

BTI 2010 | Yemen Country Report

Status Index	1-10	4.08	# 105 of 128	
Democracy	1-10	4.23	# 87 of 128	➔
Market Economy	1-10	3.93	# 107 of 128	➔
Management Index	1-10	4.04	# 96 of 128	

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

This report is part of the Transformation Index (BTI) 2010. 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 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	22.4	HDI	0.58	GDP p.c.	\$	2329
Pop. growth	% p.a.	3.0	HDI rank of 182	140	Gini Index		37.7
Life expectancy	years	63	UN Education Index	0.57	Poverty ²	%	46.6
Urban population	%	30.1	Gender equality ¹	0.14	Aid per capita	\$	10.1

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Throughout 2007 and 2008, economic and political reforms in Yemen continued at a very slow pace. Yemen's leadership has largely remained in control of the political system, although party pluralism and decentralization have become generally accepted principles. Opposition parties have started to cooperate in government and civil society organizations have developed roots.

Yemen continued to struggle with a variety of ongoing structural problems in 2007 and 2008. These problems included challenges to the state's monopoly on the use of force, local unrest, legal pluralism, patronage and corruption, high population growth, a weak infrastructure, poverty, and a poorly qualified labor force. In 2007 and 2008, new challenges arose such as food insecurity (Yemen imports 75% of its food), the effects of the 2008 floods (the worst rains and flash floods in a decade), intensified activities of al-Qaeda affiliated terror cells, dramatically rising numbers of African refugees and the activities of Somali pirates that harm the Yemeni economy in multiple ways. Rising popular discontent with Yemen's economic and political development led to recurring demonstrations and sit-ins protesting unemployment and high prices vis-à-vis low salaries (and pensions) in most governorates. For the first time since the mid-1990s, southern activists openly called for secession in summer 2007.

Prospects for economic and political development in Yemen are not encouraging. Low enrollment ratio, insufficient GDP growth, depleting oil and water resources combined with unstable oil prices do not bode well for the country's economic future. Yemen pins much of its hope on natural gas production, though further developing its hydrocarbon sector will not bring the country any closer to a socially responsible market economy. Despite a growing non-oil sector, oil exports remain Yemen's key source of revenue. The country has developed into a rentier state over the last decade, albeit one of the poorest of its kind.

Yemen has also undergone some positive developments. Its regulatory framework improved slightly, and the Yemeni government has started to tackle corruption after the donor community

in 2005 reacted strongly to rising levels of it. Yemen's population growth rate has declined, its non-oil sector has grown, the first liquid natural gas (LNG) plant is scheduled to start production in mid-2009 and the conflict in the northwest of the country seems to have ended – even though from the vantage point of early 2009, this peace appears extremely fragile.

History and Characteristics of Transformation

In 1990, the leaders of the Yemen Arab Republic (YAR, North Yemen) and the People's Democratic Republic (PDRY, South Yemen) merged the two states into the Republic of Yemen (RoY). The Yemeni Socialist Party (YSP), which had ruled the PDRY since the withdrawal of the British colonial power in 1967, had gone bankrupt after the collapse of the Soviet Union. Meanwhile, the YAR's nationalist leadership in North Yemen, organized in the People's General Congress (GPC), faced a growing Islamist current and sought 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 rather liberal economic system and was governed by a conservative and autocratic, though on the whole weak, presidential system. Influential tribes in the YAR's north and northeast 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. A single party of rather corporate character ruled in both systems.

From 1990 to 1994, the two dominant parties 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 constitutional referendum in 1991, and multiparty parliamentary elections in 1993. The 1993 elections abolished the 50-50 power-sharing formula between the GPC and YSP and resulted in a coalition of three parties: GPC, 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 reform of the legal system progressed slowly. Several economic blows exacerbated the situation. Yemen's rejection of international troops to liberate Kuwait in 1990 led the Gulf states to expel nearly one million Yemeni migrant workers. Since 1992, tourism has suffered from frequent instances of hostage taking. Inflation and corruption became virtually uncontrollable. The exploitation of oil reserves, especially on former PDRY territory, intensified distribution conflicts on the leadership level. In May 1994, the two former state leaderships entered into open warfare. The northern leadership, employing its own military, 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. This attitude continues to determine domestic policies. The new postwar government amended Yemen's constitution following the conflict. It abolished the Presidential

Council and set up a system whereby the president (elected by parliament in 1994) would be directly elected in the future (with presidential candidates nominated by parliament). Shari'ah became the sole source of legislation, as had been the case in the YAR. The new regime restricted press freedom, stripped many NGOs and parties, including the YSP, of their funding, and silenced critical voices by labeling them separatists.

Mounting debts and an inflation rate of 55% forced the leadership to accept a structural adjustment program that started in 1995 and is still underway. Overall, it has produced mixed results. In the second half of the 1990s, however, Yemen reduced its debts with Paris Club creditors.

