

## COUNTRY PROFILE

# Republic of San Marino



*as of April 2012*

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## HISTORICAL BACKGROUND

The territory of the Republic of San Marino was frequented and inhabited since remote times, as testified to by the discovery of several archaeological remains dating back from the Eneolithic Age (third millennium B.C.) onwards. Important traces of human presence have been found for the Bronze and Iron Ages, as well as for the Villanovan, Roman and Goths' Ages. With regard to the latter, the remains found include some furnishings and objects of very refined jewellery dating back to the 5th and 6th centuries A.D. On Mount Titano, where the San Marino community first settled, the remains of an important cultural site have also been found. In this place, which started to be frequented in the 5th century B.C., a divinity was worshipped, which was thought to have thaumaturgic powers.

The community, from which the State of San Marino subsequently originated, consolidated during the late **Middle Ages**, probably around a monastery, which had been built on Mount Titano already in the 6th century B.C. The legendary origin of the San Marino society is instead connected with the arrival on Mount Titano of a Saint Man, Marino, coming from the island of Rab, Dalmatia. In 257 A.D., Marino arrived in Rimini to work as a stonecutter and subsequently he decided to move to Mount Titano to live as a hermit. Marino lived here, surrounded by people attracted by his charisma, until his death in 301 A.D. He received Mount Titano as a gift from the legitimate owner, in favour of whom he had performed a miracle and subsequently he bequeathed it to those who had lived around him. Hence the mythical foundation of the Republic, which, still today, coincides with Saint Marino's death year.

In fact, the territory, on which the San Marino society subsequently consolidated, was under the political control of the Pope and of the Bishop of Montefeltro. Only starting from the late 13th century, during the **Age of the Commune**, San Marino citizens started to slowly free themselves from this dominion, by developing their own statutes, judiciary and political bodies able to autonomously manage the community. In this regard, San Marino citizens could count on the help of the Montefeltros, Lords of Urbino, who were at war with the Malatestas, Lords of Rimini, and with the Pope. Indeed, the Montefeltros considered San Marino as a powerful outpost and an important ally, therefore they favoured its territorial development, military strengthening and desire for autonomy.

In 1300s, San Marino continued to slowly free itself from the Bishop's political powers and to increase its territory, which reached today's dimensions (61 square kilometres) in 1463. Indeed, in this year, San Marino received some villages and Castles as a reward for having contributed to the defeat of the army of Sigismondo Malatesta, who, at that time, was at war with the Pope.

In early **1500's**, San Marino was invaded and occupied for some time by Cesare Borgia, who was trying to create its own personal dominion in central Italy with the help of his father, Pope Alessandro VI. In mid 1500s, San Marino was subject to other two invasion attempts, always favoured by Rome, which did not tolerate the presence of an enclave within its territory. However, these attempts were unsuccessful and had no relevant consequences.

During the **early 1600s**, the Duchy of Urbino became part of the Papal State. However, San Marino, thanks to its diplomatic ability, managed to remain independent, although it had to accept the "protection" of Rome, which actually consisted in a steady control over its freedom of action and autonomy. Indeed, the Papal State considered the freedom of San Marino as something partial resulting from its exclusive concessions. In 1739, in the light of this, the Papal State tried to put an end to this situation by occupying the small State through **Cardinal Giulio Alberoni**. However, after some months, the Pope understood that the majority of San Marino citizens did not admit the fact of losing their own freedom and that this occupation had created some discontent in various European Courts. Therefore, on 5 February 1740, it decided to give back to San Marino its ancient independence, although it remained subject to "protection" and supervision as in the past.

Tensions between Rome and San Marino continued until the end of the Papal State. However, in the late 1700s, the Republic had to face another danger: the arrival of the Napoleonic troops at its borders. Fortunately, **Napoleon** preferred to respect this small State and also offered San Marino some economic concessions, certainly for propagandistic purposes and because it was a political entity with a republican government.

When, during the **Congress of Vienna**, the European nations decided to restore the pre-Napoleonic political situation, San Marino had no problem in this sense since it had not benefited from any specific advantage during the period of the French dominion. However, in the following years, during the Risorgimento, San Marino had to face some problems again since the Revolutionaries used its territory as a shelter to hide, thus creating great concern in Rome. Moreover, on 31 July 1849, the Republic was surrounded by the Austrian and Papal armies since San Marino had given shelter to **Garibaldi**, who was escaping with its army of about 2,000 people after the fall of the Roman Republic. Negotiations were immediately started to solve this delicate issue, but Garibaldi decided to flee at night from San Marino with a few very faithful soldiers.

