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Middle East and North Africa Programme: Yemen Forum Workshop Summary

Yemen: Scenarios and Indicators

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INTRODUCTION

This report summarizes the findings of two workshops held in London in April and May 2012, in which policy-makers, aid practitioners and analysts were invited to explore possible alternative futures for Yemen over the next five years. They identified and examined four possible scenarios:

- **'Transformation'**: Yemen is on the path to reform and sustainable transformation of the political settlement. This is driven by a political decision by Saudi Arabia and the Gulf states to invest substantially in Yemen's economy, in order to ensure stability. This, in turn, opens the way for the regime elite to modernize its business practices.
- **'Strategic Choices Deferred'**: The current regime elite maintains the status quo. This is driven by manipulation of the security challenges, drawing in foreign military aid and providing the rationale for deferring domestic reform. It is characterized by a consensus among the current regime elite to maintain 'business as usual'.
- **'Reform Gone Awry'**: Reform is attempted too far, too fast and it flounders. This is driven by the government's attempt to enact ambitious reforms that it lacks the strength or support to carry through. Attempts to press forward with economic and security reforms aggravates factional tensions within the regime elite, resulting in further conflict.
- **'Degeneration'**: Yemen's security problems become increasingly complex, the economy degenerates and humanitarian indicators continue to slide. This scenario was briefly examined in connection with the second and third scenarios.

Participants also developed a set of early-warning indicators to highlight the country's trajectory, based on these four scenarios. These indicators are intended to help policy-makers, aid practitioners and analysts assess Yemen's likely future direction.

The meeting was held under the Chatham House Rule and the views expressed are those of the participants. The following summary is intended to serve as an *aide-mémoire* to those who took part and to provide a general summary of discussions for those who did not.

The Chatham House Rule

'When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.'

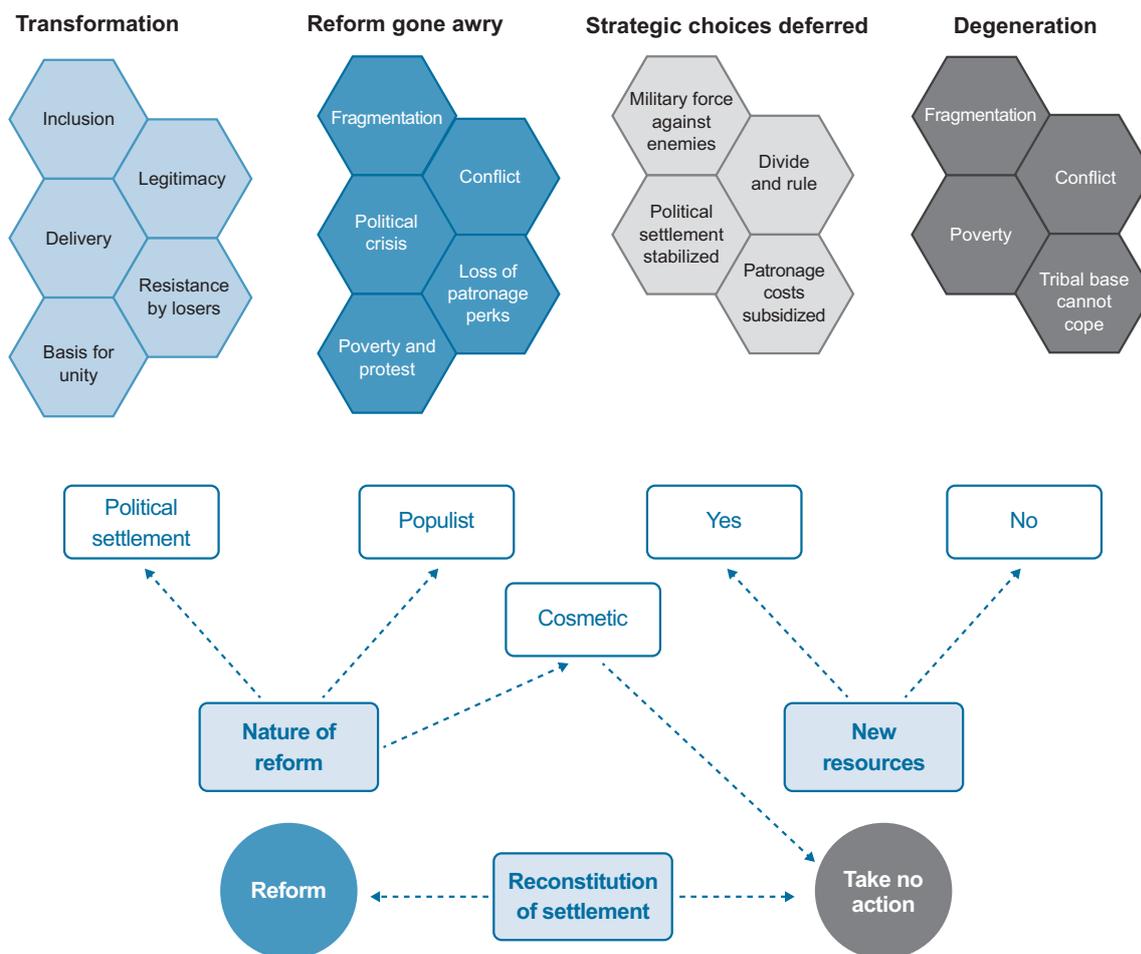
This workshop was designed and led by Neil MacDonald of Gondwana Development Associates.

