

BTI 2016 | Yemen Country Report

Status Index	1-10	2.91	# 121 of 129	
Political Transformation	1-10	2.82	# 122 of 129	➔
Economic Transformation	1-10	3.00	# 117 of 129	➔
Management Index	1-10	3.82	# 101 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2016 – Yemen Country Report. Gütersloh: Bertelsmann Stiftung, 2016.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Key Indicators

Population	M	26.2	HDI	0.500	GDP p.c., PPP \$	-
Pop. growth ¹	% p.a.	2.5	HDI rank of 187	154	Gini Index	35.9
Life expectancy	years	63.1	UN Education Index	0.339	Poverty ³	% -
Urban population	%	34.0	Gender inequality ²	0.733	Aid per capita \$	39.3

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

When peaceful protesters and international pressure forced Ali Abdallah Saleh – after 33 years – to hand over presidential powers within 90 days to Vice President Abdu Rabbu Mansur Hadi on 23 November 2011, Saleh left behind a number of unresolved problems. His resistance to the initiative brokered by the states of the Gulf Cooperation Council (GCC) – an agreement he refused to sign several times – has cost the country dearly in terms of lives as well as in terms of economic development.

Expectations were high after 2011, but Yemen kept struggling with many structural problems. These include challenges to the state's monopoly on the use of force; local unrest plus separatist calls from the southern part of the country; persistent issues of legal pluralism, nepotism, patronage and corruption; the burdens of high population growth, water scarcity and weak infrastructure; poverty combined with a poorly skilled labor force; food insecurity and rising numbers of African refugees.

All these challenges have only been aggravated by political violence. While Syria and Iraq attracted the most international Islamist militants, Al-Qaeda in the Arabian Peninsula (AQAP) and its affiliates continued to be in vogue, mostly for Yemenis and Saudis but also for militants from other Arab countries, Africa, Europe, Asia and the United States. In parallel, a group of local rebels, the Huthi movement, turned into a key veto player on the national level, a role that challenges this movement as a whole.

Nevertheless, core elements of the Implementation Mechanism of the GCC Initiative have been achieved in spite of all challenges: in 2014, an inclusive 10-month National Dialogue Conference closed with a catalogue of recommendations, and a Constitutional Drafting Committee finalized the first draft of the new constitution in January 2015. Donor money was pouring into the country, and donors had a free hand in supporting governmental organizations as well as Yemeni NGOs –

at least until early 2015. The Yemeni riyal and the inflation rate remained stable during the political turmoil. The population growth rate has declined and school enrollment is on the rise.

On the other hand, power struggles among political elites of the distant and the recent past as well as newcomers like the Huthis severely hamper the political and economic development of the country. Yemen's insufficiently qualified and bloated bureaucracy, combined with declining per capita income, still low enrollment ratios, low absorption capacity, the general depletion of oil and water resources and unstable oil prices, does not bode well for the country's economic future. As to be expected, popular discontent with Yemen's economic and political development is still growing. Poverty and malnutrition have reached alarming levels during the review period.

When evaluating Yemen's economic indicators, it is important to remember that despite the country's relatively stable non-oil sector, its key source of revenue is hydrocarbon exports. Yemen is a rentier state, albeit one of the poorest of its kind. The country is unlikely to meet even one of the Millennium Development Goals (MDGs) in 2015. Given the limited resources, accommodating the demands of veto powers will be very difficult.

History and Characteristics of Transformation

In 1990, the Yemen Arab Republic (YAR, North Yemen) and the People's Democratic Republic of Yemen (PDRY, South Yemen) merged 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, YAR's nationalist leadership, organized in the General People's Congress (GPC), faced a growing Islamist current and saw itself in need of a more secularly oriented ally. 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 YAR had retained a certain degree of autonomy. By contrast, PDRY was a socialist country whose leaders had ousted the traditional elites, tried to destroy traditional social structures and espoused the principles of a centralized and planned economy. However, both systems were ruled by a single party, YSP and GPC.

From 1990 to 1994, YSP and GPC tried to secure their own survival via political pluralism, characterized by a multiparty system, unprecedented levels of press freedom, a constitutional referendum in 1991 and multiparty parliamentary elections in 1993. These elections nullified the 50-50 power-sharing formula between GPC and YSP and resulted instead in a coalition of three parties: GPC, YSP and the newly formed conservative-Islamist Yemeni Congregation for Reform (YCR, also known as "Islah"), led by Yemen's most influential tribal figure, late Sheikh Abdullah al-Ahmar. However, integration of the two economies, legal systems, etc., was slow. 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, and inflation and corruption became virtually uncontrollable. The exploitation of oil reserves, especially on former PDRY territory, intensified distribution conflicts among the political elite. In May 1994, the two former state leaderships entered into open warfare. The northern leadership, employing its own military, 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 northern political elite with the understanding that political pluralism could result in separatism, an attitude that continued to determine domestic policies. The post-war coalition government of GPC and YCR amended the constitution immediately, abolished the Presidential Council, and made Shariah the sole source of legislation, as had been the case in YAR. Press freedom was restricted, many NGOs and parties lost their funding, and the regime silenced critical voices by labeling them separatists.

Mounting debts and high inflation were 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 could reduce its debts with the Paris Club group of creditors. The Yemeni government appeared to return to its path of political liberalization with parliamentary elections in 1997. However, YSP boycotted these elections and GPC won an absolute majority. YCR, a coalition partner in government since 1993, became the dominant opposition party. However, while competition between GPC and YSP had opened the political space for various actors in the early 1990s, YCR never fulfilled the same counterbalancing function as had YSP. Having boycotted the 1997 parliamentary elections, YSP was barred from nominating a candidate in the first direct presidential elections in 1999, while the YCR supported incumbent President Ali Abdullah Saleh, who won 96.2% of the votes. Further constitutional amendments in 2001, accepted by referendum, extended the presidential and parliamentary terms and weakened the position of the parliament vis-à-vis the executive. When parliamentary elections were held for the third (and so far last) time in 2003, GPC gained 229 of 301 seats.

Shortly thereafter, in 2004, the government was faced with an on-and-off rebellion led by the Huthi family in northern Sa'dah that could not be suppressed despite massive military deployments and human rights violations. As followers of the Zaidi branch of the Shi'a, the rebels were not in conflict with the Sunni-Shafi'i majority but rather felt economically marginalized and threatened by increasing numbers of Salafis coming to their area, especially the Salafi Dar al-Hadith center in Dammaj. In 2005, the population launched massive protests in response to the partial lifting of subsidies and opposition against the government became increasingly organized in the southern part of the country.

While the government struggled with these 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 against each other. In 2006, Ali Abdallah Saleh actually had to compete with a candidate supported by a number of opposition parties (the Joint Meeting Parties, JMP). However, as institutions remained weak, voters preferred the incumbent. After the elections, external actors convinced the ruling party and the opposition to open a dialogue on core

issues, in particular reform of the election law. Ultimately, government and opposition agreed to postpone the next parliamentary elections until April 2011. By January 2011, this dialogue had officially failed as GPC again submitted wide-ranging constitutional amendments to parliament.

These proposed amendments might have been the straw that broke the camel's back. When the Arab Spring reached Yemen in early 2011, President Saleh found that he had alienated too many former allies. Whether or not the Yemeni Youth Revolution that began in January 2011 was instigated by the Sheikh family al-Ahmar and General Ali Muhsin al-Ahmar (not related to the Sheikh family), it provided the perfect setting to depose Saleh. Slow economic development, rising discontent in the south against "northern domination," intensifying activities by Yemeni and Saudi militants, mainly AQAP, and regional protests against long-serving Arab presidents put Saleh under immense pressure.

Violent reactions to the protests – hundreds of protesters were killed – and his efforts to outmaneuver his opponents as well as the international community weakened Saleh's position further. After the U.N. Security Council (UNSC) had passed Resolution 2014 in October 2011, he accepted the Peace Initiative of the Gulf Cooperation Council. After 33 years, Ali Abdallah Saleh handed over presidential powers to Vice President Abdu Rabbu Mansour Hadi on 22 November 2011.

While the first phase (90 days) of the transition was instituted smoothly (though not completely), implementation of the second phase, which was supposed to end with elections in February 2014, faced delays. The 10-month-long National Dialogue Conference (NDC), comprising of 565 members from most segments of society, produced 1,800 recommendations. However, influential members of the southern movement Hiraak who also refused to accept the post-NDC decision to establish a federal system with six regions boycotted it. Rather, they favored either a separate southern state or at least a two-region federal system. The Huthi movement, which has grown into a major political force under the name "Ansar Allah" (God's followers), also refused the six regions model because the regional borders would split the territory they controlled. A Peace and National Partnership Agreement that was intended to settle the conflicts between the major political actors in September 2014 did not solve the deadlock, and when in January 2015 the Huthis took control of Sanaa including the presidential palace, President Hadi and the cabinet stepped down.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

Traditionally, the state's monopoly on the use of force has been weak. However, the situation has deteriorated and the latest developments signal a qualitative change. Yemen cannot control its borders, as illustrated by the influx of African refugees as well as Arab (mainly Saudi), African, European and U.S. militants. In addition, the U.S. government has continued its drone attacks against AQAP in Yemeni territory. The attacks were done with the full agreement of the Yemeni government, but while President Hadi sees them as a means to reinstall the state's monopoly on the use of force, the population perceives them as a threat and a violation of national sovereignty, further undermining the government's legitimacy. According to the Long War Journal, more than 100 drone attacks have killed several hundreds of suspects and civilians since 2001.