After these events, the situation remained troublesome because San Marino continued to be accused of giving shelter to rebels. This debate continued for a long time and was also characterised by disputes and concerns with regard to the preservation of San Marino independence. Finally, in 1854, the local authorities managed to establish diplomatic relations with Napoleon III, the newly-elected French Emperor, who wanted to follow in his more famous predecessor's footsteps.

He was an important guarantee for the protection of San Marino independence also some years later, when Italy was united under Vittorio Emanuele II. However, the latter never expressed the intention to annex San Marino, although he requested the signing of a Convention of good neighbourhood aimed at offering "protection" to the Republic in exchange for guarantees against smuggling and other problems which could have arisen. This **treaty, signed in 1862**, was important mainly because, for the first time, the Republic of San Marino was recognised as a sovereign State.

The last decades of 1800's were quiet and more prosperous than the past years and this allowed San Marino citizens to improve their road system and to build important infrastructures, such as the new Government Building inaugurated in 1894. At the end of the century, some internal tensions, due to a period of economic and political crisis affecting the country, led to the meeting of the **Arengo in 1906**. This assembly of all heads of family, which met again after several centuries, decided through a referendum to elect the San Marino Parliament, as opposed to the previous renewal through co-optation.

Subsequently, San Marino participated in all Italian historical and social events, for better or for worse. It witnessed the development of political parties and of the violent discussions between Catholics and laics, which characterised the first decades of **1900s**; it was affected by the rationings and problems connected with World War I; it went through two decades of Fascist regime; it suffered from the terrible consequences of World War II. During the latter, San Marino was bombed by the allies and several people died, despite the neutrality explicitly declared by the Republic in respect for its long-lasting tradition of peace, which has always characterised San Marino since the Middle Ages. In the 60s, the economic boom benefitted the country, which managed to create a significant industrial system and became an important tourist destination, attracting millions of visitors all over the year.

During the first half of the 20th century, San Marino was still mainly based on agriculture, with a little more than 10,000 inhabitants. This figure had been reached only during the preceding century since at the end of 1700s the entire territory was inhabited by a maximum of 3,500 people. However, starting from the 60s, San Marino profile radically changed on account of the extremely rapid increase in the

population, now amounting to about 32,000 inhabitants, and because of the development of connections, both internally and with the surrounding areas, as well as of commerce, industry and services.

## GENERAL INFORMATION

<b>Official name:</b>	Republic of San Marino
<b>Surface:</b>	61.16 km <sup>2</sup>
<b>Capital:</b>	San Marino (4,284 inhabitants as of June 2011)
<b>Municipalities:</b>	The Republic of San Marino is divided up into nine Castles; the most populous one is Serravalle/Dogana (10,402 inhabitants as of June 2011)
<b>Form of Government:</b>	Parliamentary Republic
<b>Heads of State:</b>	Captains Regent H.E. Maurizio Rattini - H.E. Italo Righi (1 April 2012-1 October 2012)
<b>Legislative body:</b>	Great and General Council (60 Parliamentarians)
<b>Executive body:</b>	Congresses of State (10 members)
<b>Law:</b>	<i>Ius commune</i>
<b>Suffrage:</b>	Universal

## COAT OF ARMS



The official coat of arms of the Republic is surmounted by a closed crown, symbol of the sovereignty. Three green mountains are represented in the light-blue shield. On each mountain rises a silver embattled tower with windows and outlined in black, and a silver ostrich feather is over each of them. A green laurel branch on the left and a green oak branch on the right, with golden fruits, protect the shield's sides and intersect under its point. These branches are wrapped together by a silver band on which LIBERTAS is written in black capital letters.

Constitutional Law no. 1 of 22 July 2011 has supplemented Law no 59 of 8 July 1974 with technical and graphical details on the San Marino coat of arms and flag. Moreover, Law no. 190 of 5 December 2011 provides for the protection and use of the official coat of arms of the Republic and of other public coat of arms, signs and emblems, through which San Marino reiterates its sovereignty and independence within the international community.

## FLAG



The present flag of San Marino was adopted on 6 April 1862 and is formed by two horizontal bands having the same dimensions: the upper one is white standing for peace and the lower one is light blue standing for liberty. In the middle of the flag there is the official coat of arms of the Republic.

