

Report of the assessment towards a 'whole of EU' approach to state building in Yemen: addressing fragility to prevent state failure

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May 2009

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Executive Summary

1. Introduction

This report forms the output of the EU state building assessment in Yemen. The objectives and intended outputs can briefly be stated as:

Objectives

1. Establish the factors for responsive state building in Yemen within each of the three areas of state building (political settlements, survival functions and expected functions)
2. Map donors, actors and financial instruments
3. Identify key elements for a future coordinated EU response (in support of feasible changes)

Outputs

- ❑ A mapping of the situation
- ❑ A strategic framework for coherent donor responses that can assist the government of Yemen's reforms aimed at consolidation of legitimacy and responsiveness
- ❑ Recommended solutions that can gain some traction

This assessment builds on past analyses, which show a high degree of consensus on the problems and the solutions. It focuses on the reasons why these solutions do not get implemented. It takes as its starting point the definition of state building developed by the OECD/DAC. This definition emphasises the centrality of a social contract between those who govern and those who are governed. It explicitly distinguishes the concept from the narrower technical one of institution building and broader one of nation building. The state formation is analysed here using a framework developed by DFID, considering political settlement, survival functions and expected functions.

The stability and development of the Yemeni state is considered strategic to the international community for two reasons: firstly, because it is the poorest country in the Arabian peninsula, with levels of poverty comparable to sub-Saharan Africa; and secondly because of its geopolitical significance at the mouth of the vital trade route through the Red Sea.

2. The Yemeni state

2.1 The political settlement

The political settlement may be defined as the forging of a common understanding, usually among elites, that their interests or beliefs are served by a particular way of organising political power.

The settlement in Yemen is complex. There is the formal state and the parallel state. The parallel state depends on a network of alliances, patronage and cooption, linking the political leadership, the armed forces, tribal sheikhs, and some top officials, and important business families.. The formal state is unique in the region, characterized by political pluralism and elections. To this correspond a press characterized by a significant level of freedom, and an extensive range of civil society organizations

The interpretation of the relationship between the two states is controversial. Depending on viewpoint Yemen can be viewed as weak but developing democratic

state, or as a sham where a democratic form hides a feudal reality. Our own view is that it would be incorrect to see Yemen as simply an overlay of democracy on traditional and tribal rule, because the 30 years of fashioning the state under President Saleh have transformed traditional relationships between state and tribes and between the highland political elite and the commercial elite from lower Yemen. It is undoubtedly true that the period since 1990 has witnessed improvements in social indicators, largely financed by oil wealth, and in forging institutions of a pluralist democracy. However this has also corresponded with an entrenchment of the power of the executive, and there are signs that, with oil production past its peak, social progress may be stalling

Short-termism is a characteristic of the functioning of a settlement based on patronage. It is essentially a mechanism for crisis resolution, focused on maintaining the alliances on which its survival depends, but is ill-suited for responding to longer-term strategic challenges

2.2 Survival functions

Survival functions of the state include security and the maintenance of the rule of law, sources of state revenues, and the creation of a climate for business and economic growth.

Security

Yemen at present faces no challenge to its territorial integrity. However it does face a number of well-described security challenges which mean the state does not exercise either control over the entire national territory or a monopoly of the means of coercion. The security challenges are

- ❑ State-tribal conflicts: the most serious being the war against the al-Houthis in Sa'ada, which has been through five cycles since 2004
- ❑ Inter-tribal conflicts (largely over land and water rights)
- ❑ Regional tensions: most particularly resentment of Southerners at perceived marginalization since unification in 1991 and the failed war of secession in 1994
- ❑ Jihadist terrorism
- ❑ Piracy in the Gulf of Aden, smuggling, migration and people trafficking from the Horn of Africa

All of these challenges are increasing. Though it is the jihadist threat that has placed Yemen in the international spotlight, the tribal and regional conflicts are by far the more serious security challenge: the number of governorates in which serious clashes are likely has increased from five to seven since the beginning of the year. The prospect of further unrest is rising with rising poverty

Rule of law

The rule of law is a well-acknowledged and documented weakness of the state. There are two components to this. The first is that the governed enjoy no expectation that the behaviour of state agencies towards them will be predictable and governed by law. Policing remains heavy handed and subject to corruption. It is not uncommon for the state to take hostages in the course of local disputes. The second component is that the judicial system does not provide a service for the settling of disputes that people value. An estimated 70% of disputes are managed by traditional mechanisms.

State revenues and expenditures

The state's capacity for revenue-raising is limited. The availability of oil revenues has provided "rent" for division among the elite and their constituencies. Tax revenue is less than 10% (a level often taken as a proxy for fragility). Non-productive politicized spending forms the major part of government expenditure. The main components of

this expenditure are the fuel subsidy and the wages and salaries bill. The state employs 1.2 million people, considering the security forces and the civil service together. Together these accounted for 68.8% of the 2008 budget. This constrains the ability to invest for economic growth and employment, or for improved service quality and coverage.

Business climate

The private sector is weak and politically dependent. Yemen is a net exporter of capital. Though considerable effort is going into encouraging further prospecting for oil and the exploitation of Liquid Natural Gas (LNG), success here would only buy a further breathing space. Much of the possibility for the future turns on the prospects for an economy after oil. Government strategy documents focus on the so-called "promising sectors: agriculture, fisheries, tourism and minerals. Aden port could also provide an important hub for transport and transshipment services given its strategic location. Alternative sources of employment are essential for reducing the civil service payroll without political instability.

The government is making considerable effort to improve the climate for starting and carrying on business, and progress has been significant as shown in the following table. Yemen jumped 128 places in the *Doing Business 2009* survey on ease of starting a new business and was named a top performer: However, private investment as a percentage of total investment failed to meet the 2010 target of 63% and dropped from 59% on 2006 to 57% in 2008

2.3 Expected functions

The state performs poorly at providing services for its people. Public expenditure on health at 1.9% of GDP is insufficient to provide a basic health package for every citizen. Health services reach only between 50 and 63% of the population, with wide variation in coverage. Though education expenditure is substantially higher at 9.6% of GDP, with enrolment variously described as 60-78%, but it is not efficiently spent. Standards are poor and teacher skills inadequate, with appointments often being made on the basis of patronage rather than qualifications.

Parallel project implementing institutions such as the Social Fund for Development, are the exception to the poor performance of service ministries. However, they may also undermine the legitimacy and capacity of line ministries.

Despite an apparently vibrant civil society (with 4,700 officially registered CSOs), people expect little from the government and the government expects little from the people (as already noted, there is no taxation logic to underpin a social contract). Many of the poor rely on informal social capital through traditional networks, which strengthens the parallel state. Civil society is weak, with little influence on policy. It is fragmented along regional religious, and political lines and is itself prey to some of the same problems of patronage, cooption and lack of transparency as the elite (with the general exception of traditional Islamic welfare structures). Local CSOs are probably more accountable and representative, if only because they are not currently seen as a threat. Together with progress in decentralization to local administration local CSOs may hold the key to gender empowerment, effective demand for accountability and services, and state responsiveness. However, communication channels for negotiating the social contract need not be democratic as understood by Western donors to be effective

2.4 Prognosis

As oil and water resource crises come together with others, such as the demographic time bomb of the “youth bulge” and signs of growing discontent, the political settlement could plausibly go in either of two directions. The first, is that the elite could accelerate their drawing of rent knowing that time is limited, in a gradually worsening spiral of poverty, tension and conflict that leads towards a more tribally dominated and perhaps failed state. Or, secondly, the crisis could provide the stimulus to overcome the obstacles to strategic response in both the governance and growth areas - of reform and economic diversification. There is little sign of serious preparations for a coming change. At the same time, the government has been highly sensitive in the past to mass protest. There are growing indications that the political settlement may be fraying.

The necessary key reforms are well known and are (to a degree) reflected in the National Reform Agenda and the DPPR

- ❑ Freeing up the national budget for investment and better service provision
 - Downsizing the civil service
 - Reducing or eliminating the subsidies on fuel
- ❑ Reducing and punishing corruption
- ❑ Developing a favourable climate for investment, particularly in non-oil sectors that can create jobs and government revenue
- ❑ Developing a transparent and equitable system of taxation as the basis for a social contract between government and people
- ❑ Managing the sustainable use of water
- ❑ Increasing social participation in political and economic life, particularly that of women and youth.

Most of the obstacles to implementing solutions are political. Politics and political will trumps everything else. However the growth agenda is deeply intertwined with the governance agenda: without growth in jobs, it is hard to see how the civil service can be significantly downsized. If lack of growth reinforces the need for patronage, correspondingly, growth can reduce the costs of the political settlement by reducing the number of those who must be paid off.

The analyses were also used to generate three possible scenarios of Yemen's evolution to the year 2015. The scenarios (illustrating a future in which reform is stalled, another of cautious reform, and a further one of reform at breakneck speed) were presented to a workshop, and, with some reservations, were judged plausible. They were also compared with the outcomes of the “official future” reflected in reform documents. The workshop assessed the “official future” as “fantasy” lacking a political analysis of how the outcomes were to be achieved. The scenarios illustrate that doing nothing is not an option. If the consequence of doing nothing is spreading conflict and poverty, could this scenario end in state failure? Answering this question definitively depends on a deeper understanding than we have been able to gain of the underlying strength of the political settlement at the level of the parallel state. It is possible that the underlying settlement in the parallel state is robust. State failure may also be possible. The scenarios also illustrate the potential for cautious reform and recovery, based on economic diversification and a growing social contract between state and people. An increasingly legitimate state is possible, based on government delivering at least some of what people want in terms of livelihoods, services and predictable rule of law. The scenarios also illustrate the dangers inherent in trying to move too fast on political sensitive reforms, such as the downsizing of the civil service. Reform is possible, if it has support from the highest level, but in the current climate the pace of reform would seem to have slackened.

3 A mapping of donor activities

3.1 An overall mapping of donor activities

Given the ODA is only around 1% of GDP, donors enjoy a surprising degree of access to, and in some respects influence over the government of Yemen. This may increase as state resources dwindle. The donor community in Yemen is rather small. In terms of pledges, the countries of the Gulf Cooperation Council are the largest donors. Other large donors are the World Bank, the European Commission and three EU countries (Germany, Netherlands and the UK). Other significant donors include the UN system, the US, and Japan. By far the largest proportion of donor expenditure was for basic services and social sector development (60% if water is included). Support for economic growth accounted for just over a quarter of the total, and support for governance 12%. Donors plan commitments over periods ranging from over six years to under two. This variability implies problems for the government of Yemen in the predictability of aid flows

3.2 Differing donor objectives and their impact on state building

The major donors do not share a common analysis or strategy and do not speak or act with a single voice. Different donors, in practice, have different objectives. The impact of these different objectives may nudge the state in different directions. There are three inter-related but differing objectives: security, governance and poverty alleviation. The analyses of most donors theoretically acknowledge the interconnected relationships between security, governance, development and poverty reduction. But in practice different donors give distinctly different emphases to these components. The implications for state building are noted:

- ❑ Poverty alleviation projects may undermine state legitimacy (largely through parallel projectised aid)
- ❑ Focus on security may undermine focus on the causes of insecurity
- ❑ Inadvertent stoking of conflict, through inappropriate siting of projects or lack of appropriate consultations

The Paris Declaration and the OECD/DAC principles for state building in fragile states are not universally shared. From the point of view of the Paris Declaration (see annex 11) Yemen's performance on aid effectiveness and harmonization is disappointing, scoring low in the 2008 monitoring on ownership, alignment and harmonization, and weak on the predictability of aid flow

3.3 Donor coordination

Donor coordination remains weak

3.3 London pledges and disbursement levels

Only 6.7% of all pledges made in London in 2006 have been disbursed. There is a radical distinction in the efficiency of aid pledges between the GCC countries and the Western donors. Only 0.4% of GCC bilateral 0.2% of GCC multilateral pledges have been disbursed, compared with 21.6% for Western bilaterals. It is possible that partnerships between GCC and other donors could accelerate the disbursement of pledges.

4 Towards a solution

4.1 Politics trumps everything

The problems are severe and are rapidly getting worse. But a solution is possible. Yemen has shown that it is capable of overcoming major problems in the past. The political settlement, as noted in section 2, is no longer sustainable. The resources are simply not there to maintain a stable settlement based on patronage. It is simply not

possible for the political settlement to continue to function as it has in the good years of oil plenty. The timescale is now urgent and short. The alternatives to a patronage-based settlement are essentially two-fold. A new settlement could be based either on some overarching and persuasive ideological purpose or it could be based on increased legitimacy.

There are no purely technical ways out of the dilemma. It will require an act of political vision and political will. There would certainly be huge risks associated with transforming the settlement in this way. Reducing politicised spending (particularly downsizing the civil service) to free-up the budget for productive spending on services and improving the business climate, risks major instability for example. Or decentralization threatens the power of some line ministries and can be seen as threatening to the stability of the country. However, arguably, there are greater risks in not making these changes. There is no guarantee that the political elite will weigh the alternative risks in this way however. It will require courageous leadership. There are some signs of the existence political will to make change.

4.2 A sequence of causality

The sequencing and causality of achievable reform are examined. Given the political will, the logic of reforms indicates a need for sequencing.

4.3-4.7 Strategic reforms

- ❑ Improving service provision and investment in conditions for improved livelihoods requires freeing up the budget from the current level of politicised expenditure
- ❑ Freeing up the budget (essentially reducing the fuel subsidies and downsizing state employment) require social safety nets to protect the poor and the creation of new jobs for retrenched state employees
- ❑ Alternative job creation requires action on a number of fronts. There has to be investment, not only in the “promising sectors” (agriculture, fisheries, tourism and minerals) identified in national strategy. But there are obstacles in the way of substantial expansion of these sectors in the short-to-medium term. Therefore investment in small-scale and informal businesses will also be necessary. Supporting labour migration and remittances are an important short-term safety valve
- ❑ Moving towards sustainable water use is essential for expansion of agricultural productivity, but also for the viability of many urban settlements.
- ❑ Reducing demographic growth is essential if the benefits of service expansion and job creation are not to be swallowed up. This will require enhancing the status of women against a background of conservative gender relations. Local development projects show what is possible, but this needs to be accelerated with strong national leadership
- ❑ If all of these reforms are achieved or underway, many of the causes of discontent will be lessened and hence a more legitimate state will also be a more secure state

4.8 Other reforms

Many of the other reforms on the National Reform Agenda, largely connected with good governance, though important for the future, are unlikely to yield rapid results, given the probable level of political opposition.

4.9 Culture

There are considerable strengths in Yemeni culture. Though conservative, it has a strong moral system that creates strengths for social cohesion, in addition to a number of oppressive features. It would be wrong to equate traditional culture with

the “problem” and “modern” culture with the “solution”. Rather, in a contradictory cultural transition, those features that have value for social solidarity and conflict mediation should be better understood and strengthened. At the same time, it is inconceivable that a successful identification of a way forward, and of Yemeni development, can occur without women and youth being essential drivers of change.

5. Recommendations

The principles and recommendations below are intended to guide strategic analysis. They do not contain operational or sector-specific detail. The precise route to be travelled will depend on the possibilities and constraints of changing circumstances.

5.1 A strategic framework

- ❑ The different problems of state-building in Yemen are interconnected and need to be addressed together.
- ❑ Addressing the political settlement is fundamental. Strengthening political will is crucial
- ❑ The Yemeni elite needs a vision of achievable change. It will be essential to show key players in the political settlement that change is possible without loss of power and status
- ❑ Reframing the dialogue between the government of Yemen and the international community. Rightly or wrongly, Yemenis often see the dialogue as being one that focuses on problems rather than achievements and in which the difficulties associated with reforms are underestimated by the international community.
- ❑ The growth and governance agendas are interconnected. Without addressing governance issues, rapid economic growth is not likely. But it is also true that without a rapid improvement in growth performance there is a likelihood of increasing state fragility and deteriorating governance.
- ❑ Address security and development together, avoiding interventions that increase tension and supporting initiatives that tackle sources of insecurity including development.
- ❑ An agenda for investigation. There are a number of points where data and understanding are simply insufficient
 - o Perhaps the most obvious question (one suggested to us during the initial phase of the assessment) is what underlies Yemen's social cohesion: why is the country not mired in greater dissent and conflict? There is a need to investigate in greater detail how people survive, support each other in difficulty, resolve conflicts etc. Such research would facilitate the identification of structures within the culture that can be supported.
 - o The need for better understanding is particularly important in relation to women and for youth. Both groups should be agents of change. Women's empowerment may pass more through small-scale income generating and community activities of development NGOs than through those of the national women's organizations. The challenge of youth (almost half the population) also needs to be better understood. In a society in transition, what role can youth play?

5.2 Recommendations

These recommendations fall into six groups: strategic recommendations, which correspond to the strategic framework and form the core priorities; enabling recommendations, which are necessary to provide conditions for some of the strategic recommendations; recommendations for continuing action, which should be continued but which will bear only limited fruit in the absence of strategic reform; recommendations for humanitarian action; recommendations on regional security challenges; and recommendations for donor harmonization and aid alignment.

Strategic actions

- ❑ Give support through diplomatic dialogue and technical means to the **development of a vision for Yemen's future** that goes beyond targets and explores the means for getting there. It should show key players in the political settlement that change is possible without loss of power and status.
- ❑ **Urge that reform is led and coordinated from the highest level.** This is essential not only to provide political impetus but also to ensure that political as well as technical reforms are addressed.
- ❑ **Support non-oil economic growth** which is capable of providing jobs and government revenue
 - o The “promising sectors” (agriculture, fisheries, tourism, and minerals) do provide some opportunities and should be supported. However there are serious obstacles to most of these, which must be resolved first. On their own the promising sectors will be inadequate to keep pace with new entrants to the labour market.
 - o Therefore in addition other avenues should be explored, in particular two: strengthening micro-businesses in the informal economy (as well as small and medium enterprises) and support to migration.
 - o The Public Investment Programme (PIP) needs to be restructured to respond to job-creating poverty alleviation
 - o Migration, the export of labour (Yemen's only abundant resource), offers the only immediate prospect of a safety valve for growing joblessness. Vocational training can assist more targeted labour migration. The vocational training sector needs reform, in conjunction with the business sector, to make its curriculum more market-oriented. However strategies should not presume that GCC accession will come soon. Other links, such as the traditional migration path between Hadramout and India and East Asia should also be explored and facilitated.
 - o Economic rationale alone with almost certainly not provide the investment necessary to turn around the economy. Yemen requires a massive investment input. Only the GCC countries have the resources and the self interest (to preserve their own security from the threat of an unstable neighbour) to do this. High level dialogue with the GCC countries is thus a strategic priority.
- ❑ **Budget reform** is a large area and is returned to below. Of major strategic significance here is effort to reduce the level of politicized spending. This most particularly relates to the size of the state payroll (a major aspect of patronage) and expenditure on fuel subsidies. Freeing up the budget would allow investment leading to the provision of improved services and economic growth, as well as improving the salaries of remaining civil servants. However both of these reforms are highly sensitive. The international community should support these reforms with full awareness of the risk and the need for sequencing.
- ❑ **Improved service provision** Key areas of service investment for strategic reasons are water, education and reproductive health. Though water management could be technically improved, it is not clear to us that the major political obstacles to sustainable water use can be overcome quickly. Hence water is in the category of enabling actions. On the other hand, improvement of education access and quality is an essential component of two other areas of reform: employment and reducing demographic growth. Since one of the objectives of service improvement is to cement the social contract, it is highly inadvisable for government or donors to provide this improvement through

parallel structures such as the SDF rather than through line ministries. We recognize, however, that there is an argument for the short-term tactical separation of efficient implementation departments. There must be an exit strategy for all such units, with milestones measuring progress towards development of line ministry capacity.

- ❑ **Decentralization and participatory local planning** are essential components of building legitimacy and creating appropriate service design. The decentralization strategy should be supported and expanded in ways that ensure that budget is decentralized along with responsibility and that accountability of local officials is increasingly to local people rather than just to central authorities. If it is not to backfire, it will also require support to ensure that there is capacity at local level to supervise and to deliver, as well as capacity at central level to plan.
- ❑ **Strengthening civil society.** The degree of cooption of local civil society to the political settlement is (currently at least) much less than is the case at national level. Hence the prospects for building a culture of effective demand and accountable government are probably greater here. Support to “people’s budget” activities and civil society monitoring may be a useful intervention. Continuously explore possibilities for networks and federations when conditions allow real transparency and accountability
- ❑ **Support the empowerment and involvement of women and youth.** Though, as noted below, there should be more investigation in this area, some aspects are already clear. These would include supporting access of girls to education and of women to employment and reproductive health services. It would also depend on support for initiatives that effectively enhance women’s participation in public life and challenge discrimination. In the case of youth, much more investigation is needed, but can build on the analysis conducted by USAID, which recommends involving youth from the street up as decision makers and providing them with training that enhances life opportunities
- ❑ **Addressing conflict and stability.** Though the causes of insecurity are varied, a principal underlying factor is poverty and lack of (or unequal) development. The measures discussed above would help to tackle these grievances. And a more legitimate government is also a more secure government. However the following should also not be overlooked:
 - o Any development programme carried out inappropriately can promote insecurity. All programmes should include conflict sensitivity among their tools
 - o Reform will create losers as the circle of patronage shrinks, tending towards expansion of localized conflicts. Avoiding these conflicts will involve judiciously undercutting the base of support for any potential local warlords through enhanced delivery by the state
 - o Reform will also create losers through culture change. The empowerment of women will (indeed already is) create resistance from conservative elements.
 - o There are strong regional tensions, particularly the North-South tension. Investment in the South (particularly the Aden free port development) should balance that in the North
- ❑ **Research and investigation** should be undertaken in a number of areas

- o A better understanding of the tribal dynamics underlying the political settlement: is it still true that Yemen is ruled by the compromise candidate between the Hashid and Bakil confederations?
- o Understanding youth culture and design of programmes that help youth to play a constructive role in shaping Yemen's future
- o Investigation of "traditional" Yemen: how people survive and resolve conflicts in order to identify areas for potential support programmes
- o Experimentation with the route to women's empowerment: does it come from political status change or, as we suspect, from small scale economic empowerment

Enabling actions

Enabling actions are those that may not pay immediate dividends but are essential steps towards strategic actions. They are part of sequencing

- Support for viable social safety nets (such as the Social Welfare Fund) as a step towards freeing up the budget but within a policy framework that couples it with job creation
- The burden of fuel subsidies and the energy squeeze could also be reduced through support for lowering the cost of non-renewable energy production (switching electricity production from oil to gas fired stations for example) and through development of renewable energy
- Steps toward sustainable water management would involve
 - o Modern irrigation to reduce evaporative loss
 - o Rain-fed agriculture
 - o Moves to reduce the stranglehold over water supplies
 - o Rainwater harvesting
- Support for long-term investment climate that can create jobs and revenue
- Civil service reform (human resources)
- Support for tax and customs reforms

Areas for continuing support

These are largely areas that would be critical if the road to comprehensive reform were opened. It is essential to keep supporting them with a view to that time, but they are unlikely to achieve all or even much of their purpose at present, because they run strongly counter to vested interests within the political settlement.

- Governance (elections, parliament National Reform Agenda, and the DPPR etc)
 - Judicial reform
 - PFM/ Anti-corruption
 - National civil society (especially in the area of women and human rights)
 - Security sector support (respect for human rights in civil policing)

Humanitarian response

A number of factors make it likely the humanitarian response will need to be a sustained feature of international support

- The spread of local conflicts (such as that in Sa'ada) and the imperative to respond to the victims
- Climatic events (such as the 2008 flooding in Hadramout), which may well intensify with climate change
- The spike in food prices coming on top of already high levels of food insecurity and malnutrition which is likely to lead to a continuing need for food aid
- Response to refugees from the Horn of Africa

Regional security challenges

Largely extending beyond the confines of the national territory, there are a set of regional security challenges that, while not strategic for state building, need to be responded to

- ❑ Trafficking of people and the linked problem of smuggling.
- ❑ Regional maritime security. This largely relates to the Yemeni problem of piracy in the Gulf of Aden and takes the form of increasing the capacity of the Coast Guard. However it may also be important for protecting fish stocks.
- ❑ Counter-terrorism. Though the greatest security challenges are those resulting from local and regional grievances with the state, Islamist fundamentalism also. While there is a global, and especially regional, importance to preventing Yemen becoming a safe haven for terrorist groups, the counter-terrorism agenda needs to be handled with care. There are two essential aspects to this need for care. In the first place, though Yemen became an ally in the “war on terror”, this alliance plays badly in the street, where there is considerable public antipathy to the US-led coalition. Insensitive moves by Western powers could provoke public outrage and instability. Secondly, counter-terrorism needs to be decoupled from other security challenges, in order to minimize the tendency of the regime to pursue domestic disputes under the mantle of counter-terrorism.

