

BTI 2012 | Yemen Country Report

Status Index	1-10	3.85	# 108 of 128	
Political Transformation	1-10	3.70	# 104 of 128	↘
Economic Transformation	1-10	4.00	# 110 of 128	→
Management Index	1-10	3.66	# 103 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	24.1	HDI	0.462	GDP p.c.	\$	-
Pop. growth ¹	% p.a.	3.1	HDI rank of 187	154	Gini Index		37.7
Life expectancy	years	65	UN Education Index	0.310	Poverty ³	%	46.6
Urban population	%	31.8	Gender inequality ²	0.769	Aid per capita	\$	21.2

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

In the 2009 – 2010 period, some legal reforms in the economic field took place in Yemen, but these were counterbalanced by a virtual standstill or even setbacks in the political arena. Reform initiatives such as the National Agenda for Reform 2009 – 2010 (related to management, economic and political issues) or the Ten Priorities of 2009 (mainly focusing on economic issues) have yielded few results. Until very recently, the country's formal and informal leadership has remained largely in control of the political system, although over the last decade party pluralism and decentralization have become generally accepted principles, opposition parties have begun to cooperate, and civil society organizations have grown and gained roots.

Yemen has also continued to struggle with a plethora of structural problems, many related to state-building. These have included challenges to the state's monopoly on the use of force, incidents of local unrest including calls for separation, legal pluralism, nepotism, patronage and corruption, high population growth, a weak infrastructure, poverty and a poorly skilled labor force, food insecurity (Yemen imports 75% of its food), intensified al-Qaida militant activities that have drawn sometimes inadequate government response, rising numbers of African refugees, and Somali pirate activities that harm the Yemeni economy in multiple ways. As to be expected, popular discontent with Yemen's economic and political development is on the rise. Yemen's population could not cope with another global food crisis.

Prospects for the future are not encouraging: The combination of insufficient GDP growth, a low enrollment ratio, an inert bureaucracy, the depletion of oil and water resources and unstable oil prices does not bode well for the country's economic future. When evaluating Yemen's economic indicators, it is important to bear in mind that in spite of a growing non-oil sector, the country's key source of revenue is hydrocarbon exports. The country has developed into a rentier state over the last decade, albeit one of the poorest of its kind. Most likely not one of the Millennium Development Goals (MDGs) will be met.

As of early 2011, positive developments were few, but some might be sustainable. The conflict in the northwest of the country seems to have abated – even though the underlying causes had not been tackled by early 2011 – and the protest movement of early 2011 might serve to narrow the divide between north and south. Donors are free to support Yemeni NGOs and governmental organizations that tackle the corruption problem, the population growth rate has declined, enrollment is on the rise, the non-oil sector keeps growing, and the first liquefied natural gas plant has gone online.

History and Characteristics of Transformation

In 1990, the leaderships of the Yemen Arab Republic (YAR, North Yemen) and the People's Democratic Republic of Yemen (PDRY, South Yemen) merged the two states into the Republic of Yemen (RoY). The Yemeni Socialist Party (YSP), which had ruled the PDRY since the withdrawal of British colonial power in 1967, had literally gone bankrupt after the collapse of the Soviet Union. Meanwhile, the YAR's nationalist leadership, organized in the General People's Congress (GPC), was faced with a growing Islamist current and saw itself in need of a more secularly oriented ally. The two leadership groups agreed on a 50-50 power-sharing formula, each hoping to outmaneuver one another after unification. The YAR had a rather liberal economic system and was governed by a conservative and autocratic, though on the whole weak presidential system. Influential tribes in the north and northeast of the YAR had retained a certain degree of autonomy. By contrast, the PDRY was a socialist country whose leaders had destroyed much of the traditional structure and espoused the principles of a centralized and planned economy. However, both systems were ruled by a single party of rather corporate character.

From 1990 to 1994, the two formerly single parties tried to secure their own survival via political pluralism. During the first years of the Republic of Yemen, the government introduced democratic elements such as a multiparty system, unprecedented levels of press freedom, a constitutional referendum in 1991 and multiparty parliamentary elections in 1993. The 1993 elections abolished the 50-50 power-sharing formula between the GPC and YSP and resulted instead in a coalition of three parties: the GPC, the YSP and the newly formed conservative-Islamist Yemeni Congregation for Reform (YCR), which was led by Yemen's most influential tribal figure. However, (re-)privatization and the unification of public companies and the legal system were slow. Several economic blows exacerbated the situation. Yemen's opposition to the international military intervention to liberate Kuwait in 1990 led the Gulf states to expel nearly one million Yemeni migrant workers. Tourism suffered from frequent instances of hostage taking beginning in 1992, and inflation and corruption became virtually uncontrollable. The exploitation of oil reserves, especially on former PDRY territory, intensified distribution conflicts on the leadership level. In May 1994, the two former state leaderships entered into open

warfare. The northern leadership, employing its own military in addition to some segments of the former PDRY army and militias made up from tribesmen and militant Islamists, emerged victorious in July 1994.

The 1994 disaster left the political elite with the understanding that political pluralism could result in separatism, and this attitude continues to determine domestic policies. The post-war coalition government between the GPC and the YCR amended the constitution immediately following the war, abolished the Presidential Council, and made Shari'ah the sole source of legislation, as had been the case in the YAR. Press freedom was restricted, many NGOs and parties lost their (YSP) funding, and the regime silenced critical voices by labeling them separatists.

Mounting debts and an inflation rate of 55% was addressed by a structural adjustment program in 1995 that was practically abandoned due to noncompliance in 2002. However, the Yemeni riyal was floated in 1995 and Yemen was able to reduce its debts with the Paris Club group of creditors in the second half of the 1990s. The Yemeni government appeared to return to its path of political liberalization with parliamentary elections in 1997. The YSP boycotted these elections because its assets had been confiscated in 1994, thus rendering campaigning impossible. The GPC won an absolute majority, and the YCR, a coalition partner in government since 1993, became the dominant opposition party. However, it never fulfilled the same counterbalancing function as had the YSP, thus opening the political space for various actors in the early 1990s. Having boycotted the 1997 parliamentary elections, the YSP was barred from nominating a candidate in the first direct presidential elections in 1999, while the YCR supported the incumbent president, who won 96.2% of the votes. Further constitutional amendments in 2001, accepted by referendum, not only extended the terms of the president and the parliament, but also weakened the position of the parliament (Majlis an-Nuwwab) vis-à-vis the executive. When parliamentary elections were held for the third time in 2003, the GPC gained 229 of 301 seats. Shortly thereafter, in 2004, the government was faced with an on-and-off rebellion in the north of the country that could not be suppressed in spite of massive military deployments and human rights violations, and in 2005 the population launched massive protests in response to the partial lifting of subsidies.