THE LOGIC OF THE EXERCISE

Participants identified four possible scenarios for Yemen: Transformation, Reform gone awry, Strategic choices deferred, and Degeneration. Participants developed each five-year scenario in two parts. Phase 1 runs from 2012 until February 2014, when Yemen is scheduled to hold elections, under the terms of the Gulf Cooperation Council (GCC) transition plan and its implementing mechanism, while Phase 2 runs beyond 2014.

The four scenarios are based on the logic of Figure 1, indicating the critical choices facing Yemen, in which a reconstituted political settlement depends either on new economic resources (to replace dwindling oil output) or effective reform (to utilize existing resources more efficiently).

Figure 1: Critical choices facing Yemen



The four scenarios are not intended to serve as predictions but represent plausible narratives of alternative futures for Yemen, depending on choices made by a range of domestic and international actors. In reality, events in Yemen in the coming months and years are likely to unfold in accordance with several scenarios simultaneously. For example, an illustrative exercise conducted in June 2012, which classified recent events according to the early-warning indicators, found features of at least two of the scenarios: 'Reform Gone Awry' and 'Strategic Choices Deferred' (See Appendix 2). This confirms that the four scenarios are not necessarily distinct from each other, and that there is a strong possibility that any one may branch into another, depending on how events unfold.

THE SCENARIOS

Scenario 1: Transformation

Yemen is on the path to reform and sustainable transformation of the political settlement. This is driven by a political decision by Saudi Arabia and the Gulf states to invest substantially in Yemen's economy, in order to ensure stability. This, in turn, opens the way for the regime elite to modernize its business practices.

Phase 1: 2012 to February 2014

The GCC agrees an investment risk-guarantee mechanism for Yemen, largely backed by Saudi funds, on the basis that it is better to bolster Yemen's economy (and thus discourage Yemeni migration) than to risk economic collapse. The decision is therefore essentially political rather than economic. Yemenis play their part by improving the rule of law and reducing the costs of doing business. Investment begins to flow into the minerals and distribution sectors, along into associated infrastructure, such as roads. Investment of \$15 billion is envisaged, as well as budget support that plugs the \$2 billion deficit. This helps to make real inroads into unemployment. Food and basic commodity prices fall below their 2011 levels and living standards begin to recover.

This modest revival in economic growth also allows a planned reduction in the state wage bill, which is at the core of patronage networks. Yemen Economic Corporation (YECO) is dismantled and the constituent parts are repackaged and reallocated, and tribal stipends are gradually reduced. Though the fundamental economic interests of the key elite players at the top of the networks are too sensitive to touch, the lower levels of the networks are gradually eroded. The losers are prevented from becoming spoilers by a transitional 'tide-over' mechanism.

This frees up budgetary resources, which the state can begin to plough into improved delivery of basic services, especially health and education, and social welfare payments. Education is reoriented to focus on skills that are in demand in the local and regional economy. Though there is considerable resistance by the losers in these reforms, whose patronage perks are eroded, this is balanced by the growing popular legitimacy of the state. The Friends of Yemen exercises significant pressure to break up and disperse parallel delivery systems, such as the Social Fund for Development (SFD), by encouraging government ministries to increase their own capacity.

Broader political participation and popular buy-in to reform are essential ingredients of these changes. President Abdul Rabbo Mansour Hadi plays his cards skilfully, gradually building a base of public support. The National Dialogue makes overtures to civil society and the street protestors, and kicks off successfully. Hadi slowly and carefully expands the highly sensitive space available for women's issues, making alliances with progressive clerics to open a debate about contentious issues such as early marriage, family planning and girls' education. Hadi oversees work towards a new constitution, including a decentralized multi-party federal structure within which the south and the Houthis will enjoy considerable autonomy as well as influence central decisions. This is sufficient to keep both the Houthis and the southerners on board with the gradually accelerating pace of reform. However, as the Houthis strengthen their control over territory in the north they increasingly come into conflict with other non-state actors, which means that there is only a small improvement in the humanitarian situation for internally displaced people (IDPs) there. Tension between the Houthis and Islah threatens to destabilize the National Dialogue, but the UN envoy, Jamal Benomar, succeeds in persuading the Houthis not to withdraw from the talks.

