent of rural households had less than one acre of agricultural land, and that the implied distribution of cash income was more unequal than for land (Weeks 1993, 76; and SLG 1986).

immediate post-war governments had little capacity to collect taxes, and legal exports had collapsed. As a result, external assistance provided the resources for public expenditure and import capacity. Table 1 and Figure 1 indicate the severity of the constraints facing public policy in the early 2000s. In 2000, recorded exports dropped to less than two percent of GDP, leaving an official trade deficit of almost fifteen percent of a severely contracted economy. Domestic revenue, most of it from import taxes, covered considerably less than half of public expenditure. Private investment at just over two percent of GDP was almost certainly less than the depreciation of the domestic capital stock.

Excess capacity and the activation of infrastructure that could be repaired provided the basis for recovery during 2000-2006. Even with substantial donor support, growth rates during this period were unsustainable at prevailing rates of investment and import capacity. Merchandise exports reached their highest level of the 1990s in 1993 at US$ 113 million, and did not recover to that amount until 2004. Agricultural exports, a mere US$ 5.6 million in 1994, did not exceed that amount until 2005.

If one makes the simplifying assumption that aggregate inventory change was zero in every year during 2000-2010,[6] it is possible to calculate the familiar national income aggregates. Private investment as a share of GDP remained well below a level consistent with sustained growth of per capita income. If the aggregate capital output ratio for the economy is about four and public investment holds at nine percent of GDP, sustaining a growth rate of five percent requires a private investment rate of eleven percent. The principle economic constraint to private investment, domestic or foreign, is the poor state of infrastructure. Correcting this problem, especially in electrical energy generation, has been a priority of the government that has met with some success.[7]

[6] This is an empirically invalid assumption for any one year, but serves as an accurate approximation over a decade. For example, it is unlikely that the private investment rate was in double digits in 2005, because it subsequently averaged 8.4 percent of GDP.

[7] The importance of the Bumbuna Hydroelectric Project is stressed in the *Agenda for Change* programme of the current government.

II.2 Macroeconomic Policy, 2007-2010

Exports recovered and public domestic revenue rose into double digits as a proportion of GDP in the mid-2000s. With this improvement, the government of Sierra Leone asserted a more active and purposeful macroeconomic policy. However, soon after the new government was elected in 2007, the global financial crisis and the resulting contraction in international trade struck the economy. The government responded boldly to the global crisis with a countercyclical intervention (designed with technical support from UNDP, see Weeks 2009b). The temporary intervention to counter the international recession represented part of a larger macro strategy to response to the fall in growth rates after the mid-2000s, which reflected the limits to growth based on post-war excess capacity. The continuation and strengthening of the economic policies pursued during 2007-2010 are central to the proposed YEMP.

Trade policy during the YEMP should be export promoting in order to close the country's persistent gap between exports and imports. Despite impressively rapid growth in merchandise export earnings during 2003-2006, the trade deficit as a share of GDP during 2008-2010 was almost the same as it had been during 2000-2002. In current US dollars the trade deficit increased substantially in the second quarter of 2010 (Figure 2). The deficit did not become worse because the authorities were remarkably successful in maintaining a stable real effective exchange rate from the second half of 2007 through the first half of 2010 (see Table 2). The Leone experienced a slight depreciation in real terms with respect to the dollar and virtually no change with respect to the Euro (see Figure 3).

The government anticipated that the countercyclical fiscal intervention in the second half of 2009 would result in nominal exchange rate depreciation. Policy management kept it within the fine range that maintained export competitiveness and avoided destabilizing pass-through inflation. The importance of this success in exchange rate management for youth employment cannot be over-emphasised. For the tradable sectors to generate private sector led employment, the maintenance of a competitive exchange rate is essential.

Fiscal policy had short term and a medium term components. The countercyclical intervention, initiated in the second half of 2009, sought to keep the economy near its short term productive potential and minimise "overheating". The stimulus raised public expenditure by one percentage point of GDP, followed by a 1.3

percentage point increase in 2010.[8] This use of fiscal policy for short term output stabilization would continue. The increase in 2010 included a cash-for-work component funded by the World Bank of US$ 10 million (reported in Sierra Leon *Daily Mail* 22 July 2010). This type of employment programme is the major component of the YEMP.

The medium term component of fiscal policy would use public investment to "crowd-in" private investment. It would do this by providing directly complementary public services (such as energy) and lower transport costs. Some of this public investment could be part of the youth employment creation programme. However, it is important not to mix objectives and instruments. The major purpose of the public investment is to facilitate private sector led growth in the future, not to generate youth employment. For this reason the funding of the YEMP is designed to be separate from the funding of public investment.

Parallel to the countercyclical interventions at the end of the 2000s was an improvement in the performance of government income generation. Domestic revenue rose from less than eleven percent of GDP in 2007 to over twelve percent in 2010. While this may seem a minor increase, in practice it demonstrates substantial revenue improvement. Statistical work indicates that the elasticity of revenue with respect to GDP is less than unity (Weeks 2009b). This inelasticity is what one would expect from a revenue system almost totally dependent on indirect taxes, especially on imports. Given this dependence and that the import share in GDP has increased only marginally, it is likely that greater revenue resulted from improved tax collection, a "structural reform" specified in the government's agreement with the IMF (see IMF 2010). The IMF projected this improvement to continue (see Table 6). The quarterly statistics for public expenditure, domestic revenue and external grants are given in Table 4.