While the government struggled with various forms of public protests, the opposition (YCR, YSP and some smaller parties) succeeded in building a common platform, thus limiting the regime's ability to play these groups off against each other. In 2006, President Ali Abdallah Salih actually had to compete with a candidate supported by a number of opposition parties (the "Joint Meeting Parties," JMP), who gained more than 20% of the votes. However, as long as institutions remain weak, voters prefer the incumbent president and his clientele to an alternative leader who might prove too weak or too ruthless to keep the country together. Thus, even if the elections had been entirely free and fair, the results would not have differed much. In the aftermath of the elections, the U.S. National Democratic Institute and the European Union convinced the ruling party and the opposition to open a dialogue on core issues, in particular reform of the election law, but by early 2009 the negotiations had not produced any results. Hence the opposition, having boycotted election preparations, declared an "active" boycott of

the upcoming parliamentary elections. The government and opposition ultimately agreed to postpone the elections until April 2011 (the so-called February Agreement). By January 2011, this dialogue had officially failed.

The political system has been decentralized to some extent, but the political leadership controls the process tightly, with President Salih adamantly refusing to even consider the introduction of a federal system. The GPC dominated the first municipal elections in 2001, as it did again in 2006. Having secured a near absolute majority, the president decreed the election of provincial governors by the regional councils in 2008 (a vote boycotted by the opposition) – and in November 2008 postponed the next municipal elections, originally scheduled for April 2009, for another four years.

In January 2011, the ruling General People's Congress party again submitted wide-ranging constitutional amendments to the parliament (which were later frozen following domestic and international protests against abolishing the two-term limit for the president).

The continuing lifting of subsidies, rising discontent in the south against “northern domination,” intensifying activities by Yemeni and Saudi militants (al-Qaida in the Arabian Peninsula/AQAP) and regional protests against long-serving Arab presidents have put the government in a position even more difficult than usual. Hopes that the “Friends of Yemen Process” would help to release the donor money pledged in 2006 had come to nothing by early 2011.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The state's monopoly on the use of force is in principle established nationwide, but is in fact contested by domestic actors and is sometimes shared with international actors. There are areas where tribal forces resist what they perceive as the state's encroachment on their autonomy, especially when contacts are with security forces instead of any kind of services provided by the state. In spite of ongoing efforts to control the distribution and possession of personal weapons, the male population in rural areas is still armed. This is mainly for reasons of status, but clashes among tribesmen or between tribesmen and security forces do occur.

Monopoly on the
use of force

5

A conflict with deeper political implications, which began in 2004 between the military and followers of rebellious Zaidi local leaders from the al-Huthi family in the northwestern part of the country, calmed down in 2010 after having escalated again in 2009. The Zaidiyya is a moderate Shi'a sect predominant in tribal areas of northern Yemen, including the home of the president's tribe (the Sanhan). For about a thousand years, the prerevolutionary rulers of North Yemen, the imams, had originated from Zaidi families who trace their origins back to the Prophet Muhammad. While these families are not members of the tribes, they nevertheless play a role in the tribal system. Governmental claims that the Huthi family has openly called for the revival of the Imamate under its own leadership, that it receives weapons from Iran, that the Huthis have turned from Zaidis to Ja'faris (the Shi'a sect dominant in Iran and some of the Arab Gulf states) and other such assertions have never been substantiated. The Yemeni government has been very successful in manipulating national and international news coverage of the events, not least by preventing access to the area.

On the other hand, the crackdown against Sunni Islamist militants, especially in Saudi Arabia, led to a merger of the Saudi and Yemeni al-Qaida cells under the name of al-Qaida in the Arabian Peninsula (AQAP) in 2009. Taking advantage of the porous borders on the Arabian peninsula, AQAP explicitly tries to undermine

efforts at state-building and economic development. While attacks in Saudi Arabia, on international air traffic and on representatives of mainly Western countries in Yemen have been more spectacular, AQAP's systematic targeting of Yemeni security personnel might turn out to be more dangerous in the long run.

In reaction, the Yemeni government, supported by the United States, has stepped up its efforts to combat terrorism, often resulting in civilian casualties. According to documents published by WikiLeaks, some of these attacks have been conducted directly by the U.S. military. This further undermines the legitimacy of the regime, and especially when uninvolved citizens are killed, strengthens the position of AQAP.

Moreover, increased deployment of security forces in some of the former PDRY provinces indicates that the state is struggling to keep these areas under control.

The majority of the population fundamentally acknowledges the state's constitution (though many have little awareness of its contents). Whether all citizens have the same civic rights is a matter of interpretation under Shari'ah. The 1994 amendments to the 1991 constitution restored Shari'ah as the sole source of legislation, which affects women (dozens of laws, including the personal status law, discriminate against women) and the small religious minorities. Although the constitution reserves the presidential office to a male Muslim (it is the only public office to which such a condition applies), the committee responsible for the nomination of presidential candidates in 2006 also accepted female candidates.

Generally, discrimination against particular groups is not primarily a matter of citizenship but rather related to shortcomings in the rule of law, the persistence of traditional roles, and the struggle for dominance over limited resources. This nevertheless impacts negatively on some citizens' abilities to exercise their rights, including women and groups such as the Muhamashin (Yemenis of African origin, traditionally called Akhdam).

The Yemeni nation state in its current form is losing credibility. In the former PDRY provinces, calls for separation from "the north" have measurably increased over the last few years. Moreover, acts of violence against "northerners" living in the former PDRY provinces have been reported.

In early 2011, anti-government protests spread beyond the south. Whether this represents a revival of a joint Yemeni national identity remains to be seen, however.

State identity
6

Religious dogmas have been part of the legal and political spheres in Yemen for centuries, and the Shari'ah has officially remained the sole source of legislation except in the PDRY (1967 – 1990) and the RoY (1990 – 1994). In practice, religious, customary and state laws of varied origin regulate public and private life, and the state largely functions as a secular order with modern institutions.

No interference of
religious dogmas
4

In summer 2008, a group of ultraconservatives established the Authority for Protecting Virtue and Fighting Vice (APVFFV), fashioned according to the Saudi model of a religious police (Mutawwa'). The government refused to accept the APVFFV as a para-state institution, however. It decided to treat the APVFFV as just another NGO, and countered its efforts to usurp state functions, such as the closure of restaurants.

In September 2010, President Salih established an Islamic Scholars Committee, seemingly with its own budget, to advise the government. It is unclear whether the sporadic Mutawwa'-like activities that have been reported from Yemeni cities such as Sanaa and Taizz are related to one or both of these groups.

It must be taken into consideration that, with the exception of Aden, state-building in the modern sense began in both Yemeni republics only in the 1960s. Unification in 1990 put additional stress on the area's underdeveloped structures. The current state infrastructure has begun to extend beyond the maintenance of law and order, but there still is a physical shortage of courts, police stations, social services and appropriately trained state employees, particularly in rural areas. The provision of services cannot keep up with the population growth. The reform of the tax system and the introduction of a general sales tax (effective since July 2010) has had limited effects. Decentralization (with municipal elections in 2001 and 2006, amendment of the "local authority law," and the indirect election of governors in 2008) is progressing slowly, and has been hampered by a lack of financial and human resources. The presence of about 200,000 mainly African refugees, though mostly being provided for by UNHCR, has put additional stress on the underdeveloped structures.

