



Yemen

Corruption, Capital Flight and Global Drivers of Conflict

A Chatham House Report

Ginny Hill, Peter Salisbury, Léonie Northedge and Jane Kinninmont



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September 2013



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Charity Registration No. 208223

ISBN 978 1 86203 297 2

A catalogue record for this title is available from the British Library.

Designed and typeset by Soapbox, www.soapbox.co.uk

Printed and bound in Great Britain by Latimer Trend and Co Ltd

The material selected for the printing of this report is manufactured from 100% genuine de-inked post-consumer waste by an ISO 14001 certified mill and is Process Chlorine Free.



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Acknowledgments

This report follows several years' research carried out in Yemen, Saudi Arabia, the Gulf States, the Horn of Africa, the United Kingdom, continental Europe and the United States. It draws primarily on interviews with Yemeni sources, and international diplomats based in Yemen, or working on Yemen policy in Western capitals. The policy recommendations were refined during a series of discussions with international policy-makers during spring and summer 2013.

This report has also benefited from the cooperation of our project partners, including Saferworld and Oxfam in London, Resonate! Yemen in Sana'a, the Carnegie Endowment for International Peace and the Atlantic Council in Washington, DC, and the King Faisal Centre for Research and Islamic Studies in Riyadh. It has further benefited from the collective knowledge of dozens of

academics, practitioners, civil society activists and journalists who have participated in Yemen Forum workshops since its foundation in January 2010.

The Yemen Forum's work since 2010 has been kindly funded by grants from the UK's Department for International Development and the Dutch government.

The authors would also like to thank the many generous colleagues who provided valuable comments on drafts of this paper, and Kate Nevens, Tom Wills, Doris Carrion and Shaima Saif for their role in the Yemen Forum. All errors remain our own.

G.H.
P.S.
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J.K.

Abbreviations and Acronyms

AQAP	Al-Qaeda in the Arabian Peninsula
CSF	Central Security Forces
DFID	UK Department for International Development
GCC	Gulf Cooperation Council
GIA	General Investment Authority
GPC	General People's Congress
Hirak	The Southern Movement ('al-Hirak al-Janoubi')
JMP	Joint Meeting Parties
MAF	Mutual Accountability Framework
MENA	Middle East and North Africa
NSB	National Security Bureau
OECD	Organisation for Economic Co-operation and Development
PDRY	People's Democratic Republic of Yemen ('South Yemen')
PEA	Political economy analysis
YAR	Yemen Arab Republic ('North Yemen')
YECCO	Yemen Economic Corporation
YSP	Yemeni Socialist Party

Executive Summary and Recommendations

Yemen, the poorest country in the Middle East, is a case study of critical importance to anyone trying to understand the complex political transitions set in motion by the ‘Arab Spring’ as well as international policies on ‘fragile states’ and the ‘war on terror’. The negotiated handover in November 2011 from President Ali Abdullah Saleh to his deputy, Abd Rabbu Mansour Hadi, after three decades at the helm of a military republic averted the immediate risk of a civil war while establishing a framework for longer-term reform. This has led some observers to cite Yemen’s transition as a regional success story, and even to suggest that it could offer a model for conflict-affected states including Syria.

Yet the outcome of the transition remains uncertain. Far from being on a guaranteed path towards a secure, prosperous future, Yemen confronts serious risks of political instability and a looming resource crisis, forced by the rapid depletion of the oil reserves that underpin the state budget. Despite concerted efforts by donors to boost development assistance and promote governance reform during the past decade, incredibly high rates of poverty and hunger in Yemen persist. The World Food Programme estimates that over 10 million Yemenis – 46 per cent of the population – do not have enough to eat. The situation is exacerbated by the self-enriching behaviour of the country’s elites, who are depleting Yemen’s resources, sending illicitly earned and untaxed profits abroad, and often actively resisting much-needed structural reforms.

Yemen’s internationally brokered transition roadmap is made up of an ambitious National Dialogue Conference, military restructuring and constitutional reform. This

process, which is scheduled to end in fresh elections in 2014, represents a historic opportunity to rethink the structure of the state. The prominence of women and youth activists alongside traditional social and political forces in the Dialogue has established an important precedent for broader political inclusion. However, fostering legitimacy is complex, long-term work, and achieving a stable new political settlement is by no means guaranteed.

Like many transitional leaderships, the interim government of Yemen has committed itself to political and economic reforms, but may struggle to push them through in face of the resistance of incumbent elite interests. Many Yemenis in fact question whether the transition agreement marks the start of a historic negotiation of political access, or whether it is designed to mask the preservation of power and wealth by members of the existing elite. This situation is not unique to Yemen, as debates continue over whether former President Mohammed Morsi’s administration in Egypt was itself blocking reforms, or was blocked by opposing political interests from fulfilling its mandate.

Having backed and brokered the transfer of power from Saleh to Hadi in an effort to ensure a controlled transition, foreign actors, especially the UN, the United States, the United Kingdom and Saudi Arabia, are heavily involved in day-to-day implementation of the transition agreement, providing valuable diplomatic momentum and technical support. Yemen’s transition does indeed have the potential to lay the groundwork for a more inclusive and accountable political configuration that would, over time, initiate a parallel transformation in the political economy. But bringing this promise to fruition will require sustained high-level international engagement that goes beyond traditional diplomacy.

However, external actors also operate both as a force for stability and as a risk factor when their interventions – often driven by short-term counter-terrorism priorities – are inconsistent with Yemeni perceptions of local legitimacy, and sometimes, as in the case of the US drone strategy, directly undermine them. Aid spending has traditionally been far less of a priority for international donors than military assistance, which in itself sends messages to Yemen’s leaders about the priorities their international partners expect them to pursue.

Yemen key facts

Republic of Yemen

- Formed: 1990 (previously the Yemen Arab Republic ('North Yemen'); People's Democratic Republic of Yemen (PDRY) ('South Yemen'))
- Head of State: President Abd Rabbu Mansour Hadi
- Head of Government: Prime Minister Mohammed Salem Basindwah

Economy

- Annual average GDP growth rate 2000–10: 4.5 per cent
- GDP per capita: \$1,361.20 (2011) (World Bank)
- MENA GDP per capita: \$7,400 (2010) (World Bank)
- Oil production: 180,000 barrels a day (b/d) (2012) (*BP Statistical Review of World Energy 2013*)
- Peak production: 457,000 b/d (2002) (*BP Statistical Review of World Energy 2013*)

Demographics

- Population: 24.8 million (World Bank)
- Population growth rate: 3.1 per cent (2011) (World Bank)
- MENA average population growth rate: 2 per cent (2011) (World Bank)

Humanitarian snapshot

- People without access to safe water, sanitation: 13.1 million
- Food-insecure people: 10.5 million
- People without access to healthcare: 6.4 million
- Acutely malnourished children: 1 million
- Internally displaced people: 306,087
- Refugees: 237,717 (officially registered); 1.2 million (government estimate)

Sources: UNHCR, WFP, OCHA, WHO, UNICEF, Government of Yemen, July 2013.

Yemen's dependence on external assistance should provide at least some prospect that external donors can act as a lever for change: external grants to Yemen increased from around 1% of GDP in previous years to about 6% of GDP in 2012, according to the IMF. However, overall levels of foreign aid have been overshadowed by high volumes of capital flight: Yemen ranked fifth among Least Developed Countries surveyed for capital flight between 1990 and 2008. Illicit financial flows on this scale are incentivized by the global issue of international tax havens, which include Western entities and dependencies, and capital flight damages the domestic tax revenues and local investment needed to fund Yemen's development.

In this respect, there is some dissonance between Western donors' aid policies and their policies towards international tax evasion, yet this is an area in which the concerted action of international donors can, and should, have more impact. In an increasingly globalized world, international support for reform programmes in developing states cannot be isolated from removing the

international incentives that allow for personal enrichment at the cost of good governance. Facing the alternative scenario of an increasingly impoverished and aid-dependent Yemen, the recent G8 focus on international tax transparency and the future of global poverty reduction, highlighted by Prime Minister David Cameron during the UK's 2013 G8 presidency, represents an important and welcome opportunity for more joined-up policy in this area.

This report is the culmination of a major, multi-year research project led by the Chatham House Yemen Forum, involving intensive fieldwork in Yemen, expert-level workshops and detailed consultation with donors, diplomats, defence ministries and civil society organizations. It places Yemen's transition in the context of longer-term state formation, exploring regional and international changes since the end of the Cold War, examining the complex interplay between domestic politics and international drivers of corruption and conflict, and highlighting systemic failures in global governance that are visibly manifest in 'fragile states' such as Yemen.

Main findings and recommendations

I. The importance of political legitimacy

The 2011 popular uprising in Yemen brought the state's crisis of political legitimacy to a head as well as accelerating overt conflict between elite regime factions. Young Yemenis frustrated with political and economic exclusion began mass nationwide protests in January 2011. They saw the uprising as a chance to create a modern civil state and replace a corrupt elite that was barely delivering any public goods or services. The protests amplified existing tensions between rival elite factions, leading to an open split within the regime. Fear of civil war between military rivals encouraged the US, UK and Saudi Arabia to push for a negotiated transition that led to President Ali Abdullah Saleh leaving office but left the elites in place, while creating space for future mediation and peace-building.

The youth-led uprising followed a fundamental crisis of legitimacy in Yemen's political institutions, including the country's major political parties. During the final years of Saleh's rule, the shift to violence by the Houthi rebels in Sa'dah province, the evolution of the secessionist southern movement and the continued prominence of Al-Qaeda in the Arabian Peninsula signalled a loss of faith in the existing parliamentary system – and in some cases the nation-state framework – as a legitimate means of resolving grievances. The *de facto* fragmentation of state power in Sa'dah and the south accelerated during 2011 and 2012, as non-state armed groups expanded their control, increased their provision of security and services and exploited long-standing regional grievances. There is no 'quick fix' for these problems, which, if left unaddressed and isolated from newly opened channels of political participation, can only become more difficult to solve.

The National Dialogue provides a historic opportunity for groups that were politically and socially marginalized under Saleh to press for new terms of inclusion, under international supervision. The transition agreement brokered by the Gulf states with international backing provided for a six-month series of inclusive talks, the National Dialogue Conference. The recommendations

produced by delegates during the talks will influence the new constitution and inform the future shape of the state. To achieve a stable and enduring agreement, the transition process must also successfully defuse the grievances of the southern separatists and armed groups such as the Houthis.

Yemen's transition must be seen in the long term, beyond the two-year framework of the Gulf Cooperation Council (GCC) agreement. The National Dialogue talks are just one of several ways in which politics and power structures are being renegotiated and Yemen's future is being decided. Given the historical weakness of the country's formal institutions and the strength of its networks of power and patronage, the inclusive platform offered by the Dialogue to marginalized groups needs to be matched by changes to the underlying, informal power structures that currently make up the regime.

Recommendations

- 1. Yemen's transition should be seen in the context of a prolonged process of state formation.** The process of building a stable new political settlement is likely to extend far beyond the framework of the current two-year transition arrangement, requiring sustained and high-level international engagement, including ongoing oversight by the United Nations.
- 2. Western governments and the United Nations need to maintain their commitment to previously marginalized social and political actors, beyond the expiry of the transition timeframe.** The presence of women and youth activists alongside traditional social and political forces in the National Dialogue has established an important precedent for broader political inclusion, including elsewhere in the Middle East and North Africa region. Women and youth include a diverse range of political actors, who are nevertheless likely to share a general disadvantage when seeking to compete with established interests in future parliamentary elections. Support for their attempts to create new political organizations or advance their role in existing ones should thus extend over decades, not just the coming years.

3. **Successful elections – if elections are held at all – will not necessarily translate into an immediate sense of improved legitimacy, and policy-makers therefore need to prepare for future political unrest.** The powerful interest groups that were central to Saleh’s regime are likely to do well in future elections, and their subsequent disposition to embrace – or block – change will be just as important as during the transition.

4. **Western governments, Gulf donors and international aid agencies need to focus their planning on scenarios in which Yemen becomes significantly poorer and hungrier.** Food security should remain a high policy priority. The most likely outlook is that the hoped-for structural reforms will not take place and that non-state actors will continue to broker power at a local level. International governments and organizations should build contingency planning into their long-term operational and country strategies, with the aim of mitigating worsening humanitarian conditions in the future.

II. Understanding Yemen’s political economy

Yemen’s political economy is built around a small elite drawn from the military, tribes, political class and private sector. Saleh’s patronage system was built on rents from oil exports and access to the newly liberalized economy. Around 10 key families and business groups with close ties to the president control more than 80 per cent of imports, manufacturing, processing, banking, telecommunications and the transport of goods.

During the 2000s, a new generation of ‘inheritors’ began to emerge within the elite, and competition for inward investment began to intensify as oil production fell. Saleh’s son, Ahmed Ali, offered nominal support to a group of young technocrats who advocated modest reforms – such as civil service job cuts, reducing diesel subsidies and a general sales tax – that might ease the transition to a post-oil economy, but they encountered repeated resistance to implementing these reforms from vested interests, including Ahmed Ali’s rivals.

The substructure of Saleh’s political economy has remained largely intact throughout the transition, with all evidence pointing to internal ‘rebalancing’ between elite beneficiaries as opposed to radical change. Elite rivals drew on their respective patronage networks and personal resources to confront one another during the 2011 uprising. In accepting the terms of the transition deal at the end of that year, they demonstrated a collective interest in protecting their personal wealth and coming to an agreement that was – initially, at least – likely to preserve their common advantage.

Yemen’s future depends on whether its elite remains more concerned by the threats posed by rival factions within the elite, or prioritizes its response to popular anger arising from the failure to allocate resources more widely. The National Dialogue contains the potential to lay the groundwork for a more inclusive and accountable political configuration that initiates a parallel transformation in the political economy over time. However, the extent to which the Dialogue’s recommendations will be implemented is still uncertain, while established political parties look set to dominate the next parliament, thus making it harder for new ‘outsider’ factions to enter the established parliamentary game.

Recommendations

1. **The Friends of Yemen and the ‘G10’ – a diplomatic group based in the capital Sana’a, comprising France, the United Kingdom, the United States, Russia, China, the UN, the EU and the Gulf states – need to mainstream political economy analysis as a tool for maximizing their collective leverage for structural change.** They can do so in part by improving their understanding of elite incentives and exploring new ways of promoting change. Understanding the informal networks and family and business interests that link key elite players is vital to assessing the likelihood of success of formal institutional and constitutional reforms such as federalism, or a stronger parliamentary system, that have the potential to widen the distribution of power and the basis of future political mobilization.

2. Further research is needed to understand the impact of the transition process on the political economy.

Western donors and the World Bank should commission a dynamic, interactive study capable of tracking changes to the substructure of the regime during the course of the transition period and beyond. This study should also consider the impact of longer-term social and economic trends.

3. Yemen's emerging political leaders and youth activists need to be better enabled to contribute to the international policy debate about their country, given the importance of international actors there and the impact of international shifts in the global political and economic scene. They already hold detailed mind-maps of the informal relationships that underpin elite networks and structure the political economy, and have important critiques to make of enduring elite patronage networks. These tend to be expressed in different frameworks and terms from those used by international institutions and Western governments, which now need to capture and incorporate them in their own planning to assist Yemen.

III. International factors and strategic implications

Security interests have shaped the strategy of Western and Gulf governments in Yemen over the last decade, including the effort to support a controlled transition in 2011. The threat of Al-Qaeda has led the British, US and Saudi governments to prioritize counter-terrorism operations, despite their distorting effects on Yemen's political dynamics. While military assistance has historically grown far more rapidly than development aid, Al-Qaeda is not the greatest threat to the country's stability, and the support of local elites – including President Hadi – for US drone strikes on alleged Al-Qaeda targets risks further undermining the government's legitimacy.

International actors' capacity for collective bargaining is weakened by their tendency, at times, to pull in different directions, because of the differing priorities that exist at a country level, and different agendas within individual countries' agencies. Yemen's status as a 'frontline state'

in the war on terror and categorization as a 'fragile state' have pushed it up the international agenda and led to an increase in aid flows. However, prioritization of short-term security goals, failures in development approaches that have discounted the domestic political context, and global systemic factors such as the liberalization of international capital movements have undermined efforts to reform the country's political, as well as economic, system.

Despite significant international aid pledges made to Yemen during the transition, low state capacity, elite resistance and factional rivalries are hindering the disbursement process. The Friends of Yemen – a group of more than 20 countries, comprising Western and Gulf donors – have pledged \$8.1 billion in development and humanitarian aid since President Hadi's appointment, of which \$1.8 billion has been disbursed. Saudi Arabia is the largest bilateral donor, followed by the United States, but disagreements continue between Yemenis and donors over distribution procedures and related governance reforms.

Elite competition in Yemen is incentivized by capital flight. The country was the world's fifth largest source of illicit capital outflows among Least Developed Countries between 1990 and 2008, with \$12 billion leaving the country. A growing literature examines the negative effects of illicit capital flows, which facilitate corruption while diminishing incentives to build strong institutions and invest equivalent sums in the domestic economy. The perception that stolen sovereign wealth often ends up in foreign bank accounts or in property located in tax havens that are influenced by or associated with Western governments is a source of some anger in the Arab world, and has been articulated in Egypt and Libya as well as in Yemen.

International aid flows to Yemen are dwarfed by outward capital flows, with tax havens facilitating capital flight.

For every dollar spent on aid in Yemen between 1990 and 2008, another \$2.70 left the country. Successful efforts to curb illicit financial flows from fragile states depend on a wider reform of the international tax system and international monitoring of capital movements. However, donors'

deliberations on reform in fragile and conflict-affected states have often remained isolated from discussions of the impact of these international systemic issues on the objectives promoted in individual states.

Failure to achieve significant reform in the oil-based patronage system represents the greatest risk to a successful outcome for the transition and has set Yemen on the path to economic collapse. In December 2012, President Hadi's government agreed a greatly enlarged state budget, despite facing a rising balance-of-payments deficit resulting from falling oil production. If successive governments continue postponing essential economic reforms, Yemen is likely to become increasingly dependent on foreign aid, in particular on direct budgetary support from Saudi Arabia.

Across the Middle East and North Africa, contested and sometimes violent processes of negotiating new bases for political legitimacy, economic policy and greater equality will form the dominant story of the coming decade. Yemen's transition takes place at a time of broad uncertainty over long-term Western strategy and engagement across the region, as well as growing pressure on the levels of Western aid spending in so-called fragile states. Political and economic grievances articulated by protesters remain unresolved, and while policy-makers struggle to interact with such fluid and diverse movements, new approaches to diplomacy will make them more alert to the potential for change that such movements can provide.

Recommendations

- 1. Western and Gulf donors need more effective strategic planning to reconcile the differences and trade-offs between short-term security and counter-terrorism priorities and longer-term political and economic development objectives.** The impact on local political legitimacy and consent needs to be understood as central to a successful security strategy for Yemen. This includes assessing the efficacy of security measures – including drone strikes – in terms of their overall impact on the local legitimacy of Yemen's government.
- 2. Western donors need to widen the scope of their political economy analysis to address the interaction between domestic and international factors that facilitate and incentivize corruption and governance weaknesses in Yemen, in line with the latest OECD recommendations.** This includes examining the role of global tax havens as a 'pull' factor for capital flight. Despite the obvious challenges involved in tracking illicit financial flows, further research is also needed to identify specific patterns of capital flight from Yemen.
- 3. Prime Minister David Cameron should continue to highlight tax compliance during the United Kingdom's final months as G8 president, and ensure that all British dependencies keep pace with UK reforms.** Tackling illicit financial flows from fragile states to tax havens depends, in part, on new global standards of information-sharing, in which fragile states can participate. The revised global development framework to replace the Millennium Development Goals (MDGs) from 2015 onwards should also highlight the need for international tax reform and combating illicit capital flight.
- 4. A public advocacy campaign is needed to help emerging political leaders and youth activists in Yemen participate in the global debate about corruption, capital flight and international tax reform.** Western civil society organizations supporting political inclusion in Yemen should broaden their agenda to facilitate policy dialogue on questions of tax transparency, and should help campaigners to develop their own policy messaging targeted at Yemeni elites and the government, as well as international actors.

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The Chatham House Yemen Forum is a global policy consortium which brings together a dynamic group of stakeholders, including politicians, aid practitioners, academics and diplomats. The collective knowledge and influence of Yemen Forum members raise awareness, share expertise and support the formation of policies that address the causes of conflict, poverty and poor governance in Yemen. The Yemen Forum also builds strategic relationships to sustain support for change, working closely with international governmental and non-governmental organizations, governments and Yemeni civil society activists.

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Briefing Paper, Ginny Hill and Gerd Nonneman, May 2011

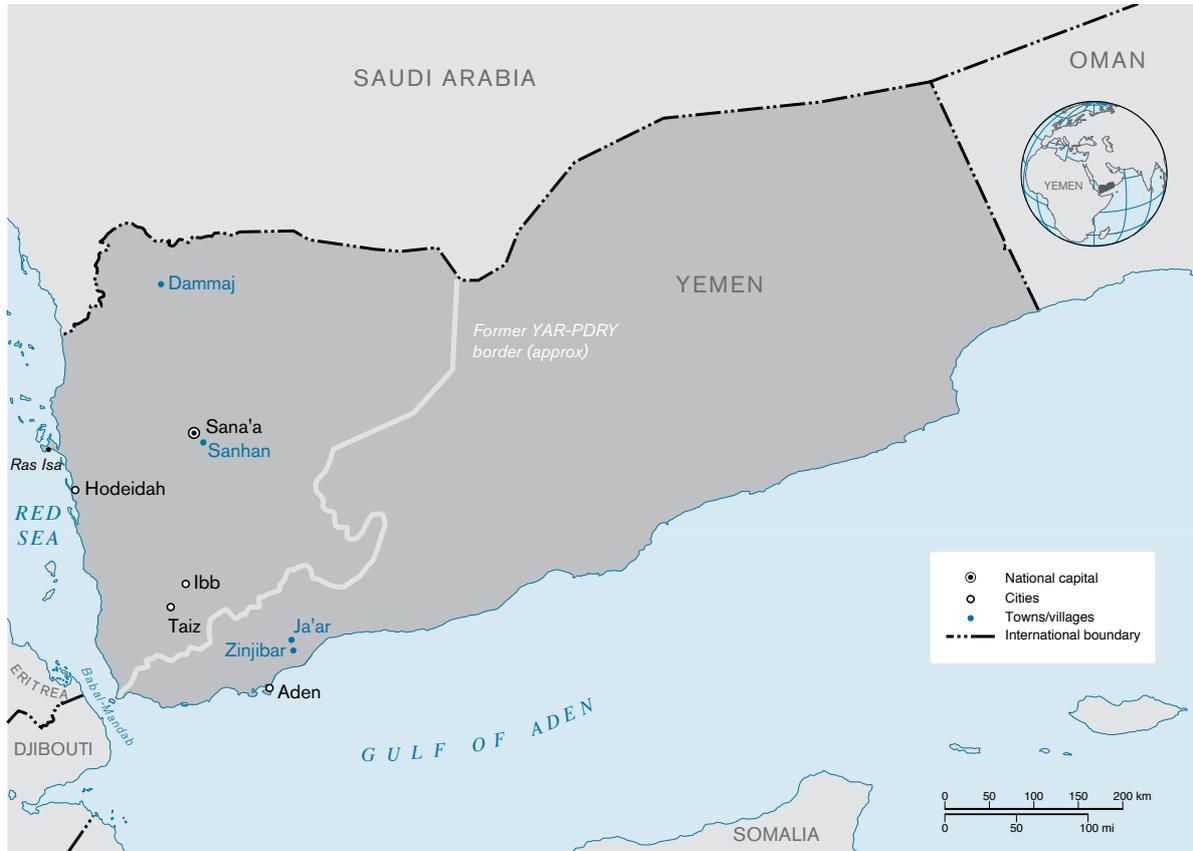
Yemen and Somalia: Terrorism, Shadow Networks and the Limitations of State-building

Briefing Paper, Sally Healy and Ginny Hill, October 2010

Yemen: Fear of Failure

Briefing Paper, Ginny Hill, January 2010

Map of Yemen



Map of Yemen governorates



1. Introduction

In Yemen, the poorest country in the Middle East, the 2011 uprising marked a rebellion – seemingly, on the part of an entire generation – against political and economic corruption at the highest levels, an outpouring of frustration caused by decades of unaccountable elite rule and economic marginalisation. One of the voices of this uprising was Atiaf al-Wazir, a twenty-something Yemeni blogger and activist who tweets as @WomanfromYemen. On her Twitter profile, she says: ‘I consider myself a world citizen, but at the moment my world is focused on Yemen.’¹ Atiaf is passionate about democracy, anti-corruption and social justice, and she embodies the new spirit among global activists who understand ‘the crucial concept’ of the network and see their local problems as deeply connected to larger-scale global trends, a key theme of this report.² During Yemen’s uprising, she played an important bridging role, linking Yemeni protestors with international diplomats, researchers and English-language media.

In November 2011, with Yemeni youth marching in the streets and the country in political turmoil, Atiaf flew to London to speak at a conference on online activism, organized by the British government. After her conference appearance, she visited the Occupy London site, a tiny, tented camp outside St Paul’s Cathedral, where an ad hoc coalition of activists was protesting against the power of the big banks and the British government’s economic policies. At the time, the protest camp in Yemen’s capital, Sana’a – known as Change Square – was up to a hundred

times bigger, but for Atiaf, the Occupy London protest was ‘a good reminder that poverty has no boundaries, and that demands for equality should be a global issue.’³

Three years earlier, the global financial crisis had threatened the world’s financial institutions, prompting unprecedented fiscal stimulus and bank bailouts, with parallel constraints on public spending by Western governments. Both the crisis itself and the austerity measures that followed provoked a global debate about the legitimate relationship between political representation and market forces. In response to worsening living conditions, millions of protestors marched and rioted on the streets of the world’s capital cities to challenge political and economic elites presiding over growing inequality. In Egypt, Greece, Israel, Russia, Spain, Tunisia, the United Kingdom, the United States and more recently, Turkey and Brazil, these protests assumed different characteristics, yet they represent an expression of similar structural pressures. In the Arab republics in particular, protests over economic disenfranchisement were the catalyst to an outpouring of anger over the lack of accountability – and, ultimately – legitimacy, of the ruling elites who had become fabulously wealthy while the rest of their countries stagnated.

In Yemen, youth-led protests articulated grievances with the failure of the state and its elites to provide what protestors perceived as economic and social justice, political representation or the political and economic inclusion of the country’s diverse regions. President Ali Abdullah Saleh and his family bore the brunt of the protestors’ anger, but, as elsewhere, the removal of the figurehead of the regime from power has not addressed the country’s fundamental problems. This is because corruption, poverty and inequality are systemic. The origins of Yemen’s protests cannot be properly understood, nor appropriate responses to their demands formulated, without an appreciation of the impact of neoliberalism and globalization on Yemen’s licit and illicit economy since the end of the Cold War (including on the deeply rooted elite networks that control the distribution of subsidized oil, electricity and weapons flows), and the incomplete process of state-making.

