

## BLUE PAPER

### COLLABORATING TO SOLVING YEMEN'S PROBLEMS HOLISTICALLY

*This document includes excerpts of the full paper. Please contact Ghanem Nuseibeh for more information: [gn@cstoneglobal.com](mailto:gn@cstoneglobal.com).*

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Cornerstone Global Associates Ltd is a management consulting firm designed for the complexities and challenges of the 21st Century. With over 30 associates based in 18 countries, we provide our clients with cutting edge solutions to tailored to fit their most complex challenges.

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#### *About the Authors*

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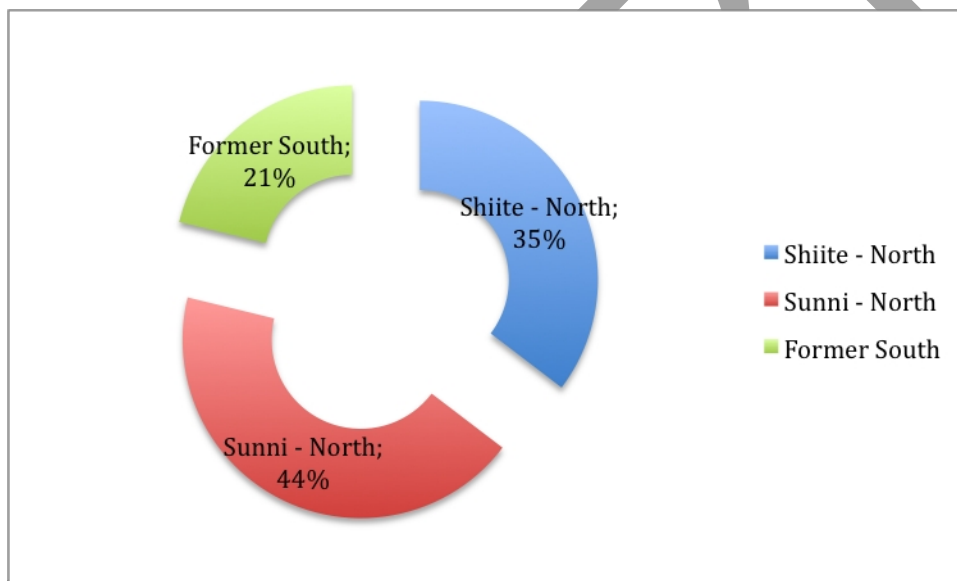
### **Executive Summary**

Yemen is facing multiple difficulties that threaten the stability of the country and the entire Gulf region. The collapse of the Yemeni state could lead to the consolidation of the country being used as the training ground and operations centre for Al Qaeda. This has both regional and international implications. In order to avoid a catastrophic collapse, a holistic long-term solution is needed that acknowledges the military, economic, social, regional and governance challenges. Partial solutions to the problem could be counter-productive. The proposed January 2010 London conference about Yemen should be used as an opportunity to address the situation in a concerted, holistic manner.

## **Background**

Yemen is a country **strategically located** in the south-western part of the Arabian peninsula. It has a long porous mountainous border with Saudi Arabia to its north and Oman to the east. Modern Yemen is a union between former north Yemen (larger, pro-western) and south Yemen (smaller, socialist). Both Yemens entered into a voluntary union in 1990, with former south Yemeni President Ali Salem Al Baidh becoming the deputy to president Ali Abdullah Saleh. In 1994, southerners called for independence and although the forces of the former north won the war and maintained Yemen's unity, citizens from the former south were never allowed to hold government or military positions. The effect of the civil war was that the residents from the south gradually perceived the union as a northern occupation.

The Yemeni population – about 23 million is **largely tribal**. Over two thirds of the population is Sunni Muslim. Shiite Muslims live in the northern region of Saada.



**Figure 1:** Make-up of the Yemeni population (total 23 million).

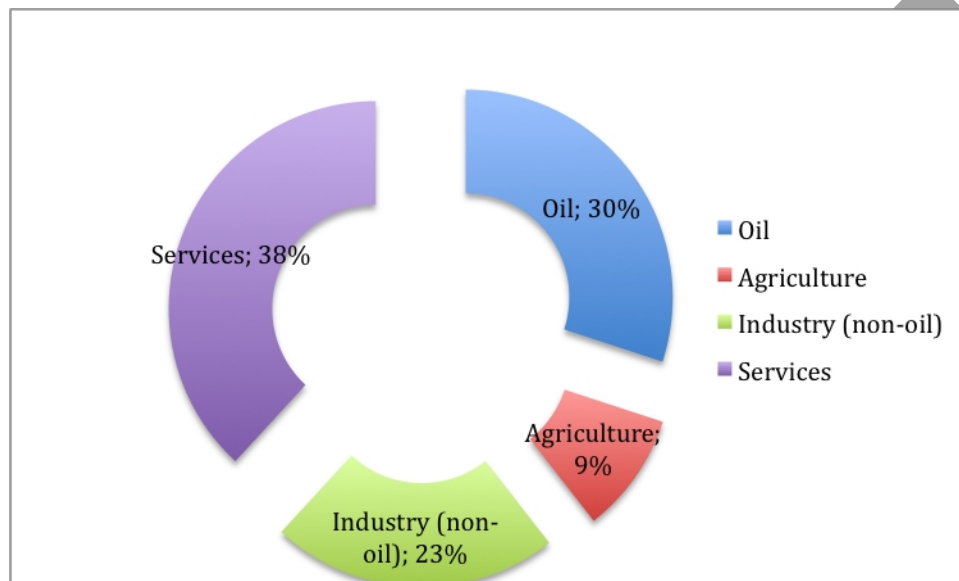
Yemen is home to over **150,000 registered refugees mainly from Somalia** but also from Ethiopia and other countries, although the real number may be as high as 700,000. They are mostly economic migrants.