Basic
administration
4

2 | Political Participation

Yemen has had a multiparty system since 1990 (anchored in the constitution since 1994). General municipal, parliamentary and presidential elections, supervised by the formally independent Supreme Committee for Elections and Referendums (SCER), are held regularly and are accepted in principle as the means of filling leadership positions. Five parties, including the YSP, are currently represented in the Yemeni parliament, but the GPC holds an overwhelming majority. The YCR is the only opposition party to be reckoned with, but its leadership tends to enter into informal agreements with the GPC. While domestic and foreign observers can work

Free and fair
elections
5

freely, the GPC dominates the SCER, the electoral system favors the ruling party, and irregularities during registration, voting and ballot-counting occur.

After the government failed to reform the election law and to guarantee the neutrality of the SCER, the government and opposition agreed to postpone the 2009 elections until April 2011. However, in spite of the government's unilateral amendments to the election law in 2010 (the SCER now consists of judges), the electoral system had not been reformed in any substantial way by early 2011, thus rendering the participation of opposition parties in the elections, scheduled for April 2011, unlikely.

Elected rulers have the power to govern in principle, but they simultaneously have to reckon with particular interest groups (tribes, the military, etc.) that are engaged in a constant informal negotiation process. The elected rulers also themselves belong to these groups. It is quite telling that the public distinguishes between "the government" (al-hukuma) and "the power" (as-sulta).

As a rule, there are no prohibitions on parties or social organizations, as long as the government does not perceive these organizations to be undermining national unity or the position of the president (who portrays himself as the symbol of national unity). Nevertheless, the political leadership constantly and systematically – though not necessarily successfully – seeks to disable opposition groups: NGOs critical of the regime are refused registration and thus kept in a legal limbo, arrests of and attacks against opposition leaders are on the rise, and in early 2011 the government successfully prevented protesters from reaching Tahrir (Liberation) Square in Sanaa, a highly symbolic location, by putting up tents and bringing pro-government protesters who were reportedly fed, provided with qat (a mildly stimulating plant substance) and paid YER 2,000 each for several days.

However, it has also been reported that the security forces have used live ammunition against protesters, as in Aden in January 2011. Thus, there are constraints, not consistent with democratic principles and not covered by any legal restrictions to the freedom of association, that suffocate the political reform process.

While the core elements of a public sphere and public debate exist, intervention by government agencies has increased in frequency. Journalists and editors have been arrested, websites and newspapers have been banned, and unidentified gangs have attacked journalists who report on corruption or the conflict in the northwestern province of Sa'da. Yemeni NGOs have organized regular public protests and documented dozens of cases in which the government has violated the press law. In May 2009, a specialized Press and Publications Court was established, and the draft of a new press law shows that the government is seeking to tighten its grip on the media even further. Accordingly, in 2010 Reporters Without Borders ranked Yemen 170th of 178 countries in terms of press freedom. Demonstrations, originally in the

Effective power to govern

2

Association / assembly rights

5

Freedom of expression

3

south but since 2011 increasingly in northern cities as well, have persistently been violently dissolved by the security forces, resulting in the death or injury of male and female protesters and security forces.

3 | Rule of Law

Checks and balances are weak within the Yemeni political system. The executive branch has long dominated politics informally, and this position has been increasingly formalized by constitutional amendments. Additionally, the overwhelming majority of the “president’s party” in parliament and the de facto weakness of the judiciary serve to concentrate power in the hands of the president and the executive branch. Members of the judiciary and of the executive itself complain publicly about “interference from above.” Despite being dominated by the ruling party, the parliament does not always oblige the wishes of the executive, but it does so in matters identified as priorities by the president. At times it is even unclear whether parliament has a quorum when important decisions are made (the voting on the amendments to the election law in late 2010 deserves a closer examination, for example).

Separation of powers

4

International attention, increasingly focusing on the judiciary, regional developments and the upcoming elections, might have some influence on the balance of state powers.

The judiciary is institutionally differentiated, but judges are hesitant to challenge the executive. Since 2006, the president no longer heads the Supreme Judicial Council, but he still appoints its chairman. Moreover, the judiciary’s functioning is constrained by corruption and a lack of resources. Especially in rural areas, legal cases continue to be dealt with by traditional elites – or not dealt with at all – simply because there are no functioning courts. Donors have become increasingly aware of the judiciary’s weak state.

Independent judiciary

4

The Supreme National Authority for Combating Corruption (SNACC), established in 2006, has referred more than 30 cases to prosecutors (about 500 were under investigation by late 2010). Nevertheless, many corrupt officeholders, especially influential ones, are not prosecuted adequately under the law, which explicitly protects high office holders. The affairs of the military and security apparatus leadership – that is, the president and his relatives – who profited extensively from post-9/11 military aid remain completely beyond public control. While high-ranking officials have attracted adverse publicity, journalists (and even artists) who cover such cases risk physical attack, jail sentences or both.

Prosecution of office abuse

4

The state and non-state actors have perpetrated civil rights violations without subsequent prosecution. Dozens of cases of hostage-taking by the government have occurred. The government also fails to protect children from child labor, child trafficking and underage marriage. There are articles in dozens of laws that discriminate against women; to date, parliament has refused to set a minimum age for marriage, and while female lawyers and judges are allowed to work, women's access to legal institutions is limited due to traditional role models.

Civil rights
4

Moreover, the conflict in Sa'da, protests in the south and clumsy attempts to fight AQAP have all resulted in an extraordinarily high number of human rights violations.

4 | Stability of Democratic Institutions

Some democratic institutions exist, but they are subject to intervention and manipulation by the executive branch, and have a number of shortcomings including inadequate funding and a lack of qualified personnel. Friction between governmental entities further reduces institutional efficiency. The election of governors by the provincial councils, first held in 2008 (these figures were previously appointed by the president), has the potential to contribute to the stability and efficiency of institutions below the national level, but only in the long run.

Performance of
democratic
institutions
2

While democratic institutions are accepted in principle, military and tribal figures hold vetoes, treat offices as personal fiefdoms that can be passed on to their offspring (this includes parliamentarians), and successfully avoid playing by the rules. President Salih, for example, is supreme commander of the armed forces, and his sons and other relatives occupy many influential positions within the military and security apparatus.

Commitment to
democratic
institutions
2

5 | Political and Social Integration

Though to some extent socially rooted, the party system that has developed since 1990 is still somewhat shaky. The political process is highly personalized, and party programs play a subordinate role.