Fiscal management during 2007-2010 by any objective standard was consistent with the principles of so-call "sound" policy. The annual overall fiscal

[8] The stimulus was described in the 2011 Budget Speech of the Minister of Finance and Economic Development (Karama 2010, paragraph 4)

> …[G]iven the fragility of the global economic recovery and the need to improve the competitiveness of our economy to withstand future shocks, Government took bold and extra-ordinary measures during the year to ensure strong and durable exit from the economic crisis. The measures included extra-budgetary expenditures to provide the necessary fiscal stimulus to the economy.

deficit increased in 2008, but declined as a share of GDP during 2009-2010, when the countercyclical stimulus was implemented. The relationship between the fiscal deficit and the active fiscal policy is made clearer in Figure 5, which uses quarterly data. Figure 5a shows the overall deficit including external grants, and Figure 5b excludes all external assistance revenues. In both charts the deficits are shown in current and price deflated Leone. The extremely large increase in the overall deficit after the first quarter of 2006 in Figure 5a resulted from the suspension of the distribution of development assistance by donors and lenders. The suspension arose from a dispute over the terms of some government contracts and was resolved in 2007.

More relevant for the impact of public expenditure on aggregate demand is the deficit that excludes grants. For their impact on aggregate demand, grants are no different from monetising the deficit. In the absence of exchange controls the foreign exchange they bring into the country goes directly into the commercial banking system, and can be converted to Leone. The foreign exchange becomes part of the monetary base. The difference with monetisation is that development assistance can finance imports, to the extent that donors do not ear-mark it or require increased reserve holdings.

Figure 5b clearly shows what the Minister of Finance described as "bold and extra-ordinary measures" to counter the global recession (Karama 2011, paragraph 4). After the first quarter of 2009, the fiscal deficit increased substantially, in current prices from about 120 billion Leone to 190 billion, and by a price deflated measure from about 75 billion to 100 billion. This fiscal expansion, which coincided with an accumulation of external reserves, supported the creation of thousands of temporary jobs for youth. It is not possible to assign a precise measure because all of the employment creation was not specified for youth. We do know that the government budget for 2011 allocated substantial sums to youth programmes, some of which would be employment generating.[9]

[9] In the 2011 budget speech the Minister of Finance and Economic Development gave the following list of expenditures:

> Government is allocating to the Ministry of Education, Youth and Sports an amount of Le 76.1 billion under the recurrent budget. Grants to tertiary institutions amount to Le 42.4 billion. An amount of Le 15.2 billion is being allocated for grants to Government boarding schools, payment of examination fees for WASCE and support to the Girl Child programme in secondary schools. In addition, an amount of Le 500 million is being allocated for the new Barefoot Solar Technicians Training Centre at Konta Line. An amount of Le 1.0 billion is being provided for the operations of the

Monetary policy supported the countercyclical fiscal intervention. The government's broad measure of the monetary base increased by twenty-two percent in 2008, followed by twenty-eight percent in 2009, with domestic financing of the stimulus achieved by monetisation. Monetisation should be the preferred form of deficit finance in the circumstances of Sierra Leone. When a domestic bond market is extremely narrow at best, the main purchasers of public bonds would be private banks. Given lack of competition among purchasers and almost no re-sale market, the successful sale of bonds requires distortionary interest rates. The primary function of the bonds becomes a subsidy to commercial banks. This discourages banks from pursuing more risky lending to the private sector for productive investment. Sales of public bonds in a narrow market "crowd-out" private borrowing, while monetisation does not. This is crowding-out results from the lack of financial market competition.

The fiscal stimulus combined with exchange rate depreciation and monetary accommodation appears to have achieved its purpose with impressive effectiveness. The stimulus helped turn a predicted decline in GDP of 1-2 percentage points into real growth of over three percent, which can be compared to the 1.3 percent average for sub-Saharan countries (World Bank 2011). This success in managing the economy through a period of global instability indicates the government's capacity to implement an effective macro policy to foster youth employment.

III. Youth employment and sustained growth, 2011-2020

III.1 Design of the Programme

The proposed Youth Employment and Macroeconomic Programme is a programme of temporary employment creation that over ten years anticipates the return of private sector led growth. In the first five years, 2011-2015, the public sector leads employment creation, then yields this leadership to the private sector in the second five years, 2016-2020. The success of this sequence depends on the growth process creating a sustainable trade account. If this sustainability is not achieved, the government will remain heavily dependent upon external assistance. It

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newly established Youth Commission and Le 1.7 billion for sports programmes. (Karama 2010, paragraph 98) will find its policy options constrained to defensive macroeconomic stabilisation rather than active and purposeful macroeconomic management.

I define a "sustainable trade account" as a trade deficit that is covered by foreign direct investment flows. When this is the case, all consumption imports are covered by exports. External assistance can be used for public investment. Table 5 calculates a realistic scenario for achieving this definition of sustainability by 2020. The following key assumptions are made. First, the share of imports in GDP in 2010 is sufficient to cover all consumption imports. Second, GDP will grow in real terms at five percent, compared to the actual rate of 4.9 for 2006-2010. It is possible that the economy could enjoy a faster rate of growth. If so, it is likely that the faster rate would be in part driven by stronger export performance, in which case the sustainable outcome would be achieved sooner. However, it is never wise to base hopes on the best scenarios.

Using these realistic assumptions, closing the trade gap for consumption imports would require an annual growth of export volume in real terms of slightly over eleven percent. This is a full percentage point higher than the growth rate for 2006-2010. There are sound reasons to believe that a slightly higher growth rate is possible. First, the government anticipates substantial foreign investment in the mining sector. While this is unlikely to generate substantial employment directly, it should accelerate the growth of export earnings, while the capital imports it requires would be covered by FDI flows. Second, investment in transport and other infrastructure, including storage and market facilities, could facilitate agricultural exports on the basis of increased productivity of land.

This trade sustainability scenario would not be achieved through market signals alone. It would require the active and purposeful macro policy that the government implemented during 2007-2010. Specifically, it would require continuing a policy of managing a competitive exchange rate. This would become extremely important if, as the government hopes, mineral exports increase substantially. Failure to prevent an appreciating Leone would undermine employment generation in other productive sectors, perpetuating the problem of youth underemployment. Success in reducing youth underemployment would also require active public investment to facilitate increases in agricultural productivity.

If the trade account achieves sustainability, the Youth Employment and Macroeconomic Programme becomes feasible. Toward the end of the 2010s private sector led growth would be sufficiently robust to allow the emergency employment programme to phase out.

