

BTI 2008 | Yemen Country Report

Status Index	1-10	3.91	# 102 of 125	
Democracy	1-10	3.90	# 95 of 125	➔
Market Economy	1-10	3.93	# 101 of 125	➔
Management Index	1-10	3.95	# 94 of 125	

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

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	21.0	HDI	0.49	GDP p.c.	\$	828
Pop. growth ¹	% p.a.	3.1	HDI rank of 177	150	Gini Index		33.4
Life expectancy	years	62	UN Education Index	0.51	Poverty ³	%	45.2
Urban population	%	27.3	Gender equality ²	0.19	Aid per capita	\$	16.1

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under observation, Yemen continued to struggle with a number of problems that cannot be easily overcome. These include tribal challenges to the state's monopoly on the use of force, a legal pluralism that weakens the entire legal system, patronage and corruption, poverty and a poorly qualified labor force, military and security forces often employed in the interests of the elites, and a weak infrastructure. Added to these problems is the conflict between security forces and the Zaidi rebels and tribesmen in Sa'da, which has entered its fourth year. The Yemeni nation-state, while no doubt fragile, is not as endangered as has been portrayed by the international press. While the state is young, the idea of a cultural nation is not. So far, flaws in developing basic administrative structures are compensated for in part by other factors. There is a general consensus giving priority to making Yemen a prosperous, internationally respected and unified state with a distinct Islamic character, without turning the country into a theocracy. Moreover, Yemenis share a strong sense of national identity, which does not, however, preclude competition with tribal, regional or other identities. There have been some remarkable political developments during the review period that could indicate the country's return to the democratization it began in the early 1990s. The success of opposition forces in building a common platform is one key development. In the past, the government had pitted these groups against each other, benefiting from their violent conflicts with each other. Presidential elections in which the president faced a genuine competitor for the first time signify another central development. However, voters prefer the incumbent president and his clientele over an alternative leader who might prove too weak to keep the country together. Thus, even if the elections had been entirely free and fair, the results would not have changed. In the words of one of Yemen's leading politicians: "better to have a jinn that you know than a human you don't know." Economic developments in Yemen are not encouraging. High poverty rates, low GDP growth, diminishing oil and water resources combined

with high population growth do not bode well for the country's economic future. Much hope is currently pinned on gas production, though developing its hydrocarbon sector will not bring Yemen any closer to a market economy. Management capacities have not improved during the review period, but there are indications that the Yemeni government has acknowledged the need to fight corruption since the donor community reacted strongly to its increase in 2005.

History and Characteristics of Transformation

In 1990, the leaderships of the Yemen Arab Republic (YAR, North Yemen) and the People's Democratic Republic (PDRY, South Yemen) merged the two states – which contained fundamentally different social and economic orders – into the Republic of Yemen (RoY). The Yemeni Socialist Party (YSP) that ruled the PDRY had literally gone bankrupt after the collapse of the Soviet Union. Meanwhile, the YAR's nationalist leadership, organized in the People's General Congress (PGC), was faced with a growing Islamist current and in need of a more secular-oriented ally. The two leaderships agreed on a 50-50 power sharing formula, hoping to outmaneuver one another after unification.

The YAR had a liberal economic system and was governed by a conservative and autocratic, though on the whole weak, presidential system. Influential independent tribes in the north and northeast of the YAR kept a certain degree of autonomy. By contrast, the PDRY was a socialist country whose leaders destroyed much of the tribal structure and espoused the principles of a centralized and planned economy. However, both systems were of rather corporate character. From 1990 to 1994, the two parties that had previously acted as the only legal parties in their respective Yemeni republic tried to secure survival via political pluralism. During the first years of the Republic of Yemen, the government introduced democratic elements such as a multiparty system, unprecedented levels of press freedom, a referendum on the constitution in 1991, and multiparty parliamentary elections in 1993. The 1993 elections abolished the 50-50 power-sharing formula between the PGC and YSP, and resulted in a coalition of three parties: PGC, YSP and the newly-formed conservative-Islamist Yemeni Congregation for Reform (YCR), which was led by Yemen's most influential tribal figure.