1 <https://twitter.com/WomanfromYemen>, 1 July 2013.

2 ‘Global unrest: how the revolution went viral’, *The Guardian*, 3 January 2012.

3 Interview, by email, 2012.

The transition process

In November 2011, after nearly a year of street protests, elite rivalry and rising violence, Saleh handed power to his deputy, Abd Rabbo Mansour Hadi, in a controlled transition endorsed by the West and the neighbouring Gulf states, and brokered by the United Nations. Yemen's electorate then ratified Hadi's appointment in a one-candidate referendum in February 2012, marking the official start of his two-year term as caretaker head of a coalition government. Under the terms of the transition agreement, Hadi is tasked with overseeing the National Dialogue Conference, a six-month series of inclusive peace talks, as well as military restructuring and constitutional reform, ahead of parliamentary and presidential elections, scheduled for February 2014.

Given Yemen's strategic location, bordering Saudi Arabia, the world's largest oil exporter, and alongside the Bab al-Mandab strait, a global oil chokepoint connecting the Red Sea and the Gulf of Aden, the international community remains heavily involved in the implementation of the current transition process. The United States, in particular, continues to be preoccupied by the activities of Yemen-based Al-Qaeda in the Arabian Peninsula (AQAP) and seeks to influence the military restructuring process that has followed Saleh's departure. Hadi's unanimous support from the international community has enabled him to dismiss Saleh's relatives and allies from key command positions, as part of his ongoing efforts to dismantle rival military patronage networks and increase the remit of the Defence Ministry.

Saleh's negotiated exit made Yemen one of the surprise success stories of the Arab uprisings. However, precisely what the transition is leading to remains less clear. Despite the United Nations' sponsorship of the inclusive National Dialogue to forge a more legitimate collective bargain, many Yemenis question whether the 2011 uprising marks the start of a historic renegotiation of power and political access, or a superficial process designed to mask the preservation of political and economic power by members of the

existing elite. (Saleh himself is protected by an immunity deal that was part of the transition agreement, and remains the head of the former ruling party).⁴ Yet, even as Yemen's elite factions seek to reclaim or stabilize their own advantages, it remains doubtful whether 'business as usual' is sustainable, given the rapid depletion of the oil reserves that underpin the country's economy.

The elite's short-sighted, self-serving behaviour was chief among the factors that provoked a loss of faith in formal political mechanisms (among the southern secessionists), violent dissent (on the part of Houthi rebels and Al-Qaeda in the Arabian Peninsula) and the *de facto* fragmentation of territorial power that took place during the final years of Saleh's rule. Briefing the UN Security Council on the progress of the National Dialogue Conference in June 2013, UN envoy Jamal Benomar warned that, despite participating in the political process, 'key political factions remain armed and appear to be amassing more weapons, creating the conditions for further violence and instability'.⁵ Successful completion of the two-year transition agreement depends, among other things, on President Hadi mustering sufficient political capital to oversee revisions to the constitution and alter the structure of the state, while also keeping potential spoilers in check, and curtailing the activities of competing non-state armed groups providing security and services to their supporters.

Western policy frameworks

Before the 2011 uprising, Yemen was better known as the target of two distinct – and sometimes conflicting – Western narrative frameworks for foreign policy. For more than a decade, it has been classified as a front-line state in the US-led 'war on terror', with Western and regional governments providing military aid to an increasingly sclerotic regime aligned with their counter-terrorism objectives. It is also routinely cited as a 'fragile state'. Western (as well as Arab) aid efforts to alleviate poverty and hunger are designed partly to mitigate the risk of an eventual

⁴ There has also been speculation he could return to government as a minister, and his son has been appointed Yemen's ambassador to the UAE.

⁵ *Report of the Secretary-General pursuant to Security Council Resolutions 2014 (2011) and 2051 (2012)*, June 2013.

full-scale state collapse. But as the report argues, policies which effectively helped to sustain the Saleh regime may well have hastened the arrival of such a collapse. Moreover, following more than three decades as a military republic dominated by an authoritarian leader, Yemen also belongs to the broader regional narrative of the ‘Arab Spring’ that accompanied the downfall of Tunisia’s President Zine el Abidine Ben Ali, Egypt’s President Hosni Mubarak and Libya’s leader Colonel Muammar Gaddafi in 2011.⁶

The case of Yemen highlights confused and sometimes conflicting policy priorities on the part of the international community. On one hand, donors – foremost among them the United States, the United Kingdom, the EU and Germany, alongside the Gulf states – are pursuing long-term development goals in Yemen to support political and economic reform, and prevent future state failure. On the other hand, their counter-terrorism concerns have tended to lead to a short-term focus on ‘quick wins’, which – to date – have involved stabilizing (and legitimizing) an ally willing to cooperate with their security priorities in this field. During the 2000s, Saleh attracted Western funding for and training to elite military and security units under the control of his son and nephews. This enabled him to extend his family’s rule with external support even as public disenchantment was growing. Subsequently, President Hadi has openly endorsed US drone strikes.⁷

Despite a decade of rising donor engagement on these terms, Yemen’s human development indicators have fallen sharply. Yemenis – especially babies and young children – are among the hungriest people in the world, ranking 93rd out of 107 countries in the 2013 Global Food Security Index.⁸ The World Food Programme estimates that over 10 million Yemenis – 46 per cent of the population – do not have enough to eat.⁹ The Friends of Yemen, a high-level diplomatic coordination mechanism, has pledged \$8.1 billion in aid for the country since Hadi’s

appointment as president in an effort to stall or reverse this humanitarian crisis.

International aid spending to date has been overshadowed by the nature of Yemen’s political economy and illicit financial flows, as Yemen’s political and economic elite siphons off the country’s wealth, often into Western tax havens – with estimates suggesting that between 1990 and 2008, for every \$1 received in aid, \$2.70 left the country (or \$12 billion in total).¹⁰ Tax havens act as a ‘pull’ factor, incentivizing capital flight, while the absence of strong institutions in Yemen acts as a ‘push’ factor, further undermining domestic tax revenues that are needed to fund the developing state.

Outline of the report

This report, drawing on several years of research by the Yemen Forum, uses Yemen as a case study of Western-led agendas for political and economic development over the past decade, and asks why, despite extensive efforts to promote governance reform, patronage and corruption flourished during the decade before 2011, as standards of living among the population fell. It investigates to what extent the informal system of governance that underpinned Saleh’s regime has been dismantled since 2011, and discusses likely outcomes after presidential and parliamentary elections scheduled for February 2014 when the current two-year transition process is due to end.

Chapter 2 examines the importance of political legitimacy in the construction of sustainable political settlements. It analyses the uprising in Yemen in the context of the simultaneous wave of unrest across the Arab world and the longer historical processes of state formation in the Middle East and North Africa (MENA). Starting with a brief overview of the legitimacy deficit

6 Yemen is included in the G8’s Deauville Partnership, a framework intended to link financial and technical assistance with economic and political liberalization in the Arab transition countries (also including Egypt, Tunisia, Morocco, Jordan and Libya), endorsed by the IMF.

7 Hadi’s stance contrasts sharply with the attitude of politicians in Pakistan, the other major site of US drone warfare, where popular legitimacy depends on criticizing such attacks.

8 Economist Intelligence Unit Global Food Security Index 2013, <http://foodsecurityindex.eiu.com/>.

9 Yemen Food Security Monitoring System (FSMS) Bulletin, Issue No. 1, February 2013, <http://documents.wfp.org/stellent/groups/public/documents/ena/wfp255429.pdf>.

10 *Illicit Financial Flows from the Least Developed Countries: 1990–2008*, UNDP Discussion Paper, p. 13.

across the region on the eve of the Arab Spring uprisings, this chapter goes on to chart the evolution and loss of legitimacy during Saleh's 33-year presidency, and its eventual collapse during his final months in power.

It argues that the National Dialogue provides a historic opportunity for all groups that perceived themselves to have been politically and socially marginalized under Saleh to press for new terms of inclusion, under international supervision. However, there are serious risks that this opportunity will be lost, and that the focus on keeping the peace between Yemen's armed and wealthy elites will result in a political bargain from which much of the population will remain excluded – resulting in continued challenges to the legitimacy of the government and the state itself.

Chapter 3 explores structural constraints on change in Yemen by analysing the Saleh-era elite's control of the 'commanding heights' of the economy and asking how and why the regime acted as a spoiler to much-needed economic reforms. It argues that this elite still controls the levers of economic activity on which ordinary Yemenis depend – such as food, water and oil imports – and that the competition between rival elite factions that led to the 2011 conflict has been sublimated, not eliminated, by the political transition.

The chapter considers two questions in particular. Are past models of elite behaviour likely to be replicated in the future, with the powerful patronage networks of the Saleh era used to trump the formal institutional changes

initiated by the transition agreement? And while the elite is tasked with overseeing reforms to the government and security forces, what incentives will it have to alter the model of elite competition over state resources and enact the change demanded by protestors since 2011?

Chapter 4 identifies international factors affecting Yemen's transition, including the national security priorities of the United States, Saudi Arabia and Britain. It argues that international actors are a risk factor as well as a force for stability in Yemen, and that – despite the UN's stewardship of an inclusive National Dialogue – the interests of external players are not always consistent with domestic perceptions of political legitimacy. The feasibility of the changes that Western policy-makers wish to see in the country is questionable if the current policy focus on security remains unchanged. This chapter also highlights the complex interplay between domestic politics and international drivers of corruption, including systemic failures in the governance of the global financial system that facilitate local elites' efforts to siphon off capital and hide it in distant tax havens.

The report concludes with recommendations to international policy-makers and to civil society groups for mitigating the consequences of Yemen's political and economic crises, for developing a better understanding of the country's political economy – including the role of international factors – and for fostering long-term legitimacy and stability in Yemen.

2. Political Legitimacy

The primacy of legitimacy as the basis for stable authority is a fundamental principle of political theory. Legitimacy allows leaders to transform ‘power into authority, allowing rule by non-coercive means’, enabling them to withstand short-term fluctuations in popularity without recourse to violence.¹¹ International institutions, such as the World Bank, increasingly recognize that ‘strengthening legitimate institutions and governance ... is crucial to break cycles of violence’ and shift the means of politics towards ‘consent, compromise and non-violence’.¹² However, perceptions of legitimacy can vary between social groups within a single society, and can change over time.

The concept of political legitimacy is of immense value in understanding the uprisings in Yemen and other Arab countries in 2011, which were not simply motivated by economic factors or by a deficit in democratic structures. Rather, a combination of economic and political grievances undermined faith in the legitimacy of the ruling class.

The ability of some of the key regimes in the Arab region to rely on oil revenues and extensive foreign security guarantees has reduced their need to develop a legitimate, inclusive political bargain with their own populations. For more than a century foreign national security interests – predominantly British, then American and more recently Russian and Chinese – have influenced the construction and exercise of authority, as well as the dynamics of opposition, in the region.

At the start of the 21st century, Western-backed military regimes and monarchs dominated the Middle East and North Africa (MENA). After Al-Qaeda’s 2001 attack on the New York’s World Trade Center, the United States – along with other Western states – bolstered its Arab allies’ intelligence and security capacities by increasing military aid and training. This strengthened the coercive power of MENA leaders, reduced their need to respond to domestic expectations of legitimate rule – especially in military republics where electoral systems had raised citizens’ hopes of democratic representation without delivering responsive government – and further weakened the notional social contract.

Arab leaders have traditionally staved off popular discontent partly through the distribution of subsidized commodities, as well as government jobs. Growth in the global economy kept these pay-offs affordable between 9/11 and the start of the global financial crisis, in 2008. However, longer-term systemic pressures were already beginning to undermine living standards: civil services were no longer capable of absorbing growing numbers of university graduates and the wages of government employees declined in real terms, along with government expenditure on social services against a backdrop of soaring commodity prices.¹³ The wealthiest of the oil-rich Gulf monarchies were able to provide increasing quantities of social goods to their populations in exchange for continued acquiescence to their dynastic rule, but the republics and the poorer monarchies struggled to finance growing budget deficits.

At the same time, policies of structural adjustment, deregulation and economic liberalization – as have largely been endorsed by Western-backed financial institutions, with some adaptations and variation, since the 1980s – also had an impact on political legitimacy. Applied to weak and corrupt ‘hybrid’ regimes¹⁴ in the MENA region, these policies – intended to assist the shift to free markets after decades of central economic management – allowed regime officials and their cronies to enrich themselves rapidly.

11 Organisation for Economic Co-operation and Development, *The State’s Legitimacy in Fragile Situations: Unpacking Complexity* (2010), <http://www.oecd.org/dac/incaf/44794487.pdf>.

12 World Bank, *World Development Report 2011: Conflict, Security, Development* (2011), http://siteresources.worldbank.org/INTWDRS/Resources/WDR2011_Full_Text.pdf.

13 United Nations Development Programme, *Arab Development Challenges Report 2011: Towards the Developmental State in the Arab Region* (2011), http://www.undp.org/content/dam/undp/library/corporate/HDR/UNDP-ADCR_En-2012.pdf.

14 Hybrid regimes combine democratic and authoritarian elements, where rulers endorse multi-party electoral competition to mask or legitimize the reality of their authoritarian control.

As Arab economies opened up to foreign trade and investment, the profits accrued to elite brokers and beneficiaries, with a third of all wealth accumulating among the top 10 per cent of the population.¹⁵ Growth tended to be concentrated in capital-intensive sectors such as energy, real-estate, telecommunications and finance, instead of creating significant numbers of jobs for the growing workforce in the region, where youth unemployment was running at 24 per cent.¹⁶ The elites who benefited from this process differentiated themselves by conspicuous consumption and thrived on crony capitalism, made all the more lucrative by access to an international financial system undergoing unprecedented deregulation. While international financial institutions largely praised Arab states for implementing neoliberal economic policies, domestic opposition movements saw these reforms as sustaining corrupt elites and further reinforcing economic exclusion. The political economy thus reinforced the crisis in political legitimacy.

The flawed implementation and mismanagement of free market policies 'squandered the enormous potential of the Arab region.'¹⁷ However, market deregulation was accompanied by population growth, urbanization, increasing literacy and more diverse patterns of media consumption. A profusion of satellite news channels followed the 1996 launch of Al-Jazeera, challenging the traditional dominance of state-controlled media, and rising regional rates of internet use during the 2000s created 'expectations among large numbers of young adults which the state was simply not able to satisfy'.¹⁸ Access to information technology improved ordinary people's understanding of the way their countries were being run, while the exponential growth in use of mobile phones made communication and information-sharing rapid and cheap.

Young men and women with similar patterns of social media use (on Facebook, Twitter or YouTube, for example) recognized one another as members of an 'international sub-class' – i.e. 'graduates with no future' – and sparked the initial Arab uprisings.¹⁹ They took to the streets of Sana'a, Tunis, Cairo, Tripoli, Manama and other capitals to express frustration with their countries' ageing and long-serving leaders, to challenge the structure of power and the distribution of resources, and to voice both political and economic grievances. Protestors compared their own frustrated aspirations and poor living standards with the fabulous, conspicuous wealth of their rulers, which many said had only been achieved by the plunder of state resources in parallel with the repression of political dissent. These early protests brought together an unprecedented, ad hoc coalition of diverse economic and social interests. They were later joined by established opposition groups and other traditional social movements, including Islamists and the labour unions.

In Yemen, public anger about elite corruption mirrored this broader regional discontent about unresponsive power structures, inadequate livelihoods and the uneven benefits of neoliberalism that underpinned the wider Arab uprisings.²⁰ However, Yemen is the only MENA transition state that is also classified as a 'fragile state', or 'Least Developed Country'.²¹ It is the poorest country in the Middle East, with an exceptionally high birth rate, acute rates of child malnutrition and rapidly dwindling reserves of oil and water. As a result, it faces unique constraints – in the extent of its poverty, the weakness of its institutions and the scarcity of its resources – in responding to the demands of the current transition process. In policy terms, therefore, Yemen belongs simultaneously to the

15 See World Bank, World Development Indicators.

16 United Nations Development Programme (UNDP), *Arab Development Challenges Report 2011*.

17 Ibid.

18 OECD, *Fragile States 2013: Resource Flows and Trends in a Shifting World* (2013), <http://www.oecd.org/dac/incaf/resourceflowstofragilestates.htm>.

19 Paul Mason, *Why It's Kicking Off Everywhere* (London: Verso, 2012), p. 69.

20 In 2010, Yemen was ranked 146 out of 183 countries for perceived corruption by Transparency International. In 2011, meanwhile, Gallup found that seven out of 10 Yemenis polled on drivers of that year's uprising said that corruption was widespread in government and was a major cause of the unrest. See Gallup, 'Widespread Corruption in Government', June 2011.

21 Egypt and Syria are classified by the UNDP as countries of 'medium human development'; Libya and Tunisia are 'highly developed' countries; while Bahrain is 'very highly' developed. See UNDP, *Human Development Report 2013: The Rise of the South: Human Progress in a Diverse World* (2013), http://hdr.undp.org/en/media/HDR_2013_EN_complete.pdf.

regional debate about Arab transitions and to the policy discourse about fragile and conflict-affected states, as well as the war on terror.

Legitimacy and 'fragile states'

Western governments have a long track record of working closely with authoritarian, sclerotic and corrupt regimes in an effort to achieve their own national security objectives in the Middle East and North Africa. Yet, especially over the past decade, there has also been recognition on their part – at a conceptual level, at least – that legitimate and accountable governance is key to creating a sustainable political compact. To that end, a growing Western consensus has emerged that, as the Arab transition countries move through concurrent phases of change, they should focus on elections and constitutional reform, macro-economic stability and strengthening state capacity with the aim of creating jobs and reducing poverty.

Similar priorities have long dominated the parallel policy discourse about 'fragile and conflict-affected' states, largely shaped by Western donors' efforts to alleviate poverty and meet global development targets. Fragile states have typically been defined as unable or unwilling to 'provide physical security, legitimate political institutions, sound economic management and social services' for the benefit of their citizens.²² However, the concept of state fragility and the related idea of state failure have been vigorously contested since they gained traction in the aftermath of the US-led military interventions in Afghanistan and Iraq. Notions of state fragility and resilience have become more nuanced and sophisticated in recent years.

Advocates of the revisionist approach tend to look beyond 'thin' (or formal) concepts of fragility centred on the state to consider a 'thick' (or substantive) understanding

centred on state–society relations, and paying greater attention to stress factors such as demographics, climate change and new technology.²³ They argue that fragility and resilience should be seen as 'shifting points along a spectrum', where more resilient states 'can manage and adapt to changing social needs and expectations, shifts in elite and other political agreements, and growing institutional complexity'.²⁴ They also highlight the impact of global structural pressures, warning that fragile states can become 'risk dumps'²⁵ and multipliers of the more pernicious factors associated with globalization – such as commodity price shocks, transnational organized crime and the international market in military goods – because of their weak governance systems.

With the exception of Yemen, the MENA transition states did not rank highly in the annual Failed States Index, produced by the Fund for Peace,²⁶ or other systems of classifying country risk that rely on formal, state-centred governance indicators. The Arab uprisings have thus accelerated the revisionist trend.²⁷ Its aftermath has also highlighted the extent to which Western assumptions about the mechanisms of state power have blinded observers to the phenomenon of 'isomorphic mimicry',²⁸ where superficial copies of Western-style state institutions function in entirely different political and social contexts. In these environments, personal relationships and informal networks distort the influence of formal political structures in a way that insiders understand instinctively but 'outsiders' often struggle to perceive. Consequently they may fail to anticipate likely outcomes.

Increasingly, development practitioners and political economists are seeking to better articulate the relationship between formal and informal networks, including enmeshed relationships between business and politics. This follows from an acceptance of the limitations of technical interventions, and from the recognition that both

22 OECD, *Whole-of-Government Approaches to Fragile States* (2006), <http://www.oecd.org/development/incaf/37826256.pdf>.

23 OECD, *Think Global, Act Global: Confronting Global Factors that Influence Conflict and Fragility* (2012), http://www.oecd.org/dac/incaf/Think_global_act_global_Synthesis_120912_graphics_final.pdf.

24 OECD, *Fragile States 2013*.

25 OECD, *Think Global, Act Global*.

26 Global Fund for Peace, *Failed States Index*, <http://global.fundforpeace.org/index.php>.

27 OECD, *Fragile States 2013*.

28 Philip Krause, 'Of institutions and butterflies: is isomorphism in developing countries necessarily a bad thing?', Overseas Development Institute, ODI Background Note, April 2013, <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8353.pdf>.

poverty reduction and governance reform are highly politicized processes. Many donors are now pursuing explicitly political goals in fragile states, leading to greater emphasis on fostering political legitimacy as a central objective of policy-making.²⁹ In turn, donors stand accused of political interference; critics question the basis of legitimacy for their interventions (and thus the fundamental premises of the ‘fragile states’ discourse), while also flagging the extent to which donors inadvertently perpetuate the corrupt practices they seek to eliminate.

In 2011, the International Dialogue on Peacebuilding and Statebuilding – a multilateral forum for countries affected by conflict and fragility, their donors and civil society – agreed a new deal for effective engagement in fragile states, setting legitimate politics as the first of five core goals (followed by security, justice, economic foundations, and revenues and services).³⁰ The ‘Busan New Deal’ agreed by delegates of the forum acknowledges that the transition ‘out of fragility is long, political work’ and warns that basic governance transformations may take 20–40 years. Despite these increasingly refined policy frameworks, however, donors continue to struggle with overwhelming strategic and operational challenges. The fundamental task remains the achievement of effective change, at a time when global poverty is increasingly concentrated in fragile states and more than half of the world’s poor are expected to be living in such states by 2015.³¹

Saleh's legitimacy

In Yemen, as in the wider region, the ‘Arab Spring’ uprising took place in the context of a much longer-term process of state-building. The process in Yemen only gathered pace after 1990, when the Yemen Arab Republic (YAR, also known as North Yemen) united with the People’s

Democratic Republic of Yemen (PDRY, also known as South Yemen). President Ali Abdullah Saleh of the YAR built his appeal for domestic legitimacy as a republican leader, and based his foreign policy calculations on positioning himself for maximum advantage between Saudi Arabia, the United States, Russia and regional republican allies such as Saddam Hussein’s Iraq. Saleh appointed close relatives to key positions at the top of the army, and shared hard power among the northern tribes through recruitment into the military.³²

After unification and the introduction of parliamentary democracy, Saleh pursued a policy of apportioning land and political benefits to his supporters, while alternating between violence and co-option strategies towards his detractors. He cloaked his authority in the language of democracy, in an attempt to legitimize his regime, while simultaneously cultivating loyal factions across the political spectrum and forcing the opposition to resort to ‘elite, lobby-style politics’.³³ Two political parties that emerged from the northern elite dominated political life – the General People’s Congress (GPC), led by Saleh, and Islah, a coalition of Islamists, tribal leaders and conservative businessmen who were largely aligned with the president. The much smaller Yemeni Socialist Party (YSP), the ruling party in the PDRY before unification, represented the south.

Over the course of the 1990s, the commercial extraction of oil and the parallel liberalization of the economy enabled Saleh to distort and manipulate party politics. Instead of empowering technocrats and equipping state institutions with the authority and resources to govern effectively, he opted for a quick-fix patronage system that allowed him to bypass the painstaking process of state-building. This framework of crony capitalism mirrored the wider regional pattern but it produced a unique effect in Yemen, where tribal systems were still strong (especially in the north) and nascent formal power structures

29 Thomas Carothers and Diane de Gramont, *Development Aid Confronts Politics: The Almost Revolution* (Carnegie Endowment for International Peace, 2013).

30 International Dialogue on Peacebuilding and Statebuilding, ‘A new deal for engagement in fragile states’ (2011), <http://www.newdeal4peace.org/wp-content/uploads/2013/01/new-deal-for-engagement-in-fragile-states-en.pdf>. Yemen is not a signatory to the new deal, but its major donors – including the United States, the United Kingdom, Germany and the Netherlands – are implementing its goals in other fragile states such as Afghanistan and Sierra Leone.

31 OECD, *Fragile States 2013*.

32 This report draws extensively on Ginny Hill’s account of Saleh’s presidency in *Yemen: The Road to Chaos* (London: I.B. Tauris, 2013).

33 Sarah Phillips, ‘Politics in a Vacuum: The Yemeni Opposition’s Dilemma’, in *Viewpoints: Discerning Yemen’s Political Future*, Middle East Institute, June 2009. See also Sarah Phillips, *Evaluating Political Reform in Yemen*, Carnegie Papers Middle East Series, Democracy and Rule of Law Program, No. 80, February 2007.

were especially weak. Politics became highly personalized, emphasizing the significance of power transmitted through informal networks.

In the absence of strong state institutions, elite politics in Saleh's Yemen constituted a *de facto* form of collaborative governance, where competing tribal, regional, religious and political interests agreed to hold themselves in check through tacit acceptance of the balance it produced. (As Chapter 3 shows, both licit and illicit profits accrued from access to this densely interwoven nexus.) At its zenith, this informal political settlement was held together by a power-sharing deal between three men: Saleh, who controlled the 'state'; General Ali Mohsin, who controlled the largest share of the army; and Sheikh Abdullah al-Ahmar, paramount sheikh of the powerful Hashid tribal confederation, figure-head of the Islah party and Saudi Arabia's chosen broker of transnational patronage payments to Yemen's tribes.

Although highly prone to disturbance, this idiosyncratic system of collaborative governance held together fairly coherently for 20 years. However, the underlying balance began to slip out of kilter during Saleh's third decade in power, when his efforts to reapportion military and economic benefits to the advantage of his eldest son, Ahmed Ali, violated the fundamental basis of the three-way elite power-sharing agreement. In 2002, Yemen's oil output peaked and from that point on – despite rising global oil prices – Saleh's patronage network became inherently unsustainable. As a result, competition within the regime began to intensify and factional interests increasingly began to distort domestic politics, just as significant centres of resistance to the regime – such as the Houthi rebels and the southern separatists – were emerging outside the elite (see below).

Elite divisions became increasingly apparent during the 2006 presidential election campaign, when Saleh stood against Faisal Bin Shamlan, a credible candidate fielded by the opposition coalition, the Joint Meeting Parties (JMP).³⁴ (Ahmed Ali, who was still in his early thirties, was barred

from standing under the 40-year minimum age stipulated in the constitution.) Despite Sheikh Abdullah's personal endorsement of Saleh, his son, Hamid al-Ahmar – a wealthy thirty-something tycoon with his eyes on a future presidency – campaigned in support of the opposition candidate. Saleh secured a third term in office but in the years that followed, Hamid began to play an increasingly independent and assertive role, in particular by bankrolling Islah. Following Sheikh Abdullah's death from cancer in 2007, Hamid called for Saleh to resign and began reaching out to potential domestic and foreign allies.³⁵

The 2006 election campaign provoked a national debate about corruption and raised expectations of reform without successfully pressuring Saleh to deliver. This contributed to a gradual loss of faith in the electoral process. In 2009, a bipartisan deal between the ruling party and the opposition coalition led to parliamentary elections being delayed for two years. At the same time, Hamid sponsored a grassroots consultation exercise to draw up a national 'salvation plan' for Yemen,³⁶ while a number of civil society activists began to pursue a more aggressive stance, staging regular sit-ins in front of the parliament building. (The activists included Tawwakul Karman, who went on to play a prominent role in the early stages of Yemen's 'Arab Spring' uprising, and to share the 2011 Nobel Peace Prize.)