Monopoly on the
use of force

2

In 2011, parts of the capital city Sanaa came under control of various armed groups for the first time in decades, and Al-Qaeda on the Arabian Peninsula (AQAP) and its affiliates declared an Islamic Emirate in Abyan until government forces gained the upper hand in 2012. For years, AQAP has tried to link up with Yemeni tribes, sometimes with success.

In recent years, the Huthis have expanded their area of influence to most of the northern governorates, including the harbor city of Hudaidah. In September 2014, they invaded the capital. Huthis joined official security forces in staffing checkpoints, entrances to public buildings, etc. Even their opponents admitted that Sanaa became safer until they occupied the presidential palace and put the president and members of the cabinet under house arrest in January 2015. In the central governorate of Al-Baidhah, they cooperated with the security forces in their fight against AQAP, which at least temporarily and superficially, controls areas in central and southern governorates such as Al-Baidhah, Shabwa and Abyan.

The quick territorial gains of the Huthis and the very limited resistance of the security forces suggests that they are supported, or at least tolerated, by other influential actors. Many observers suggested the direct involvement of former President Ali Abdullah Saleh. So far, however, the Huthis have taken action against those they hold responsible for the six wars against them since 2004: radical Salafists, the Al-Ahmar sheikh family, General Ali Muhsin and not least AQAP. Most of these actors also posed a challenge to the previous as well as the current president.

One has to be careful, though, not to link all local conflicts to either AQAP or the Huthis (or both). Even if there are alliances, most of them are not based on ideological consensus but on pragmatic considerations and are therefore short-lived.

Like in most other countries in the MENA region, citizenship is only withheld from children born to a Yemeni mother and a non-Yemeni father. Since 2003, legal exceptions have been made in cases where the non-Yemeni father dies or the Yemeni mother is divorced from her non-Yemeni husband. In these cases, the children are eligible for Yemeni citizenship.

State identity
3

However, political, tribal, regional and sometimes religious identities compete with national identity, and political elites in Yemen have promoted tribal, political and regional agendas.

After having been exploited by the ruling elites for decades, the concept of the nation state has lost much of its credibility. The main factor that weakened the legitimacy of the nation state was the perception that particular groups – the former president and his extended family as well as some northern sheikh families – captured the Yemeni state. Much of the popular critique and grievances concerned the lack of a neutral nation state based on the rule of law and equal citizenship, not a nation state as such. During the Saleh regime, his Sanhan tribe and affiliated tribal elites dominated the army and security apparatuses as well as the economy, which was originally the domain of Shafi'i groups from the central regions. Likewise, the Huthis in the north have been alienated from the nation state they experienced primarily in form of defensive military campaigns. Even after the demise of Saleh, clan-based relations and favoritism still dominate decision-making. Though for a short time during the 2011 revolution, the north-south divide seemed to diminish, resistance to what is considered as “colonization by the north” has made voices calling for separation of the south from the Republic of Yemen more vocal, and calls for civil disobedience have become regular. Some southern groups, such as the Hirak faction led by Ali Salim al-Baidh, refused to participate in the National Dialogue Conference in 2013/2014. In late 2014, Hirak leaders called northern officials to leave the south. As a consequence of such populism, attacks against citizens originating from northern governorates, sporadically reported since 2010, spread in autumn 2014.

Religious dogmas have been part of the legal and political spheres for centuries, and the Shariah has officially remained the sole source of legislation except in the (Southern) People's Democratic Republic of Yemen (1967-1990) and in the Republic of Yemen (1990-1994). The draft constitution of 2015 avoids the term "only source of legislation" but still makes Shariah "the source of legislation," leaving interpretation to the legislative authority.

No interference of religious dogmas

3

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.

Islamic scholars shape public opinion in crucial questions such as women's rights, form of the state (federal/central) and the National Dialogue Conference where many religious leaders were among the deputies. Preachers influenced by Saudi-type Wahhabism, like Abdelmajid al-Zindani, who was not invited to the NDC, claim that the Koran and Sunna are above the constitution.

The new constitution, which is intended to be put to referendum in 2015, might officially reduce the influence of religious dogmas on legal and political institutions. But its enforcement will be very limited even though the Huthis, unlike Sunni Salafists, seem to have no problem with the concept of secularism or federalism per se.

It must be taken into consideration that, with the exception of Aden, state building in the modern sense in both Yemeni republics only began in the 1960s. Unification in 1990 put additional stress on the area's underdeveloped structures.

Basic administration

3

State infrastructure is limited in scope and effectiveness. While it began to extend beyond maintaining law and order in most regions, there is still 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 and the influx of refugees. According to the World Bank, only half of the population had access to sanitation and water sources in 2012 (53% and 55%, respectively). Decentralization (with municipal elections in 2001 and 2006, amendment of the local authority law, and indirect election of governors in 2008) was limited and hampered by a lack of financial and human resources. The violence accompanied the political unrest that began in 2011 left some public facilities damaged, and acts of sabotage against the electricity system and oil pipelines occur regularly.

This, the security situation and the power struggles since 2011 further reduced the state's capacity to deliver the minimum of services. According to OCHA estimates, more than half of the population is in need of some form of humanitarian assistance, including 850,000 acutely malnourished children. Yemen has the third highest malnutrition rate in the world, and almost a million people have been internally displaced by violent conflicts in recent years. The number of African refugees and migrants is estimated at about half a million people.

2 | Political Participation

Between 1993 and 2006, parliamentary, municipal and presidential elections were held, albeit without ever changing the ruling elite and with an increasing number of irregularities, especially in the electoral register. Over the last decade, Yemenis were called to the polls only once, in February 2012, when they were asked to elect Abdu Rabbu Mansour Hadi, the former vice-president and successor of long-time President Ali Abdullah Saleh. As an agreement had been reached across the domestic political spectrum and the international community that Hadi should become president, he was the only candidate.

Free and fair
elections

4

Elections, originally scheduled for 2014, were postponed when it turned out that the time frame of the GCC Implementation Mechanism was too tight. A referendum on the new constitution is expected in 2015, after which presidential and parliamentary elections are to take place.

The election law, issued in 2001 and last amended in 2008, is based on the first-past-the-post system and has worked in favor of the ruling party. Thus, the composition of parliament did not reflect the actual distribution of votes and the opposition tried for many years to negotiate a different electoral system. However, only during the NDC could an agreement on a new system (closed proportional representation) be reached.

Veto powers have been an engrained feature of the Yemeni political system before and after the youth uprisings of 2011. As of early 2015, the governments, sworn in by President Hadi in 2012 and 2014, have hardly any effective power to govern, unless supported by the international community and tolerated by the Huthi movement and other major veto players (some of whom have been in exile for decades). The Huthis de facto deposed the governors of Amran and Hudaidah in 2014 (as they had done with the governor of Sa'dah in the past), resisted successfully the appointment of Ahmed bin Mubarak as prime minister and finally kidnapped him for a few days in January 2015. Given that the GPC of former President Saleh still holds the absolute majority in parliament, the 2014 cabinet got a vote of confidence only on the condition that they would not implement the U.N. Security Council sanctions against him and two leaders of the Huthi movement.

Effective power to
govern

1

Surprisingly, most state institutions and basic infrastructure (where it exists) are still functioning, at least to some extent.

Legally, there are few restrictions on parties or social organizations. However, intimidation, threats, harassment and excessive force have been used by both the state and armed non-state actors alike against those whom they deem threatening or opposing. While the previous political leadership constantly and systematically – but without much success – tried to disable opposition groups and violated assembly rights, it lost control of the state in 2011. As of early 2015, the government has made hardly any effort to control parties or social organizations. However, demonstrations are often marred by violence (as in Sanaa in September 2014 and Aden in December 2014), and in January 2015 the Huthis repeatedly arrested demonstrators, dissolved demonstrations against armed militias in the cities and tried to prevent such demonstrations altogether.

Association /
assembly rights
4

Although slightly improved between 2011 and 2014, Yemen kept a low rank in the World Press Freedom Index 2015 (168 out of 180 countries). In 2012, a new information law was issued to provide the public with better access to information. Private (and politically biased) TV channels are working freely without a legal basis. The only exceptions were the closing of Yemen Today, the TV channel supported by former President Ali Abdullah Saleh, in June 2014 and the Huthi-raid of Suhail TV station, owned by Hamid al-Ahmar, in September 2014.

Freedom of
expression
3

Nevertheless, attacks on journalists, extensively documented by Human Rights Watch in 2013, continue. Seemingly, the government does not work to limit the freedom of expression; they are either unwilling or unable to protect journalists who provoke powerful stakeholders.

Before and after 2011, radical Islamists have played a central role in attacking and intimidating writers with views they consider “un-Islamic.” Often these journalists merely challenged the authorities, decisions of the religious establishment, or military and tribal leaders affiliated with influential political-religious actors.