However, (re-)privatization, unification of public companies and the legal system were slow, and several economic blows exacerbated the situation. Yemen's rejection of international troops to liberate Kuwait in 1990 led the Gulf states to expel Yemeni migrant workers, after which approximately 800,000 Yemenis were expelled from Saudi Arabia alone. Tourism has suffered from frequent instances of hostage-taking since 1992, and inflation and corruption have become virtually uncontrollable. The exploitation of recently discovered oil reserves, especially on the territory of the former

PDRY, intensified distribution conflicts on the leadership level. One year after the first parliamentary elections, in May 1994, the two former state leaderships entered into open warfare. The southern leadership received support from Saudi Arabia, but the northern leadership, that had not only employed its own military but also some segments of the former PDRY army and militias made up from tribesmen and militant Islamists, emerged victorious in July 1994. The 1994 disaster left the political elite with the understanding that political pluralism could result in separatism, and this attitude determined domestic policies at least until 1997. The constitution was amended immediately after the war, the Presidential Council was abolished, instead a president (elected by parliament in 1994) was to be directly elected in the future (with presidential candidates nominated by parliament), and Shari'ah was made the sole source of legislation, as had been the case in the YAR. Press freedom was restricted, many NGOs and parties lost their (YSP) funding. The regime silenced critical voices by labeling them separatists. Mounting debts forced the leadership to accept a structural adjustment program that started in 1995 which is still underway, with debatable results. Yemen's highly underdeveloped economy remains almost entirely dependent on the oil sector and has attained only a modest level of stability.

The Yemeni government seemed to return to its path of political liberalization with parliamentary elections in 1997, albeit only half-heartedly. The YSP boycotted these elections because its assets – confiscated in 1994 – had not been returned to it, thus rendering campaigning impossible. The PGC won an absolute majority, and the YCR, a coalition partner in government since 1993, became the dominant opposition party. It never fulfilled the same counterbalancing function as the YSP, however, which had opened the political space for various actors in the early 1990s. Having boycotted the 1997 parliamentary elections, the YSP was barred from nominating a candidate in the first direct presidential elections in 1999, while the YCR parliamentarians supported the incumbent president's candidature. To fill the void, the PGC named a competitor from its own ranks and President Ali Abdallah Salih won 96.2% of the votes. Another constitutional amendment in 2001, accepted by referendum, not only extended the term of the president from five to seven years and the term of the parliament from four to six years, but also weakened the position of the parliament (Majlis an-Nuwwab) vis-à-vis the executive.

The promise of decentralization, which harkens back to the early 1990s, progressed. Additionally, local and regional councils were elected for the first time in 2001, in concert with a constitutional referendum. The PGC dominated the municipal elections, and when parliamentary elections were held for the third time in 2003, the PGC gained 229 of 301 seats. The second municipal elections in September 2006 again brought an overwhelming majority for the PCG. Nevertheless, simultaneously held presidential elections saw a candidate supported by a number of opposition parties gaining more than 20% of the votes.

Transformation Status

I. Democracy

By around 2005, the method of trial and error that characterized the early 1990s seemed to have only resulted in a modernized version of the political system of the YAR. There are, however, a number of major differences. Party pluralism and decentralization have become generally accepted principles, a number of relatively critical newspapers are distributed in print and online, literacy is on the rise, national TV must compete with satellite stations, civil society organizations have gained roots and started to diversify and coordinate. A comparison between the uncompetitive presidential election in 1999 and the one in 2006 when five opposition parties presented their common candidate indicates that the political system of the RoY has overcome the period of stagnation, although the leadership has largely remained the same.

1 | Stateness

The state's monopoly on the use of force is established nationwide in principle, though there are some areas where tribal forces keep resisting what they perceive as the state's encroachment on their autonomy, especially when represented by security forces instead of any kind of services provided by the state. The male rural population is still armed, mainly for reasons of status, but clashes between tribesmen or between tribesmen and security forces are not unusual. A conflict with deeper political implications that began in 2004 between the military and the "believing Youth," followers of a rebellious Zaidi local leader (the Zaaidiyya is a moderate Shi'a sect that is predominant in northern Yemen, which represent the most "tribal" areas) in the northwestern part of the country had not been settled by January 2007. The government accuses Libya and Iran of supporting the rebels, who are led by members of the al-Houthi family, regarded as descendants of the Muslim prophet Muhammad. However, it is more likely that the government's heavy-handed approach to quelling the original conflict has affected numerous tribes in this nearly exclusively Zaidi tribal area that has never been fully controlled by any central government in Sana'a. The underlying conflict might also have to do with the competition between the indigenous Zaidi (whose style of Shi'a Islam is closer to the Sunni than Iran's "twelver" Shi'a) denomination and the Hanbali-Wahhabi Islam supported by neighboring Saudi

Monopoly on the
use of force

Arabia that has spread in the area in recent decades. There are rumors that President Ali Abdallah Salih, who hails from the northern Zaidi Sanhan tribe, has originally supported Husain Badr al-Din al-Houthi in an effort to counterbalance other forms of political Islam that spread in the area, but turned against al-Houthi when the movement became too strong. The truth may never be established because the government has imposed media silence and strictly controls access to the area.