At the same time, the Yemeni government appeared to return to its path of political liberalization with parliamentary elections in 1997. The YSP boycotted these elections because the regime had confiscated its assets in 1994, thus rendering campaigning impossible. The GPC won an absolute majority, and the YCR, a coalition partner in government since 1993, became the dominant opposition party. 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 supported the incumbent president who won 96.2% of the vote. Further constitutional amendments 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 parliament's position (*majlis an-nuwwab*) vis-à-vis the executive. Nevertheless, the GPC gained 229 of 301 seats in the 2003 parliamentary elections. Shortly thereafter, in 2004, a rebellion broke out in the north of the country, which in spite of massive military deployment and human rights violations, the government failed to suppress. In 2005, the population responded to the partial lifting of subsidies with massive protests.

While the government struggled with various forms of public protests, opposition forces succeeded in building a common platform and reviving the political process. In the past, the government had played these groups off against each other, benefiting from their sometimes-violent conflicts. In 2006, President Ali Abdallah Salih had to compete with a candidate supported by a number of opposition parties (the Joint Meeting Parties, or JMP) who gained more than 20% of the vote. As long as institutions are weak, however, voters prefer the incumbent president and his clientele to an alternative leader who might prove too weak or too ruthless to keep the country together. Thus, even if the elections had been entirely free and fair, the results would not have been much different. In the aftermath of the elections, the European Union convinced the ruling party and the opposition to start a dialogue on core issues, in particular the reform of the election law. By early 2009, the negotiations had not produced any results. Hence, the opposition, having boycotted election preparations, declared its "active" boycott of the upcoming parliamentary elections.

Yemen has made some progress with regard to decentralization, but the process remains tightly controlled by the political leadership. The GPC dominated the first municipal elections in 2001, as it did in 2006. Having secured a near absolute majority, the president decreed the election of

provincial governors by the regional councils in 2008 (boycotted by the opposition) and in November 2008 postponed the next municipal elections, originally scheduled for April 2009, for another four years. In March 2009, with oil prices still below \$50 per barrel, President Salih and the opposition struck a deal and agreed to postpone parliamentary elections until 2011.

Transformation Status

I. Democracy

1 | Stateness

In principal, the Yemeni state has a nationwide monopoly on the use of force. In practice, however, both domestic and international actors contest this monopoly. Tribal forces continue to resist what they perceive as the state's encroachment on their autonomy. In 2007, the government renewed its efforts to control the distribution and possession of personal weapons (estimates range from 6 to 60 million pieces). Nevertheless, the male rural population is still armed, mainly for reasons of status, and clashes among tribesmen or between tribesmen and state security forces do occur.

Monopoly on the use of force

The conflict between the military and followers of rebellious Zaidi local leaders, which began in 2004 in the northwestern part of the country, has deeper political implications. The Zaidiyya is a moderate Shi'a sect, which predominates in tribal areas of northern Yemen and from among whom the pre-revolutionary rulers of North Yemen, the imams, had originated for about a thousand years. This conflict escalated again in 2007 and 2008 and resulted in 130,000 persons being displaced and probably more people killed than in the 1994 war. While the hostilities seemed to have ceased in summer 2008, by early 2009 the government was preparing the military, local tribes and militant Salafis for a new round of fighting.

The crackdown against Sunni Islamist militants in Saudi Arabia and Iraq in recent years led to a rise of terror attacks in Yemen, because al-Qaeda and affiliated organizations took advantage of the porous borders on the Arabian peninsula to reassemble in the Republic of Yemen. These militants explicitly try to undermine state-building efforts and economic development and attacked tourists as well as the U.S. embassy.

All Yemeni citizens have the same civil rights and the majority of citizens accept the state's constitution. Certain tribes in remote areas, especially in the north of the country, feel themselves more as tribe members and less as Yemeni citizens. The strength of tribal identity, combined with restricted state authority in those areas,

State identity

results in people's limited identification with state identity. The 1994 amendments to the 1991 constitution restored Shari'ah as the sole source of legislation, which affects small religious minorities.

While the state functions as a secular order with modern institutions, religious dogmas have been part of the legal and political spheres for centuries. Shari'ah has remained the only official source of legislation throughout Yemen's history, except in the PDRY (1967 – 1990) and RoY (1990 – 1994). In practice, religious, tribal and state laws of varied origin regulate public and private life. In summer 2008, a group of ultra-conservatives established the Authority for Protecting Virtue and Fighting Vice (APVFFV), fashioned according to the Saudi model. The government refused to accept the APVFFV as a para-state institution. It decided to treat the APVFFV as just another NGO and countered its efforts to usurp state functions, such as the closure of restaurants.