## RELIGIOUS AND NATIONAL HOLIDAYS 2012

1 January	New Year's Day
6 January	Epiphany
5 February	Commemoration of the liberation from Cardinal Alberoni's occupation (1740) and Saint Agatha's Day, Co-patron Saint of San Marino
25 March	Anniversary of the 1906 Arengo and commemoration of the Militia
1 April	Investiture of the Captains Regent (Heads of State)
8 April	Easter
9 April	Easter Monday
1 May	Labour Day
7 June	Corpus Domini
28 July	Fall of Fascism
15 August	Assumption of the Virgin
3 September	San Marino National Holiday and Foundation of the Republic (301 A.D.)
1 October	Investiture of the Captains Regent (Heads of State)
1 November	All Saints Day
2 November	All Souls' Day
8 December	Immaculate Conception
25 December	Christmas
26 December	Boxing Day
31 December	New Year's Eve

## MILITARY AND POLICE CORPS

Although it a neutral State with a universally recognised vocation to peace, the Republic of San Marino has voluntary Uniformed Military Corps representing the sovereignty of the State. Therefore, there is no compulsory military service but all citizens aged 16 to 55 may be recruited, in special circumstances, to defend the State. These traditional military institutions, which have ancient origins, represent a sort of “small peace army” and testify to the affection felt by San Marino citizens for their country and traditions.

Voluntary Military Corps are the following:

- the **Uniformed Militia**, which participates in official ceremonies and cooperates with the maintenance of public order on special occasions; the Military Band is also part of this Corps;
- the **Guard of the Great and General Council**, called Noble Guard in ancient times, is a special corps entrusted with the task of defending the Captains Regent and the Great and General Council; it participates in official ceremonies and cooperates with the maintenance of public order on special occasions, mainly of an institutional nature; it performs guard duties during parliamentary sittings;
- the **Fortress Guard-Artillery Unit**, which is equipped with cannons to fire salvoes, according to an ancient military protocol, during official ceremonies and institutional events.

There are also three Police Corps:

- the **Gendarmerie**, established to prevent and repress crimes, maintain public order, protect citizens and their property, monitor the observance of the State laws and offer assistance in case of calamities (it is a military corps);
- the **Uniformed Fortress Guard**, entrusted with the task of monitoring the observance of the laws and patrolling the State borders, the Government Building and the institutional seats; it also cooperates in the prevention and repression of crimes, maintenance of public order and security and monitoring of compliance with customs regulations, as well as with monetary and financial laws, and it offers assistance in case of calamities and accidents (it is a military corps);
- the **Civil Police** is entrusted with the task of supervising the citizens’ freedom and rights, public order and security, as well as the observance of laws, preventing and repressing crimes and offering assistance in case of calamities and accidents; it also performs some specific functions concerning taxes, hygiene and social security, civil protection and fire fighting, protection of employees and of the environment, control, protection and prevention in the fields of commerce, tourism, food and road traffic, verification of personal/demographic data (it is not a military corps but it is equipped with arms);
- the **National Central Bureau of Interpol** is entrusted with the task of favouring cooperation between San Marino Police Forces and those of the other member countries;
- the **Police Department** is responsible for coordinating San Marino law enforcement agencies.

## SAN MARINO: UNESCO WORLD HERITAGE

The outstanding value of the historical and institutional heritage of the Republic of San Marino was recognised on **7 July 2008** with the inclusion of Mount Titano and the Historic Centre of San Marino in the prestigious list of the UNESCO World Heritage sites.

According to the Statement of Outstanding Universal Value adopted by UNESCO: “San Marino is one of the world’s oldest Republics and the only surviving city-state, representing an important stage in the development of democratic models in Europe and worldwide. The tangible expressions of the continuity of its long-lasting existence as the capital of the Republic, its unchanged geo-political context and its juridical and institutional functions are testified to by its strategic position on top of Mount Titano, its historic urban structure, its urban spaces and its numerous public monuments. San Marino iconic status is widely recognised as symbol of a free city-state, illustrated in the political debate, literature and arts throughout the centuries... San Marino and Mount Titano are an exceptional testimony of the establishment of a representative democracy based on civic autonomy and self-governance, with a unique uninterrupted continuity as the capital of an independent Republic since the 13th century. San Marino is an exceptional testimony to a living cultural tradition that has persisted over the last seven hundred years...”.