All citizens have the same civic rights and the majority fundamentally acknowledges the state's constitution, which was first approved by referendum in 1991 and has been amended twice since then. The amendment of 1994 restored the Shari'ah as the sole source of legislation which affects women (personal status law etc.) and the tiny Jewish minority of less than 1000 members. So far no Jewish candidate has been allowed to run in parliamentary elections. Although the constitution reserves the presidential office to a male Muslim (it is the only public office to which such conditions apply), the committee that was responsible for the nomination of candidates for presidential elections in 2006 accepted female candidates. None of them got the necessary support from parliament and the Shura Council to run as candidate, however.

State identity

In January 2007, unknown actors threatened the tiny indigenous Jewish minority, exclusively settled in the province of Sa'da, where conflicts between followers of the al-Houthi family and security forces have increased general tension in the atmosphere. According to some sources, no comparable incident has been reported for decades or even centuries. A government official blamed the al-Houthi followers, but a member of the al-Houthi family rejected this accusation. In any event, local tribal (Muslim) sheikhs and the government came to the support of the members of the threatened families. The prime minister explicitly declared that the state was responsible for protecting its citizens, Jewish or Muslim.

While the state functions as a secular order with modern institutions, religious dogmas have been part of the legal and political sphere for centuries, and the Shari'ah has officially remained the sole source of legislation except in the PDRY (1967 – 1990) and in the RoY (1990 – 1994). Unlike in other Arab countries, however, religious institutions do not interfere in politics. In practice, religious, tribal and state laws of varied origin regulate public and private life.

No interference of religious dogmas

It must be taken into consideration that state-building in the modern sense only began in the 1970s, after the two Yemeni republics had been established in the 1960s. Unification in 1990 put additional stress on the area's underdeveloped structures. The current state infrastructure and its power to govern have begun to extend beyond maintaining law and order, but there still is a physical shortage of various elements of infrastructure, including courts, police stations, social service

Basic administration

and appropriately trained state employees, particularly in rural areas. Commendable decentralization measures, which resulted in local elections in 2001 and 2006, are hampered by a lack of financial and human resources.

2 | Political Participation

In practice, Yemen has a multiparty system since 1990, though this has only been explicitly anchored in the constitution since 1994. General local, parliamentary and presidential elections, which are supervised by the formally independent Supreme Committee for Elections and Referendums (SCER) are held regularly and accepted in principle as the means of filling leadership positions. While domestic and foreign observers can work freely, however, the PGC dominates the SCER. The EU Election Observation Mission reported additional problems like unequal chances during campaigning and irregularities during registration, voting and counting in the 2006 elections. Five parties, including the YSP, are currently represented in the Yemeni parliament, but the PGC holds an overwhelming majority. The YCR is the only opposition party to be reckoned with, but its leadership tends to enter into informal agreements with the PGC. In the presidential elections in 2006, the YCR chairman openly supported President Salih's candidacy in spite of the fact that YCR and four additional other opposition parties, including the YSP, nominating their own candidate.

Free and fair elections

Elected rulers have the power to govern in principle, but they simultaneously represent particular interest groups that are engaged in a constant informal negotiation process. The president represents the military while the speaker of parliament represents traditional rural elites and business interests.

Effective power to govern

There are partial constraints that are not consistent with democratic principles and not covered by any legal provisions on the freedom of association (the Union of Populist Forces is a case in point of this) As a rule, however, there are no prohibitions on parties or social organizations. The only NGOs that the concerned ministry refuses to register (without any legal basis) are those concerned with corruption.

Association / assembly rights

While the core elements of a public sphere and of public debate exist, they are vulnerable to distortion and manipulation through considerable intervention by government agencies and unidentified gangs that have in the past attacked journalists who report cases of corruption. Such tendencies are exhibited by the fact that, in 2006, Reporters Without Borders ranked Yemen 149th among 168 countries.

Freedom of expression

3 | Rule of Law

Checks and balances are weak. The executive branch has long dominated politics informally, and this position has been increasingly formalized by constitutional amendments in 1994 and 2001. Additionally, the overwhelming majority of the “president’s party” in parliament and the de facto weakness of the judiciary serves to concentrate power in the hands of the president and the executive branch. However, parliament – including PGC members – has increasingly shown ambitions to struggle for independence and a reform of the judiciary is on the way.

Separation of powers

The judiciary is institutionally differentiated, but judges avoid challenging authorities. As of 2006, the president no longer heads the highest judicial council, though he still appoints its chairman. Moreover, the judiciary’s functioning is restricted by corruption and lack of resources. Especially in rural areas, legal cases are still dealt with by traditional elites simply because there are no functioning courts.