With the Huthis taking control of state institutions including ministries and state-run media since late 2014, the situation deteriorated measurably. According to Yemeni and international NGOs, in January 2015 at least 25 journalists who tried to cover demonstrations have been physically attacked or even kidnapped. Others had their homes searched by Huthi militias or suffered from other types of intimidation.

3 | Rule of Law

The separation of powers, traditionally weak, has reached an all-time low since 2012. Under the GCC Implementation Mechanism, parliament and the council of ministers can only decide by consensus. If consensus cannot be reached, the president makes decisions. President Hadi, however, seems to interpret this regulation as a *carte blanche* to bypass the legislature, for example, when he appointed the new board of the Supreme National Authority for Combating Corruption in September 2013 without authorization by parliament and consultative council.

Separation of
powers
3

The current as well as the draft constitution of 2015 provide for the separation of powers. Given the increasingly informal governance system, the rule of law – including a functioning system of checks and balances – will be very hard to establish whatever the political system of the country looks like in the future.

The judiciary is institutionally differentiated but its functioning is restricted by corruption and a lack of resources. Especially in rural areas, legal cases are still dealt with by traditional elites – or not dealt with at all – simply as there are no functioning courts. The judiciary's functions are further restricted by the application of customary laws in tribal areas.

Independent
judiciary
4

While judges are generally hesitant to challenge powerful individuals, there have been cases where the judiciary did not shy away from challenging the president. In 2013, an administrative court declared the presidential decree appointing the new board of the national anti-corruption body void. That the verdict was confirmed by an appellate court in November 2014 seems to confirm that this was an independent decision of the judiciary and not one backed by Hadi's opponents in order to paralyze the national anti-corruption body.

However, the problem has been officially acknowledged and preparations to increase the independence of the judiciary started in November 2012, when the cabinet approved amendments to Law 1 of 1991. If the new draft constitution comes into force, it aims to strengthen the position of the judiciary vis-à-vis the other state powers.

High-ranking public servants and politicians cannot be taken to court, as they are protected by Law 6 of 1995. However, public demands for the abolition of this law, which explicitly exempts high-ranking office holders from prosecution and contradicts the United Nations Convention Against Corruption (UNCAC), are on the rise. As Yemen ratified the UNCAC in 2005 and finished a gap analysis in 2013, the basics for the legal prosecution of high-ranking office holders is expected to be provided by the new constitution.

Prosecution of
office abuse
3

Prosecuting in court those who have committed human rights violations, particularly in 2011, was impeded by a domestic immunity that was granted to the former president and his allies under the Gulf Cooperation Council Initiative. The immunity law of January 2012, strongly criticized by the U.N. High Commissioner for Human Rights, has not been amended. However, the draft constitution explicitly forbids immunity from judicial oversight for any administrative act or decision and from accountability in cases involving public funds.

The government is too weak to systematically prosecute any human rights violations committed by the various militias that have gained ground in recent years. However, it seems that members of the security forces have been taken to court for human rights violations.

Civil rights
2

Even before the 2011 protests, civil rights were only selectively protected. In Yemen, whether all citizens have the same civic rights is a matter of interpretation of Shariah. The 1994 amendments to the 1991 constitution restored Shariah as the sole source of legislation, which affects women (dozens of laws discriminate against women, in particular the personal status law and the family law) and the country's small Jewish minority. Also the draft constitution of 2015 makes the Shariah "the source of legislation" while stressing that the legislative authority has the sole power of interpretation (article 4). Article 128 is a bit more specific: "Women have full civil, political, economic, social and cultural rights without discrimination. The state shall be committed to empower women to exercise the rights of equal citizenship, and protect them from of all forms of violence, all inhuman practices and enable them to reconcile between their family duties and the requirements of their jobs. Legislation shall be enacted accordingly to realize these aims."

The Muhammashin (Yemenis mainly of African origin, traditionally called Akhdam) are discriminated against without any legal basis. Their organizations are at risk of being used by political factions. Civil society organizations have increased efforts to integrate Muhammashin, at least into their own activities. Yemenis born abroad (Muwalladun) also face discrimination, especially if one of their parents is of African origin.

The government not only fails to protect marginalized social groups from discrimination but also children from child labor, child trafficking and underage marriage.

So far, 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. However, the committee that was responsible for the nomination of presidential candidates in 2006 accepted female candidates.

In addition to Shariah-based legal disadvantages, discrimination against women and minorities is related to shortcomings in the rule of law, the persistence of traditional

roles and the struggle for dominance over limited resources. In 2011, the international community sent a strong signal by awarding political activist Tawakkul Karman the Nobel Peace Prize.

Moreover, an extraordinarily high number of human rights violations occur when violence is used against protesters or amid the state's clumsy attempts to fight AQAP.

The GCC Implementation Mechanism provides for a transitional justice system, and preparations for an independent human rights commission have been underway for years. Also, the government has started efforts to stop the recruitment of minors into security forces. As in similar cases, the gap between intention and implementation is significant.

4 | Stability of Democratic Institutions

Some democratic institutions, such as parliament and local councils on the governorate and district levels, exist but they are subject to intervention and manipulation and have a number of shortcomings, including inadequate funding and a lack of qualified personnel. Parliament was last elected in 2003, regional interests and clientelism have limited its performance. With the GCC initiative it was rendered completely powerless because unless the parliament (and cabinet) reach a consensus, the president makes the decision.

Frictions between and within government entities further reduce institutional efficiency. Recent examples include discussions over the transitional justice law or the fact that an independent human rights institution, advertised since 2012, has not been established as of early 2015.

While democratic institutions are accepted in principle, military and tribal figures have handled political office as a personal fiefdom that can be passed on to their offspring – and this includes parliamentarians – for decades. Until early 2015, with parliamentary elections scheduled to take place after the constitutional referendum, the executive was (to some extent) the only power that could claim democratic legitimacy.

Acceptance of the executive's democratic legitimacy varies. In some regions of the south and the north, and to a lesser extent in the central regions, the legitimacy of the executive is severely questioned or even denied.

Performance of
democratic
institutions

2

Commitment to
democratic
institutions

2

5 | Political and Social Integration

Though to some extent socially rooted and rather stable, the party system is weak. The political process is highly personalized and party membership often depends on clientelistic networks. Party programs play a subordinate role. This was illustrated by the General People's Congress (GPC), the former ruling party and member of the post-2011 government. The GPC dismissed President Abdu Rabbu Mansour Hadi from his position as vice president and secretary-general of the party in November 2014 because he was blamed for the U.N. sanctions against a number of spoilers of the transition process, among them former President Ali Abdullah Saleh. This might also have been a setback to those forces within the GPC that are trying to reform the party. A similar attempt in the early 1990s failed.

Some new parties have appeared in 2011 (most prominent are the Rashad Party and the Justice and Building Party), but given the overall political situation, fragmentation of the party system is still low. Nothing can be said on voter volatility, as there have been no parliamentary elections since 2003. Five parties are represented in the 301-member parliament, and most of the parties have fielded candidates in all three parliamentary elections since 1993. Polarization among opposition parties decreased after confrontations, which sometimes dissolved into deadly violence, in the early and mid-1990s. The leaders (and to a lesser extent the members) of the Yemeni Congregation for Reform (YCR, also "Islah," which includes among other factions the Yemeni branch of the Muslim Brotherhood) and the Yemeni Socialist Party (YSP) found common ground in a joint reform program of five parties (Joint Meeting Parties, JMP) in 2005 and coordinated activity in the 2006 presidential and municipal elections. While cooperation on the national level was smooth – apart from the fact that leading members of the YCR supported the incumbent president on a personal basis – coordination on the local level was poor, which in turn contributed to the success of the ruling party. From 2006 to 2011, opposition parties were constantly engaged in negotiations with the ruling party, without success. Their links with youth protesters who took to the streets in early 2011 are rather weak, not least because a generational change at the parties' leadership level is overdue. However, that YCR emerged as the dominant party in the protest movement became clear in April 2011, when they were able to segregate youth protesters according to gender in "Change Square" in Sanaa.

While polarization between the JMP and the GPC peaked in summer 2011, the two groups found themselves as partners in the National Reconciliation Government from December 2011 until September 2014.

Party system
4

Despite some positive developments, the topography of interest groups is limited and important social interests are underrepresented. Unions are generally weak, mainly as a result of successful cooptation under the Saleh regime and the small size of the formal sector. NGOs, in particular those concerned with human rights and corruption, have flourished and are increasingly organized and differentiated.

Interest groups
4

Such interest groups are however almost entirely based in major cities, whereas three-fourths of the population live in rural areas. There have been cases, though, where farmers have approached human rights groups to complain about human rights violations committed by local dignitaries. Several urban-based NGOs have established networks, sometimes reaching into the rural areas, and efforts to find support for the results of the NDC and the new constitution led to a stronger focus on the rural areas throughout 2014.

Disempowered politicians – ranging from exiled YSP leaders like Ali Salim al-Baidh to former Afghanistan fighters like Tariq al-Fadhli – have been trying to exploit public discontent in the south toward their own ends. Simultaneously, new leaders came to the fore. Hence, 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 separation from the north. While most of al-Hirak’s activities are peaceful, there have been violent attacks against security personnel, thus providing an opportunity for opponents to blur the line between al-Hirak and AQAP and their affiliates to outside observers.