Donor harmonization and coordination

The international community is not achieving the maximum impact either for its own objectives or those of the government of Yemen. Key steps towards improvement would be

- ❑ Develop a shared analysis and common strategy, including a common EU country strategy. Donor objectives are in some cases in conflict with each other and the strategy of the government of Yemen not just in harmony of objectives but in starting points (e.g. security, poverty alleviation, economic development). Exaggerating any of these starting points, in isolation, could weaken progress towards responsive state building
- ❑ The building of a responsive state should be taken as a fundamental purpose of all efforts, as outlined here, with predictability and harmonization of aid to assist government of Yemen planning. The Paris declaration should underlie this common position. Donors should strive to develop better means to ensure aid effectiveness, avoiding developing their own parallel project implementation strictures or PIUs which fragment partner Ministries. At the same time, efforts should be made to strengthen the calibre of Ministry human resources and avoid a brain drain to international organizations
- ❑ A common position would allow donors and other members of the international community to leverage their influence to greater effect. This leverage should include greater willingness to speak out where appropriate and insist on bottom lines
- ❑ Exercising leverage would entail the need for improved coordination. Coordination needs to become more action-oriented. The donor governance group may provide a basis for such coordination
- ❑ Special effort should be given to identifying a basis for improved coordination between the GCC countries and Western donors. For the reasons noted above, only the GCC holds a major key to successful change. The GCC should be encouraged to strengthen engagement including establishing a presence in Sana’a. Though a completely common strategy is not possible here, there are strong commonalities of interest in promoting stability and growth, and in improved governance at least insofar as it affects the business climate. A division of labour is possible where GCC can support the heavy lifting with the hardware of projects if Western donors can support the software. This has already happened in the education partnership with DFID

where GCC paid for the schools construction and DFID supported the teachers and curriculum.

- Possible SWAPS where donors could coordinate efforts are
 - o Water
 - o Support for growth (including the US\$8m for the UN promising sectors programme)
 - o Decentralization
 - o Education (currently UK, Holland, Germany) and health (currently EC, Holland and Germany)

6. An action plan

An action plan is presented, articulating the recommendations

1. Introduction

This report forms the output of the EU state building assessment in Yemen. The objectives and intended outputs can briefly¹ be stated as:

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- ❑ Recommended solutions that can gain some traction

Point of departure

It is important to clarify what this assessment is and what it is not. It is not another analysis of Yemen. There are many recent analyses of Yemen². They are pretty good. Most agree on identification of the problems confronting Yemen. Most agree on what the solutions are. However the critical problem is that these solutions largely do not get implemented, or get implemented only very slowly. As one senior government informant put it ““We have studied Yemen to death. Now we need to move from knowing the situation to implementing an action plan.” This assessment focuses on identifying the obstacles to implementation, and the steps that could feasibly be taken and supported by the international community to reduce these obstacles. As such, the assessment draws upon the previous analyses noted and does not repeat them, as well as upon interviews with a range of actors. A reference list and list of informants is annexed. It is probable that there is little or nothing in the assessment that is new, though we hope that it may put old analyses into a new and hopefully more useful framework.

Definition of state building

There is no consistently adopted definition of state building. Therefore it is important to state clearly the definition of state building used here. The definition is a wide one, consistent with the OECD/DAC principles, encapsulated in the idea of the social contract between the governed and the governors³. One version of the OECD/DAC definition runs as follows:

“In its simplest form, state building is the process of states functioning more effectively. Understood in this positive context, it can be defined as an endogenous process to develop capacity, institutions and legitimacy of the state driven by state-society relationships. Positive state-building processes involve reciprocal relations between a state that delivers services for its

¹ The full objectives and expected outputs are annexed

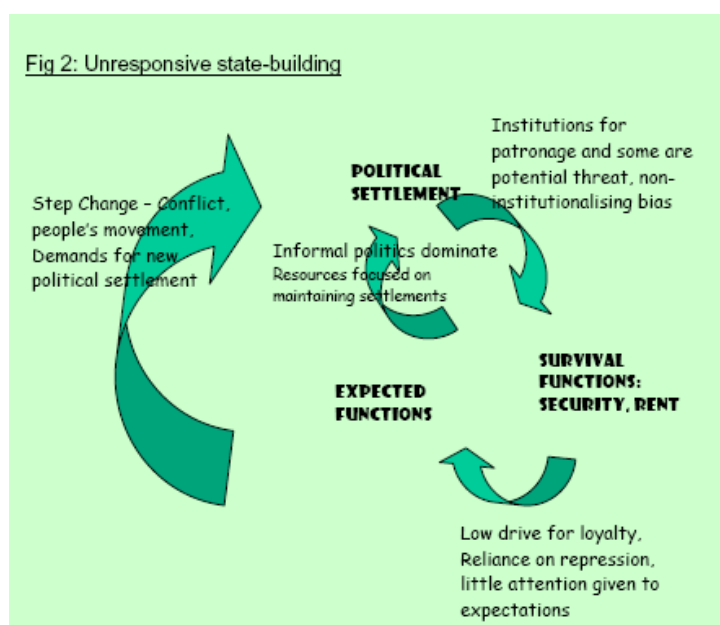
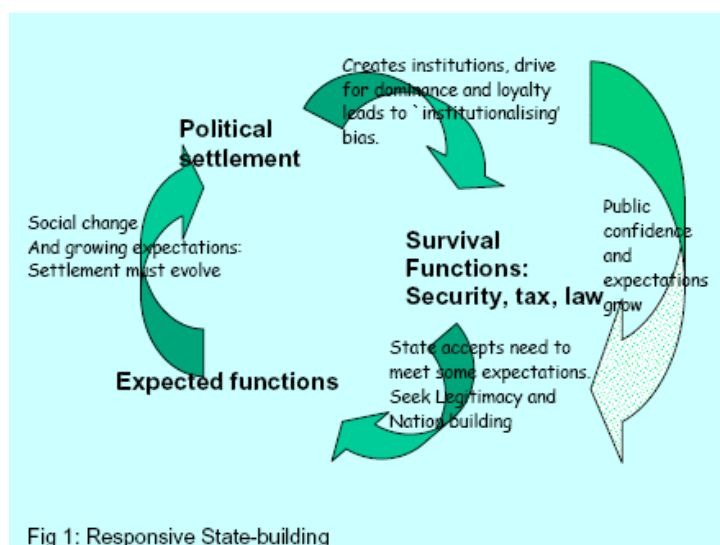
² International Crisis Group (2003); The Policy Practice (2005); Ginny Hill (2008); Gareth Williams and Ahmed Hezaam Al-Yemei (2007); DFID (2008b); Conflict, Humanitarian and Security Department (2008); Sarah Phillips (2008)

³ OECD/DAC Discussion Paper (2008b)

people and social and political groups who constructively engage with their state. This necessarily requires the existence of inclusive political processes to negotiate state-society relations”

This definition is distinguished from nation building, peace building, and institution building.

The terms of reference for the assessment identify three key components of the state, following a schema developed by DFID⁴: political settlement, survival functions, and expected functions. The following diagrams represent the essential implications of the schema.



Section 2 below examines the Yemeni state in terms of this schema

⁴ Alan Whaites (2008)

Why Yemen?

Why should Yemen be of particular concern to the European Union and the international community more widely? There are essentially two reasons for a focus on Yemen. The first is humanitarian: Yemen is the poorest country in the region, classified as a Least Developed Country (LDC) with socio-economic indicators comparable to those of sub-Saharan Africa. This however is not the fundamental political reason for engagement: As the government of Yemen repeatedly points out, the level of ODA it receives is substantially below the average for LDCs: in 2003, Yemen received aid equivalent to 2.2% of GDP compared to an average of 18.7% for all least developed countries, or \$12.7 per capita compared to \$33.4 per capita for all LDCs⁵. The second reason for increasing international engagement with Yemen since 2001 is security-related, and reflects Yemen's strategic geo-political location. It sits astride the Bab el Mandib strait that controls the entrance to the Red Sea, one of the world's busiest shipping lanes through which pass an estimated 3.3 billion barrels of oil a day. It has nominal control over the northern waters of the Gulf of Aden – criss-crossed with smuggling routes and witnessing an explosion of Somali piracy. It forms the buffer between conflict-torn Horn of Africa and strategically significant Saudi Arabia. Since the dramatic Al Qaeda attack on the USS Cole in October 2000 it has been associated with the threat of jihadist terrorism. Future instability in Yemen could expand a lawless zone stretching from northern Kenya, through Somalia and the Gulf of Aden, to Saudi Arabia and beyond to Afghanistan. Piracy, organized crime and violent jihad would escalate, with implications for the security of shipping routes, the transit of oil through the Suez Canal and the internal security of Yemen's neighbours

⁵ Ministry of Planning and International Cooperation/Oxford Management Institute (2006) Aid Absorption Capacity

2. The Yemeni state

2.1 The political settlement

The political settlement may be defined as the forging of a common understanding, usually among elites, that their interests or beliefs are served by a particular way of organising political power.

The formal and parallel states

The settlement in Yemen is complex. There is the formal state and the parallel state. The parallel state depends on a network of alliances, patronage and cooption, linking the political leadership, the armed forces, tribal sheikhs, and some top officials, and important business families.

The formal state is unique in the region, characterized by political pluralism and elections. To this correspond a press characterized by a significant level of freedom, and an extensive range of civil society organizations.

The interpretation of the relationship between the two states is controversial. Depending on viewpoint, Yemen can be viewed as weak but developing democratic state, or as a sham where a democratic form hides a feudal reality. Many civil society observers, and indeed some members of the formal government, talk about the absence of a state, describing the formal state as a cipher. In this respect it is worth noting the lack of any popular protest when elections scheduled for April 2009 were postponed for two years as a result of an unresolved dispute between the ruling GPC party and the JMP opposition coalition. The lack of public response suggests this should be seen, not so much as a political crisis, but rather as a dispute between two elite groups about the division of power. Many commentaries note that pluralism has simply served to reinforce the 30-year dominance of President Saleh and that parliament is supine. The space for political competition is circumscribed by the regime's need for stability. The GPC is not even a ruling party in a normal sense, since many of those who exercise decision-making power are not members of the party⁶. Political relationships are essentially personal and private rather than public and institutional.

Perhaps nothing describes the political logic of Yemen so tellingly as the long political relationship between President Saleh and, until his death in 2007, Sheikh Abdullah bin Hussein al-Ahmar, formerly president of the Islah opposition party, and Speaker of Parliament. As paramount sheikh of the Hashid, Yemen's most influential tribal confederation, Sheikh Abdullah was the primary representative of the traditional social structure and President Saleh's essential mediator with the tribes. An enduring partnership between the two men, although sometimes tense and distrustful, formed a central aspect of northern Yemen's political dynamic.

Sarah Phillips describes the way rule in Yemen operates as follows:

"It is a fluid and informal group, membership is constantly fluctuating, and the president does not necessarily consult the same people each time. The dominant group is a small, carefully selected circle consisting of elites from the Sanhan tribe (President Saleh's tribe) and the Hashid tribes (the dominant tribal confederation of which Sanhan is a minor member), military officers who are either connected by kinship, demonstrated loyalty or tribal links to

⁶ Sarah Phillips (2008) p52

President Saleh, and tribal leaders who command significant independent support in their local areas.”⁷

Our own view is that it would be incorrect to see Yemen as simply an overlay of democracy on traditional and tribal rule. This is for a number of reasons: The traditional basis of rule in northern Yemen that has survived for hundreds of years has been changed, and arguably undermined, by Saleh’s presidency. Traditionally, the compromise candidate between the two major tribal confederations, the Hashid and the Bakil, ruled northern Yemen. Power within both confederations has been fragmented, most particularly among the Bakil where there are 10 contenders for the position of paramount sheikh, according to Phillips. The Drivers of Change analysis describes this as follows

“It should be noted that under the impact of this system tribes are changing. The state has gradually been able to divide sheikhs from their tribes and cultivate some sheikhs’ personal dependence on the regime. Customary values previously associated with tribes are no longer as salient to tribal experience. Patron-client relationships and widespread corruption have overridden some of the norms by which self-identified tribesmen used to operate.”⁸

There has also been a traditional sharing of power between the political elite of mountainous upper Yemen and the commercial elite of lower Yemen. This relationship was famously described by Ahmed No’mān as “*Yemen al-Geish*” (Yemen of the Army) and “*Yemen al-Eish*” (Yemen of the Bread). The present regime has isolated the commercial elite and the private sector exercises very little influence over power.

This is not to argue that the regime’s power is absolute: quite the reverse. Its freedom for manoeuvre is circumscribed both by local tribal power and by public opinion. Saleh is well aware of the salutary history of his predecessors: President Ibrahim al-Hamdi was killed in 1977, largely for trying to move against tribal power and corruption and establish the power of the state. Equally, though parliament may not function as a legislature, it is important to the regime as a sounding board for public opinion, giving early warning of potentially explosive issues. As a result there is pressure for a level of delivery and many Yemenis would point to their successes and the challenges they have already successfully overcome:

- ❑ Forging national unity despite a series of conflicts since 1962
- ❑ An advance in freedoms and democracy that is notable in the region, with a series of Presidential, national and local elections since 1990, a relatively free press, and a strong growth of civil society organizations
- ❑ Improvements in many of the social indicators since 1990: net primary enrolment rates have risen from 51% to 75% between 1991 and 2005. Adult literacy has increased from 33% in 1990 to 54.1% in 2005. Life expectancy at birth has risen from 52 to 61.5 between 1990 and 2005, and the Under-five Mortality Rate has fallen from 142 to 102 per 1000 births over the same period⁹.
- ❑ These positive trends disguise a very wide gender gap, reportedly among the widest in the world. While the adult male literacy rate stands at 73.1%, the rate

⁷ Sarah Phillips (2008) p4

⁸ Drivers of Change p24

⁹ Figures are not consistent. Alternate figures: 60% enrolled in education of which male is 82% and female 53% with 60% literacy, of which male is 77% and female 42% (National HIV/AIDS strategy as reported in the Yemen Observer January 27, 2009) life expectancy 54 (State of the World’s Children 2009 as reported in Yemen Times January 26, 2009) Neonatal mortality 69 per 1,000 live births and maternal mortality 365 per 100,000 births (National HIV/AIDS strategy as reported in the Yemen Observer January 27, 2009)

for women is 34.7%. While the basic education enrolment rate for boys is around 82%, compared to 53% for girls¹⁰. Child mortality is 15% higher for girls than for boys, indicating gender discrimination with respect to health care

- ❑ It is also probable that, with oil revenues decreasing now, that the positive trends are unlikely to be sustainable.

Short-termism

The way in which power is exercised in Yemen has significant consequences for decision-making, which make it particularly difficult for the regime to engage with long-term strategic challenges. The Drivers of Change analysis describes this characteristic as follows:

“The central problem is not that no one knows what to do. It is rather that the motivations and incentives facing those with power and influence are such as to prevent them from rising to the challenge of reversing present trends.”

In a famous metaphor the process of brokering the alliances and patronage relationships on which the stability of the regime rests is described as “dancing on the noses of snakes”. Sarah Phillips describes it thus:

“A patronage system is essentially a method of crisis management – it is reasonably good at containing or at least channelling crises but is hopelessly inadequate at pre-empting them through alternative policy generation. Solutions to problems are created through the dispersal of resources, benefits and status, and the way to attract these is, therefore, to create a crisis and then negotiate a solution with the leadership”¹¹

The regime’s central preoccupation thus becomes maintaining its stability through patronage and cooption, and preventing the emergence of any significant locus of threat to its central power. This imperative enforces a short-term tactical focus and inhibits the development of a state building project capable of addressing long-term strategic challenges. And such challenges are real and growing.

Strategic challenges

- ❑ Oil production, whose rents have sustained the patronage system, has peaked and is declining rapidly¹².
- ❑ Groundwater extraction is currently at a level twice the replacement level, threatening the viability of both agriculture and of the growing urban population¹³.
- ❑ Population growth at 3% exacerbates resource crisis and swamps any gains in poverty eradication, expansion of service provision and economic growth¹⁴

¹⁰ Yemen Observer Jan 27 2009

¹¹ Sarah Phillips (2008) p5

¹² Oil revenues have provided 91% of exports by value and 70% of state revenues on average, according to figures quoted by MOPIC in the National Reform Agenda. This has provided the wherewithal for patronage, flattered national finance figures and dulled motivation for more radical reform and economic diversification. It has also meant that there is no tax nexus to form the basis of a social contract between state and people. However oil extraction is now past its peak. According to MOPIC it dwindled by 8.7% in 2006 and 12.5% in 2007. The World Bank in its Country Assistance Strategy (2009) estimates that oil could be exhausted by the end of the next decade.

¹³ The Drivers of Change analysis notes: “Yemen’s water policy has suited the needs of the elite. It has succeeded in buying the loyalty of an important section of the farming population, who have benefited in the short-term from mining Yemen’s groundwater resources. Groundwater extraction has sustained rural livelihoods, and slowed down the shift out of agriculture. While the pattern of development is clearly unsustainable, it will be extremely difficult to introduce reforms because water policy has become an important source of patronage.”

These challenges threaten not only an increase in poverty for the majority of the people, but also the very survival of the settlement itself. The state also faces a growing number of security challenges, which are noted below

2.2 Survival functions

The distinction between survival functions and expected functions is somewhat arbitrary. Survival functions include security and the maintenance of the rule of law, sources of state revenues, and the creation of a climate for business and economic growth.

Security

Yemen at present faces no challenge to its territorial integrity. However it does face a number of well-described security challenges which mean the state does not exercise either control over the entire national territory or a monopoly of the means of coercion. These challenges will not be described here again, but merely summarized

Security challenges

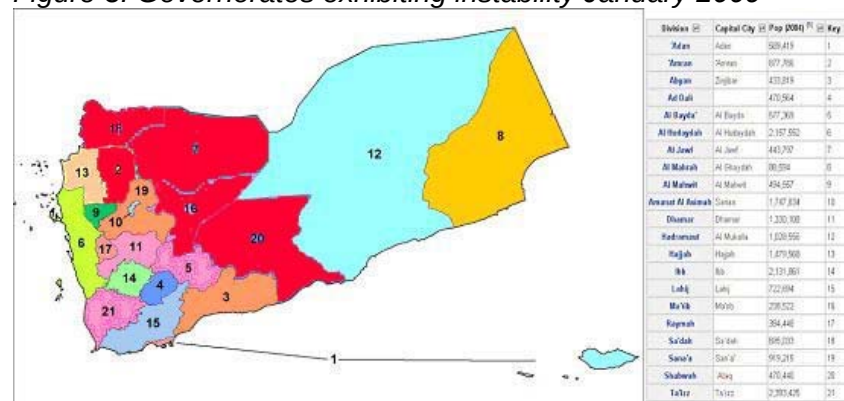
- ❑ State-tribal conflicts: the most serious being the war against the al-Houthis in Sa'ada, which has been through five cycles since 2004
- ❑ Inter-tribal conflicts (largely over land and water rights)
- ❑ Regional tensions: most particularly resentment of Southerners at perceived marginalization since unification in 1991 and the failed war of secession in 1994
- ❑ Jihadist terrorism
- ❑ Piracy in the Gulf of Aden, smuggling, migration and people trafficking from the Horn of Africa

All of these security challenges are increasing. The fifth Sa'ada war finished with an uneasy peace agreement in July 2008. There is widespread speculation, given an increase in security incidents and rhetoric from both sides, that the sixth war may be imminent. However, the Sa'ada conflict, though militarily the most intense, should not be seen as particularly unique¹⁵. Rather it is representative of more widespread tribal grievances with the state, whose causes are various, often relating to perceived injustices in sharing the benefits of development. These grievances are often expressed through the kidnapping of foreigners as bargaining chips with the state. At the beginning of 2009, when the present assessment began, parts of five governorates had experienced open violent conflict against the state - Al-Jawf, Amran, Marib, Shabwah and Sa'ada (indicated in red on the map) - forming an arc of instability around the capital.

¹⁴ Economic growth is falling far below necessary levels to make inroads into underdevelopment and poverty. At least 6-7% growth is needed, and the strategic vision for 2025 talks about 6.4% by 2010 and at least 9% by 2025. However GDP grew only 3.2% in 2006 and 3.6% in 2007 according to MOPIC. Investment levels are negative: Yemen is a net exporter of capital.

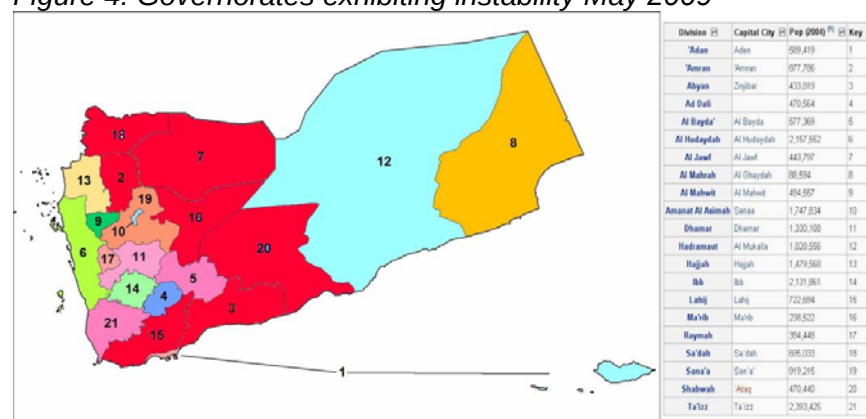
¹⁵ The causes and objectives of the Houthi rebellion in Sa'ada have never been clearly articulated, but are rooted in historic local cultural grievances: see Human Rights Watch (2008) *Invisible Civilians: the challenge of humanitarian access in Yemen's forgotten war*

Figure 3: Governorates exhibiting instability January 2009



However, by the time the assessment concluded in May 2009, the map of instability had extended to take in a further two provinces as a result of a major military operation against jihadists in Abyan governorate (March-April) and a conflict with southern secessionists (May) in Lahij.

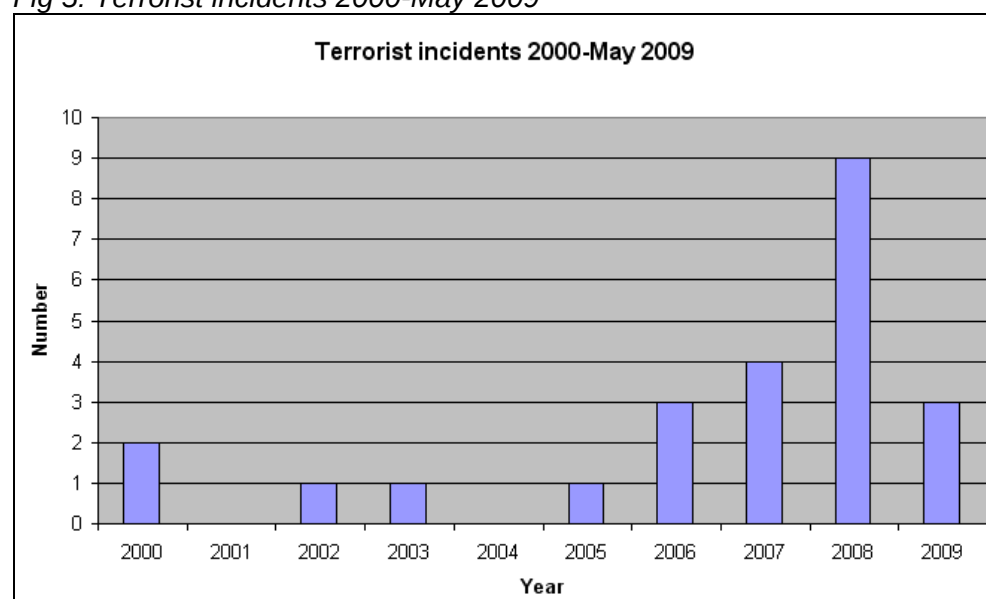
Figure 4: Governorates exhibiting instability May 2009



Though it is the jihadist threat that has placed Yemen in the international spotlight, the tribal and regional conflicts are by far the more serious security challenge. The number¹⁶ of terrorist incidents or major clashes between jihadists and security forces, though growing sharply, is small. In the first five months of 2009, for example, there were two suicide bombings and a major army action against suspected terrorists in Abyan. Over the same period (not counting minor inter-tribal conflicts) there were several tribally related security incidents in Sa'dah, two tribal kidnappings of foreigners, and a major confrontation between troops and southern secessionists. In making this comparison, we recognize the wider global threat posed by the possibility that Yemen might become a safe haven for terrorist. But we also stress that what makes this threat a possibility is not the challenge of the jihadists themselves but the fact that there are areas of the country which are not fully under the control of the state: precisely, the limitation of the power of the state by local armed groups, who are not themselves terrorists.