No interference of religious dogmas

With the exception of Aden, Yemeni state building in the modern sense only began after the establishment of the two Yemeni republics in the 1960s. Unification in 1990 put additional stress on the area's underdeveloped structures. The current government has begun to extend the state's infrastructure beyond maintaining law and order, but the country still suffers from a physical shortage of courts, police stations, social services and appropriately trained state employees, particularly in rural areas. A lack of financial and human resources inhibits decentralization, though the government has taken some positive steps in this direction, such as the municipal elections in 2001 and 2006, amending the "local authority law," and the indirect election of governors in 2008. The growing number of African refugees, estimates range between 150,000 and 300,000, puts additional stress on Yemen's underdeveloped structures. According to UNHCR, about 50,000 African refugees have come to Yemen in 2008 alone.

Basic administration

2 | Political Participation

Yemen has maintained a multiparty system since 1990 (anchored in the constitution since 1994). General municipal, parliamentary and presidential elections, supervised by the formally independent Supreme Committee for Elections and Referendums (SCER), are held regularly and generally accepted as the means of filling leadership positions. Five parties, including the Yemeni Socialist Party (YSP), are currently represented in the Yemeni parliament. The People's General Congress (GPC), however, holds an overwhelming majority. The Yemeni Congregation for Reform (YCR) is the only noteworthy opposition party, but its leadership tends to enter into informal agreements with the GPC. While domestic and foreign observers can work freely, the GPC dominates the SCER, the election law favors the ruling party, and irregularities during registration, voting and counting occur. In November 2008, the government postponed the municipal

Free and fair elections

elections that had been scheduled for April 2009. By early 2009, the Joint Meeting Parties (JMP) announced its intention to boycott the 2009 parliamentary elections because of the government's failure to reform the election law and to guarantee the neutrality of the SCER. The government faced the choice of holding elections without opposition or postponing them. In March 2009, the government agreed with the opposition to postpone parliamentary elections until 2011.

Elected rulers have the power to govern in principle, but they simultaneously have to reckon with particular interest groups (e.g., the tribes and the military). Often, elected rulers themselves are members of these groups.

Effective power to govern

Partial constraints on the freedom of association exist in Yemen, which are inconsistent with democratic principles and not covered by any legal provisions. As a rule, however, the government has placed no prohibitions on parties or social organizations – as long as it does not perceive these organizations as undermining national unity or the position of the president.

Association / assembly rights

While the core elements of a public sphere and public debate exist, government agencies often interfere with the freedom of expression. In addition, unidentified gangs attack journalists who report on corruption or the conflict in the northwestern province Sa'da. Yemeni NGOs have organized regular public protests of the government's violation of the press law. Accordingly, in 2008, Reporters Without Borders ranked Yemen 155 out of 173 countries in its World Press Freedom Index. The state security forces have violently dispersed demonstrations, which resulted in the death or injury of several protesters.

Freedom of expression

3 | Rule of Law

Checks and balances are weak in Yemen's political system. Informally, the executive branch has long dominated Yemeni politics. Constitutional amendments in 1994 and 2001 have increasingly formalized this authority. Additionally, the overwhelming majority of the president's party in parliament and the de facto weakness of the judiciary serve to concentrate power in the hands of the president and the executive branch. Members of the judiciary as well as the executive complain publicly about interference from above. Parliament – including GPC members – has increasingly shown ambitions to struggle for independence, but the death of its longtime speaker and chairman of the YCR, Shaikh Abdallah al-Ahmar, in 2007 might strengthen the president's position even further.

Separation of powers

The judiciary is institutionally differentiated, but judges are hesitant to challenge the executive. Since 2006, the president no longer heads the Supreme Judicial Council, but he still appoints its chairman. Authorities crushed an attempt by 28 judges to establish an independent judicial association in April 2008. Moreover, corruption

Independent judiciary

and lack of resources further restrict the judiciary's ability to function independently. In rural areas, traditional elites still adjudicate legal cases (if the cases are heard at all) simply because no functioning courts exist in the vicinity.

Although the government dismissed a number of ministers and judges in 2007, state prosecutors fail to adequately prosecute corrupt officeholders, especially influential ones. The leadership of the military and security apparatus (i.e., the president and his relatives) profited extensively from post-9/11 military aid and remain completely beyond public control. While high-ranking officials have attracted adverse publicity, journalists (and, more recently, artists) who cover such cases risk physical attacks, jail sentences or both.

Prosecution of
office abuse

Civil rights violations by state and non-state actors continue to go unprosecuted. Government officials have orchestrated dozens of cases of hostage taking. The government also failed to protect children from child labor, child trafficking and underage marriage. The case of an eight-year-old girl seeking (and gaining) divorce from her 30-year-old husband in a Sanaa court made international headlines in 2008. Dozens of laws discriminate against women, but some are currently under review. The government is ready to introduce a minimum age for marriage (17).

Civil rights

In spite of governmental and non-governmental efforts, attacks on the tiny Jewish community have occurred recently and are not adequately prosecuted. Moreover, the so-called war on terror has negatively affected civil rights, and the conflict in Sa'da resulted in an extraordinarily high number of human rights violations, as documented by Human Rights Watch in 2008.