Supported by the international community and the U.N. Special Advisor Jamal Ben Omar, the national reconciliation government (2011-2014) involved representatives of as many parties as possible. However, all of them belonged to the “old establishment” and given that many marginalized groups are organized in a way that does not allow them to identify representatives (such as the youth movement), these efforts have at times created additional conflicts. In addition, the Huthi movement was excluded. This served them well as they could present themselves as the only real opposition and supporter of the 2011 revolution in 2014.

Data from the Arab Barometer shows that the percentage of those who agree or strongly agree that “democracy is the best political system” decreased from 83% in 2011 to 73% in 2013, most likely due to disappointed expectations after the Arab Spring. According to an analysis published by the Arab Center for Research and Policy Studies in 2012, about 75% of Yemeni respondents believe that, despite shortcomings, democracy was better than other government systems. This is consistent with the results of previous polls, for example by the Yemen Polling Center in 2010, in which more than 75% of respondents believed that democracy is important for the development of the country, and more than 60% were convinced that democracy would be, or at least partly would be, a solution to the country’s problems.

Approval of
democracy
n/a

Given the data above, the advent of mass protests in 2011 and the protests against armed militias in 2014, one may conclude that the approval of democratic norms and procedures is strong, at least among younger generations, in spite of the disappointment with actual political developments.

There is a robust but heterogeneous and fragmented set of autonomous, self-organized groups, associations and organizations. However, self-organization is rarely formalized and usually restricted to members of the same family, village, tribe or region. The fault line between north and south is still growing and attacks on “northerners” living in the south, first reported in 2010, are on the rise since autumn 2014.

Political parties and NGOs can bridge social and regional gaps as well as rising regionalism only to an extent. Generally, trust among the population seems to have decreased, though reliable data is not available.

Social capital
2

II. Economic Transformation

6 | Level of Socioeconomic Development

Yemen ratified the international Covenant on Economic, Social and Cultural Rights in 1987 and guarantees equal access to public services by law. According to UNDP’s Human Development Report 2014, Yemen ranks 154 out of 187 states, a small but surprising improvement compared to 2013 (160 out of 186). In fact, the HDI scores show that this improvement was minimal: from 0.499 to 0.500, which are the second lowest numbers in the region after Sudan. Social exclusion is quantitatively and qualitatively extensive and structurally ingrained, mainly due to poverty, a general lack of education and gender-related income inequality.

The majority of the population is excluded from market-based socioeconomic development. Subsistence farming is widespread, and a large percentage of the workforce works in the informal sector. According to the IMF, 54% of the population live below the poverty line. Malnutrition has reached unprecedented levels, and the gap between rich and poor is widening. Only two-thirds of the adult population is literate, with a clear upward trend among the younger generation. Among 15-24 year-old Yemenis, literacy has reached 86%. The country’s Gini coefficient, measured in 2005, was 37.7, compared to 33.4 in 1998. More recent data is not available, as the last household budget survey was conducted in 2005/2006 and the following survey was postponed several times.

Question
Score

Socioeconomic
barriers
1

In the HDR Gender Inequality Index 2014, Yemen also ranks fairly low (152 out of 187 states), reflecting the discrimination faced by women in public and private life, including child marriage.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	16753.8	30906.8	35954.5	-
GDP growth	%	5.6	3.3	4.2	-
Inflation (CPI)	%	11.8	11.2	11.0	-
Unemployment	%	16.1	17.8	17.4	-
Foreign direct investment	% of GDP	-1.8	0.6	-0.4	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	624.1	-1054.1	-1530.5	-
Public debt	% of GDP	43.8	42.4	48.2	48.7
External debt	\$ M	5500.6	6681.7	7670.8	-
Total debt service	\$ M	213.4	260.6	272.0	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.2	-	-	-
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.6	1.3	1.3	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	4.9	4.7	4.6	-

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The informal sector is substantial and market competition operates under a weak institutional framework. Decree 19 of 1999 regulates market competition, monopoly prevention and commercial deception. While state companies – which might be excluded from Decree 19 regulations – dominate several business sectors (including banking, media, transportation, energy and communications), the private airline operator Felix Airways (partly owned by Yemenia Airways) started operations in Yemen in 2008, mainly serving destinations on the Arabian Peninsula. Fuel and diesel prices are subsidized on a massive scale, leading to the smuggling of diesel and regular shortages at filling stations. An attempt to discontinue subsidies without establishing any compensation measures for the poor in advance, failed in late July 2014. The government scaled this measure back, reducing subsidies more modestly.

Market-based
competition
4

The Yemeni riyal was floated in the mid-1990s, and while there is currently a minor gap between the official and unofficial exchange rate, it is still freely convertible. Issues related to market-based competition have returned to the agenda since 2012, and in 2014, a specialized committee was installed.

The progress that was achieved before 2011 came to a halt due to the worsening of the security situation. Thus, in the World Bank's Doing Business Index 2015, Yemen lost further ground and was ranked 137 out of 189 countries. In spite of this severe drop since 2011 when Yemen had reached rank 104 out of 183, several other Arab countries rank lower and Yemen's ranking in different sections of the index varies widely: from 44 ("enforcing contracts") to 185 ("getting credit").

Decree 19 of 1999 regulates market competition, monopoly prevention and commercial deception, and called for the formation of the Competition Protection and Monopoly Prevention Organization (CPMPO) to assure compliance with rules. The organization is attached to the Ministry of Industry and Trade, and chaired by the minister. Yet, Yemen's patronage system during the Saleh regime led to a situation where tribal and military elites were systematically favored. In January 2013, CPMPO Executive Director Shukri al-Absi criticized existing monopolistic structures in basic food industries, such as in wheat, flour and especially in sugar, where five large companies have an import and sale oligopoly.

Anti-monopoly
policy
3

There is no longer a monopoly over mobile phones; however, there are only two Internet providers (according to other sources, the Public Telecommunications Corporation is the only one).

A new Law on Monopoly and Anti-Competitive Behavior is under preparation at least since 2013, according to Yemen's 2013 report on its accession to the World Trade Organization. The same report provides some further information on the

situation of monopolies. It states that monopolies had been established for fixed-line telephone services (the Public Telecommunication Corporation), international telecommunication services (TeleYemen), electricity production and distribution (the Public Electricity Corporation), and water and sewage (the Public Corporation of Water and Sanitation). It says that Yemen had no plans to break up the existing monopolies, but would gradually allow private sector participation to ensure universal access to essential services. International and national telecommunication services via satellite were provided by TeleYemen and the Public Telecommunications Corporation, respectively. However, mobile telecommunications services, including international mobile personal telecommunications services via satellite (GMPCS), were open to foreign participation. The national telecommunication services (PSTN) network was operated exclusively by the Public Telecommunications Corporation. That said, the WTO report stated that all market access limitations on telecommunications would be lifted by 1 January 2015. Whether this will be implemented in the current crisis is subject to doubt.

Yemen applied for WTO membership in April 2000 and the government has liberalized foreign trade and reduced tariffs. After almost a decade and a half of negotiations, Yemen became the 160th WTO member in June 2014. However, the country still boycotts goods and services coming from Israel, and at least until 2013, the right to import goods was reserved to Yemeni nationals. Import of alcohol, explosives, hazardous waste (Yemen became signatory to the Basel Convention in 1996) and certain types of food such as pork is still banned.

Regionally, Yemen became a member of the Greater Arab Free Trade Area (GAFTA) in 2002. Negotiations over membership in the Gulf Cooperation Council (GCC) as a dominant regional free trade area started in 2005 but are not expected to produce a result any time soon.

Overall, the government's capacity to further liberalize foreign trade is likely to be hampered by the current crisis, as other priorities will dominate the government's agenda.

The Central Bank of Yemen (CBY) is perceived as relatively independent in political, economic and financial terms, especially when compared to regional standards. According to CBY (which gives slightly different information than a 2013 WTO report), the banking sector comprises 16 banks (including Yemeni banks, branches of foreign banks, Islamic banks and joint venture banks) in 2015. Moreover, there are exchange companies and pension funds. In 2007, the first microfinance bank was established and a leasing law was introduced. Although it has been discussed for some years, a stock exchange has not yet been established.

Liberalization of
foreign trade

7

Banking system

4

The sector is regulated by a number of laws and regulations published, for example, on CBY's website. However, according to a 2013 World Bank report, the regulatory system is very weak and the credit risk management is not sufficient.

The banking sector is burdened with non-performing loans but still dominates the financial sector, which is considered underdeveloped. According to the World Development Indicators, only 116 in 1,000 citizens had deposits in a commercial bank in 2012.

In late 2012, CBY – in its function as a banking supervisory organization – was reported to have blacklisted more than 500 clients, including companies and institutions, who had failed to meet their financial obligations. Commercial banks also find it difficult to collect debts up to \$500 million. Accordingly, getting credit in Yemen is rather difficult as reflected, for example, in the Doing Business Index of the World Bank.