¹⁶ Data from International Crisis Group database

Fig 5: Terrorist incidents 2000-May 2009



The most overt secessionist threat is that caused by southern resentment (which produced riots in 2007). However the eastern governorate of Hadramout is also culturally distinct (historically it was a sultanate in its own right) and fears of Hadrami secession are an unstated subtext to the security discourse. Most of Yemen's hydrocarbon wealth lies in the south and the east. The politically dominant highland area of the north is nothing without these resources as well as the agricultural breadbasket of lower Yemen.

Interpretations differ among observers as to what the increase in tribal and regional conflict means. For some observers it indicates a weakening of the regime's grip¹⁷. Others however point to the skill with which the regime has used divide-and-rule as a way of preventing the emergence of any effective challenge to central rule and see tribal conflicts as simply an expression of that strategy. It is noteworthy that the fifth Sa'ada war spilled over from the north and reached the outskirts of the capital, causing the President to send his family out of the country, before peace was declared in July 2008. Militarily it did not end in a triumph for the Yemeni army. Some observers¹⁸ also argue that the expansion of the arc of conflict is a result of the loss of moderating tribal influence following the death of Sheik Abdullah bin Hussein al-Ahmar, the Hashid sheikh of sheiks (referred to under section 2.1 above)

The final dynamic that should be considered from the viewpoint of assessing the security situation is the socio-economic trajectory of the population. Poverty, unemployment, and malnutrition indices are all increasing. The prospects of civil unrest rise with them.

Table 1 Socio-economic indicators of poverty 2005

Population living below national poverty line	41.8%
Unemployment	11.5%
Population undernourished (2002-2004)	38%

Source: UNDP World Development Report 2007-8

¹⁷ For example, Ginny Hill (2008)

¹⁸ Quoted in DFID CGA (2008)

There were riots in 2005 when the government, in response to donor pressure, tried to reduce the state salary bill and fuel subsidies (see below). The government is well aware of this potential for instability. Protest is often suppressed with considerable brutality. The potential for youth discontent erupting into protest or sympathy with jihadist ideology is a particularly significant threat. One highly-placed informant described it as a “political time bomb”. The high levels of demographic growth create a youth bulge, with almost half the population (45.9%) under the age of 15. Not enough is known about youth culture and what youth want. However our own interviews and a focus group study carried out by USAID¹⁹ indicate two principal grievances: not being listened to, and blocked livelihood opportunities. Youth unemployment has ramifications far beyond the immediate crisis of individuals lacking a wage: longer-term national threats include political stability, the viability of the country's fiscal and social security systems, and the social integration of a non-productive generation

Any widespread public protest in Yemen is protest by an unusually heavily armed population. The Drivers of Change analysis describes it thus:

“Estimates usually put the number of small arms and light weapons at 50-60million, though recent research argues that the numbers are more likely in the 6-9million range. More significant are the large quantities of medium and heavy weapons held by Yemenis - in particular the large arms caches (including RPGs, tanks and SAMs) under the control of tribal leaders. Equally problematic is the availability of explosives and associated detonators.”²⁰

Rule of law

The rule of law is a well-acknowledged and documented weakness of the state. There are two components to this. The first is that the governed enjoy no expectation that the behaviour of state agencies towards them will be predictable and governed by law. Policing remains heavy handed and subject to corruption. It is not uncommon for the state to take hostages in the course of local disputes. The second component is that the judicial system does not provide a service for the settling of disputes that people value. The formal justice system is absent from most locations. Even where it is present, engagement with it is a last resort for most people, due to poorly qualified personnel, corruption, political interference, and the lengthy time course in which cases are handled. Progress in judicial reform has been halting and incomplete. The majority of Yemenis prefer to turn to traditional means for resolving disputes under tribal law, with an estimated 70% of disputes being managed by traditional mechanisms (described by one informant from a modernist perspective as “the privatisation of justice”).

The emergence of “vigilante” law through the establishment of the *Muttawah* (“Vice and Virtue Police”) by hard-line Islamists and some tribal sheiks is a much more troubling privatisation of justice and involvement of non-state actors in this area. They wish to ‘clean up’ the perceived deterioration in values in Yemen, particularly in relation to the emancipation of women.

Traditional justice systems, on the other hand, do have much to recommend them and a number of projects have attempted to build reconciliation and conflict resolution mechanisms on this foundation. However there are limitations to the ability of the traditional system to manage major disputes. Poverty limits access to resources (money, cars, and weapons) with which to ‘buy off’ the feuds and break

¹⁹ USAID (2008) Youth assessment

²⁰ Drivers of Change

the cycle of revenge. Those working with tribal conflicts report that many of the sheikhs would welcome resolution through the formal justice system if they were able to trust it.

There is a particular subset of issues about the rule of law that will be returned to below: namely that related to the climate for investment.

State revenues and expenditures

As already noted, the state's capacity for revenue-raising is limited. The availability of oil revenues has provided "rent" for division among the elite and their constituencies. Tax revenues have formed only a minor share of government income²¹, and little of this is direct income tax, though the potential is there for around US\$5bn in income tax²². Arguably, an increasing dependence by the state on taxation should tend to enforce a social contract whereby the governed agree to taxation in return for responsiveness by the state to their needs in the form of services. Correspondingly, where tax revenues form less than 10% of government income, this is often taken as a proxy for fragility.

Politicized spending forms the major part of government expenditure. This is expenditure whose objectives are largely political rather than those of public administration. This constrains the ability to invest for economic growth and employment, or for improved service quality and coverage. The main components of this politicized expenditure are the public wage and salary bill and subsidies, largely fuel subsidy. The civil service exists not to provide services but as an employer of last resort and a source of jobs patronage. Wages and salaries formed 32% of the 2008 budget and the fuel subsidy 36.8%²³. Reforming these expenditures would be politically very sensitive and has been strongly resisted. For example, civil service reform so far through the biometric identity system may have removed between 27,000 and 60,000 civil servants²⁴ from the payroll (we were given varying figures by different sources). This is a small dent in the 480,000 –500,000 strong civil service, which many observers feel should be cut by at least half or even two-thirds. Even more sensitive is the size of the security forces. Altogether, some 1.2 million people are in state employment²⁵.

The politicized budget expenditures may be compared with 1.9% on health, and 9.6% on education²⁶. The defence budget is said to be 6.6% of GDP in 2006, but according to Ginny Hill this is probably much higher. Budget figures tend to be opaque, among other reasons due to the habit of passing supplementary budgets. There are additional and unscrutinized elements of the budget accruing from oil revenues and fluctuating with the oil price.

²¹ Various stated as 7.7% of GDP or 21.3% of government revenue in the 2006 Aid Absorption Study, derived from IMF estimates, as less than 20% of government revenue in the 2007 Dutch Power and Change Analysis and as 9.4% in the DFID (2008) CGA

²² Information from Ministry of Finance

²³ Information from Ministry of Finance

²⁴ Estimates from Ministry of Finance and Ministry of Civil Service Reform

²⁵ Information from Ministry of Finance

²⁶ UNDP (2007) Human Development Report

Business climate

Yemen is a net exporter of capital. The private sector is underdeveloped and politically dependent. This reflects the privileged role of the state and those connected with it. Many enterprises remain state owned, and handing out of government contracts is the basis for much of the nominally independent sector. This direct patronage connection was estimated by one businessman to account for 70% of the sector²⁷. The armed forces themselves are a major economic player through parastatal and private companies they own, as well as being a substantial landowner. The sector is thus dominated by a few large monopolies, parastatals and military owned enterprises, which constrain the conditions for development of rivals²⁸. There are numerous small enterprises but they lack the lobbying power to influence the business climate. The medium-sized business is small. One businessman said, “We are risk takers. But nobody wants to take risks with the government”. The corruption that is the counterpart of patronage is so substantial it is often a deal-killer²⁹.

Though considerable effort is going into encouraging further prospecting for oil and the exploitation of Liquid Natural Gas (LNG), success here would only buy a further breathing space. Much of the possibility for the future turns on the prospects for an economy after oil. Government strategy documents focus on the so-called “promising sectors: agriculture, fisheries, tourism and minerals. Aden port could also provide an important hub for transport and transshipment services given its strategic location. Alternative sources of employment are essential for reducing the civil service payroll without political instability. Reducing this cost burden is essential for improved coverage and quality of services. Alternative sources of revenue are essential to maintain the political settlement. And the patronage costs of the settlement could be reduced by better service provision and economic growth.

A traditional source of income in the past was remittances from migrant labour to the Gulf, which was abruptly terminated following Yemen’s rejection of the US-led Gulf War in 1991: 800,000 Yemenis were expelled from Gulf States with a loss of US\$ XXX. Relations have gradually improved but expansion in remittances beyond the recent levels of \$1.2 billion annually is not thought likely³⁰. It would depend on the Gulf Cooperation Council countries opening the way to Yemen for full membership of the GCC.

The government is making considerable effort to improve the climate for starting and carrying on business, and progress has been significant as shown in the following table³¹. Yemen jumped 128 places in the *Doing Business 2009* survey on ease of starting a new business and was named a top performer: requirements for minimum capital have been eliminated and registration time reduced to 13 days Hidden turnover taxes were eliminated and replaced by 5% sales tax: total corporate tax burden has been reduced from 170% to 48% of gross profit under new corporate income tax law. The customs regime has been reformed and a land registration law approved. However, private investment as a percentage of total investment failed to meet the 2010 target of 63% and dropped from 59% on 2006 to 57% in 2008³².

²⁷ Yemen Post 26 January 2009

²⁸ See World Bank (2007)

²⁹ Drivers of Change (2005) p16

³⁰ Drivers of Change

³¹ World Bank (2008)

³² World Bank (2009a)

Table 2: Yemen's ranking in Doing Business Survey (2009)

Ease of	Doing Business 2009 rank	Doing Business 2008 rank	Change in rank
Doing Business	98	123	25
Starting a business	50	178	128
Dealing with construction permits	33	33	0
Employing workers	69	68	-1
Registering property	48	45	-3
Getting credit	172	171	-1
Protecting investors	126	125	-1
Paying taxes	138	129	-9
Trading across borders	126	126	0
Enforcing contracts	41	40	-1
Closing a business	87	86	-1

Source: Doing Business 2009

2.3 Expected functions

The state performs poorly at providing services for its people. Public expenditure on health at 1.9% of GDP ³³ is insufficient to provide a basic health package for every citizen. Health services reach only between 50 and 63%³⁴ of the population, with wide variation in coverage (89% urban coverage and 41% rural). 53% of children suffer malnutrition and stunting³⁵. Though education expenditure is substantially higher at 9.6% of GDP, with enrolment variously described as 60-78%, but it is not efficiently spent. Standards are poor and teacher skills inadequate, with appointments often being made on the basis of patronage rather than qualifications. Teachers' salaries are poor and morale is low. Management and supervision is poor. The curriculum is centralized and the calendar inflexible. There are no adequate statistics on academic performance and dropout rates.

"Government agencies simply cannot deliver"
Senior Government member

Parallel project implementing institutions such as the Social Fund for Development, are the exception to the poor performance of service ministries. The SFD is efficient and transparent in its use of resources, being pro-poor and community-based in its approaches to health, education, water, roads and microenterprise development and, as such, is much appreciated by donors. On the one hand, these PIUs, of which there are currently 27, may demonstrate what is possible. On the other hand, they may undermine the legitimacy and capacity of line ministries. In an interview with the Yemen Times, Nabil Shaiban of the Ministry of Planning and International Cooperation argued for the importance of the PIUs as follows:

"Setting up such [Project Implementation] units would help the government maintain and attract the best caliber of people and national expertise, and will stop the brain drain of Yemenis by international agencies. Until we see improved civil service system, a unit with clear mandates and exit strategies will continue to be needed for some time to come"³⁶

³³ HDR 2007. The National HIV/AIDS strategy as reported in the Yemen Observer January 27, 2009 puts this figure at 5%, though it is unclear whether this represents both public and private expenditure

³⁴ Social services expenditure lowest in the region (Yemen Observer Jan 27 2009)

³⁵ Yemen Times 26 January, 2009

³⁶ Nabil Shaiban to the Yemen Times (Yemen Times 14 May, 2009)

Despite an apparently vibrant civil society, people expect little from the government and the government expects little from the people (as already noted, there is no taxation logic to underpin a social contract). Many of the poor rely on informal social capital through traditional networks, which strengthens the parallel state. However, there are great moral and social strengths in these traditional networks, despite the changes wrought by modernization. These changes indeed create a danger, as social safety nets weaken, described as follows by the International Crisis group: “the gap between emerging state institutions and fading tribal codes is likely to create a dangerous vacuum”.³⁷

Key expressed needs from citizens relate to securing access to scarce resources, particularly water and land, with services such as schools and clinics highly valued, as well as community facilities. Roads and access to markets and credit are also key needs³⁸.

Civil society, though strong by the standards of the region with some 4,700 officially registered CSOs, is unable to provide a countervailing force to the state. In many ways it mirrors the personalised relationships of state officials. The Power and Change study³⁹ envisages a trend for civil society activism to continue on a limited scale, coalescing on issues such as anti-corruption, press freedom and constitutional change. Greater involvement in monitoring the reform process would be helpful. Civil society is weak, with little influence on policy. It is fragmented along regional religious, and political lines and is itself prey to some of the same problems of patronage, cooption and lack of transparency as the elite (with the general exception of traditional Islamic welfare structures). The media boasts newspapers that are independent by regional standards. It has in recent years dared more critical coverage of government in areas such as corruption. However there are clear lines that cannot be safely crossed⁴⁰. The majority of NGOs are involved in service provision, and only around 20 in advocacy. NGOs are tightly regulated by the Ministry of Social Affairs under the People’s Associations and Organisations Law of 2001. A statement attributed to the President is that people are free to speak as they like and he is free to act as he likes⁴¹. The way civil society functions should not be equated with the textbook pluralist model.

“Far from unambiguously acting as ‘instruments for the expression of interests ... against the regime’ as they are often portrayed in the literature, some Yemeni CSOs and opposition groups have actually functioned, intentionally or otherwise, in support of existing power structures.”⁴²

This is not simply as a result of cooption. It is also a result of a political culture in which people expect to make progress by working with the system rather than against it.

Local CSOs are probably more accountable and representative, if only because they are not currently seen as a threat. Together with progress in decentralization to local administration local CSOs may hold the key to gender empowerment⁴³, effective

³⁷ ICG (2003) p14

³⁸ Information from Social Fund for Development

³⁹ **How to reference this?**

⁴⁰ This was rudely demonstrated for example by the actions of the government in May 2009 against newspapers whose coverage of a fortnight of clashes between the Southern Movement and the army was judged a threat to national unity (Yemen Times 11 May 2009)

⁴¹ Sarah Phillips (2008) p66

⁴² Sarah Phillips (2008) p114

⁴³ See for example Stephany Kersten and Sarah Jane Nelson (2008) *Taking Empowerment into our own hands*, CARE International Yemen

demand for accountability and services, and state responsiveness. However, the process of decentralization has not so far done anything to counter the trend towards increasing concentration of power in the executive. The process is described by the Ministry of Local Administration as a de-concentration of responsibility rather than a decentralization of power.

Communication channels for negotiating the social contract need not be democratic as understood by Western donors to be effective. Tribal structures have the capacity of rapidly registering (and potentially resolving) demands provided (and it is a big proviso) that they are equitable. Traditional structures may have greater capacity for arbitrating and resolving disputes than the formal justice system.

2.4 Prognosis

The origins of the present assessment are in EC concern with state fragility. The core policy question then is how likely is the Yemeni state to become increasingly fragile, or indeed to become a failed state? It may be instructive that in the brief time period of the present assessment (January to May 2009) this question passed from being deeply sensitive to being an issue of public debate.

The Yemeni political settlement is not only structured in such a way as to lead to short-term responses and neglect of longer-term strategic issues. It is also highly vulnerable to perturbations in the delicate balance between elites. This is true in two senses. Firstly, a failure of state resources and reduction in capacity for patronage threatens to exclude some elites from the fruits of power, with consequent dangers of resistance and fragmentation. Secondly, there is always the danger that some group becomes strong enough to challenge the central authority. This danger is strengthened by any tendency to divide and rule, using some groups as proxies in the conflict with others.

As oil and water resource crises come together with others, such as the demographic time bomb of the “youth bulge” and signs of growing discontent, the political settlement could plausibly go in either of two directions. The first, is that the elite could accelerate their drawing of rent knowing that time is limited, in a gradually worsening spiral of poverty, tension and conflict that leads towards a more tribally dominated and perhaps failed state. DFID’s analysis is that total state failure is unlikely and that the political settlement will remain the same over the next 10 years⁴⁴. Or, secondly, the crisis could provide the stimulus to overcome the obstacles to strategic response in both the governance and growth areas - of reform and economic diversification. The gathering resource crisis could potentially trigger a step change, either towards more energetic efforts at reform, or towards defensiveness and repression. There is little sign of serious preparations for a coming change. At the same time, the government has been highly sensitive in the past to mass protest

Prospects for building a state that is capable of meeting the needs of the people rest on the commitment to reform within the political elite.

The key reforms are well known and are (to a degree) reflected in the National Reform Agenda and the DPPR

- ❑ Freeing up the national budget for investment and better service provision
 - Downsizing the civil service
 - Reducing or eliminating the subsidies on fuel
- ❑ Reducing and punishing corruption

⁴⁴ DFID (2008) Country Governance Analysis

- ❑ Developing a favourable climate for investment, particularly in non-oil sectors that can create jobs and government revenue
- ❑ Developing a transparent and equitable system of taxation as the basis for a social contract between government and people
- ❑ Managing the sustainable use of water
- ❑ Increasing social participation in political and economic life, particularly that of women and youth

Most of the obstacles to implementing solutions are political. Politics and political will trumps everything else. However the growth agenda is deeply intertwined with the governance agenda: without growth in jobs, it is hard to see how the civil service can be significantly downsized. If lack of growth reinforces the need for patronage, correspondingly, growth can reduce the costs of the political settlement by reducing the number of those who must be paid off.

What future?

Annexes 4 (Structural Causes of Instability), 5 (Risk Assessment Matrix) and 6 (Drivers of Change) contain the outcomes of mappings of instability using standard tools. The pooled outcomes lead to the problem analysis shown in figure 7 on the next page. The figure shows a political settlement, based on patronage and cooption to be at the heart of the dilemma.

Figure 6: the logic of the political settlement

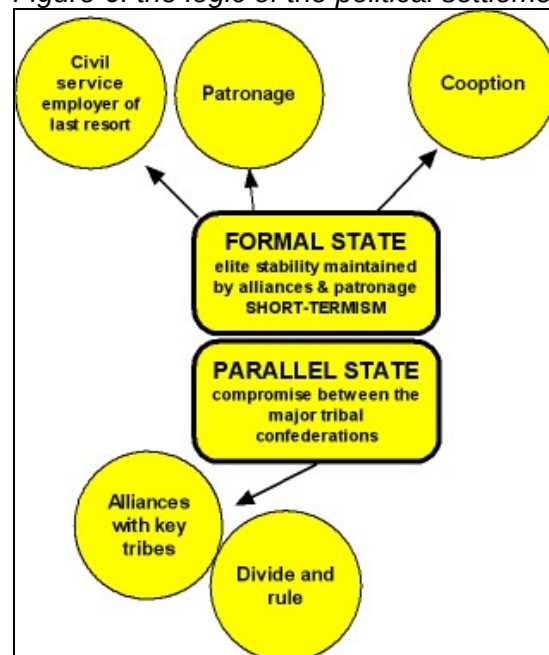


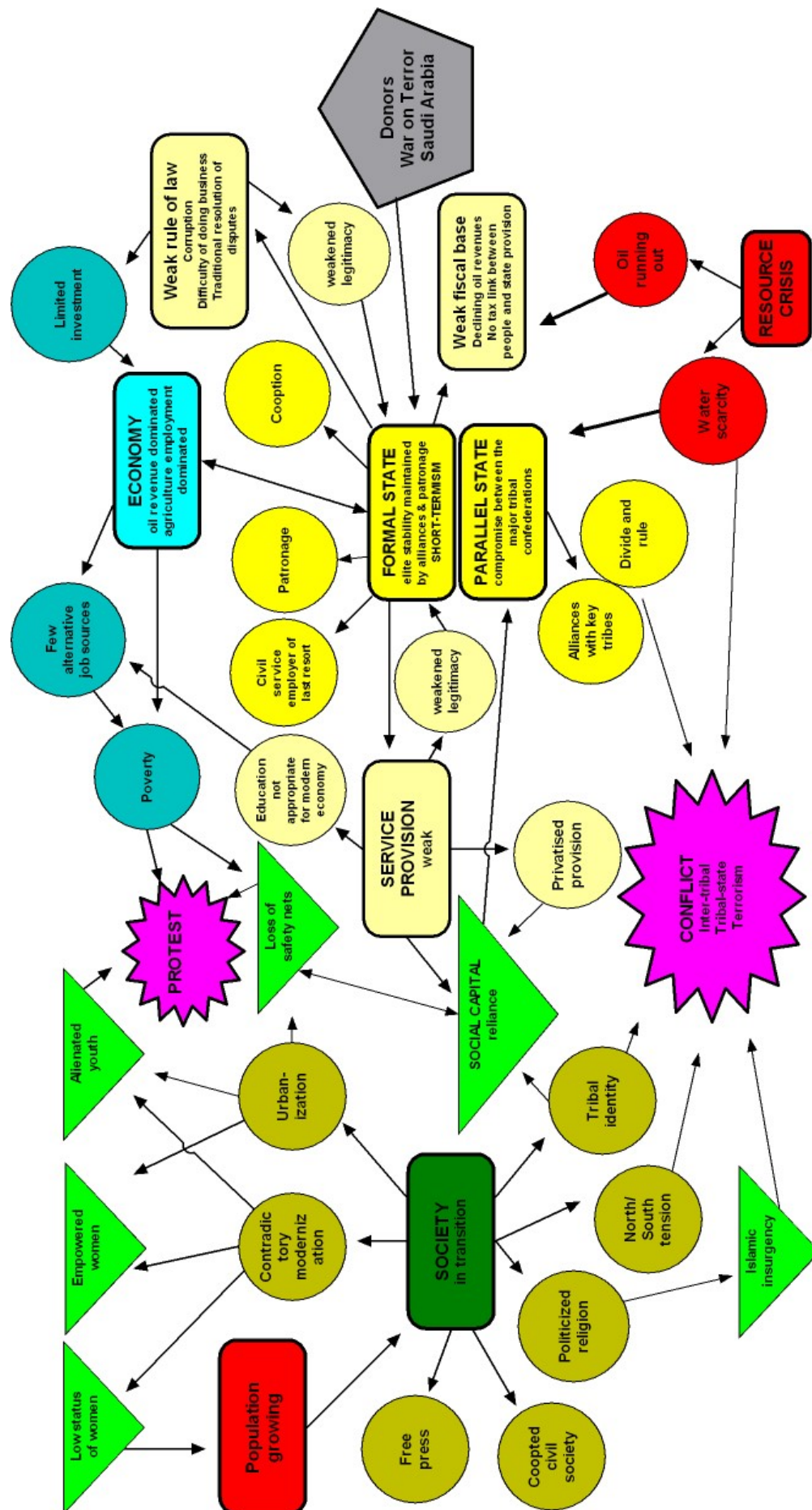
Figure 6 extracts from the overall problem map the details of the political settlement. This settlement, challenged by resource crises, has ramifying implications in terms of corruption, declining services, poverty, protest and conflict.

In figure 7 it is worth noting the significance of external forces. Donor influence will be dealt with in section 3 below. The impact of the war on terror has been widely described in many reports. On the one hand, Yemen's alliance with the Bush administration's "war on terror" after 2001 forestalled possibilities of US intervention and secured diplomatic and economic support. On the other hand, it is deeply

unpopular among the Yemeni population. Hence it creates opportunities and threats for the Yemeni elite. The Saudi influence is complex and not without contradictions. Different tendencies in the Saudi position probably reflect different tendencies within the Saudi regime. Saudi Arabia historically opposed the 1962 revolution that overthrew the northern monarchy, supporting tribal leaders against the republic. This tendency continues today with the buying of influence through paying salaries to tribal leaders. Unofficial estimates, according to Sarah Phillips (2008) put the number of people receiving Saudi payments at 17,000-18,000. This gives Saudi Arabia considerable ability to “meddle”. At the same, the spread of Wahabbism is one the drivers of instability. However it also the case that national security interests strongly suggest the importance for Saudi Arabia of shoring up Yemeni security. Interestingly, all the strategies and reform agendas notwithstanding, the most common response of Yemeni citizens in the informal setting of Qat chews to the question “how is Yemen going to get out of these problems” was “we’ll blackmail our neighbours”

The analyses were also used to generate three possible scenarios of Yemen’s evolution to the year 2015. The scenarios, which are included in Annex 8, were presented to a workshop, and, with some reservations, were judged plausible. A fourth scenario was the “official future” derived from government strategy documents, particularly the Mid-Term Review of the DPPR and Vision 2025. This “official future” was assessed by the workshop as being “fantasy”, lacking a political logic as to how it was to be achieved.