The 2011 uprising

In January 2011, Yemenis under the age of 30 formed nearly three-quarters of the population. It was mostly university students and graduates who took part in the initial protests in Sana'a and Taiz, prompted by Ben Ali's departure from power in Tunisia. By the end of February, encouraged by Mubarak's downfall in Egypt, thousands of women and men were gathering in cities across the country to demand a 'peaceful end to the current regime and all its symbols'.³⁷ They saw the uprising as a chance to create a 'modern, civil state', replacing a corrupt elite that was barely delivering anything in the way of public goods

³⁴ The JMP's most notable member parties are Islah and the Yemeni Socialist Party.

³⁵ Wikileaks, 'Cable O9SANAA1617, Yemen: Hamid al-Ahmar Sees Saleh as Weak and Isolated, Plans Next Steps', <http://wikileaks.org/cable/2009/08/O9SANAA1617.html>.

³⁶ Preparatory Committee for National Dialogue, 'Yemen's Vision for National Salvation', 20 March 2010, <http://yemenivision.wordpress.com/>.

³⁷ Al-Shargabi, Hamza, 'What do they "the protestors want", mr ambassador?', YouTube video, uploaded 31 March 2011, <http://www.youtube.com/watch?v=yEfCz43Irc>. See also Laura Kasinof and J. David Goodman, 'Yemeni Youth Square Off With Forces', *New York Times*, 13 February 2011.

or services.³⁸ They called for the immediate dismissal of Saleh and his allies from government and the military.

In a televised speech on 1 February, Saleh promised to freeze a proposed constitutional amendment that would allow him to stand for re-election in the presidential election scheduled for 2013; gave his word that Ahmed Ali would not inherit the job of president in the future; and offered to form a national unity government.³⁹ Later that month, Saleh announced several waves of bread-and-butter measures, including public-sector salary rises and new jobs for graduates. However, he was not the only member of Yemen's elite reaching out to shore up his support base; Hamid al-Ahmar and his brothers were distributing cash gifts and cars to their tribal allies.⁴⁰

In March, in an effort to stem growing discontent, Saleh offered to rewrite the constitution to give parliament more power, devolve power to the regions and hold a referendum on the new system before stepping aside in 2013 at the time of the scheduled presidential elections. These changes were among the reforms that Saleh's opponents had long been calling for, but none now trusted him to deliver. Under this model, the president's power would be dramatically curtailed and the head of government would need to build an inclusive coalition, balancing a range of conflicting interests within a revitalized parliamentary framework.

The established opposition – the JMP coalition, dominated by the Islah party – was initially divided into those who calculated that their best interest lay in holding out for a higher price and those who were implicitly tied to the regime by common advantage and mutual business interests. However, by the end of February, the established opposition formally declared its support for the street protests, in response to the sheer numbers involved, as well as to the sense of momentum behind the regional uprisings. Those who were tied to the regime had come

to view Saleh as beyond saving, and to calculate it was best for him to step down rather than endanger the entire system. Islah supporters increased their influence inside the protest camp, while the party's leadership began to control who was allowed to speak on the main stage of the encampment. Hamid was assumed to be underwriting the cost of running the camp by paying for food and supplying tents and generators.

Meanwhile, the political geometry within the power elite was rapidly shifting, as intra-elite rivalries over political power and control of the political economy became increasingly open (see Chapter 3 for a full analysis of the political economy of the uprising). On 18 March, plain-clothes snipers killed more than 50 protestors at Change Square in Sana'a, giving Saleh's regime rivals a pretext to defect. Three days later, General Ali Mohsin declared his support for the youth revolution and positioned his troops around the perimeter of the protest camp. This open split in the regime increased the speed of desertions from the ruling party, government ministries and the foreign service.

Crucially, the schism also convinced US officials – who viewed AQAP as the 'most dangerous of all the franchises of Al-Qaeda'⁴¹ – that Saleh's hold on office was becoming untenable. They sought a controlled transition that would enable their counter-terrorism operations to continue (see Chapter 4). Initial discussions between diplomats and the parties to the conflict focused on persuading Saleh to hand power to a provisional government led by the vice president until new elections could be held. These discussions evolved into a proposal brokered by the Gulf Cooperation Council (GCC), which put pressure on Saleh to stand down in return for a guarantee of immunity from prosecution. In effect, the GCC initiative kept power in the hands of established political actors rather than letting it flow to the emerging grassroots movement.⁴²

38 Wasim Alqershi, 'The youth will win in Yemen', *The Guardian*, 12 May 2011. See also Saleem Haddad and Joshua Rogers, *Public Protest and Visions for Change*, Saferworld, November 2011.

39 The proposal had been circulated for discussion in early January, and was sure to be endorsed by parliament, where the GPC held a super-majority.

40 Gregory Johnsen, 'The Tribal Element of the protests: A Battle Between the Two Bayt al-Ahmars (Updated)', *The Big Think*, 17 February 2010.

41 'CIA chief: Yemen Qaeda affiliate most dangerous', Reuters, 13 September 2011, <http://www.reuters.com/article/2011/09/13/us-usa-security-qaeda-idUSTRE78C3G720110913>.

42 Ginny Hill and Gerd Nonneman, *Yemen, Saudi Arabia and the Gulf States: Elite Politics, Street Protests and Regional Diplomacy*, Chatham House Briefing Paper, May 2011, <http://www.chathamhouse.org/publications/papers/view/132823>.

Negotiations over Saleh's departure carried on throughout the summer, stalling in May and early June when the 'Hasaba war' between Saleh loyalists and tribal militias allied to the al-Ahmar brothers broke out in the Hasaba district of Sana'a, leading to widespread destruction of homes, businesses and even government ministry buildings. Fighting stopped following a failed assassination attempt against Saleh in June, but flared once again when Ali Mohsin formally entered the fray in September, with his troops fighting Republican Guards loyal to Ahmed Ali.⁴³ Fighting continued into the autumn, and proxy battles flared outside the capital throughout the year.

Paradoxically, while internal divisions weakened the regime, they also enabled it to survive as a system because fear of full-blown civil war between rival military factions encouraged the international community to adopt a gradualist strategy that focused first and foremost on persuading Saleh to relinquish power. In mid-October, the UN Security Council passed Resolution 2014 demanding the president's compliance with the GCC deal and called for a progress report within 30 days. On 23 November, Saleh – cornered by the prospect of UN Security Council sanctions and a travel ban, and advised by his generals that there could be no outright military victory against Ali Mohsin – finally bowed to international pressure and agreed to stand down.

In accordance with the GGC deal and its implementing mechanism (see Appendix), Vice President Abd Rabbu Mansour Hadi stepped up as interim president. In December, he formed a temporary unity government and in January 2012 he steered Saleh's immunity agreement through parliament. In February, Hadi stood as a consensus candidate in a one-man ballot that rubber-stamped his elevation to power as a two-year caretaker president. Although initially highly dependent on the support of the international community to enforce his decrees, within just over a year Hadi had succeeded in removing Saleh's relatives and close allies from their command positions in the military, and disbanding both

Ali Mohsin's First Armoured Division and Ahmed Ali's Republican Guard (see Chapter 3). But this has so far been more a rotation of elites than a case of systemic reform.

Symptoms of the legitimacy deficit

In the closing years of Saleh's presidency, the preoccupation of regime players with their own internal balance of power reinforced the perception that parliamentary politics was conducted primarily to serve the interests of the elite – principally, the northern elite from the powerful Hashid tribal confederation. This perception underpinned a fundamental crisis of legitimacy in the parliamentary system. The shift to violence by the Houthi rebels, the loss of faith in formal politics on the part of southern secessionists and the continuing ability of Al-Qaeda to recruit in Yemen expressed their alienation from formal state institutions.

The Houthis and the southern separatists emerged as identity-based groups with alternative visions for the legitimacy and ideal form of the state. Both groups can trace their origins to 20th-century milestones on the road towards the future creation of the Arab republic of Yemen: the 1962–67 revolution that deposed the ruling Imam in Sana'a, in the case of the Houthis; and the 1967 British withdrawal from Aden at the end of the colonial era, on the part of the southerners. To a large extent, their grievances against Saleh were fed by exclusion from his patronage system, as resources diminished and inequalities widened. AQAP also promoted itself as a movement for social justice, opposed to the concentration of power and wealth in the hands of a tiny US-backed elite. The *de facto* fragmentation of territorial power outside Sana'a during the final years of Saleh's rule escalated during the 2011 uprising. The events of that year also catalysed the growth of a diverse youth movement, empowering a new generation of Yemenis to challenge the established structures and practices of power and politics.

43 Nasser Arrabye, 'War as a Bargaining Chip', *Al-Ahram*, 22–28 September 2011, <http://weekly.ahram.org.eg/2011/1065/re7.htm>.

The Houthi rebels

The Houthis are a charismatic Zaydi Shi'a family, based in Sa'dah governorate, who fought an erratic six-year revolt against Saleh, starting in 2004. They and their supporters criticized Saleh for corruption, condemned his military alliance with the United States, objected to his support for the spread of Saudi-funded Sunni-Salafi madrasas in the Sa'dah region, and protested about the lack of economic development in their area. Saleh exploited this complex, cyclical conflict for his own political purposes. It gradually morphed into a proxy war between competing elite factions – specifically, pitting Ahmed Ali's Republican Guard against Ali Mohsin's First Armoured Division, while the Al-Ahmar family was also involved in recruiting tribal mercenaries, allegedly with money from Saudi Arabia. In 2009, the war escalated further when Saudi Arabia deployed troops to the Yemeni–Saudi border, before a ceasefire was negotiated as a result of international pressure in 2010 (see Chapter 4).

During 2011, when regime troops withdrew from Sa'dah to Sana'a in order to protect factional interests, the Houthis were able to consolidate their control over territory in four governorates (Sa'dah, Hajjah, Amran and Al-Jawf) – a process that sparked retaliatory clashes with Islah-aligned tribes, as well as members of a Salafi religious community in Dammaj, causing some observers to warn that sectarianism has the potential to grow in Yemen.⁴⁴ During 2012, Houthi support spread to Sana'a, Taiz and Dhamar. Their political appeal began to spread among independent youth activists owing to their vociferous criticism of foreign interference in Yemeni politics, as well as their robust opposition to Islah. Although at the time of writing the Houthis had not announced a formal position on a future state structure, interviews with members of the movement suggest that they will seek maximum regional autonomy, and substantial local administrative powers under the control of a reformed and legitimate state. They will also demand to be statutorily included in any future government.⁴⁵

The southern separatists

The Southern Movement (al-Hirak al-Janoubi, also known as the Hirak) is a multipolar grassroots movement built around perceptions of southern marginalization. The grievances of its members include land seizures, the exclusion of southerners from northern patronage networks, corruption and economic mismanagement following the north's rout of the south in the 1994 civil war in the wake of unification. Political violence by the security services against the Hirak started in 2007, after retired officers from the disbanded southern army began to demand higher pension payments or reinstatement to army service, and escalated during 2009 with a series of demonstrations and labour strikes. The governorates of Aden, Abyan, Dhala and Lahj constituted the four main centres of resistance.

By 2010, even as the southern question gathered momentum, the Hirak lacked coherent leadership and its supporters remained divided over the issue of future secession. In the absence of effective indigenous leadership, three exiled southern politicians – Ali Nasser Mohammed, Haider al-Attas and Ali Salem al-Bidh – promoted themselves from abroad as leaders in waiting; they were courted by Hamid, who was trying to build a political alliance that would enable him to mount a future challenge to Saleh. The decision to replace Saleh with Hadi, who is from the south, in 2011 amounted to recognition on the part of the northern elite that the south required an immediate, symbolic political concession. During 2012, Ali Nasser Mohammed showed he was willing to compromise on questions regarding the future structure of the state but Al-Bidh – based in Beirut, and allegedly receiving Iranian funding – remained intransigent in his demands for secession. Meanwhile, observers reported that popular support for secession to continue to grow throughout 2012 and 2013.⁴⁶

Al-Qaeda in the Arabian Peninsula

Al-Qaeda has enjoyed symbolic and logistical ties to Yemen since the organization's inception at the end of the Cold War – initially, with Saleh's implicit consent. In the aftermath of 9/11, Saleh positioned himself as a US

44 Khaled Fattah, 'Yemen's Sectarian Spring', *Sada*, Carnegie Endowment for International Peace, 11 May 2012, <http://carnegieendowment.org/2012/05/11/yemen-s-sectarian-spring/attg>.

45 Author interviews, Sana'a, January 2013.

46 Peter Salisbury, 'Yemen's Southern Intifada', *Foreign Policy*, 13 March 2013, http://mideast.foreignpolicy.com/posts/2013/03/13/yemen_s_southern_intifada.

ally in the war on terror, and drew on American military aid and training to bolster his family's interests, creating a complex and ambiguous relationship in which he and his family benefited financially and militarily from being seen to combat the group. AQAP was formed in 2009 after a merger between groups in Yemen and Saudi Arabia. It recruits sympathizers to its hardline jihadi militant views, partly by tapping into grievances that are shared much more widely, such as public perceptions of elite corruption, militarism and the excessive concentration of power. As part of its narrative that regional regimes are Western puppets, AQAP contends that Saleh was – and Hadi is – simultaneously sustained and discredited by their opportunist military alliances with Riyadh and Washington.

During 2011, when Saleh's family faction withdrew its troops, including the US-trained counter-terrorism unit, to Sana'a to protect its regime, Islamist insurgents began to gain rapid ground in the southern governorate of Abyan (Hadi's home province).⁴⁷ An Al-Qaeda 'offshoot' known as Ansar al-Sharia took the town of Ja'ar, renaming it the Emirate of Waqar.⁴⁸ Ansar al-Sharia held this town and four others in Abyan and neighbouring Shabwa for more than a year.⁴⁹ In the spring of 2012, Hadi prosecuted the battle against AQAP and Ansar al-Sharia with renewed vigour, negotiating like-for-like deployments with both Ahmed Ali and Ali Mohsin, as well as conventional units under the remit of the Ministry of Defence. The Yemeni military fought in Abyan alongside new grassroots militias known as 'popular resistance committees', which were organized initially by Hadi allies including Mohammed Ali Ahmed, a former governor of Abyan.

Civil society, youth and new political parties

Like its counterparts elsewhere in the region, the youth-led protest movement that precipitated the events of 2011 was a broad coalition united in opposition to the existing regime, but beyond that comprised individuals with very different

political and ideological views. The early protest movement was made up of members of existing civil society groups and the youth wings of the YSP and Islah (which acted independently of their party leaderships). Most had been through a slow process of political awakening over the previous decade, starting with the first Houthi war (which drew protest over issues including media freedom, displacement and the treatment of prisoners of war) and the 2006 presidential election campaign (the first time the established opposition parties mobilized their youth networks).⁵⁰

As growing numbers of Yemenis joined the protests – along with the Houthis, tribal and military leaders – established groups worked collectively to form councils to formalize their demands. But complaints soon arose that the uprising was being taken over by these groups, particularly Islah and the Houthis, who came to dominate day-to-day life in the Change Square protest encampment in Sana'a. The movement fragmented. Protestors returned to their earlier patrons or joined newly formed parties, including the Houthis' Ansar Allah. Others remained independent, arguing that the demands articulated in 2011 were 'apolitical' and nonpartisan.

Seeing Yemen's 'youth', 'women' and 'civil society' as a unified alternative or third force presents a misleading picture – one that established political forces have often manipulated, complaining that 'the youth' have failed to organize themselves or properly express their needs. Rather, they are a complex and broad coalition of voices, which is symbolic of the level of frustration with the Saleh regime among many different interest groups.

A new basis for legitimacy?

The primary concern for diplomats brokering the GCC deal over the course of 2011 was to halt the slide towards

⁴⁷ Abyan had been the site of clashes between regime forces and local power-brokers in the towns of Ja'ar since 2008 and Zinjibar since 2009 – both were home to veteran *mujahideen* (including Ali Mohsin's brother in law, Tariq al-Fadhli) who had fought the Soviet Union in Afghanistan in the 1980s, with support from North Yemen's security apparatus and political elite. After returning to Yemen, they were recruited by Saleh and Ali Mohsin to help defeat Al-Bidh in 1994; thereafter, many continued to receive regime stipends. During the late 2000s, these localized clashes in Ja'ar and Zinjibar signalled the unravelling of Saleh's patronage network and escalated with the surge in southern separatism.

⁴⁸ 'Beheadings, mutilation, scalping: the savage legacy of al-Qaeda in retreat in Yemen', *The Times*, 23 May 2012.

⁴⁹ 'Little sympathy for crucified "spy" after Islamists flee town', *The Times*, 20 June 2012.

⁵⁰ Author interviews, Sana'a, January, February 2013.

civil war, and to build a framework to limit the potential for future conflict in Yemen. The National Dialogue Conference, which lay at the heart of the GCC plan (see Appendix), was designed to sustain this uneasy peace by encouraging the different factions involved in the political crisis of 2011 to resolve their differences collectively and peacefully, while providing political access to activists traditionally on the margins of formal politics and key non-state actors, primarily the Houthis and the Hirak. Recommendations made by working groups at the conference will provide the basis for a new constitution, to be prepared by a committee appointed at the end of the conference, although the extent to which the recommendations will be binding remains unclear.

From the perspective of the elite factions involved in the violence of 2011, the deal offered a way out of an increasingly complicated standoff without losing face or relative factional power. It also gave each group a timeframe in which to renegotiate and re-establish its position, under the protection of an internationally mandated ceasefire agreement.

However, many of the youth activists who took to the streets in 2011 viewed the GCC plan as an elite deal that betrayed their demands for an entirely new system and left most of the established players in place.⁵¹ Activists argued that regional and international actors had deferred root-and-branch political change, and criticized the transition process as insufficiently transparent. A key grievance was the clause in the deal calling for an immunity law, which established a broad amnesty for regime officials⁵² (see Appendix).

As the preparations for the National Dialogue took place, the Houthis and the Hirak accelerated the fragmentation of territorial power, increasing their provision of security and services in areas outside the capital, while low-level fighting with militants and tribesmen affiliated to AQAP/Ansar al-Sharia continued. Each of these groups initially condemned the GCC deal, with the Houthis employing similar rhetoric to dissident activists while the

Hirak complained that the deal was aimed at addressing 'northern' grievances and that it privileged elite groups willing to use violence to achieve their aims.

Along with the GCC deal's international brokers, the technical committee that prepared the details of the talks pushed Hadi to issue a decree calling for a series of confidence-building 'quick fixes' to bring the Hirak and the Houthis to the negotiating table. In September 2012, the president approved a '20-Point Plan', which was largely focused on addressing southern grievances and included calls for former southern civil servants and military officers to be reinstated to their positions.⁵³

The most optimistic reading of the Dialogue is that it offers a historic opportunity to renegotiate the balance of power in Yemen by replacing the informal elite power-sharing agreement that held together Saleh's regime with a more inclusive collective bargain. The Dialogue has provided activists, women's groups and new political parties with a framework for political participation, reconnecting the transition process with grassroots politics, and offers a chance for an open discussion of many of the substantive issues raised by the protest movements of 2011. The issues addressed by the conference's working groups include development, economic and human rights, and the structure of the future state, giving previously marginalized actors an unprecedented opportunity to influence lawmaking and constitution-making in Yemen.⁵⁴

One of the most important decisions to be made will be on the future structure of the state. Given the proliferation of groups with 'grounded legitimacy' at a local level, and the antipathy of the Houthis and the Hirak to the centralized model of government of the Saleh era, a consensus has arisen that a decentralized or federal system is the most likely to produce a stable system of governance, with Hadi, the GPC and most minority groups at the Dialogue endorsing such an approach (Islah remained a notable exception at the time of writing, maintaining an ambivalent position on federalism).

51 One of the best resources on critical responses to the deal is the Facebook page 'No to the GCC Deal'.

52 'Yemen: Saleh Gets Away With Murder... He Gets Immunity', *Global Voices*, 10 January 2012, <http://globalvoicesonline.org/2012/01/10/yemen-saleh-gets-away-with-murder-he-gets-immunity/>.

53 'Hadi approves 20 points recommended by Technical Committee', *Yemen Fox*, 12 September 2012, http://yemenfox.net/news_details.php?sid=4016.

54 For a full list of the Dialogue's working groups and official information concerning the Dialogue, see <http://www.ndc.ye/>.

However, the Dialogue's aims bring it into conflict with the established network of patronage, vested interests and power established by the Saleh regime (see Chapter 3). From early on in the conference, complaints were voiced that elite groups – the GPC in particular – were represented beyond the limits imposed under the Dialogue's rules.⁵⁵

As the talks began, a parallel process of competition and renegotiation was already under way between elite and other actors. The GPC and Islah had moved to increase their control over key state institutions, military units and regional government postings from late 2011 onwards, while violence targeting military officers and key state infrastructure was widely associated with elite rivalries. Regular attacks on electricity and oil transport infrastructure in Mareb province – which provides much of the country's energy and electricity – were reported to be part of a destabilization campaign orchestrated by leading members of the Saleh regime.⁵⁶ Clashes between the ostensibly Hadi-controlled security services and Hiraki activists in the south, Ansar al-Sharia's battles with the popular committees backed by the military, and the Houthis' clashes with Islah-aligned tribes and Sunni-Salafis, added further complexity to the negotiations. So did a growing war of words between the factions of the Hiraq that agreed to attend the conference and those that did not.⁵⁷

After an initial surge in confidence in the transition process in late 2012 and early 2013, caused by Hadi's success in displacing a number of prominent Saleh-era figures from the security services, many Yemenis have come to see the transition as a superficial process, designed to act as a pressure valve to prevent further unrest rather

than a genuine attempt at meaningful change. Pessimism over the usefulness of the GCC deal was amplified by the government's inability to provide basic services such as electricity and water on a consistent basis, even in Sana'a, and by the slow pace of progress on the 20-Point Plan.⁵⁸ The economic situation – which has scarcely improved since 2012 – remains a priority for most Yemenis.⁵⁹

In July 2013, it became clear how difficult it would be to produce substantive results by the end of the conference's mandated timeline. While six of the nine committees produced recommendations for discussion during its second plenary session, the three most important groups – on Sa'dah, the state and the southern issue – failed to reach consensus on any recommendations.⁶⁰ In mid-August, the delegation representing the Hiraq walked out of the conference, complaining that not enough had been done over the course of the transition to address southern grievances.⁶¹ With the working groups scheduled to finalize their recommendations by 18 September 2013, it looks increasingly likely that the referendum on the draft constitution, and elections due to be held in February 2014, will have to be delayed.⁶²

While presenting the plan and the Dialogue as the only and best choice for Yemen, the transition plan's international brokers know that by its nature the process can only lead to a compromise solution. At its most successful, it will leave most of the key groups involved in the talks dissatisfied with the final outcome. At its least successful, it will precipitate renewed unrest, which would occur in a landscape significantly changed from early 2011, with the Houthis and the Hiraq better organized and logistically strengthened, and a third elite force – Hadi's – either involved in, or attempting to mitigate the conflict.

55 RASD Coalition for Monitoring the National Dialogue, 'First Plenary Session Monitoring Report for the Period March 18–April 3, 2013', p.19.

56 In April 2013, oil minister Saleh Sumai accused Saleh of orchestrating the Mareb attacks. See 'Yemen pipeline attacked, oil flow halts: officials', AFP, 30 April 2013, <http://www.google.com/hostednews/afp/article/ALeqM5jQgLw1D758UUL7vDFkcvYDlwQJIA?docId=CNG.ef9d1b542a61fab25ea469929dbfaa0c.461>.

57 Factions that did not agree to participate include those following hardline secessionists such as Hassan Baoum and the exiled Ali Salem al-Bidh.

58 Adam Baron, 'Better than expected, but still not enough: can Hadi hold Yemen together?', *Christian Science Monitor*, 1 March 2013.

59 'Voice of Yemen's hungry poor struggles to be heard in peace dialogue', *Financial Times*, 24 July 2013, <http://www.ft.com/cms/s/0/ff0e7a84-f45b-11e2-8459-00144feabdc0.html#axzz2aM3xsT00>.

60 Farea al-Muslimi, 'Deadlocked Yemen', Sada – Analysis on Arab Reform, Carnegie Endowment for International Peace, 20 June 2013; internal NDC reports seen by authors, July 2013.

61 On 21 August the Yemeni government issued a public apology to southerners and Houthis for the conflicts of the Saleh era, including the 1994 civil war and the Houthi wars. The Hiraq delegation finally returned to the conference in mid-September.

62 Author interviews, July 2013.

Building a new political settlement

The widespread disillusionment with the political process in Yemen has been manifested in the country's multiple insurgencies and protest movements during the last decade. The new opposition groups that have emerged share the perception of older critics that parliamentary politics is conducted primarily to serve the interests of a small northern elite (as noted above), a perception reinforced by increasing conspicuous consumption among the wealthy few as well as key political players' preoccupation with their own internal balance of power.

The negotiation of the GCC deal in 2011, with its offer of an internationally supervised National Dialogue, provides a historic opportunity for groups marginalized under Saleh to press for new terms of inclusion. However,

building sustainable, 'legitimate' political settlements is long-term work. Even if parliamentary and presidential elections are held on schedule in 2014, the deep changes needed to Yemen's formal and informal power structures can only take place in a much longer timeframe.

These same structures have hindered crucial reforms in the past, and if left unchecked will put into doubt the value of international efforts to support reform and economic development. Understanding the nature of the informal power structures and the complex network of vested interests that underpinned the Saleh regime – and continue to underlie the transitional government – will be vital for identifying obstacles and incentives to the long-term reform process, and the extent to which changes to Yemen's formal political structures will affect this process.

3. The Political Economy

In order to work more effectively in Yemen, diplomats, donors and defence agencies alike need to factor political economy analysis into their policy frameworks, and particularly in their studies of incomplete reforms and of future risks to stability. They also need to examine their own place in the political economy. Access to the rising levels of Western military support on offer after 9/11 helped Saleh's relatives to cement their own position in the army, for example, exacerbating existing resentment over the increasingly central role of the then president's family in the political economy, which ultimately contributed to splits within both the military and the ruling party.

Political economy analysis (PEA) illustrates links between formal and informal power networks, and explains enmeshed relationships between business and politics. It analyses

the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time.⁶³

Analysis of this kind looks at the relative strengths and weaknesses of formal state institutions and informal, interpersonal networks.⁶⁴ PEA attempts to grapple with the

complex, dynamic natures of these networks by accurate and extensive mapping of ties between hundreds of individuals and multiple overlapping connections that are in a constant state of flux. In performing this kind of dynamic analysis, it helps to highlight the influence of powerful individuals who may have little or no formal political position but have significant influence thanks to informal relationships that can include marriage and kinship ties. It allows policy-makers to track evolutionary trends in state-building, the development of the economy and elite power relations, and to apply the lessons learned when making policy decisions.