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 first election of governors by the provincial councils in 2008 (previously appointed by the president) has the potential to contribute to the stability and efficiency of institutions below the national level, but only in the long run.

Performance of
democratic
institutions

While democratic institutions are accepted in principle, the military and tribal figures hold vetoes. They think of offices as personal fiefdoms, which 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. His son and other relatives occupy many influential positions in the military and security apparatus.

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 shaky. Fragmentation is low (L-T Index 1.65), polarization and voter volatility appear lower than in the 1990s (though no recent data confirms this observation) and coordination among opposition parties has reached unexpected dimensions. Five parties are represented in the 301-member parliament. Most of these parties 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 the joint reform program of five parties (the Joint Meeting Parties, or JMP), which was published in 2005. This program coordinated interparty activity in the 2006 presidential and municipal elections. While cooperation on the national level was rather smooth – apart from the fact that the late chairman of the YCR supported the incumbent president on a personal basis – coordination on the local level was poor, which, in turn, contributed to the success of the GPC.

Party system

Despite some positive developments, the topography of interest groups is meager and important social interests are underrepresented. NGOs, in particular human rights groups, have flourished and are now more organized and differentiated than ever. The journalists' syndicate has made some remarkable achievements. Such interest groups are almost entirely based in major cities, whereas three-quarters of the population live in the rural areas. Recent cases have occurred, though, where tribespeople have approached human rights groups to complain about human rights violations by rural dignitaries.

Interest groups

Figures of voter participation (64% in 2006) and the fact that most political protests do not call the constitutional framework into question would seem to indicate that consent to democracy is moderate to high. Despite a general commitment to democratic procedures, however, the majority of the population does not consider democratic reform to be a priority agenda item. Several members of the ruling elite show no commitment to democracy at all.

Consent to democratic norms

A robust but heterogeneous web of autonomous, self-organized groups, associations and organizations exist in Yemen. Solid trust characterizes the relationships among most parts of the population. Self-organization, however, is not institutionalized and is usually restricted to the members of the same family, village or tribe. Tensions exist between rural (especially northern tribal) elites and urban elites in the southeastern parts of the country. Political parties and NGOs are only partially able to bridge regional gaps.

Associational activities

II. Market Economy

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. The majority of the population is excluded from market-based socioeconomic development: most farmers live at the subsistence level and another major part of the workforce works in the informal sector. The gap between rich and poor is widening: the country's Gini coefficient was 37.7 in 2005, compared to 33.4 in 1998. According to the Human Development Report 2007/2008, 45.2% of the population lives below the poverty line of \$2 a day. Analysts expect the lifting of fuel and food subsidies, amounting to 12% of GDP, to push another 6% of the population into poverty. Although slightly more than half of the adult population is literate and the youth literacy rate has risen to 75.2%, only 34.7% of Yemeni females over the age of 14 are literate. Data is not available on the more than 100,000 African refugees who are taken care of by UNHCR and the Yemeni government. A special problem is the widespread phenomenon of qat consumption (a stimulant chewed by major parts of the population), which deprives huge financial means from almost all families. On the other hand, the qat trade assures that money is earned in Yemen's countryside, which lowers poverty-related migration into the cities.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	13873.5	16753.8	19081.6	21658.4
Growth of GDP	%	4.0	5.6	3.2	3.3
Inflation (CPI)	%	12.5	11.8	20.8	10.0
Unemployment	%	-	-	-	-

		2004	2005	2006	2007
Foreign direct investment	% of GDP	1.0	-1.8	5.9	4.2
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	224.6	624.1	205.7	-1508.3
Public debt	\$ mn.	4799.3	4717.1	4997.6	5343.2
External debt	\$ mn.	5488.4	5362.6	5561.3	5925.8
Total debt service	% of GNI	1.8	1.4	1.3	1.1
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	-	-	-	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	1.9	2.2	2.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	5.3	4.9	4.3	4.9

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | 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 but slowly improving institutional framework. The Yemeni government has only tentatively introduced uniform rules for all market participants. Establishing a business has become easier, though. In the World Bank's 2008 "Doing Business" survey, Yemen ranked on position 98 out of 181, compared to rank 123 out of 178 in 2007. There is substantial state intervention in the wheat market and control of strategic sectors, such as transportation, telecommunication, refineries and media. The role of enterprises in the public or mixed sector is opaque.

Market-based
competition

No recent cases have emerged regarding the formation of monopolies and oligopolies, but state companies dominate several business sectors, for example banking, media, transportation and fixed land lines.

Anti-monopoly
policy

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

Liberalization of
foreign trade

According to the Central Statistical Organization, more than 500 money exchange offices and about 20 Yemeni and international commercial and Islamic banks (some very small) operate in Yemen. Moreover, in 2007, the first micro-finance bank was established, a leasing law was introduced, and deposits and private sector credits have increased. The banking sector is burdened with non-performing loans but still dominates the financial sector, which is generally underdeveloped (a stock exchange does not exist).