Figure 7: Yemeni state problem logic



The essence of the three analytical scenarios is shown below.

Scenarios

“The black tunnel”

A scenario in which no reform is undertaken

Resources begin to run out. Poverty and discontent grow. The political community is paralysed. Banning of a network of local religious organizations is the last straw and protests intensify. The response is a crackdown. Yemen is on the road to becoming a national security state.

GDP Growth 3.5%

Poverty 37%

Deficit 7.2% of GDP

Wages & subsidies: 55.3% of national budget

“Bumpy road, but light at the end of the tunnel”

A scenario in which reform proceeds cautiously

Resources begin to run out. Poverty and discontent grow. The crisis promotes change in the political settlement and engagement with the strategic challenges.

Resources are used for investment. The water crisis is tackled Taxes rise, but people accept this in return for improved services. There are losers from the changes and many remain suspicious

GDP Growth 6%

Poverty 30%

Deficit 6% of GDP

Wages & subsidies: 52.3% of national budget

“Speed!”

A scenario of breakneck reform

Resources begin to run out. Poverty and discontent grow. Amid crisis the reformers are given their head. Reform advances rapidly on a broad front. But, despite rising national borrowing, services cannot keep up with demand. Discontent rises again.

Things begin to spiral out of control

GDP Growth 7.25%

Poverty 28%

Deficit 10% of GDP

Wages & subsidies: 46% of national budget

The scenarios illustrate that doing nothing is not an option. With a growing population and reduced resources and revenues the political settlement is increasingly unable to afford to sustain the costs of patronage. The spreading of conflicts illustrated in figures 3 and 4 above can be seen as an expression of this fraying of the patronage network. Doing nothing is likely to result in spreading conflicts as groups vie with each other for scarce resources and attempt to put pressure on the state for solutions to their problems. Poverty is likely to grow and protests are likely to be met with increasing repression. The current political settlement has little resilience for change. Doing nothing however is a “natural” response: it corresponds not only to the short-termism of the political settlement, but also to the change-averse nature of Yemeni culture. Yemeni mothers pray for their children that nothing in their situation will change. There is a strong fatalistic assumption that in adversity Allah will provide. Perhaps young people, who should by nature be questioning and rebelling, will have to be key change agents to unlocking this conservatism

Is a failed state possible?

If the consequence of doing nothing is spreading conflict and poverty, could this scenario end in state failure? Answering this question definitively depends on a deeper understanding than we have been able to gain of the underlying strength of the political settlement at the level of the parallel state. One view⁴⁵ holds that the underlying settlement is robust, reflecting a stable balance of power between the Hashid and Bakil confederations. An alternative view, put to us by some informants, is that tribal dynamics have been so substantially altered, as described in section 2.1 above, that this balance has been upset. Only further investigation could confirm which view is more likely to be correct.

However, it cannot be stated with certainty that state failure is impossible if the political settlement remains on the present course. The proportion of the country outside central control could increase. This could result in a patchwork of power exercised by local warlords. Or it could result in the fission of the country with southern secession. One informant envisaged the possibility of a break-up into Northern Yemen lacking the resources necessary for survival, Southern Yemen perhaps based on the wealth that could accrue to the development of Aden's port potential, and Hadramout closely aligned with or incorporated into Saudi Arabia

Is reform possible?

The scenarios also illustrate the potential for cautious reform and recovery, based on economic diversification and a growing social contract between state and people. An increasingly legitimate state is possible, based on government delivering at least some of what people want in terms of livelihoods, services and predictable rule of law. The scenarios also illustrate the dangers inherent in trying to move too fast on political sensitive reforms, such as the downsizing of the civil service.

There are genuine signs of progress. There are real reformers in the state and their efforts take concrete policy forms such as the National Reform Agenda (NRA), the Supreme National Authority for Combating Corruption (SNACC), the Development Plan for Poverty Reduction 2006-2010 (DPPR), and Public Investment Programme (PIP) and Public Finance Management (PFM) as well as the creation of Ministries for Human Rights and for Civil Service Reform, procurement reforms, and proposals for constitutional reform. Optimists see these as weak signals of reform and modernization. Pessimists see these as cosmetic. Everything depends on the support the President's office chooses to throw behind the reformers. It is notable that the pace of reform speeded up in 2006 as a result of just such support. It is also notable that this timing followed the US decision to remove Yemen from eligibility for funding from the Millennium Challenge. Currently, reform is spearheaded by the Ministry of Planning and International Cooperation (MOPIC) and not by an inter-Ministerial coordination under the Presidency as happened in 2006.

Many argue the pace of reform has slacked again⁴⁶. For example, SNACC reported in early 2009 that it had received 305 cases during 2008 but that only five had been passed to the Public Prosecutor's Office⁴⁷. However, the procedures still require SNACC to hand over cases to the public prosecutor rather than allowing it to prosecute directly, which leaves prosecution in the hands of the state. Procurement reforms exist on paper but have not yet been implemented.

⁴⁵ See DFID (2008) Country Governance Analysis

⁴⁶ See for example DFID (2008) Country Governance Analysis, which argues that reformers have been marginalized since 2006

⁴⁷ Yemen Observer Jan 27 2009

Equally, the NRA has not been rigorously reprioritized in despite substantial 2009 budget cuts in the face of sharp decline in the oil price. Oil revenues were reportedly down by 74.5% for the first quarter of 2009⁴⁸ and the regime reportedly dipped into reserves to the tune of US\$700 million. Nor in many areas do the NRA's proposed reforms lead logically to the expected results. The removal of the presidency as head of the judiciary in 2006 has not led to a full separation of powers, since the Minister of Justice now fulfils this role.

Laws are passed but not implemented. The National Reform Agenda is being promoted separately from the DPPR and other national plans. According to MOPIC, the fuel subsidies will be reformed this year once the social safety net is in place to protect the poor⁴⁹. However according to the Social Welfare Fund, they would need double their present budget to protect the poor. It is hard to escape the conclusion of the pessimists that much of this is shadow play for the donors.

Most power at the moment rests with the traditionalists who either do not care or do not dare to face the daunting challenges of the near future. One informant from this group, asked what changes people at village level would see from the administrative reforms answered "we would need a workshop to answer that, two workshops". The essential instinct of government is that of control. As one informant put it "This is a strong central government and you will be punished if you don't comply". Change if it comes, from the viewpoint of this group, will come from within the ruling structures and not from donor-driven reforms. As one put it: "you want us to repair the car and at the same time drive it"

Comments from the reformers have included statements like

- ❑ "Our expectation is limited"
- ❑ "Maybe it's too late. Yemenis only take decisions when it's absolutely the last minute. Maybe we'll solve it at the last minute at great cost. Especially to the poor."
- ❑ "There is no state. If it existed there would be a way forward".

However, this should not be taken to mean that those opposed to reform are "dinosaurs". While some truly do not seem to care, others have a legitimate point of view that should be understood. While the reformers argue that reform is essential to enhance the future stability of the country, their opponents argue that the state is still too weak, and that reform would increase instability (for example, that decentralization will undermine national unity).

⁴⁸ Yemen Observer 16 May, 2009)

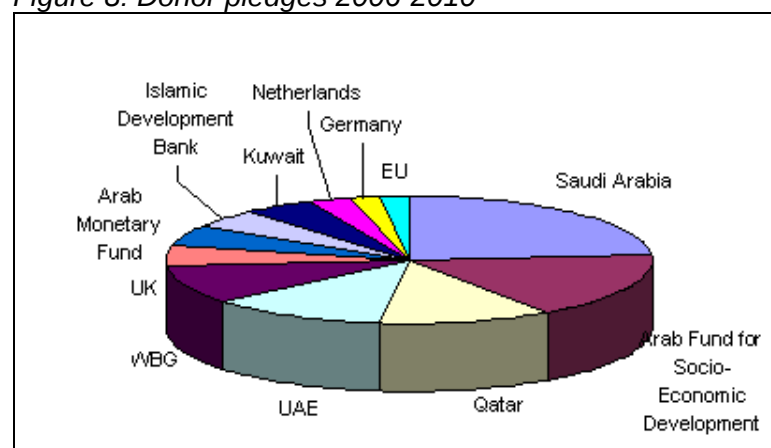
⁴⁹ Information from MOPIC

3. A mapping of donor activities

3.1 An overall mapping of donor activities

Given the ODA is only around 1% of GDP, donors enjoy a surprising degree of access to, and in some respects influence over the government of Yemen. This may increase as state resources dwindle. The figure below shows the comparative magnitude of donor funds

Figure 8: Donor pledges 2006-2010



Source: World Bank CAS FY10-13 (draft February 24, 2009)

The donor community in Yemen is rather small. In terms of pledges, the countries of the Gulf Cooperation Council are the largest donors. Other large donors are the World Bank, the European Commission and three EU countries (Germany, Netherlands and the UK). Other significant donors include the UN system, the US, and Japan. Table 3 provides a summary of donor activity.

Table 3: Annual budgets of Western donors in US dollars

Country	Average total per year (US\$m)	Average funding period (years)	Sector per year (US\$ m)				
			Governance	Services & social sector	Water	Growth	Other
World Bank	120	4	10	38.75	22.5	48.75	
Germany	53.62	6.37	0.94	28.4	20.21	0.66	3.41
UN system	51.55	5	9.34	25.49		16.72	
USA	33.753		na	na	na	na	na
Netherlands	28.41	4.52		18.04	10.01	0.35	
UK	28.06	5.27	3.96	20.22	0.82	3.06	
EC	24.67	4	7.58	7.3		9.8	
Japan	16.5	1.8		8	5	3.5	
Italy	15.51	3.5	5.3	0.58		9.65	
Denmark	3.52	2.17	2.33	0.58		0.6	
France ⁵⁰	8.84	2.89	2.85	1.41		2.92	2.08
Czech Republic	2.02	2.5		1.2	0.37	0.45	
TOTAL	386.45		42.3	149.97	58.91	96.46	5.49
%	100		12%	43%	17%	27%	2%

⁵⁰ Excluding 96 million Euros of loans

The figures in the table were developed from a variety of different sources, and different baseline periods may mean that some are not strictly accurate or fully comparable. However, they are sufficient to indicate the essential pattern. The table shows that by far the largest proportion of donor expenditure was for basic services and social sector development (60% if water is included). Support for economic growth accounted for just over a quarter of the total, and support for governance 12%. Donors plan commitments over periods ranging from over six years to under two. This variability implies problems for the government of Yemen in the predictability of aid flows.

3.2 Differing donor objectives and their impact on state building

The major donors do not share a common analysis or strategy and do not speak or act with a single voice, though there are signs that some improved mechanisms for coordination may be developing.

Different donors, in practice, have different objectives. The impact of these different objectives may nudge the state in different directions. There are three inter-related but differing objectives: security, governance and poverty alleviation. The analyses of most donors theoretically acknowledge the interconnected relationships between security, governance, development and poverty reduction. But in practice different donors give distinctly different emphases to these components. Discussions with donors in the course of this assessment indicated different assessments. The EC noted that donors had been very much project oriented in the dialogue with government. UNDP noted that the only way to implement any national plan in a situation of scarce resources was with a big chunk of reform. Though these approaches were generally agreed, there were tactical divergences. Some (for example, UNDP and Germany) proposed focussing down on a few issues that could be achieved without much money, while the British and the Dutch felt that it was important to maintain linkages between reform and service delivery that people on the ground would feel.

□ Poverty alleviation projects may undermine state legitimacy

For some, poverty alleviation is fundamental. In the drive to achieve results in a country where state institutions have problems of capacity and corruption, there is an understandable tendency among some donors to set up or work through parallel project implementation units. There are, as already noted, 27 PIUs currently operating. Support for building a responsive state is traded for efficiency, transparency and effectiveness of projects. Even where this is not done, excessively “projectised” support can make it hard for the state to develop its own strategy and manage its own budget. For both SFD and PWP, donors earmark their contributions to particular governorates and thematic areas. Most the earmarking is done by the donors themselves and not always in close cooperation with the organization or government counterpart, which has resulted in a number of gaps and overlaps. The Ministry of Planning and International Cooperation’s Aid Harmonization Unit also draws attention to the lack of year on year predictability of aid flows. The abrupt exclusion of Yemen from the US Millennium Challenge Fund in 2006, in response to failures in counter-terrorism delivery, is a prime example

□ Focus on security may undermine focus on the causes of insecurity

For others, a focus on security and short-term anti-terrorism objectives may undermine the capacity to deal with the causes of terrorism. A strong state may be most effective in ensuring security, at least in the short-term, but may be discouraged from providing rule of law and services to its people.

❑ **Inadvertent stoking of conflict**

Governance and development objectives pursued without sufficient awareness of the political fault lines, may inadvertently contribute to conflict. This can happen in several ways. There are several ways in which this can happen. Inappropriate location of facilities developed by aid projects (such as water points, schools, clinics etc) may unintentionally foment conflict between groups and communities in the locality. Similarly failure to involve local leaders and communities may undermine the ownership and viability of a project and create conflict. On a broader geographical level, the location of projects may privilege some parts of the country and leave others as “aid orphans”. In a country that already has grievances at the real or perceived inequitable sharing of development benefits, “aid orphans” can intensify such grievances. The north-south division of benefits is particularly sensitive in this respect. Conflict sensitive analysis in all project and programme decisions can help to avert such unintended consequences.⁵¹

The Paris Declaration and the OECD/DAC principles for state building in fragile states (see annexes 11 and 12) are not universally shared. Emphasis on different objectives may contradict each other if the balance is not clear, and may undermine state building.

From the point of view of the Paris Declaration (see annex 11) Yemen’s performance on aid effectiveness and harmonization is disappointing. The 2008 monitoring report⁵² shows that Yemen is low on ownership, having only a weak link between strategies and budget⁵³, low on alignment (continuing to work through PIUs, with only 33% of ODA reported through the national budget), weak on predictability of aid flow (with only 33% of ODA on schedule and recorded by government, and low on harmonization (with only 21% of ODA going through programme based approaches, as compared with a target of 66%, due to projectized approaches by donors)

3.3 Donor coordination

Development agencies observe that harmonisation is weak at the level of individual requests and coordination between government agencies, but relatively good though varying, between different sectors. At the same time, donor agencies admit that harmonisation between the different agencies can be improved. This is explained by a lack of leadership in the donor community, political imperatives and one donor prevented by law to participate in pooling arrangements. The lack of coordination with the Arab donors was also addressed as a concern. To improve harmonisation between donors, it was suggested that the Government of Yemen should take leadership and ensure that the coordination mechanisms in place transform from discussion forums into real working groups

3.4 London pledges and disbursement levels

Figure 8 above shows aid pledges at the London conference in 2006. However the figures for disbursement of these pledges is disappointingly low. By November 2008, while 73% of pledged funds had been allocated, only 27% had reached the stage of signed agreements⁵⁴. Table 4 below shows the level of actual disbursements in February 2009

⁵¹ See the report by DFID’s Conflict, Humanitarian and Security Department (2008) as an example of conflict audits

⁵² OECD 2008 Survey on Monitoring the Paris Declaration Country Chapter - Yemen
<http://www.oecd.org/dataoecd/47/60/42224622.pdf>

⁵³ There are now plans to develop a medium term expenditure framework in 2010 which may rectify this

⁵⁴ World Bank (2008) Yemen Economic Update Fall 2008

Table 4: Disbursement of pledged aid (US\$ millions)

Donor	Pledged	Allocated	Signed	Disbursed	Per cent disbursed
GCC Bilaterals	2677	2129	711	12	0.4%
Saudi Arabia	1277	1047	577	10	0.8%
Oman	100	100	56	2	2%
UAE	650	500	78		
Qatar	500	282	0		
Kuwait	200	200	0		
GCC Multilaterals	1226	1006	382	2	0.2%
Islamic Development Bank	200	200	32	1	0.5%
Arab Fund	786	786	330	1	0.1%
OPEC Fund for International Development	20	20	20		
Arab Monetary Fund	220	0	0		
Bilaterals (OECD/DAC and others)	1678	1386	1139	362	21.6%
TOTAL	5581	4521	2232	376	6.7%

Source: redrawn from World Bank (2009) Yemen Economic Update Spring 2009

Only 6.7% of all pledges have been disbursed. There is a radical distinction in the efficiency of aid pledges between the GCC countries and the Western donors. Only 0.4% of GCC bilateral 0.2% of GCC multilateral pledges have been disbursed, compared with 21.6% for Western bilaterals. The gap between pledge and disbursement may in part reflect aid absorption capacity of the Yemeni government⁵⁵, but the differing efficiency rates also suggest weaknesses among the donors. It is possible that partnerships between GCC and other donors could accelerate the disbursement of pledges. OECD/DAC donors could support project design and management. There are already models of such partnership, for example the relationship between the GCC and DFID on education, where GCC paid for schools construction and DFID supported the teachers and curriculum development.

⁵⁵ See the study of aid absorption capacity in Ministry of Planning and International Cooperation/Oxford Management Institute (London) (2006) Aid Absorption Capacity

4. Towards a solution

4.1 Politics trumps everything

The problems are severe and are rapidly getting worse. The cartoon below from the Yemen Times illustrates this awareness.

Figure 9: A cartoonists' view of Yemen's dilemma



Source: Yemen Times 5 February 2009

The political settlement, as noted in section 2, is no longer sustainable. The resources are simply not there to maintain a stable settlement based on patronage. Oil is running out, groundwater is being extracted at unsustainable rates. Population growth at 3% imposes unmeetable demands for land, services, and livelihoods. Conflict is spreading, poverty is growing, and national unity is under threat. It is simply not possible for the political settlement to continue to function as it has in the good years of oil plenty. The timescale is now urgent and short.

"Yemen is going through the worst crisis ever in its history, on the political front as well as the socio-economic front. We are too short-term in our thinking. Tribal alliances, making everyone happy can no longer work. Where we are today shows it doesn't work. Paying people off doesn't create loyalty. Divide and rule is not working. We need to redefine the distribution of power and the state"

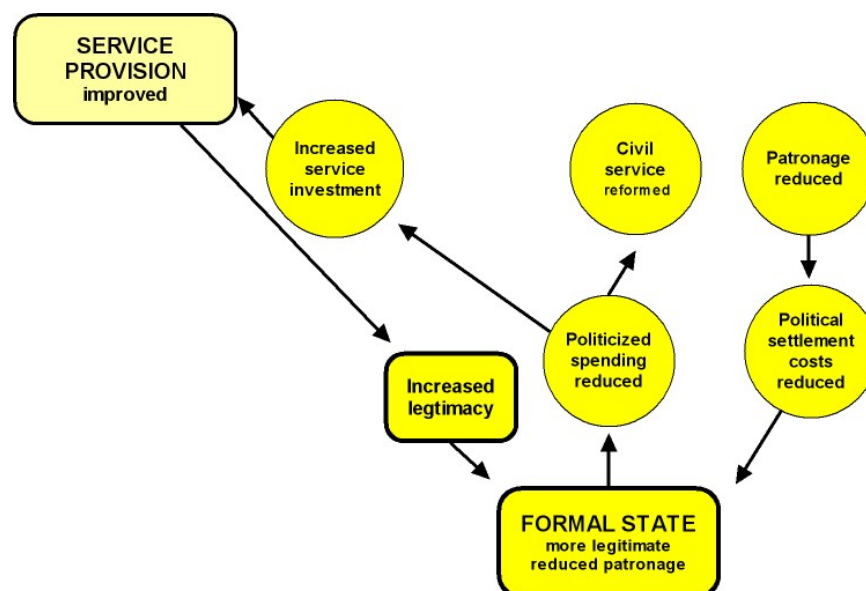
Senior government informant

But a solution is possible. Yemen has shown that it is capable of overcoming major problems in the past. Among those often cited are the forging of the Yemen Arab Republic and the People's Democratic Republic of Yemen in the 1960s; the unification in 1990; the civil wars in the 1960s and 1990s; and the development of the infrastructure of a modern pluralist state, along with the improvements in social indicators noted in section 2.1. The present challenges are multi-faceted and require response across many sectors simultaneously. But at the core of the challenge is politics – the political will to change the way the settlement operates.

The alternatives to a patronage-based settlement are essentially two-fold. A new settlement could be based either on some overarching and persuasive ideological purpose or it could be based on increased legitimacy.

The figure below illustrates the logic of the way in which a settlement based on increased legitimacy would operate. It should be compared with the figure 6 showing the logic of the present settlement.

Figure 10: the logic of increased legitimacy



There are no purely technical ways out of the dilemma. It involves decisions that can be taken only at the highest level. In the circles associated with the presidency.

“[Reform of the political settlement] is not a government decision, it’s a political one”
Senior government figure

It will require an act of political vision and political will. There would certainly be huge risks associated with transforming the settlement in this way. Reducing politicised spending (particularly downsizing the civil service) to free-up the budget for productive spending on services and improving the business climate, risks major instability for example. Or decentralization threatens the power of some line ministries and can be seen as threatening to the stability of the country. However, arguably, there are greater risks in not making these changes. There is no guarantee that the political elite will weigh the alternative risks in this way however.

However there are signs that at least some of the political will to refashion the political settlement is present: The recruitment of a younger generation of highly educated technocrats to government has allowed a group of them to form a cross-Ministerial “think thank”: the Investment Advisory Committee. This committee brings together 12-13 technocrats under the supervision of the President’s eldest son Ahmed to study and make recommendations to the executive on strategic questions. The logic of the problems has led the group, according to one of its members, to expand its brief to the macro-level elements of the investment climate and to make recommendations on problems such as energy investment. One informant noted ““It would not have happened if the President himself had not recognize that change is needed and that it could not come within”. It remains to be seen whether this impetus will move beyond the search for technical fixes. This committee at the moment, though it makes use of international consultancies, has no formal links with the

international community (though individual members of the committee do have such links)⁵⁶

Courageous leadership is needed

The points below were in fact taken from a presentation by the UK School of Governance addressed to the UK government⁵⁷, but are entirely appropriate to the Yemeni situation

Challenges of leadership

- ❑ The past is no guide to the future
- ❑ There is no manual
- ❑ The stakes are high
- ❑ The problems are interconnected and systemic, not just about one sector
- ❑ Pace is essential but longer-term problems do not yet seem urgent

Solutions will need

- ❑ Courage
- ❑ Clear focus on outcomes
- ❑ Building trust, legitimacy and value
- ❑ Creating environments for people with the appetite to deliver
- ❑ Working across boundaries
- ❑ Working with the public
- ❑ Hearing dissident voices
- ❑ Overcoming a powerfully resistant culture

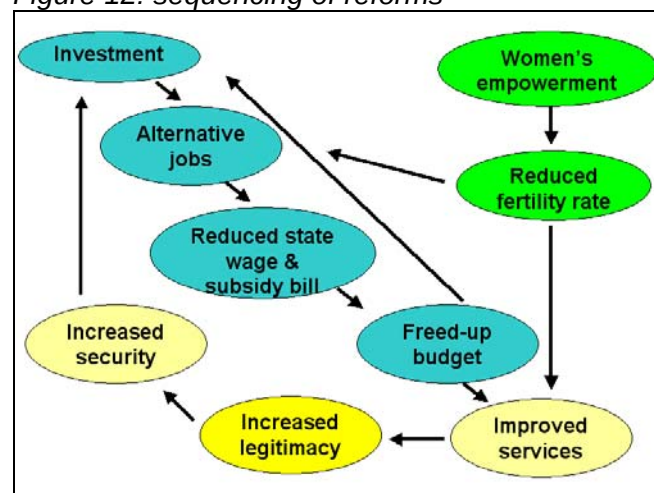
⁵⁶ It should also be noted that there is an overlap and potential rivalry between the functions of this group and the reform planning brief of MOPIC

⁵⁷ Presentation to Futures Analysts Network, 25 February 2009

Given the political will, the logic of reforms indicates a need for sequencing. Each strategic reform depends on other changes. In some cases the obstacles are probably too great for rapid progress to be made. Key informants contributed to the following analysis, which was validated in a workshop with government, donors and civil society in April 2009. Figure 11 shows the logical interconnections.