III.2 The formal model

The expenditure for the youth employment component of the YEMP is constructed using IMF projections fiscal indicators. A GDP growth for 2013-2015 of rate of five percent is used, which is less optimistic than the IMF rate for 2012 of six percent. The employment created is determined by the distribution of that expenditure among wages, administration and equipment. A similar exercise is found in the UNDP supported report on the impact of the global financial crisis on Sierra Leone (Weeks 2009b). In the calculations the temporary youth employment programme is largely funded from current expenditure through increases in the primary fiscal deficit. Any youth employment generated by capital expenditure is in addition to the temporary employment programme.

The construction of the employment generation programme begins with a set of definitions.

Public sector expenditure $E = (\text{current } E_1) + (\text{capital } E_2)$

Public sector income $R = (\text{domestic revenue } R_1) + (\text{external grants } R_2)$

Fiscal deficit $D = R - E$

$$= (R_1 + R_2) - (E_1 + E_2)$$

The calculations assume an average fiscal deficit of six percent of GDP for 2011-2015. Using the IMF projections for domestic revenue, external grants and capital expenditure, the share of current expenditure in GDP can be calculated as a residual.

$$E_1 = (\mathbf{R_1} + \mathbf{R_2}) - (\mathbf{E_2}) - \underline{D}$$

The deficit, D, is negative, and the symbols in bold are the IMF projections. The deficit is underlined to distinguish it as set by assumption at six percent. Expenditure on youth employment in each year, $Y(t)$, is set equal to the difference between current expenditure in 2009 and the value implied by the assumptions. This method of calculation implies no reallocation of current expenditure.

$$Y(t) = E_1(t) - E_1(2009)$$

The calculations can be summarized in the flow diagram below. The growth rate r is the IMF projection, equal to five percent per annum.

GDP = $GDP_{2010}(1 + r)$				
implies	annual GDP(t) in constant prices			
	IMF fiscal parameters and deficit assumption			
	imply	current expenditure E_1		
		youth employment expenditure in base year (Y_{2009}) and fiscal deficit		
		imply	youth employment expenditure 2011-2015 and Y(t) share for wages	
			imply	number of jobs created

The quantitative details generated by the assumptions appear in Table 6. The design of the youth employment programme in the table is consistent with the scenario for closing the trade gap in Table 5. In Table 6 the numbers inside borders are actual outcomes, and the shaded values are IMF projections (IMF 2010, 18).

The important differences between Table 6 and the IMF projections is that public current expenditure increases as a proportion of GDP in each year until it reaches eighteen percent in 2015, and the fiscal deficit averages minus six percent. The increases in current expenditure are implied by maintaining a fiscal deficit (including external grants) of six percent of GDP,

The possible secondary effects of the deficit level are considered below. The employment calculations apply the following assumptions and parameters:

1. private sector output growth of five percent and employment growth of three percent (implying productivity increase of two percent);

2. the nominal exchange rate is set to maintain a constant real exchange rate, and this rate converts Leone GDP into US dollar GDP;

3. one half of the population 15-35 is adequately employed in the base year 2010; and

4. the rate of inflation equals the pass-through of the nominal exchange rate for a marginal propensity to import of .275 (see Table 5) plus a structural component of five percent (Weeks 2009b).

The rows in the middle of Table 6 show the numbers for employment generation that these parameters imply. Private sector employment growth is passive in the scenario. Youth employment growth in the private sector is determined by the growth of GDP, minus productivity change. The trade scenario requires an annual growth of real exports of eleven percent, which is likely to be considerably above the average for world trade and for the sub-Saharan region. Because Sierra Leone is a small country by the trade theory definition, its export growth should not be demand constrained. Maintaining a stable real exchange rate is an important element of export promotion when used in conjunction with other measures.

In addition to being supported by a competitive exchange rate, exporters must lower production and post-production costs to be price and quality competitive. In Sierra Leone the most important component of post-production cost is transport. Recent public investments and those during the period of the scenario would reduce those costs. The public sector should also reduce production costs by facilitating the supply of cheaper and more reliable electrical energy. The main source of cost competitiveness will remain labour productivity, especially for agriculture products whose world markets are highly contested. It is for this reason that the YEMP scenario assumes productivity growth of two percent to be consistent with achieving a sustainable trade deficit.

The centre piece of the YEMP strategy is the provision of temporary public sector employment during 2011-2015. This transitional provision is in anticipation of a strong private sector led growth process that will emerge out of the destruction left by the civil war as a result of public sector investments. The transitional public sector employment would be in employment intensive public works of the type implemented by the National Commission for Social Action and supported by the World Bank and other external agencies (Weeks 2009b). With the annual expenditure determined in the manner explained above, the number of youth that are employed is determined by the daily cost of jobs and the number of days each person would be employed. The latter is determined by the guidelines that the number of days employed should be sufficient to provide basic employment skills and give the employed youth a sense of "adequate" employment and livelihood. Though arbitrary, two hundred working days, or four days a week, would satisfy these guidelines. The daily cost is assumed to be US$ 2.50, and the employed youth receives one dollar of this. The remaining US$ 1.50 should allow sufficient funds for equipment and administration.

With these parameters, the emergency public employment programmes create sixty-one thousand jobs for youth in 2011, increasing to 175,000 in 2015. As a share of the youth labour force, public employment would rise from 5.4 percent to 12.5. Together with private employment growth, the proportion of youth in adequate employment would rise from fifty towards seventy percent. Were the economy to grow faster is would be possible to create more jobs if the YEMP expenditure remained the same as a share of GDP, or to reduce the fiscal deficit if the number of new jobs did not change.

Figure 6 illustrates the scenario trends in public sector employment, private sector employment and unemployment, as a portion of the youth labour force, 2010-2025. Under the scenario, combined unemployment and underemployment would fall from fifty percent of the youth labour force in 2010 to twenty-five percent in 2025.