Party system
4

While fragmentation of the party system is low, nothing can be said about voter volatility because no parliamentary elections have been held since 2003. Five parties are represented in the 301-member parliament, and most of them fielded candidates in each of the three parliamentary elections since 1993. Polarization between the opposition and ruling party is on the rise (but is still mitigated by personal relations), while polarization among opposition parties has decreased since the sometimes-deadly confrontations in the early and mid-1990s. The leaders (and to a lesser extent the members) of the Yemeni Congregation for Reform and the

Yemeni Socialist Party found common ground in the form of a five-party joint reform program (the “Joint Meeting Parties,” JMP) published in 2005, and subsequently coordinated their activities in the 2006 presidential and municipal elections. While cooperation on the national level was rather smooth – apart from the fact that the late chairman of the YCR supported the incumbent president on a personal basis – coordination on the local level was poor, which contributed to the success of the ruling party. Since 2006, the opposition parties have been constantly engaged in negotiations with the ruling party, but without having achieved any of their goals (e.g., reform of the electoral system). Their links with the youth protesters who took to the streets in early 2011 appear to be rather weak, not least because a generational change at the parties’ leadership level is overdue.

In spite of some positive developments, the topography of interest groups in Yemen is meager, and important social interests are underrepresented. NGOs, in particular those concerned with human rights and corruption, have flourished and are today more organized and differentiated than ever before. However, such interest groups are almost entirely based in major cities, while three-fourths of the population lives in rural areas. There have been cases, though, where tribespeople have approached human rights groups to complain about human rights violations by local dignitaries (such as Shaikh Muhammad Ahmad Mansur, member of the Consultative Council, in the al-Ja’shin district of the province of Ibb).

Interest groups
4

The Southern Movement (al-Hirak) is fragmented in terms of objectives, leadership and means. Objectives range from demands for a change of policies toward the southern provinces to outright separation from the north. Al-Hirak is a heterogeneous movement, and a number of disempowered politicians (ranging from Ali Salim al-Baidh to Tariq al-Fadhli) are trying to exploit the public discontent for their own ends. While most of al-Hirak’s activities are peaceful, there has been an increasing number of violent attacks against security personnel, thus enabling the government in Sanaa to blur the line between al-Hirak and AQAP for outside observers.

The JMP alliance of opposition parties has increased its efforts to align itself with al-Hirak as well as with the al-Huthi movement, but as the government has largely ignored the JMP’s demands, the JMP can do little to mediate between society, the formal political system and the core decision makers.

Supported by international organizations, the private sector has recently become more active in safeguarding its own interests by supporting concepts such as professional business arbitration and corporate governance through specialized non-governmental organizations.

Voter participation figures (64% in 2006) and the fact that most political protests stop short of calling the constitutional framework into question indicate that consent to democracy is moderate to high. However, despite a general commitment to democratic procedures, these do not constitute a high-priority agenda item for the majority of the population, and several members of the ruling elite show no commitment to democracy at all. The mediocre performance of political parties, the parliament and other institutions is undermining the trust in a democratic system. Nevertheless, according to a survey by the Yemeni Polling Center in 2010, more than 75% of respondents still believed that democracy was important for the development of the country, and more than 60% were convinced that democracy would be or at least partly be the solution to the country's problems.

Approval of
democracy
n/a

There is a robust but heterogeneous web of autonomous, self-organized groups, associations and organizations, and solid mutual trust among most parts of the population. However, self-organization is rarely formalized and is usually restricted to the members of the same family, village, tribe or region. The fault line between north and south is growing. Political parties and NGOs are able to bridge regional gaps only to a limited extent.

Social capital
4

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Social exclusion is quantitatively and qualitatively extensive and structurally ingrained, mainly due to poverty, lack of education and gender-related income inequality. The majority of the population is excluded from market-based socioeconomic development: Most farmers live at the subsistence level, and another major part of the workforce works in the informal sector. The gap between rich and poor is widening; the country's Gini coefficient as measured in 2005 was 37.7, compared to 33.4 in 1998. More recent data is unavailable, as the last household budget survey was conducted in 2005 – 2006.

Socioeconomic
barriers
2

In the Human Development Report 2010, Yemen was ranked 133rd among 169 states. Nearly half the population lives below the poverty line of \$2 a day. The ongoing rollback of fuel and food subsidies, which still account for one-third of state spending, is pushing more Yemenis into poverty. Only 61% of the adult population is literate, but the youth literacy rate has risen to 75%, and girls' enrollment rates have increased. However, it is significant that only one-third of Yemeni females over the age of 14 are literate. Only one of every four Yemenis who have attended school above the primary level is female.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	21656.6	26917.4	26365.2	-
GDP growth	%	3.3	3.6	3.8	-
Inflation (CPI)	%	7.9	19.0	5.4	11.2
Unemployment	%	15.4	15.0	-	-
Foreign direct investment	% of GDP	4.2	5.8	0.5	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	-1508.3	-1251.2	-2564.9	-1209.1
Public debt	% of GDP	40.4	36.4	49.9	40.6
External debt	\$ mn.	6107.0	6274.4	6370.1	6324.0
Total debt service	\$ mn.	271.6	284.1	262.7	259.5
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public expnd. on edu.	% of GDP	-	5.2	-	-
Public expnd. on health	% of GDP	5.3	5.3	5.6	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.1	3.9	-	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Market competition operates under a weak but slowly improving institutional framework. Uniform rules for all market participants have been introduced only tentatively. Establishing a business has become easier, however. The World Bank's Doing Business survey called Yemen "the world's fastest reformer in starting a business in 2007 – 2008," and in the "ease of doing business index" Yemen jumped

Market-based
competition

5

to rank 98 of 181 countries in 2008 (from rank 123 of 178 in 2007). Since then, Yemen has been overtaken by other countries, but still ranked 105 of 183 countries in 2011.

The Yemeni riyal was floated in the mid-1990s, but there is still substantial state intervention in and control of strategic sectors (e.g., transportation, telecommunications, refineries, media), and import and export costs are rather high. Enterprises within the public and mixed sector (e.g., the Yemeni Economic Corporation) are estimated to make up about one-fourth of the country's larger companies, and play a sometimes-opaque role especially when controlled by relatives or in-laws of President Salih.

A Republican Decree (No. 19 of 1999) regulates market competition. Nevertheless, state companies dominate several business sectors, including banking, media, transportation and communication. A private airline (partly owned by Yemenia Airways) started operating in Yemen in 2008, and several companies offer cellular phone service. However, TeleYemen remains the only Internet provider in the country, controlling (and sometimes blocking) access to websites.

Anti-monopoly
policy
3

Yemen applied for WTO membership in April 2000, and has since implemented a liberal economic policy. The government has liberalized foreign trade and reduced tariffs. However, the country still boycotts goods and services coming from Israel.

Liberalization of
foreign trade
6

Efforts to join the Greater Arab Free Trade Area and the WTO were intensified in 2010, but the country's accession to the latter is still pending. In January 2011 the country's minister for trade and industries was replaced.

According to Yemen's Central Statistical Organization, 19 exchange companies, 18 Yemeni and international commercial and Islamic banks (some very small), and 17 insurance corporations and pension funds were operating in Yemen in 2009. In 2007, the first microfinance bank was established, and a leasing law was introduced. The country as yet has no stock exchange, but options for this are currently being discussed. The banking sector is burdened by nonperforming loans but still dominates the financial sector, which is generally considered to be underdeveloped. Reportedly, only 4% of Yemenis have a bank account. Thus, direct effects of the global banking crisis were limited.