Donors, particularly the UK's Department for International Development (DFID) and the World Bank, have come to recognize the need for better understanding of the political incentives required to achieve development goals in fragile and conflict-affected states, and the limits of relying on purely technical approaches to development – and in identifying areas where donors are likely to make no headway at all. Yet although donors are increasingly willing to fund PEA studies to support programme planning, they struggle to incorporate their findings into final policy design and country strategies, often because of the difficulty for organizations with a technocratic mandate to acknowledge the inherently political nature of their work, despite the fact that they themselves often form an 'integral part of the political-economic environment'.⁶⁵

The Saleh-era political economy

When Saleh assumed the presidency in 1978, the Yemen Arab Republic (North Yemen) was a geographically and socially diverse territory nominally ruled by a central state based in Sana'a. The economy was reliant on agriculture, imports, local industries and remittances from abroad that bypassed formal, centralized networks of finance. Power and legitimacy were conferred on the central state by a diverse network of tribal groups ruling at a local level. The

63 Sarah Collinson, *Power, Livelihoods and Conflict: Case Studies in Political Economy Analysis For Humanitarian Action*, Overseas Development Institute, February 2003, <http://www.odi.org.uk/publications/241-power-livelihoods-conflict-political-economy-humanitarian-action>.

64 Alex de Waal, 'The price of peace', *Prospect*, Issue 165, November 2009, <http://www.prospectmagazine.co.uk/magazine/the-price-of-peace/>. 'The ruler might speak the language of the rule of law. But the real game is buying loyalty. A well-managed, inclusive patronage system is often the only way of running such countries.'

65 Cristina Corduneanu-Huci, Alexander Hamilton and Issei Masses Ferrer, *Understanding Policy Change: How to Apply Political Economy Concepts in Practice*, World Bank, 2012, p. 44.

state acted as a mediator in local disputes rather than as a central authority that imposed a set rule of law uniformly across the country.

Over the course of three decades, the Saleh regime worked to centralize the distribution of power and wealth. Rather than building up the formal institutions of the nascent state, Saleh co-opted local leaders and powerful rivals into a patronage network based on oil rents and access to licit and illicit business opportunities, gradually divorcing these figures from increasingly marginalized local constituencies and using divide-and-rule tactics to ensure that the power of the central leadership could not be challenged.

Family power

Marriage and blood relations underpinned the early power structures of Saleh’s regime, with his tribe, the Sanhan, coming to dominate the armed forces (see Figure 1).⁶⁶ The regime’s access to hard and soft power was amplified by a tacit power-sharing agreement with the Hashid, Yemen’s most important tribal confederation, of which the Sanhan are a part, and which was headed at the time by Sheikh Abdullah al-Ahmar (see Chapter 2).

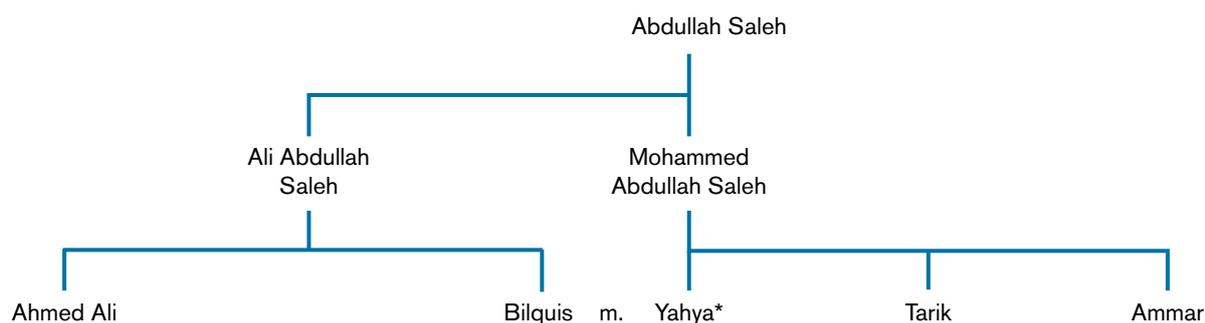
Saleh and Sheikh Abdullah both married their relatives into prominent members of the Hashid confederation

while the Salehs too built up their ties with other important tribal and religious families. Sheikh Abdullah’s sons and daughters also married into the Bakeel tribal confederation, which, before Saleh, had been an important part of the make-up of the military, and into business families from North Yemen’s commercial hubs, Taiz, Ibb and Hodeidah.⁶⁷

These marriage ties highlighted the main sources of power in the Saleh-era political economy:

- **the military**, dominated by Saleh’s Sanhan allies, most notably his kinsman Ali Mohsin al-Ahmar, and later his son Ahmed Ali, and through which a large chunk of illicit economic activity and patronage flowed;
- **the tribes**, with whom both Saleh and Sheikh Abdullah acted as key interlocutors on behalf of the regime;
- **the ‘state’**, made up of government ministries and institutions, nominally overseen by ministers and technocrats, but ultimately directed by the president along with members of the ruling GPC and Islah, the Islamist political party founded by Sheikh Abdullah and others in 1990; and
- **the economy**, which over the course of the regime’s lifetime became increasingly dependent on imports and services, driven by the money generated by oil production and exports.

Figure 1: The Saleh family tree



*Bilquis and Yahya subsequently divorced.

66 Saleh’s father, Abdullah Saleh, was from the Afash clan in Bilad al-Rous, an area just north of Sana’a. After his father died, Saleh’s mother married Saleh al-Ahmar, also of Sanhan (and not related to Sheikh Abdullah). Saleh al-Ahmar was related in turn to Ali Mohsin al-Ahmar, who would become the military enforcer-in-chief for much of the regime’s time in power.

67 Author interviews, Sana’a, 2011–12.

From aid dependence to oil exporter

The centralization of Yemen's informal networks of power over the first two decades of Saleh's rule of the YAR was influenced by several important changes in the economy. Most important were the collapse of remittance inflows following the oil glut of the mid-1980s, which severely hurt the economy of neighbouring Saudi Arabia, and a shift from dependence on external aid to reliance on exporting oil and gas.

During the early 1970s, a number of rural communities in North Yemen set up Local Development Councils, which relied on remittances from Yemenis working in the neighbouring Gulf states – up to one million during the 1980s – to provide basic services. However the collapse of oil prices in 1986 saw tens of thousands of Yemenis laid off and the corresponding reduction in remittances assisted the regime's attempts to incorporate these councils into the newly formed ruling party, the GPC. Sana'a also implemented a series of taxes on the private sector in the mid-1980s and introduced import licences for the first time, with the aim of bringing to heel the country's merchant class, which was concentrated around the western cities of Taiz and Hodeidah and had previously operated largely autonomously.

The end of the Cold War and the collapse of the Soviet Union cut off vital sources of funding to both North and South Yemen, leading the two countries' leaders to believe that their interests would be better served by unification. Within a year of unification in 1990, Saleh inadvertently caused a repeat of the remittance shocks of the mid-1980s by refusing to condemn Saddam Hussein's invasion of Kuwait. Around one million Yemeni workers were repatriated from the Gulf, and Sana'a lost hundreds of millions of dollars in budget support from its neighbours.

The 1994 civil war, during which southern leaders attempted to reverse the unification deal, hit the country's oil production (a major source of foreign currency and government revenues by this time) and further weakened

Sana'a's financial position. But the north's victory handed further economic power to the Saleh regime, which took over southern assets nationalized by the socialist PDRY during the 1970s and 1980s. Land, factories and control over the oil industry were divided among the tribal-military elite centred on Sana'a, further concentrating economic power – and patronage resources – in their hands.

Rising oil output and prices on international markets during the second half of the 1990s sealed the shift from a decentralized, remittance and agriculture-led economy to an energy export-oriented model, with state income used to prop up elite networks of patronage. The migration of many tribal leaders to Sana'a meant that power and wealth increasingly flowed from the centre to the periphery – if they flowed at all. Between 2000 and 2005, for example, poverty levels dropped by more than five percentage points to 35 per cent. But the gains were largely limited to the cities. Urban poverty dropped from 32.2 per cent to 20.7 per cent in the five years to 2005, while poverty levels in the countryside remained largely static at over 40 per cent, and even increased by 10–15 per cent in some the most deprived areas of Yemen. The impact of the global financial crisis saw poverty levels increase from 2007 onwards, and by 2010, some 47.6 per cent of rural Yemenis were living below the breadline, compared with around 29.9 per cent of those living in cities. Of the total headline figure on poverty that year, 80 per cent of Yemen's poor people lived outside its cities.⁶⁸

The uneven benefits of liberalization

By the time of the 2011 uprising, ownership of the 'commanding heights' of Yemen's economy were concentrated in the hands of a tiny elite.⁶⁹ In early 2011, an estimated 10 families controlled more than 80 per cent of imports, manufacturing, processing, banking, the telecommunications and transport sectors⁷⁰ (a situation that remained unchanged at the time of writing).

68 UNDP, 'Country programme document for Yemen (2012–2015)', July 2013, http://www.undp.org/ye/reports/Yemen_CPD_final-2012-2015.pdf.

69 The term 'commanding heights' was first coined by Vladimir Lenin, who believed the state should control the main drivers of the economy, such as manufacturing, electricity production and transport. In the 1990s, Daniel Yergin and Joseph Stanislaw appropriated the phrase, using it to describe the most important parts of the national and global economies of the time. In the context of this report, the authors use the phrase to describe the most profit-generating parts of Yemen's economy – oil and gas, transport, trade, manufacturing, telecommunications, and so on. See: Joseph Stanislaw and Daniel Yergin, *The Commanding Heights: The Battle for the World Economy* (New York: Touchstone, 2002).

70 Chatham House Yemen analysis, 2012 and 2013.

This followed years of promises to liberalize the economy, which, to a large extent, either went unimplemented or were used to reinforce the power of political and tribal elites. In 1995, Sana'a entered into talks with the World Bank and the International Monetary Fund over a series of financial support programmes, with the two institutions making loans and grants conditional on a series of liberal economic reforms, including subsidy cuts, price and trade liberalization, and the privatization of state enterprises.⁷¹ Technocrats in Sana'a implemented some of these reforms during the last few years of the 1990s, including liberalization of the banking sector and cuts to subsidies on cement and food imports, but not fuel subsidies, a key source of corruption and patronage (see below). The new millennium witnessed the increasing integration of Yemen's small elite into the global economy, assisted by the rise in oil prices on international markets and a Western-backed push for foreign investment into the country to help diversify the economy away from oil dependence.

In theory, economic liberalization policies of the sort advocated by the IMF and World Bank are intended to create markets that offer a level playing field, increasing competition and thereby driving down prices and improving living standards as well as promoting economic growth. But the regime was able to ensure that the distribution of new economic opportunities remained largely under its own control, to be used to cement the political position of key leaders and their families, and to co-opt members of the opposition. Licit and illicit economic opportunities, including access to quotas of subsidized fuel and 'sweetheart deals' on state contracts for family members of politicians and tribal leaders, were used as an incentive to cooperate with the regime. The system also acted as a disincentive to challenging the status quo. Actors who refused to take part in this system of payoffs soon found themselves ostracized by the government and the informal regime networks that encompassed most aspects of public life.

Prominent political, military and tribal players benefited from the liberalization process by partnering with established and emerging trading families. With no military or tribal leverage, established businesses had little choice but to cooperate with members of Yemen's new capitalist elite, many of whom had long histories of trade in the black and grey markets, from alcohol smuggling to gun-running. Tribal and military crony capitalists invested in, and profited massively from, the import of commodities and also the latest machinery and information and communication technology from abroad, acting as local partners to foreign firms keen to invest in an emerging market, and setting up banks to allow them to transfer currency in and out of the country more efficiently.

Some of those who benefited the most were regime intimates, such as Shaher Abdulhaq, reputedly a long-standing Saleh business partner who is a shareholder in one of the country's biggest banks, its second largest mobile operator, several oilfields and a zinc mine. Others had more complex relationships with the regime. The country's biggest traditional merchant businesses, which generally have their roots in Taiz, had major interests in food imports, banking, construction, the oil sector and telecommunications. They were widely seen as being among Yemen's 'cleaner' companies. Yet they counted key Saleh allies as their business partners in most major projects, and invested in schemes masterminded by the regime.

Saleh family members were appointed to important posts in state-run enterprises. Prominent among them were his son-in law Abdulkhaleq Saleh al-Qadhi, chairman of the state-run carrier Yemenia, and his nephew Tawfiq Saleh Abdullah Saleh, chairman of National Matches and Tobacco, which produced the popular Karama brand of cigarettes. Another son-in-law, Khaled al-Arhabi, ran Yemen Space Company, an advertising firm with an effective monopoly over outdoor advertising.

⁷¹ International Monetary Fund, 'Yemen in the 1990s: From Unification to Economic Reform', Occasional Paper, 3 May 2002.

The military

The military is also an important route for the distribution of patronage and rents, with ‘ghost’ soldiers, weapon-, fuel- and people-smuggling all providing lucrative revenue sources for ranking officers and their business partners. Although the security services nominally fell under the purview of the ministries of defence and interior, top commanders who came from Saleh’s Sanhan clan acted largely autonomously, and the military was effectively free of civilian oversight, with corruption widespread. (The Transparency International Government Defence Anti-Corruption Index 2013 ranked Yemen among the most corrupt defence establishments in the world.)

By 2010, the army was made up of a series of factional alliances that more resembled a collection of feudal warlords than a modern, centrally managed military. Saleh was wary of creating a centralized military capable of mounting a coup (such as the one that effectively toppled Egypt’s Hosni Mubarak in 2011). But allowing the military to remain divided created a situation where his son Ahmed Ali and Ali Mohsin increasingly acted as rival centres of power, each with his own extensive patronage networks. These divisions, which were amplified by tensions over the distribution of political patronage and power, help explain the military split during 2011. This was in stark contrast to Egypt, where a more unified and institutionalized military remained more cohesive and better able to control the transition process.

Land ownership represented one of the principal sources of illicit revenue for military commanders, and it was alleged that General Ali Mohsin, Ahmed Ali Saleh and several other regional commanders were among the biggest land-owners in Yemen.⁷² By 2006, according to USAID, YECO – a parastatal military procurement outfit, run by active duty officers – held ‘large swaths of land and various parastatal enterprises, primarily from the old South Yemen.’⁷³ YECO works in a number of sectors including real estate, tourism (the company owns Sana’a’s ‘Tourism City’), construction, oil and gas, pharmaceuticals, transport and agriculture.

Land ownership and registration famously lack transparency and clarity in Yemen, and are rife with corruption. The military, either directly or through YECO, can claim land for military use, later distributing it to officers or selling it for private gain to developers. Saleh and Ali Mohsin both maintained extensive patronage networks inside YECO.

Oil and patronage

Economic competition during the Saleh era was most noticeable in the oil and gas industry – the main source of export revenue and government finance. Saleh made himself the ultimate arbiter in the sector, approving all major deals and production-sharing agreements with the international oil companies that had been awarded concessions in Yemen. A government monopoly, Yemen Petroleum Company, dominated the import and distribution of petroleum products, and delegated monopoly privileges to two major operators, Tawfiq Abdurraheem and Ahmed al-Iessi. Both men had close ties to Saleh and Ali Mohsin (who himself profited from an effective monopoly over the import of goods by oil firms through his firm Dhakwan Petroleum and Mineral Services).

Corrupt practices in the oil sector revolved around the allocation of service contracts (see Box 1) and import/export deals. Saleh also allocated state-subsidized fuel products on a quota basis to his relatives and political allies, who were free to charge a substantial mark-up to wholesale domestic buyers, or trade their allocated quota overseas at international market prices. The president also allowed selected businessmen to claim subsidies on non-existent fuel imports, on the basis of falsified import documents, a practice that was to prove hugely costly to the state. The military-run YECO was among the key beneficiaries of this system. Oil-related corruption was also endemic in the military, with officers benefiting directly from fuel allocated to their units and using military transport infrastructure to move it both within Yemen and to foreign markets.

⁷² Author interview, Sana’a, 2010.

⁷³ United States Agency for International Development, *Yemen Corruption Assessment*, 25 September 2006, <http://yemen.usembassy.gov/root/pdfs/reports/yemen-corruption-assessment.pdf>.

Box 1: Corruption case study: Schlumberger, Dhakwan, Zonic

In 2010, the *Wall Street Journal* announced that the US Department of Justice was investigating the oil services company Schlumberger for corruption related to its work in Yemen.^a The company had bid in 2002 to create a databank of all the information held on Yemen's oilfields by the state-run Petroleum Exploration and Production Authority (PEPA), and used a local agent, Zonic Investments, run by Tawfiq Saleh Abdullah Saleh, as its local agent.

Before the deal had been signed, an offshore subsidiary of Zonic was paid a signing bonus of \$500,000 and the company received further payments of about \$1.38 million between 2002 and 2007. During the same period, two senior PEPA officials, Ahmad Abdul Jaleel al-Shameeri and Abdul Hameed al-Miswari, rented out cars to the company at well above the market rate. Meanwhile, Dhakwan Petroleum and Mineral Services – owned by Ali Mohsin – became the company's agent for the export and import of equipment, receiving \$280,000 between 2004 and 2007 for making sure paperwork went through. (Oil and gas executives claim it is impossible to import equipment into Yemen without using Dhakwan as an agent.) According to the *Wall Street Journal*, when Schlumberger tried to end the arrangement, it became impossible for it to import equipment into Yemen.^b

In an October 2012 filing to the US Security and Exchange Commission, Schlumberger made no reference to the case, but reported that the Department of Justice had 'closed its enquiry' into another corruption case from 2007.

a Dionne Searcey and Margaret Coker, 'Oil-Field Giant in Bribery Probe', *Wall Street Journal*, 8 October 2010, <http://online.wsj.com/article/SB10001424052748704631504575532332768800728.html>.

b Ibid.

Inheritance and reform

Among the companies at the top of the 'commanding heights' of Yemen's economy is Al-Ahmar Group, a vast commercial conglomerate that represents some of the world's best-known multinationals. It is owned by Hamid al-Ahmar, Sheikh Abdullah's son. Hamid was part of a new generation of 'inheritors' that began to emerge from within the Hashid tribal confederation during the 1990s, and that later became the protagonists in the elite conflict of 2011 (see Chapter 2).

The 'inheritors' from President Saleh's Sanhan clan built their initial power bases inside the military (see Figure 1). When Mohammed Abdullah Saleh died in 2001, his son Yahya took control of the Central Security Forces (CSF). From 2001, Yahya and his brothers Tarik and Ammar – who controlled the Presidential Guard and the National Security Bureau (NSB), an intelligence agency – were bolstered by military aid, as their elite security and intelligence units received training and funding from Western governments,

especially the US, along with Ahmed Ali's Special Forces (see Chapter 4).⁷⁴ Access to Western resources became part of the new political economy of the military in the 'war on terror' era, affecting the balance of power within the elite by strengthening the position of Saleh's relatives in the military and their ability to act as a source of patronage.

This new generation also exploited the liberalization process by building up extensive commercial interests and started taking control of government institutions. In 2008, technocrats allied to Ahmed Ali established Shibam Holding Company as a state-backed real-estate developer, with support from the World Bank. The new body took control of a large amount of land previously held by YECO and other government institutions, and acted as both a joint venture partner to real-estate developers and an adviser to the government on regulation of the sector. It later took control of the General Investment Authority (GIA), another department that fulfilled a dual function of investor and regulatory adviser.

74 President Saleh's half-brother Ali Saleh was dismissed from the Republican Guard in 2003, to make way for Ahmed Ali to build up his own power base.

The emergence of the Sanhan inheritors aroused considerable suspicion among Yemen's historical elites. Sanhan grandees who were party to the 1970s pact that brought Saleh to power worried that the president was trying to empower his immediate family at the cost of the wider clan, while powerful Hashid sheikhs such as Hamid and Sadeq al-Ahmar saw the rise of Ahmed Ali as an attempt on Saleh's part to groom his son for the presidency. Even members of the GPC privately accused Ahmed Ali and his cousins of building a 'parallel state' through the Republican Guard, the NSB, Shibam and other initiatives attributed to government officials allied to him, many of which were backed by foreign institutions.⁷⁵

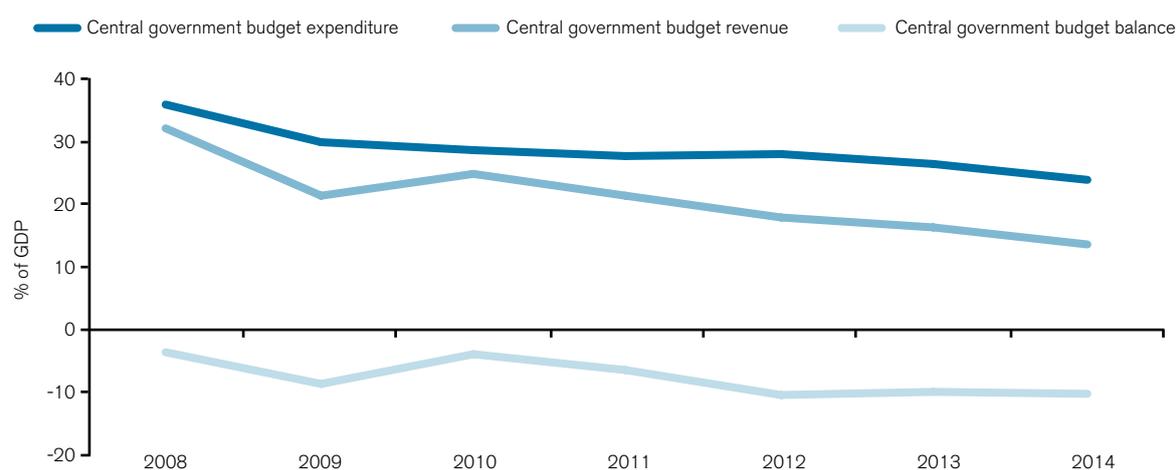
Economic unsustainability

As tensions became more visible between Yemen's main power-brokers it also became clear that Yemen's economy, and by extension its patronage system, were set on an unsustainable path. After oil output peaked in 2002 it entered into steady decline, but the government continued to rack up successive budget deficits (see Figure 2), increasing spending on the military, wages and fuel

subsidies (by now one of the most important sources of patronage). Oil revenues accounted for 80 per cent of government revenues during the first decade of the century, and for 80–90 per cent of exports, while in excess of \$2 billion – more than a fifth of government spending – went to subsidies in 2010.⁷⁶ Not only had government expenditure become almost totally reliant on oil, so too had foreign currency earnings (see Figure 3).

The economy's dependence on government spending led analysts to worry that a fall in export income would lead to a corresponding dip in wider economic output, squeezing the local businesses and banks that were the main source of finance for government debt. With oil revenues supported by rising prices on global markets rather than gains in production, the country had become highly vulnerable to shifts in commodity prices on global markets. In the first quarter of 2009, government revenues from the sale of crude oil fell by 75 per cent on the previous year as world oil prices plummeted in response to the global financial crisis, pushing the economy, and the patronage system, into temporary crisis.

Figure 2: Central government budget revenue, expenditure and balance, 2008–14

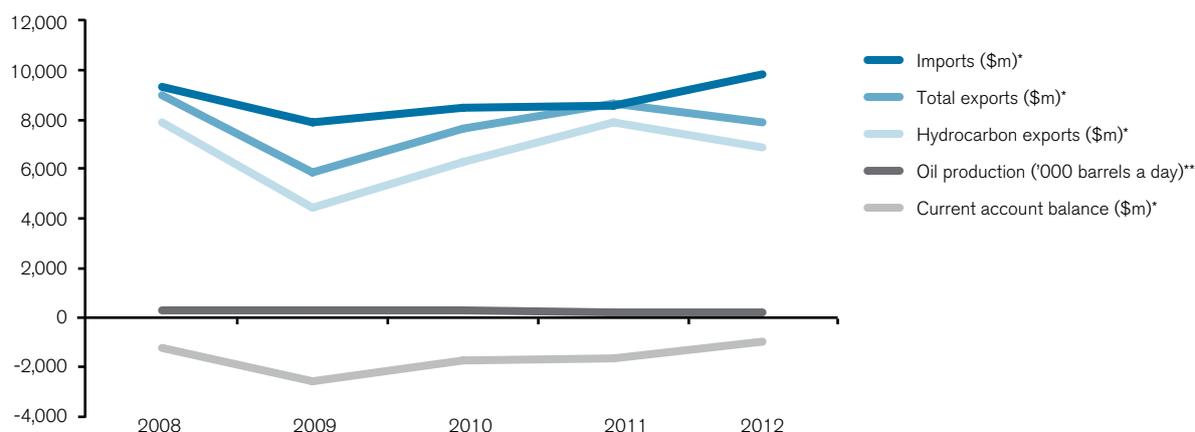


Source: Economist Intelligence Unit.

⁷⁵ Author interviews, Sana'a, 2012–13.

⁷⁶ Wilfried Engelke, *Joint social and economic assessment: Republic of Yemen*, World Bank, 1 July 2012, <http://documents.worldbank.org/curated/en/2012/07/16796028/joint-social-economic-assessment-republic-yemen>.

Figure 3: Oil production, export revenue and current account balance, 2008–12



Sources:

*IMF, July 2013.

**BP Statistical Review of World Energy, June 2013.

The reform conundrum

Yemen's donors were well aware of the risks involved in the country's impending transition to a post-oil economy, and from the early 2000s onwards they began pressuring Saleh to implement a series of politically sensitive governance reforms. Saleh was '[running] out of reforms he [could] implement at no political cost to himself',⁷⁷ according to a leaked US diplomatic cable from 2005, exposing the shaky foundations of the elite bargain. When Prime Minister Abdulqader Bajamal tried to push through a series of reforms that year, he was physically attacked in parliament, and a sudden cut to subsidies later in the year led to widespread rioting.⁷⁸ Members of Islah and the GPC rejected Bajamal's proposals, in a sign that the reforms threatened a range of interests among Yemen's elite.

Yet with oil output in long-term decline, the Sanhan 'inheritors' saw the logic in encouraging private-sector investment that would create jobs, boost skills and 'grow the pie' for the future while bolstering their own credentials *vis-à-vis* Yemenis and donors. From the mid-2000s onwards a group of young technocrats began to push for a series of watered-down reforms, with the backing of Ahmed Ali Saleh.

Donors often work closely with local 'champions' or 'change agents', who share – or purport to share – their vision for change. But in a political environment dominated by competing factions, access to donor resources and influence over the donors' own narratives about reform often become part of the spoils that competing factions seek to secure. Reforms are often co-opted or implemented partially and selectively by local power-brokers in ways that reinforce factional elite control.

It is also hard to find 'champions' who are both willing and sufficiently politically connected to push reforms through. In Yemen, although their priorities were limited to slowing down the pace of decline rather than undertaking major reforms, the donors calculated that the 'young reformers' allied to Ahmed Ali were sufficiently aligned with the agenda they were sponsoring and had sufficient political support to be worth working with, and they became the chief interlocutors for the international community on issues of reform.

Saleh amended Yemen's legal framework in 2007 in order to encourage inward investment. The country's ranking in the World Bank Ease of Doing Business Index shot up 25 places as a consequence of the abolition of the minimum capital requirement and the launch of a one-stop

⁷⁷ Wikileaks, 'Cable 05SANAA1790', June 2005.