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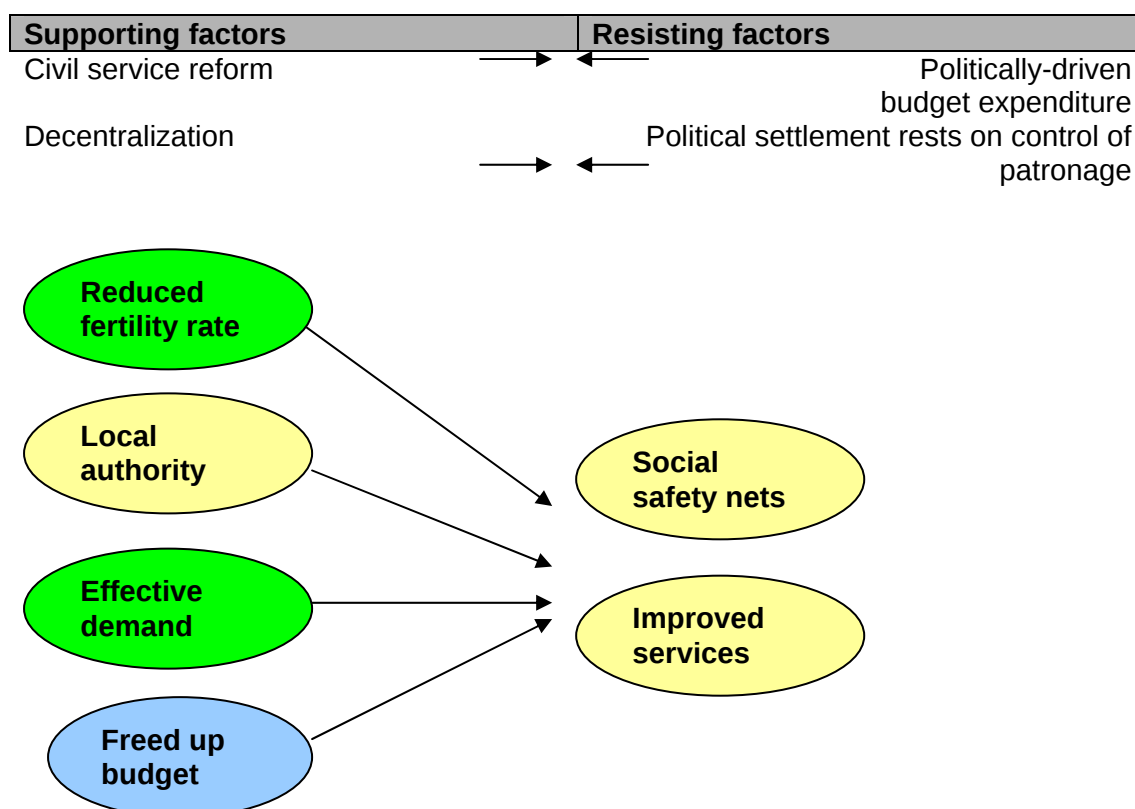
Figure 12: sequencing of reforms



The detail follows below. For each cluster of issues there is a “force-field” analysis of the principal forces supporting and opposing each reform, and a description of the necessary sequence of initiatives

4.3 Improved service provision

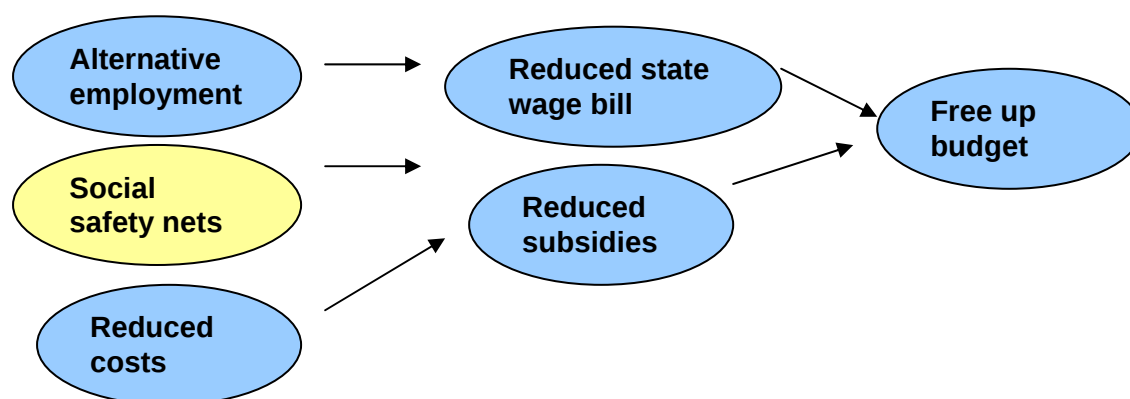
Improving the quality and extension of services can and must be supported by capacity building. But structurally it would also require freeing up a budget that is highly dominated by politically driven expenditures: in particular state employment and subsidies such as the diesel subsidy. It would also mean overcoming the degree to which such control of such budget expenditures forms a part of the patronage system and lack of transparency in state tendering on which the stability of the political settlement rests. There is little public expectation of services from government. Local government, where the contact between citizen and state is greatest, is probably the place to prioritize development of a government which is accountable and organized citizens able to exercise effective demand. Participatory planning and citizen monitoring of delivery will be critical. It is also essential that adequate resources are decentralized along with responsibility. Current suggestions that local authorities should compete with each other the raise investment will only heighten regional disparities.



4.4 Freeing-up the budget

Freeing-up the budget means, essentially, tackling the politicised expenditures represented by the fuel subsidies and the state wage and salary bill. Though the fuel subsidy can in principle be reduced relatively simply provided social safety nets are in place to compensate the poor, the obstacles confronting reform of state employment go to the heart of the patronage system. The state payroll cannot be reduced without alternative employment for these people.

Supporting factors	Resisting factors
Civil society demands for reform	Public sector jobs are a source of patronage
Donor pressure	Public sector employment and subsidy stabilize potential discontent
Possibility to produce energy more cheaply	There are no obvious alternative sources of employment
National Reform Agenda	The Ministry of Civil Service Reform has no mandate for reducing the payroll



4.5 Alternative job creation

Developing alternative sources of employment and of state revenue is essential for a stable Yemen after oil. Yemen's private sector is small (indeed the country is a net exporter of capital). The prevailing climate, despite recent improvements, is not favourable for investment. In addition, the education system is not geared to producing people with skills matching private sector needs

National Strategy identifies "promising sectors" for economic diversification: agriculture; fisheries; tourism; and minerals.

Agriculture

Of these, agriculture is already the biggest source of employment (55% of the workforce), and 75% of people live in the rural areas. There are obstacles to expansion though, primarily the unsustainable extraction of groundwater. Other problems are low productivity and land concentration. Furthermore, suitable land is restricted: only 2.9 % of the landmass is considered arable land. The spreading cultivation of Qat is a further problem. Expansion of the rural economy would need to be accompanied by strategies for more rational use of water (including assignment of water rights, improved irrigation, and promotion of rain-fed and arid cultivation) as well as looking at potential for adding value in processing.

Fisheries

The development of fisheries faces fewer obstacles. It is already the second largest contributor to exports (after oil) and there is potential to tap lucrative markets in Europe. However, it accounts for only 1% of GDP, and expansion in the short-term will not make great inroads into unemployment. In addition, fish catches are declining. 290,000 tons of fish were landed in 2006. In 2007 this declined to 177,000,

and in 2008 declined further to 131,000⁵⁸. The reasons for the decline are unknown, since there is inadequate data on fish stocks. Possible causes are illegal fishing, and global warming changing fish cycles. It is probable that conservation of fish stocks rather than increased activity may be the medium-term priority for this sector

Tourism

In theory, the tourism potential is great. However, it is unlikely to be realized without improvement of the security situation.

Minerals

Quarrying of construction materials and other minerals, metallic and non-metallic, could provide both jobs and revenue for the country. There is a potential market for the high quality stone in the other Gulf States. Obstacles here are the lack of infrastructure and high-tech cutting tools.

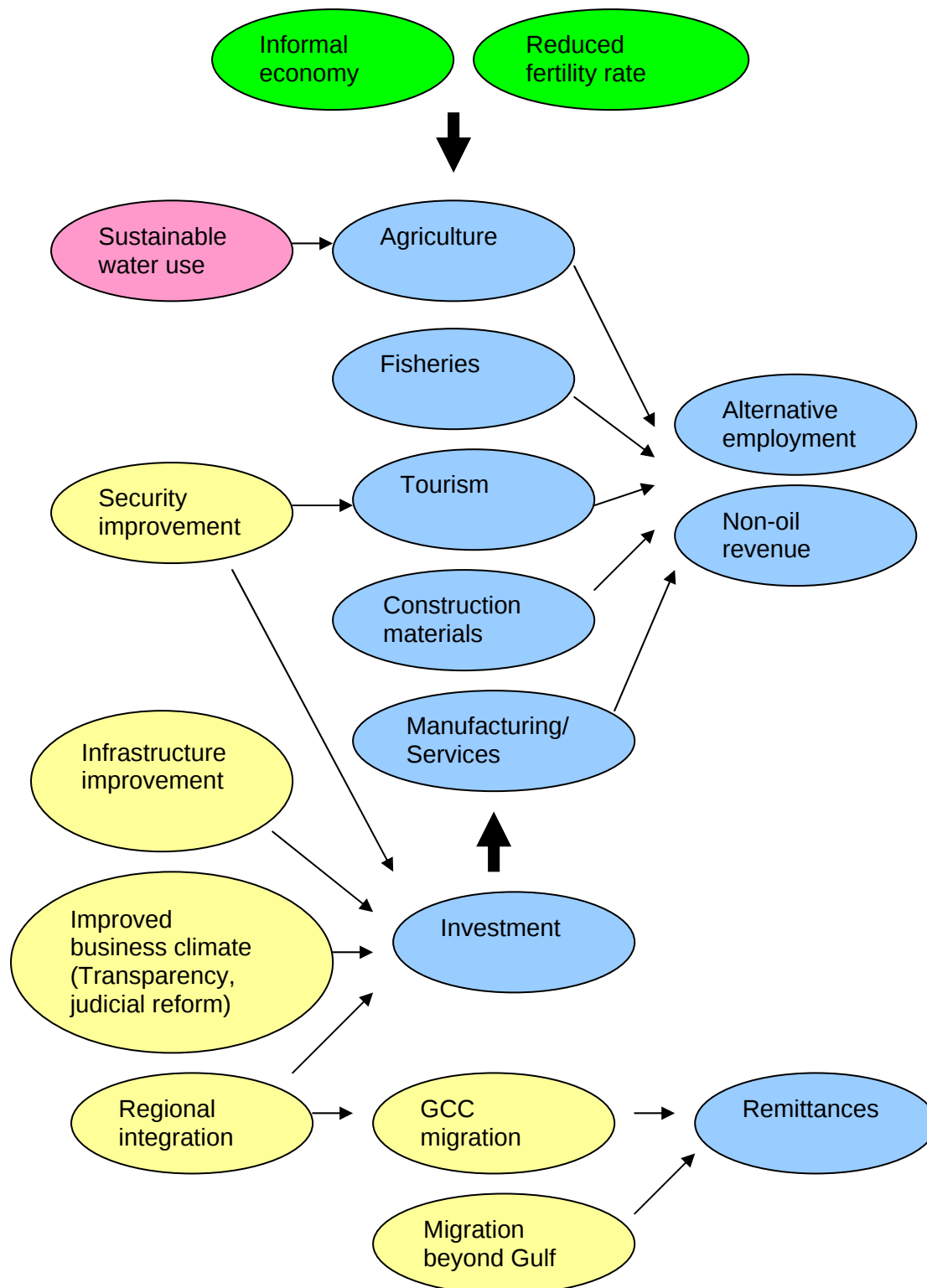
Manufacturing and construction

Construction would be best suited for providing employment for the rapidly swelling urban population (currently about 25% of the population and growing at around 7% a year). Expansion of urban job availability (other than public employment) is essential to maintaining stability among a growing alienated young population. However the construction sector is highly dependent on engines of growth elsewhere in the economy.

Supporting factors	Resisting factors
Agriculture	
Water strategy for improved irrigation and rainfed agriculture →	Water scarcity
Draft Qat strategy for crop substitution and importation →	Qat a drain on production and water
←	Concentration of land ownership
Extension and improved seeds →	Low productivity
←	Women's lack of power
Fisheries	
Export opportunities →	Limited short term expansion possibilities
←	Poor fish stock management
←	Poor quality control
Tourism	
Spectacular environment and cultural heritage →	Risk of kidnapping, terrorism and other security problems
Investment from Gulf →	Lack of infrastructure
Minerals	
Demand for construction materials in the region →	Lack of infrastructure and machinery
Infrastructure	
Plan for Aden free zone →	Reduced investment budget
Plans for road development →	
Manufacturing/ Services	
←	Poor investment climate
Informal economy	
Community economic development →	Lack of skills
Microfinance →	Difficult access to credit

⁵⁸ Yemen Times 23 March 2009

It is clear therefore that there are obstacles in the way of medium-term generation of sufficient jobs from the “promising sectors”. Livelihoods will also therefore have to come from the small-scale and informal economy as well as through remittances from migrant labour.



4.6 Sustainable water use

With water extraction occurring at a rate of about double the level that can sustainably be met, water imposes a barrier to the development and sustainability of agriculture, industry and urban settlement. About 85% of water is used in agriculture (with about half the arable land irrigated) and falls under the mandate of the Ministry of Agriculture and 15% is drinking water and falls under the mandate of the Ministry of Water. Attempts to create a unifying Ministry were resisted. The past national water strategy allowed little in the way of tackling the underlying problems that impede sustainable use: These are mainly:

- ❑ The growing cultivation of Qat, which is highly water intensive
- ❑ High levels of evaporative loss from traditional irrigation
- ❑ The price of water does not represent its true cost due to a range of subsidies, principally the diesel subsidy which makes pumping of deep water economically viable
- ❑ Control of water resources is becoming concentrated along with the concentration of land

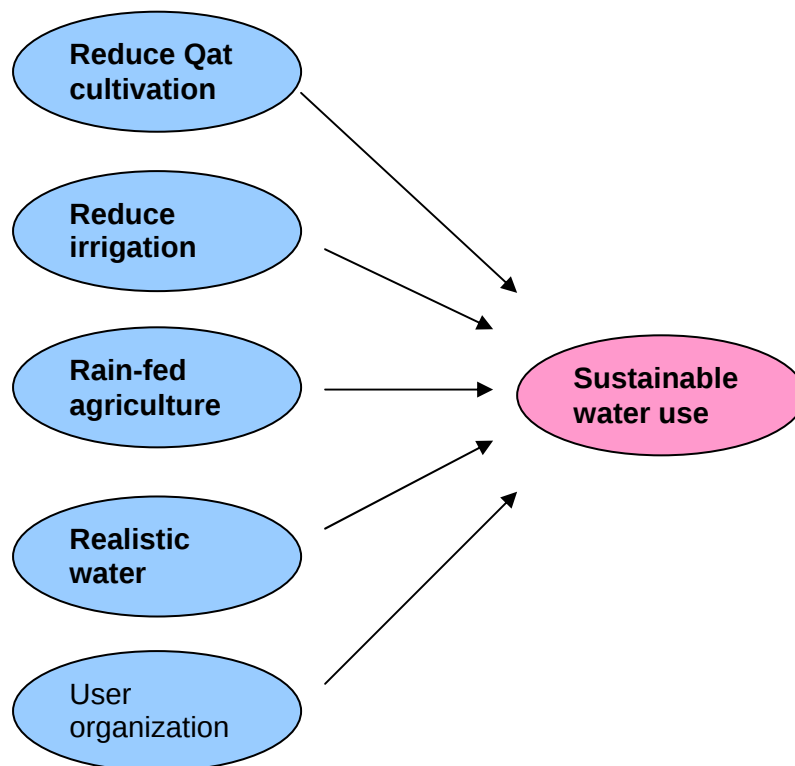
There is now a new draft national water strategy, which in theory is going to address some of these issues, though crucially not with the pricing of water. Some analyses argue that if water was re-priced it could be a more valuable commodity than any crops that could be grown using it. There is also a draft Qat strategy. Wisely it is not attempting to challenge the culture behind the consumption of Qat. Though this has severe negative effects on the household disposable income, it is a deeply engrained part of Yemeni culture, and may indeed be a factor in maintaining social stability. The strategy proposes restricting the areas in which Qat can be grown, encouraging the cultivation of alternative crops in the other areas. The intention is to import Qat from Ethiopia. The Ministry of Agriculture believes that there is little price differential between low quality Qat and substitute crops such as potatoes, grapes, coffee and dates. There appears to be no systematic monitoring of market prices that would allow verification of this assertion. Reducing Qat production may be difficult because of incentives to the farmer not only of price, but also because of the crop's properties as "risk insurance": some bushes can be left dormant and then watered to produce leaf when there is an unexpected cash need. Qat production currently occupies 15% of arable land but generates around a third of agricultural GDP.⁵⁹

Resistance from Qat farmers as well as from large landowners who benefit from the control of water make it unlikely that sustainability in water extraction will be achieved until impelled by a major crisis (such as the need to abandon Sana'a as capital)

Supporting factors	Resisting factors
Draft Qat strategy proposes crop substitution and importation	Qat cultivation is highly water intensive
	Crop substitution difficult
Draft water strategy includes investment in modern irrigation as well as in rainfed	High evaporative loss from traditional irrigation
	Concentration of water resources with land concentration
	Unsustainable extraction
	Diesel and other subsidies keep the price of water artificially low
	Dual authority between Ministries of Water and Agriculture

⁵⁹ World Bank (2006) Country Assistance Strategy p9

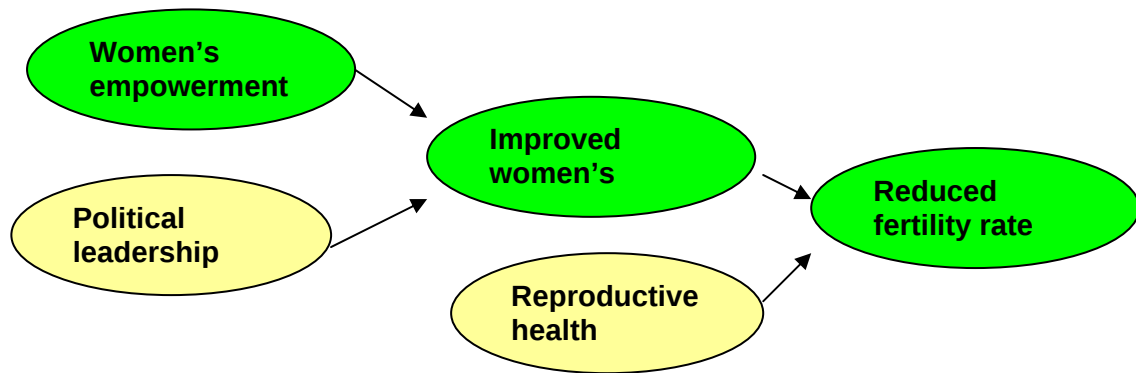
Note that the factors here overlap substantially with those for agriculture.



4.7 Reducing demographic growth

Though the rate of demographic growth has slowed, the population is still growing at 3% a year. This creates a demographic time bomb of demands on resources, services and the job market, potentially undermining all attempts at reform. Evidence from family planning organizations suggests there is great unmet demand for birth spacing. Investment in women's development and girls' education is a widely documented route not only to reduced fertility but also improved child health and social development. The obstacle is the low social status of women, heavily imbedded in a conservative culture and strengthened by the growing ideological influence of Wahabbism and other politicized forms of religion. Though there are powerful civil society organizations advocating for improvements in women's status, they are only poorly connected with the lives of the rural majority of women and are enmeshed in the dominant political culture of personalised relationships, lack of transparency and patronage. Local development projects show that change is possible, but, without national leadership, it is very slow.

Supporting factors		Resisting factors	
Demand for birth spacing	→	Women's lack of power	
Pressure from women's CSOs	→	Growing conservatism on gender roles	
Rural development projects	→	Lack of national leadership	



4.8 Other reforms

A large component, not only of donor strategies, but also of government strategies such as the National Reform Agenda, is concerned with good governance. Among intended reforms is strengthening parliamentary procedure and elections mechanisms, combating corruption, improving public procurement, and judicial reform. All of these reforms are central to the creation of a modern accountable pluralistic and transparent state. These are precisely the areas in which the patronage-based political settlement is likely to be most resistant to change. Though continued efforts at reform in these areas will be important for the future, there are unlikely to be substantial impacts in the short-to-medium-term.

4.9 Culture

Perhaps the most interesting challenge suggested to us in the fact-finding stage of this assessment was to explain social cohesion: what has kept Yemen together and reasonably stable despite the tensions. We do not pretend to know the answer, though we strongly suspect that it would lie in a deeper understanding of Yemeni culture.

There are considerable strengths in this culture. Though conservative, it has a strong moral system with traditions of nurturing, solidarity and hospitality, and clear ideas of right and wrong that make crime rare. It is a culture with a strong work ethic. It is in this culture that most Yemenis live and work, even many city dwellers. It is to this culture that most turn for protection, informal social capital, and for resolution of disputes. The widespread consumption of the mild narcotic Qat, though leading to well-documented health problems and a loss of productivity calculated as being as much as 25% of GDP⁶⁰, also has positive elements. Qat chews provide an informal space for airing of concerns and for discussion of political and social issues. Much of the quietism with which Yemenis confront the threats of the future is probably a consequence of the gentle social space provided by the Qat chew.

There is also much that is oppressive about this culture. The marginalization of women, and the growing pressure to exclude them from public life, is also part of this culture. Not only women, but also young people are deprived of voice by this culture. However it would be wrong to equate “traditional” culture with the “problem” and “modern” culture with the “solution”. It is traditional culture which has sustained Yemenis for hundreds of years, and within which they will need to survive again if reform fails. It would be important therefore to understand the culture better and to identify those components that are part of the “solution” and should be strengthened

⁶⁰ FIND REFERENCE FOR THIS

and supported, and those which are part of the “problem” and should be set aside. Yemen is in the midst of a profound social transition. 25% of the population is now urban. Urban modernity offers many advantages: a concentrated population can be more easily provided with services.

Women have gained from improved access to health and education, but if they have gained status in access to education, they have also lost the value that accrued to them from participation in the subsistence economy. The shift to the cash nexus has undermined the importance of the domestic sphere. Aspects that were good about traditional society are being lost. There were for example strong moral prohibitions about involving women and children in conflicts. This seems to be breaking down with growing evidence that women and children are among the victims of tribal conflicts, and also that children are being recruited as combatants. Some speculate that this may be due to younger men not fully understanding or accepting traditional ethics. One informant spoke of sheikhs’ sons no longer knowing what it meant to be a sheikh, believing it means simply having money and people to fight for you.

With 45.9% of the population under the age of 15, understanding the emerging youth culture is also very important. As noted in section 2.2 on security above, alienated and potentially volatile group, educated and unemployed, young people may direct their energies to building a new Yemen or struggling against the old Yemen.

Urbanization has not just been accompanied by modernization. There has also been a “tribalization” of the urban environment as a number of sheiks have shifted their base to the cities, as they become involved in the division of spoils. And on the other hand, this cooption of tribal authorities in turn has altered some of the aspects that bind tribal people to their leaders.

Hence the transition is complicated and contradictory. And despite the changes, the culture remains strong, with all that is good and all that is bad about that. Despite corruption there is still not a very individualistic society. Even for the wealthy, Yemenis feel it is important to have “back” – literally a network that can watch your back. In some ways, the “modern” urban middle class describe themselves as being the most vulnerable, because they have no network, no “back”. And in cultural values too Yemen is contradictory. An intensely entrepreneurial and risk taking culture lies behind a history of trading and extensive migration. And yet at the same time, being risk averse and fearful of change is deeply ingrained in the culture: mothers pray for their children that nothing should change. And there is an insouciant belief that in the face of problems, things will somehow work out, that combines with the short-termist imperative of the political settlement to militate against grasping strategic challenges.

A better understanding of cultural interplay and forces will be essential in charting a way forward. It will need to take place through a broadly-based national dialogue. And it is inconceivable that a successful identification of a way forward, and of Yemeni development, can occur without women and youth being essential drivers of change.

5. Recommendations

5.1 A strategic framework for action

The recommendations below are intended to guide strategic analysis. They do not contain operational or sector-specific detail. The precise route to be travelled will depend on the possibilities and constraints of changing circumstances.