Independent judiciary

Corrupt officeholders, especially influential ones, are not prosecuted adequately under the law. Only lower-ranking officials are occasionally dismissed or sent into early retirement. While high-ranking officials have attracted adverse publicity, recently, journalists who cover such cases risk physical attacks, jail sentences, or both. The affairs of the leadership of the military and security apparatus – i.e., the president and his relatives – are completely beyond public control.

Prosecution of office abuse

Civil rights are violated temporarily and cannot be implemented in some parts of the country. There are civil rights violations by state and non-state actors who are not persecuted. The “war on terror” has negatively affected civil rights. Especially in tribal areas, this has sometimes led to militant clashes between security forces and alleged terrorists, and to the subsequent arrest of hundreds of suspected militants.

Civil rights

4 | Stability of Democratic Institutions

Some democratic institutions exist and sometimes challenge the executive, but they are subject to intervention and manipulation by the executive branch and have a number of shortcomings, including inadequate funding and lack of qualified personnel. The president’s announcement in October 2006 that the heads of local and provincial councils will no longer be appointed but elected has the potential to contribute to the stability and efficiency of institutions below the national level.

Performance of democratic institutions

While democratic institutions are accepted in principle, strong actors like the military and tribal figures hold vetoes, and think of offices as personal fiefdoms that can be passed on to their offspring and successfully avoid playing by the rules. President Salih, for example, is supreme commander of the armed forces and his son and other relatives occupy many influential positions in the armed forces.

Commitment to democratic institutions

5 | Political and Social Integration

Though to some extent socially-rooted, the party system that has developed since 1990 is still somewhat shaky. Fragmentation is low (L-T Index 1.65), polarization and voter volatility appear lower than in the 1990s (though there are no recent data to confirm this observation) and coordination among opposition parties has reached unexpected dimensions. Five parties are represented in the 301-member parliament and most of them have fielded candidates in all three elections since 1993. After sometimes-deadly confrontations in the early and mid-1990s, the leaders (and to a lesser extent the members) of YCR and YSP found common ground in a joint reform program of five parties published in late 2005 and coordinated activity in the 2006 presidential and municipal elections. While cooperation on the national level was rather smooth – apart from the fact that the chairman 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 PGC. However, party programs offer few alternatives and the party leaderships of ruling PGC (and opposition YCR share a long history of “gentlemen’s agreements.”

Party system

In spite of some positive developments, the topography of interest groups is meager and important social interests are underrepresented. NGOs, in particular human rights groups of different types, have flourished and are more organized and differentiated than ever, and the journalists’ syndicate has made some remarkable achievements. However, such interest groups are almost entirely based in major cities, whereas 3/4 of the population live in the rural areas and hardly have any formal representation.

Interest groups

Figures of voter participation (which measured 64% in 2006) and the fact that political protests do not call the constitutional framework into question would seem to indicate that consent to democracy is moderate to high. However, despite a general commitment to democratic procedures, they do not constitute a priority agenda item for the majority of the population, and several members of the ruling elite show no commitment to democracy at all. Some, like the speaker of parliament and chairman of YCR, are still publicly suspicious of party pluralism.

Consent to democratic norms

There is a robust but heterogeneous web of autonomous, self-organized groups, associations and organizations, and solid trust among most parts of the population. However, self-organization is not institutionalized and usually restricted to the members of the same family or village. No love is lost between rural (especially northern tribal) elites and urban elites in the southeastern parts of the country, and political parties and NGOs can bridge regional gaps only to some extent.

Associational
activities

II. Market Economy

Since 1995, Yemen has been going through structural adjustments that have improved macroeconomic performance but have – through reduction of subsidies on food and energy – contributed to rising poverty. The liberal investment law (law no. 22 of 1991) was modified in 1997 to allow a 100% ownership of companies to foreign investors. Investment capital and profits can be transferred without limitations on amount or currency. However, it is important to bear in mind that the key source of revenue is oil exports when evaluating Yemen's economic indicators. The country has developed into a rentier state over the last decade, albeit one of the poorest of its kind. Hence, measuring the degree of economic liberalization and focusing on its relationship to democratic development illustrates little. More important are factors like impediments to the investment climate or the economic vulnerability that results from the dependency on oil exports, such as the volatility of the oil price and the limited proven reserves if crude oil, are estimated at only 4 billion barrels.