Banking system

8 | Currency and Price Stability

Crafting an appropriate foreign-exchange policy and controlling inflation are recognized goals of Yemen's economic policy, but the government does not employ all available instruments to curb inflation. For more than a decade, the Yemeni riyal has been freely convertible. Though it has dropped from YER 20 to approximately YER 200 against the dollar during that time, it has been relatively stable over the last four years. According to World Bank data, the country's inflation rate rose to 20% in 2005 after three years of relative stability at 12% (IMF figures differ). This increasing inflation, however, partly resulted from the gradual lift of fuel subsidies implemented in 1998, 2000 and 2005. Inflation eased a little (15-18%) in 2007 and 2008, partly because of the global rise in food and energy prices.

Anti-inflation /
forex policy

In recent years, international financial institutions (IFI) have intensified their pressure on Yemen's government to follow an economic stability policy. The government, on the other hand, is trying to balance the politically unsettling effects of the IFI demands by softening and counterbalancing them, for example by delaying the cutting of subsidies or by systematically raising salaries and wages in the public sector (the government declared a national wage strategy in 2005). Such measures certainly helped to curb petty corruption but also increased the inflation rate and the fiscal deficit.

Macrostability

9 | Private Property

Yemeni law formally defines property rights and regulates the acquisition of property. In late 2007, the General Investment Authority proposed a new draft law, which had not been issued by early 2009. Lack of documentation, complaints about fraud, and constant and sometimes violent struggles over landownership have severe repercussions on the investment climate. State institutions are not in control of the situation. In addition, no mechanisms exist for the protection of intellectual property rights.

Property rights

In principle, private companies can act freely. Though the government has abolished many legal constraints, economic, political and social barriers to development remain. Some examples are these constraints are infrastructure deficiencies, corruption and the shortage of a qualified labor force. International companies dominate the hydrocarbon sector, but their contracts are managed by the Yemen General Corporation for Oil & Minerals, which reports to the Ministry of Oil and Mineral Resources. The liberal investment law (law no. 22 of 1991) was modified in 1997 to allow 100% foreign ownership of companies. Investment capital and profits can be transferred without limitations on amount or currency. Law no. 1 of 2008 abolished the need to have a Yemeni partner.

Private enterprise

10 | Welfare Regime

Public expenditures for social safety nets amount to less than 1% of GDP. A modest social insurance system covers mainly civil servants. Support for the elderly, the ill and the unemployed is generally left to family, tribe and village structures or private welfare organizations – where 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 and aims at reaching 40% of Yemen's poor population with basic services. The Yemeni government began its first poverty reduction program in 2003. Foreign donors support both projects, because the capacity of the Yemeni state to provide or monitor social services is weak and the policies of different governmental ministries are uncoordinated. The fact that the majority of Yemen's poor live in remote villages while decentralization has been slow makes providing basic social services an arduous task.

Social safety nets

The country's constitution, based on the Shari'ah as the sole source of legislation, negatively affects women's equality. On the other hand, even though 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 presidential candidates in 2006 accepted female candidates. Generally, discrimination against certain groups is not a matter of structural disadvantages but related to shortcomings in the rule of law and often triggered by regional events.

Equal opportunity

Few institutions exist in Yemen to compensate for gross social differences based on poverty and gender. According to the HDR 2007/2008, school enrolment stands at just 67% among Yemeni boys, while the corresponding rate for girls is even lower at 43%. Women are underrepresented in the private and public sectors and in high government offices. Only one female serves in parliament and two as ministers. In 2008, ultra-conservative forces resisted a proposed quota for women in parliament. By early 2009, the issue remained undecided.

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 declining but still high with six children per women. As they are seen as future breadwinners, boys are more likely candidates to be sent to school.

11 | Economic Performance

Structural adjustments have stabilized the Yemeni economy to some extent, but improvements have not kept pace with rising challenges. On the one hand, population growth, although declining, is nearly as high as GDP growth. Budget and current account deficits are widening, inflation is high, and unemployment – while no reliable data is available – is estimated between 16 and 40%. On the other hand, inflation is lower than in the 1990s, the Yemeni currency has been remarkably stable for several years, tax revenues are on the rise and foreign assets cover at least 12 months worth of imports – compared to less than 5 months in the 1990s.

Output strength

12 | Sustainability

Donors and local NGOs have started a number of environmental programs and campaigns but in general environmentally supportable growth receives scant consideration. In 2005, however, the government announced a National Water Strategy. Preparations for a new environment protection law have begun. Public awareness of 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. According to the World Bank, only 36% of the population have access to safe water. The extensive cultivation of the qat plant puts additional strains on scarce resources. Sporadic government intervention to replace qat by other cash crops has not produced any measurable results.