## POPULATION AND SOCIAL INDICATORS

<b>Resident population</b>	32,031 (as of June 2011)
<b>Growth rate</b>	0.75% (June 2011 compared to June 2010)
<b>Birth rate</b>	10.51% (2010; per 1000 inhabitants)
<b>Mortality rate</b>	6.98 (2010; per 1000 inhabitants)
<b>Old age rate</b>	112.36 (2009; per 1000 inhabitants)
<b>Life expectancy</b>	Males: 80.87 years (2010) - Females: 86.04 years (2010)
<b>Literacy rate</b>	Graduations: 2,197 + 609 university diplomas (as of December 2009 out of 31,632 residents) Diplomas: 6,206 + 2,765 professional diplomas (as of December 2009 out of 31,632 residents)
<b>Unemployment rate</b>	5.86% (unemployment in the strict sense - November 2011)
<b>Main ethnic groups</b>	Sammarinese, Italian
<b>Religion</b>	Roman Catholic
<b>Language</b>	Italian
<b>Parties, political movements, electoral results</b>	<p>Allocation of seats based on the results of the elections held on 9 November 2008:</p> <p>Popular Alliance (AP), 7 seats            Centre Democrats (DdC), 2 seats            Liberty List (LdL), 4 seats            Party of Socialists and Democrats (PSD), 18 seats            San Marino Christian Democratic Party (PDCS), Euro-Populars (EpS), Arengo and Liberty (AeL), 22 seats            United Left (SU), 5 seats            San Marino Union of Moderates (USDm), 2 seats</p> <p>On 1 July 2009, 8 Parliamentarians left the PSD and created a new Parliamentary Group called San Marino Socialist Reformist Party.            On 9 September 2010, 3 Parliamentarians left the PDCS, EpS, AeL Parliamentary Group to create an</p>

autonomous Group, however they continued to be de facto part of the majority.

On 10 November 2010, one of these Parliamentarians also left the newly created Group and became independent; since he did not adhere to another Parliamentary Group, he became part ex officio of the mixed Parliamentary Group. Therefore, the newly created Group became a Parliamentary Representation since the minimum number to be considered a Parliamentary Group was not reached, and also the remaining 2 members automatically became part of the mixed Parliamentary Group.

On 7 March 2011, the Minister of Labour (EpS) resigned his Government position. On 16 March, the Great and General Council acknowledged his resignation. On 17 March, together with the two Parliamentarians mentioned above, he decided to leave the Government Coalition (called Pact for San Marino). The three Parliamentarians joined the Parliamentary Representation of DdC, made up of two Parliamentarians, thus creating a Parliamentary Group called Union for the Republic (UpR), in opposition.

On 15 June 2011, the former EpS Parliamentarian who had become independent entered the Parliamentary Group of the San Marino Christian Democratic Party as an independent Parliamentarian and on 28 June 2011 he formally became part of this Parliamentary Group.

On 22 July 2011, a Parliamentarian of the San Marino Union of Moderates became independent and on 28 October 2011 also a Parliamentarian of the San Marino Socialist Reformist Party did the same.

Presently, there is a centre wing Government coalition (Pact for San Marino), with 31 Parliamentary seats (besides the two Captains Regent, who are not entitled to vote) composed of: San Marino Christian Democratic Party-Arengo and Liberty (19 seats), Popular Alliance (7 seats), Liberty List (4 seats), San Marino Union of Moderates (1 seat). The opposition centre-left coalition (called Reforms and Liberty) has 29 seats and is composed of: Party of Socialists and Democrats (10 seats), San Marino Socialist Reformist Party (7 seats), United Left (5 seats), Union for the Republic (5 seats), independent Parliamentarians (2).

## ELECTORAL SYSTEM

In the Republic of San Marino, elections are conducted on the basis of proportional representation under a single constituency. The proportional system is considered as the most suitable to implement the **principle of “representation”** since it enables to translate the different votes expressed by electors directly into parliamentary seats. Through this method, each list is indeed assigned a number of seats proportionally corresponding to the votes obtained by the list itself. The electorate constitutes a **“single constituency”**, therefore the composition of the entire Great and General Council (Parliament) results from the total amount of the votes cast in any polling stations.

The **electoral reform of 2007-2008** has introduced some corrections into the pure proportional system, following an institutional and political debate, which has lasted for some years. Such corrections, representing the main new element of our electoral system, have been envisaged with a view to enhancing the citizens' will, making political forces aware of their responsibilities vis-à-vis electors, countering the fragmentation of parties, guaranteeing Government stability, favouring the presence of women within the Great and General Council, combating vote-buying and preventing the voter from being recognised.