Banking system
4

8 | Currency and Price Stability

Crafting an appropriate foreign-exchange policy and controlling inflation are recognized goals of economic policy, but due to a low saving rate and the cash-based nature of the Yemeni economy, instruments available to the Yemeni government are limited. Since the mid-1990s, the Yemeni riyal has been freely convertible. Though it has fallen from YER 20 to approximately YER 215 against

Anti-inflation /
forex policy
6

the dollar during that time, it has been relatively stable in recent years. However, the central bank had to intervene several times in 2010, resulting in a serious decline in the country's foreign reserves (falling to a value worth approximately 6.5 months of imports in summer 2010).

According to World Bank data, the inflation rate rose to 20% in 2005 after three years of relative stability at 12% (IMF figures are somewhat different). It must be noted, however, that increasing inflation resulted partly from the gradual rollback of fuel subsidies, a policy implemented in 1998, 2000 and 2005. Inflation eased only a little (averaging 15% to 18%) in 2007 and 2008, partly because of the global rise in food and energy prices. In 2010, while the removal of subsidies continued at a slow pace, the inflation rate settled again at around 10% to 12%.

The unstable political situation of early 2011 is likely to have negative impacts on the country's economic situation, and may limit the central bank's range of action even further.

International financial institutions (IFIs) have persistently pressured Yemen's government to follow an economic stability policy. For its part, the government has sought to mitigate the politically unsettling effects of the IFIs' demands by softening and counterbalancing them, through such measures as delaying the cutting of subsidies or by raising salaries in the public sector. Such measures might help in curbing petty corruption and public discontent, but have simultaneously served to increase the inflation rate and the fiscal deficit. Public debt, while on the rise, is not yet problematic. The Economist Intelligence Unit estimated GDP growth in 2010 to be 6.2% (a figure likely to be considerably lower in 2011).

Macrostability
6

9 | Private Property

The law formally defines property rights and regulates the acquisition of property. In late 2007, the General Investment Authority (GIA) proposed a new draft investment law, which was finally issued in 2010. Among other issues, the 2010 investment law clarifies the role of the GIA, which is supposed to apply the "one-stop shop system."

Property rights
4

Registering property is comparatively easy, according to the World Bank's Doing Business report. However, lack of documentation, complaints about fraud, and constant and sometimes violent struggles over land ownership indicate severe problems and have negative repercussions on the investment climate. State institutions are not in control of the situation, and the concept of intellectual property rights (guaranteed by the investment law) is basically foreign to Yemen's population.

Private companies can in principle act freely, with some special regulations for international companies (e.g., they are not allowed to engage in the weapons and explosives industry, and have to follow specific regulations in some vital sectors). The need to have a Yemeni partner has been abolished along with other legal constraints (e.g., with Law No. 1 of 2008), but economic, political and social barriers to development remain, including infrastructure deficiencies, corruption and a shortage of skilled workers. International companies dominate the hydrocarbons sector, but their contracts are managed by the Yemen General Corporation for Oil & Minerals, which reports to the Ministry of Oil and Mineral Resources.

Private enterprise
6

The latest version of the investment law (Law No. 15 of 2010) still allows foreign investors to hold 100% ownership in local companies, and guarantees intellectual property rights. Investment capital and profits can be transferred without limitations with respect to amount or currency.

10 | Welfare Regime

Public expenditure for social safety nets is very low. A modest social insurance system covers mainly civil servants. Support for the elderly, the ill and the unemployed is generally left to family, tribe and village structures or private welfare organizations, where these exist. The World Bank and other donors set up a Social Fund for Development (SFD) in 1997, which entered its third phase in 2005 and has the goal of reaching 40% of Yemen's poor population with basic services. The first poverty reduction program was begun in 2003. Foreign donors support both projects, as the capacity of the Yemeni state to provide social services is weak, the various ministries' policies are uncoordinated, and monitoring systems are weak or missing. The fact that the majority of Yemen's poor live in remote villages, combined with the fact that the decentralization process has been slow, makes providing basic social services an arduous task.

Social safety nets
3

There are few institutions able to compensate for gross social differences based on poverty, gender and social status. Members of the traditional Muhamashin or Akhdam group (said to be descendants of Ethiopians who invaded Yemen about 1,500 years ago) are still mainly employed in menial tasks and very often have no access to basic public services. Girls' enrollment rates are on the rise, but less than half of Yemeni girls attend school today. Women are underrepresented in the private and public sectors, especially in high government offices. There is only one female parliamentarian and two female ministers. One of the constitutional amendments submitted to parliament in early January 2011 contained a quota for women in parliament (an additional 44 seats).

Equal opportunity
3

Government, donors and Yemeni NGOs are trying to improve the situation, but rising poverty levels have prevented many parents from purchasing school supplies for all their children, given that the fertility rate is declining only slowly. As they are seen as future breadwinners, boys are more likely to be sent to school. However, even boys' enrollment rate, at 80%, remains problematic.

11 | Economic Performance

Structural adjustments, though practically abandoned in 2002, stabilized the Yemeni economy to some extent. However, improvements have not kept pace with rising challenges. Population growth, although declining, is still nearly as high as average GDP growth, and per capita income has risen only slowly. Budget and current account deficits are widening, the inflation rate has lingered around 10% (with the exception of 2009), foreign debt is on the rise, and while the Central Statistical Organization estimated the overall unemployment rate to be 14.6% in 2009, youth unemployment is likely to be at least twice as high. Efforts to stabilize the Yemeni riyal in 2010 depleted the central bank's store foreign reserves, bringing them to a level worth little more than half a year of imports. While this figure is still higher than in the mid-1990s, reserve levels are much lower than in the mid-2000s, severely limiting the central bank's capacity for future intervention. The political situation of early 2011 does not bode well for future economic development.

Output strength
4

12 | Sustainability

Yemen issued its first environmental protection law in 1995, signed the United Nations Framework Convention on Climate Change (UNFCCC) in 1996 and ratified the Kyoto Protocol in 2004. The National Adaptation Program of Action (NAPA) was issued in 2009, and several governmental institutions are today concerned with environmental issues. Donors and local NGOs have started a number of programs and campaigns on the issue. Nevertheless, Yemen ranked only 124th of 163 countries in the Environmental Performance Index 2010. In general, the cause of environmentally sustainable growth receives only occasional consideration. Public awareness of environmental issues is generally low (except among those elements of the population who already suffer from the effects). This is particularly evident in the water sector, where existing resources are consistently overused without any decisive structural intervention. Although 90% of available water is used in agriculture, 90% of the wheat and 100% of the rice consumed in Yemen still has to be imported. Extensive cultivation of the qat plant (a stimulant

Environmental
policy
4

chewed by major parts of the population) puts additional strains on scarce resources. Sporadic government intervention seeking to replace qat by other cash crops has not produced any measurable results.