III.3 Monitoring outcomes

A macroeconomic strategy requires monitoring to discover if the policy instruments achieve their objectives, and identify the interventions required if outcomes are counter to those objectives. The first step in monitoring is the selection of the objectives, then specification of the instruments to achieve those objective, and next identification of the indicators that allow assessment of progress toward the objectives.

The general objective of the Youth Employment and Empowerment Programme is clear, increase jobs for youth in Sierra Leone. This study proposes that this general objective be specified as an annual create of emergency public works jobs over five years that reached 174,000 by 2015. In the private sector the objective would be more modest, an annual two percent employment growth in tradable sectors. These objectives would be part of a simultaneous reduction in the country's trade deficit.

The instruments to achieve the objectives are 1) public employment growth by allocating a specified portion of current expenditure to youth employment public works; 2) private sector employment growth in tradables facilitated by public investment in infrastructure; and 3) closing the trade gap through maintaining a constant real exchange rate and reducing transport and energy costs with public investment. The complementarity of the objectives implies that they could be achieved together. The greatest risk is that the public employment component would be achieved but not the others, in which case the entire strategy is unviable. However, the recent macro management of the economy suggests that the government is capable of pursuing and achieving multiple objectives.

The trade objective would be the easiest to monitor. The Ministry of Finance and Economic Development has access to monthly and quarterly trade data. Accurate monitoring requires little more than seasonal adjustment and timely reporting.

Public works employment is not difficult to monitor in principle, but in practice will require close coordination between MoFED economic experts and those responsible for expenditure tracking, to ensure reported outcomes are not falsified and funds used effectively. The most serious cause for concern is not corruption as such, but ineffective use of funds that results in high ratios of expenditure to employment.

Private sector employment monitoring requires new procedures for data collection. Sierra Leone as for most sub-Saharan countries does not carry out labour force surveys. Tracing recent trends in employment in the tradable sectors requires the design of surveys appropriate for short term monitoring. The government could seek technical support from the International Labour Organisation for the design of such surveys. It is probable that these would be more effectively implemented by MoFED because of its considerable economic expertise. The most difficult part of monitoring employment in tradable sectors will be agriculture. This might be done by sample surveys carried out in areas where other information indicates that production of exports and import substitutes are expanding.

The detailed procedure for collecting information on private sector employment cannot be usefully specified in general. It is for this reason that the government would benefit from technical assistance. Training of survey staff could begin immediately.

III.4 Choosing Priorities

The YEMP programme implies an overall fiscal deficit of six percent of GDP. The primary financing method for this deficit would be monetisation. Elsewhere I have argued that a deficit of this amount is not *per se* a bad policy outcome (Weeks 2009d). Empirical evidence for Sierra Leone indicates that the fiscal deficit has not been a driver of inflation in the post-war period, even for years when the deficit was higher than six percent (Weeks 2009b).

If donors and lenders believe that a deficit of six percent should be avoided, the responsible policy response is to provide budget support to reduce the deficit, not to reduce programmes to employ youth. In 2011 reducing Sierra Leone's fiscal deficit by one percentage point of GDP would require additional external assistance of US$ 24 million. However, what is required for the youth employment programme is not deficit reduction, but deficit management in the context of an active macro policy that lead to a sustainable trade position and sufficient employment for youth to facilitate social stability.

A MoFED study of youth employment concluded that,

> There is a firm commitment on the part of the government and its development partners to improve the employment conditions of the youths in the country... [T]here are youth groups initiatives by the youths themselves to address the high unemployment and idleness they continue to face…Notwithstanding the commendable initiatives of these groups, they continue to face serious challenges that pose obstacles to achieving [their] aims and objectives…It is without doubt that if these group initiatives are well supported and made to develop well, they will go a long way in significantly addressing youth unemployment challenges of the country. (MoFED 2010b, 50)

The proposed Youth Employment and Sustained Growth strategy would be vehicle to combine government commitment with local initiatives within a medium term development framework that could facilitate external and internal balance, fostering strong private sector led growth.

Table 1: Sectoral expenditure balances, shares in GDP, 2000-2010

	Trade sector			Public sector			Private sector			GDP
year	Exports	Imports	X - M	Expend	Dom Rev	E - R	Investment	Saving	I - S	growth
2000	1.4	16.0	-14.6	18.1	7.2	10.9	2.2	-1.5	3.7	3.8
2001	2.7	17.1	-14.4	18.9	8.9	10.0	5.7	1.3	4.4	17.9
2002	4.0	21.7	-17.7	20.4	8.7	11.8	6.9	0.9	6.0	27.5
2003	7.0	22.9	-16.0	17.9	8.6	9.3	5.7	-1.0	6.7	9.3
2004	10.4	21.4	-10.9	18.0	9.3	8.6	7.2	4.9	2.3	7.4
2005	11.0	23.5	-12.6	18.0	9.6	8.5	13.4	9.3	4.1	7.3
2006	13.9	23.8	-9.9	19.6	10.1	9.5	8.1	7.7	.4	7.4
2007	14.7	26.7	-12.1	16.8	10.8	6.0	9.7	3.6	6.1	6.4
2008	12.7	27.8	-15.0	21.0	11.3	9.7	8.6	3.2	5.4	5.5
2009	12.1	27.3	-15.2	22.0	11.6	10.4	7.7	2.9	4.8	3.2
2010	15.5	27.5	-12.0	23.3	12.4	10.9	7.9	6.8	1.1	4.5

Notes: Calculated in current US dollars using the trade weighted exchange rate. The private saving statistic is calculated by assuming that inventory change was zero in each year.
Sources: Ministry of Finance and Economic Development (http://www.mofed.gov.sl/), Bank of Sierra Leone (http://www.bankofsierraleone-centralbank.org/), and IMF (2006, 2010).