Promises of a new decentralized dispensation are popular throughout much of the country as people see the beginnings of enhanced delivery. Some tribal and local leaders, who had opposed their loss of influence in reforms to the patronage system, are mollified by the prospect of exercising new influence in local government. Local grievances are still dealt with in the old way, by staging a crisis with the state: kidnappings and holding the oil pipelines to ransom persist. However, the administration of justice gives greater formal recognition to traditional systems,

strengthening the authority of the sheiks. Inter-tribal conflicts are increasingly dealt with by mediation.

Hadi is also able to secure from external players the support he needs. He is successful in attracting billions in inward investment from the Gulf states, convincing the Saudis that the alternative would be infinitely worse. He is able to convince the United States that over-reliance on drone strikes is not the best way of pursuing the counter-terrorism agenda. Instead he makes alliances with southern leaders and tribal groups to combat the spread of Ansar al-Sharia and other armed fundamentalist groups. Without grievances against the state and the international community to exploit, and with growing prosperity, Ansar al-Sharia's appeal begins to wane, though armed actions continue.

Elite consensus is carefully managed throughout this process. The constancy of electricity supplies in Sana'a is a testament to the muted level of elite rivalry. A new centre of gravity for political debate begins to emerge among the younger generation of the elite, who now manage their rivalry under the rubric of debate about the direction for 'modernization'. There is growing realization among this generation that Yemen faces a mortal crisis, and that it is in the interests of all to amend their business model to allow what some local media commentators dub 'sustainable corruption'. The basic idea underpinning this new thinking, which replaces the traditional rentier model, is to reduce corruption 'take' and invest for growth. The 'commanding heights' of the economy remain in the hands of the regime elite, though coupled with greater involvement of new players, especially from the Taizi and Hadrami business class.

In this climate, the economic interests of the regime elite partially trump their security interests. Despite rumblings of anger, Hadi is able, by the end of his first year, to reshuffle military commands to remove key relatives of Ali Abdullah Saleh, the former president: Mohammed Saleh from the air force command, Tareq Saleh from the Presidential Guard, and later Ammar Saleh and Yahya Saleh, leaving only Ahmed Ali Saleh in post. There is a brief and tense military standoff between Saleh and government forces. But the international community strongly supports these changes, making it clear to the Salehs that rebellion will not be countenanced. The Al-Ahmar family and Ali Mohsen pledge support for Hadi, giving him more leeway to act and lending a moderate Islamist character to the government. The death of Ali Mohsen gives him still further room. The outlines of a new security apparatus under unified control begins to emerge, Ahmed Ali keeps a low profile and concentrates on building up his economic interests. Other members of the family leave the country and settle in the United Arab Emirates.

Phase 2: March 2014 to 2017

The elections scheduled for 2014 are postponed for 12 months to give time for the National Dialogue and development of the constitution to be completed. This delay is generally understood and accepted domestically and internationally. Though Islah bids for control of civil society, new political parties are forming out of what had been Change Square. Tribesmen – who have taken part in the Sana'a protests as civilians – return home carrying the idea of political participation. Investment in construction provides employment for unskilled rural workers, and development projects are beginning to create hope. Living standards have recovered from the 2010 low, although poverty remains acute and humanitarian relief aid is necessary to avert crisis.

When elections are held in 2015, a new president and a strong executive prime minister preside over an increasingly effective technocratic government. The ability of parliament to act as a legislature, holding the executive to account, is gradually strengthening. Women's empowerment is slowly becoming accepted, most particularly through the recognition by men that family planning is in their interest too. More women teachers are recruited and more girls are attending school. Newly trained workers find improved opportunities in the Gulf states, leading to a greater flow of remittances. With an improved judicial and security situation, inward investment increases, and there is a modest growth in tourism. Conservation schemes begin to manage the harvesting of water and the management of fish stocks, opening the way to improvements in agriculture and fisheries.

By 2017, however, the reforms and the economic recovery remain fragile. Investment is still risky and needs to be underwritten by the essentially political guarantees from the GCC. The resource

crisis remains real. Trials with desalination offer some hope for easing the water crisis. Oil supplies still depend on concessional delivery from Saudi Arabia. The regime elite still controls the 'commanding heights' of the economy, and inequality is in some ways made starker by the erosion of patronage networks. The transition to the federal structure envisaged in the constitution may still take the best part of a decade to implement. Some of the new political parties demand more thorough reform and democratization. The security situation has improved dramatically, but there are still outbreaks of local fighting and the fundamentalist threat is contained rather than eliminated.

Scenario 2: Strategic Choices Deferred

Reform is attempted too far, too fast and it flounders. This is driven by the government's attempt to enact ambitious reforms that it lacks the strength or support to carry through. Attempts to press forward with economic and security reforms aggravates factional tensions within the regime elite, resulting in further conflict.