Environmental policy

Modern institutions for education and training existed since the 1970s (earlier in the PDRY), but as enrolment ratios indicate, they are not accessible for significant parts of the population, especially in rural areas. Public expenditure for education has risen to approximately 14% of total government expenditure (in the early 2000s it was estimated at 9.5%), but research and development facilities are still 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. These include poverty, shortage of a educated labor force, tensions among tribes and between tribes and government, severe infrastructure deficiencies dating back before the 1970s, and the fact that the majority of the population lives in small scattered settlements that cannot be easily fitted with basic infrastructure. Regional conflicts and state failure, like in Somalia, also affect Yemen economically and politically. Not only have Somali pirates captured Yemeni ships, but, more importantly, piracy at the Horn of Africa has caused international shipping agencies to begin evading the Red Sea route and thus bypassing Yemen's ports. Moreover, Yemen – one of the least developed countries in the world – has to cope with mounting numbers of African refugees.

Structural
constraints

Yemen has moderate traditions of civil society that date back to the self-help organizations of labor migrants in the 1940s and the cooperative movement in the 1970s that was absorbed into the local administration and the GPC in the early 1980s. Since unification, NGOs have developed in urban areas and work in areas such as election observation, human rights education, women's rights and press freedom. However, most of them have only very limited or no appeal among the general public, and many suffer from a shortage of funding and skills. The ruling elite and political parties continue to manipulate their work.

Civil society
traditions

While small arms are mainly a status symbol (the male population in rural Yemen is generally armed and the density of fire arms is estimated to be the second highest in the world after the United States) and fighting among tribes or between tribes and security forces does occur, violence is usually limited in scope. The conflict, however, between Zaidi rebels and security forces in the northwestern province of Sa'da between 2004 and July 2008 is of a different quality.

Conflict intensity

Public discontent caused by deteriorating living conditions is on the rise, in particular in the southern parts of the country. In 2007, protests led by former PDRY (South Yemen) military officers were put down by a combination of deploying the security forces (demonstrators were killed, injured and arrested) and satisfying the protestors' demands. In the tribal areas, tribespeople often protest

(perceived) state injustice and governmental neglect by kidnapping Yemenis as well as foreigners – the latter cases receive more publicity. About 200 kidnappings of foreigners have occurred since the early 1990s, but very few resulted in the death or injury of the abducted.

II. Management Performance

To understand the depth 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, Yemen 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 eight-year YAR civil war, which followed the overthrow of the Imamate in 1962 (to some extent a proxy war between Egypt and Saudi Arabia), as well as several border clashes, the PDRY civil war of 1986, the war of 1994 and the war in Sa'da in the mid-2000s. These violent conflicts 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 levels. State building in the socialist PDRY followed a different path than in the YAR but left rather few traces after unification and the war in 1994. Today's ruling elites do not seem ready to give up their political resources, and the majority of the population has generally more trust in patrons than in government institutions.

14 | Steering Capability

The political leadership claims to pursue long-term aims, but often prioritizes political bargaining and the demands of important constituencies. These gentlemen's agreements, however, ensure that political disagreements between the members of the leadership are usually solved peacefully. Donor organizations have a rising influence, which is increasingly reflected in government policies. Still, the government's long-term goals do not always correspond to democracy or a market economy but rather to the demands of patronage networks or popular demands. Moreover, the so-called war on terror has improved the position of the conservative security forces vis-à-vis reform-oriented actors in the civilian government.

The government's announcement of austerity measures in late 2008 and early 2009 have not prevented President Salih from concluding a major arms deal with Russia in early March 2009 worth \$ 2.5 billion.

Parts of the government seek to achieve reforms. Because many of these reforms run counter to the vested interests of influential groups dominating the executive and the parliament, however, the government is hesitant to implement them unless

Prioritization

Implementation

pushed and supported by the international community. Examples of such reforms are the implementation of sales tax, decentralization, and electoral law reform. This does not mean that all measures suggested by the donor community are appropriate.

Changes in foreign policy strategies, in particular on the regional level, show that the political leadership is capable of responding to mistakes and failed policies (e.g., improved relations with GCC states). With regard to domestic policy, the leadership's capacity to learn from past mistakes is very limited. Unfortunately, the Yemeni government has not improved upon its capacity to deal with local unrest or to accept legitimate demands by opposition forces. It is too early to tell if the March 2009 agreement reached with the opposition and the promise to return assets and capital confiscated in 1994 to the YSP indicate a new approach.

Policy learning

15 | Resource Efficiency

The government uses only some of the available human and economic resources efficiently. The reform of the tax system, however, has progressed in 2007/2008 with the introduction of a general sales tax, the full implementation of which is planned for 2009. In spring 2008, the government, in cooperation with the International Finance Corporation, launched a "Yemen Tax Simplification Program" aimed at reducing corporate taxes and raising income taxes (and transparency). It has also taken steps to reform the bloated bureaucracy, such as introducing biometric identification in the civil service. A similar step is planned for the security and military service. However, the government spends too much of Yemen's scarce resources on weapons and military equipment. Military expenditure, which was estimated at 6.6% of GDP in 2006, is rising and by far exceeds other key areas.