The draft **budget** – approved by parliament in December 2009, for 2010 is just over **US \$ 10 billion**, compared with US \$ 9.815 in 2009. Budget deficit stands at US \$ 2.460 billion, or 7 percent of GDP.

Estimates close to the government put the state income for 2010 at US \$ 7.6 billion, while expenditure at US \$ 10.60 billion.

**Oil revenues make up 75-80%** of the state's income. In 2009, Yemen's **oil revenues dropped by over 60%**, due to a combination of oil price drops and dwindling oil reserves. Yemen has between 5 and 8 years worth of oil reserves.

Yemen's central bank has also announced that the **foreign currency reserves** have dwindled during the last nine months of 2009 by more than US \$1.408 billion to reach \$7.411 billion compared to \$8.819 billion in the same period in 2008.



**Figure 2:** Approximate make-up of Yemen's GDP

### Current challenges

Yemen faces multiple challenges, that are exacerbated by the gradual collapse of the central government.

### **Tri-area conflicts**

1. *Ongoing civil war with the Houthi rebels in the Saada region in north Yemen.* The government forces are engaged in the "Sixth Saada War" against the Houthi rebels in the north, who are calling for greater rights. The conflict has spilt into Saudi Arabia. The Yemeni government has accused Iran of supporting the rebels.
2. *Southern separatists.* There is a rapidly increasing support in the south for secession. Demands by southerners for full integration into the government and government funding for development have largely been ignored by the central government. There are regular riots in parts of the former south and many areas have become lawless.
3. *Al Qaeda.* Yemen's population is the ideal recruitment ground for Al Qaeda. Increasing dismay with the government and a deeply

religious population make the Yemeni population vulnerable to Al Qaeda ideology. Lawlessness and a receptive population make Yemen an ideal base for Al Qaeda.

## **Economy / Corruption**

With oil reserves rapidly dwindling, the government will be facing **rapidly decreasing income over the next few years. Plans for a post-oil economy are virtually non-existent** and economic diversification efforts are few and far between. This makes Yemen **increasingly reliant on foreign aid**, as currently revenue from oil forms as much as 80% of the state's income. **Unemployment is conservatively estimated at 35%.**

**Yemen is constantly ranked as one of the world's most corrupt.** Most recently, the annual report of International Transparency Organization about Corruption Perception Indicators (CPI) for the year 2009 puts Yemen at the bottom of the list of the countries fighting corruption<sup>1</sup>.

Approximately US \$4.7 billion was pledged for the four-year period 2007-2010 at the fourth Consultative Group (CG) meeting of donors for Yemen, held in London on November 15-16, 2006. *The UK the leading EU aid donor to Yemen with support rising to US \$222 million over the period to 2011, a 400% increase from 2006*<sup>2</sup>.

## **Relations with neighbours**

Yemen has had a mixed relationship with its neighbours. Yemen has been trying to join the Gulf Cooperation Council (GCC). Gulf countries, however, have been reluctant to fully integrate Yemen into the GCC and only have cooperation in sectors such as transport, sports and media.

In recent times, **Saudi Arabia supported the separatists in the 1994** civil war. **Oman** provided a safe haven for the former south Yemen president Al Baidh after the 1994 until 2009 when he was expelled from Oman. In 2006, the **UAE** hosted in Dubai a meeting of tribal leaders from the south to discuss the formation of an independent sheikhdom in the former south.

Saudi Arabia is now openly engaged in the fighting against the Houthi rebels.

**Al Qaeda** announced in 2009 the merger of its operations in Yemen and Saudi Arabia. This may have been a reason why the Saudis announced the intention to build a border fence along its borders, including its long and porous border with Yemen.

The rapidly deteriorating security situation in Yemen is increasingly becoming a reason for concern for GCC states. **The Abu Dhabi Government pledged US\$650 million** to help Yemen in December 2009.

The grant is one of the largest ever made by the Abu Dhabi Fund for Development (ADFD) and will be spent on development projects in Yemen covering infrastructure, energy, water, transport and education.