Phase 1: 2012 to February 2014

The regime elite is consolidated around the collective need to preserve its business model. It does so by persuading the international community to continue funding it in order to contain the perceived security threat from Al-Qaeda in the Arabian Peninsula (AQAP). Thus there is a convergence of interests between the dominant US focus on counter-terrorism and the remnants of the military/security clique associated with former president Saleh, who are desperate to avoid reforms that would erode their privileges. Military aid underwrites the continuation of the regime.

Hadi remains president but is not in control, i.e. the regime has not fundamentally changed. Despite his efforts, he is unable to build a support base that would enable him to overcome resistance from the remnants of Saleh's military/security clique. Divisions within the south prevent Hadi from building his own extensive power base there, while the Salehs successfully co-opt and stoke the Houthi movement, which resists the growing power of Ali Mohsen, Islah and the Salafis/Sunni fundamentalists. While Ali Mohsen is now Hadi's strongest military supporter, Hadi's efforts to appoint new leaders to the different military institutions are systematically sabotaged by the remnants of Saleh's faction. Ahmed Ali retains a significant power base in the military, relying on the loyalty of family members and tribal allies in the middle ranks of the relevant institutions, and he resists Hadi's efforts to restructure or dismantle the Republican Guard. Saleh's ability to ensure that armed fundamentalists continue to be active, with or without his direct support, is an essential element in his strategy to undermine Hadi and continue demonstrating the need to the US military decision-makers for Ahmed Ali to stay in place. Thus the remnants of Saleh's faction continue to influence military events throughout the country. As the insurgency appears to increase, the United States expands its drone operations and other aerial interventions. It also considers covert ground operations. A vicious circle develops. These operations increase hostility to the United States, strengthening support for the armed fundamentalists, yet they also lead to further external support for Yemen's military and security apparatus, as well as more drone strikes. Extensive security-sector reforms – as envisaged in the GCC transition plan – become a dead letter. Though some key commanders are removed, their replacements are proxies for the same competing cliques within the established regime elite.

Political reforms envisaged in the GCC transition plan are implemented, but only cosmetically. The National Dialogue starts by autumn 2012 but Hadi is unable to imbue the process with sufficient authority to set a course towards a new future. All the relevant political actors are included in the talks, but parallel back-room deals between more traditional and experienced political actors minimize the traction of emerging (and more challenging) voices. This process continues in a desultory way throughout 2012 and 2013. It is inconclusive. Increasingly, the Change Square activists, civil society organizations, young people, the urban middle classes and the smaller tribal groups feel their views are excluded. The southerners remain divided and unable to present a common front. Many of them object to the 'national unity' premise of the National Dialogue. The Houthis participate but, given their effective control over territory in the far north, are under no

compulsion to make concessions, and hence make no effort to ensure the Dialogue's success. The joint meeting parties (JMP) divides into its constituent parts within the Dialogue process, proposing different views and options according to the interests of each party; rivalry prevents them from trying to compromise. The General People's Congress (GPC), still under the control of Saleh's allies, actively works to prevent the success of the National Dialogue, and thereby to demonstrate that Yemen needs them to run the country.

Although the government has access to some resources, living conditions for the population continue to degenerate, but at a slower pace. This is particularly acute but less visible in the rural areas. There is some revenue from oil and gas, but supplies of both are sabotaged; and some international funds, though these are channelled mainly through the Social Welfare Fund (SWF) and the SFD. These resources allow the provision of some basic services, a reasonably constant electricity supply (varying, however, with political circumstances) and distribution of welfare food and cash sufficient to avert starvation and total collapse. But the overall economy continues to decline, with the shut-down of industrial enterprises and reduced food production owing to the disarray of rural markets and lack of diesel for irrigation. Urban casual work is no longer easily available, hitting household incomes hard.

By the beginning of 2014, the National Dialogue has not been completed, and a new constitution has not been developed. These factors, together with the security situation, are offered as reasons for the decision to postpone the election for two years. The Hashid tribal elite remains divided, with both Ali Mohsen and Ahmed Ali unwilling to surrender their influence and control over the military. The United States continues to rely on the Yemeni military. The Saudis continue to provide funds even-handedly to most of the key regime players, which contributes towards the underwriting of Yemen's parallel patronage networks. In turn, some recipients of elite patronage end up passing on the money, creating a 'trickle-down' effect that helps provide basic necessities for some of the population, thus alleviating the overall position. The Friends of Yemen are frustrated by the lack of progress and hesitant about continuing their engagement. Civil society opposition grows.

Phase 2: March 2014 to 2015

Growing political and economic tensions may play out in two different ways. Either the regime elite will be able to contain the situation for a while longer, with continued slow decline, or there may a spiral into rapid degeneration.

1. Continued slow decline

Key players within the regime elite, who are still able to tap into external funds, continue to preserve the status quo. The public reluctantly accepts the postponement of the elections, and formal coalition government continues. Foreign aid continues to finance emergency support to the population at minimal level.