6 | Level of Socioeconomic Development

Social exclusion is quantitatively and qualitatively extensive and structurally ingrained, mainly due to poverty, lack of education or gender-related income inequality. Taking into consideration that most farmers live at the subsistence level, and another major part of the workforce is working in the informal sector, one may conclude that the majority of the population is excluded from market-based socioeconomic development. The country's Gini Index figure measured is 33.4 in 1998, the Human Poverty Index 2005 lists Yemen as the worst performer among the Arab states. According to the Human Development Report 2005 (which was based on 2003 data), 45.2% of the population live below the poverty line of \$2 a day. Although the adult literacy rate reached 49% (while youth literacy rate measures 67.9%) it is significant that it measured only 28.5% among females over the age of 14 in the early 2000s.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	9,903	11,007	12,993	15,066
Growth of GDP	%	3.9	3.1	2.5	2.6
Inflation (CPI)	%	12.2	10.8	-	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.2	-0.8	1.1	-1.8
Export growth	%	8.3	2.5	-8.1	4.7
Import growth	%	6.3	8.1	0.6	15.4
Current account balance	\$ mn.	538.2	148.7	224.6	1215.1
Public debt	\$ mn.	4,497.4	4,744.5	4,799.3	4,717.1
External debt	\$ mn.	5,224.5	5,375.4	5,488.4	5,362.6
External debt service	% of GNI	1.9	1.8	1.9	1.6
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	16.7	16.7	16.2	15.7
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.9	2.2	1.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	7.2	7.1	6.3	7.0

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Market competition operates under a weak institutional framework. Apart from strategic sectors (oil, gas) it takes the form of “spontaneous” barter capitalism. Uniform rules for all market participants are sporadic. The introduction of a sales tax law to replace the 1991 tax law has been postponed for more than 5 years, and there is substantial (informal) state intervention in and control of strategic sectors and the military has its share in the private sector. Food and energy subsidies

Market-based
competition

have been partly lifted, which in turn increased poverty and led to limited forms of social unrest. According to the IMF, establishing a business is not an easy task; it takes 63 days.

The formation of monopolies and oligopolies is regulated only occasionally, no recent cases have been observed.

Anti-monopoly policy

Yemen has applied for WTO membership and has opted for a liberal economic policy, privatizing most of the state-owned companies of the former PDRY. Foreign trade is liberalized in principle and tariffs remain at a maximum of 25%. Information on possible exceptions, including differentiated tariffs and special rules for individual companies or sectors, was not available.

Liberalization of foreign trade

Although Yemen's central bank is financially and administratively autonomous by law and some international banks are represented in Yemen, a 2006 World Bank report characterizes the Yemeni banking sector as "underdeveloped" and marred by "serious structural and institutional problems."

Banking system

8 | Currency and Price Stability

Controlling inflation and crafting an appropriate foreign-exchange policy are recognized goals of economic policy. For about a decade the Yemeni rial has been freely convertible. Though it has dropped from YER 20 to nearly YER 200 against the dollar during that time, it seems to have been relatively stable over the last two years. According to World Bank data, the inflation rate rose to 20% in 2005 after three years of relative stability at 12% (IMF figures differ). It must be noted, however, that increasing inflation partly results from the gradual lift of fuel subsidies, implemented in 1998, 2000, and 2005. According to the World Bank, the government does not employ all available instruments to curb inflation.

Anti-inflation / forex policy

The only form of "culture" of a policy for economic stability is imposed on the government by international financial institutions. The government, on the other hand, is trying to balance the politically unsettling effects of the demands of international financial institutions by delaying their implementation or by softening and counterbalancing them, through tactics such as pay rises in the public sector that were definitely necessary but also have the effect of increasing the inflation rate. Increased oil income is consumed immediately: the budget for 2007 is 40% higher than the 2006 budget.

Macrostability

9 | Private Property

The law formally defines property rights (Intellectual Property Rights Law, law No. 19 of 1994) and the regulation of the acquisition of property. However, lack of documentation, complaints about fraud, and constant and sometimes violent struggles over landownership indicate severe problems and have negative repercussions on the investment climate. State institutions are not in control of the situation.

Property rights

Private companies can act freely in principle, but encounter economic, political, and social barriers to development in the form, respectively, of infrastructural deficiencies, corruption, and a shortage of qualified labor force. State companies dominate some strategic business sectors. International companies dominate the hydrocarbon sector, but their contracts are managed by the Yemen General Corporation for Oil & Minerals that reports to the Ministry of Oil and Mineral Resources.

Private enterprise

10 | Welfare Regime

A modest social insurance system covers only civil servants. Support for the elderly, the ill and the unemployed is generally left to family, tribe and village structures or private welfare organizations – where they exist. The World Bank and other donors set up a Social Fund for Development (SFD) in 1997, which entered its third phase in 2005 with an aimed at reaching 40% of Yemen's poor population with basic services. The first poverty reduction program was begun in 2003. Foreign donors support both projects because the capacity of the Yemeni state to provide social service is weak and policies of different ministries appear uncoordinated. The fact that the majority of Yemen's poor live in remote villages makes providing basic social services an arduous task. Few figures are available, however, public health expenditures reach only 2.2% of GDP, slightly under the 2.5% average given by the UNFPA for Arab states 2006.