Table 2:
Nominal and real effective exchange rates, 2006-2010

	Nominal		Real effective	
Quarter	Ln/US$	Ln/Euro	Ln/US$	Ln/Euro
2006.1	2942	3532	96	84
2006.2	2958	3712	99	91
2006.3	2969	3783	100	93
2006.4	2905	3846	98	95
2007.1	2987	3866	99	94
2007.2	2987	4028	97	96
2007.3	2963	4098	98	100
2007.4	2984	4341	102	109
2008.1	2974	4385	100	108
2008.2	2968	4636	99	113
2008.3	2971	4405	102	110
2008.4	3005	3961	95	92
2009.1	3067	4006	94	90
2009.2	3208	4431	100	102
2009.3	3465	4883	103	106
2009.4	3798	5445	110	116
2010.1	3856	5399	104	107
2010.2	3907	4979	107	99

Notes: The Leon to US dollar rate is the average for imports and exports. The Euro rate is the trading mid-rate. The "real effective rates" are calculated by multiply by the US wholesale price index (proxy for international prices) and divided by the Freetown cost of living index (proxy for domestic prices). An increase is a depreciation.
Sources: Ministry of Finance and Economic Development, (http://www.mofed.gov.sl/), and Bank of Sierra Leone (http://www.bankofsierraleone-centralbank.org/)

Table 3a: Public Expenditure, Revenue and Grants, 2000-2010 (Leone mns)

Year	Tot Exp	Crr Exp	Cap Exp	Dm Rev	Grants	Tot rev	Deficit(wG)
2000	382	302	81	152	106	258	-124
2001	441	368	73	208	87	294	-147
2002	562	475	87	239	161	400	-162
2003	598	485	113	288	179	467	-131
2004	688	555	133	357	259	616	-72
2005	775	603	172	411	352	763	-12
2006	958	742	216	495	0	495	-463
2007	836	659	177	537	239	776	-59
2008	1223	864	359	658	144	802	-421
2009	1419	967	452	749	315	1063	-356
2010	1770	1154	616	943	532	1475	-295

Table 3b: Public Expenditure, Revenue and Grants, 2000-2010 (% of GDP)

Year	Tot Exp	Crr Exp	Cap Exp	Dm Rev	Grants	Tot rev	Deficit(wG)
2000	18.1	14.3	3.8	7.2	5.0	12.2	-5.9
2001	18.9	15.8	3.2	8.9	3.7	12.6	-6.3
2002	20.4	17.3	3.2	8.7	5.9	14.5	-5.9
2003	17.9	14.5	3.4	8.6	5.4	13.9	-3.9
2004	18.0	14.5	3.5	9.3	6.8	16.1	-1.9
2005	18.0	14.0	4.0	9.6	8.2	17.8	-.3
2006	19.6	15.2	4.4	10.1	.0	10.1	-9.5
2007	16.8	13.2	3.5	10.8	4.8	15.6	-1.2
2008	21.0	14.8	6.2	11.3	2.5	13.8	-7.2
2009	22.0	15.0	7.0	11.6	4.9	16.5	-5.5
2010	23.3	15.2	8.1	12.4	7.0	19.4	-3.9
2011	23.6	15.1	8.5	12.9	5.9	18.8	-4.7
2012	24.0	15.0	9.0	13.7	6.9	20.6	-3.4

Notes: Data for 2000-2009, actual outcomes, from MoFED data files and MoFED (2010a); 2010 from Karama (2010), last quarter projected; and 2011-2012 from IMF (2010), projections. The column headings are total expenditure, current expenditure, capital expenditure, domestic revenue, external grants, total revenue (domestic plus external), and deficit including grants. In 2006 donors suspended disbursements because of disagreements with the government over conditions of specific contracts with private sector firms.

Table 4: Quarterly Public Expenditure, Revenue and Grants, 2000-2010 (Leone mns)

	Tot Exp	Crr Exp	Cap Exp	Dm Rev	Grants	Tot rev	Deficit(wG)
2000.1	85.5	73.0	12.4	37.1	27.9	65.0	-20.5
2000.2	86.7	70.6	16.0	41.3	22.6	63.9	-22.8
2000.3	104.7	78.3	26.3	40.6	17.1	57.6	-47.0
2000.4	105.6	79.8	25.7	33.2	38.6	71.8	-33.8
2001.1	88.8	72.4	16.4	44.8	27.8	72.6	-16.2
2001.2	106.2	83.5	22.7	55.4	6.4	61.8	-44.4
2001.3	107.7	90.7	17.0	54.6	23.4	78.0	-29.7
2001.4	138.7	121.4	17.3	52.9	29.2	82.1	-56.6
2002.1	130.9	114.1	16.8	60.0	53.0	112.9	-18.0
2002.2	118.5	103.0	15.5	59.0	12.1	71.0	-47.5
2002.3	129.1	105.9	23.2	57.9	48.2	106.1	-23.0
2002.4	183.7	151.9	31.8	61.8	48.1	109.9	-73.8
2003.1	118.7	88.5	30.2	60.9	45.3	106.2	-12.5
2003.2	159.8	119.8	40.0	77.8	48.9	126.7	-33.1
2003.3	158.2	128.4	29.8	72.8	62.4	135.3	-22.9
2003.4	161.3	148.6	12.7	76.1	22.7	98.8	-62.5
2004.1	173.2	132.5	40.7	80.0	66.8	146.8	-26.4
2004.2	175.4	141.6	33.8	94.7	36.0	130.7	-44.7
2004.3	180.5	147.1	33.4	89.9	37.3	127.2	-53.3
2004.4	159.1	133.9	25.2	92.4	119.3	211.7	52.6
2005.1	186.7	133.3	53.4	90.3	45.7	136.1	-50.6
2005.2	183.2	150.4	32.8	110.3	27.8	138.1	-45.1
2005.3	186.6	160.0	26.6	104.4	58.2	162.6	-24.0
2005.4	218.4	158.9	59.5	105.8	220.2	326.0	107.6
2006.1	203.6	159.9	43.7	118.9	.0	118.9	-84.7
2006.2	203.6	171.1	32.5	141.5	.0	141.5	-62.1
2006.3	281.0	220.3	60.7	122.3	.0	122.3	-158.7
2006.4	269.8	190.5	79.3	112.7	.0	112.7	-157.1
2007.1	217.2	163.9	53.3	125.4	43.9	169.3	-47.9
2007.2	171.0	136.0	35.0	158.9	26.7	185.6	14.6
2007.3	202.7	163.9	38.8	126.7	59.3	186.0	-16.7
2007.4	244.6	195.0	49.6	125.9	109.4	235.3	-9.3
2008.1	293.4	203.6	89.8	151.0	36.0	187.0	-106.5
2008.2	285.0	195.2	89.8	165.9	36.0	201.9	-83.2
2008.3	309.6	219.8	89.8	177.7	36.0	213.7	-96.0
2008.4	335.2	245.4	89.8	163.8	36.0	199.8	-135.5
2009.1	237.3	157.3	80.0	158.3	77.5	235.8	-1.5
2009.2	382.3	269.2	113.1	188.5	9.7	198.2	-184.1
2009.3	426.4	313.3	113.1	202.9	103.9	306.8	-119.6
2009.4	373.4	227.3	146.2	199.0	123.4	322.4	-51.0
2010.1	313.1			193.1			
2010.2	487.5			232.7			