⁷⁸ 'Dozens dead in Yemen fuel riots', BBC News, 22 July 2005, http://news.bbc.co.uk/1/hi/world/middle_east/4707145.stm.

shop for business start-ups. Inward investment peaked at \$1.5 billion in 2008. This was mainly due to a huge gas export project, Yemen LNG, which, at a cost of more than \$4 billion, was the single largest item of inward investment in Yemen's history, along with several multi-million-dollar real-estate projects backed by Saudi and Qatari investors and developed in conjunction with Ahmed Ali-affiliated institutions such as Shibam and the GIA. The increase was to be short-lived, however, and by 2009 a combination of the global financial crisis, halted oil development projects and the return of investor scepticism about the wisdom of working in Yemen saw investment inflows plummet.

By 2010, macroeconomic conditions were rapidly deteriorating, with government spending at record highs, oil production in decline and oil prices stabilizing below the record highs of previous years. The Central Bank of Yemen sold its foreign exchange reserves in an attempt to stabilize the exchange rate. However, the riyal was falling fast, pushing up the prices of imported goods, including food. The central bank was raising most of its capital from the private banking sector by selling treasury bills and bonds into the domestic market at generous interest rates. This generated handsome profits for elite businessmen who held the vast majority of state debt but deterred ordinary businesses from seeking loans.

In the months just before the 2011 uprising, Saleh faced renewed donor pressure to halt the country's economic slide. As a condition of IMF support, the government passed a tax reform law and authorized a gradual reduction in fuel subsidies, first for industrial consumers and then for general sales. Yet government officials remained pessimistic that substantive reforms could be implemented given the power of elite interest groups and the ongoing tensions between the regime's key power-brokers, which had been exacerbated by Ahmed Ali's role in promoting the reform movement.

The avoidance of reforms is not simply a matter of personal greed. As Douglass North and others have discussed in increasing detail over the past decade, in states

with 'limited access orders', where a small elite controls the economic, military and bureaucratic apparatus of the state, the rents gathered are generally used to pay off other elite actors in order to avoid violent conflict. This strategy maintains a fragile peace, but limits reform options, particularly when the state is the main conduit for patronage.⁷⁹ Speaking in 2012, one of Ahmed Ali's associates reflected:

He gave us authority when we needed his help to push things through government. He supported our moderate challenges, but he backed off when it came to anything really difficult. He was a balancer, like his father, and he wasn't willing to pay any real political cost. Why should he lose?⁸⁰

The political economy during the uprising

The chief protagonists in the elite conflict of 2011 were the power-brokers who had been at the centre of the elite bargain of the previous three decades: Saleh; Ali Mohsin, who defected to the side of the protestors in March 2011; and Hamid and Sadeq al-Ahmar, who for the first time during the conflict openly called for Saleh and his family to leave Yemen.

The conflict marked a deep fracture in the regime, and each faction used its own private wealth and control of state institutions throughout 2011 to recruit support to its cause. Hamid funded the Change Square protest camp in Sana'a. Saleh used promises of pay rises to the military and civil service as inducements to the public to remain calm, and used private funds to procure arms and fund the thugs – the *baltagiyya* – who threatened the protestors, backed by wealthy businessmen from the GPC.⁸¹ Ali Mohsin recruited new soldiers from Change Square and tribesmen north and west of Sana'a into his First Armoured Division to act as a counter-force to Ahmed Ali's Republican Guard.⁸²

79 World Bank, 'Limited Access Orders in the Developing World: A New Approach to the Problems of Development', working paper, September 2007.

80 Author interview, Sana'a, 2012.

81 Author interviews, Sana'a, January–February 2013.

82 Throughout the conflict Ali Mohsin continued to bill the government for the military units' expenses and the defence department continued to pay him.

The economic situation deteriorated quickly. In March 2011, tribesmen blew up a crucial pipeline linking an oil concession in the central province of Mareb with export facilities at the Red Sea port of Ras Isa. The explosion cut off a key source of government revenue and disrupted the domestic fuel supply, which, in turn, affected the availability of water and food. (Ground water in Yemen is increasingly extracted using diesel pumps, and both water and food are trucked to market by road.) Sana'a began importing fuel to meet domestic demands, placing renewed pressure on foreign currency reserves and the value of the riyal.

Disruption to the commodity supply chain led to extreme price inflation for all basic commodities, which Yemeni households could barely afford, particularly given the effect the political crisis had on the economy. Already dangerously high levels of unemployment reached over 50 per cent, while the poverty rate shot up to a similar level.⁸³ The government and the central bank struggled to maintain fiscal stability as basic commodities became scarce. Power cuts became a daily occurrence for residents of the country's urban centres, while rural Yemenis in particular struggled to access food and water deliveries as the security situation deteriorated.

In June 2011, after three months of worsening humanitarian conditions, Saudi Arabia donated three million barrels of oil to Yemen, in parallel with smaller contributions from Oman and the United Arab Emirates.⁸⁴ These emergency donations stopped the commodity supply chain from breaking down completely and restored a degree of economic stability.

The rich and powerful, meanwhile, rushed to move their money abroad. The UN Conference on Trade and Development estimates that a net amount of \$712 million left Yemen through formal channels in 2011.⁸⁵ Local analysts' estimates of capital outflows over the course of 2011 are far higher, running into the billions of dollars.⁸⁶

In July, as a result of severe fiscal pressure, the government in effect doubled the cost of gasoline to consumers by replacing subsidized leaded sales with unsubsidized unleaded sales.⁸⁷

Throughout the first half of 2011, many Yemenis suspected that Saleh was willing to tolerate or even help foment the humanitarian crisis, in order to intensify the political pressure on Hamid and Ali Mohsin. Furthermore, during a period when ordinary citizens suffered more than ever before, many elite players managed to generate considerable revenues thanks to their access to smuggled diesel and weapons, which they were able to sell on to the private sector and other elite factions, while their wealth shielded them from the worst effects of the shortages and price rises.

The behaviour of the elites during turning points in national political life – and their response to opportunities for sweeping institutional transformation, as in the 2011 uprising – reveal a great deal about their perceptions of poverty, relative to their own personal priorities. Diplomats who spoke to Ahmed Ali in this period found him unsympathetic to the plight of Yemenis affected by the humanitarian crisis, despite having positioned himself as a sponsor of social and economic reform in previous years.⁸⁸ During 2011, Ahmed and other regime players made it clear that, in essence, they viewed poverty and instability as problems only to the extent that they interfered with their own personal wealth and status.

The point was reinforced when the prospect of UN sanctions on individuals played a role in persuading Saleh to finally acquiesce to the GCC deal in November 2011. (Sanctions were also threatened against Ali Mohsin and Hamid.) Hamid told negotiators that he was losing money in supporting the war and the protest camps, and in losses to Sabafon, which had been shut down by Saleh in 2011, and calculated that he could not sustain his opposition for much longer.

83 Peter Salisbury, 'Yemen's Economy: Oil, Imports and Elites', Chatham House Middle East and North Africa Programme Paper, October 2011, http://www.chathamhouse.org/sites/default/files/1011pp_yemeneconomy.pdf.

84 'Saudi donates 3 mln oil barrels to Yemen: minister', *AFP*, 8 June 2011.

85 United Nations Conference for Trade and Development, *The Least Developed Countries Report 2012*, 2012, p. 20, http://unctad.org/en/PublicationsLibrary/ldc2012_en.pdf.

86 Author interviews, Sana'a, January, February 2013.

87 Salisbury, 'Yemen's Economy: Oil, Imports and Elites'.

88 Author interviews, Sana'a and London, 2012.

The political economy during the transition

Although in flux, the substructure of Yemen's political economy was not radically altered over the course of 2011. It remains largely intact two years into the transition. By signing the GCC deal 'the elite families agreed on a power-sharing deal, sanctioned and refereed by the international community'.⁸⁹ As Saleh handed over formal power to Hadi in November 2011, he was still the fulcrum for military, economic, political and, to an extent, tribal power.

Yet if the transition is to be a success, it will have to yield a political order that is more widely perceived as legitimate and a more equitable a division of resources. UN Special Envoy Jamal Benomar has described a transition

from an old system of governance through patronage that left the country bankrupt and in turmoil to a new system of democratic governance that will ensure more transparent and accountable institutions.⁹⁰

The GCC deal contained several corrective measures aimed at rebalancing and holding power to account in Yemen, most notably the National Dialogue, a clause calling for Hadi to form a committee to restructure the military and security services, and the formation of a National Unity Government based on a coalition of members of the GPC and the constituent members of the opposition JMP, including Islah (see Appendix).

But renegotiations of the formal and informal 'rules of the game' during the transition are not happening at the National Dialogue Conference. Although the talks guaranteed previously marginalized groups a say in the shape of the future structure of the state and its institutions – and created a safe space where youth, women, Houthis and southerners, among others, could air their grievances publicly – it has not enabled them to significantly

challenge the informal networks of power that have proved remarkably resilient to change in the past.

Furthermore, the transitional government is largely made up of Saleh-era ministers and officials, including members of the opposition who previously served in government. The restructuring process in the military and security sector has been opaque and has excluded involvement of civil society and other opposition groups such as the Houthis, who considered the issue to be a priority. President Hadi is the person tasked with bringing the elite factions to heel while strengthening state institutions; in effect, Yemenis have been asked to talk about the country's future while trusting men who had been integral to the Saleh regime to chip away at its power and enact change.

Military restructuring

Despite initial scepticism that he was 'Saleh's man', Hadi has proved willing to challenge the status quo in Yemen. In April 2012, two months after being made president, he ordered a number of key Saleh allies to step down from the military.⁹¹ In December 2012, the president announced a series of moves to restructure the military, including the dissolution of Ali Mohsin's First Armoured Division and Ahmed Ali's Republican Guard, along with an expansion in the number of military districts from five to seven, increasing the Ministry of Defence's control of over Yemen's military forces above hitherto largely autonomous individual military commanders.⁹²

In April 2013, Hadi followed issued further decrees, the most important of which appointed Ahmed Ali and Ali Mohsin – both of whom had continued to command their units despite the earlier announcement of their dissolution – as ambassador to the United Arab Emirates and presidential adviser on defence issues respectively. A number of other Saleh allies were made ambassadors and military attachés, as was Hashem al-Ahmar, Hamid's brother and the highest-ranking military officer from the Al-Ahmar family.⁹³

⁸⁹ Author interview, senior diplomat, location undisclosed, 2011.

⁹⁰ Peter Salisbury, 'Voice of Yemen's hungry poor struggles to be heard in peace dialogue', *Financial Times*, 24 July 2013.

⁹¹ Sasha Gordon, 'Yemen's Military Shake-Up: Weakening Ousted Saleh's Network', *Critical Threats*, 12 April 2012, <http://www.criticalthreats.org/yemen/gordon-military-command-graphic-april-12-2012>.

⁹² Katherine Zimmerman and Sasha Gordon, 'Yemen's Military Restructuring: Removing Saleh's Network', *Critical Threats*, 20 December, 2012, <http://www.criticalthreats.org/yemen/yemens-military-restructuring-removing-salehs-network-december-20-2012>.

⁹³ Sasha Gordon, 'A New Wave of Military Restructuring Decrees in Yemen', *Critical Threats*, 11 April 2013, <http://www.criticalthreats.org/yemen/gordon-new-wave-military-restructuring-decrees-yemen-april-11-2012>.

The military restructuring process has unquestionably weakened Saleh's influence. Hadi's achievement to date has principally been to rebalance military power between the rival factions, while the longer-term challenge of building a unified, professional force remains.⁹⁴ However, Hadi's reliance on 'ruling by decree' has become a cause for concern, with each move announced via state media with little or no warning. Some observers perceived Ali Mohsin's appointment as presidential defence adviser as a sign of his empowerment relative to his rivals in the Saleh family. Hadi associates say that the president sees Ali Mohsin's presence as an adviser as a necessary evil if he is to maintain the current fragile balance of power. Hadi has also been accused of replacing officials close to Saleh with his own southern allies, changing the faces at the top and trying to swing the balance of power in his own direction rather than addressing the underlying issues of factionalism and favouritism.

Saleh has not visibly mounted a challenge to the restructuring of military power since 2012, when he ordered a number of officers within his network to refuse reassignment – which led at one point to the closure of Sana'a airport. But a campaign of assassinations targeting allies of Hadi and Ali Mohsin in the security services, along with a rising number of mutinies, suggest his ability to disrupt governance goes beyond the infighting in the cabinet that is outlined below.⁹⁵

Elite infighting

The unity government established as part of the GCC deal struggled to work as intended from its inception, and became instead the most obvious site of elite competition. The most important cabinet posts were handed to GPC and Islahi ministers, many of whom had previous experience in government. One of the chief sources of tension within the cabinet stems from a GPC perception that Islah

is attempting to grab power by strengthening its informal networks within the ministries it controls and securing key regional government posts for its members – all with tacit approval from Hadi, who is suspected by GPC hardliners of strengthening Islah in order to further weaken his predecessor. The opposition counterpoint to this view is that Saleh and GPC members are deliberately undermining the government in order to convince Yemenis that their lives had been better under the previous regime.⁹⁶

Under the unity government little progress has been made on addressing either Yemen's urgent humanitarian problems or its long-term developmental issues, including the disbursement of \$8.1 billion in aid promised in September 2012 (see Chapter 4). Officials at the central bank – widely seen as one of Yemen's best-functioning institutions – expressed concern at the cabinet's management of the economy, after the National Assembly passed the biggest budget, with the biggest deficit, in the country's history in January 2013. Bank officials worried that the rising deficit would soon be unaffordable. Most spending is directed at wages, overheads, the military and subsidies, reflecting a continuation, if not an expansion, of the Saleh-era system of payoffs and patronage.⁹⁷

Where possible, Hadi has removed Saleh appointees from top posts at state enterprises, including YECO's Hafez Mayad and Abdulkhaleq al-Qadhi, former head of the state airline Yemenia, along with the Saleh-linked chairmen of National Tobacco and Matches and two state-run banks, Yemen National Bank and Cac Bank. But the private sector remains dominated by the same small number of elite players.⁹⁸ Those who were overtly aligned with Saleh have been quickly assimilated into the new order, turning to Prime Minister Basindwah, President Hadi and Hamid al-Ahmar to ensure that their interests will be protected.⁹⁹

94 Author interviews, location undisclosed, March 2013. For a comprehensive assessment of the military restructuring process, see International Crisis Group, 'Yemen's Military-Security Reform: Seeds of New Conflict?', 4 April 2013, <http://www.crisisgroup.org/en/publication-type/media-releases/2013/mena/yemens-military-security-reform-seeds-of-a-new-conflict.aspx>.

95 Sasha Gordon, 'Mutiny in the Yemeni Military', *Critical Threats*, 10 July 2013, <http://www.criticalthreats.org/yemen/gordon-mutiny-yemeni-military-july-10-2013>.

96 Author interviews, Sana'a, January, February 2013.

97 International Monetary Fund, 'Republic of Yemen Article IV Consultation', July 2013, <http://www.imf.org/external/pubs/ft/scr/2013/cr13246.pdf>.

98 Chatham House Yemen analysis, 2012 and 2013.

99 Author interviews, Sana'a, January and February 2013.

New game, same players?

The GCC deal and the National Dialogue contain the potential for a historic renegotiation of the political settlement between the northern tribal confederations of Hashid and Bakeel – representing approximately three million people who benefit most from the current oil-based patronage model – and the rest of the 25-million-strong population. The National Dialogue’s recommendations for reforming the country’s formal institutions will be the result of a relatively inclusive process of deliberation and represent a progressive vision for its future.

Nevertheless, the substructure of the Saleh-era political economy remains largely in place. Most of the ‘commanding heights’ of the economy are still in the hands of the same clique, with only minor reshuffling. The rotation of cabinet ministers and military commanders represents a rebalancing of rival factions in the established elite. Elite behaviour over the course of the transition suggests that the former members of the Saleh regime remain largely self-interested, and are participants not just in the internationally brokered transition process but also in other, murkier, negotiations and conflicts. This nexus at the heart of political, economic and military power has yet to be challenged (or accessed) by those excluded from it, despite the opportunity offered by the National Dialogue.

Changes to the political landscape may have an impact in the medium term. New political parties with

a technocratic mandate have been formed, while the Houthis and the Hirak are able to mount a concerted challenge to the central state, which may change the calculations of politicians in Sana’a. Youth activists know that they are capable of mounting widespread protest – even if they have yet to form a cohesive coalition with a clear set of aims, and although there is a risk that they will be taken less seriously than the armed groups. Because of the lack of a cohesive ‘third force’ in politics, the parties likely to win the most votes in parliamentary and presidential elections in 2014 will be the best-organized and best-funded, i.e. the GPC or Islah. But other political actors, including the youth movement, the Houthis and southern separatists, will continue to challenge the legitimacy of the parliament – and in some cases the state itself – unless they are given more of a stake in the system.

Yemen’s core economic issues remain urgent, with fiscal and balance-of-payments crises looming. But future governments are unlikely to prioritize reform while they must navigate the vested interests of the country’s power-brokers and maintain the delicate peace achieved by the GCC deal. As a result, further economic deterioration is likely over the next few years. Bearing in mind events in Egypt this year – which have been, in part at least, due to economic deterioration – policy-makers must build the likelihood of renewed unrest driven by economic woes into their planning for the coming years.

4. International Factors

Yemen's political economy has been shaped not just by the behaviour of local elites, but by international factors, from its growing integration into the international financial system to the war on terror. In 2011, for example, the national security interests of the United States, United Kingdom and Saudi Arabia contributed to the close involvement of all three countries in negotiating a controlled transition, halting what seemed to be a slide towards civil war and, crucially, attempting to minimize disruption to counter-terrorism operations. Donations of oil and financial assistance worth billions of dollars in 2011 and 2012 helped stave off a total economic collapse.

Yemen's integration into the globalized political economy that has emerged since the end of the Cold War has by no means always proved to be a prop to stability. As noted above, the increasingly obvious corruption of the political elites – facilitated by their ability to siphon capital out of the country – was one of the key factors that destabilized the Saleh regime in 2011. Addressing this critical issue will at times conflict with international counter-terrorism interests, which, particularly in the short term, depend on the maintenance of strong relations with the established elite.

The importance of security and counter-terrorism objectives is illustrated by the fact that historically more international funding has gone into the security sector than into the economic development of the Arab world's poorest country.

Moreover, the security interests of international actors are at times advanced by the fact that those elites are not directly accountable to the public, and that they are therefore willing to take positions on controversial security issues, especially the use of drone strikes, that reflect these interests at the expense of domestic public opinion. While Gulf and Western donors have cooperated fairly effectively on counter-terrorism and on Yemen's transition deal, and their strategic objectives on economic development are largely aligned, there is no such agreement on political reform.

Major divergences over the politics of Yemen's transition have not yet emerged, but could come to the fore in the future. The risk of disunity is highlighted by the sharp divergence between Gulf and Western aid policies towards Egypt following the July 2013 military coup. While Western countries debated cutting aid, and some European states started to do so, Saudi Arabia, the UAE and Kuwait pledged \$12 billion to the new Egyptian government, a sum ten times the size of the United States' annual military aid to Egypt.

Diplomacy and security

The national security interests of the United Kingdom, Saudi Arabia and later the United States helped to shape the contours of Yemeni politics during the 20th century. Since the events of 9/11, all three shared heightened concerns about the presence of Al-Qaeda in Yemen – which intensified after the formation of Al-Qaeda in the Arabian Peninsula (AQAP) in 2009 – although each adopted a different emphasis in its approach to counter-terrorism. In recent years, critiques of the focus on the war on terror have encouraged the United States and United Kingdom to focus more on the country's long-term development needs, but counter-terrorism remains paramount. In Yemen and other contexts, diplomats unofficially acknowledge that short-term security interests routinely constrain and sometimes directly conflict with longer-term development goals, let alone human rights and democracy objectives.¹⁰⁰

¹⁰⁰ Chatham House Yemen Forum meeting, held under the Chatham House Rule, May 2013.

For the main international actors in Yemen, the risk of Al-Qaeda attacks is a primary concern for their own domestic security. These risks have been re-emphasized by the temporary closure of 21 US embassies across the Middle East, including in Sana'a, in August 2013 for security reasons, reportedly on the basis of intelligence on Al-Qaeda threats emanating from Yemen. The British embassy in Sana'a also closed on the same basis. Previously, Yemen's role as a safe haven for Al-Qaeda had come to international prominence in December 2009 as a result of a botched attempt to blow up a civilian airliner over Detroit by a Nigerian national allegedly trained by AQAP in Yemen. US intelligence found links between this plot and a US-Yemeni cleric, Anwar Al Awlaki, who acted as AQAP's propagandist-in-chief and was also said to be linked to the 9/11 hijackers and to a fatal shooting at a Texas military base in 2009. Awlaki was killed by a US drone strike in Yemen in 2011. For its part, the UK government echoes US concerns that Yemen is an incubator for Al-Qaeda.

From Saudi Arabia's perspective, Yemen has become a safe haven for Saudi extremists, and the staging ground for attacks on the kingdom. Riyadh launched a counter-terrorism and propaganda campaign against Al-Qaeda in the early 2000s, pushing a number of the group's members out of the country. These efforts had some success, and there have been no major attacks on Saudi soil since 2005.¹⁰¹ But the risk posed by militants who had fled to Yemen was highlighted in August 2009 when a Saudi citizen, returning to the country as a supposedly repentant ex-jihadi, came close to blowing up the then assistant interior minister, Mohammed bin Nayef bin Abdel-Aziz Al Saud, who is now interior minister.

Saudi Arabia has also clashed with the Houthi movement, whose stronghold in Sa'dah governorate borders the kingdom. Saudi troops launched airstrikes in Sa'dah at the end of 2009.¹⁰² The Saudi government has for some time

accused Iran, which it sees as its primary strategic threat,¹⁰³ of directly supporting the Houthis. It has also financed elite actors in Sana'a to take the fight to the Houthi rebels, and Salafi madrasas in Dammaj, a town in the Houthis' stronghold of Sa'dah, which led to sporadic fighting between the groups.¹⁰⁴ While Gulf analysts worry about the Houthis morphing into a Hizbollah-style militia on Saudi Arabia's border, many Western analysts argue that claims of Iranian links are overstated. Iran does appear to be staking a greater claim to Yemen, however, as its 'cold war' with Saudi Arabia and the United States heats up. Anecdotal evidence suggests Iran is courting urban youth activists as well as southern separatists – although it is far from clear to what extent Iranian funding amounts to concerted influence.

Security and counter-terrorism concerns – which are typically higher priorities for voters in donor countries than long-term international development policies, and tend to drive the news cycle – have thus been paramount in the approach that the United States, the United Kingdom and Saudi Arabia have taken towards Yemen. While their policies also include longer-term development objectives, there are trade-offs and conflicts between short-term counter-terrorism objectives, the logic of which often involves bolstering the security capabilities of existing elites, and policies aimed at developing a more sustainable political and economic model in the longer term. The latter are not necessarily in the interests of those same elites, and may ultimately undermine them. Rather, authoritarian elites cooperating in the US-led war on terror have tended to use broad and politicized definitions of terrorism to bring foreign backers into their domestic struggle against dissidents or business rivals. In the case of Yemen, the provision of military assistance, training and intelligence-sharing more or less exclusively to Saleh's family largely worked to stifle local pressure for political reform for much of the decade after 9/11, despite official Western rhetoric about supporting better governance.

101 The United States revoked its travel advisory for Saudi Arabia in 2005 as a result. There was an attempted suicide bombing at an Aramco refinery in Abqaiq in 2006, and three French tourists were murdered in 2007.

102 No casualty counts exist for Yemeni casualties from fighting between the Houthis and Saudi army in 2009. However, the Houthis allege significant civilian casualties occurred, while 113 Saudi soldiers died as a result of the fighting. 'Yemen rebels "leave Saudi Arabia", *Al Jazeera*, 25 January 2010, <http://www.aljazeera.com/news/middleeast/2010/01/201012517527990120.html>.

103 While the prospect of democratization in the region would represent a profound threat to the Saudi model, Saudi Arabia has largely viewed the changes in the region through the lens of concerns about Iran gaining influence.

104 Hill and Nonneman, *Yemen, Saudi Arabia and the Gulf States*.

But the trade-off between short-term security and long-term reform is by no means a simple one. For recipient regimes, being an ally in the war on terror has clear benefits in terms of access to external security support, funds and equipment. From a realpolitik point of view, such regimes arguably have an interest in cooperating without wholly solving the problem of terrorism, since counter-terrorism itself becomes a source of power and patronage resources. In the case of Saleh's regime, the scope for conflicts of interest to corrupt cooperation on the war on terror became increasingly evident, especially as internal regime competition intensified during the late 2000s.¹⁰⁵

Reassessing the terms of engagement

Despite criticism that external support for Saleh's regime was no longer consistent with Yemen's long-term stability in the years preceding the uprising, it was only in the spring of 2011 that foreign powers came to reconsider the terms of their engagement. When that moment came, assessments by the governments of the United Kingdom, United States and Saudi Arabia of their respective national security interests contributed to their coordinated efforts to support a controlled transition, halt the risk of civil war and minimize disruption to counter-terrorism operations. From a security viewpoint, the immediate priority was to support a transition to a leadership that would continue counter-terrorism cooperation and maintain support for a high degree of direct international – particularly US – involvement.¹⁰⁶

While Saudi Arabia fiercely opposed the US stance on the overthrow of Egypt's Hosni Mubarak, it adopted a different outlook to the fate of Saleh, with whom it had always had a more ambivalent relationship. The Saudi

decision to support a negotiated political transition in Yemen marked a notable change in its policy towards the Arab uprisings (see Box 2).

Despite the widespread perception that Saudi Arabia prefers to uphold the status quo, as demonstrated in its policy towards the uprisings in Egypt and Bahrain, it has been willing to support transitions it believes would further its national and regional interests, including those in Libya¹⁰⁷ and Syria – and in Yemen, once it became apparent that Saleh's continued presence was destabilizing the country. But Saudi Arabia will seek to limit changes that would empower forces it thinks would challenge the Saudi model, or seek to export their revolution. Here, Saudi officials see the spread of Iran's ideology and influence as their primary regional challenge. They are also deeply wary of the Muslim Brotherhood.¹⁰⁸

International cohesion

The GCC deal for Yemen was a notable example of unity between the GCC countries. Initially taken aback by the uprisings across the region, GCC countries quickly diverged in their responses over Egypt. While the bloc made a greater show of unity behind its intervention in Bahrain, there were divisions there too. But GCC coordination improved over Yemen and Libya, a cohesion that was welcomed by Western countries keen to see regional solutions to regional problems. Nevertheless intra-GCC differences and competition remain, particularly between Saudi Arabia and the UAE on one hand and Qatar on the other over Syria, Egypt and the regional role of the Muslim Brotherhood. The GCC cannot yet be spoken of as a single foreign policy actor and in Yemen, Qatar was largely absent from negotiations over the GCC deal.