Efficient use of assets

Accusations made by parliamentarians that subsidized fuel is systematically smuggled to neighboring countries have not been followed by investigations. The frequent electricity and occasional diesel shortages are partly due to inefficient use of resources. The state budget has to be supplemented frequently. Hiring and promotion seem influenced by political considerations. The YSP openly complains about their members being unofficially banned from getting jobs in the public sector, and the refusal to enlist two young men from the southern regions triggered another round of violent protests in 2007. 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.

The government tries to coordinate conflicting objectives and interests, but solo attempts by the president (nuclear program initiative, the president's mosque, arms deals), intra-governmental friction, redundancies, and lacunae remain significant. With regard to social security, World Bank reports confirm the lack of integrated approaches, transparency and consistency on the ministerial level and within government institutions.

Policy coordination

Corruption has become a fundamental characteristic of the administrative and state culture. State resources are distributed via patronage networks, for example in the construction sector. After Yemen's score on Transparency International's Corruption Perception Index (CPI) declined seriously in 2004, donors became sensitive to the problem of corruption and increased pressure on the Yemeni government. In December 2006, the Yemeni government responded with its "National Reform Agenda" and Yemen's first anti-corruption law. Combating corruption reached an unprecedented level in 2007 when the government submitted an application to join the Extractive Industries Transparency Initiative (EITI), dismissed a number of judges and two ministers, introduced a biometric identity system to identify non-existent employees ("ghost workers" who receive salary) in the civil service, and issued a financial disclosure law for government officials, including the president and other high-ranking politicians. No reports, however, have analyzed the implementation of these anti-corruption policies with regard to high-ranking officials. In July 2005, the government began a four-phase wage strategy designed to increase salaries in the public sector and thereby to reduce petty corruption.

Anti-corruption
policy

16 | Consensus-Building

A rudimentary consensus exists among Yemen's major political actors – the government, opposition parties and NGOs – on the need for a market economy and democracy. This consensus does not mean, however, that these actors support democracy at the cost of the incumbent elite. The GPC's stubborn adherence to the current electoral system illustrates the ruling party's priorities. 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 created some lingering distrust of "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 meager clout compared to actors with veto powers. The latter enjoy the backing of influential military or tribal figures.

Anti-democratic
veto actors

The political leadership is frequently involved in violent tribal clashes and even aggravates them, as in the case of the Zaidi rebels in the northern governorate of Sa'da between 2004 and 2008. Moreover, the war between the north and south in 1994 and the heavy-handed government policy thereafter left parts of the population in the south with the impression of being colonized by the north. Organizers of southern protests against discrimination by the "northern" government, especially during 2007, went as far as calling for secession.

Cleavage /
conflict
management

Political parties are only partially able to bridge regional cleavages. The former single party of the PDRY, the Yemeni Socialist Party, never managed to muster substantial support in the north. Thus, in spite of GPC and YCR gaining strength in the southern part of the country, the YSP can only claim to represent the interests of the south, and even this claim is questionable. In the last parliamentary elections in 2003, the YCR gained more votes than the YSP in the former PDRY regions. All the same, cooperation between YSP and YCR has intensified in recent years, showing that regional and ideological cleavages are not insurmountable in Yemen. Speculation exists that the political leadership was involved in shaping the opposition coalition of Islamists and Socialists in order to ease integration of the former PDRY. Such a strategy, however, runs counter to the usual divide and rule approach of the political leadership.

Cleavages within the ruling coalition intensified in the mid-2000s. In particular, President Ali Abdallah Salih's effort to groom his son Ahmad as successor has alienated longtime tribal allies as well as members of the president's own family who occupy high positions in the Yemeni military, most notably the commander of the northwest military region, Ali Muhsin Salih al-Ahmar. The latter is not related to the al-Ahmar shaikhly family, but to the president, as both originate from the al-Ahmar village of the Sanhan tribe. Ali Muhsin allegedly keeps close contacts with militant Sunni Islamists and deploys them against the Zaidi rebels in Sa'da. Cynics claim that the president has no real interest in ending the Sa'da war, because it keeps Ali Muhsin and the militants busy and away from the succession issue. After President Salih's victory in the presidential elections in 2006, the succession question has been pushed to the background, but only temporarily.

The political leadership frequently ignores civil society actors and, apart from the constraints like those formulated by IFI and donors, formulates its policy autonomously. Intellectuals, artists and journalists critical of the government face kidnapping, beating and jail sentences. More than once, the government has tried to establish an umbrella organization for NGOs, which reflects the government's usual corporatist approach.