Despite increasing levels of urbanization, many Yemenis have not yet adjusted their attitudes toward their new environment.

Modern institutions for education and training have been established since the 1970s (earlier in the PDRY), but as enrollment ratios indicate, they are not accessible to a significant share of the population, especially in rural areas.

Education policy /
R&D
3

No data on public research and technology expenditure is available. The number of private education institutions is on the rise, but research and development facilities are still almost nonexistent. In the face of Yemen's rampant population growth, educational institutions at all levels – despite substantial investment – are hopelessly overburdened. As a result, the quality of education is low. According to Yemen's Central Statistical Organization, only about 23,000 students graduated from public universities in 2008 – 2009, along with a little more than 5,000 students from private universities.

Transformation Management

I. Level of Difficulty

Several factors impose substantial structural constraints on governance in Yemen, including widespread poverty, high birth rates, a shortage of educated workers, tensions among tribes and between tribes and the government, severe infrastructure deficiencies dating back to the pre-1970s, and the fact that the majority of the population lives in small, scattered settlements that cannot be easily outfitted with basic infrastructural requirements. Moreover, the Yemeni economy is highly vulnerable due to its dependence on hydrocarbon exports.

Structural
constraints
9

Regional conflicts and the failure of nearby states (as in Somalia) also affect Yemen economically and politically. Not only have Somali pirates captured Yemeni ships, but more importantly, piracy at the Horn of Africa affects Yemen's ports, because international shipping agencies have begun avoiding the Red Sea route in order to avoid pirates and avert rising insurance costs. Also related to regional conflicts, Yemen – one of the least developed countries in the world – has had to cope with mounting numbers of African refugees (nearly 50,000 in 2010 alone, according to UNHCR). Most of these are Somalis, but Eritreans and Ethiopians have also risked the passage across the Red Sea to Yemen, hoping to move on to more prosperous countries such as Saudi Arabia.

Yemen has moderate civil society traditions that have been expressed via avenues such as labor migrants' self-help organizations in the 1940s or a 1970s cooperative movement that was absorbed into the local administration and the GPC in the early 1980s. Most of the several thousand NGOs currently registered are charities with a limited geographical scope, but there are several hundred mainly urban NGOs that focus on issues such as combating corruption, human rights education, women's rights and press freedom. Many of these have very limited or no appeal to the general public, are dependent on international donor organizations, should be considered to be a small enterprise, suffer from a shortage of funding and skills, or are subject to manipulation by the ruling elite and political parties. However, several NGOs have been actively involved in anti-government protests for several years, and their activists were among the long-term demonstrators on the campus of Sanaa University in early 2011.

Civil society
traditions
6

The male population in rural Yemen is generally armed, and the density of firearms is estimated to be the second highest in the world, after the United States. While small arms are mainly a status symbol, fighting between tribes or between tribes and security forces – usually on a small scale – does occur. In the tribal areas, (perceived) injustice and governmental neglect is often protested by kidnapping Yemenis as well as foreigners, though the latter cases receive more publicity. About 200 cases of kidnappings of foreigners have occurred since the early 1990s, but very few (the last one in 2009) have resulted in the death or injury of the abducted foreigners.

The on-and-off conflict between Zaidi rebels and security forces in the northwestern province of Sa'da is of a different character, however. During this conflict, which occasionally spills over into neighboring provinces and even Saudi Arabia, more people have been killed than in the 1994 war. UNHCR has estimated that by early 2011, about 250,000 persons had been displaced (some more than once) in the course of this on-and-off conflict. Qatar, having already brokered an agreement in 2008, renewed its mediation efforts in 2010, and since September 2010 the situation has remained relatively calm. However, since the conflict involves not only the al-Huthi family and the security forces, but also local tribes and militant Sunni extremists, a permanent solution will difficult to reach. Unless underlying cultural, social and economic grievances are addressed, any truce (like that holding in the winter of 2010 – 2011) will be temporary. The conflict has attracted amazingly little international attention, not least because the government has successfully blocked media coverage of the war.

Public discontent caused by deteriorating living conditions is on the rise, in particular in the southern parts of the country. Protests started by former PDRY (South Yemen) military officers in 2007 evolved into a protest movement (al-Hirak) that by early 2011 was affecting most provinces of the former PDRY. While several former influential elites have tried to capitalize on the situation, none has managed to establish himself as a leader of this heterogeneous movement. The heavy-handed response of the government (which has also sought to link these protests to AQAP) had led to numerous arrests and the deaths of male and female protestors, and might unintentionally promote the separation it is meant to prevent.

In general, conflict intensity is higher than in previous years.

Conflict intensity

7

II. Management Performance

14 | Steering Capability

Question
Score

The political leadership claims to pursue long-term aims, and the influence of technocrats is on rise. However, various initiatives aimed at prioritizing and organizing policies (including the Development Plan for Poverty Reduction (DPPR), the National Agenda for Reform and the Ten Priorities) have not been aligned, resulting in less than satisfactory performance. In 2010, donors sought to ensure that the DPPR 2011 – 2015 became a comprehensive document able to organize and prioritize policies. However, before parliament could vote on the new plan, political protests in several cities broke out, paralyzing many governmental activities.

Prioritization
3

In general, the government's long-term goals do not always correspond to democratic or market economic concerns, but rather to the demands of patronage networks (especially in the security sector) or popular demands that might threaten the position of the political leadership. The "war on terror" has bolstered the position of the status-quo oriented security forces vis-à-vis reform-oriented actors in the civilian government, which has no control over the security sector.

In early 2011, when the future of longtime Arab presidents was looking very shaky, President Salih began to make promises to students, employees in the public sector, tribal shaikhs and others, obviously hoping that the Friends of Yemen process would soon lead to the disbursement of donor pledges made in 2006, thus providing funding for his promises.

Elements within the government have sought to implement reforms (sales tax, decentralization, election law reform, etc.). However, as many of these reforms run counter to the vested interests of influential groups that dominate the executive and the parliament, the government has been slow in implementing them unless pushed and supported by the international community. This does not mean that all measures suggested by the donor community should be regarded as appropriate. With several donors making new efforts to coordinate their policies (under the Friends of Yemen process), the reformers' cause might be strengthened. However, as of early 2011, their efforts had produced no tangible results.

Implementation
2

The political leadership's attitude toward policy learning is selective. Changes in foreign policy strategies, in particular on the regional level, show that in principle the political leadership is capable of responding to mistakes and failed policies (e.g., through improved relations with GCC states). By contrast, the leadership's capacity to learn from past domestic policy mistakes is very limited. Unfortunately, the Yemeni government has not improved its ability to deal with local unrest or to accept legitimate demands by opposition forces. Local unrest is usually handled clumsily, and the agreement reached with the opposition in 2009 had not led anywhere by early 2011.

Policy learning
3

Repeated criticism of the president's policy of installing his relatives in the security services has had no effect. In early 2011, President Salih's younger son Khaled was reportedly made leader of the newly created "mountain infantry division."