¹⁰⁵ According to Abdullah al-Faqih, professor of political science at Sana'a University, writing in 2011: 'Saleh not only miserably failed to contain Al-Qaeda, but he also seems to be courting the group in order to play it against his domestic opponents, the Saudis and the West.' Among the examples given are that 'during the 20th Arabian Gulf Football Championship [in 2010] ... it was reported that Saleh had captured all suspected Al-Qaeda elements and jailed them. But as soon as the competition ended, the suspected Al-Qaeda affiliates were let off.' Abdullah al-Faqih, 'The Yemen Uprising: Imperatives for Change and Potential Risks', *Real Instituto Elcano*, 21 March 2011, http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari58-2011.

¹⁰⁶ Similarly, in the case of Egypt, President Barack Obama's call for an 'orderly transition' reflected on one hand the view that Mubarak's rule was no longer sustainable in the face of opposition from both the street and much of the military, and on the other the desire to ensure that the revolutionary momentum did not lead to an entirely new approach by Egypt to its relations with the West or with Israel.

¹⁰⁷ Muammar Gaddafi was accused of plotting to have King Abdullah assassinated while the latter was still crown prince.

¹⁰⁸ Historically Saudi Arabia has also strongly opposed leftist, communist and Arab nationalist movements in the region, including those in South Yemen. Nor does it have an interest in seeing democracies consolidated in its neighbourhood, which might challenge its own religious and political narratives about the nature of political authority.

Box 2: Key players in the House of Saud

During the 2011 uprising and throughout the subsequent transition period, Saudi policy towards Yemen was going through a significant shift. The defence minister and crown prince, Prince Sultan bin Abdel-Aziz Al Saud, died in the autumn of 2011 at the age of 80, while his brother, Naif, the interior minister – who succeeded Sultan as crown prince – died in the summer of 2012, aged 78. Since the 1960s, Saudi Arabia had handled Yemen primarily through personal relationships, with Sultan presiding over the special committee for Yemeni affairs that paid stipends to Yemeni sheikhs, managing these extensive and durable cross-border patronage networks, and acting as the locus of Saudi ‘policy’ in Yemen. As interior minister from 1975, Naif also cultivated extensive contacts in Yemen.

During the 2000s, as Sultan’s health began to deteriorate, the initiative on Yemen ‘shifted to other actors within the House of Saud, becoming diffuse and lacking a clear strategy and coordination.’^a In the vacuum created by Sultan’s sickness, Naif played an increasingly prominent role in shaping management of Yemen policy, along with his son, Mohammed bin Naif bin Abdel-Aziz Al Saud, who oversaw the kingdom’s counter-terrorism programme. By 2010, Naif reportedly recognized that traditional tribal stipends were not buying loyalty, providing stability or functioning as a ‘trickle-down’ social safety net. And yet Riyadh proved reluctant to abandon the stipend system. The passing of the leading figures of the Cold War period also slowly eroded the royal family’s institutional memory of the high era of transnational patronage that had defined Cold War relations between the two states.

King Abdullah took a close personal interest in Yemen during the 2011 uprising and – accompanied by Naif, then crown prince – presided over the November signing ceremony in Riyadh that sealed Saleh’s acceptance of the GCC transition agreement. During the summer of 2012, as the sense of acute political crisis in Sana’a diminished, the king’s attention increasingly turned towards Syria. The foreign minister, Saud Al Faisal bin Abdel-Aziz Al Saud, also played an active role in the final stages of the transition negotiations in the autumn of 2011, but his capacity for direct engagement fluctuated according to his state of health. The foreign ministry took a back seat on Yemen for much of 2012, notwithstanding its formal support for the Friends of Yemen process.

By the end of 2012, the strongest momentum on Yemen appeared – by default – to belong to the interior ministry, where Mohammed bin Naif had succeeded his father as minister.^b The ministry’s *de facto* dominance reinforced the Saudi tendency to view Yemen as an internal security issue, rather than one of foreign policy. However, while this represented continuity on counter-terrorism cooperation, it did not amount to leadership on high-level political engagement (on which there appeared to be little formal strategic coordination in Riyadh). In addition, Mohammed bin Naif – the former counter-terrorism chief – was now responsible for a full domestic security portfolio, in 13 Saudi provinces, as well as Yemen. Sultan’s son, Khaled bin Sultan bin Abdel-Aziz Al Saud, the deputy minister of defence, had also taken a prominent stance on Yemen during the 2009 clashes with the Houthis, being photographed in military uniform at the border, but his star has waned since his father’s demise, and in April 2013 he was replaced by a new deputy defence minister.

^a Hill and Nonneman, *Yemen, Saudi Arabia and the Gulf States*.

^b Mohammed bin Naif’s promotion followed a five-month period when the ministry was controlled by Naif’s younger brother, Ahmed.

During the first half of 2011, the British, American and EU ambassadors in Sana’a worked hard to build regional and international support for the GCC deal, bolstering the active diplomacy of GCC Secretary General Abdullatif al-Zayani,

a former Bahraini head of public security. The Saudis supported the GCC deal as an acceptable ‘working compromise’ between rival elite factions, but they did not materially interfere in the outcome of the final negotiations.¹⁰⁹

¹⁰⁹ Interview, Riyadh, 2012. See Hill, *Yemen for an account of Saudi role in the transition process*.

From the late summer of 2011 onwards, UN envoy Jamal Benomar assumed an increasingly prominent role in fleshing out the terms of the transition and stewarding face-to-face negotiations in Sana'a. His negotiating power was bolstered by the unanimous stance of the five permanent members of the UN Security Council (China, France, Russia, the United Kingdom and the United States). During 2012, Benomar's regular presence in Sana'a provided crucial momentum to the political process, and helped enforce compliance with Hadi's presidential decrees dismissing Saleh's key relatives from the military. This widely praised example of UN involvement and diplomatic dynamism owes much to the dedicated leadership of Benomar as an individual, backed by the UN Security Council.

Subsequent suggestions that the Yemen experience of local and international support for a negotiated transition that preserves some elements of the regime could offer some sort of model for Syria have proved off the mark. The limits of GCC involvement in Syria has illustrated that being 'local' is no guarantee of being perceived as legitimate.¹¹⁰

Along with the EU and the United States, the UN also played a decisive role in placing economic pressure on elites which resisted the transition – a critical factor in the success of the negotiations over the GCC initiative in November 2011. In summer 2012, Security Council Resolution 2051 signalled the prospect of sanctions for politicians and security-sector actors who tried to undermine the transition. President Barack Obama also issued an executive order authorizing sanctions against those 'obstructing the political process in Yemen'. Within less than a year of his February election, Hadi had orchestrated the dismissal of Saleh's half-brother Mohammed Saleh from the air force, and sidelined Saleh's nephews Yahya, Tarik and Ammar.

Securing continued counter-terrorism cooperation – and the risks of a backlash

By the end of 2012, US officials working on Yemen policy were viewing their stance on the country's transition as a relative success. They felt vindicated in having managed to maintain counter-terrorism operations, avert civil war, dislodge Saleh and kick-start a process that would meet the 'legitimate concerns of the Yemeni people, including their political and economic aspirations'.¹¹¹ In a 2012 letter to the *New York Times*, former National Security Council staff member Stephanie Speirs argued: 'Yemen is now a model for democratic possibilities ... American assistance emphasizes governance and development as much as security.'¹¹² US officials appeared sensitive to criticism that they were prioritizing security concerns at the expense of a broader policy agenda. In response, they emphasized their achievement in securing increased humanitarian aid for Yemen, especially given the tight budget restrictions in Congress.

It is clear that support for Hadi has been motivated partly by the expectation he would continue to enable the United States to wage its counter-terrorism operations, including drone attacks, on Yemeni territory. Many Yemenis say that Hadi has received US backing in return for giving the Americans a free hand on counter-terrorism. This perception was reinforced by the public prominence on Yemen issues of US Homeland Security adviser John Brennan (now the CIA director), who visited Sana'a on several occasions since 2009 to negotiate options for cruise missile attacks, drone strikes, intelligence-sharing and the deployment of special forces that formed the basis of the administration's 'shadow war' in Yemen.¹¹³

After meeting privately with Obama in New York during the September 2012 General Assembly of the United Nations, Hadi remarked in a speech in Washington that US drones had 'zero margin of error' and were

110 See also Jane Kinninmont and Claire Spencer, 'The Arab Spring: the Changing Dynamics of West-GCC Cooperation', IAI Research Papers No. 8, April 2013, pp. 49–69; and Chatham House, 'The Evolving Role of Gulf Leadership', in *The Sir Bani Yas Papers 2012: Change in the Middle East*, Programme Paper, Chatham House, November 2012.

111 Statement on GCC Initiative in Yemen, US Department of State, 8 April 2011, <http://iipdigital.usembassy.gov/st/english/texttrans/2011/04/20110408135715su0.1400502.html#axzz1UPwWM8Ax>.

112 'The thrust of Yemen policy', *New York Times*, 29 November 2012. Also see 'The Wrong Man for the C.I.A.', *New York Times*, 19 November 2012.

113 'Secret assault on terrorism widens on two continents', *New York Times*, 14 August 2010.

helping because the Yemeni air force did not have the capacity to conduct missions at night.¹¹⁴ Drone strikes increased dramatically following Hadi's appointment as interim president in November 2011 as the United States sought to reverse the territorial gains made by AQAP/Ansar al-Sharia in Abyan.¹¹⁵ Such extensive air strikes – surpassing in number those in Pakistan for the first time the following year – arguably blurred the line between counter-terrorism and counter-insurgency operations.¹¹⁶

The primacy of counter-terrorism and security concerns is underlined by the fact that, uniquely for the 'Arab Spring' transition states, within the US National Security Council, the Homeland Security staff were responsible for coordinating the administration's policy towards Yemen, with Brennan taking a close personal interest in its conduct.¹¹⁷ Yemen remained high on the White House policy agenda throughout 2012, partly because of the acute perception of risk to US interests posed by AQAP, and partly because of Brennan's close working relationship with Obama, and the president's insistence on personal oversight of targeted killings. In the autumn of 2012, Brennan revealed he had personally played a prominent role in crafting a 'joint US-Saudi policy' to bring a 'more cooperative government to power' in Yemen, by replacing Saleh with Hadi.¹¹⁸ In February 2013 Western media reported that the CIA has been coordinating drone strikes in Yemen from a secret base in Saudi Arabia for the past two years, despite the overt withdrawal of US troops from Saudi Arabia some years before in the face of strong opposition to the US military presence there.

There has been increasing debate within the United States about the use of drone strikes. While they are largely seen as an effective counter-terrorism tool by the US public, there is increasing congressional and NGO discussion about their efficacy, transparency and legality.

Meanwhile, within Yemen, the signatories to the GCC deal – especially the JMP, which saw itself as the 'incoming' government – have been extremely reluctant to openly criticize US policy on drone warfare and counter-terrorism, reflecting a widespread Yemeni perception that the United States has a say in determining who holds power in the country. While this may facilitate short-term US policy objectives, it also raises concerns about a longer-term backlash. Testifying before a US Senate Judiciary Sub-committee on the use of drones in 2013, Yemeni youth activist Farea al-Muslimi warned that every US 'tactical success is at the expense of creating more strategic problems'.¹¹⁹ Though many Yemenis also view the presence of Al-Qaeda in their country with concern, there is increasing criticism not only of the civilian casualties but also of the damage to state sovereignty caused by the strikes. The National Dialogue's military and security working group recommended in its June 2013 report 'an end to all forms of foreign interference, including air strikes'.¹²⁰

If Yemen's elites are too mindful of US interests to adequately represent public opinion on these deeply contentious issues, popular resentment may well find other forms of expression – not least through the growing appeal of the Houthis or AQAP. If the political elite is seen as more accountable to Washington than to Yemen's people, this will profoundly undermine its legitimacy. A transitional government that does not improve political representation or accountability, but rather reinforces the fundamental structural problems that gave rise to the revolution, will ultimately fail to provide a sustainable basis for stability in Yemen.

For its part, the Saudi government underlined its support for Hadi by pledging a \$3.2 billion aid package for Yemen in 2012. At the time Western diplomats hailed this

114 Scott Shane, 'Yemen's leader praises U.S. drone strikes', *New York Times*, 29 September 2012, http://www.nytimes.com/2012/09/29/world/middleeast/yemens-leader-president-hadi-praises-us-drone-strikes.html?_r=0.

115 'Yemen strikes visualised', *The Bureau of Investigative Journalism*, 2 July 2012, <http://www.thebureauinvestigates.com/2012/07/02/yemen-strikes-visualised/>.

116 'Saudi jets join America's secret war in Yemen', *The Times*, 4 January 2013.

117 Author interviews, Washington, DC, 2012.

118 'A CIA veteran transforms U.S. counterterrorism policy', *Washington Post*, 25 October 2012.

119 Charlie Savage, 'Drone strikes turn allies into enemies, Yemeni says', *New York Times*, 23 April 2013, http://www.nytimes.com/2013/04/24/world/middleeast/judiciary-panel-hears-testimony-on-use-of-drones.html?_r=0.

120 'Working Group Final Report of the First Period (18 March 2013–1 June 2013)', Military and Security Group, http://www.ndc.ye/session2/army_doc.docx.

as evidence of a shift in Saudi aid policy towards a new technocratic approach, with money channelled through the central government in Sana'a, and a new emphasis on formal state-to-state relations.

There was, indeed, some recognition in Riyadh that the traditional tribal stereotype – characterized by the late Hashid patriarch, Sheikh Abdullah al-Ahmar – was out of date. ('The Al-Ahmar family don't need us anymore. They are billionaires,' said one Saudi analyst in 2012.¹²¹) Saudi Arabia has emerged as 'the largest contributor' of bilateral aid and 'the first [among Yemen's donors] to deliver' on its recent pledges.¹²² However, efforts to formalize aid spending seem to run in parallel with ongoing informal payments, not least from the interior ministry, with pay-outs to Yemeni recipients supposedly conditional on their help in preventing AQAP from crossing the border into Saudi Arabia.¹²³

In parallel, throughout the uprising and the transition period, funds from Qatar were alleged to be reaching prominent generals, politicians and tribal figures associated with Islah.

Aid and reform

Although counter-terrorism objectives have defined donor strategy in Yemen over the past decade, international policy-makers have also paid growing attention to development of the country's economy and core governance functions. Successive interventions, led by institutions such as the World Bank and the IMF, and supported by the UK, US, German, and Dutch governments (historically the biggest Western donors to Yemen), have aimed to rectify structural flaws in the economy by supporting civil service reform, cutting defence spending, cutting

fuel and other subsidies, introducing sales and income taxes, encouraging inward investment and diversifying the private sector.¹²⁴

Despite this, donors have had limited impact in improving governance or living standards in Yemen – and have struggled to disburse significant sums of aid money. Sporadic support from the Gulf states, Saudi Arabia in particular, including grants and loans to the central bank and direct payments to the office of the president, may have helped avoid fiscal meltdown, but it also created a disincentive to reform. The case study of a new Mutual Accountability Framework, agreed by the Friends of Yemen in 2012, illustrates the continuation of a broader, long-term tendency for the vested interests of elites to trump the country's national development needs. As discussed in detail below, members of the transitional government have continued this trend since coming to power.¹²⁵

Throughout the first decade of the 21st century, Yemen remained a 'donor orphan' – it was underfunded relative to its needs. Between 2000 and 2008, it received overseas development assistance ranging between \$557.3 million in 2000 and \$242 million in 2007. The figure rose to \$664.1 million by 2010 but continued to be a fraction of that sent to three other similarly poor and high-risk conflict-affected countries, namely Sudan, Iraq and Afghanistan, which received \$2.1 billion, \$2.2 billion and \$6.4 billion in aid respectively in 2010.¹²⁶

While development assistance remained a low priority, military funding from abroad, ballooned. (The United States was the principal sponsor of Yemen's military, with assistance funding increasing twelvefold between 2006 and 2010, from \$14 million to just under \$170 million.¹²⁷ (The United Kingdom, the next biggest official source of funding, spent just over £300,000 on training in 2010.¹²⁸)

¹²¹ Author interview, Riyadh, 2012.

¹²² United Nations, *Report of the Secretary-General pursuant to Security Council Resolutions 2014 (2011) and 2051 (2012)*, June 2013.

¹²³ Author interview, Riyadh, 2012.

¹²⁴ World Bank notes and IMF Article IV consultations between the fund and Sana'a between 1995 and 2013 are remarkably consistent in calling for these reforms, which are in line with general 'Washington Consensus' strategies to foster fiscal sustainability.

¹²⁵ Mutual Accountability Framework (MAF), Government of Yemen, 4 September 2012, <http://menablog.worldbank.org/files/maf.pdf>.

¹²⁶ All ODA figures from the Global Humanitarian Assistance Development Initiative.

¹²⁷ Jeremy Sharp, *Yemen: Background and U.S. Relations*, Congressional Research Service, 7 July 2009, pp. 27–31, funds earmarked for spending in 2010.

¹²⁸ UK Ministry of Defence, 'Response to Freedom of Information request re Support to Yemen Army', 14 February 2013, <https://www.whatdotheyknow.com/request/139497/response/361684/attach/html/3/20130214%20FOI%20Support%20to%20Yemen%20A>.

The prioritization of security interests extended to human resources. A 2010 review of the US embassy in Sana'a shows that in-country defence staff totalled 27 (26 Americans, one Yemeni) while the USAID office had a total staff of 17 (of whom 13 were local administrative staff).¹²⁹

Some efforts were made to increase development assistance and inward investment into Yemen. At a conference in London in 2006, donors pledged approximately \$4.7 billion, with the majority of funds promised by Saudi Arabia and the smaller Gulf states. Most of the pledges were made by Gulf donors and targeted for large infrastructure projects. But by the end of 2010, the Yemeni government said less than 10 per cent of the money had actually been spent.¹³⁰ Much of the Gulf aid pledges in particular did not materialize, according to one leading donor agency.¹³¹

Donors blamed the lack of progress on a combination of weak government capacity and scant political will at the highest levels in Yemen, along with stringent conditions attached to the funds by the Gulf states. Former regime insiders argue that Saleh played a double game: leveraging foreign support for the continuation of the regime and allowing corruption to continue almost unabated, while providing himself with a scapegoat for the lack of development. 'When people complained about the economy, he could say, well, these people promised us all this money for aid but they won't give it to us,' commented one former presidential adviser.¹³²

Effective reform posed a direct challenge to collective elite interests, and would probably expedite the split within the regime. Saleh remained convinced that Saudi Arabia would prop up government spending if there were major shortfalls.

The revival of Al-Qaeda's activities in Yemen from 2006 onwards focused donors on counter-terrorism, giving Saleh further confidence that he could dodge pressure for reform, blame the lack of development on foreigners' conditions for funding, and attract training and military

assistance to units under the command of his son, Ahmed Ali, and nephews.

At the same time, technocrats and businessmen with ties to Ahmed Ali were working to increase inward investment and build public faith in the government. Yet even with the backing of the president's son and a number of Western diplomats, the group still struggled to meet its modest goals for reform (see Chapter 3). Factional politics paralysed the relevant ministries and rendered even the most basic of reforms impossible.¹³³

In January 2010, in an attempt to revive the flagging reform agenda, the British government established the Friends of Yemen. Foreign ministers from more than 20 countries attended the founding conference in London, including US Secretary of State Hillary Clinton. The 'Friends' made a collective commitment to tackle development, state-building and counter-terrorism in parallel. This affirmed a 'whole-of-government' approach (joining up defence, development and diplomacy) in an effort to mitigate the regional and international risks posed by Yemen.

From the outset, the British government conceived a strategic partnership between Western governments and the Gulf states as central to the Friends of Yemen process, as well as its wider engagement on Yemen. Historically, the Gulf states – especially Saudi Arabia – had displayed a strong preference for handling their relations with Yemen on a bilateral basis, but the Friends of Yemen process gradually drew senior Gulf technocrats and diplomats into a multilateral framework.

Throughout 2010, routine contact between British embassy staff in Riyadh and their Saudi counterparts established closer working relationships that helped to shed some light on the thinking that lay behind Yemen policy and aid spending on both sides. Diplomats involved in the process became hopeful that, by presenting a united front, they might be able to prevent the Saleh regime from playing donors against one another and to leverage their common position to push for reform.

129 Jeremy Sharp, *Yemen: Background and U.S. Relations*, Congressional Research Service, 1 November 2012, 'Military', p. 14.

130 Ministry of Planning and International Cooperation, *Progress on the Use of Pledged Resources*, February 2010.

131 Author interview, August 2013.

132 Author interview, Sana'a, January 2013.

133 Authors' interviews, London and Sana'a, 2006–13.

Although the Friends of Yemen was not conceived as an aid-delivery mechanism, it created political momentum that allowed DFID to renew efforts to unblock previous aid pledges made by Gulf donors. In 2010 overall development assistance shot up (see above).¹³⁴ Talks were suspended in the spring of 2011 as donors focused their efforts initially on persuading Saleh to stand down, and subsequently on supporting the GCC-led transition process. (Although the Friends of Yemen proved too unwieldy to function as a transition mechanism, it established a template for closer working relationships between the Gulf states and Western diplomats.)

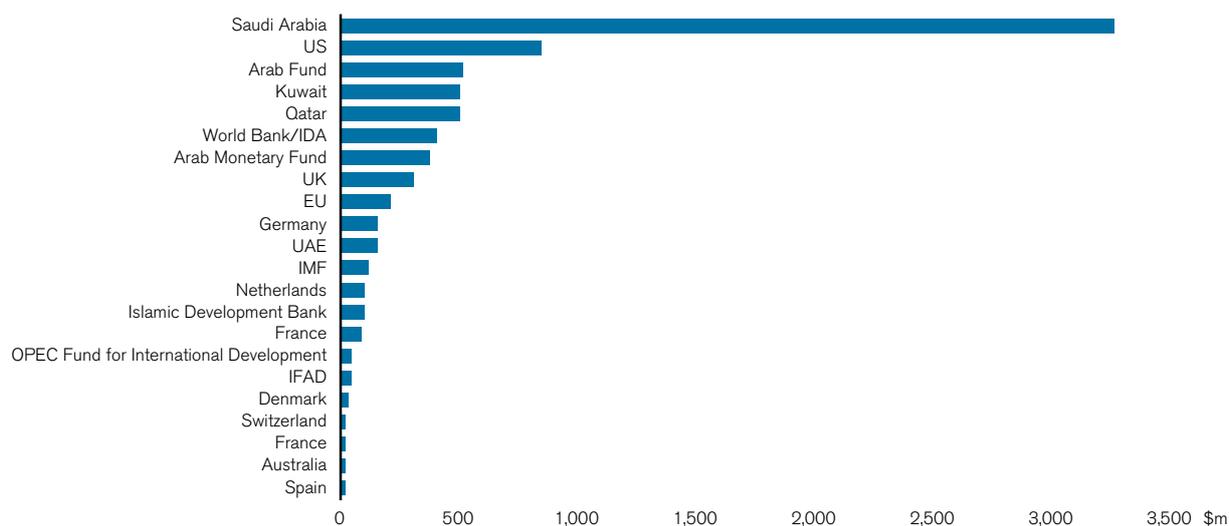
Reform and the transitional government

In September 2012, Hadi attended a Friends of Yemen meeting in New York, where Western and Gulf donors pledged \$7.9 billion in aid, a figure that rose to \$8.1 billion by the next meeting in March 2013 (see Figure 4). Pledges from Western governments have been generally focused on humanitarian aid and security, while the Gulf states have mainly offered cash for infrastructure development. Saudi Arabia pledged \$3.25 billion in total,

marking the biggest financial commitment, followed by the United States, which promised \$846 million. Of the Saudi funds, \$1 billion came in the form of a soft loan to the Central Bank of Yemen to help stabilize the riyal, and the remainder was pledged for infrastructure. The two biggest amounts in the US pledge went to security and rule of law (\$395.9 million) and humanitarian aid (\$258.5 million).

To get donors to make their pledges, the Yemenis agreed to implement a series of reforms and transparency mechanisms bundled together under the Mutual Accountability Framework. Under the agreement, the transitional government promised to stick to an agreed budget and investment plan, to create jobs (particularly for young people and women), to improve governance and the rule of law while encouraging private investment, to meet humanitarian needs and deliver basic services, and to engage with civil society organizations to ensure transparency.¹³⁵ Although ostensibly a Yemeni-led policy document, officials in Sana'a quietly complained that the MAF marked a 'wish-list' of donor demands that was too big and unwieldy to be implemented during the

Figure 4: Friends of Yemen pledges, June 2013



Source: Yemen Ministry of Planning and International Cooperation, World Bank.

¹³⁴ Discussions during 2010 revolved around efforts to create a multilateral donor trust fund, and establish a GCC donors' coordination office in Sana'a.

¹³⁵ For further detail, see 'Mutual Accountability Framework: Economic Transition Priorities', Yemen Donor Conference, Riyadh, 4 September 2012, 'Section Two: Framework Pillars'.

transitional period. (In response, donors note that the MAF was based on the Yemeni government's own development plans; however, these may well also have been drawn up on the basis of donors' wishes in order to attract aid, rather than fully reflecting an indigenous policy agenda.)

Such support was contingent upon creating a new government body to oversee the implementation of the MAF and ensure that the pledged funds were spent effectively, and to reduce opportunities for corruption, avoiding the stagnation that had followed the 2006 pledge rounds. The formation of the new body was delayed, however, by internal government politics and disagreements between the donors and Sana'a.

Part of the draw of this new Executive Bureau was the idea that it would be able to sidestep the usual constraints of capacity and corruption, overseeing projects from start to finish and reporting regularly to a board of directors made up of cabinet members and donors.¹³⁶ But the new body threatened a number of embedded interests, not least those of the ministers of development and finance, who lobbied against its oversight of implementation and fund dispersal, arguing that it would weaken government capacity – a point upheld by the IMF.

Eventually, the donors capitulated. The Executive Bureau was given responsibility for the implementation of the MAF while planning and implementation were farmed out to line ministries. Politics came out ahead of Yemen's legitimate needs, with members of the coalition government prioritizing political control of donor funds over the successful implementation of projects. At the time of publication, around \$1.8 billion of the \$8.1 billion pledged to Yemen had been disbursed, although most of this came from the Saudi loan and commitments that pre-dated the September 2012 meeting.

The closer the coalition government gets to the planned February 2014 elections, the less likely it seems that it will commit to politically costly economic reforms. In January 2013, parliament passed the biggest budget in Yemen's history, amounting to \$12.9 billion. Around 80 per cent

of all spending was allocated to wages, overheads and subsidies, while what little money had been put aside for infrastructure developments was used to pay outstanding bills. Officials readily concede that they were dependent on donor aid for growth-creating projects.¹³⁷ In negotiations with Yemeni officials, the IMF asked for commitments to cuts in current spending and on subsidies, and on improved tax enforcement as a precondition to a long-term loan programme of several hundred million dollars. But at the time of writing no agreement had been reached.

The next government will face increasingly urgent pressure for economic reform as the risk of total economic collapse looms ever larger. It will have very little time to deal with the economic quagmire it faces – unless it is able to rely on donor bailouts, particularly from Saudi Arabia and Qatar.