Notes: See notes to Table 4. For the shaded numbers there was no quarterly division of the annual capital expenditure.

Table 5: Simulation of Closing the Trade Gap, 2010-2020
(constant US$ thousands and percentages)

actual 2006-10:	4.9%	10.1%	11.0%			
Assumed:	5.0%	11.1%	5.0%	Percent		
Year	GDP	Exports	Imports	X/GDP	M/GDP	X-M
2010	2235997	346050	613954	15.5	27.5	-12.0
2011	2347796	384808	644652	16.4	27.5	-11.1
2012	2465186	427906	676884	17.4	27.5	-10.1
2013	2588446	475832	710728	18.4	27.5	-9.1
2014	2717868	529125	746265	19.5	27.5	-8.0
2015	2853761	588387	783578	20.6	27.5	-6.8
2016	2996449	654286	822757	21.8	27.5	-5.6
2017	3146272	727566	863895	23.1	27.5	-4.3
2018	3303585	809053	907090	24.5	27.5	-3.0
2019	3468765	899667	952444	25.9	27.5	-1.5
2020	3642203	1000430	1000066	27.5	27.5	.0

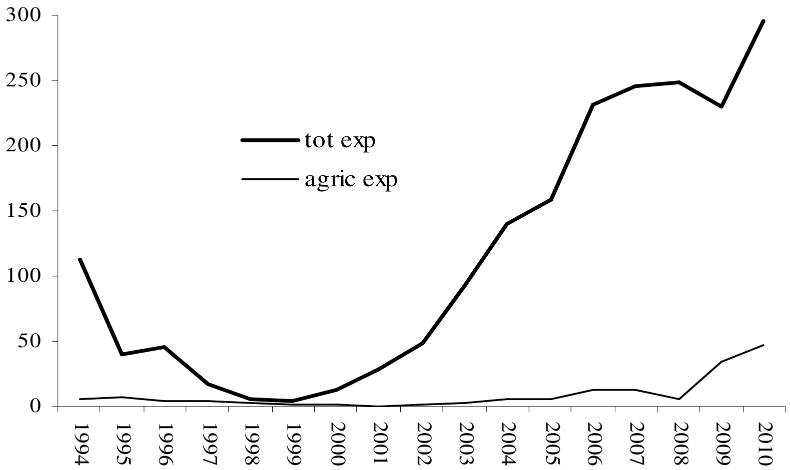
Notes: The calculated imports include consumption goods only. Capital goods imports are assumed to be covered by direct foreign investment flows and official development assistance. Actual values are shaded.
Sources: See Table 1.

Table 6: Youth Employment and Sustained Growth Strategy,
To achieve two-thirds of youth in gainful employment by 2015

Item/Year	2009	2010	2011	2012	2013	2014	2015
GDP Leone, bns	6442	8711	10082	11499	13039	14787	16768
GDP US$, mns	1905	2234	2357	2498	2623	2754	2892
E1 (%GDP)	15.0	15.2	16.5	17.0	17.5	17.75	18.0
E2 (%GDP)	7.0	8.1	8.5	9.0	9.0	9.0	9.0
R1 %GDP	11.6	12.4	12.9	13.7	14.5	14.5	15.0
R2 %GDP	4.9	7.0	5.9	6.9	6.0	6.0	6.0
D %GDP	-5.5	-3.9	-6.2	-5.4	-6.0	-6.3	-6.0
Public works youth employment programmes							
Outlay, US$			35	50	66	76	88
Public employment (000s)			71	100	131	151	175
% Youth population			*5.4*	*7.5*	*9.7*	*11.0*	*12.5*
Private youth employment (000s)		640	659	679	699	720	742
% Youth population		*50.0*	*50.7*	*51.2*	*51.7*	*52.2*	*52.7*
% Youth employed			*56.1*	*58.7*	*61.4*	*63.2*	*65.2*
Parameters							
Exchange rate, US$	3382	3899	4278	4603	4971	5368	5798
GDP real growth	3.2	4.5	5.5	6.0	5.0	5.0	5.0
GDP deflator	5.7	9.7	9.7	7.6	8.0	8.0	8.0
Employment days/year			200	200	200	200	200
Cost per employee, US$			2.50	2.50	2.50	2.50	2.50
Income per employee, US$			1.00	1.00	1.00	1.00	1.00
Population 15-35, thousands		1280	1300	1326	1353	1380	1407