8 | Currency and Price Stability

Since the mid-1990s, the Yemeni riyal (YER) has been freely convertible. Though it has dropped from YER 20 to approximately YER 215 against the U.S. dollar since then, the riyal has been relatively stable for several years. However, since 2010 the central bank had to intervene several times, resulting in a serious decline of foreign reserves. By late 2012, the Economic Intelligence Unit (EIU) expected foreign reserves to decline to approximately 1.3 months of imports over the following years. Nevertheless, the expected breakdown of the economy did not happen as oil rich neighbors stepped in, albeit with a rather erratic approach: after Saudi Arabia deposited \$1 billion at CBY, Saudi officials announced a stop of financial aid in October 2013. However, there are reports that Saudi support has covered fuel imports and other government expenses in 2014. Reports of Saudi support freezing again after the Huthis took over government installations in Sanaa in September 2014 are contradicted by news published by the Yemeni news agency SABA in January 2015 that they supported the development of the Yemeni electricity sector.

Thus, foreign reserves slightly improved by late 2014 (enough to cover 4.5 months of imports, according to EIU). And after inflation had risen to nearly 20% in 2011, it fell below 10% in 2014.

Due to a low savings rate and the cash-based nature of the Yemeni economy, the instruments available to the Yemeni government are limited. Also, any new government needs to achieve short-term goals and meet the most urgent demands of the people. An attempt to completely abolish fuel subsidies in summer 2014, demanded by the IMF for many years, triggered a major political crisis and above all provided the Huthi movement with the opportunity to establish itself as a major force

Anti-inflation /
forex policy
4

on the national level. In the end, subsidies were reduced not by YER 75 but only by YER 25 per liter, but the political damage was done. The ensuing political crisis accelerated fiscal deterioration, especially as internal strife curtailed oil output and revenues decreased. Fiscal pressures for Yemen are high and could be exacerbated further.

For many years, international financial institutions (IFI) kept pressure on reluctant Yemeni governments to follow an economic stability policy (including the cutting of fuel subsidies and lowering expenses for salaries in the public sector) to decrease the rate of inflation and the fiscal deficit. While several macroeconomic indicators remained stable (such as external debt) or even improved temporarily (such as the current account balance), these developments failed to yield a positive impact on the population. It did not even pay off for the government, as poor economic prospects, especially for young people, were one of the causes of the political upheaval in 2011.

Public finances are in a disastrous state; occasionally the salaries for public sector employees are at risk. Sabotage of oil installations and maturing oil fields reduce the state revenue further. Although dependence on hydrocarbon exports has been identified as a risk for macro-stability, revenues from hydrocarbon exports (oil and gas) still make up two-third of state revenues and nearly 90% of export revenues.

While on the one hand the low international oil price reduces state income from oil exports, it also reduces the expenses for fuel subsidies on the other because due to limited refinery capacities Yemen has to import petroleum products.

Given the focus on short-term political stability, macroeconomic data is not expected to improve radically, even though the IMF approved a \$553 million loan in 2014 and other major donors have allocated several billions. However, several major infrastructure projects, often funded by the Gulf States, are expected to start. This might have a positive impact on the overall macroeconomic stability.

9 | Private Property

The law formally defines property rights and regulates the acquisition of property. A new investment law was issued in 2010. Among other factors, it allows all investors 100% ownership of an investment project (including any real estate associated with it), as well as the free transfer of foreign currency and employment of foreign nationals (in principle).

Registering property in Yemen is comparatively easy, according to the World Bank's Doing Business Index. However, lack of documentation, complaints about fraud, and the constant and sometimes-violent struggles over landownership indicate severe problems and have negative repercussions on the country's investment climate. The problem is compounded by corruption in the judiciary, which very often renders

Macrostability

4

Property rights

3

efforts to settle disputes over property rights futile. Thus, Yemen has signed several international and bilateral agreements on the settlement of commercial and investment disputes that may substitute for the shortages of the judiciary.

One of the issues that led to the rise of the southern al-Hirak movement was the arbitrary confiscation of land by the Saleh regime, which was then given to regime loyalists. While this happened mainly (but not only) in the south, certain cases receive less attention, for instance in Sanaa and Hudaidah.

In general, state institutions control property rights only to a limited extent and the concept of intellectual property rights (as guaranteed by the Investment Law No. 15/2010 as well as by the Intellectual Property Rights Law No. 19/1994) are basically unknown to the population.

In practice, the state cannot protect private property as the Huthi's take-over of houses and companies, owned for example by the al-Ahmar family, has proven.

Private companies can act freely in principle, yet some special regulations for international companies exist (such as a ban on engaging in the weapons and explosives industry, or specific rules in vital sectors). While the legal requirement for a foreign business to have a Yemeni partner as well as other legal constraints, have been abolished (Law 1 of 2008), economic, political and social barriers to business development remain. Key issues include deficiencies in infrastructure, a culture of corruption and a shortage in qualified workers. International companies dominate the hydrocarbon sector, but contracts are managed by the Yemen General Corporation for Oil & Minerals, which reports to the Ministry of Oil and Mineral Resources.

The latest version of the investment law (Law 15 of 2010) still allows a 100% ownership stake in companies to foreign investors and guarantees intellectual property rights. Investment capital and profits can be transferred without limitations on amount or currency.

The public sector is not very effective and often troubled. The World Bank's Public Sector Management and Institutions Cluster average, as part of its annual Country Policy and Institutional Assessment (CPIA), in Yemen was 2.90 in 2011 (scores increasingly range from 1 to 6) and 2.80 in 2012 and 2013. Enterprises within the public and mixed sector (for example, the Yemeni Economic Corporation) are estimated to make up about one-fourth of the country's larger companies. They have occasionally played an opaque role, especially those that were controlled by relatives or in-laws of former President Saleh.

Private enterprise
5

10 | Welfare Regime

Support for the elderly, the ill and the unemployed is generally provided by family, tribe and village structures or private welfare organizations – if and where they exist.

Social safety nets
3

Such structures have often played an important role in providing social safety but they have become weaker in certain areas due to a process of internal displacement and migration, or, as in Aden, due to historical factors. Also, the severe hardship faced by the population at the moment reflects on their ability to provide for themselves, let alone for others. The state, on the other hand, has yet to deliver adequate social safety nets. However, there are several donor-funded institutions whose expenses make up 17% of public expenditures, according to the Yemeni government. Most prominent are the Social Welfare Fund, which has been supporting up to 1.5 million poor families with modest amounts of cash since 1996, but verifying who is eligible to receive support has proven difficult. Also, the World Bank and other donors set up a Social Fund for Development (SFD) in 1997, which entered its fourth phase in 2011 and aims to reach 40% of Yemen's poor with basic services. Given that other figures claim that 60% of the Yemeni population live in extreme poverty, some doubts about official numbers might be in place. However, foreign donors support such projects because state capacity in providing social services is weak, policies of different ministries are uncoordinated and monitoring systems are either weak or non-existent. As the majority of Yemen's poor live in remote villages and decentralization is incomplete the provision of basic social services is difficult.

A specific problem is the frequent refusal of medical treatment for HIV positive patients for socio-discriminatory reasons, as documented by Human Rights Watch.

There are few institutions to compensate for gross social differences based on poverty, gender and social status. The Muhammashin (previously called Akhdam or Yemenis of mainly African origin) as a disenfranchised group is still mostly employed in doing menial tasks and very often has no access to basic public services. According to the criminal law, homosexuals face flogging or the death penalty under specific circumstances, though no such cases have been reported.

Equal opportunity
2

The biggest groups that need better access to opportunities are girls and women. Less than 10% of Yemeni women have had at least some secondary education (compared to about 25% of Yemeni men), and mean years of schooling among women of 25 years and older is only 1.2 (compared to 3.8 among men, which is also low). In addition, the income of women is two-thirds lower than that of men, according to HDR 2014. Overall development is positive, though. Girls' school enrollment is on the rise, as government, donors and Yemeni NGOs are working to improve the situation. These achievements are challenged by increasing poverty, which prevents many parents from paying for school supplies for all their children, and the fact that

the fertility rate is declining only slowly. As they are seen as future breadwinners, boys are the more likely candidates to be sent to school. However, boys' school enrollment is not sufficient either, a fact that must not be ignored.

Women are underrepresented in the private and public sectors, especially in high government offices. There is only one female parliamentarian and three female ministers, even in the 2014 cabinet. One of the constitutional amendments submitted to parliament in early January 2011 contained a quota for women in parliament (an additional 44 seats) but the amendment was never accepted. However, a female quota was applied to the National Dialogue Conference; four women were among the 17 members of the Constitutional Drafting Committee and – in principle – a female quota was anchored in the draft constitution of 2015.

On the other hand, informal decision-making in combination with gender segregation often leads to the exclusion of women from decision-making on all levels. This is unlikely to be changed by articles 76 and 128 of the draft constitution.

11 | Economic Performance

Economic performance is weak. While the inflation rate seems under control, GDP per capita has actually declined between 2010 and 2014 from formerly \$4,442.50 to \$3,959.30, though the latest data show increasing tendencies again (World Bank data). Fuel subsidies consume around 30% of the national budget, while salaries and wages make up another 30%. Thus, less and less is available for much-needed capital investment. Income from oil export is on the decline due to maturing of oil fields, sabotage and falling oil prices. However, in the short run this is compensated by higher income from gas export after the government renegotiated the prices with the South Korean KOGAS and other possible renegotiated contracts with international companies like TOTAL. According to EIU data, inflation has come down from 19.5% in 2011 to less than 10% in 2014.