Social safety nets

There are few institutions to compensate for gross social differences based on poverty and gender. According to the HDR 2005, school enrolment is only 69% among Yemeni boys, while the corresponding rate for girls is only 41%. Women are underrepresented in the private and public sectors and in high government offices. There is only one female parliamentarian and two female ministers. Government, donors and Yemeni NGOs are trying to improve the situation but increasing poverty does not allow many parents to pay for school equipment for all their children, given that the average fertility rate is 6.2. As they are seen as future breadwinners, boys are more likely candidates to be sent to school.

Equal opportunity

11 | Economic Performance

Structural adjustments have stabilized the Yemeni economy only to some extent, and the situation seems to have worsened in recent years. Population growth, although declining (the UNFPA estimates 3.1% between 2005 and 2010), is about as high as GDP growth. Inflation is rising and unemployment is high – while no reliable data is available, estimates range between 18 and 40%.

Output strength

12 | Sustainability

Donors and local NGOs have started a number of programs and campaigns but in general environmentally supportable growth receives only occasional consideration and has hardly any institutional underpinning. The National Water Strategy of 2005 has not been implemented properly. Prime Minister Bajammal has invited investors to initiate tourism projects on Yemen's more than 130 islands, including Soqatra, which is home to several thousand citizens and a biological treasure because of its numerous indigenous species. In May 2006, however, he declared Soqatra and the other islands empty and devoid of any human beings and thus open to unlimited exploitation. Public awareness of limits of water resources and other environmental issues is generally low (except those parts of the population who already suffer from the effects). This is particularly evident in the water sector, where existing resources are constantly overused without any decisive structural intervention. The extensive cultivation of the qat plant (a stimulant chewed by the vast majority of the population) puts additional strains on the scarce resources.

Environmental policy

Institutions for education and training have been established since the 1970s, but as enrolment ratios indicate, they are not accessible for significant parts of the population, especially in rural areas. Public expenditure for education from 2000 to 2002 has been estimated at 9.5% of total government expenditure, while research and development facilities are almost nonexistent. Data for public expenditure on research and technology is not available. In the face of Yemen's rampant population growth, institutions for education and higher education – despite substantial investment – are hopelessly overburdened, although private institutions also exist. As a result, the quality of education is low.

Education policy / R&D

Transformation Management

I. Level of Difficulty

Several factors put high structural constraints on governance, including poverty, shortage of educated labor force, tensions among tribes and between tribes and government, severe infrastructural deficiencies dating back to the pre-1970s and the fact that the majority of the population lives in small scattered settlements that cannot be easily fitted with basic infrastructure.

Structural
constraints

Yemen has moderate traditions of civil society that found its expression via such avenues as the self-help organizations of labor migrants in the 1940s or a cooperative movement in the 1970s that was absorbed into the local administration and the PGC in the early 1980s. Since unification NGOs have been on the rise in urban areas, engaging in election observation, human rights education and women's rights. However, most of them have only a very limited or no appeal to the general public and many suffer from shortage of funding and skills and manipulations by the ruling elite and political parties.

Civil society
traditions

While small arms are mainly a status symbol (the male population in rural Yemen is generally armed) and fighting between tribes or tribes and security forces does occur, it is usually limited in scope. Clashes between Zaidi rebels and security forces that have been going on since 2004 in the northern province of Sa'da are of a different quality, however.

Conflict intensity

II. Management Performance

To understand the trend of mismanagement in Yemen, one must take into consideration that the country's tradition of statehood dates back only to the mid-1960s. Since then, the country has basically been ruled by a coalition of tribal and military elites and technocrats who share some, but not all, political positions. Many of them have lived through the YAR civil war, which followed the overthrow of the Imamate and lasted from 1962 to 1970 and can to some extent be characterized as a proxy war between Egypt and Saudi Arabia, as well

as several border clashes, the PDRY civil war of 1986 and the war of 1994. This allowed the tribal and military elite to build up huge personal networks that overlap and are intertwined with comparatively weak democratically elected institutions on the national and local level. The ruling elites do not seem ready to give up their political resources, and among the majority of the population there is generally more trust in a patron than in any government institution.

14 | Steering Capability

The political leadership claims to pursue long-term aims, but often political bargaining and the demands of important constituencies are given priority. These gentlemen's agreements, however, ensure that political disagreements between the members of the leadership are usually solved peacefully. Donor organizations have a certain degree of influence, but the levels of ODA received by Yemen are relatively low, amounting to only one-third of that received by the average of LDC, according to the World Bank. If the government pursues long-term goals, they do not necessarily correspond to democracy or a market economy but rather to the demands of clientelistic networks. Moreover, the war on terror has improved the position of the status-quo oriented security forces vis-à-vis reform-oriented actors in the civilian government.