Among the main new elements is the one requiring political forces to preventively declare their government alliances and programme. With a view to supporting stable government majorities, the law favours the creation of coalitions among the lists, although the single lists can also choose to run for elections alone. Single lists and coalitions undertake to draft a Government Programme, to be published before the elections. This is not a different electoral programme for each list as in the past, on the contrary it is a sort of contract between political forces and electors with precise commitments for the legislature. Also a **“stability” prize** is envisaged – consisting in the assignment of additional seats to the winning list or coalition – aimed at guaranteeing stability with long-lasting Governments during the legislature. Moreover, with a view to keeping the promises made to electors before the voting, it is prohibited, in case of government crisis, to create new majorities with the participation of political forces other than those winning the elections. However, it is possible to increase the number of majority parties with the consent of all political forces of the coalition that has won the elections. The fragmentation of the political forces is discouraged through a **“block”** (minimum number of votes to be obtained to sit in the Council). This minimum threshold varies according to the number of lists running for elections and ranges between 0.40% and 3.5%.

The objective of the 2007 and 2008 reforms was to match the fundamental principles of the former electoral discipline with the new needs that the San Marino political and institutional context has developed over the years as a consequence of its natural evolution. The following new elements have been introduced: “female quotas” in the lists of candidates, the income tax return of candidates, further incompatibilities for elected people, the creation of electoral offices, criminal penalties for those violating the freedom to vote. Any Parliamentarians having one of these incompatibilities (see paragraph on the Great and General Council) must opt for the parliamentary mandate and eliminate the causes of incompatibility within the following 3 months, otherwise they can no longer be members of the Great and General Council.

The winning list or coalition is the one that obtains 50% + 1 of the valid votes cast. In case this number is not reached, the winning list or coalition is the one that obtains at least 30 out of 60 seats within the Great and General Council, on the basis of the proportional counting system, which has always been applied (**D'Hondt method**). The winners are favoured through the “stability prize”, which aims at guaranteeing that the Government coalition has at least 35 seats within the Great and General Council. Therefore, if the winning list or coalition does not obtain at least 35 seats, it is assigned the remaining seats so that it can reach 35. These additional seats are to be subtracted from the lists that have obtained the lowest percentages of votes and that are not part of the winning list/coalition. If at the first voting round no coalition or list obtains neither the majority of 50% + 1 of the votes cast nor 30 seats out of 60 within the Great and General Council, a

second ballot is conducted between the two coalitions/lists that have obtained the highest percentage of votes during the first round. The second ballot is only aimed at establishing which of the two competing coalitions/lists wins the elections and receives the “stability prize”, since the proportional allocation of seats within the Great and General Council and the identification of people elected depend on the results of the first voting round. Therefore, in the second ballot, voters do not express a preference but they only vote for one of the two competing lists/coalitions by using specific ballot papers. The coalition that wins the elections is required to remain united throughout the legislature.

## INSTITUTIONS

The Republic of San Marino has not a real written Constitutional Charter but its normative references are the Statues, *ius commune* and customary law. Moreover, in 1974, San Marino adopted a law having a constitutional value: **Law no. 59 of 1974 “Declaration on the Citizens’ Rights and Fundamental Principles of San Marino Constitutional Order”**, amended and integrated with Laws no. 95 of 19 September 2000, no. 36 of 26 February 2002 and no. 61 of 28 April 2005. These texts reaffirm the tradition of liberty and democracy of the Republic and define the functions and competences of institutional bodies, besides reiterating the decisions and basic principles that the San Marino State has always adopted with regard to civil and political freedoms, as well as to the protection of human rights.

Therefore, the San Marino institutional system has developed throughout the centuries, starting from the Age of the Commune, and various institutions of this Age still survive today. The main institutional bodies of San Marino are the *Captains Regent*, the *Great and General Council*, the *Congress of State* (Government), the *Council of the Twelve* and the *Guarantors’ Panel on the Constitutionality of Rules*.

## CAPTAINS REGENT

The origins of the institution of the Captains Regent date back to 1200, when the existence of two “Consules” is demonstrated. In 1295, they were assigned the title of Captain and Defender and in 1317 they became Captain and Rector, hence the name of “Captain Regent”.