Foreign direct investment is shrinking, even reaching negative levels in 2013 (-0.4% of GDP), indicating that the domestic private sector prefers investing abroad. The current account deficit reached 5.2% of GDP, while public debt rose to 58% of GDP in 2014. In the same year, the IMF estimated the unemployment rate at 25% and youth unemployment at 45% (according to the Yemeni government, about one-third of the population aged 15 to 24 years was unemployed).

Economic performance is expected to further deteriorate in light of security challenges and political crises. Donor pledges have not only been made in recent years (as in the past), but have also actually allocated and programmed, has helped to some extent.

Output strength
2

12 | Sustainability

Yemen issued its first environmental protection law in 1995, signed the U.N. 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. Several governmental institutions are concerned with environmental issues. In late 2012, the government renewed its efforts to at least provide the framework for environmental protections. Laws 21 and 22 ratified the International Convention on Oil Pollution Preparedness, Response and Cooperation (OPRC) and the OPRC-Hazardous and Noxious Substances (HNS) Protocol. Yemen has an environmental protection strategy as well as an Environmental Protection Agency.

Nevertheless, as in many other cases, there is a significant gap between official commitment and practice, and amending the environment protection law will not close that gap. In general, environmentally supportable growth receives only occasional consideration. Public awareness of environmental issues is low (except by those who already suffer from the effects of environmental degradation). This is particularly evident in the water sector, where existing resources are constantly overused and lack any decisive structural intervention. About 90% of available water is used in agriculture, although Yemen is far from being self-reliant: approximately 90% of wheat and 100% of rice consumed in Yemen has to be imported. The extensive cultivation of the Qat plants (a stimulant chewed by a large part of the population) puts additional strain on the scarce water resources. Sporadic government intervention to replace Qat with other cash crops has not produced any measurable results.

In addition, there are reports about misuse of pesticides and pollution resulting from oil industry or sabotage acts against oil pipelines. Problems with sewage systems (where they exist) and waste management are obvious.

Despite increasing urbanization, many Yemenis have not yet adjusted their attitudes toward their new environment and cities grow faster than the state can provide services.

Since the 1970s, modern institutions for education and training have been established (earlier in the People's Democratic Republic of Yemen/PDRY), but as enrollment ratios indicate, these institutions are not accessible to parts of the population, especially those in rural areas (overall enrollment rates: 96.9% primary, 46.9% secondary and 10.3% post-secondary education, with sharply less female enrollment rates: 82.8% primary, 65.4% secondary, 44.1% post-secondary education female-to-male enrollment rates, World Bank 2014). Literary rates reach an overall low 66.4%, with women much worse off (50.2%) than men (82.6%).

Environmental
policy
3

Education policy /
R&D
3

According to the Human Development Report 2014, only 5.2% of GDP are spent on education. However, this is no indication of the quality of the services provided. No data on public research and technology expenditures 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 high population growth, educational institutions at all levels – despite substantial investment – are hopelessly overburdened. Repeatedly, schools have been used to accommodate internally displaced persons or soldiers. Salaries for teachers are low and many need a second job to support their families. 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 (more recent data is not available). The few vocational training centers are not able to meet demand. As a result and in spite of overall improvement, the quality of education in Yemen is low and does not meet the market demands of skilled labor.

Transformation Management

I. Level of Difficulty

Many factors put high structural constraints on governance: poverty, a high birth rate, a shortage of educated workers, political tensions and violence, as well as severe infrastructure deficiencies. In spite of a severe water shortage in most parts of the country, growing Qat, a bush whose stimulant leaves are chewed by many Yemenis, is widespread. Moreover, the majority of the population lives in small and scattered settlements that are not easily accessible or accommodated with basic infrastructure. In addition, the Yemeni economy is highly vulnerable due to its dependence on hydrocarbon exports.

Structural
constraints
10

Regional conflicts and state failures like in Somalia also affected Yemen economically and politically for many years. Not only have Somali pirates captured Yemeni ships, but, more importantly, piracy at the Horn of Africa affected Yemen's ports, as it made the Red Sea shipping route less attractive for international shipping agencies. Also related to regional conflicts, Yemen – one of the least-developed countries in the world – has to cope with rising numbers of East African refugees. In early 2015, the Yemeni government announced that more than half a million illegal migrants from Somali, Ethiopian and Eritrean have risked the passage across the Gulf of Aden and the Red Sea over the past 5 years. Hoping to move on to more prosperous countries such as Saudi Arabia, those who survive often get stranded in the poorest Arab country. According to the UNHCR, almost 243,000 mostly African refugees are registered in Yemen. Since 2013, even Syrian refugees have found their way to Yemen.

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 General People's Congress (GPC) in the early 1980s. Still, tribal councils come together on occasion, usually at times of high political tension.

Civil society
traditions
6

Most of the several thousand NGOs currently registered are charities with a limited geographical scope, but there are also several hundred, mainly urban, NGOs that focus on issues such as combating corruption and educating the public about human rights, women's rights and press freedom. Many of these have very limited or no

appeal to the general public and are dependent on international donor organizations. The Social Fund for Development, as well as an increasing number of donor organizations, run training programs for NGOs but they generally lack a broad funding base.

Some NGOs should be designated as enterprises or are subject to manipulation by powerful individuals and political parties. However, many civil society activists are highly committed and several NGOs have been among the groups of protesters who finally ousted President Ali Abdallah Saleh in 2011. They do not shy away from monitoring the performance of the current government, either. Unlike other forms of civil engagement, NGOs are characterized by a strong representation of women among leaders and activists.

Conflict intensity reached a peak in Yemen in the first half of 2011. Hundreds of protesters were killed, more than 50 protestors on the so-called Friday of Dignity in March 2011 alone. In June of the same year, unknown assailants tried to assassinate then President Saleh, injuring him severely and killing several high-ranking politicians in the process.

Conflict intensity

9

After 2011, fights between tribes and clashes between security forces and various militant groups continued, and dozens of security personnel, including students of the police academy, were killed. There were assassinations and assassination attempts made on members of the security forces, high-ranking politicians, political activists, journalists and intellectuals.

Although fighting never got as bloody as in Syria, Libya and parts of Iraq, conflict intensity reached another peak in 2014, when the Huthis started an offensive against those who they held responsible for the spread of Saudi-sponsored Salafism and the six wars in Sa'dah between 2004 and 2010. They directly attacked AQAP and its affiliates in several governorates, sometimes in coordination with regular troops and perhaps even U.S.-led drone attacks. In summer 2014, the Huthis invaded the areas of Amran and Arhab close to the capital and, supported by local tribes, confiscated or destroyed the property of the al-Ahmar sheikh family, General Ali Muhsin and radicals like Abdelmajid al-Zindani. The number of casualties is unknown.

When, in August to September 2014, the Huthis took control over the capital Sanaa, the fights claimed about another 300 lives. That the security forces did not put up much resistance raised suspicions that the Huthis acted with the support of the former president. However, it might have been a wise decision of the political leadership, as the number of casualties would have been much higher had security forces resisted more strongly.

While parts of the population – irrespective of religious orientation – initially welcomed the Huthis, protests against armed militias in the cities started in late 2014.

Also, bomb attacks against Huthi-gatherings in Sanaa, as well as in other parts of the country, have been carried out with AQAP as the prime suspect.

Open conflict was often preceded or followed by attempts to settle matters in a peaceful way, such as the exchange of open letters between Abdelmalik al-Huthi and President Hadi in summer 2014, or the Peace and National Partnership Agreement signed by all major players, including the government, the Huthis, Hirak, Islah and GPC. However, such agreements are rarely put into practice as the developments of January 2015 show.

By the time of this report, the balance of power in Yemen is mixed and a new elite settlement has yet to be found. Traditionally strong Saudi-backed actors like the Islah party, including the Muslim Brotherhood, General Ali Muhsin and the al-Ahmar family, lost power and assets. Many of them left the country, often to Saudi Arabia. Also, the incumbent president lost control. If he tried to follow the example of his predecessor by putting up one opponent against another, it did not save his position. The role of former President Saleh is opaque, but he is still seen as a major political player, as indicated by the U.N. Security Council resolution against him (and two leaders of the Huthi movement) in November 2014. Whether there is really a tactical alliance between Saleh and the Huthis or whether their strategic interests just coincide temporarily, cannot be established for the time being.

II. Management Performance

14 | Steering Capability

The Government of National Reconciliation (2011 – 2014) identified its short- and mid-term priorities in the Transitional Plan for Stabilization and Development 2012 – 2014 (TPSD) but progress in actual implementation was slow. A decision to abolish fuel subsidies, which consume about one-third of the state budget, had to be revoked and was followed by the resignation of the cabinet in September 2014. A new cabinet, comprising of fewer political appointees and more technocrats than its predecessor, was sworn in in November 2014. It submitted its program in December and resigned in January. It faced the same dilemma as the previous one: the economic situation needs to take drastic measures, but the politically fragile situation does not allow such steps. It is difficult to imagine how any new government would manage to maintain its own priorities (defined in December 2014 as security, stability, economic recovery and solutions to problems with women and youth).

Question
Score

Prioritization
3

However, core elements of the Gulf Initiatives Implementation Mechanism such as the National Dialogue Conference or the drafting of the new constitution have been implemented in spite of all challenges.