Yemen has strong links to countries in the horn of Africa, most notably **Somalia** and **Ethiopia**.

### **Potential Consequences**

The combination of security and economic factors are all contributing to **the rapid crumbling of the central government**. The government's resources are stretched to the limit and its grip of the country is being lost.

The collapse of the government will lead to a state with significant support for Al Qaeda at a very strategic location. This increasingly endangers the stability of Saudi Arabia and the GCC as a whole. **A combination of failing states in Yemen and the horn of Africa could only exacerbate the situation as terrorists would have a large sea and land border lengths**, threatening the Gulf countries as well as the sea routes through Bab el Mandeb and the Gulf of Aden. Bab el-Mandab acts as a strategic link between the Indian Ocean and the Mediterranean with over 3.3 million barrels of oil passing daily, out of a world total of about 43 million barrels per day moved by tankers.

### **Solution**

#### **Past solutions**

There have been a number of isolated regional and global initiatives to address the situation. However, **none of the solutions have succeeded in halting the overall deterioration**.

There are ongoing isolated efforts to address certain aspects of the problem. These are likely to be less effective, or in **extreme situation counter-productive, if not conducted bearing in mind the overall situation**.

Isolated military help against Al Qaeda may contribute to limited localized success. However, with the government engaged in two other confrontations, lack of accountability may lead to military assistance being diverted to combat southern separatists or Houthis. Such an eventuality is more likely given that many of **the international and regional**

**stakeholders have differing and often opposing long-term priorities in Yemen.** In addition, **military aid without economic and development aid will result in mobilizing the local population towards Al Qaeda.**

**The international community may be reluctant to provide economic aid without greater transparency and accountability.** Without such assurances, the aid may lead to further corruption and also be counter-productive as it contributes to widening the gaps between the different regions of Yemen. Despite immediate need for financial help, plans need to be put in place to diversify the economy as it moves away from being entirely reliant on oil revenues.

Although US \$ 4.7 billion were pledged at the donor's conference in London in 2006, only a small part of this has been paid and the effort has largely failed. **This is because it was not part of a holistic long-term plan to address the situation. It was also because there were no proper mechanisms to ensure its implementation and success.**

### **What next?**

The combination of ethnic homogeneity, social structure, economic conditions and geographic location make addressing **the Yemen issue a most challenging one, surpassing in complexity that of Afghanistan.** This is because the combination of factors in Yemen are conducive to a potentially more effective Al Qaeda.

The solution to the Yemen problem should be **rapid, multi-sector, comprehensive and in combination with addressing the situation in neighbouring countries.** Due to the urgency of the situation, it has to be ensured that the solutions implemented are successful as **failure would lead to a collapse of the state.**

**Military aid should be accompanied by economic and development aid.** However, both military and economic aid expenditure should be closely monitored.

Military aid may be diverted to fighting causes other than those they are intended to, particularly against the south. Even at a time when the government was fighting the Houthis and Al Qaeda, it engaged itself in a major confrontation in the south by arresting the publisher of the south's main daily newspaper (Jan 2010)<sup>3</sup>.

Military aid should be provided with the risk of it falling into terrorist hands carefully evaluated. This requires a hands-on approach involving a careful balance between local, Arab and Western forces. The security situation should also be evaluated bearing in mind the conditions in the Gulf of Aden and Somalia (bearing in mind the large numbers of Somali refugees in Yemen).

**Economic and development aid should be rapid, targeted and part of a holistic effort to diversify the economy.** Both corruption risk and geographical bias preclude the possibility of direct disbursement to the government. As a result, such aid should be carefully earmarked and closely monitored.

**A political solution to the south and Houthi problems should be addressed and options such as regionalization considered. In addition, state rebuilding should be part of the holistic long-term plan.**

**The proposed January 2010 London conference on Yemen should be used as an opportunity to address Yemen's chronic problems and propose solutions to address them holistically.**

It is also essential that regional and international partners engaged in assisting Yemen align their priorities, as much as possible. This will be partly achieved by **emphasizing the inter-dependence of the aid efforts** (military, financial, social, political).

### Why Cornerstone

Cornerstone's associates have **considerable experience working in the region**. Our associates have extensive knowledge of **Yemen, Somalia, Somaliland, Djibouti, Saudi Arabia, Oman and other regional states**. An effective so agencies.

Cornerstone proposes the **implementation of a holistic solution to address the overall problem of the failing state**. Lucian Hudson's report "The Enabling State: Collaborating for Success"<sup>4</sup> presents a blueprint on how collaboration between the different stakeholders can produce more effective and longer-term results. **Collaboration between the different stakeholders** in the Yemen issues is vital to ensuring long-term success. This includes stakeholders within Yemen, between Yemen and its neighbours and between Yemen and the international community. Cornerstone can contribute to assisting the Yemeni state, international donors, partners and allies in policy-making and effective delivery on the ground.

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