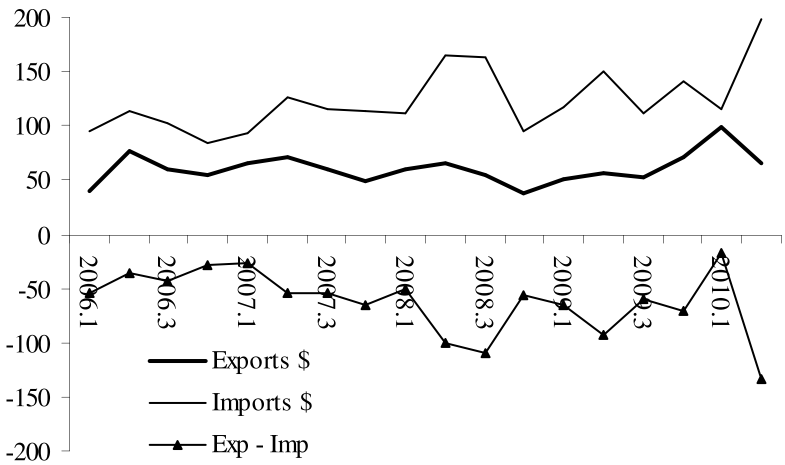
Notes: Actual numbers enclosed in boxes. Shaded numbers are IMF projections (IMF 2010). US dollar values after 2010 assume that the authorities allow exchange rate depreciation equal to the rate of inflation. The rate of inflation is a structural component of five percent, plus the pass-through the feed-back effect of the depreciation (see Weeks 2009b). The level of current expenditure is chosen to maintain a fiscal deficit (including grants) on average of minus six percent of GDP for 2011-2015. Real GDP is calculated using the IMF projections for 2011 and 2012, and five percent for 2013-2015. Inflation uses the IMF projections for 2011 and 2012The US dollar outlay for youth employment programmes is equal to the current public expenditure share in GDP in 2009 and that implied by the parameters of the projections.

Figure 1: Total exports and agricultural exports in millions of current US dollars, 1994-2010



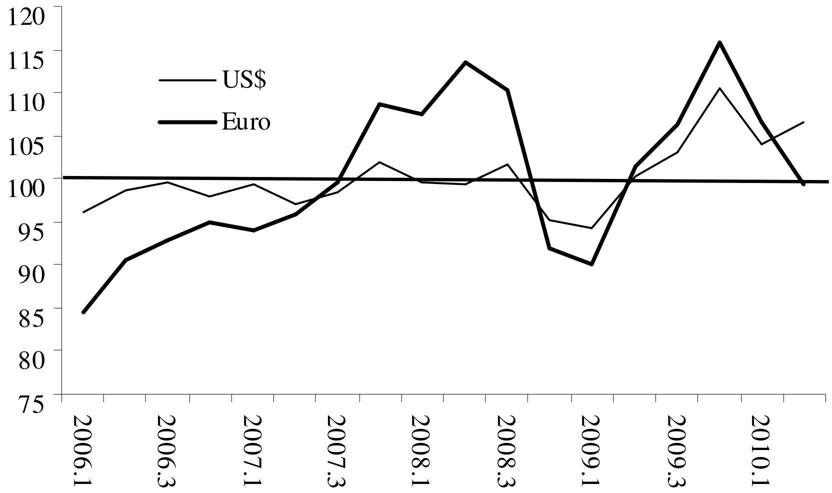
Notes: Total for 2010 calculated by dividing the preliminary figure for the first six months by the average share of the first two quarters in the annual total for 2007-2009.
Sources: Ministry of Finance and Economic Development (http://www.mofed.gov.sl/), Karama (2010, paragraph 19), and Bank of Sierra Leone (http://www.bankofsierraleone-centralbank.org/).

Figure 2: Merchandise exports and imports in millions of current US dollars, 2006-2010



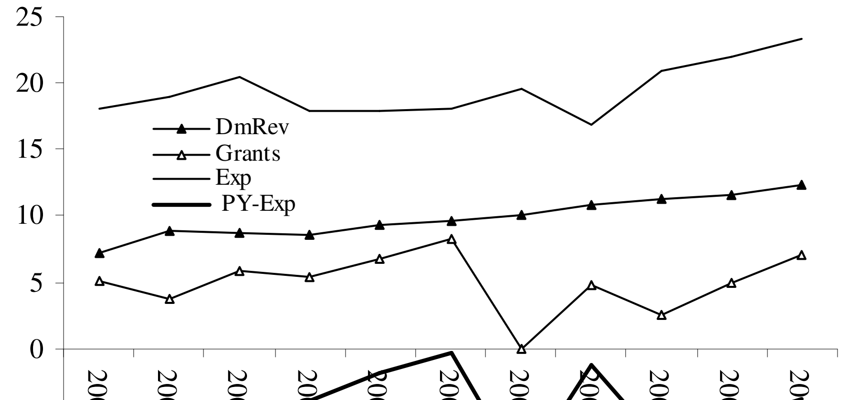
Sources: Ministry of Finance and Economic Development (http://www.mofed.gov.sl/), and Bank of Sierra Leone (http://www.bankofsierraleone-centralbank.org/), and Karama (2010, paragraph 19).

Figure 3: Nominal and real effective exchange rates,
Leone to the US dollar and Euro, 2006-2010



Notes and sources: See notes to Table 2. An increase is a depreciation.

Figure 4: Public sector finances, expenditure and revenue,
shares in GDP 2006-2010



Sources: Ministry of Finance and Economic Development (http://www.mofed.gov.sl/).