In 2013, the donor community began to focus on economic issues. Given the rising prominence of the Huthis as well as AQAP, there is a risk that donor attention will be driven back to security issues at the expense of political and economic support and that military spending will remain high.

On the one hand, measurable progress has been achieved with regard to the GCC Implementation Mechanism. On the other hand, this progress was related to the work of the president and international support, and not to the cabinet or the prime minister. Also, the Transitional Program for Stabilization and Development 2012 – 2014 has not improved the situation of the Yemeni population as it was only partially implemented with delays. Mohammed Basindwa, prime minister from 2012 to 2014, could never establish his authority and Khalid Bahah, his successor, resigned after a few weeks. Meanwhile, the donor community was focusing on the priorities of the Mutual Accountability Framework (MAF), agreed upon with the Yemeni government in September 2012, without ever setting up a proper monitoring system for the MAF.

Due to the fragile nature of volatile political alliances, the appeasement and integration of political groups is likely to take priority over strategic priorities and impede the implementation of policies – as in the past.

Given the complex political situation, no definite statements about policy learning can be made. By early 2015, the record appeared mixed. Women and youth are still underrepresented in decision-making positions, and while the government program of December 2014 addressed relevant issues, the cabinet stepped down a little more than a month later.

President Hadi seems to have repeated the mistakes of his predecessor by recruiting officials close to him and/or from his home region, Abyan, and trying to play political opponents against one another. Sometimes it was unclear to what extent decisions were made by him or U.N. Special Advisor Jamal Benomar.

Inclusive approaches toward the Huthis and the southern movement were half-hearted and their real concerns were hardly addressed. Their exclusion from the decision to divide the country into six federal regions, taken by a small committee two weeks after the end of the National Dialogue Conference, put the whole transition process at risk.

On the other hand, there have been attempts to monitor the Transitional Program for Stabilization and Development, and the 2014 cabinet included a high number of technocrats.

Implementation
2

Policy learning
4

15 | Resource Efficiency

After 2011, most of the top-ranking officials of public sector institutions changed, including the security apparatus and oversight bodies.

Efficient use of assets

2

However, a restructuring of the public sector was delayed until the new constitution was adopted. Thus, many of the existing problems such as a bloated bureaucracy, incomplete decentralization, a lack of coordination within and among ministries, recruitment based on patronage, political loyalty and appeasement of potential spoilers prevailed. This led the Huthis to demand the resignation of the government and the appointment of more technocrats in the new government in late 2014.

Public finances are in a disastrous state and expenses for the security sector are much higher than the country can afford. Integrating Huthi followers into the public sector and security forces will aggravate the situation further.

The lack of clearly defined mandates between different state institutions (ministries and others) complicates coordination between different governmental institutions. In addition, the coalition government (2011 – 2014) represented different political interest groups and thus was not well positioned to produce coherent policies. Moreover, different donors, working with different institutions, apply different approaches and strategies.

Policy coordination

1

Corruption was one of the triggers of the youth revolution of 2011 as a culture of corruption hindered development and caused a widespread feeling among the populace that they were not getting an adequate share of what little there was to be had.

Anti-corruption policy

4

For many years, state resources were distributed via patronage networks, for example in the construction sector. Donors became sensitive to the problem of corruption and informal politics in the mid-2000s. They increased pressure on the Yemeni government, and the Yemeni government responded with numerous initiatives: the ratification of the U.N. Convention against Corruption (UNCAC) in 2005, Yemen's first anti-corruption law in 2006, the establishment of the Supreme National Authority for Combating Corruption (SNACC) in 2007, and efforts to join the Extractive Industries Transparency Initiative (EITI). In 2010, Yemen became the first Middle Eastern country to publish an EITI report (covering 2005 – 2007). The government also introduced a biometric identity system aimed at identifying nonexistent employees ("ghost workers" who collect salaries) in the public sector and issued a financial disclosure law for government officials, including the president and other high-ranking politicians. However, according to Law 6 of 1995, politicians are exempted from prosecution. Governmental anti-corruption bodies and civil society

organizations have openly called for the abolishment of this law and similar regulations.

Between 2011 and 2014, EITI suspended Yemen's status as compliant country three times. However, Yemen submitted annual EITI reports from 2005 to 2011 (the 2011 report was submitted in 2014) and in 2013 completed an UNCAC gap analysis. Also, there are renewed efforts to tackle the problem of ghost workers.

Nevertheless, and despite some donor support, governmental and non-governmental anti-corruption bodies are still too weak to take on cases involving powerful families. Moreover, the unclear legal status of SNACC since summer 2012 seriously impedes anti-corruption efforts.

16 | Consensus-Building

There is a rudimentary consensus among major political actors on the formal level – government parties and NGOs – as to the value of a market economy and democracy. The final documents of the National Dialogue Conference, especially of the working groups on state-building, good governance, independent institutions, rights and freedoms as well as transitional justice and sustainable development clearly reflect the ambitions of the 565 NDC delegates. However, established political power holders with vested business interests are not eager to put their positions at risk. More than once individuals, especially within the security apparatus, only accepted their dismissal after the direct intervention of U.N. Special Advisor Jamal Benomar in 2012 and 2013. Many youth protesters were not satisfied with the political compromise of 2011 and continued to demand that the former regime should be held accountable. Thus, when the Huthis presented themselves as the political power that would complete the revolution of 2011, they were initially supported by groups that had no relation to the past Huthi movement. They were seen as supporters of the disenfranchised majority, again indicating that framing conflicts in Yemen as the result of a “sectarian divide” does not explain much.

However, the experience of failed consensus-building in the early 1990s has left a lingering distrust of “uncontrolled democracy,” not only among the military and tribal elites but also among government officials and technocrats, most of who were also employed under the regime of Ali Abdallah Saleh.

In November 2014, the government and the private sector signed a formal memorandum of understanding to initiate public and private dialogue mechanisms. The new government's program of December 2014 clearly identified the obstacles that need to be dealt with to improve the business and investment climate and create sustainable economic growth in cooperation with the private sector.

Consensus on goals
3

According to the draft constitution, “the national economy is a free social economy” but as of early 2015, the state has very limited means to guarantee any kind of economic system. More often than not, strategies for developing a market economy are pushed aside by material interests of powerful groups.

Any new government will be challenged by members of former political and military elites, militias and new actors who have not yet proven their pro-democratic stance. 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 with assets abroad and good relations to regional powers such as Saudi Arabia, Qatar and Iran. A major obstacle for Yemeni democrats is the political intervention of powerful undemocratic neighbor states who compete for regional hegemony.

Anti-democratic
actors
2

During the Saleh era, the political leadership was frequently party to violent tribal clashes or even provoked them, as was the case with the Huthi rebels in the northern governorates, where the government engaged pro-government tribesmen.

Cleavage /
conflict
management
3

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

Cleavages within the former ruling coalition intensified in the mid-2000s. In particular, Ali Abdallah Saleh’s apparent effort to groom his son Ahmad as his successor alienated long-term tribal allies as well as members of the president’s own family or tribe occupying high positions in the Yemeni military. An increasing number of members of the Sheikh al-Ahmar family and the former commander of the Northwest Military Region, General Ali Muhsin Saleh al-Ahmar (who is not related to the Sheikh al-Ahmar family, but like the former president, is from the al-Ahmar village of the Sanhan tribe) felt bypassed. Hence, Ali Muhsin, then leader of the First Armored Division, declared his support of the protesters after the “Friday of Dignity” in March 2011. He remained one of the most powerful political players in Yemen even after the First Armored Division was officially dissolved and Ali Muhsin became advisor to President Hadi in 2013 – until the Huthis invaded Sanaa in 2014 and Ali Muhsin left for Saudi Arabia. Muhsin allegedly maintains close contacts with radical Sunni Islamists and his relationship with President Hadi is ambivalent.

Political parties can bridge regional cleavages only to a limited extent. The former single party of the People’s Democratic Republic of Yemen (PDRY), the Yemeni Socialist Party, never gained substantial support in the north. Thus, though the General People’s Congress (GPC) and Yemeni Congregation for Reform (YCR) have

gained strength in the southern part of the country, the Yemeni Socialist Party (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 changed from open antagonism to cooperation, showing that neither regional nor ideological cleavages are insurmountable in Yemen. The extent to which the former 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 would have run counter to the former president's usual divide-and-rule approach.

Obviously, President Hadi is not in a position to depolarize cleavage-based conflicts. The approach to set up popular committees (militias) against AQAP and its affiliates, as well as allegations that Hadi favors his home region of Abyan, raises questions about his ability to integrate as many political actors as possible. Also, when the Huthis attacked the Salafi center in Dammaj (Sa'dah) in 2013 and finally dissolved it, dislodging hundreds of students in the process, no decisive government intervention was observed.

The refusal of some Hirak segments to participate in the National Dialogue Conference in 2013/2014 and the push for independence of the south in 2014 have brought to light the depth of anti-northern feelings. President Hadi's failure to implement substantial points from the lists of measures to appease the south, which were prepared in the wake of and during the NDC, has done nothing to improve the situation.

Under the GCC Implementation Mechanism, the government is bound to take the input of civil society actors into consideration. NGOs were represented in the National Dialogue Conference (40 out of 565 seats) and influential civil society actors have played a significant role before, during and after the NDC.