Prioritization

Parts of the government seek to achieve reforms. However, as many of these reforms run counter to the vested interests of influential groups dominating the executive and the parliament, the government is hesitant to implement them (sales tax, decentralization etc.) unless pushed and supported by the international community. This does not mean that all measures suggested by the donor community should be regarded as appropriate.

Implementation

Changes in foreign policy strategies, in particular on the regional level, show that in principle the political leadership is capable of responding to mistakes and failed policies without necessarily a change in its attitudes. With regard to domestic policy the leadership remains mostly stuck in the same routines.

Policy learning

15 | Resource Efficiency

The government uses only some of the available resources efficiently. The bureaucracy is bloated and inefficient and too much of the scarce resources are spent on weapons and military equipment. Military expenditure, which amounted to 5.8% of GDP in 2005, by far exceeds other key areas, such as public health expenditures, which account for only 2.2% of GDP. Hiring and promotion seem influenced by political considerations, especially in the former PDRY regions. The YSP openly complains about their members being

Efficient use of assets

unofficially banned from getting jobs in the public sector. Equally burdensome are the entrenched patronage structures in the lower ranks of the bureaucracy, because taking care of one's relatives is a must in the absence of a functioning social security network. Donors have become sensitive to the problem of corruption and informal politics and have increased pressure on the Yemeni government. The rising degree of corruption led the World Bank to cut its aid to Yemen in 2005. In December 2006 the Yemeni government responded with the "National Reform Agenda" and Yemen's first anti-corruption law.

The government tries to coordinate conflicting objectives and interests, but intra-governmental friction, redundancies and lacunae remain significant. A mid-2006 World Bank report confirms the lack of integrated approaches, transparency and consistent criteria on the ministerial level.

Policy coordination

Large portions of the state are controlled by private interest groups (state capture); resources of the state are distributed via patronage networks, for example in the construction sector; corruption has become a fundamental characteristic of the administrative and state culture. Whereas Yemen's score on Transparency International's Corruption Perception Index declined seriously from rank 88 (of 133 countries) in 2003 to 112 (of 145 countries) in 2004, the World Bank cut its funding due to the high level of corruption in 2005. However, formal measures taken to reduce corruption (the latest being the anti-corruption law of December 2006) seem to have at least stopped the situation from deteriorating. In 2005 Transparency International listed Yemen at rank 103rd (of 158 countries) and in 2006 on rank 111th (of 163 countries). In November 2006, the over 40 participants of a donor conference promised nearly five billion dollars in aid, grants and loans for Yemen's third strategic five-year development plan, which would span from 2006 to 2010!

Anti-corruption policy

16 | Consensus-Building

There is a rudimentary consensus among the major political actors on market economy and democracy. However, this obviously does not extend to the notion that democracy should be introduced at the cost of the incumbent elite. Established political power holders with vested business interests do not seem eager to put their positions at risk. Moreover, the experience of failed consensus-building in the early 1990s has left some distrust against "uncontrolled democracy," not only among the military and tribal elites but also among government officials and technocrats.

Consensus on goals

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

Anti-democratic veto actors

Although the political leadership is attempting to prevent cleavage-based conflicts from escalating, it sometimes becomes a party to violent tribal clashes and even aggravates them, as in the case of the Zaidi cleric and his family and followers in the northern governorate of Sa'da since 2004. Moreover, the war between North and South in 1994 and the heavy-handed government policy thereafter left parts of the population in the South with the impression of having been colonized by the north. In recent years, the leadership has somewhat improved the manner in which it deals with the population of the former PDRY. However, the former single party of the PDRY, the Yemeni Socialist Party, never really managed to muster substantial support in the north. Thus, in spite of PGC and Islah gaining strength in the southern part of the country, the YSP can only claim to represent the interests of the south. However, even this claim is not very substantiated: in the last parliamentary elections in 2003, Islah gained more votes than the YSP in the former PDRY regions. All the same, cooperation between YSP and Islah has intensified in recent years, showing that neither regional nor ideological cleavages are insurmountable in Yemen. The extent to which the political leadership was involved in shaping the opposition coalition of Islamists and Socialists in order to ease integration of the former PDRY, is a matter of speculation. It should be noted, however, that such a strategy runs counter to the usual divide and rule approach of the political leadership.

Cleavage / conflict
management

The political leadership frequently ignores civil society actors and, with few exceptions like the NGO law, formulates its policy autonomously, apart from the constraints formulated by IFI and donors. Intellectuals and journalists critical of the government face kidnapping, beating and jail sentences.