Residual tension between elite factions is resolved. Ali Mohsen and the Al-Ahmars re-establish a working relationship with the Salehs. Islah decides to continue cooperating with the smaller parties to broaden both its base and its leadership, and to avoid being associated exclusively with the Al-Ahmar family. Civil society organizations and Change Square activists are also depleted and dispirited to continue more than a token presence.

2. Rapid degeneration

The postponing of the elections is the signal for everyone to take stock of their position. Latent tensions burst into the open. The JMP breaks up into its constituent parts, leading to open armed hostility between the Al-Ahmars and the Salehs. The Yemeni Socialist Party (YSP) remains powerless, as do other main old-time parties, such as the Baathists and the Nasserites. Islah gains in strength and becomes a major force in the streets. As the crisis deepens, Change Square and popular demonstrations re-emerge as significant features of daily urban life, but largely controlled by Islah. Protests are repressed in a re-run of the events of March 2011, but this time fighting spreads throughout the country, including in the cities.

Water scarcity in various areas leads to the abandonment of villages and the concentration of population in some towns and cities, usually as near as possible to home, or within the same tribal area.

The country begins to fragment. The southern movement remains divided, and control of many southern governorates falls to armed fundamentalists, who control the mountains in Shabwa, most of Abyan, and some of al Baidha. Aden, Lahj and Dhala' remain fragmented, under the control of a multiplicity of local powers. Hadramaut considers establishing itself as separate state, to include al Mahara and eastern parts of Shabwa. Saada, north Amran, north Hajja and Jawf come under the complete control of the Houthis, who establish their own semi-autonomous region and stop short of declaring independence to avoid a negative Saudi reaction. Taiz and Ibb also demand some formal autonomy. In practice, as state control and provision of services becomes increasingly illusory, local autonomy already exists. Hodeida, Dhamar and other areas are left in limbo.

The international community is divided, with the United States and Saudi Arabia focusing on counter-terrorism, while European donors try to focus on development. The Friends of Yemen fails to deliver results, and loses momentum.

The Salehs and other elite factions realize too late that they have pursued the wrong strategy: there are no more resources for them to plunder. Saleh's own loss of credibility with all external paymasters renders his immunity deal effectively meaningless. Their safety is no longer certain within Yemen but they have nowhere to go.

The country suffers a full-blown humanitarian crisis. Only level rain-fed agriculture is possible, with farmers producing sorghum, wheat and maize for their subsistence consumption and that of their livestock. The state is largely absent and people have to rely on village-level solidarity and community survival strategies.

Scenario 3: Reform Gone Awry

Reform is attempted too far, too fast and it flounders. This is driven by the government's attempt to enact ambitious reforms that it lacks the strength or support to carry through. Attempts to press forward with economic and security reforms aggravates factional tensions within the regime elite, resulting in further conflict.

Phase 1: 2012 - February 2014

In April 2012, Hadi announces the trial of Air Force commander Mohammed Saleh al-Ahmar, for mutinously occupying the airport, following a presidential decree to remove him from his post.¹ But in May he stands down.

However, in a sign of increased tension between rival elite factions, electricity and water supplies worsen, and oil pipelines are cut. The government continues to lose control of large areas outside Sana'a.

The government nevertheless presses ahead with the reform agenda. The National Dialogue process is announced. Forces aligned with the opposition embrace it as a way of enhancing their position, as do tribal leaders and the Houthis. The participation of southern factions is more uneven. Civil society groups participate but complain that their interests are not being represented. The remnants of Saleh's faction play a spoiling role. Following the Friends of Yemen meeting in May, the government announces plans for economic reforms and for restructuring the military. This is met with an increase in violence and further loss of territorial control.

¹ This scenario was developed in April 2012. Though events have moved on since then, the scenario has not been updated precisely because it captures the essence of subsequent events when Mohammed agreed to stand down, as the scenario envisaged.

The cabinet is paralysed by internal wrangling. While the opposition endorses the reform process as a way of strengthening its own hand, the remnants of Saleh's faction obstruct decision-making, which is delayed and often erratic. Amid growing concerns about the stability of the government, funding for emergency humanitarian assistance is not fully met. The National Dialogue breaks up in acrimony, largely as a result of blocking tactics pursued by the remnants of Saleh's faction.

Saleh, who has remained in Yemen, engages in a propaganda war with Hadi. He makes an inflammatory speech, attacking the reforms. The paralysed national unity government splits over economic reforms at the end of 2012. Donor countries are concerned and some programmes are suspended. The humanitarian crisis deepens.

In early 2013 Hadi, who has pledged to meet the timetable for military and security-sector reform, announces the formation of a new central command under the control of the Ministry of Defence. He offers Ahmad Ali a subordinate position, which is refused. The GPC boycotts the National Assembly, as well as cabinet meetings. UN Special Envoy Jamal Benomar attempts to defuse this growing crisis. Ali Mohsen pledges support for the government and puts his First Armoured Division under central command. The Al-Ahmar family throws in its lot with the government too, declaring support for Hadi.