There is tension within the donor community over the perception that Gulf funding, which is typically not linked to economic conditionality, obviates the government's need to carry out structural fiscal and economic reforms. A pervasive belief endures within Yemen's elite that the Gulf states will continue to prop up the state while providing cash for capital investment programmes. With the corrosive Saleh-era patronage system yet to be dismantled (see Chapter 3), the prospect of such bailouts acts as a further disincentive to tackling politically sensitive reforms.

However, for Western countries as well as the Gulf states, as long as Yemen remains a national security priority, there may be little choice but to commit funds in an attempt to maintain stability and try to stave off total state collapse, or at least mitigate its worst effects on the poor. This would represent a continuation of the contradictions of their interactions with Saleh-era Yemen. Yet unless a way can be found to push more effectively for reform, maintaining the current levels of resources is likely to become increasingly challenging, especially for Western agencies whose funding is mostly tied to (often short-term) performance metrics.

¹³⁶ Although both had come under fire for creating parallel systems of governance and robbing the central government of its top workers, donors were attracted by the idea that the bureau would be able to operate like the Social Fund for Development and the Social Welfare Fund, set up under technocrat-led governments in 1997 and 1996 respectively.

¹³⁷ Author interviews with senior cabinet members and officials from the Central Bank of Yemen, Sana'a, January 2013.

Tax havens and capital flight

The systemic corruption that impedes the development of impoverished countries such as Yemen is not isolated from the international context. Yet all too often the focus on poor and conflict-affected states revolves around domestic dynamics that drive corruption and weaken institutions, ignoring the international factors that incentivize personal enrichment at the cost of good governance.¹³⁸ While Yemen's dependence on external assistance should provide at least some prospect that external donors can act as a lever for change,¹³⁹ overall levels of foreign aid have been overshadowed by high volumes of capital flight. The problems of corruption, cronyism and chronic capital flight are by no means unique to Yemen; and they are exacerbated by the global phenomenon of secrecy jurisdictions or tax havens. In the United Kingdom in particular, there is growing tension between the financial sector's support for secretive tax havens, and a desire to see aid spending utilized for the national interest of recipient countries, rather than being siphoned off abroad by elites.

As global economic liberalization and financial deregulation have made money more mobile, holders of capital have had more and more choice over where they transfer and hold their funds, and where to book their profits for tax purposes, taking advantage of the most beneficial jurisdictions.¹⁴⁰ As jurisdictions that offer low taxes as an incentive to foreign companies and individuals to set up businesses and banking arrangements in their territories have competed to attract capital, they have offered secrecy provisions that have made it 'easier and cheaper' to hide illicit wealth, and acted as an incentive to earning such illicit incomes.¹⁴¹

Oxfam was among the first organizations to highlight the tax losses of developing countries. In 2000, in a report titled *Tax Havens: Releasing the Hidden Billions for Development*, it estimated that developing countries were losing almost three times in capital flight what they received in aid.¹⁴² A more recent assessment suggests that the combined transfer of financial assets from low- and middle-income countries to offshore accounts from the 1970s to 2010 was between \$7.3 and \$9.3 trillion, equivalent to nearly 10 times the annual GDP of the entire African continent.¹⁴³ In 2011 the UNDP found that Yemen had the fifth largest volume of illicit capital outflows (\$12 billion) of all the Least Developed Countries between 1990 and 2008, easily outstripping aid inflows.¹⁴⁴

Studies of illicit flows and corruption focus on the factors that cause capital to flow out of a country and the incentives that attract it elsewhere. Among the 'pull' factors are financial liberalization policies that facilitate the rapid transfer of large volumes of capital, and the scope to hide financial assets in secretive tax havens. 'Push' factors typically include the absence of strong institutions, weak protection of property rights and limited potential for returns on investment in the domestic economy.¹⁴⁵

Capital flight undermines domestic tax revenues that are needed to fund infrastructure development, deliver public services and 'establish bargaining relationships between governments and their citizens and build long-term institutional capacity'.¹⁴⁶ Tax collection agencies in countries that suffer high levels of capital flight are generally weak and fail to enforce collection, especially from elite actors with powerful domestic and international connections, limiting growth in government revenues. Governments in

138 The perverse incentives that global aid can create for local elites are explored by a recent multi-year research study by the University of Sussex, which found, for instance, that 'the global environment has provided unprecedented opportunities for elites with transnational connections to profit from weak governance and ongoing conflict. Effective policy interventions therefore need to focus on ways of shifting these perverse incentives.' Sue Unsworth, *An Upside Down View of Governance*, Institute for Development Studies, University of Sussex, 2010, p.18.

139 External grants to Yemen increased from around 1% of GDP in previous years to about 6% of GDP in 2012. 'Yemen: Reorienting Public Spending Would Create Jobs, Fight Poverty', *IMF Survey Magazine*, 31 July 2013, <http://www.imf.org/external/pubs/ft/survey/so/2013/car073013a.htm>.

140 Peter Reuter (ed.), *Draining Development? Controlling Flows of Illicit Funds from Developing Countries* (Washington, DC: World Bank, 2012), p. 471.

141 Mick Moore, 'Globalisation and Power in Weak States', *Third World Quarterly*, Vol. 32, No. 10, November 2011, pp. 1757–76.

142 Reuter, *Draining Development?*, p. 337.

143 'The Price of Offshore Revisited', Tax Justice Network, July 2012.

144 UNDP, 'Illicit Financial Flows from the Least Developed Countries: 1990–2008', p. 13.

145 Reuter, *Draining Development?*, p. 8.

146 Ronen Palan, 'The New Dependency Theory', The New Left Project, January 2013, http://www.newleftproject.org/index.php/site/article_comments/the_new_dependency_theory.

such scenarios tend to depend on taxes paid by smaller-scale players in the private sector who 'lack the political clout to get tax exemptions'.¹⁴⁷ Although they are not the sole contributing factor to weak tax collection, investment or growth, illicit flows have been found to '[discourage] domestic investment in poor countries, and therefore [reduce] rates of economic growth'.¹⁴⁸

Many of the classic symptoms of elite tax evasion and capital flight are apparent in Yemen. Much of what passed for political activity during the Saleh era constituted a squabble to control a greater share of the economy, and while the goal of political competition was profit, that profit did not often stay inside Yemen. Elite actors routinely used their private banking channels to transfer their money into safer, more profitable jurisdictions outside the country, often in more advanced economies. The ability of elite actors to transfer their personal wealth abroad limits their perceived need to strengthen institutions, as well as preventing effective domestic scrutiny or accountability.

Saleh did not empower technocrats who might regulate his control over the market and restrict his ability to apportion licit and illicit revenues. As a result, the business community operated in a weak legal environment, with a weak judiciary and weak property rights. During the 2000s, just as oil output began to shrink in reverse proportion to the degree of elite competition, greater international opportunities were opening up for those among Yemen's elite who could secure local assets to transfer to tax havens, provoking even greater competition.

Since Saleh's downfall, activists have repeatedly called for the seizure and repatriation of his foreign assets, echoing calls made in other MENA transition states. Such an attempt at asset recovery would be long, hard, complex and probably ultimately unrewarding work, and Saleh was not alone among Yemen's elite in playing the international system. The president and his rivals were well aware that, in a highly factionalized political environment, placing 'illicitly acquired money elsewhere in the world, above all in a tax haven, [was] the best protection against political

opponents or political successors' who might benefit from any reversals in fortune.¹⁴⁹ Following the 2011 uprising, the threat of sanctions against key regime figures has only perpetuated the tendency towards capital flight, according to a top Yemeni banker, while lawyers and financiers have noticed an increase in the number of wealthy Yemenis taking an interest in transferring their assets into tax havens.¹⁵⁰ Had a better domestic and international regulatory framework existed before 2011, it is likely that the flight of illicitly obtained capital would have been far more limited.

The international policy response

Western donors have begun to support investigations into individual cases of corruption and capital flight, involving 'politically exposed persons' who embezzle money from fragile and conflict-affected states. In 2012, DFID announced it had funded the London Metropolitan Police Service's ground-breaking effort to recover millions of pounds stolen from Nigeria's public purse by former Nigerian state governor James Ibori. The Ibori investigation acts as a benchmark for the recovery of stolen assets and a deterrent to other 'politically exposed persons', but systemic change in the governance environment of fragile and conflict-affected states depends on systemic curbs to capital flight, rather than specific intervention in individual cases.

Meanwhile, multilateral efforts to scrutinize the role of tax havens as a 'pull factor' for capital flight from fragile states have, until recently, had a low profile in the discourse among donor agencies promoting poverty reduction in these states. While the international community has established various fora to discuss the problems of money-laundering and corruption, tax havens have been slow to make it onto the agenda.

However, in the last few years, the OECD has begun to position itself on the risks posed to fragile and conflict-affected states by processes involved in economic and financial liberalization. In 2012, it released 'International Drivers of Corruption: A Tool for Analysis', which advised

147 Reuter, *Draining Development?*, p. 468.

148 Mick Moore, 'The Practical Political Economy of Illicit Capital Flows', Institute of Development Studies, November 2011.

149 Reuter, *Draining Development?*, p. 473.

150 Author interview, Sana'a, January 2013.

member states working in fragile states that it is essential to examine how international drivers contribute to corruption and weak governance within those states.¹⁵¹ In 2012 a (draft) consultation report circulated by the OECD DAC Network on Governance also warned that – as a priority – member states should ‘strengthen existing firewalls’ to prevent illicit financial flows from entering OECD countries. In July 2013, the organization published a plan to combat tax evasion, noting that ‘in developing countries, the lack of tax revenue leads to critical underfunding of public investment that could help promote economic growth’, and that ‘citizens have become more sensitive to tax fairness issues.’¹⁵²

Many of the remedies to capital flight proposed by development specialists revolve around technical measures, such as greater transparency on resource rents, commitment to international anti-corruption protocols, better data-gathering by tax authorities, stolen-asset recovery mechanisms, and better oversight of politicians’ personal finances.¹⁵³ Just as governance reforms in fragile and conflict-affected states depend on political will at the country’s highest level, so efforts to curb illicit financial flows from fragile states into global tax havens depend on collective action at the international level, notably on the part of governments of the leading OECD nations – many of which are considered tax havens or have tax havens as dependencies.¹⁵⁴

In June 2013, hosting the G8 summit, UK Prime Minister David Cameron pushed the issue of tax avoidance and tax havens to the top of the political agenda. The summit came after months of headlines about big multinational corporations minimizing their taxable profits in the United Kingdom by registering the bulk of their activities

in low-tax jurisdictions. Cameron secured support in principle for greater regulation of ‘profit-shifting’ by corporations, along with improved mechanisms for the coordination of taxation of such companies through information-sharing. He also gained some support for improving transparency on the beneficiaries of offshore accounts, effectively revealing ‘beneficial ownership’ – i.e. the names behind hidden companies, account holders and trusts.¹⁵⁵ However, beyond this headline commitment, both the fine details – including the extent to which developing countries affected by capital flight will be able to participate in future systems of tax-information exchange – and the necessary political momentum on the part of the G8 remain conspicuously absent.

As with the calls for ‘bread, freedom and social justice’ in other MENA transition states (where inequality and elite corruption have also been aggravated by capital flight), the demands of Yemenis are for fairer distribution and better management of the country’s resources.¹⁵⁶ Although most Yemenis welcome the development assistance provided by international donors, there is an increasing engagement by activists and local development workers with global debates about international aid and the complex relationships between ‘developed’ and ‘developing’ countries.¹⁵⁷ While Yemeni activists are understandably primarily focused on their domestic political context, international NGOs and policy-makers can support their attempts to hold their government to account by connecting them to the global debate on the impact of uninhibited capital flows. This would enhance the international understanding of the consequences of capital flight on ‘fragile states’ by contributing potent on-the-ground perspectives.

151 OECD, *Fragile States 2013*.

152 OECD, ‘Action Plan on Base Erosion and Profit Shifting’, July 2013, <http://dx.doi.org/10.1787/9789264202719-en>, p. 8.

153 Moore, ‘Globalisation and Power in Weak States’, p. 1773.

154 According to the 2011 Financial Secrecy Index, Switzerland, the Cayman Islands and Luxembourg ranked in the top three, followed by Hong Kong, the United States and Singapore. The United Kingdom was ranked in 13th place, behind Jersey, Japan, Germany, Bahrain, the British Virgin Islands and Bermuda. British interests in the offshore system are stronger than the index initially suggests, because Jersey, the Cayman Islands and the British Virgin Islands are all British jurisdictions; and 98 per cent of the world’s top 500 banks maintain subsidiaries in the Cayman Islands. Action Aid estimates that the United Kingdom is currently responsible for one in five tax havens globally, with roughly one-third of all international deposits and investments taking place in these jurisdictions. <http://www.financialsecrecyindex.com/2011results.html>.

155 The United Kingdom’s overseas territories and crown dependencies also signed up to core international principles on tax information exchange. ‘G8 summit and tax evasion: what’s really been achieved?’, *The Guardian*, 18 June 2013.

156 Léonce Ndikumana and James K. Boyce, *Capital Flight from North African Countries*, University of Massachusetts Amherst Political Economy Research Institute Research Report, October 2012.

157 For example, the youth-organized debate that aimed to engage Sana’a based diplomats and aid workers: ‘Foreign Aid to Yemen Caused More Harm than Good’, #SupportYemen, <http://supportyemen.org/video/foreignaid/>.

Strategic implications

Since early 2011, a series of crises and surprises in the Middle East and North Africa have complicated efforts to revise the strategy of external actors towards a rapidly changing region. Western governments are still in the process of refining and clarifying their own strategic objectives and approaches, but it is unclear to what extent they are redefining these, especially at a time when US policy is increasingly focused on China, and when key European governments have much to preoccupy them at home – including their own economic problems and corruption scandals. The Arab uprisings showed that a system of military autocracies thought to be stable was hollow and fragile, and yet policy-makers' notions of stability, security and fragility have barely begun to be revised.

Nor have economic policy prescriptions changed dramatically, despite the mass expressions of frustration with governments whose economic liberalization policies were broadly praised by foreign investors and multilateral financial institutions. The attention being paid to the Islamist-versus-secularist debates, while important, can also serve as a distraction from questions about whether the transitions set in motion in 2011 represent change to the underlying economic models or socio-political structures – the weaknesses of which ultimately helped to drive the wave of unrest. There has been little in the way of international debate about alternative ways of approaching global economic integration and more inclusive models of capitalism. In the case of Egypt, increasing attention is now being paid to the role of Mubarak-era economic actors in supporting the overthrow of the country's first elected president, Mohammed Morsi, in July 2013.

Given the wider risks that economic factors could derail the Arab world's political transitions, Yemen offers a useful case study for the political economy of the Arab Spring. But this is complicated by the fact that Yemen also falls within international strategic frameworks for fragile states policy and state-building, as well as the global war on terror. This means that competing objectives among different donors and agencies can discourage or hamper reform efforts.

A focus on security and counter-terrorism tends to dominate both Western and Gulf approaches to Yemen. As long as AQAP retains a significant presence in Yemen, the United States, the United Kingdom and Saudi Arabia will continue to regard Yemen as a priority threat to national security interests. This, in turn, affects the contours of the possible in Yemeni politics. Both Saudi Arabia and the United States also regard the prospect of Iranian activity in the country with anxiety. Western governments tend to regard Gulf assessments of Iranian influence in Yemen as overplayed, but the potential remains for that influence to grow, depending on events in Syria and the broader Iranian–Saudi 'cold war' in the region.

Within the security focus, conflicts and compromises may occur between short-term objectives and longer-term, more holistic approaches to human security. In terms of the underlying drivers of radicalism, some Yemenis may be attracted to ideologically radical revolutionary movements because of weaknesses in the domestic political system that frustrate and anger a far larger spectrum of people, adding to the attraction of non-state actors and creating pressures for change. As indicated in the first chapter of this report, the 2011 uprising did not resolve the fundamental problem of the lack of legitimate political institutions for competing political demands to be negotiated within the state. While there is some understanding of the need to address long-term 'hearts and minds' issues – including the anti-US sentiment fostered by drone attacks – short-term security objectives, such as high-priority assassinations carried out by drones, tend to dominate the agenda. In terms of risks to policy, some Western policy-makers express concern that another major terrorist attack linked to Yemen could further distort their objectives, focusing their home governments on short-term 'quick wins' rather than long-term development goals.

Multilateral actors, namely the UN and the GCC, have proved to be important international players in Yemen. Since the uprising the former has played a balancing and stabilizing role in the country. Benomar's personal commitment and his regular presence in Yemen have contributed to the momentum behind the transition process. The progress of the National Dialogue to date

represents a considerable achievement, given the number of political actors involved in the talks, the diversity of objectives and the proxy structure of patronage politics – but the degree to which the Dialogue will be effective at implementing change is far from certain. Moreover, the UN's main leverage at the outset of the transition was the threat of sanctions, which – in turn – depended upon the united stance of the UN Security Council. Two years on, Yemen's elites have had plenty of time to protect their wealth, and there is a risk of future divisions in the Security Council between veto-wielding powers that are currently at odds over Syria.

Exploiting international strategies

Yemen itself is a weak state within the international system, with no ability to make or shape the formal rules of the game. It is largely an object of other international counter-terrorism and development policies, rather than playing a role in defining them at the international level. However, Yemen's elites are adept at using the powers that the weak have in such asymmetric situations, specifically in using their better knowledge of the local terrain to shape the way in which global policies and rules are implemented locally, and in so doing, to co-opt the process to their own interest – for instance, in using the tropes and rhetoric of the 'war on terror' to confront local enemies. Understanding the political economy of Yemen's military and the ways the war on terror has played out in the country is critical to understanding elite incentives and behaviour.

There remain questions about whether the transition process will be limited to a rotation of elites, or turn out to be the start of systemic change. There is also some uncertainty about which scenario the various international actors would prefer.

The underlying danger posed by the transition is that, in taking a gradualist approach, the international community and Yemenis will defer and delay important decisions on necessary reforms – a mistake that the country simply cannot afford to make. The outcome, in turn, would probably force those donors focused on counter-terrorism to commit growing sums of money to Yemen to prop up

the economy and prevent a renewed humanitarian crisis, with no end-point for their engagement. The necessary reforms have been blocked in the past precisely because they would have hurt elite interests. Implementing them would not only set Yemen on a more sustainable economic path, it would also weaken the most corrupt members of the old regime who are still politically and economically dominant.

Ordinary Yemenis need to see some kind of progress soon – either through the National Dialogue or in the basic services the government provides. The government is unlikely to provide substantive change, yet foreign policy-makers will find it hard to resist the temptation to push for the transition process to be extended in order to ensure that the current fragile peace is maintained, especially while Hadi works to end the threat of Al-Qaeda and chips away at Saleh's residual power. But with confidence in the transition waning, and Yemenis already suspicious of foreign motives, a lengthy delay could well lead to renewed unrest – which in turn would be exploited by the elite actors who perceive Hadi as a threat to their interests.

Elections held while Saleh remains president of the GPC will be fractious, and could spark renewed conflict if the party prevails, whether or not Saleh is given a prominent government post. While there are arguments for gradual transition, the fact is that some decisions – on the economy, and on Saleh – cannot be delayed for much longer.

The likelihood of crisis

There are arguments for allowing Yemen's elites to enjoy their wealth as part of a settlement where they can make a 'graceful exit' from politics – as seems to have been intended with Saleh. Yemen is essentially undergoing a negotiated transition rather than a full-scale revolution. Some analysts have cautioned in other contexts that radical challenges to property rights may result in a negotiated transition being halted or reversed.¹⁵⁸ However, Yemen may be a case where the status quo, heavily based on the extraction of rents from an increasingly resource-depleted economy and from illicit revenues in a state riddled with

158 Guillermo O'Donnell and Philippe C. Schmitter, *Transitions From Authoritarian Rule: Tentative Conclusions About Uncertain Democracies* (Baltimore, MD: Johns Hopkins University Press, 1986).

security vulnerabilities, is itself profoundly unsustainable and prone to further destabilization (in contrast to a political economy where the military dominates industrial production, for instance).

The GCC deal has bought political time, but it cannot buy economic time. Despite rhetorical commitments to donors and international financial institutions, the government will continue to defer painful reforms, and its underlying economic challenges will continue. To some extent, Yemen will hope to be seen as ‘too big to fail’, and therefore to be bailed out by continued aid from Western donors and Saudi Arabia, raising some moral-hazard risks. Dependence on Gulf aid, relative to Western aid, is likely to increase as Western development budgets are squeezed. The OECD predicts that about half of the states it defines as ‘fragile’ will receive less programmable aid in 2015 than in 2012 as a consequence of smaller overseas development budgets in Western countries.¹⁵⁹

There are longer-term questions about Saudi Arabia’s ability to bankroll a host of regional governments,¹⁶⁰ but Saudi funding is likely to remain available for at least the next decade unless there is a long-term fall in oil prices. Gulf aid tends to be a combination of budget bailouts, investment earmarked for infrastructure projects and less transparent funding to tribal allies. But the Gulf states too have an interest in a more stable economic future for Yemen. Put bluntly, there are risks attached to being some of the world’s wealthiest countries right next to one of the world’s poorest.

Particularly for Saudi Arabia, which shares a long and porous border with Yemen, there are significant risks of increased refugee flows as Yemen’s water and oil resources are increasingly depleted. In his June 2013 abdication speech, Qatar’s departing emir, Sheikh Hamad bin Khalifa Al Thani, flagged the need for the Arab nation, not just one part of it, to be prosperous – indicating an awareness that the concentration of wealth in the Gulf

can also spark resentment and divisions in the broader Arab world. There are various areas where the GCC states could assist Yemen towards sustainable development – for instance in food security, which is a major strategic focus for them, notably for Qatar and Saudi Arabia. Providing employment opportunities, given their demand for foreign workers, is another, though not without its own security and political complications.¹⁶¹

While there are opportunities to improve the management of Yemen’s economy, the resource challenges facing the Arab world’s least developed economy imply a bleak outlook. Broader global trends including climate change and commodity price shocks will have particularly adverse effects on an under-resourced country such as Yemen. While donor and international financial institution narratives often have an optimistic, benign-scenario bias, policy-makers need to make contingency plans and develop risk mitigation strategies for future worst-case humanitarian, political and economic scenarios.¹⁶² Chronic hunger, massive refugee flows, violent election disputes, or other outbreaks of internal or cross-border violence are all very real possibilities.

All futures that fail to address Yemen’s underlying structural problems – such as resource depletion, elite rivalry and parallel patronage networks coming under increasing strain – will be unstable and tend towards crisis. Successful reform requires a fundamental shift in the thinking of the country’s elites towards a strategic vision that recognizes the necessity of wide-ranging change in order to establish a more sustainable business model.

Elite assets, stolen sovereign wealth, and tax havens

The behaviour of Yemen’s elites during the 2011 uprising demonstrated that they were motivated to make a political compromise once their personal wealth was at stake (rather than being motivated by the prospect of severe social unrest alone). The threat of sanctions and asset-freezing

¹⁵⁹ OECD, *Fragile States 2013*, ‘The long trend of growth in ODA to fragile states is at serious risk given the current fiscal crunch in OECD countries ... This ODA fall is likely to occur at the same time as poverty is becoming increasingly concentrated in fragile states.’

¹⁶⁰ Saudi aid has been pledged to Bahrain, Oman, Jordan and Egypt, among others, since the start of the Arab uprisings.

¹⁶¹ Jessica Forsythe, ‘Opportunities and Obstacles for Yemeni Workers in GCC Labour Markets’, Chatham House Programme Paper, September 2011, <http://www.chathamhouse.org/publications/papers/view/178569>.

¹⁶² See ‘Yemen: Scenarios and Indicators’, Meeting Summary, Chatham House, MENA Programme, August 2012, <http://www.chathamhouse.org/publications/papers/view/185353>.

was compelling, but will become less effective over time, as elites conscious of the risks to their assets find ways to hide them. While foreign diplomats are focused on marshalling the National Dialogue talks to keep the political process on track, neither the United States nor the UN has proved willing to enforce the threat of sanctions, although the United States in particular has scope for action, given that Saleh family assets are invested there. UN sanctions would require Security Council approval, and although the permanent members have signalled their willingness, achieving agreement on the details (who and what would be involved, and when) may be difficult. In fact, the moment for sanctions may already have passed.¹⁶³

The chronic problem of capital flight links Yemen to a wider global governance debate over tax havens. As long as the country's elites are able to systematically extract rents from oil, smuggling and aid, and siphon them out of the country, they have little or no incentive to improve the domestic governance environment. They would have an incentive to do so if they were more connected to the fate of the domestic economy and if there were greater scrutiny over their financial transactions.

Instead, while the elites compete over control of rents, their sources are diminishing and very little is being done to develop future economic production in a country that is short on natural resources and barely investing in human resources. There is – as yet – little sign of an adequate policy response to the need to transition to a post-oil economy, deal with vulnerability to commodity price rises in an economy where virtually all wheat and rice is imported, or tackle the effects of climate change, which is set to further compound the long-term upward pressure on world food prices.¹⁶⁴ These resource challenges seem likely to create an increasingly complex security environment, given that violence over land and water already claims thousands of lives each year.¹⁶⁵

Beyond the elites

While Western governments have plenty to preoccupy them elsewhere, understanding the complexities of an Arab world no longer dominated by such small elite circles is an increasingly complicated, but necessary, task requiring analysis of a broader range of actors.

One of the immediate lessons of the Arab uprisings was the importance of youth-led popular movements and activist networks, which had been underestimated by most Western governments before 2011. Yet in 2012, as elections in the Arab transition countries empowered more traditional political parties, Western analysts again began to write off the youth and the streets as though their influence had run its course. But this has been premature. The sudden overthrow of Morsi,¹⁶⁶ Egypt's first elected president, in 2013, which largely took Western governments by surprise, may again indicate the need for them to move beyond their traditional tendency to build relations with key power-holders and to diversify their contacts to a far broader base in politically fragmented societies.

Western policy-makers have been confounded by the fluidity and multiplicity of these movements' constituent parts and their lack of unified representation. Western diplomats – often personally sympathetic to these movements – have made efforts to reach out to Yemen's youth activists, frequently emphasizing the need for them to provide coherent, precise and prioritized demands in order to have greater impact on the policies of international actors.¹⁶⁷ However, despite some activists choosing to join political parties, Yemen's revolutionary youth counter that it is precisely their diversity that gives the movement strength and defines its ethos. Mirroring the global trend towards decentralized protest movements, the Yemeni uprising sought to challenge established hierarchies and the way of doing politics in the country, not merely the corruption and abuse of Saleh's regime.

¹⁶³ UN Security Council Resolution 2051.

¹⁶⁴ See Manfred Wiebelt, Clemens Breisinger, Olivier Ecker, Perrihan Al-Riffai, Richard Robertson and Rainer Thiele, *Climate Change and Floods in Yemen: Impacts on Food Security and Options for Adaptation*, International Food Policy Research Institute, Discussion Paper 01139, December 2011.

¹⁶⁵ Small Arms Survey, 'Under Pressure: Social Violence over Land and Water in Yemen', Yemen Armed Violence Assessment, Issue Brief No. 2, October 2010.