Civil society
participation

The leadership in principle recognizes the need to deal with historical acts that are perceived as injustice by parts of the population. However, as the current leadership has been party in some of these perceived injustices, it does so on its own terms. While the leaders of the failed separation attempt in 1994 have been pardoned and many refugees returned to Yemen, assets confiscated from the YSP and its members have not been returned.

Reconciliation

17 | International Cooperation

Overall, collaboration with bilateral and multilateral donors is unspectacular. The political leadership works with bilateral and multilateral international donors and tries to make use of international assistance. However, this does not facilitate significant policy learning and improvement. The reasons for the government's reluctance to implement some measures are obvious, insofar as lifting subsidies, for example, increases poverty and thus undermines the legitimacy of the government. It also affects vested business interests involved in the smuggling of subsidized goods, which is all the more significant insofar as

Effective use of
support

these groups are allegedly close to the leading families.

The government takes great pains to present itself as a reliable, predictable partner, although it is not uncommon for it gloss over the shortcomings detailed above. The campaign against militant Islamism is one means to prove the government's commitment to establishing itself as a reliable partner in the United States' coalition in "war on terror." Border agreements with neighboring countries and renewed efforts to join the Gulf Cooperation Council (GCC) and the WTO have served to improve the credibility and reliability of Yemen's foreign policy. However, major international actors, including the World Bank and the GCC still express doubts regarding its reliability in both political and economic spheres. In late 2006, it was rumored that the GCC demanded the replacement Yemeni Prime Minister Abd al-Qadir Bajammal.

Credibility

The political leadership actively and successfully builds and expands as many cooperative international relationships as possible. Knowing perfectly well that Yemen's future is dependent on the financial support of the members of the GCC and the political development of the states of the Horn of Africa, the political leadership promotes regional and international integration. Its long-term attempt to gain admittance to the GCC, however, have produced only limited results.

Regional cooperation

Strategic Outlook

Yemen's political system can still be characterized as semi-authoritarian. On the one hand, democratic elements have spread and taken root within a short time in a fairly authoritarian regional setting. Rising literacy among the younger generation, increasing proficiency among Yemeni journalists, networking between Yemeni NGOs (including the Journalists' Syndicate) and international NGOs all serve to stimulate further democratization and raise public awareness of what good governance could be. Decentralization is progressing and the fact that relations among opposition parties have changed from confrontation to cooperation portends a stronger parliament after the 2009 elections. The GCC monarchies have developed a more cooperative and constructive way of engaging with the only republic on the Arabian peninsula, and many potential spoilers of the transformation process have lost their funding.

On the other hand, fundamental shortcomings such as the weak national economy, corruption, patronage, and rivalry between the central government and the tribes and regions remain, and there is no guarantee that the chosen path of transformation is sustainable. The structural flaws of Yemen's economy will continue in the intermediate future as oil production is secured for some time and gas reserves will be able to be marketed extensively in a few years. However, even oil prices over \$50 barrel at current production levels will not be enough to accommodate the demands of a rapidly growing population which seems loathe to acknowledge that Yemen is running out of oil. In short, Yemen will remain dependent on the donor community.

Rampant population growth, institutional inadequacies and unresolved domestic power struggles concerning the issue of succession loom large as obstacles to transformation. In contrast to neighboring Gulf monarchies, the traditional shortage of state services in Yemen has kept its population rather self-reliant. But the government needs to address the problems of the rural population, many of whom live according to tribal or customary rules that are much more deeply entrenched than state law. The government also must learn to respond in a more responsible fashion to challenges from former political elites, be these from pre-unification or pre-revolutionary times.

However, there is a growing sense of inequality among the population, not so much in legal but in economic and political terms. This has the potential to erupt in violent protests, which in turn would take distinct forms in urban and rural and in tribal and non-tribal areas. Unfortunately, the Yemeni government has not improved upon its capacity to deal with local unrest. International and

regional developments are another factor to be dealt with. External actors have been involved in many, if not most previous major violent conflicts. Having joined the anti-terror coalition has provided the Yemeni government with additional rents. If the government can portray the ongoing unrest in Sa'da as part of a region-wide Iranian plot, it will be able to extract even more rents from the international community. Clearly however, none of this will facilitate transformation toward a market-based democracy.

Therefore, key strategic tasks lie in the areas of reproductive health and family planning, diversification of the national economy, the reduction of water consumption via qat production, continued efforts to strengthen institution-building and increase transparency, more investment into female education and the educational system in general, rather than the security forces, improvement of the social security network and further decentralization. However, there is absolutely no certainty that the current elite can muster the creative management skills necessary to accomplish these tasks.