In the spring of 2013, sporadic violence breaks out in Hasaba between pro-Saleh and pro-government forces. The risk of a collapse into all-out war is real and high, and at this point the scenario could branch into degeneration (see below). However, the UN swings into action and calls on all actors to respect UNSCR 2014. A deal is done. By mid-2013, Hadi has decided to trade reform for stability. Military and economic reforms are put on hold until after 2014 elections.

By late 2013, all parties are gearing up for the presidential election. New candidates emerge. Ahmed Ali Saleh resigns from his military position and runs on a secular, anti-Islah ticket. The Al-Ahmar family put up a rival candidate, appealing to a moderate Islamist popular audience. Muhammad Abu-Lahoum runs on a pro-civil society/liberal economic development platform.

Stability, however, is short-lived. Plans for a new constitution are attacked by both Ahmed Ali and the Al-Ahmars. By the end of 2013, there is fighting in Sana'a. The GPC and JMP have split and Basindwa threatens to quit as prime minister. Mediation and a statement by the UN again calm the situation.

A national referendum on the constitution goes ahead in January 2014, but is boycotted by the GPC. In a deteriorating security situation, the February elections are delayed.

Degeneration

At various moments of crisis the 'Reform Gone Awry' scenario could branch into degeneration, along the following lines.

Conflict intensifies, with armed tribesmen entering the fray in Sana'a. As fighting spreads and instability grows, the country fragments. The Houthis declare independence. Hiraak factions follow suit and make a bid for autonomy in the south. Ansar al-Sharia consolidates control over several southern governorates and reaches agreement on a non-aggression pact with Hiraak. Hadi is assassinated.

SUMMARY EARLY-WARNING INDICATORS

Participants developed a set of early-warning indicators to highlight the country's trajectory, based on the four scenarios: Transformation, Reform Gone Awry, Strategic Choices Deferred, and Degeneration. These indicators are intended to help policy-makers, aid practitioners and analysts assess Yemen's likely future direction by plotting recent and current events against the four columns in the table.

Please see overleaf.

Summary indicators

| | Transformation | Reform Gone Awry | Choices Deferred | Degeneration |
|-------------------------------------|--|---|---|--|
| External actors | | | | |
| Saudi position | Crisis needs a strategic response. | Meddling. | Support to all factions. Just enough to stabilize. | Meddling. |
| Western position | Reform focus | Paralysed. | Counter-terrorism (CT) focus. Little reform conditionality. | Paralysed. |
| Financial inflows | Massive investment. | Little or none. | Just enough to stabilize situation. Emphasis on military aid for CT. | Little or none. |
| Internal situation | | | | |
| Rule of law | Improving. | Growing lawlessness. | Security efforts focused against armed Islamists. | Collapsing. |
| Elite position | Development of long-term strategic vision of 'sustainable corruption'. | Moves to replace key commanders resisted. Overt conflict. | Business-as-usual works, supported by aid inflows. | Facing terminal crisis. Overt conflict |
| Security-sector reform | Managed transition. | Too fast, provoking resistance. | Superficial. | None or increasingly meaningless |
| Patronage system | Slow erosion. | Losers become spoilers. | No change. | Collapsing. |
| Investment | Non-hydrocarbon investment that creates jobs. | No change. | No change. | Declining. |
| Corruption | Corruption 'take' decreases to a level that allows reinvestment. | Ineffective efforts. | No change. | Increasing. |
| Economic development | Employment and tax take improves. | No initial change, followed by decline. | No change. No challenge to 'old money' elite. | Collapse. |
| Humanitarian situation | Significant poverty but welfare payments working. | Welfare payments avert worst of crisis. | Minimal humanitarian aid. Patronage buffers crisis. | Massive crisis. |
| Position of government | Cautious reform. Extension of basic services. | Rapid reform, without strength to implement. | An instrument of elite consensus. | Increasingly irrelevant. |
| Popular participation in governance | National Dialogue drawing in civil society, women. | Initial enthusiasm, but growing protests and strikes. | Purely cosmetic. Lack of buy-in from key groups. 'Change Square' opposes. | None. Growing opposition. Subsistence-level self-reliance. |
| Tribal position | Sheiks see benefits in participation. | Pipelines cut. | Patronage buys consent. Local crises sputter. | Local self-reliance. Pipelines cut. |
| Regional position | Houthis and southerners participate in National Dialogue. | Houthis and southerners initially participate in National Dialogue. | Divisions and contested representation. Opposition to dispensation. | Fragmentation into zones of local control. |

(See Appendix 1 for a comprehensive set of indicators.)