¹⁶⁶ While much of the initial Western media analysis focused on the Muslim Brotherhood and the Egyptian military as the key actors, popular mobilization and grassroots activism were an important part of the picture.

¹⁶⁷ For example, 'After the National Dialogue: Where Next for Yemen's New Politics?', Chatham House Meeting Summary, March 2013, <http://www.chathamhouse.org/publications/papers/view/193019>.

While Sana'a's Change Square (and similar protest camps across Yemen) has now been largely dismantled, the legacy of the movement is likely to be felt in the new sense of agency attained by the young people who participated. Activists who identify with the movement are pursuing their aims through multiple avenues – joining political parties, creating new NGOs or pressure groups, and participating in the National Dialogue. Expectations are gradually being shifted: tribal grandees were shocked to find youth representatives at the National Dialogue grabbing the seats at the front of the hall during plenary meetings. As Egypt's Tamarrod – the protest movement which mobilized huge demonstrations against Morsi – has demonstrated, once the groundwork of establishing a wide network has

been undertaken, popular movements can be rapidly mobilized again in the face of a unifying cause. Yemen's movement has also offered a powerful model for non-violent political activism, an important legacy for a country with a recent history of civil war.

Foreign diplomats and policy-makers will always be limited in the extent to which they can influence, interact with and perhaps even fully understand such movements. This is due both to their own restricted capacity (in terms of time and mobility in a challenging security environment) and to the complexity of the phenomenon. Nevertheless, new approaches to diplomacy – beyond a handful of well-cultivated relationships with established elites – will make policy-makers more alert to the openings for change that such movements can provide.

5. Conclusion

Yemen offers a useful case study for the political economy of the Arab Spring, as well as the hazards and limitations of international fragile states and ‘war on terror’ policies. In addition, at a time when tax evasion and tax justice are hotly debated throughout the West, Yemen’s case highlights the interplay between domestic political processes and international drivers of corruption, reflecting structural changes to the global governance system in the last four decades.

The 2011 uprising and ensuing transition of power from Saleh to Hadi mark the latest stage in a much longer-term process of state-formation in Yemen. The outcome of the National Dialogue and subsequent constitutional revisions will influence the future structure of the state, as will future resistance from spoilers and non-state armed groups. A stable new political settlement will not be forged in a matter of months. Instead, it will take years – or even decades – to achieve lasting change.

Meanwhile, Yemen confronts a number of high-risk factors that, even with a united elite and capable government, would pose substantial challenges. The transition to a post-oil economy and the looming budgetary crisis forced by falling oil production represent the greatest risk to a successful political outcome. According to the World Food Programme, nearly a million Yemeni children are acutely malnourished and half the population – 10 million people – rely on food assistance. All futures that fail to address Yemen’s underlying structural problems – such as resource depletion, elite rivalry, parallel patronage

networks coming under increasing strain and an unsustainable political economy – will be unstable and tend towards crisis.¹⁶⁸

Political economy analysis can help Yemen’s donors, mindful of worsening humanitarian conditions, to improve their risk mitigation strategies. It tends to be seen as the preserve of donors and development practitioners, but it can also usefully inform diplomacy, by illuminating the power of informal networks that affect the behaviour of government ministers in ways that Western diplomats might otherwise find hard to predict. Similarly, it can help Western donors, diplomats and defence ministries to understand better the local political economy created by their own engagement.

In Yemen, as elsewhere in the region, such an approach provides Western policy-makers with the analytical tools to understand the full impact of the liberalization policies and military assistance that have been promoted by their predecessors over the previous two or three decades, and the ways in which this assistance has been co-opted by local elites. (Among the notable examples here is the exploitation of post-9/11 US military assistance by Saleh’s immediate family to strengthen its position in the regime relative to other factions, to an extent described by one interviewee as building a ‘parallel state’. While assistance was intended to stabilize Yemen, the way it was co-opted generated resentment that ultimately contributed to intra-army splits severe enough to destabilize the regime and lead to open conflict.) Political economy analysis also allows for systemic interpretation of those policies on a global scale. To a certain extent, Saleh’s ousting and Hadi’s accession to the office of president are the latest example of Yemeni leaders forging – and losing – authority as a result of this interplay between domestic, regional and international pressures.¹⁶⁹

A growing body of literature has demonstrated that, since the end of the Cold War, international financial deregulation has accelerated the global rate of capital flight from fragile states. Tackling illicit financial flows to global tax havens requires effective collective action at the

¹⁶⁸ ‘Yemen: Scenarios and Indicators’.

¹⁶⁹ Hill, *Yemen*.

international level, especially among OECD countries. The United Kingdom is an OECD member state with a pivotal role in the offshore banking system – roughly a third of all international deposits and investments take place in British jurisdictions.¹⁷⁰ However, effective multilateral action on tax havens lies a long way off, and may not be possible, given the sheer volume of shadow banking in the modern financial system.

Prime Minister David Cameron has pushed the issue of tax evasion onto the G8 agenda, proposing that tax havens enforce greater transparency on the companies that they register. He is no doubt alert to the electoral risks of ring-fencing the United Kingdom's aid spending when recipient elites are known to be stashing their personal wealth in global tax havens at a time of severe cuts in British public spending. But the problem lies with the broader global governance environment, not with DFID's country programmes, which apply stringent safeguards against misappropriation of funds. For obvious reasons, specific patterns of capital flight from fragile states like Yemen remain unclear, but at least some of this money is likely to be held in British dependencies and other Western tax havens.

To date, Western policy-makers have tended to frame the narrative of 'fragile states' in terms of the risks and threats that they pose to the international order, such as through enabling transnational organized crime and terrorism. To a certain extent, aid spending has been appropriated to mitigate these risks, as well as to alleviate poverty. This highlights a strategic tension in Western policy: while Western citizens are indeed vulnerable to the effects of instability in fragile states, they may also find themselves unwittingly complicit in an international system that facilitates capital flight and itself increases fragility.

Indeed, once patterns of capital flight from fragile states like Yemen are built into political economy analysis, it is clearer that the current system of international capital flows and sovereign wealth transfers is contributing to the problem. As such, the role of tax havens should be

included in the revised Millennium Development Goals beyond 2015. Without further action on this front, the world confronts the prospect of the normalization of fragile states, where 'weak governance and continuous internal conflict ... become routine.'¹⁷¹ At the same time, broader global trends – such as rising commodity prices, environmental degradation, energy depletion and climate change – pose particular risks to already vulnerable and impoverished states such as Yemen.¹⁷²

The deep questions raised by the global financial crisis – including the right relationship between states and markets – remain unanswered, and a wide variety of social movements around the world are questioning the social legitimacy of post-Cold-War liberal economic policies designed to roll back the state, even as states face financial pressures to reduce their role still further. Street riots, food banks and long-term pressures on public spending raise parallel questions about future levels of resilience in Western societies, as well as in fragile states. In Yemen, as elsewhere, the answers depend in no small part on the way in which elites perceive the problem of poverty and the extent to which they believe it threatens their own legitimacy, interests and future stability.¹⁷³ The Arab uprisings demonstrated that ordinary people have the power to remove their head of state, yet it is not clear what levers they have to displace political and economic elites. Contested and sometimes violent processes of negotiating new bases for political legitimacy, economic policy and greater equality will form the dominant story of the coming decade.

Recommendations

Yemen's transition should be seen in the context of a prolonged process of state formation, and the international community must both support the development of political legitimacy in the country and prepare for the likelihood of ongoing instability:

170 Ronen Palan, 'International Financial Centres: The British-Empire, City-States and Commercially Oriented Politics', *Theoretical Inquiries in Law*, Vol. II, No.1, pp. 149–76, January 2010.

171 Moore, 'Globalisation and Power in Weak States' p. 1773.

172 OECD, *Fragile States 2013*.

173 Alice H. Amsden, Alisa Di Caprio and James A. Robinson (eds), *The Role of Elites in Economic Development* (Oxford University Press, 2012).

- The process of building a stable new political settlement is likely to extend far beyond the framework of the current two-year transition arrangement, requiring sustained high-level international engagement.
- Western governments and the United Nations need to maintain their commitment to previously marginalized social and political actors, beyond the expiry of the transition timeframe.
- Successful elections – if elections are held at all – will not necessarily translate to an immediate sense of improved legitimacy, and policy-makers therefore need to prepare for future political unrest.
- With hoped-for structural reforms unlikely to take place in the near to medium term, the international community needs to plan for scenarios where Yemen becomes significantly poorer and hungrier. Western governments, Gulf donors and international aid agencies should build contingency planning into their country and long-term operational strategies; food security should remain a high policy priority.
- Yemen's emerging political leaders and youth activists have important critiques of enduring elite patronage networks and need to be better enabled to contribute to the international policy debate about their country.

International factors have acted both as a force for stability in Yemen and as a source of risk. Economic reform and improved political legitimacy in Yemen depends in part on international action in several areas:

- Western and Gulf donors need more effective strategic planning to reconcile the differences and trade-offs between short-term security and counter-terrorism priorities, and longer-term political and economic development objectives, including taking into account the impact of drone strikes on the local legitimacy of Yemen's government.
 - Western donors need to widen the scope of their political economy analysis to address the interaction between domestic and international factors that cause corruption and governance weaknesses in Yemen, including the role of global tax havens as a 'pull' factor for capital flight. Further research is also needed to identify specific patterns of capital flight from Yemen.
 - Prime Minister David Cameron should continue to highlight tax compliance during the United Kingdom's final months as G8 president, and ensure that all British dependencies keep pace with UK reforms. The revised global development framework to replace the Millennium Development Goals from 2015 onwards should also highlight the need for international tax transparency.
 - Western civil society organizations supporting political inclusion in Yemen should broaden their agenda to facilitate policy dialogue on questions of tax transparency and help emerging political leaders and youth activists in Yemen participate in the global debate about corruption, capital flight and international tax reform.
- Mainstreaming the use of political economy analysis and improving understanding of elite incentives will enable the international community to maximize their collective leverage for structural change in Yemen:
- Understanding the informal networks, and family and business interests, that link key elite players is vital to assessing the likelihood of success of formal institutional and constitutional reforms.
 - Further research is needed to understand the impact of the transition process on the political economy: Western donors and the World Bank should commission a dynamic, interactive study capable of tracking changes to the substructure of the regime during the course of the transition period and beyond.

Appendix: The Gulf Cooperation Council Initiative¹⁷⁴

The signatories to this Agreement, desirous of achieving a political settlement of the crisis in Yemen, acting in accordance with the terms of the initiative proposed by the Gulf Cooperation Council on 21 April 2011 and pursuant to the following basic principles:

- That the solution resulting from this Agreement shall preserve the unity, security and stability of Yemen;
- That the Agreement shall fulfil the aspirations of the Yemeni people for change and reform;
- That the transfer of power shall be smooth, secure and based on national consensus in order to avoid a descent into anarchy and violence;
- That all parties are committed to removing the sources of tension in political and security terms;
- That all parties are committed to ending all forms of reprisals, pursuit and prosecution by extending guarantees and pledges towards that end;

Have agreed on the following implementation steps;

1. On the first day of the Agreement, the President of the Republic shall request the opposition to form a government of national unity with 50 per cent representation from either side. That government

shall be formed no later than seven days after his request.

2. The newly formed government shall create the appropriate atmosphere in order to achieve national consensus and put an end to the sources of tension in political and security terms.
3. On the 29th day after the Agreement enters into force, Parliament, including the opposition, shall adopt laws granting immunity from legal and judicial prosecution to the President and those who worked with him during his time in office.
4. On the 30th day after the Agreement enters into force, once Parliament, including the opposition, has adopted the law on safeguards, the President of the Republic shall tender his resignation to Parliament. When Parliament has accepted his resignation, the Vice President shall become the legitimate President by appointment.
5. The President by appointment shall call for presidential elections within 60 days in accordance with the Constitution.
6. The new President shall establish a constitutional committee to oversee the preparation of a new constitution.
7. When complete, the new constitution shall be submitted to a popular referendum.
8. If the constitution is approved by referendum, a timeframe for parliamentary elections shall be determined in accordance with the new constitution.
9. After the elections, the President shall request the Chair of the party that has gained the greatest number of votes to form a government.
10. The States members of the Gulf Cooperation Council, the United States of America, the European Union and the Russian Federation shall be witnesses to the implementation of this Agreement.
11. This Agreement has been prepared in four original copies in the Arabic language. It shall enter into force on the date when all parties have signed it.

¹⁷⁴ UN translation.

Agreement on the Implementation Mechanism for the Transition Process in Yemen in Accordance with the Initiative of the Gulf Cooperation Council

In the name of God, the Merciful, the Compassionate

Agreement on the implementation mechanism for the transition process in Yemen in accordance with the initiative of the Gulf Cooperation Council (GCC)

Contents:

- Part I Introduction
- Part II The transition period
- Part III First phase of the transition
- Part IV Second phase of the transfer of power
- Part V Settlement of disputes
- Part VI Concluding provisions
- Annex: Draft Presidential Decree

Part I. Introduction

1. The two parties recognize that
 - a) As a result of the deadlock in the political transition, the political, economic, humanitarian and security situation has deteriorated with increasing rapidity and the Yemeni people have suffered great hardship;
 - b) Our people, including youth, have legitimate aspirations for change; and
 - c) This situation requires that all political leaders should fulfil their responsibilities towards the people by immediately engaging in a clear process for transition to good democratic governance in Yemen.
2. The two parties deeply appreciate the efforts of the Gulf Cooperation Council (GCC) and its Secretary-General, the United Nations [Secretary-General] acting through his Special Adviser, the ambassadors of the five permanent members of the Security Council, and those of the GCC and the European Union, to support an agreement on the peaceful transfer of power. The two parties adopt this Mechanism on the basis of the GCC initiative and fully in accordance with United Nations Security Council resolution 2014 (2011).

3. The following definitions shall apply in relation to this Agreement:

- a) The term 'GCC Initiative' refers to the GCC initiative to resolve the Yemeni crisis in the draft of 21 and 22 May 2011;
- b) The term 'the Mechanism' refers to this Agreement on the implementation mechanism for the transition process in Yemen in accordance with the GCC Initiative;
- c) The term 'the two parties' refers to the National Coalition (General People's Congress and its allies) as one party, and the National Council (Joint Meeting Parties their partners) as the other.

4. The GCC Initiative and the Mechanism shall supersede any current constitutional or legal arrangements. They may not be challenged before the institutions of the State.

Part II. The transition period

5. The two parties acknowledge that under Presidential Decree No. 24 of 2011, the President of Yemen irrevocably delegated to the Vice President the presidential powers to negotiate, sign and bring into force this Mechanism, along with all constitutional powers pertaining to its implementation and follow-up. Those powers include calling for early elections and taking all of the decisions necessary to form a government of national unity, including swearing in its members, as well as establishing the other bodies set forth in this Mechanism.

6. The transition period shall enter into effect as follows:

- a) In accordance with United Nations Security Council resolution 2014 (2011), which notes the commitment by the President of Yemen to immediately sign the GCC Initiative and encourages him, or those authorized to act on his behalf, to do so, and to implement a political settlement based upon it, and in accordance with Presidential Decree No. 24 of 2011, the President or the Vice President acting on his behalf shall sign the GCC Initiative concurrently with the signature of this Mechanism by the two parties.
- b) Concurrently with the signing of this Mechanism, and acting under the powers delegated by the President in

Presidential Decree No. 24 of 2011, the Vice President shall issue a decree providing for early presidential elections to be held within 90 days of the entry into force of this Mechanism. In accordance with the relevant provisions of the Constitution, the decree shall enter into force 60 days before the elections. The draft text of the Decree is annexed to this Mechanism (Annex 1).

c) This Mechanism shall enter into force when the President or Vice President has signed the GCC Initiative, all parties have signed this Mechanism in accordance with this paragraph, and the decree referred to in subparagraph (b) above has been issued.

7. The transition period shall begin with the entry into force of this Mechanism. The transition period shall then consist of two phases:

a) The first phase shall begin with the entry into force of this Mechanism and end with the inauguration of the President following the early presidential elections;

b) The second phase, which shall last for two years, shall begin with the inauguration of the President following the early presidential elections. It shall end with the holding of general elections in accordance with the new Constitution and the inauguration of the new President of the Republic.

8. During the first and second stages of the transition, decisions of Parliament shall be taken by consensus. If consensus on any given topic cannot be reached, the Speaker of Parliament shall refer the matter for decision by the Vice President in the first phase, or the President in the second phase. That decision shall be binding for the two parties.

9. The two parties shall take the necessary steps to ensure that Parliament adopts the legislation and other laws necessary for the full implementation of commitments in respect of the guarantees set forth in the GCC Initiative and this Mechanism.

Part III. First phase of the transitional period

Formation of the government of national unity

10. Immediately on entry into force of the GCC Initiative and the Mechanism, the opposition shall nominate its

candidate for the post of Prime Minister. The Vice President shall issue a presidential decree requesting that person to form a government of national unity. The government of national unity shall be formed within 14 days of the issuance of the decree. A republican decree shall be issued to that effect and signed by the Vice President and Prime Minister;

a) Each party shall account for 50 per cent of nominees for the government of national unity, and due consideration shall be given to the representation of women. With regard to the distribution of portfolios, one of the two parties shall prepare two lists of ministries and transmit them to the other party, which shall have the right to choose one of the lists.

b) The Prime Minister-designate shall appoint the members of the government as proposed by the two parties. The Vice President shall then issue a decree setting forth the agreed names of the cabinet members. Nominees shall have a high standard of accountability and commitment to human rights and international humanitarian law.

11. The members of the government shall take the constitutional oath before the Vice President. Within ten days, the government of national unity shall submit its programme to Parliament for a vote of confidence within five days.

Functioning of the government of national unity

12. The government of national unity shall take its decisions by consensus. If there is no full consensus on any given matter, the Prime Minister shall consult with the Vice President or, after the early presidential elections, the President, in order to reach consensus. If consensus between them is not possible, the Vice President or, after the early presidential elections, the President, shall take the final decision.

13. Immediately after its formation, the government of national unity shall

a) Take the necessary steps, in consultation with the other relevant actors, to ensure the cessation of all forms of violence and violations of humanitarian law; end the confrontation of armed forces, armed formations, militias and other armed groups; ensure their return to barracks;

ensure freedom of movement for all through the country; protect civilians; and take the other necessary measures to achieve peace and security and extend State control;

- b) Facilitate and secure humanitarian access and delivery wherever it is needed;
- c) Issue appropriate legal and administrative instructions for all branches of the State sector to comply immediately with standards of good governance, the rule of law and respect for human rights;
- d) Issue specific legal and administrative instructions to the Office of the Public Prosecutor, the police, prisons and security forces to act in accordance with the law and international standards, and to release those unlawfully detained;
- e) The government of national unity shall comply with all resolutions of the Security Council and Human Rights Council and with the relevant international norms and conventions.

Powers of the Vice President and government of national unity

14. In implementing this Mechanism, the Vice President shall exercise the following constitutional powers, in addition to those appertaining to his office:

- (1) Convening early presidential elections;
- (2) Exercising all functions of the President in respect of Parliament;
- (3) Announcing the formation of, and swearing in, the government of national unity in the first phase;
- (4) All functions relating to the work of the Committee on Military Affairs for Achieving Security and Stability;
- (5) Managing foreign affairs to the extent necessary for the implementation of this Mechanism;
- (6) Issuing the decrees necessary for the implementation of this Mechanism.

15. In the first phase, the Vice President and government of national unity shall exercise executive authority encompassing all matters pertaining to this Agreement, including the following, acting in conjunction with Parliament where appropriate:

- a) Formulating and implementing an initial programme of economic stabilization and development and addressing

the immediate needs of the population in all regions of Yemen;

- b) Coordinating relations with development donors;
- c) Ensuring that governmental functions, including local government, are fulfilled in an orderly manner in accordance with the principles of good governance, rule of law, human rights, transparency and accountability;
- d) Approving an interim budget, supervising the administration of all aspects of State finance and ensuring full transparency and accountability;
- e) Taking the necessary legislative and administrative steps to ensure that presidential elections are held within 90 days of the entry into force of this Mechanism;
- f) Establishing the following institutions as provided for by this Mechanism:

- (1) Committee on Military Affairs for Achieving Security and Stability;

- (2) Conference for National Dialogue.

- g) The government of national unity and the Vice President shall immediately establish a liaison committee to engage effectively with youth movements from all parties in the squares and elsewhere in Yemen, to disseminate and explain the terms of this Agreement; initiate an open conversation about the future of the country, which will be continued through the comprehensive Conference for National Dialogue; and involve youth in determining the future of political life.

Committee on Military Affairs for Achieving Security and Stability

16. Within five days of the entry into force of the GCC Initiative and the Mechanism, the Vice President in the first transitional phase shall establish and chair a Committee on Military Affairs for Achieving Security and Stability. The Committee shall work to

- a) End the division in the armed forces and address its causes;
- b) End all of the armed conflicts;
- c) Ensure that the armed forces and other armed formations return to their camps; end all armed presence in the capital Sana'a and the other cities; and remove militias and irregular armed groups from the capital and other cities;

- d) Remove roadblocks, checkpoints and improvised fortifications in all governorates;
- e) Rehabilitate those who do not meet the conditions for service in the military and security forces;
- f) Take any other measures to reduce the risk of armed confrontation in Yemen.

17. During the two transitional phases, the Committee on Military Affairs for Achieving Security and Stability shall also work to create the necessary conditions and take the necessary steps to integrate the armed forces under unified, national and professional leadership in the context of the rule of law.

Early presidential elections

18. The early presidential elections shall be held in accordance with the following provisions:

- a) The elections shall take place within 90 days of the signature of the GCC Initiative and the Mechanism;
- b) The early elections for the post of President shall be organized and supervised by the Higher Commission for Elections and Referendums using the current register of voters on an exceptional basis. Any citizen, male or female, who has attained the legal age for voting and can establish as much on the basis of an official document such as a birth certificate or national identity card, shall have the right to vote on the basis of that document;
- c) The sides commit not to nominate or endorse any candidate for the early presidential elections except for the consensus candidate Vice President Abd Rabbuh Mansur Hadi;
- d) The Secretary-General of the United Nations is requested to provide and coordinate electoral assistance to help ensure the orderly and timely holding of elections.

Part IV. Second phase of the transfer of power

Functions and powers of the President and government of national unity

19. After the early Presidential elections, the newly elected President and the government of national unity shall exercise all of their customary functions as set forth in the Constitution.

In addition, they shall exercise the powers necessary to continue the tasks specified for the implementation of the first phase, and additional tasks specified for the second phase of the transfer of power. The latter include

- a) Ensuring that the Conference for National Dialogue is convened, and forming a preparatory committee for the Conference, as well as an Interpretation Committee and other bodies established pursuant to this Mechanism;
- b) Establishing a process of constitutional reform that will address the structure of the State and the political system, and submitting the amended Constitution to the Yemeni people in a referendum;
- c) Reforming the electoral system; and
- d) Holding elections for Parliament and the Presidency in accordance with the new Constitution.

Conference for National Dialogue

20. With the beginning of the second transitional phase, the President-elect and the government of national unity shall convene a comprehensive Conference for National Dialogue for all forces and political actors, including youth, the Southern Movement, the Houthis, other political parties, civil society representatives and women. Women must be represented in all participating groups.

21. The Conference shall discuss the following issues:

- a) The process of drafting the Constitution, including the establishment of a Constitutional Drafting Commission and its membership;
- b) Constitutional reform, addressing the structure of the State and political system, and submitting constitutional amendments to the Yemeni people through a referendum;
- c) The Dialogue shall address the issue of the South in a manner conducive to a just national solution that preserves the unity, stability and security of Yemen.
- d) Examination of the various issues with a national dimension, including the causes of tension in Saada;
- e) Taking steps towards building a comprehensive democratic system, including reform of the civil service, the judiciary and local governance;
- f) Taking steps aimed at achieving national reconciliation and transitional justice, and measures to ensure that

violations of human rights and humanitarian law do not occur in future;

g) The adoption of legal and other means to strengthen the protection and rights of vulnerable groups, including children, as well as the advancement of women;

h) Contributing to determining the priorities of programmes for reconstruction and sustainable economic development in order to create job opportunities and better economic, social and cultural services for all.

Constitutional Commission

22. The government of national unity shall establish a Constitutional Commission immediately on the conclusion of the work of the Conference of National Dialogue within six months. The Commission shall prepare a new draft constitution within three months of the date of its establishment. It shall propose the necessary steps for the draft constitution to be discussed and submitted for referendum in order to ensure broad popular participation and transparency.

Organization of elections under the new Constitution

23. Within three months of the adoption of the new Constitution, Parliament shall enact a law convening national parliamentary elections and, if provided for by the Constitution, presidential elections. The Higher Commission for Elections and Referendums shall be reconstituted and the new register of voters re-compiled in accordance with the new Constitution. That law will be subject to subsequent review by the newly elected Parliament.

24. The term of the President elected under paragraph 7 of this Mechanism shall end upon the inauguration of the President elected under the new Constitution.

Part V. Settlement of disputes

25. Within 15 days of the entry into force of the GCC Initiative and the Mechanism, the Vice President and the Prime Minister of the government of national unity shall form an Interpretation Committee to which the two parties shall refer in order to resolve any dispute regarding the interpretation of the GCC Initiative or the Mechanism.

Part VI. Concluding provisions

26. Women shall [be] appropriately represented in all of the institutions referred to in this Mechanism.

27. The government shall provide adequate funding for the institutions and activities established by this Mechanism.

28. In order to ensure the effective implementation of this Mechanism, the two parties call on the States members of the GCC and the United Nations Security Council to support its implementation. They further call on the States members of the GCC, the permanent members of the Security Council, the European Union and its States members to support the implementation of the GCC Initiative and the Mechanism.

29. The Secretary-General of the United Nations is called upon to provide continuous assistance, in cooperation with other agencies, for the implementation of this Agreement. He is also requested to coordinate assistance from the international community for the implementation of the GCC Initiative and the Mechanism.

30. The following are invited to attend the signature of this Mechanism: the Secretary-General of the GCC and the Secretary-General of the United Nations or their representatives, as well as the representatives of the States members of the GCC, the permanent members of the United Nations Security Council, the European Union and the League of Arab States.

(Signatures and dates)

Exercising* the authority conferred on me by the President under Presidential Decree No. 24 of 2011, I hereby solemnly convene elections for the office of President of the Republic to be held on 00/00/2012. This Decree is deemed to be in force from today, and the convening of elections contained therein is irrevocable. The convening of elections shall take effect in accordance with the provisions of the Mechanism, without any need for any further steps, sixty days before the holding of elections as set forth

in the Mechanism. This decree shall be published in the Official Gazette.

*Translator's note: On the basis of the unofficial English translation, the following may be missing from the Arabic text:

'Annex: Decree issued by the Vice President concurrently with the signature of the GCC Initiative and the Mechanism. The Vice President of the Republic, acting under the authority conferred on him by the President under Presidential Decree No. 24 of 2011'



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Charity Registration Number: 208223

ISBN 9781862032972



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