15 | Resource Efficiency

The government uses only some of the human and economic resources available to it efficiently. At times, ministries reportedly fail to receive the budgetary funds officially allocated to them, rendering any kind of planning impossible. Lack of coordination between key ministries results in duplication, fragmentation and competition. Measures to reform the bloated bureaucracy have been taken, but progress has been slow, through means such as introducing biometric identification in the civil service, the security and military service. Too much of the country's scarce resources are spent on weapons and military equipment. Military expenditure was estimated at 6.6% of GDP in 2006. This outlay put Yemen at seventh place in the CIA World Factbook's military expenditure index, and by far exceeded spending in other key areas. Total governmental social spending – including for education, health care, social security and welfare – amounted to less than 14% of GDP in 2001. While this data is rather old, it does not appear that substantial changes have occurred over the last decade.

Efficient use of
assets
3

The country's frequent electricity and occasional diesel shortages are partly due to the inefficient use of resources, and the state budget frequently has to be supplemented. Hiring and promotion is influenced by political considerations. The YSP openly complains about its members being unofficially banned from jobs in the public sector, feeding into the general sense of disaffection in the south. Equally burdensome are the entrenched patronage structures in the lower ranks of the bureaucracy, because subsidies and misuse of public office serve as partial substitutes for a comprehensive social security network, a situation that negatively affects the state's public investment capacities.

Persistent rumors about subsidized goods – especially diesel – being systematically smuggled to neighboring countries have in recent years drawn follow-up action by governmental anti-corruption bodies such as SNACC or COCA (Central Organization for Control and Audit). A first court ruling was expected by early 2011 in a case involving the politically sensitive issue of diesel smuggling.

The government seeks to coordinate conflicting objectives and interests, but solo actions by the president (including the nuclear program initiative, the president's mosque, arms deals and the Ten Priorities), intra-governmental friction, redundancies (especially between the president's office, the prime minister's office and the Ministry of Planning and International Cooperation) and lacunae remain significant. World Bank reports confirm that ministries lack an integrated approach and consistent criteria, and often act non-transparently, problems shared by government institutions concerned with social security.

Policy
coordination
3

Corruption has become a fundamental characteristic of Yemen's administrative and state culture. State resources are distributed via patronage networks, as for example in the construction sector. Donors became sensitive to the problem of corruption and informal politics and increased pressure on the Yemeni government. The Yemeni government responded with numerous initiatives: ratification of the U.N. Convention against Corruption (UNCAC), Yemen's first anti-corruption law, the establishment of the Supreme National Authority for Combating Corruption (SNACC), and an application to join the Extractive Industries Transparency Initiative (EITI). The government also introduced a biometric identity system aimed at identifying nonexistent employees ("ghost workers" who receive salaries) in the civil and security services, and issued a financial disclosure law for government officials, including the president and other high-ranking politicians. However, it seems that these anti-corruption efforts have in some respects had only superficial effect. No reports have been issued detailing actual implementation with regard to high-ranking officials, and salaries in the public sector are still so low that petty corruption has become a means of survival.

Anti-corruption
policy
3

In 2009 – 2010, several steps forward were made. A UNCAC gap analysis is on the way, in November 2010 Yemen became the first Middle Eastern country to publish an EITI report (covering the years 2005 – 2007), and a case of subsidized diesel embezzlement finally went to court. Nevertheless, and in spite of some donor engagement, governmental and non-governmental anti-corruption bodies are still too weak to take on cases involving powerful families.

16 | Consensus-Building

There is a rudimentary consensus among the major political actors – government, opposition parties, NGOs – as to the value of the market economy and democracy. However, this obviously does not extend to the notion that democracy should be introduced at the cost of the incumbent elite’s power, as the GPC’s stubborn adherence to the current electoral system illustrates. Established political power holders with vested business interests do not seem eager to put their positions at risk. Moreover, the experience of failed consensus building in the early 1990s has left some distrust of “uncontrolled democracy,” not only among the military and tribal elites but also among government officials and technocrats.

Consensus on goals
5

Unless supported by the international community, reformers, including ministers and parliamentarians, have no clout compared to actors with veto powers who are backed by influential military or tribal figures.

Anti-democratic
actors
2

Many observers believe that President Salih’s talent to create cleavages has kept him in power for more than 30 years (in the Arab world, only Libya’s president has been in power for longer). The political leadership is frequently party to violent tribal clashes and even provokes them, as in the case of the Zaidi rebels in the northern governorates when the government engaged pro-government tribesmen.

Cleavage /
conflict
management
2

Moreover, the war between the north and south in 1994, as well as the heavy-handed government policy thereafter, left part of the population in the south with the impression of being “colonized by the north.” Southern protests against discrimination by the “northern” government gained a new quality in 2007, and over the last four years, support for southern secession has increased.

Cleavages within the ruling coalition intensified in the mid-2000s. In particular, President Ali Abdallah Salih’s apparent effort to groom his son Ahmad as successor has alienated long-term tribal allies as well as members of the president’s own family or tribe occupying high positions in the Yemeni military, most notably an increasing number of members of the shaikhly al-Ahmar family and Commander of the Northwest Military Region Ali Muhsin Salih al-Ahmar (who is not related to the shaikhly al-Ahmar family, but like the president is from the al-Ahmar village of the Sanhan tribe). Commander Ali Muhsin is one of the most powerful political players in Yemen and allegedly maintains close contacts with militant Sunni Islamists, deploying them against the Zaidi rebels in Sa’da.

Political parties can bridge regional cleavages only to a limited extent. The former single party of the PDRY, the Yemeni Socialist Party, has never gained substantial support in the north. Thus, though the GPC and YCR have gained strength in the southern part of the country, the YSP can claim only to represent the interests of the

south, and even this claim is arguably weak. All the same, cooperation between YSP and YCR has intensified in recent years, showing that neither regional nor ideological cleavages are insurmountable in Yemen. The extent to which the political leadership was involved in shaping the opposition coalition of Islamists and Socialists in order to ease integration of the former PDRY is a matter of speculation. It should be noted, however, that such a strategy runs counter to the political leadership's usual divide-and-rule approach.

The political leadership frequently ignores civil society actors, and with few exceptions formulates its policy autonomously, apart from the constraints imposed by international financial institutions and donors. Intellectuals, artists and journalists critical of the government face the threat of kidnappings, beatings and jail sentences. While female civil society actors have in the past been subjected to slander, the government no longer shies away from arresting them. Several times the government has tried to establish an "umbrella organization" for NGOs, seeking a corporatist approach to the sector.

Civil society
participation
3

The leadership only somewhat recognizes the need to deal with historical events perceived by parts of the population as acts of injustice. As the current leadership has been party to some of these perceived injustices, it deals with such issues on its own terms. While the leaders of the failed separatist attempt in 1994 have been pardoned, and many refugees have returned to Yemen, assets confiscated from the YSP and its members have not been returned in full. As the continuous protests in the southern governorates illustrate, reconciliation efforts have fallen short of what was necessary to counter the southern perception of being "colonized by the north."