- ❑ The different problems of state-building in Yemen are interconnected and need to be addressed together. A piece-meal solution will not work or will have outcomes other than those intended. Clearly no one donor can respond to all of the problems, highlighting the need for donor coordination
- ❑ Addressing the political settlement is fundamental. Many of the solutions are already envisaged in government reform documents. However the strength of political support for the reformers is inconstant. Reform needs to be led and coordinated from the highest level. The existence of the political will to make the reform is uncertain. Strengthening political will is crucial. The particular form of the political system is less important than the underlying political reality (in other words the settlement need not be democratic, but it will have to be responsive
- ❑ The Yemeni elite needs a vision of achievable change. It will be essential to show key players in the political settlement that change is possible without loss of power and status. It is essential that such a vision does not just explore targets but also the routes to achieving them. The message must be the situation is critical in the medium term and that change is essential. Without change, the mid-term future for Yemen's poor, and possibly for the integrity of the country, is grim.
- ❑ Reframing the dialogue between the government of Yemen and the international community. Rightly or wrongly, Yemenis often see the dialogue as being one that focuses on problems rather than achievements and in which the difficulties associated with reforms are underestimated by the international community. A reframed dialogue should have the following elements:
 - o A recognition of Yemen's history of overcoming challenges
 - o A recognition of the obstacles to strategic vision
 - o Being situated within a calculus of risk and avoiding seeing the internal debate within the government as one between modernists and refusalists: recognition of the risks associated with making change as well as of the risks associated with not making change⁶¹
 - o Avoiding simple equations of "modern" as "good" and "traditional" as "bad". This leads to the point below about the need for deeper understanding
- ❑ The growth and governance agendas are interconnected. Without addressing governance issues, rapid economic growth is not likely. But it is also true that without a rapid improvement in growth performance there is a likelihood of increasing state fragility and deteriorating governance.⁶² Conversely, effective growth will create jobs and revenues, building legitimacy and allowing patronage costs to be reduced. As will be noted below, it is unlikely in the short-to medium term that any of the purely economic avenues to growth will

⁶¹ For example, the opponents of decentralisation have some legitimate grounds given the recent and potentially fissile nature of the nation that it may undermine national unity, even while the supporters argue that it will cement a more responsive national unity

⁶² This point is made strongly in the Dutch analysis

be sufficiently large to provide jobs for a growing population. The crisis is already so advanced that only massive financial inputs will turn things around. This response can only come from Yemen's neighbours on the basis of their own security interests in maintaining Yemen's stability.

- Address security and development together, avoiding interventions that increase tension and supporting initiatives that tackle sources of insecurity including development. Security requires development (just as development requires security). This will not be unproblematic or as simple as following principles of conflict-sensitive development. Firstly, because Yemen's geopolitical position astride one of the world's busiest shipping lanes, together with its place in the "war on terror" makes security assistance a high priority irrespective of the other parts of the reform agenda. And secondly, promotion of the reform agenda and pro-poor development will create losers and hence tend to exacerbate certain tensions. Addressing the security component will involve trying to balance the increase in some tensions with a decrease in others. There is a danger that the security for some donors (and perhaps for some members of the elite) will be seen as trumping the development agenda. This would be short-sighted. Failure to address development deficits and inequalities will fuel local conflicts. An exclusive concentration on security will lead to growing poverty and in all probability an increasingly violent response to resulting protest
- An agenda for investigation. There are a number of points where data and understanding are simply insufficient
 - o Perhaps the most obvious question (one suggested to us during the initial phase of the assessment) is what underlies Yemen's social cohesion: why is the country not mired in greater dissent and conflict? We are not able to answer this, though a great part of the answer must lie in the strength of the culture. There is a need to investigate in greater detail how people survive, support each other in difficulty, resolve conflicts etc. The cultural role of Qat consumption would also be explored here. Such research would facilitate the identification of structures within the culture that can be supported. An obvious and frequently cited example is strengthening traditional conflict mediation mechanisms.
 - o The need for better understanding is particularly important in relation to women and for youth. Both groups should be agents of change. Without their participation development in Yemen is not possible. Without women's empowerment, the demographic crisis cannot be solved. Yet women's empowerment does not necessarily run through the "modern" sector. Though there are undoubted benefits for women in the modern urban sector, such as easier access to services, education and employment, there is a "down side" too. Most particularly for unemployed women, the loss of status that comes from participation in the subsistence agricultural economy. Empowerment may pass more through the small-scale income generating and community activities of development NGOs⁶³ than through those of the national women's organizations. Once women have independent economic status, it may be easier to make the move to improved education and public participation that have been associated with the demographic transition in other parts of the world
 - o The challenge of youth (half the population) also needs to be better understood. In a society in transition, what role can youth play?

⁶³ Such as those described Stephany Kersten and Sarah Jane Nelson (2008) *Taking Empowerment into our own hands*, CARE International Yemen

Educated but often without jobs or hope of a job, not listened to by elders, youth are a potentially volatile force (including as recruits for extremist organizations). Why are they not rioting? A better understanding of youth culture is essential.

5.2 Recommendations

These recommendations fall into six groups: strategic recommendations, which correspond to the strategic framework and form the core priorities; enabling recommendations, which are necessary to provide conditions for some of the strategic recommendations; recommendations for continuing action, which should be continued but which will bear only limited fruit in the absence of strategic reform; recommendations for humanitarian action; recommendations on regional security challenges; and recommendations for donor harmonization and aid alignment.

5.21 Strategic actions

- ❑ Give support through diplomatic dialogue and technical means to the **development of a vision for Yemen's future** that goes beyond targets and explores the means for getting there. It should show key players in the political settlement that change is possible without loss of power and status. Scenarios, which were used briefly as a tool in the second phase of the assessment, may be a means of developing and nurturing such a vision. The revisiting of vision 2025 may offer opportunities, though this must go beyond targets and provide an analysis and roadmap of how to achieve them, starting from refashioning of the political settlement. It should also not be a technical consultant or donor led process. Ideally it would be developed through a broad national dialogue extended in time. Dialogue with inter-ministerial groups such as the Investment Advisory Committee may provide another route.
- ❑ **Urge that reform is led and coordinated from the highest level.** This is essential not only to provide political impetus but also to ensure that political as well as technical reforms are addressed. Though many of the governance reforms (described under Continuing Action below) may only have a long-term pay-off, there does need to be sufficient improvement in transparent public finance management, budgeting, service delivery and local administration to make the strategic reforms described below work.
- ❑ **Support non-oil economic growth** which is capable of providing jobs and government revenue
 - o The “promising sectors” (agriculture, fisheries, tourism, and minerals) do provide some opportunities and should be supported. However there are serious obstacles to most of these, which must be resolved first (see annex 3), which make them less promising. The tourist potential for example cannot be developed without improvements to security. Security is also a general obstacle to inward investment. The areas that show the fewest obstacles to growth are fisheries and minerals, though declining catches in recent years suggest that fish stocks may already be seriously depleted. However the area that is most important for employment is agriculture, which is limited by water shortages, land concentration and the lack of sufficient arable land for the high population density. The minerals sector is probably the easiest to develop of these sectors. Import substitution in the cement industry has also had considerable success, taking domestic

production from 15% to 70% of national consumption. Some of these obstacles are referred to below under “enabling actions”, and they mean that on their own the promising sectors will be inadequate to keep pace with new entrants to the labour market.

- o Therefore in addition other avenues should be explored, in particular two: strengthening micro-businesses in the informal economy (as well as small and medium enterprises) and support to migration. Microcredit and other support facilities are already being developed and this should be built on. SFD should be supported in the latter area, and civil society development (not in construction – except insofar as that might be a means to promote community organization)
- o The Public Investment Programme (PIP) needs to be restructured to respond to job-creating poverty alleviation. Studies by the World Bank show there is a disconnect between the geographical pattern of investment and the pattern of poverty (see Annex 9)
- o The government mandate⁶⁴ study indicates that government should not do what the private sector can do better. This will involve support for private sector development as well as for a change of public attitude on the role of the state as employer of last resort (see below under budget reform)
- o Migration, the export of labour (Yemen's only abundant resource), offers the only immediate prospect of a safety valve for growing joblessness. It would provide a breathing space while other investment is allowed to come on stream. Remittances from migrant workers have traditionally been a way of supporting family survival in Yemen. Currently they account for 5-6% of GDP and exceed non-hydrocarbon exports by 50%⁶⁵. Much of this prior to 1991 was in the Gulf. Vocational training can assist more targeted labour migration⁶⁶. The vocational training sector needs reform, in conjunction with the business sector, to make its curriculum more market-oriented. However strategies should not presume that GCC accession will come soon. Other links, such as the traditional migration path between Hadramout and India and East Asia should also be explored and facilitated.
- o Capital migrates more easily than labour. Economic rationale alone with almost certainly not provide the investment necessary to turn around the economy⁶⁷. And, as noted under the strategic framework, without growth, governance reform is impossible. Yemen requires a massive investment input. Only the GCC countries have the resources and the self interest (to preserve their own security from the threat of an unstable neighbour) to do this. Though there may be valid economic benefits for the GCC countries the justification may require a combination of political and economic logics, and may need to be

⁶⁴ Yeoman Ward International (2006) *Mandate of Government and Consensus: UNIFIED REPORT Final* Government of the Republic of Yemen Ministry of Civil Service and Insurance

⁶⁵ Yemen Economic Update (Spring 2009) World Bank

⁶⁶ This should not be interpreted as graduate or school level training. There is already substantial high school graduate unemployment among the Gulf country populations, particularly Saudi Arabia. Only 20% of foreign labour in the GCC countries is skilled. However, completely unskilled migrant labour from Yemen is in competition with unskilled migrants from Asia. Identifying appropriate training to fit market possibilities is essential.

⁶⁷ Some sources believe that there would sufficient resources in the government budget, even in the present straightened circumstances, to finance job-creating investment even from domestic funds for the next six or seven years. However this would involve restructuring the Public Investment Plan towards jobs.

supported by risk insurance underwriting. High-level dialogue with the GCC countries is thus a strategic priority

- ❑ **Budget reform** is a large area and is returned to below. Though there has been progress on aspects of budgeting and public finance management, and the ongoing study on government mandate, the critical distortions of the budget have not been addressed. Of major strategic significance here is effort to reduce the level of politicized spending. This most particularly relates to the size of the state payroll (a major aspect of patronage) and expenditure on fuel subsidies. Freeing up the budget would allow investment leading to the provision of improved services and economic growth, as well as improving the salaries of remaining civil servants. However both of these reforms are highly sensitive. A previous attempt to reduce fuel subsidies in 2005 led to riots. The government says it plans to reduce fuel subsidies this year once an effective social safety net is in place. Cash transfers alone do not lead to capacity of poor families to create income, but only subsidise their consumption. Cash transfers through the SWF should be coupled with support to livelihoods, as noted above, so that it does not develop dependency. International experience suggests that microcredit for the very poor, if it is to be effective, needs to be coupled with grants to cover consumption during the start-up period.. With the price of oil currently low (by recent standards) this would be an opportune time to make the reform. The other component of freeing up the budget, slimming down the civil service from its current level of around 500,000 people (1.2 million if the military and security services are included) to around half or a third of that level, will be politically possible only as alternative jobs become available or with support for the civil service fund, which needs to be made more effective as a source of retraining. The international community should support these reforms with full awareness of the risk and the need for sequencing.
- ❑ **Improved service provision** has been referred to above. Improved service provision is part of the nexus of forging a new social contract between government and people, and hence of enhancing government legitimacy. Key areas of service investment for strategic reasons are water, education and reproductive health. Though water management could be technically improved, it is not clear to us that the major political obstacles to sustainable water use can be overcome quickly. Hence water is in the category of enabling actions. On the other hand, improvement of education access and quality is an essential component of two other areas of reform: employment and reducing demographic growth. Experience around the world shows that reproductive health technologies are adopted and fertility rate declines markedly once women are educated and able to take their place in public life. Since one of the objectives of service improvement is to cement the social contract, it is highly inadvisable in the long term for government or donors to provide this improvement through parallel structures such as the SDF rather than through line ministries. We recognize, however, that there is an argument for the short-term tactical separation of efficient implementation departments (which it might be advisable not to describe as PIUs) within Ministries as a way of getting round bureaucratic procedures and lack of capacity in the mainstream civil service. However PIUs, while good at absorbing capital budgets, must also be linked to the recurrent budget. The test of whether these structures should be supported in the short-to-medium term is whether these provide centres of excellence and an incentive for reform, which accelerate Ministry reform or whether they impeded this reform

by taking the pressure off. There must be an exit strategy for all such units, with milestones that allow this test to be performed.

- ❑ **Decentralization and participatory local planning** are essential components of building legitimacy and creating appropriate service design. The decentralization strategy should be supported and expanded in ways that improve local governance by ensuring that budget is decentralized along with responsibility and that accountability of local officials is increasingly to local people rather than just to central authorities. If it is not to backfire, it will also require support to ensure that there is capacity at local level to supervise and to deliver, as well as capacity at central level to plan.
- ❑ **Strengthening civil society.** The degree of cooption of local civil society to the political settlement is (currently at least) much less than is the case at national level. Hence the prospects for building a culture of effective demand and accountable government are probably greater here. Support to “people’s budget” activities and civil society monitoring such as those pioneered in South Africa may be a useful intervention.⁶⁸ Continuously explore possibilities for networks and federations when conditions allow real transparency and accountability. Greater involvement of civil society organizations in the business of local administration will enhance the probability that they respond to problems and shortfalls with understanding rather than conflict
- ❑ **Support the empowerment and involvement of women and youth.** Though, as noted below, there should be more investigation in this area, some aspects are already clear. These would include supporting access of girls to education and of women to employment and reproductive health services. It would also depend on support for initiatives that effectively enhance women’s participation in public life and challenge discrimination⁶⁹. In the case of youth, much more investigation is needed, but can build on the analysis conducted by USAID⁷⁰ which recommends involving youth from the street up as decision makers and providing them with training that enhances life opportunities
- ❑ **Addressing conflict and stability** is clearly a strategic issue. It has been left to this point in the list not because it is of secondary importance but because it depends on many of the other factors. Though the causes of insecurity are varied, a principal underlying factor is poverty and lack of (or unequal) development. The measures discussed above would help to tackle these grievances. And a more legitimate government is also a more secure government. However the following should also not be overlooked:
 - o Any development programme carried out inappropriately can promote insecurity. All programmes should include conflict sensitivity among their tools⁷¹

⁶⁸ See for example Vivek Ramkumar and Warren Krafchik (undated) *The Role of Civil Society Organizations in Auditing and Public Finance Management*, The International Budget Project

(http://www.idasa.org.za/index.asp?page=Programme_details.asp%3FRID%3D19)

⁶⁹ See for example the EU Heads of Mission (2009) *Information on the most important obstacles that Yemeni women face regarding discrimination and violence and possible actions and interventions by the EU for 2009-2010*; Oxfam GB/Yemen and Danida (2008) *Final Evaluation of 'Integrated Action on Poverty and Early Marriage'*, Yemen

⁷⁰ USAID (2008) *Yemen Cross-Sectoral Youth Assessment*

⁷¹ See the DFID conflict analysis as an example here

- o Programmes need not only to be conflict sensitive but also to address the causes of conflict, in particular land and water disputes, such as those between water user upstream and downstream of sources
 - o Reform will create losers as the circle of patronage shrinks, tending towards expansion of localized conflicts. Avoiding these conflicts will involve judiciously undercutting the base of support for any potential discontented local powers through enhanced delivery by the state
 - o Reform will also create losers through culture change. The empowerment of women will (indeed already is) create resistance from conservative elements.
 - o There are strong regional tensions, particularly the North-South tension. Investment in the South (particularly the Aden free port development) should balance that in the North
- **Research and investigation** should be undertaken in a number of areas
- o A better understanding of the tribal dynamics underlying the political settlement: is it still true that Yemen is ruled by the compromise candidate between the Hashid and Bakil confederations?
 - o Understanding youth culture and design of programmes that help youth to play a constructive role in shaping Yemen's future
 - o Investigation of "traditional" Yemen: how people survive and resolve conflicts in order to identify areas for potential support programmes
 - o Experimentation with the route to women's empowerment: does it come from political status change or, as we suspect, from small scale economic empowerment

5.22 Enabling actions

Enabling actions are those that may not pay immediate dividends but are essential steps towards strategic actions. They are part of sequencing

- Support for viable social safety nets (such as the Social Welfare Fund) as a step towards freeing up the budget but within a policy framework that couples it with job creation. In the short-term such donor support may be essential in managing the social costs of adaptation. The existing level of budget for the Social Welfare Fund is, according to them, about half what they would need to deal with poverty
- The burden of fuel subsidies and the energy squeeze could also be reduced through support for lowering the cost of non-renewable energy production (switching electricity production from oil to gas fired stations for example) and through development of renewable energy
- Steps toward sustainable water supply would involve
 - o Modern irrigation to reduce evaporative loss
 - o Rain-fed agriculture
 - o Moves to reduce the stranglehold over water supplies
 - o The existing water strategy alone will not solve the problem, since it deals only with water management. It should therefore be coupled with rainwater harvesting.
- Support for long-term investment climate that can create jobs and revenue
- Civil service reform (human resources)
- Support for tax and customs reforms

5.23 Areas for continuing support

These are largely areas that would be critical if the road to comprehensive reform were opened. It is essential to keep supporting them with a view to that time, but they are unlikely to achieve all or even much of their purpose at present, because

they run strongly counter to vested interests within the political settlement. Many of these are areas that feature very high in current donor or government strategies. The political reality, however, as indicated in section 1 of this report, would seem to be that the only winnable change for the medium-term is to reduce corruption and central demand to a manageable and sustainable level, rather than to eliminate them. The reforms are well described elsewhere and will not be re-described here

- ❑ Governance (elections, parliament National Reform Agenda, and the DPPR etc)
- ❑ Judicial reform
- ❑ PFM/ Anti-corruption
- ❑ National civil society (especially in the area of women and human rights)
- ❑ Security sector support (respect for human rights in civil policing)

5.24 Humanitarian response

A number of factors make it likely the humanitarian response will need to be a sustained feature of international support

- ❑ The spread of local conflicts (such as that in Sa'ada) and the imperative to respond to the victims
- ❑ Climatic events (such as the 2008 flooding in Hadramout), which may well intensify with climate change⁷²
- ❑ The spike in food prices coming on top of already high levels of food insecurity and malnutrition which is likely to lead to a continuing need for food aid⁷³
- ❑ Response to refugees from the Horn of Africa

5.25 Regional security challenges

Largely extending beyond the confines of the national territory, there are a set of regional security challenges that, while not strategic for state building, need to be responded to

- ❑ Trafficking of people and the linked problem of smuggling. Many of the migrants from the Horn of Africa, referred to under humanitarian response, are in transit to destinations elsewhere in the Gulf countries. Smuggling entails substantial losses in customs revenues. Improved border policing would help to counteract these criminal activities. However it should also be recognized that smuggling rights are intimately connected with patronage networks, and that impact is therefore likely to be only partial
- ❑ Regional maritime security. This largely relates to the Yemeni problem of piracy in the Gulf of Aden and takes the form of increasing the capacity of the Coast Guard. However it may also be important for protecting fish stocks.
- ❑ Counter-terrorism. Though the greatest security challenges are those resulting from local and regional grievances with the state, Islamist fundamentalism also poses a threat. While there is a global, and especially regional, importance to preventing Yemen becoming a safe haven for terrorist groups, the counter-terrorism agenda needs to be handled with care. There are two essential aspects to this need for care. In the first place, though Yemen became an ally in the "war on terror", this alliance plays badly in the street, where there is considerable public antipathy to the US-led coalition. Insensitive moves by Western powers could provoke public outrage and

⁷² 100,000 people a year are affected by natural disasters according to the Global Facility for Disaster Reduction and Recovery (GFDRR: Natural Disaster Institutional Capacity Building and Emergency Response in the Republic of Yemen (January 2009)

http://gfdr.org/docs/Snapshots_Yemen_Jan09.pdf

⁷³ See WFP (2008) Impact of Rising Food Prices on Household Food Security in Yemen

instability. Secondly, counter-terrorism needs to be decoupled from other security challenges, in order to minimize the tendency of the regime to pursue domestic disputes under the mantle of counter-terrorism.

5.26 Donor harmonization and coordination

The international community is not achieving the maximum impact either for its own objectives or those of the government of Yemen. Key steps towards improvement would be

- ❑ Develop a shared analysis and common strategy, including a common EU country strategy. Donor objectives are in some cases in conflict with each other and the strategy of the government of Yemen not just in harmony of objectives but in starting points (e.g. security, poverty alleviation, economic development). Exaggerating any of these starting points, in isolation, could weaken progress towards responsive state building
- ❑ The building of a responsive state should be taken as a fundamental purpose of all efforts, as outlined here, with predictability and harmonization of aid to assist government of Yemen planning. The Paris declaration should underlie this common position. Donors should strive to develop better means to ensure aid effectiveness, avoiding developing their own parallel project implementation structures or PIUs which fragment partner Ministries. At the same time, efforts should be made to strengthen the calibre of Ministry human resources and avoid a brain drain to international organizations
- ❑ A common position would allow donors and other members of the international community to leverage their influence to greater effect. This leverage should include greater willingness to speak out where appropriate and insist on bottom lines
- ❑ Exercising leverage would entail the need for improved coordination. Coordination needs to become more action-oriented. The donor governance group may provide a basis for such coordination
- ❑ Special effort should be given to identifying a basis for improved coordination between the GCC countries and Western donors. For the reasons noted above, the GCC holds a major key to successful change. The GCC should be encouraged to strengthen engagement including establishing a presence in Sana'a. Though a completely common strategy is not possible here, there are strong commonalities of interest in promoting stability and growth, and in improved governance at least insofar as it affects the business climate. A division of labour is possible where GCC can support the heavy lifting with the hardware of projects if Western donors can support the software. This has already happened in the education partnership with DFID where GCC paid for the schools construction and DFID supported the teachers and curriculum.
- ❑ Possible SWAPS where donors could coordinate efforts are
 - o Water
 - o Support for growth (including the US\$8m for the UN promising sectors programme)
 - o Decentralization
 - o Education (currently UK, Holland, Germany) and health (currently EC, Holland and Germany)

6. An action plan

Objective	Activities		Results expected	Whole of EU / donor response
	Political	Programmatic		
Strategic recommendations				
Develop a vision for Yemen's future	Dialogue with elites on need to change basis of political settlement	Possible technical support in development of visions and strategies Support for processes of national dialogue	A vision with traction at highest level which includes a realistic strategy for refashioning the political settlement on the basis of a social contract Public debate about the future informed by the vision	EU-Yemen political dialogue Donor forum dialogue
Urge that reform is led and coordinated from the highest level	Policy dialogue	Technical support for public finance management, budgeting, service delivery and local administration sufficient to make the strategic reforms described below work.	Political as well as technical reforms are implemented	EU-Yemen political dialogue Donor forum dialogue
Support job-creating non-oil economic growth □ Promising sectors			Increased non-oil employment rate	
	Re-orient PIP towards job-creation, aligned on poverty	Support for sustainable agriculture Support for value-added agricultural activities (See water below) Support for fisheries including support for fish stock	Improved prospects for longer-term development of the "promising sectors"	EC (country strategy) UK (business environment) Germany UNDP World Bank

❑ Informal economy and SMEs ❑ Enhance migration and remittance flows ❑ Increased external job-creating investment		management Support for minerals exploitation (especially construction stone) Support for import substitution		
	Re-orient PIP towards job-creation, aligned on matching investment to areas of greatest poverty	Microfinance Marketing support	More people are successfully making a living through micro-, small and medium enterprises	As above
	Dialogue with GCC to support enhanced migration Reform of vocational training (together with private sector)	Market-related vocational training to improve employability	Increased numbers successfully obtaining work overseas	EU-GCC dialogue EU-Yemen-GCC dialogue Germany Japan
	Dialogue with GCC to promote investment including partnerships and technical cooperation on investment risk insurance		Increased external investment with job-creating basis	EU-GCC dialogue European Investment Bank
<u>Budget reform</u> ❑ Reduce fuel subsidy with compensation for the poor ❑ Downsize state payroll	Promote the necessity for budget reform with due attention to sequencing and managing the risks to stability	Support to communication strategies which explain the benefits of reform and how savings will be spent	Increased proportion of the budget invested productively in services and employment promotion	World Bank, UK Donor dialogue with Ministry of Finance PFM group
		Support for social safety nets, coupled with job creation to offset adaptation costs	Fuel subsidy reduced	EC World Bank
	Make the civil service fund more effective as a source of support with retraining	Support for training and job creation for redundant state employees through effective use of civil service fund	Reduced number of employees on state payroll	EC World Bank