Civil society participation

The leadership recognizes the need to deal with historical acts that parts of the population perceive as injustices. Because the current leadership has been involved in some of these perceived injustices, it reacts only on its own terms. While the government has pardoned the leaders of the failed separation attempt in 1994 and allowed many refugees to return to Yemen, it has not returned assets confiscated from the YSP and its members. As the recent protests in the southern governorates illustrate, reconciliation efforts fell short of what was necessary to counter the southern perception of being "colonized by the north." Seemingly, the government started to address this problem in March 2009 by promising the return of YSP assets.

Reconciliation

17 | International Cooperation

Overall, Yemen's collaboration with bilateral and multilateral donors is unspectacular, and the political leadership tries to make use of international assistance to advance its own interests. In spite of belonging to the group of least developed countries, development aid per capita is low. 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, spanning from 2006 to 2010. Nevertheless, this has not facilitated 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, undermines the legitimacy of the government and hurts the Yemeni industry. It also affects vested business interests involved in the smuggling of subsidized goods, which is all the more significant because these groups are allegedly close to influential families.

Effective use of support

Despite obvious shortcomings, the government takes great pains to present itself as a reliable, predictable partner. Border agreements with neighboring countries (Oman 1992, Saudi Arabia 2000), anti-corruption measures, and renewed efforts to join the WTO and the Gulf Cooperation Council (GCC) have served to improve the credibility and reliability of Yemen's foreign policy. Half of the contributions at the donor conference in London in 2006 came from the members of the Gulf Cooperation Council (GCC). Still, major international actors, including the World Bank and the GCC, have expressed doubts regarding Yemen's reliability in both the political and economic spheres.

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. One example is the Sanaa Summit, currently consisting of Yemen, Sudan, Ethiopia and Somalia, but open to other states. The leaders of the member states meet on a yearly basis (first meeting in Sanaa in 2002) to improve cooperation between Yemen and the states at the Horn of Africa. Also, Yemen is signatory to the recent "Djibouti Code of Conduct," a regional initiative to fight piracy at the Horn of Africa.

Regional cooperation

Yemen's long-term efforts to gain admittance to the GCC, however, have produced only limited results. In the absence of a comprehensive arrangement for Yemeni migrant laborers to legally enter the GCC states, illegal migration continues to cause problems for Yemen and neighboring states, especially Saudi Arabia. This problem has not disrupted bilateral relations between Saudi Arabia and Yemen.

Strategic Outlook

Yemen's semi-authoritarian political system will not change any time soon. 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 generations, increasing proficiency among Yemeni journalists and networking between Yemeni and international NGOs all serve to stimulate further democratization and good governance. Decentralization is progressing slowly and the fact that relations among opposition parties have changed from confrontation to cooperation has strengthened their position vis-à-vis the president. The GCC monarchies are developing a more cooperative and constructive way of engaging with the only republic on the Arabian Peninsula, and many potential spoilers of Yemen's transformation process have lost their funding.

On the other hand, fundamental shortcomings, such as the weak national economy and administration, high population growth, and unresolved domestic power struggles remain. Whether or not Yemen can sustain its way on its chosen path of transformation is an open question. The structural flaws in Yemen's economy will remain unresolved in the intermediate future because oil production is – though declining – secured for some time and the marketing of gas reserves is expected to begin in mid-2009. However, even oil prices over \$50 per barrel at current production levels would not generate enough revenue to meet the demands of a rapidly growing population.

External factors, most of all transnational terrorism, piracy in the Gulf of Aden and potential economic problems in the GCC states, might affect investment in and economic aid to Yemen. Global economic and regional political developments in the Middle East and at the Horn of Africa have repercussions on Yemen's economy and society. Yemen will remain dependent on financial and technical support from the donor community.

In contrast to neighboring Gulf monarchies, Yemen's traditional shortage of state services has kept its population rather self-reliant. Nonetheless, the government needs to address problems among its rural population, many of whom are excluded from the formal sector and live according to tribal or customary rules that are much more deeply entrenched than state law. The growing sense of inequality among the population, not so much in legal but in economic and political terms, has already led to massive protests. These protests took on a distinctive character depending on whether they broke out in urban or rural settings or in tribal or non-tribal areas.

The multitude of challenges facing Yemen makes identifying key strategic tasks a difficult job. Yemen's government should prioritize issues related to inequality by increasing its investment in reproductive health and family planning, female education, and the educational system in general. At the same time, it should scale back funding for the security apparatus and military equipment. Only a rise in the population's living standard and the establishment of an efficient social security network will allow the state to abolish subsidies in the long run.

Other important challenges include increasing transparency, furthering decentralization, strengthening the non-oil sector (in particular agriculture and food) and improving water management (in particular for qat production).

The current elite, however, has not demonstrated the ability to muster the creative management skills necessary to accomplish these tasks. The government must learn to respond in a more responsible fashion to public protests, opposition demands and challenges from former political elites – be these from pre-unification or pre-revolutionary times – because under current economic conditions more protests are likely to take place.