Reconciliation
5

The conflict with the Huthi movement in the north came to a halt again in 2010, but only after Qatar again intervened and the international community reacted at last to the growing number of internally displaced persons.

17 | International Cooperation

Overall, Yemen's political leadership has sought to make use of international assistance, though collaboration with bilateral and multilateral donors has been unspectacular. However, the government and donors have not been able to coordinate their efforts. In spite of belonging to the group of least developed countries, development aid per capita is low. In November 2006, more than 40 participants at a donor conference pledged nearly \$5 billion in aid, grants and loans to support Yemen's third strategic five-year development plan, spanning the 2006 – 2010 period. Reportedly, only about 10% of this sum had been disbursed by early 2011.

Effective use of
support
4

Nevertheless, these experiences have not facilitated significant policy learning and improvement. The source of the government's reluctance to implement some donor-recommended measures is clear, as lifting subsidies, for example, increases poverty, undermines the government's legitimacy and hurts Yemeni industry. It also affects vested business interests involved in the smuggling of subsidized goods, which is all the more significant as the smugglers are allegedly close to influential families. Accordingly, donors have taken a careful stance.

In spite of obvious shortcomings, the government takes great pains to present itself as a reliable, predictable partner. Border agreements with neighboring countries (Oman in 1992, and Saudi Arabia in 2000), anti-corruption measures, and renewed efforts to join the WTO and the Gulf Cooperation Council (GCC) have served to improve the credibility and reliability of Yemen's foreign policy. Half the contributions at the 2006 London donor conference came from members of the GCC who had cancelled their development aid in the early 1990s. Still, major international actors including the World Bank and the GCC have expressed doubts about Yemen's reliability in both political and economic spheres. Given the renewed international interest in Yemen's stability, the IMF (through an Extended Credit Facility Arrangement), the World Bank (through a grant) and others stepped up their support in 2010. With the rise of anti-government protests in early 2011, however, the donor community tried once again to put some distance between itself and Yemen's president.

Credibility
6

Yemen's political leadership has actively and successfully built and expanded upon a large number of cooperative international relationships. Knowing perfectly well that Yemen's future is dependent on the financial support of the members of the GCC and on the political development of the Horn of Africa states, the country's political leadership promotes regional and international integration. Yemen is also a signatory to the "Djibouti Code of Conduct," a regional initiative to fight piracy at the Horn of Africa.

Regional
cooperation
9

Yemen's long-term efforts to gain admittance to the GCC, however, have produced only limited results. In the absence of a comprehensive arrangement for Yemeni labor migrants to enter the GCC states legally (one of the government's Ten Priorities), illegal migration – especially to Saudi Arabia – continues to cause problems for both the Yemeni and the Saudi governments. However, this does not affect their bilateral relations.

Security cooperation with Saudi Arabia has increased, even beyond their joint efforts to fight AQAP. Saudi Arabia and Yemen cooperated to fight the Huthi rebels in 2009, and in 2010 Saudi security forces entered Yemeni territory with the consent of the Yemeni government to free two German children (members of a group abducted in 2009).

Strategic Outlook

For more than 10 years, Yemen has been discussed as an example of a failing state, yet still refuses to fail completely. However, prospects are worse than ever. The country's transition process has been marked by setbacks and contradictions, and the final direction is far from clear. The semi-authoritarian political system has become inert and more authoritarian. Regional developments and increased international attention have rendered it potentially self-destructive for the president to continue neglecting political reforms. Massive protests organized by Yemeni students and NGOs are a rather new phenomenon, but might prove to tip the balance toward change.

Now in the spotlight after a long period of neglect, Yemen is finding international attention to be a double-edged sword. On the one hand, international actors' hasty decisions and clumsy measures in the fight against militants can further aggravate the situation, in part by strengthening the president's patronage network while undermining the government's legitimacy. On the other hand, international attention obviously encourages reform-oriented bureaucrats, benefits the cause of state-building, and potentially strengthens civil society and the private sector. However, there is a risk that regional events (Tunisia, Egypt) will distract international attention and development organizations from Yemen at a critical moment.

Despite shortcomings and setbacks, democratic elements have spread and taken root within a short time in a fairly authoritarian regional setting. Rising literacy rates in the younger generations, increasing proficiency among Yemeni journalists, networking between Yemeni and international NGOs, and increasing access to the Internet have all served to stimulate democratization. Decentralization is progressing slowly, and the fact that relations among opposition parties have changed from confrontation to cooperation has strengthened their position vis-à-vis the president, although so far not yet sufficiently. The GCC monarchies have developed a more cooperative and constructive way of engaging with the only republic on the Arabian peninsula, and many potential spoilers of the transformation process have lost their funding.

However, fundamental shortcomings remain, including the weak national economy and ineffective administration, high population growth, and unresolved domestic power struggles. These cannot be dealt with quickly. The structural flaws of Yemen's economy will persist in the intermediate future as oil production— though declining – is secured for some time, and the marketing of gas reserves has begun. However, even higher oil and gas prices at current production levels will not allow the demands of a rapidly growing population to be accommodated.

External factors, particularly transnational terrorism, piracy in the Gulf of Aden, economic problems in the GCC states and regional unrest, may affect investment in and economic aid to

Yemen. Global economic and political developments in the Middle East and at the Horn of Africa thus have repercussions on Yemen's economy and society. In short, independent of President Salih's political future, Yemen will remain dependent on financial and technical support from the donor community.

In contrast to neighboring Gulf monarchies, the traditional shortage of state services in Yemen has kept its population rather self-reliant. Nevertheless, any Yemeni government must address the problems of the rural population, much of which is excluded from the formal sector and lives according to tribal or customary rules that are much more deeply entrenched than state law. There is a growing sense of inequality within the population, not so much in legal but in economic and political terms. This has already led to massive protests, which took distinct forms in urban and rural and in tribal and non-tribal areas, and might lead to some kind of unofficial autonomy in some areas.

Key strategic tasks are difficult to identify because the challenges are as so numerous. Priority should be given to issues related to inequality, such as by investing more in reproductive health and family planning, female education, and the educational system in general rather than in the security apparatus and military equipment.

Continued efforts should be made to increase transparency, deepen decentralization, strengthen the non-oil sector (in particular the agriculture/food sector) and improve water management (particularly for qat production).

However, there is absolutely no certainty that the current elite can muster the creative management skills necessary to accomplish these tasks. In any event, the government must learn to respond in a more responsible fashion to public protests, opposition demands and challenges from former political elites, be these from pre-unification or pre-revolutionary times. Under current regional and economic conditions, more protests are to be expected, and the country might fall apart if policy does not gain in flexibility.

How the ongoing demonstrations in several Yemeni cities and regions will impact on the country's future is impossible to tell as of January 2011. However, a heavy-handed government response is likely to draw a violent reaction, sooner or later.