<u>Improved service provision</u>				
□ <u>Education</u>		Support improved access to education (with special emphasis on girls) Support enhanced quality of education with an emphasis on market-related skills	Increased enrolment (including girls) Increased completion of basic education (including girls) Positive private sector assessment of quality of graduates	Education SWAP (to include vocational education)
□ <u>Health</u>		Support improved access to health care (with special emphasis on reproductive health)	Increased access to health care Increased Contraceptive Prevalence Rate Reduced fertility rate	Emerging SWAP with focus on reproductive health
□ <u>Water</u>		Continue support (described under enabling actions)	Progress towards sustainable water use	
<u>Decentralization</u>	Dialogue to support the principle of effective decentralization as building rather than undermining national unity	Support the national decentralization strategy in ways which enhance central planning capacity and equitable decentralization of resources along with responsibility Support the development of local capacity to supervise and deliver quality services	Responsive local authorities providing improved services (on a nationally equitable basis) planned in dialogue with local communities	UNDP Denmark Netherlands France World Bank (fiscal decentralization) SFD (local development)
Strengthen local civil society		Organizational development support to local civil society Capacity building for people's budget monitoring Continuously explore possibilities for networks and	Increased expression of effective demand Increased citizen monitoring of local government Increased participatory	EC France Denmark

		federations when conditions allow real transparency and accountability	planning at local level	
Increase the empowerment and involvement of women and youth	Dialogue with state on the need for clear leadership on improving women's status to tackle demographic growth Support for cultural dialogue on Islam and women's rights	Experimentation with appropriate interventions which can improve women's social status and participation in public life Experimentation with appropriate interventions with young people (including youth economic empowerment and opportunity to be heard)	More girls are in school More women control economic assets More women are involved in public life Women have access to the means to control their fertility Young people feel listened to and have the means to believe they have a viable future in building Yemen	<i>Women</i> Denmark France Netherlands EC <i>Youth</i> USA
Strengthen security through conflict sensitive development	Dialogue with government on the need to relate investment to the geographical distribution of poverty	Conflict sensitive analysis applied in all development initiatives Plans in place to mitigate the resistance of those who lose from reforms Management of resistance arising from cultural change Avoiding "aid orphans" and ensuring that there is a regionally equitable spread of support (particularly North-South)	Equitable development undercuts the basis of conflict Development programmes do not inadvertently foment conflict	Cross cutting issue for all donor support
An agenda for investigation			Greater ability to develop strategy and develop appropriate interventions	

❑ A better understanding of the tribal dynamics underlying the political settlement		Investigation	Ability to assess the robustness of the underlying political settlement	EC
❑ Understanding youth culture		Investigation	Improved design of programmes that involve youth and provide them with a role in shaping the future of Yemen	EU member states USA
❑ Traditional social structures and their provision of social capital and conflict resolution		Investigation	Identification of positive elements of traditional culture whose support can parallel that for the formal state	EC
❑ Experimentation with routes to improvement of women's status and public participation	Dialogue to promote more effective national leadership endorsement for the central importance of women's empowerment	Experimentation with different approaches (particularly comparing the effectiveness of economic and political empowerment)	A tested answer to the question of whether economic or political empowerment is primary	EU member states EC
Enabling actions				
Support for viable social safety nets		Improvement in targeting and transparency of agencies such as Social Welfare Fund Links to livelihood support to avoid long-term dependency	The poor are able to manage impact of budget reforms	EC World Bank
Reduce energy costs through gas-fired electricity generation and development of sustainable energy		Support to energy sector	Energy production costs are reduced and sustainable energy sources are developed	AFD (France) World Bank KfW (Germany) European Investment Bank
Steps towards sustainable water management	Promote steps to lighten the stranglehold of large	Introduction of modern irrigation to reduce evaporative	Reduced levels of unsustainable ground	Water SWAP (World Bank,

	landowners over water supply	loss Promotion of rain-fed agriculture Rainwater harvesting	water extraction	Netherlands, Germany, France) EC (Food Security Programme)
Support for long-term investment climate that can create jobs and revenue		Technical support to legislative, judicial and procedural measures making business start-ups and operation easier	Increased number of business start-ups	World Bank International Finance Corporation UK
Civil service reform (human resources)		Human resource management, capacity building and organizational development tied to reduction in need for PIUs.	Improved capacity of civil service to deliver services, with exit strategies for PIUs and technical cooperation for integration	EC World Bank (all donors in exit strategies for PIUs)
Support for tax and customs reforms		Technical support	More transparent and increasing revenue streams for government	World Bank Netherlands
Areas for continued support				
Governance (elections, parliament, National Reform Agenda, and the DPPR etc)			Little short-term impact on accountability of power	All donors
Judicial reform			Little short term impact	All donors
PFM/ Anti-corruption			Little short term impact	All donors
National civil society (especially in the area of women and human rights)			Little short term impact except on specific tactical issues	All donors
Security sector support (respect for human rights in civil policing)			Limited progress on human rights	US UK
Humanitarian response				

Response to victims of local conflicts	Enhanced contingency planning Dialogue on respect for International Humanitarian Law	Response to displaced and to reconstruction	Timely response to immediate humanitarian needs, linked to medium-term reconstruction	UN EFP UNHCR ECHO ICRC INGOs
Response to victims of climatic disasters	Enhanced contingency planning	Response to displaced and to reconstruction	Timely response to immediate humanitarian needs and medium-term reconstruction	UN EFP UNHCR ECHO ICRC INGOs
Respond to growing poverty and food insecurity	Enhanced contingency planning Develop a comprehensive food security strategy	Support for food security	Planning for medium-term food security support (at least 5 years)	EC World Bank FAO, WFP, Germany
Response to refugee flows from the Horn of Africa	Enhanced contingency planning			EC UNHCR, Netherlands IOM
Regional security challenges				
Response to the problems of people trafficking and smuggling		Support to border policing	Reduced trafficking and limited impact on smuggling Enhanced customs revenues	UK US Italy Germany France EC
Regional maritime security		Enhancing the capacity of the coast guard	Enhanced Yemeni contribution to anti-piracy in the Gulf of Aden	As above
Counter-terrorism	Dialogue to ensure domestic disputes are not pursued under the rubric of counter-terrorism	Enhanced capacity in counter-terrorism	Containing the terrorist threat	As above
Donor harmonization and coordination				
Develop a shared analysis and common strategy		Analysis development Strategy development	Agreed donor analysis EU common country strategy reflecting	All EU member states and EC Possibly other

			primacy of political engagement and the importance of linking the growth and governance agendas and the development and security agendas Rational division of labour between donors governed by common strategy and avoiding “aid orphans”	donors
Take responsive state-building as the core concern (OECD/DAC 3)		Paris Declaration and OECD/DAC principles for Good International Engagement underlie the strategy ❑ Aid flows aligned to national priorities (Paris 3, OECD/DAC 7) ❑ Aid flows are more predictable (Paris 7) ❑ Strengthening capacity of state structures (Paris 5,6) ❑ Reduction in support through parallel PIUs and measurable exit strategies for PIUs deemed tactically necessary(Paris 6)	Increased progress on strategic national priorities Increased capacity of the state to responsively deliver to citizens Increased legitimacy of the state	As above
Work together, be willing to speak out, and to insist on bottom lines	Donor community speaks clearly and with one voice, supportively recognizing	Improved policy and strategy coordination among donors	Greater effective leverage of donor influence	EU-Yemen political dialogue

	successes and drawing attention to means of correcting shortfalls			
Improved coordination among donors led by the UN and World Bank on the basis results-focussed initiatives (Paris 9,10, 11; OECD/DAC 8)	Increased ability to speak with one voice and to act in coordination	Increased rational division of labour, with sector leads. SWAPS or common programmes in ❑ Water ❑ Job creation ❑ Decentralization ❑ Education (including vocational education) ❑ Health	Results-based plans exist for all initiatives Increase in sector wide approaches Greater achievement of results and aid effectiveness	
Enhanced Western donor dialogue with the GCC countries and GCC Secretariat	Dialogue with GCC to explore commonalities on areas such as ❑ Security and stability ❑ Business environment, governance and corruption	Development of partnerships (combining GCC finance “hardware” and Western project management “software”)	Greater GCC pledge disbursement levels Increasing focus on areas for strategic intervention GCC Secretariat establishes a presence in Sana’a Greater GCC country job-creating investment in Yemen	EU-Yemen-GCC dialogue High-level policy dialogue in capitals

Annexes

Annex 1: Description of the assignment (excerpt from Terms of Reference)

➤ Beneficiary(ies)

Main beneficiaries of this assignment are the Commission, the EU Member States, and the wider donor community, who will benefit from an insight into further harmonizing their programmes with the ultimate aim to assist the Yemeni authorities to address the current state of fragility and avoid a state failure in Yemen, which might have regional (and ultimately wider) implications. The assignment could as such directly feed into the upcoming Mid-Term Review of the Commission's Multi-Annual Programme (2007-2009) and Country Strategy Paper (2007-2013), as well as contribute to the new Multi-Annual Programme (2010-2011) in terms of policy and programmes.

A secondary beneficiary is the Government of Yemen, which should ideally be presented by a more coordinated EU policy in terms of development cooperation and other initiatives to support its policies.

➤ Objectives

- **Establish the factors for responsive state building in Yemen within each of the three areas of state building (political settlements, survival functions and expected functions):**
 - o Undertake a critical risk of instability analysis to identify political settlement problems within Yemen. Existing analytical tools (such as Drivers for Change, Countries at Risk of instability, Critical path and Governance assessments) could be used to construct a picture of the sustainability of the political settlement in Yemen.
 - o Examine the survival functions including both revenue raising and security and related sustainability issues.
 - o Explore ways that the State can progress on its functionality and strengthen the legitimacy and effectiveness of the governance system.
- **Map donors, actors and financial instruments:**
 - o Take stock of existing donor activities, with a particular emphasis on EU (EC and Member States) policy tools, external assistance instruments, support actions and coordination mechanisms.
 - o Identify overlaps and synergies.
 - o Identify ways to enhance complementarity and coordination with the aim to ensure a more coherent and efficient use of EU tools.
- **Identify key elements for a future coordinated EU response:**
 - o Identify the key areas where a coordinated EU response will have an added-value and where the EU/EC may support responsive state building dynamics (fostering state-society engagement, supporting survival function etc.).
 - o Examine in particular the benefits of joint analysis, joint programming, dovetailing accordingly individual country strategies, proposing specific joint interventions and improving the framework of division of labour and coordination. Assess if there are any areas where donors may undermine state-building.
 - o Show ways to ensure the essential demand and demonstrated commitment leading to ownership of the proposed activities by the GoY so as to reinforce national coordinating structures.
 - o Consider state-society relationship in Yemen and point out ways of inclusion of Non-state actors (including the private sector) to enhance the 'democracy building' effect.

- o Formulate a sequenced and prioritised action plan including concrete and annually monitorable activities in the areas of EU engagement.
- o Provide specific suggestions to further programmes/projects that could be financed under the EC Instrument for Stability (thematic budget line)

Annex 2: Informants for the assessment

Government of Yemen

Senate

Abdul Aziz Abdul Ghani, (Head)

Prime Minister's Office

Ali Muhammad Mujawwar, Prime Minister

Ministry of Planning and International Cooperation

Abdul Karim Al-Arhabi (Deputy PM for Economic Affairs and Minister)

Nabil Shaiban (Director General Aid Harmonization Unit)

Hisham Sharaf Abdalla, (Deputy Minister of Planning for International Relations)

Ministry of Finance

No'man al Sohaibi, Minister

Jalal Yacoub, (Deputy Minister of Finance)

Ministry of Civil Service Reform

Nabil Shamsan, (Deputy Minister)

Ministry of Water

Fadhl al-Iryani (Minister)

Social Fund for Development

Lamis al-Iryani, (Monitoring and Evaluation)

Ministry of Human Rights

Dr Huda Ali Abdullatef Alban, (Minister)

Social Welfare Fund

Kassim Khalil (Deputy Head)

Ministry of Local Administration

Jafar Hamed, (Deputy Minister)

Ministry of Petroleum and Minerals, Directorate of Planning and Monitoring

Mohammed Al-Jalal (Head of Planning)

Kamal Imran (Head of Statistics),

Ministry of Agriculture and Irrigation

Eng, Abdulmalik Althawr (Deputy Minister),

Eng Jamil A. Albadani (General Director of General Relations and International Cooperation)

Ministry of Trade and Industry

Yahya al-Mutawakel, (Minister)

Presidential advisers

Abdul Karim al-Iryani (adviser to President)

Salah M S al-Attar (Chairman, General Investment Authority)

Dr Abdul Wali, (former Minister of Health)

Donors/ International Community

European Commission Brussels

Joaquin Tasso Vilallonga (Crisis Response and Peace Building Unit, DG External Relations)
Paulo Martins (Cooperation Officer, EuropAid Cooperation Office)
Philipp Oliver Gross, (GCC/ Yemen Desk, DG External Relations)
Katya Ahlfors (Crisis Response and Peace Building Unit), DG External Relations
David Johnson (Adviser – Governance, Pan African Issues and Institutions, governance and migration, DG Development and Relations with African, Caribbean and Pacific States)

European Commission Delegation

Michele Cervone, (Charge d’Affaires)
Mary Horvers, (Governance adviser)
Frederic Roberts,
Damian Buchon
Philippe Jacques (Head of Development Cooperation)

United Nations Development Programme

Mohammad Pournik (Principal Economic and Governance Adviser),
Maruan El-Krekshi (Programme Officer Governance)
Yasmeen Al_Eryani

World Food Programme

Gian Carlo Cirri (Representative)

World Bank

Arun Arya, (Senior Public Sector Management Specialist)

French embassy

Simon Goutner (AFD)
Helene Willart

UK embassy

Clare Vallings (DFID)

Japanese embassy

Matahiro Yamaguchi, (Counsellor, Deputy Head of Mission)

Yemeni Danish Partnership Programme

Soren Shou Rasmussen (Development Counsellor, Head of Office)
Fatma Abed Awadh, (Senior Programme Officer, Deputy Head of Office)

German embassy

Michael Klor (Ambassador),
Dr Irene Fellman (Counsellor Development Cooperation)
Michael Reuss

GTZ

Dr Thomas Engelhardt (Director)
Habib Sheriff, (Senior Program Adviser)

Netherlands embassy

Dr Harry Buikema (Ambassador),
Ellen van Reesch (Deputy and Development),
Johan C.B. Dirkx (First Secretary, Political Affairs)
Djoeje Adimi-Koekkoek (First secretary development cooperation)

US embassy

Salwa Al-Sirhi (USAID)
Faith Myers (Political Affairs)

Gulf Cooperation Council Secretariat

Abdel Aziz Abu Hamad Aluwaisheg (Director General - External Economic Relations)

NDI

Heather Therrien (Resident Director)

Friedrich Ebert Foundation

Mahmoud Qaiyah, (Project Manager)

CARE

Gareth Richards (Director)

Oxfam

Yasser A Mubarak, (Good governance project manager)

Islamic Relief

Khalid Ahmed Almulad, Country Director

Fora

Donor Governance Group
EU Development Counsellors
INGO Forum

Civil Society

Ali Saif (Political Development Forum)

Civil society Organizations in relation to the election monitoring

Dr Saeb Salem (academic & businessman)

Dr Abdul Qader Al Banna, (Yemen Observatory of Human Rights)

Sultana Al Hijam & Majid El Fahd (head) Mada Civic Democratic Initiative Support Foundation)

Dr Antelak al-Mutawakel (chair) Salam Alshehri (Program Officer) Safa'a Rawiah (Executive Manager) Girls World Communication Centre

,Amal Basha (chair) Sisters Arab Foundation

Jamal Al Sami, Democracy School

Ramzia Iryani, Yemeni Women's Union

Khaled Al-Alanesi (Executive Director) and Mohamed Naji Allawo (Chairman), HOOD

Nadwa Al-Dawsari (Director) and Hakim Lofairi (Programme Manager), Partners for Democratic Change

Participants in workshop on Yemen in 2015 (April 2009)

Government

H.E. Abdul Kareem Al Arhabi, MOPIC
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Muttahar Al Abasi, MOPIC
Mahmood Kaid, MOPIC
Salem Salman, MTI
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International Community

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Mahmoud Qaiyah, FES
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Arun Arya, World Bank
Amir Al-Thibah, World Bank
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Faith Meyers, US embassy
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Amal Basha, SAF
Raufa Hassan, Cultural Development Programs Foundation
Nadwa Al Dawsari, Partners Global Yemen
Abdulhakim Al Ofairi, Partners Global Yemen
Dina ???, Partners Global

Annex 3: Documents consulted

Government of Yemen

Economic Studies and Forecasting Sector, Aid Harmonization & Alignment Unit
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Annex 4: Structural causes of instability

	Governance/ political	Security	Social	Economic	Environmental
Local	Tribal control of parts of the country	- Houthi conflict in north - N/S tensions - Tribal-state conflict - Kidnappings - Islamism	- Re-tribalization of South - Northern religious influence in South	- Uneven development - Resentment at lack of benefit in oil regions	
National	- Need for alliances and patronage undermine long-term crisis response - Lack of political will for reform - Divide and rule - Disputed election processes - Corruption - Tribal confederations and parallel structure [stability factors?]	- Inter-tribal conflict - Tribalisation of security forces - Human rights violations - High levels of military spending - Contested rule of law and lack of access to justice - Proliferation of small arms and light weapons	- Tensions over tribal identity, religion - Reliance on social capital - Lack of access to services - High fertility (3% population growth - youth bulge) - Gender	- Oil dependency (gone by 2017) - need to diversify - Poverty (45.2%) - Civil service salary budget and diesel subsidies impede reform - Obstacles to inward investment - Food insecurity - Land concentration	- Water scarcity (sufficient for 50% of current population) exacerbated by low yield agriculture - especially Qat - Qat soil depletion - Obstacles to crop substitution
Regional	- Historic tension with Saudi Arabia - Tensions with Eritrea - GCC resistance to Yemen accession	Saudi support for tribal aspirations	- Refugee flows from Horn place pressure on limited resources – social tensions - Wahhabi proselytising	Obstacles to GCC migration and remittances	
Inter-national	- Balancing act between ally in war on terror and placating public opinion - Impact of international crisis (e.g. Palestine)	- War on terror (cover for internal repression?) - Aid may trigger fault lines – conflict with security, governance and poverty alleviation objectives		- Aid 10-15% of government revenue - Net exporter of capital - Global economic crisis	

Annex 5: Risk Assessment Matrix

	Current	Trend
Risk Factors for Instability	Tribal- state ❑ Complex patchwork but state does not control the whole territory	Likely to spread. Ability to bind minor tribes into the settlement may fray
	North-south tensions	Likely to intensify
	Politicization of religion ❑ Growth of fundamentalist groups – Afghan Arabs, Wahhabi proselytising	Some opposition, but conservatism likely to grow, with impact on status of women
	Poverty	Likely to intensify, with major food insecurity
	Lack of services	Likely to intensify
	Lack of access to justice	Possible improvement in investment law. General situation likely to remain the same
	Restricted political inclusion	Likely to remain the same, or worsen with women's disempowerment
	International donors ❑ May skew development/ security nexus	Some signs of improved coordination, but inconsistent objectives still a problem. Aid funds may decrease
	Oil dependence	Oil will run out. Fiscal crisis. LNG may cushion a little. No change without crisis?
	Water scarcity	Likely to intensify without demand management
	Urbanization – breakdown of traditions	Violence against “innocents” but also “modernization”
	Alienated youth bulge	May become volatile
	Land conflict	Will intensify
	Inability to create jobs	Rising discontent
Country capacity to manage risk	Few institutional checks and balances on state power	Likely to remain unchanged, but state violence may increase in response to discontent
	Short-termism	Growing resource crises may change this or may not
	Strong civil society	Likely to grow, but national NGOs coopted. Local NGOs may be more effective in exercising demand
	Pluralist (though restricted)	Opposition coalitions & local democracy may grow
	Declining state revenues	Current reforms in implementation will be insufficient to offset this
External stabilising factors	Donors	Donor influence likely to grow as oil runs out
Existing forms of instability	Insurgency in north	Could be resolved, but is symptomatic of wider discontent
	Terror attacks	Likely to grow, but not challenge the integrity of the state
	Tribal conflicts	Likely to increase
	Kidnappings	? but this is just a tactic of other conflicts

Colour code: Green = positive trend
Orange = caution
Pink = negative trend

Annex 6: Drivers of change

	Certain	Uncertain
Political	❑ Government stability based on brokering of alliances and the security forces ❑ Oil revenues (70% of government income) muffle demand for accountability ❑ Weakness of civil service ❑ Reform process ❑ International demands ❑ Weak justice system (fuels traditional conflicts) ❑ Centralization	❑ Short-termism ❑ Transition of power ❑ Taxation with representation ❑ Capacity of civil service ❑ Pace of reform ❑ Balancing war on terror with hostile “street” ❑ Judicial reform and arbitration ❑ Capacity of local government
Social	❑ Tribal identities in north: some in conflict with state ❑ Urbanization –society in transition ❑ High fertility (6.0) -pressure on resources ❑ Young population ❑ Gender disparities ❑ Strong civil society tradition ❑ Unmet demand for services (health education, water)	❑ Breakdown of traditional safety nets ❑ Urban tribalisation; protest movements ❑ Demographic transition ❑ Discontent and protest ❑ Women’s growing voice ❑ Greater demand for accountability ❑ Privatisation for the better off ❑ Private sector models of what can be done ❑ Politicization of religion
Economic	❑ Base of Poverty ❑ Oil wealth in short term ❑ Oil peaked; gone by 2020 ❑ Lack of fiscal base ❑ Growing aid dependence	❑ Poverty alleviation? GCC accession/migration? ❑ More oil ❑ Economic diversification ❑ Fiscal reform ❑ Greater international influence ❑ Government taps into aid to make up oil deficit
Environmental	❑ Water scarcity	❑ Significance of agriculture and Qat (54.2% of employed) – Qat substitution? ❑ Conflict over resources (water and land)

The most significant drivers are highlighted

Annex 7: Western donor contributions in Yemen⁷⁴

Sector and objectives	Amount	Period (years)	National Partners	Cooperation with other donors
European Commission				
Good Governance	€ 21.5m	4		
☐ Support for the electoral framework and institutions, Parliament, groups of parliamentarians and political parties ☐ Support for justice, the rule of law and human rights				
			MHR, CSOs, LNGOs	ECHO
Private Sector Development	€ 27.8m	4		
☐ Food Security Support programme ☐ Fisheries			TDA, SWF, MOPIC, MOF	World Bank, GTZ, UNICEF
Human Capital Development	€ 20.7m	4		
☐ Local community development (SFD) ☐ Population and reproductive health			SFD	
			MOPHP	Netherlands
Czech Republic				
Energy generation and supply	€ 1.6m	5		ZAT Pribram (Czech Rep.)
Water supply and sanitation	€ 0.748m	3		Vodni zdroje Prague and G-Servis (Czech Rep.)
Education scholarships	€ 0.15m	1		Min of Ed. (Czech Rep.)
Multisector (furnishing education, health and social facilities)	€ 0.7m	1		Czech Embassy
Denmark				
Governance				
☐ Parliament to parliament ☐ Human Rights ☐ Media ☐ Decentralization	US\$ 0.5m	2	MOPIC (on NRA)	
	\$2m	2	MHR, HR LNGOs	Danish HR Inst., NDI DFID
	€ 1m	4	Yemen Journalists Syndicate	
	\$2.2m	3	MOLA	UNDP
Poverty Reduction				
☐ Prevention of early marriage	\$2.4m	4	National Committee on	Oxfam

⁷⁴ Sources: EU donor matrix; USAID FY 2009 request; UNDAF 2007-2011; World Bank Country Assistance Strategy 2009-2013 (April 29, 2009); information from donor staff

			Motherhood and Childhood	
☐ Microcredit for women	?	?		
☐ Gender and development	\$1m	3		
Youth				
☐ Youth and democracy awareness	\$0.5	2		DRC, EC
France				
Governance				
☐ FSP Democratic governance and security	€ 2.7m	4	MOPIC, MOJustice, MOLA, MOInterior, COCA	
☐ Training of civil servants	€ 0.06m	1	Ministry of Foreign Affairs, Presidency of Rep.of Yemen. INGOs and LNGOs	
☐ FSD Support to civil society	€ 3m (not yet approved)	4		
Gender				
☐ FSD Support to gender policy and civil society	€1m	5	SOUL, YWU, SADA	CARE, CDF, DIA
Youth				
☐ FSP – Youth economic and social integration	€ 2m	4	Ministry of Sports and Youth, Universities of Sanaa & Aden, Sport Federations & associations	
Growth				
☐ Food aid, flood relief and agricultural project	€0.75 (2007) €0.5 (2009)	1		WFP
☐ Agricultural micro-projects	€1.8 m	4	Yemeni-French agriculture office (BAFY), Ministry of Agriculture, Ministry of Technical and Vocational Education	
☐ Marine biodiversity, Socotra	€ 1m	6	Min of Water and Environment.	
☐ Home gardens, Socotra (AFD)	€ 0.72m	3		Triangle
☐ PADZEY project to support the development in two livestock areas in Yemen (AFD)	€ 2.88	4	Animal Resources and Quarantine Department	