Key:
 Driver

CONCLUSIONS

On the basis of the four scenarios developed at the workshops, participants reached the following broad conclusions as to Yemen's potential path:

- In the short term, elite rivalry within the Hashid tribal confederation will drive balance-of-power politics in Sana'a, and thus affect the course of events in the rest of the country.
- 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.
- A cautious step-by-step approach is required to address Yemen's structural problems, underpinned by large-scale inward investment many times bigger than currently on offer and substantial improvements in the rule of law. Saudi Arabia seems to be the only likely source of such large-scale investment, although investors from emerging economies – such as Turkey and Malaysia – could also play a significant role.
- Successful reform requires a fundamental shift in the mindset of the regime elite towards a strategic vision that recognizes extensive change is necessary in order to establish a more sustainable business model.
- All scenarios include postponement of the March 2014 elections, although for different reasons. Deferring the elections should not be taken as an indicator of failure.
- The international community plays a decisive role in some of these scenarios. Too much emphasis on rapid implementation of the Gulf Cooperation Council transition plan and the institutional arrangements of reform – to the detriment of underlying political and economic sensitivities – could help to push Yemen towards the 'Reform Gone Awry' scenario. Too much emphasis on counter-terrorism could push Yemen towards 'Strategic Choices Deferred'.

APPENDIX 1

Comprehensive indicators

| | Transformation | Reform Gone Awry | Choices Deferred | Degeneration |
|---------------------------|--|---|--|--|
| External actors | | | | |
| Saudi position | Crisis needs strategic response. | Hands off or meddling (backing chosen factions) | Support to all factions. Just enough to stabilize. | Meddling. |
| Western position | Reform focus. Aggressively restrains outbreaks of elite rivalry. | Reform focus but fetishizing institutional arrangements rather than process, leading to demands for too rapid change. | Counter-terrorism (CT) focus. Little reform conditionality. | Paralysed. |
| Financial inflows | Budget support (around \$2bn), Saudi donations of diesel, massive economic investment (\$15bn). | Just enough to stabilize situation. Reduced as crisis develops. | Just enough to stabilize situation. No more than \$4bn. Emphasis on military aid for CT. | Little or none. |
| Internal situation | | | | |
| Rule of law | Improving (contract kidnappings down). Decreased criminal activity. Court strikes end. Demilitarization strategy | Growing lawlessness. | Security efforts focused against armed Islamists. Increased drone strikes. | Collapsing. |
| | Weak signals Proactive policing. Increased perception of safety in Sana'a. | Weak signals No proactive policing. Sense of insecurity. | Weak signals US rules of engagement changed to allow civilian casualties in drone strikes. | |
| Elite position | Development of long-term strategic vision. Younger members see their interests lie in sustainable investment. Rivalry managed. Changing composition of elite – greater role of Taizis and Hadramis, leading to islands of stability. | Moves to replace key commanders resisted. Flip-flopping. Desire to maintain power. Pride and face-saving. Belligerent. Eventually leading to overt conflict between elite factions. | Business as usual works, supported by aid inflows. Balance of power preserved to maintain external support. No intra-elite conflict. | Facing terminal crisis. Overt conflict |
| | Weak signals Power supplies to cities constant (indicates elite consensus). Discussion at elite qat chews of changing business model to 'sustainable' corruption. | Weak signals Power supplies to cities interrupted. Belligerent anti-government propaganda offensive by Salehs. Proxy conflicts. Stockpiling of weapons. | Weak signals Power supplies to cities constant. No stockpiling of weapons. | Weak signals Power supplies to cities interrupted. |

| | | | | |
|------------------------|--|---|---|---------------------------------|
| Security-sector reform | Managed transition. New commanders are not simply proxies for the old. | Too fast, provoking resistance. | Superficial. No reorganization of units or institutions. | None. Increasingly meaningless. |
| | | Weak signals Military units acting autonomously and not gaining against armed fundamentalists. | Weak signals No progress on military committee. Position of chief of staff is weak. | |
| Patronage system | Slow erosion as economic situation improves. | Losers become spoilers. Civil servants not being paid. | No change. Oil relationships maintained under patronage networks. | Collapsing. |
| | Weak signals Tide-over system to prevent losers becoming spoilers. | Weak signals No system for managing losers. | Weak signals Initiatives to reform payroll are resisted. | |
| Investment | Banking reform. Non-hydrocarbon investment that creates jobs. | No change. | Some investment. | Declining. |
| | Weak signals Diaspora investment. 'Outlier' investments Non-traditional investors (e.g. Turks, Malaysians). | | | |
| Corruption | Cost of doing business reduced. Corruption 'take' decreases to a level that allows reinvestment. | Ineffective efforts. | No change. | Increasing. |
| Economic development | Employment and tax take improves. | No initial change followed by decline. | No change. No challenge to 'old money' elite. | Collapse. |
| Humanitarian situation | Significant poverty but welfare payments working. Reduced malnutrition. Reduced percentage of household expenditure on basics. | Welfare payments avert worst of crisis. | Minimal humanitarian aid. Patronage buffers crisis. | Massive crisis. |
| Position of government | Cautious reform. Extension of basic services. Civil service capacity improved. | Rapid reform, without strength to implement. Hadi autocratic and isolated, facing growing criticism Cabinet infighting and paralysis. | An instrument of elite consensus. | Increasingly irrelevant. |