Figure 5a: Public sector deficit including external grants, current and price deflated by quarters 2001.1 -2009.4 (4 quarter moving average, billions of Leone)

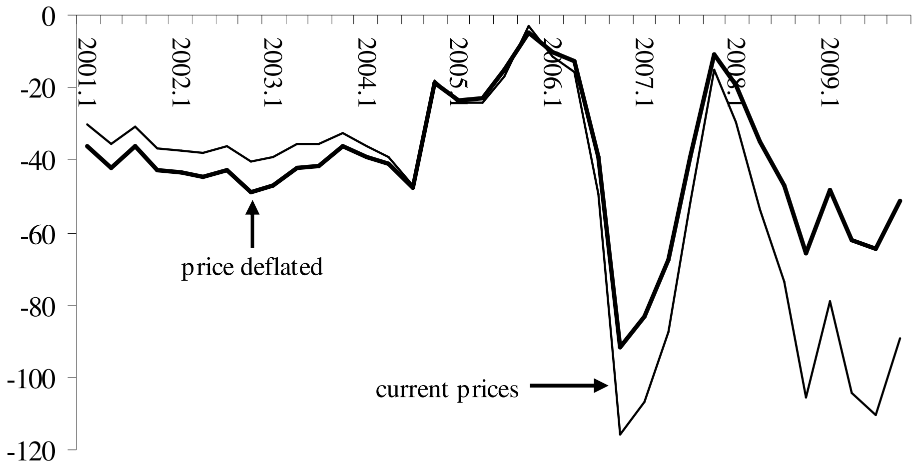
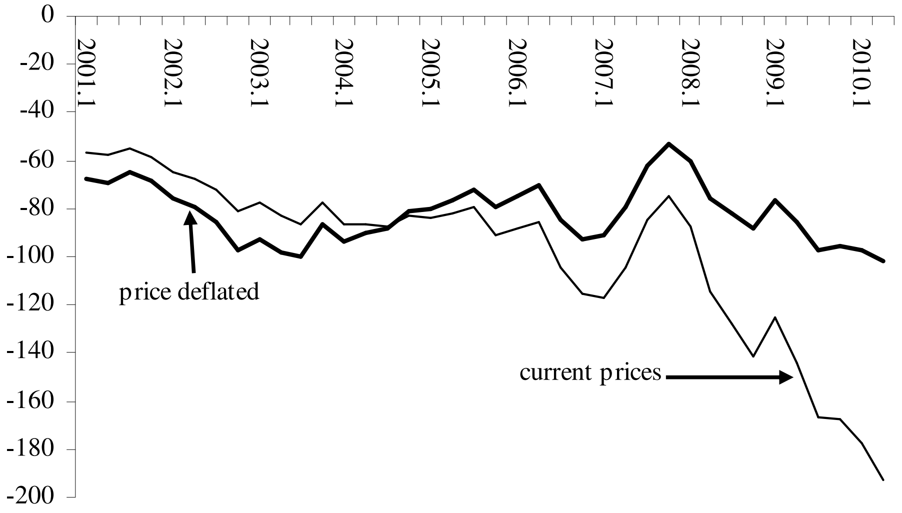
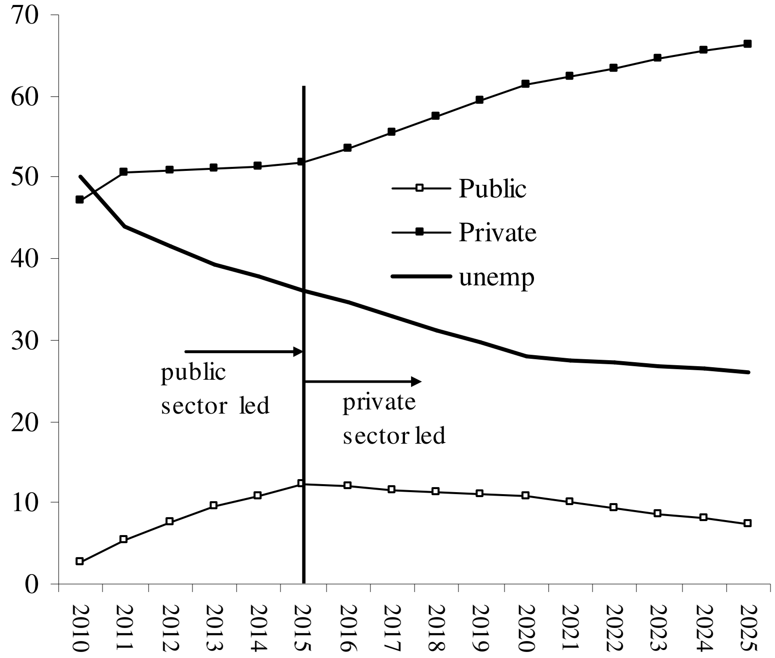


Figure 5b: Public sector deficit excluding external grants, current and price deflated by quarters 2001.1 -2010.2 (4 quarter moving average, billions of Leone)



Notes: See text table. The Freetown cost of living index is the deflator.

Figure 6:
Medium Term Strategy Scenario: Youth unemployment, public employment and private employment as shares of youth labour force, 2010-2025



See text for details.

Annex: Youth employment strategy in Sierra Leone

[Source: UN *et. al.* 2010]

Since 2007 the government of Sierra Leone has produced two strategic plans for youth employment. The National Youth Employment Scheme (Basket Fund) and the Youth Enterprise Development (PBF) are implemented as a coordinated programme. The total funding has been about US$ eight million. Employment projects based microfinance or with an environment protection focus received about US$ two million. The programmes included seventeen training projects, including agriculture and agro-processing sectors. The projects were implemented in thirteen districts with 11,000 beneficiaries.

The United Nations and GTZ provided the main technical support to the government, with Irish Aid, the Peace Building Fund and World Bank the main financial contributions. United Nations support for youth employment is part of the integrated country programme, with a proposed budget of US$ 35 million for 2010-2012 (United Nations 2009). Complementary to youth employment is the German aid programme (GTZ) that funds private sector development and employment in five districts and about the same funding level for the resettlement of families from urban to rural areas in Kailahun and Kono Districts. GTZ also supports capacity building of the Ministry of Employment and Social Service.

The World Bank has committed US$ 20 million for the Youth Employment Support Project, 2010-2013, which has three components: cash-for-work (US$ 10 million), skills development and employment support (8 million) and institutional support, policy development and impact evaluation (2 million). These combine into the largest youth employment project and is likely to change the pattern of donor support in the sector.

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