Civil society
participation
5

However, in many public institutions, there is an observable resistance to the involvement of too many stakeholders in decision-making. The understanding that civil society has a role in good governance is still limited, even among otherwise reform-minded high-ranking officials. With a number of civil society activists appointed as ministers into the 2014 government, civil society was likely to gain a more powerful position in agenda setting as well as monitoring NDC outcomes. After the resignation of the government and the risk of breakdown of public services in parts of the country, civil society might become more important.

Many political and social forces claim that they have been the victims of past injustice and most demand compensation: the Huthis (“Sa’dah issue”) as well as the Southern Movement Hirak (“southern issue”), the victims of 2011 and their families, as well as quite a number of former ruling elites who spent the last decades in exile.

The government, as bound by the GCC Implementation Mechanism, officially recognized the need to deal with historical events perceived as acts of injustice. And while the Sa’dah issue and the southern issue as well as the victims of 2011 have been officially acknowledged, the transitional justice law recommended by the NDC has not been issued because there is no consensus about the period it should cover and hence the victims who are eligible for compensation. The immunity granted to former President Saleh in 2011 is yet another stumbling block. The transitional justice and looted funds draft laws were presented to the cabinet in June/July 2014 but were still not issued by early 2015. Whether the new constitution will improve chances for national reconciliation remains to be seen. Another open question is how to raise funds and ensure that the money is distributed to the victims. Hence, the overall situation requires a careful consideration of potentially conflicting side effects.

17 | International Cooperation

Overall, the Yemeni political leadership has sought to make use of international assistance, especially since the Gulf Cooperation Council Initiative was signed.

As in the past, collaboration with bilateral and multilateral donors in the civil sector was not well coordinated, and the state is still not able to absorb the aid that was allocated to it. The extent of military support by a number of countries is substantial but detailed information is scarce.

Despite belonging to a group of least-developed countries, development aid per capita is still low. During a donor conference in November 2006, nearly \$5 billion in aid, grants and loans were pledged to support Yemen’s third Development Plan for Poverty Reduction (DPPR) for 2006 – 2010. Reportedly, only about 10% of this had been disbursed by early 2011. Donor conferences in Riyadh and in New York in September 2012 brought even higher pledges. The coalition government as well as some donors seemed determined to avoid previous mistakes and in 2012 signed the “Mutual Accountability Framework” (MAF), an agreement intended to monitor donor disbursement, government absorption and commitment to reforms under the “Transitional Plan for Stabilization and Development 2012-2014,” which replaced the fourth DPPR. However, the Executive Bureau (the mechanism that collects and analyzes the data and coordinates the donors), sponsored by the World Bank and some other donors, only became active in mid-2014 and has not produced major results as of early 2015.

Reconciliation

6

Effective use of support

6

For decades, Yemen's political leadership has actively and successfully built and expanded upon a large number of cooperative international relationships. According to WikiLeaks, however, former President Ali Abdallah Saleh tried to use the U.S. and Saudi governments to weaken his competitor Ali Muhsin al-Ahmar and to raise political rents by exaggerating the terrorist threat to support his own networks. By early 2011 he had lost much of his credibility, which might explain the lack of support he received from his former allies.

Credibility
5

While Saleh's credibility was tarnished, his successor President Hadi presented himself as a reliable partner to the international community. Until he resigned (or at least tried to) in January 2015, he enjoyed broad international support from the United States, the European Union and the Gulf Cooperation Council states as well as from the Japanese and Turkish governments. The United Nations appointed a special advisor in 2011 who worked closely with Hadi. Also, the U.N. Security Council has passed several resolutions to support Yemen's transition process by clearly addressing President Hadi as the legitimate leader.

However, Hadi's obvious dependence on the international community did not further his legitimacy among the Yemeni population.

So far, AQAP's attempts to isolate Yemen from the rest of the world by attacking Yemeni and international targets in Yemen and abroad have not yielded the expected result. Their direct and strongest opponents, the Huthis, lost a lot of international goodwill when they put the president and some ministers under house arrest in January 2015 and threatened the members of the resigned cabinet with charges of treason (carrying a death penalty sentence) unless they resume work; this may affect Yemen's future international relations as well.

Knowing perfectly well that Yemen's future is dependent on the financial support of the members of the Gulf Cooperation Council (GCC) and on the political development of states in the Horn of Africa and the Middle East, the country's past and current political leadership promotes regional and international integration.

Regional
cooperation
9

Thus, Yemen is a signatory to the "Djibouti Code of Conduct," a regional initiative to fight piracy at the Horn of Africa. Yemen's long-term efforts to gain admittance to the GCC, however, have produced very limited results.

The decisions of the Saudi government that have had a major impact on Yemen's political and economic development are inconsistent. To some, the Saudi strategy seems to be guided by the dual objective to avoid state failure and promote stability in Yemen. This obvious lack of consistency could either reflect a strategy to keep Yemen in a fragile state or it could reflect the presence of conflicting strategies within the Saudi government. In 2012, Saudi Arabia (as well as the United Arab Emirates) provided oil and fuel to Yemen when Yemen suffered from severe energy shortages.

In 2013, Saudi Arabia transferred \$1 billion to Yemen's central bank, and additional aid pledges made by GCC countries are substantial.

Yemen mainly presents a growing security problem, especially for Saudi Arabia. There are reports about occasional clashes between Yemeni tribesmen and Saudi border guards, but security cooperation with Saudi Arabia seems generally good, and in July 2014, both states signed an extradition agreement. It cannot be confirmed whether Saudi airplanes were really deployed to attack militants on Yemeni territory between 2012 and 2013. While it seems likely, the Saudi foreign minister denied such reports; it is possible that the information was spread to undermine the Yemeni government.

In the absence of a comprehensive arrangement for Yemeni labor migrants to enter GCC states legally, illegal migration – especially to Saudi Arabia – continues to cause problems for both Yemeni and Saudi governments. In 2013, Saudi Arabia tightened the visa regulations for migrant workers and deported approximately 200,000 Yemeni workers, thus increasing the pressure on the Yemeni government and tainting its own reputation, as many of the returnees reported human rights violations. In October 2013, the Saudi foreign minister announced that all aid would be frozen, but in July 2014, Yemen received another \$235 million budget support. After the Huthi movement took control over Sanaa in 2014, Saudi Arabia officially stopped financial aid again – only to promise continuing support in early 2015, at least according to official Yemeni media.

Relations with Iran have been strained at times, and the Yemeni government accused Iran of supporting the Huthi rebellion as well as southern separatism. While this is likely, it has never been proven nor acknowledged by the Iranian government.

Additionally, relations with Turkey and Qatar have intensified, probably reflecting an effort by the Yemeni government to balance Saudi influence.

Strategic Outlook

For many years, Yemen has been discussed as an example of a failing state, despite surviving the impact of the Arab Spring. The combination of persistent political marginalization of new actors, poor government and donor performance, and an erratic strategy by major regional players has brought the country close to civil war. Under the current regional and economic conditions, more protests are expected and the country might fall apart.

While a technocratic approach was needed to address the country's many problems after 2011, actors who tried to change the balance of power, using violent means whenever they saw fit, dominated the scene. Those who brought about change have been sidelined, in particular youth and women. Also, the window of opportunity to establish a federal system might have closed during 2014 because the Huthis were not given the guarantee they needed to prevent re-marginalization. This bears the risk that frustration and anger among those who feel excluded from political decisions and material benefits will reach a new peak.

Key to the political and economic future of Yemen is the management performance of any new government and an inclusive approach; however, this creates a dilemma. The need to include as many political forces as possible might reflect negatively on the composition and thus performance of public administration. Much will depend on the outcome of the ongoing re-shuffling of the structure of the elite. While almost all core players came forward in 2014, a new stable elite coalition has yet to emerge.

Yemen is likely to receive international attention in the coming years, mainly due to the activities of Al-Qaeda in the Arabian Peninsula. This is 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 as it undermines any 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. The risk is that regional events (Syria, Iran, the Middle East conflict) will distract global attention and aid from Yemen at a critical moment and that "sectarianism" will be used as an explanation for the complex set of internal conflicts.

While state infrastructure is still limited in scope and effectiveness, and despite shortcomings and setbacks, democratic elements have spread and taken root. The National Dialogue Conference was successful and the draft for a new constitution has been prepared. Rising literacy rates among 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. The global community should closely monitor potential spoilers of the transformation process.

Fundamental challenges need to be addressed, including a weak national economy and ineffective administration, a private sector that can act freely but is hesitant to make major investments, high population growth, clientelism and unresolved domestic power struggles.

These challenges 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 continues.

External factors, particularly transnational terrorism, regional unrest, economic problems in the GCC states and their sometimes erratic approach towards Yemen will affect investment in and economic aid to Yemen. 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, 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 was the underlying cause of the massive protests of 2011.

Key strategic tasks are difficult to identify because the challenges are so numerous. Priority should be given to issues related to equal access to public services such as water, health and education rather than investing in the security apparatus and in military equipment, which might be looted by militias. The problem of fuel subsidies must be addressed, but in a more refined way than in 2014.

Continued efforts should be made to reduce corruption on all levels, improve local governance (whether Yemen will become a federal state or not) and strengthen the non-oil sector to ensure the provision of basic commodities.