| | | | | |
|-------------------------------------|---|---|---|---|
| | Weak signals Public confidence and international support buttresses reform. | Weak signals Lack of or delays in decision-making. Lack of transparency. Hadi not listening to advice. Snap decisions. | | |
| Popular participation in governance | National Dialogue drawing in civil society, women. | Initial enthusiasm, which may also drive reform efforts, but becoming disillusioned. Growing protests and strikes. | Purely cosmetic. Lack of buy-in from key groups. Change Square opposes. | None. Growing opposition. Subsistence-level self-reliance. |
| Tribal position | Sheiks see benefits in participation. | Pipelines cut. | Patronage buys consent. Local crises sputter. | Local self-reliance. Pipelines cut. |
| Regional position | Houthis and southerners participate in National Dialogue. | Houthis and Southerners initially participate in National Dialogue. | Divisions and contested representation. Opposition to dispensation. | Fragmentation into zones of local control. |

Key:

 Driver

APPENDIX 2

Illustrative application of the indicators to recent events (June 2012)

| | Transformation | Reform Gone Awry | Choices Deferred | Degeneration |
|-------------------------------------|--|---|---|--|
| External actors | | | | |
| Saudi position | Crisis needs a strategic response. | Meddling. | | Meddling. |
| Western position | Reform focus | Paralysed. | (Cautious. Little reform conditionality. | Paralysed. |
| Financial inflows | | Little or none. | Just enough to stabilize situation. Emphasis on military aid for CT. | Little or none. |
| Internal situation | | | | |
| Rule of law | | Growing lawlessness. | Security efforts focused against armed Islamists. | Collapsing. |
| Elite | Stockpiling of weapons | Moves to replace key commanders resisted. Overt conflict. | Business-as-usual works, supported aid inflows. | Facing terminal crisis. |
| Security-sector reform | Managed transition. | Too fast, provoking resistance. | Superficial. | |
| Patronage system | Slow erosion. | Losers become spoilers. | No change. | |
| Investment | No carbon | No change. | No change. | |
| Corruption | Mutinies successfully resolved | Ineffective. | No change. | |
| Economic development | Employment and tax take improves. | No reform. | No reform. No return to 'old elite. | Collapse. |
| Humanitarian situation | Significant poverty but welfare payments working. | Welfare avert worst of crisis. | humanitarian aid. Patronage buffers crisis. | Massive crisis. |
| Position of government | Cautious reform. Extension of basic services. | Rapid reform, without strength to implement. | An instrument of elite consensus. | Increasingly irrelevant. |
| Popular participation in governance | National Dialogue drawing in civil society, women. | Initial enthusiasm, but growing protests and strikes. | Purely cosmetic. Lack of buy-in from key groups. 'Change Square' opposes. | None. Growing opposition. Subsistence-level self-reliance. |
| Tribal position | Sheiks see benefits in participation. | Pipelines cut. | Patronage buys consent. Local crises sputter. | Local self-reliance. Pipelines cut. |
| Regional position | Houthi southern groups participate in National Dialogue. | participate in National Dialogue. | Divisions and contested representation. Opposition to dispensation. | Fragmentation into zones of local control. |

23 May: Friends of Yemen pledges \$4bn (\$3.25 of it from Saudis)

April: Mohammed occupies airport
May: 3rd Brigade mutiny

Stockpiling of weapons

Conflict in Abyan
May 6: missile kills Fahd al-Quso
21 May: suicide bomb in Sana'a
US rules of engagement changed

Mutinies successfully resolved

April 6: Tareq replaced at 3rd Brigade and Mohammed at Air Force

May: Houthis reject National Dialogue

ABOUT THE YEMEN FORUM

The Yemen Forum is a specialist global network that pursues policy solutions for Yemen. The collective knowledge and influence of Yemen Forum members raises awareness, shares expertise and supports governments in forming policies that directly address the causes of conflict, poverty and poor governance in Yemen. The current phase of the project has two major strands: political economy analysis, and the politics of inclusion and legitimacy.

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The Middle East and North Africa Programme, headed by Dr Claire Spencer, undertakes high-profile research and projects on political, economic and security issues affecting the Middle East and North Africa. To complement our research, the MENA Programme runs a variety of discussion groups, roundtable meetings, workshops and public events which seek to inform and broaden current debates about the region and about UK and international policy. We also produce a range of publicly available reports, books and papers.

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