			(MoA)	
Energy⁷⁵				
❑ Rural electrification and gas supply	€ 35m	7	Min of Electricity	
❑ Wind farms Mokha (AFD)	€ 35m	4	Public Electricity Corporation	
❑ SCADA data system	€ 26m	4	Public Electricity Corporation	
Culture and training				
❑ Cultural grants	€ 2.41	5	Yemeni and French Universities. Min of Higher Education	
❑ IT and communication technology at university	€ 1.4m	4	As above	
❑ Training of teachers and students in French	€ 0.33	1	Yemeni universities, Ministry of Education, Cultural centres	
❑ Universities exchange programme	€ 0.11m	1	Yemeni and French Universities.	
Special funds				
❑ Feasibility studies, capacity reinforcement and project development	€ 1m	5	MOPIC	
❑	€			
❑	€			
❑	€			
❑	€			
❑	€			
Germany				
Health				
❑ Reproductive health	€7.2m (TC) €10.5m (FC)	2004-2013 (TC), 2005-2009 (FC), ongoing Phase Nov.2007-Oct.2010	MOPHP	
Education				
❑ General education	€7.6m (TC), €23.2m (FC)	10	MOE	
❑ Basic education	€37.5m	8	MOPIC SFD	
❑ Secondary education	€2.0m (TC), €8.0m (FC)	7	MOE	
Water				
❑ Water Supply, Sanitation	€143.4 m	?	MOWE, local	

⁷⁵ The figures for all three activities are loans, not ODA

and Solid Waste Management			corporations, GSMRB, NWRA	
Economic Development				
❑ Economic and development planning	€2.25m	10	MOPIC	
❑ Tourist development	€0.6m	8	MTC	
Energy				
❑ Improving rural energy services	€1.02m	6	Min of Electricity	
Governance				
❑ Governance and civil society	€1.7m	5	COCA	
❑ Anti-corruption	€0.5m	5	SNACC	
❑ Crisis prevention	€0.9m	4	MPI	
Human Development				
❑ Women's equality	€0.4m	6	Local organizations	
❑ Improve access to food	€7m	5	MOPIC	
❑ Nutrition for children under 5 and lactating women	€10m	3	WFP	
❑ Occupational training	0.3m	2	MOPIC	
Multisector	€			
❑ Study and experts	€5.59m	unlimited	MOPIC	
❑ Development of historic cities	€5.2m	4	Min of Culture & Tourism	
Italy				
Governance				
❑ Decentralization	€ 0.3m	4	MOLA, Local authorities	UNDP
❑ Improve Trade and Industry Licenses	€ 0.28m	2	Min of Trade and Industry	UNDP
❑ National Vessel traffic system	€20.654m	6	Min of Interior, Yemen Coast Guard	
❑ National Mine Action	€ 0.2m	2	Gov of Yemen	UNDP
Health				
❑ Primary health care and district health	€0.405m	1	MOPHP, National Blood Transfusion and Research Center	UNDP
Environment				
❑ Sustainable development, Socotra	€2.5m	5	Min of Water & Environment	UNDP
❑ Sustainable development, Socotra	€3m	3	Min of Water & Environment	UNDP
Growth				
❑ Response to food crisis	€ 5m	2		WFP
❑ Food aid and ad hoc projects	€ 4m	4	MOPIC, RAP, PWP	
❑ Debt for cooperation swaps	€11.049	6	MOPIC, MOPHP, SFD, RAP, PWP	
Japan				

Rural water network	US\$10m	2	JICA	
Primary health care volunteers	US\$2m	1		
Education				
❑ School construction	US\$10m	2	MOE	
❑ Promoting girls education	US\$3m	3		
Agriculture (purchasing machinery)	US\$3.5m	1		
❑				
Netherlands				
Health				
❑ Reproductive health	€35.885m	?	SFD, MOPHP	UNFPA, MSIY
❑ Health policy and administration	€1.092m	5	MOPHP	WHO
❑ Health education	€ 0.09m	3	Charitable Society for Social Welfare, SFD, GHO	
❑ Basic health care	€ 6.92m	?		
Education				
❑ Primary education	€10.292m	8	SFD	Unicef, World Bank
❑ Basic education	€ 41.2m	?		
Water				
❑ Water supply and sanitation	€21.09m	4	Local Corporation GARWS	
❑ Water resources policy and administrative management	€ 5.5m	3	NWRA	
Governance				
❑ Civilian peace building	€0.17m	3		Islamic Relief
❑ Strengthening civil society	€1.86m	5	CSOs	Oxfam
❑ Public Finance Management	€1.21m	4		UNDP
Private sector development				
❑ Business support services and institutions: IFC subsidy scheme	€0.62m	7	SFD	
❑ Fruit and vegetable QC	€0.17m	4		UNDP
❑ Fisheries QC	€0.17m	4		UNDP
❑ Employment policy and administrative management	€0.1m	2		ILO
❑ Infrastructure support	€0.156m	7	Dar Al Salaam	
Human Capital Development				
❑ Rural development	€0.078	4		COOPI
❑ Women and children	€0.074	2	SOUL	
❑ YWUs	€1.4m	6		CARE
❑ VaW Victims legal protection	€0.54m	5	SAF	
❑ Protection and sustainable use of	€0.38m	3	EPA	

environment				
UK				
Human Development				
❑ Community service delivery	£63.1m	7	SFD	World Bank for monitoring and auditing. Multi-donor trust fund with world Bank and Dutch
❑ Basic Education	£16m	7	MOE	World Bank. Multi-donor trust fund
❑ Secondary education and girls' access	£20m	7	MOE	Dutch, World Bank, KfW
❑ Maternal and newborn health	\$4.5m	8	MOPHP	Dutch
Governance conflict and security				
Justice and policing	£7.9m	9	MOInt, MOJust	INGOs
Humanitarian assistance	£3m	3		WFP
Public Finance Management	£1.1m	4	MOF	UNDP, Dutch, core donor group
Fragile States Initiative (Aid Harmonization Unit)	£0.8m	4	MOPIC	UNDP
Multilateral effectiveness (secondments to World Bank, UN)	£1.6m	3		World Bank, UNDP
Growth and economic opportunity				
Non-oil growth (enabling business environment)	£8.9m	4		IFC
Water service delivery	£1.2m	2		IDB
United Nations System				
Governance				
❑ Improved capacity in government and civil society to implement ratified human rights treaties	US\$9.567m	5	MOHR, MOSA & Labour, CSOs	UNDP, ILO, UNHCR, UNICEF
❑ Enhanced national capacities to demand and deliver transparency and accountability of public officials.	US\$4.96m	5	MOHR, MOSA & Labour, CSOs, SFD, Local districts and governorate	World Bank, DANIDA
❑ Improved response to citizen's needs and rights	US\$19.8m	5	Line Ministries, local governments, civil society, private sector and NGOs	UNDP
❑ Institutionalized rule of law and equal access to justice with a focus on	US\$12.35m	5	Ministries of Justice, Interior, legal	UNDP, UNHCR, DFID, Dutch

women and children			associations and traditional leaders	
Gender				
❑ Improved institutional framework ensuring that women and girls have the benefit of their equal rights	US\$6.93875m	5	Women's National Committee, Yemen Women's Union, CSOs	UNDP, UNFPA, GTZ, Dutch, Japan, Oxfam
❑ Increased reflection of gender concerns in allocation of public financial resources.	US\$4.18m	5	Women's National Committee, MOF, MOPIC,	UNDP, HCR, UNFPA, WFP
❑	US\$5.181m	5	Women Director-Generals in line ministries, including CSOs and NGOs. Women's National Committee, Yemen Women's Union	UNDP, HCR, UNFPA, WHO, WFP, Oxfam, GTZ, Dutch,, Denmark, Japan, Saudi Arabia
Population and basic social services				
❑ Effective implementation of a National Population and Reproductive Health Strategy	\$24.84555m	5	All relevant Yemeni authorities at national, governorate and district level, CSOs	HCR, UNFPA, WHO, WFP, UNICEF
❑ Social-sector policies and institutional strategies that provide equitable, quality basic social services	US\$4.2715m	5	MOHR, CSOs	HCR, WHO, UNICEF, Dutch, DFID
❑ Improved capacities of authorities to meet obligations and the public to demand their rights, enabling better delivery of and access to equitable quality basic social services	US\$82.055m	5	Government line ministries and education CSOs	UNDP, HCR, UNFPA, WHO, WFP, UNICEF, bilateral donors
Pro-poor growth				
❑ Strengthened and supportive economic policy, institutional framework and operating environment.	US\$16.539m	5	Economic ministries, Central Bank and investment banks, Quality Control and Standards Bureau,	UNDP, ILO, WFP, UNIDO, World Bank, IMF, USAID, EC, DFID, Dutch

			Chamber of Commerce and National Population Council. Central Statistical Office	
☐ Enhanced scope for the participation of youth and women in economic activities.	US\$25.33m	5	Economic ministries, Central Bank and investment banks	UNDP, HCR, WHO, UNIDO, IFAD
☐ Improved productivity of small enterprises and rural households and access by food insecure households to food through micro small and medium enterprise support	US\$23.51m	5	Economic ministries, Central Bank and investment banks	UNDP, HCR, WFP, UNIDO, IFAD, USAID, EC, DFID, Dutch
☐ Sustainable and equitable use of natural resources improved.	US\$18.21m	5	Ministries of Water and Environment, Agriculture and Irrigation, National Water Resources Authority, Environment Protection Authority, NGOs, water users' associations	UNDP, HCR, WHO, UNIDO, IFAD, EC, DFID, Italy, Dutch, Japan
United States of America⁷⁶				
TOTAL for FY 2009	US\$33.753			
Health				
☐ Renovating clinics and health providers homes				
☐ Equipping health facilities				
☐ Training doctors and midwives				
☐ Counselling services and community health education				
☐ Support national health information system				
☐ Support vaccination campaigns				
Education				
☐ Improve education, especially for girls				
☐ Summer camps				

⁷⁶ No sectoral budget breakdown available

Growth				
❑ Assist marketing and trade capacity of farming associations and cooperatives				
Democracy and governance				
❑ Decentralization strategy				
❑ Capacity build local councils				
❑ Capacity build Supreme Commission for Elections and Referendum				
❑ Support to parliament on anti-corruption reform, legislative advocacy and oversight functions				
❑ Strengthen capacity of Supreme National Authority for Combating Corruption, the Higher Tender Board, the Central Organization for Control and Audit, and the Yemeni Journalists Syndicate to combat corruption				
❑ Tribal conflict mitigation programmes				
World Bank				
Infrastructure	US\$165m	4		
Education	US\$50m	4		
Health	US\$50m	4		
Governance	US\$40m	4		
Social Development	US\$55m	4		
Water	US\$90m	4		
Agriculture	US\$30m	4		

Annex 8: Scenarios for Yemen in 2015 used in the April 2009 workshop

"The black tunnel"

Resources begin to run out, poverty rises. Food distributions become widespread. Urban protests grow, particularly in the capital and in the South, especially among the sullen young. With fewer resources, the system of patronage begins to crack apart. In many parts of the country people are thrown back on traditional social networks to survive. The political community is paralysed. The opposition severs contacts with the ruling party and the government accuses them of conspiracy with insurgents. A number of tribal leaders withdraw from the settlement.

The conflict in the north intensifies. Most worryingly rural insurgencies spread. In Marib governorate, a number of oil workers are taken hostage to support a demand for jobs and social investment by the oil company. In a repeat of 2001-2002 operations against the Adida tribe, troops move in, seeking to find the hostages and hostage takers. Having failed to find them, the army takes 20 hostages from the community including two local leaders. Armed tribesmen attempted to free their hostages from the military base and a wholesale conflict ignites. The operation of Islamist militants on the fringes of this conflict provides the opportunity to portray this conflict as part of the war on terror.

However this backfires when the government bans a network of local religious associations providing services and other social safety nets to the poor, claiming evidence that this is a front for the Islamist insurgents funded from abroad. Outrage and violent protests begin to flare throughout the country at this closure, and there is evidence that sympathy for the Islamist militants is growing, particularly among the young. Women's empowerment is blunted and Vice and Virtue Committees spring up in major cities. The crackdown grows in intensity as food riots in Sana'a and Aden are put down violently. Nobody notices when several hundred of Sana'a's black poor (the "Al Akhdam") are rounded up and disappear. But Yemen is heading inexorably towards being a national security state.

GDP Growth	3.5%	Budget deficit	7.2% of GDP
Poverty	37%	Wages & subsidies	55.3% of expenditure

Sources for figures: These figures are speculative and only intended to illustrate trends. They are not predictions. World Bank/IMF growth projections for 2012 for example are significantly lower. Their purpose is solely to facilitate discussion of the four scenarios.

They are derived (as extrapolations) from the following sources

- ☐ Vision 2025
- ☐ Mid Term Review of the DPPR for 2010
- ☐ Water Strategy Update
- ☐ World Bank and IMF staff estimates for 2012

"Bumpy road but light at the end of the tunnel"

Resources begin to run out, poverty rises. Food distributions become widespread. Rural rebellions and urban protests grow. This promotes a change in the political settlement, making it possible to begin to engage with the strategic challenges.

Under the stimulus of growing fiscal crisis, government is forced to plan to increase taxes. Grudgingly at first, people accept the idea, provided it is paralleled by the effective and equitable delivery of services. With more services available, people rely less on traditional networks, but trust is built only slowly. Resources are still scarce. In the economy and in society there is fusion of the traditional and the modern, as more emphasis is put on helping the informal economy become more productive, and efforts are made to link tribally based reconciliation processes with the formal justice system. The most immediate impact is enrolment of girls in school and a reduction in early marriages. Young people too feel at last they are being listened to. Resources are no longer simply used for division of rent but for investment. At last, there is real political impetus behind planning strategically for long-term change. The plans for post-oil economic diversification in the 2025 strategic vision begin to be implemented, partly supported by the beginnings of the income stream from liquefied natural gas. A number of legal political and security reforms prove to be necessary to maintain the impetus.

The water crisis begins to be tackled with a radical re-pricing which makes it more profitable for some agriculturalists to sell their water to cities and industry than to grow food. Rainfed agriculture and drought resistant crops are introduced and there is a huge investment in the development of fisheries, which benefits the development of the south.

The road to change is not easy. And there are serious losers from this. The reallocation of resources to investment threatens the alliances and patronage on which political stability of the state rests. Remote communities who are underserved become increasingly suspicious that the days of patronage are not over. The pattern of allocation of licences for new enterprises tends to confirm their suspicions. The hold of qat on agricultural land and on water usage is not easy to shift, and clashes between water-owners and farmers become commonplace. Most visibly and dangerously, in a climate of new open social dialogue there are protests from unemployed urban youth, many of which are dealt with harshly. Citizen confidence in the responsiveness of the state is easily shaken. The danger of conflict is never far away.

GDP Growth	6%	Budget deficit	6% of GDP
Poverty	30%	Wages & subsidies	52.3% of expenditure

Sources for figures: These figures are speculative and only intended to illustrate trends. They are not predictions. World Bank/IMF growth projections for 2012 for example are significantly lower. Their purpose is solely to facilitate discussion of the four scenarios.

They are derived (as extrapolations) from the following sources

- ☐ Vision 2025
- ☐ Mid Term Review of the DPPR for 2010
- ☐ Water Strategy Update
- ☐ World Bank and IMF staff estimates for 2012

“Speed!”

Resources begin to run out, poverty rises. Food distributions become widespread. Amidst mounting crisis the reformers in government are given their head, and the pace of reform is stepped up. Cynics joke that this is simply in order to make them scapegoats for failure.

The reform programme is very ambitious and proceeds on many fronts: service improvement, improving the investment climate, decentralization, tax reform, empowering women, and combating corruption. Rapid urbanization overwhelms services. Despite a crash programme of reorganization and capacity building, schools and hospitals cannot keep up with demand as the national debt rises sharply. Initial hopes fall short, and young people particularly turn back to tribal identities. Though the government enjoys support from women who have benefitted from improved education and employment opportunities, urban protests grow, while in the rural areas people feel nothing much has changed. Decentralization is accelerated to try to bring services closer to rural people, despite fears that this may weaken the unity of the country.

Attempts to drain surplus population to the coastal areas and southern cities meets with suspicion and resistance from many in the south who see this as “colonization”. Ironically, those who argued that national unity was being put at risk seem to be proved right when government attempts to head off rising discontent by investing more resources in services and job creation. In an attempt to control the deficit the Ministry of Finance announces stringent civil service reform, with a target of reducing the government payroll by 100,000 people in four years in order to free-up the resources. The cuts bite first in the South, and in a re-run of the army pensioners’ protests of 2008, retired Southern army personnel spearhead protests, which grow rapidly. Southern cities are in turmoil and road links are cut between North and South. The army is sent in.

However, unlike 2008, the protests spread to the North, as many fear the loss of the social safety net of public employment. The resource stream is not coming in fast enough from new investment to soak up the discontent. Mass protests are met with a harsh crackdown. Things start to spiral out of control.

GDP Growth	7.25%	Budget deficit	10% of GDP
Poverty	28%	Wages & subsidies	46% of expenditure

Sources for figures: These figures are speculative and only intended to illustrate trends. They are not predictions. World Bank/IMF growth projections for 2012 for example are significantly lower. Their purpose is solely to facilitate discussion of the four scenarios.

They are derived (as extrapolations) from the following sources

- ☐ Vision 2025
- ☐ Mid Term Review of the DPPR for 2010
- ☐ Water Strategy Update
- ☐ World Bank and IMF staff estimates for 2012

Scenario 4: The “official” future

This is the future that is on the way to the Yemen described in Vision 2025, which envisages “The transformation of Yemen to the rank of countries with middle human development with a diversified economy and social, scientific, cultural and political progress”; and “Yemen transformed from a young democracy to a stable and mature democracy, where political pluralism, the peaceful transition of authority and the respect for human rights become the society's engrained and strong mechanisms for the management of government and the realization of political progress for the society as a whole.”

In 2015, the economy is growing at 7.15% annually, or over 3% per capita. Though natural gas exploitation makes up a substantial part of this, the non-oil sectors have grown at 4.7% annually, creating enough jobs to keep pace with new entrants to the labour market. The number of people living below the poverty line has dropped to 32.8% and the official unemployment rate has fallen to 14%, though around 40% of working people are in the informal economy.

The growth in employment reflects a growth in investment both public and private, with public investment holding steady at 23% of state expenditure and private investment growing at just under 10% a year. Most of the jobs have been created in agriculture and food processing, with state support to increasing irrigation efficiency for crops, developing rain-fed cultivation of food crops, and finding alternative cash crops to qat. The growth rate for the agricultural sector however is low at 3.8%, compared with 7.7% for minerals.

Education has been given great priority, aiming at improving illiteracy and building a more skilled workforce. Illiteracy has fallen to 45% and net enrolment for the 6-14 year age group in basic education stands at 68% and for the 15-17 year olds at 41% in secondary education. However the gender gap remains worrying: only 75% as many girls as boys are enrolled in primary education and only 52% in secondary education.

The non-oil sector now contributes 24% of revenues. Though the recurrent budget remains high, it has been possible to gradually reduce subsidies, with protection for the poor. Reforms to management of public finances have helped to maintain fiscal prudence and keep the budget developmental. The net budget deficit is 5.3% of GDP.

GDP Growth	7.15%	Budget deficit	5.3%% of GDP
Poverty	32.8%	Wages & subsidies	?% of expenditure

Sources for figures: These figures are speculative and only intended to illustrate trends. They are not predictions. World Bank/IMF growth projections for 2012 for example are significantly lower. Their purpose is solely to facilitate discussion of the four scenarios.

They are derived (as extrapolations) from the following sources

- ❑ Vision 2025
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- ❑ Water Strategy Update
- ❑ World Bank and IMF staff estimates for 2012

Annex 9: Assessments of viability of reforms by working groups using scenarios

Group 1

Reform	Medium Term Possibility		Prior Steps	2015
	Yes	No		
1. Political Settlement	Y		- Constitutional reforms. - Reaching agreement between parties. - Public engagement. - Increasing political awareness, especially among youth (35% of population). - Accepting the need for change and reforms. - Restoring confidence through public engagement. - Mobilization and education of young people. - Lack of hope and economic prospects could threaten political settlement.	Strengthening of Yemen political settlement.
2. Security			- Rehabilitation of returnees is key to security. - Legal reforms on weapons including rural areas. - Truce with the tribes. - Social law for peace, truce amongst tribes that would ensure code of conduct and law and order. - Fair distribution of services in rural areas and increase engagement with young people. - Improve economic conditions through investment and services. - Social housing for the poor.	Sustainable security. Increase political engagement with GCC and international community for more support.
3. Governance			- Economic reforms. - Liberalize civil society. - Increase attention on promising sectors such as fisheries and mining. - Implementing public financial management reforms. - Decentralization. - Will for reform. - Political reform to move away from the current centered power.	Sustainable economy

			- Expenditure needs to be at district levels.	
4.Basic Services			- Improving irrigation systems. - Renewable resources.	

Group 2

Reform	Medium Term Possibility		Prior Steps	2025 Consequences
	Yes	No		
Enhance local governance	Y		Local Authority Bill implementation. Capacity Development Inc. community participation Inc. presidential action	Functional democracy (stable Yemen)
Revenue raising/ Diversification	Y	N	Fuel subsidy removal Inc. tax Inc. Business Enabling Environment Inc. Private Sector growth	Less dependency on oil. Fiscal sustainability. Inc. ODA + Private Sector Investment
Water management		N	Inc. water pricing Inc. efficiency Inc. communication / awareness Inc. water distribution Inc. water conservation State ownership Dec. fuel subsidy Water regulations enforced	Inc. water management:- availability, inc.table

Group 3

Reform	Medium Term Possibility		Prior Steps	2025 Consequences
	Yes	No		
Civil service		N	Substantial growth of non oil sector	Working social contract between Government and people
Decentralization	Y Budget as well as responsibility		Need less resistance from MOF/ CS / MOLA	Will meet with resistance
Freeing up budget		N	Fiscal sustainability Substantial growth of non oil sector	Social contract
Alternative job creation	Y		Incr. security Government stability Capacity / skills developed	Less pressure on CS reform. Contribute to reduced patronage.
Water		N	Reduced political power of land owners / farmers	Viable / Productive Yemen

			Eradicate Qat Improve irrigation	
Demographic Growth	Y		Continuous efforts and follow up Restructure MOPHP Improve provision of RHS	Viable / Productive Yemen. Social contract.

Annex 10: World Bank study on the patterns of poverty and public investment

Annex 11: The Paris principles on aid effectiveness indicators⁷⁷

Ownership: Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions

1. Partners have operational development strategies

Alignment: Donors base their overall support on partner countries' national development strategies, institutions and procedures

2. Reliable country systems
3. Aid flows aligned on national priorities
4. Strengthen capacity by coordinated support
 - 5a Use of country public financial management systems
 - 5b Use of country procurement systems
6. Strengthen capacity by avoiding parallel implementation structures
7. Aid is more predictable
8. Aid is untied

Harmonization: Donors' actions are more harmonised, transparent and collectively effective

9. Use of common arrangements or procedures
10. Encourage shared results

Managing for results: Managing resources and improving decision-making for results

11. Results-oriented frameworks

Mutual accountability: Donors and partners are accountable for development results

12. Mutual accountability

⁷⁷ Paris Declaration on Aid Effectiveness, High Level Forum Paris (2005)

Annex 12: The OECD/DAC principles on Good International Engagement⁷⁸

1. Take context as a starting point
2. Do no harm
3. Focus on state building as the central objective
4. Prioritise prevention
5. Recognise the links between political, security and development objectives
6. Promote non- discrimination as a basis for inclusive and stable societies
7. Align with local priorities in different ways in different contexts
8. Agree on practical co-ordination mechanisms between international actors
9. Act fast..... but stay engaged long enough to give success a change
10. Avoid pockets of exclusion

⁷⁸ Fragile States: Policy Commitment And Principles For Good International Engagement In Fragile States And Situations (2007)