According to Article 3 of the “Declaration on the Citizens’ Rights and Fundamental Principles of San Marino Constitutional Order”, as also provided for in Article 1 of Constitutional Law no. 185/2005, **the Office of Head of State** shall be held **jointly** by two Captains Regent.

The Captains Regent are elected by an absolute majority of the votes cast by Parliamentarians in a secret ballot. In this case, the sitting is valid irrespective of the number of Parliamentarians present (Art.1 of Qualified Law no.186/2005). The couple obtaining the absolute majority of votes is elected.

The requirements to be elected Captain Regent are: to be no less than 25 years of age, not to have held this position in the preceding three years (the so-called “law of prohibition”) and to be a San Marino citizen by origin (that is to say citizenship acquired at birth).

The Captains Regent are elected for a **six-month mandate**: from 1 April to 1 October and from 1 October to 1 April.

Constitutional Law no. 185/2005 has further defined the constitutional functions and duties of the Captains Regent. First of all, they represent the State and are the supreme guarantors of the Republic’ constitutional order (Art.1); as such, they supervise the functioning of public powers and State institutions, as well the compliance of their activities with the principles enshrined in the “Declaration on the Citizens’ Rights and Fundamental Principles of San Marino Constitutional Order” and in the legislation in force (Art.2).

They may send messages to the institutional bodies with a view to guaranteeing respect, both formal and substantial, for the constitutional order and to maintain a correct balance among these bodies. They may also bring attribution conflicts with other constitutional bodies before the Guarantors’ Panel on the Constitutionality of Rules.

One of their tasks is to preside over the Great and General Council (Parliament), without voting right, which they represent in its entirety. They also convene and preside over the Bureau of the Great and General Council. In case of impossibility of one of the two Captains Regent, the Great and General Council and its Bureau may be convened and presided over by the other Captain Regent individually.

The Captains Regent also perform the following tasks:

- dissolve the Great and General Council in the cases provided for by law;
- convene electoral meetings for the renewal of the Great and General Council (political elections);
- coordinate the works of the Congress of State (Government);
- receive referenda proposals, popular legislative initiatives and the *Istanze d’Arengo* (specific popular petitions concerning matters/issues of public interest) and supervise on the correct application of the relevant procedures;
- fix the dates of referenda, as well as of elections of the Heads and members of Township Councils (administrative elections);
- accredit San Marino diplomatic representatives and receive the credential letters of foreign diplomatic representatives;
- convene and preside over the plenary and ordinary sessions of the Judicial Council;
- convene and preside over the Grand Mastership of the Equestrian Order of Saint Agatha;
- confer decorations in conformity with the provisions in force;
- preside over the Conference of the Heads of Township;

- carry out consultations and promote any useful initiative, including the conferral of the exploratory mandate for the Government formation (Art. 3 of Constitutional Law no.185/2005).

The Captains Regent also have the power to promulgate and order the publication of the laws approved by the Great and General Council.

In conformity with Article 5 of Constitutional Law no. 185/2005, the Captains Regent promulgate and order the publication of the decrees falling under their competence and provided for by law, which must be signed also by the Minister of Internal Affairs; they promulgate and order the publication of the decrees adopted by the Congress of State, in conformity with Article 2, paragraph 2, point b) of Constitutional Law no.183/2005 (Constitutional Law on the Congress of State), which must be signed also by the Minister of Internal Affairs. Moreover, they promulgate and order the publication of decrees ratifying international treaties and agreements, following the decision by the Great and General Council, as well as the decrees adopted by the Congress of State in conformity with Article 3 bis, fifth paragraph of the Declaration on the Citizens' Rights, which must be signed also by the Minister of Internal Affairs. Finally, they promulgate and order the publication of the regulations provided for in Article 2, paragraph 2, point h) of Constitutional Law no. 183/2005.

Moreover, the citizens may submit complaints to the Captains Regent concerning the activities carried out by State Bodies and Public Administration Offices, to which the Captains Regent may initiate changes (Article 6 of Constitutional Law no.185/2005).

The Captains Regent cannot be prosecuted in any way during their mandate (Article 7 of Constitutional Law no.185/2005). At the end of their mandate, the Captains Regent are subject to the Regency Syndicate. This judgement, provided for by the Statues (section XIX of the first book), is now entrusted to the Guarantors' Panel on the Constitutionality of Rules, following the revision of the Declaration on the Citizens' Rights. The procedure provides that, within fifteen days after the conclusion of their mandate, every citizen registered in the electoral lists may submit claims against the Captains Regent "for what they have and have not done" during their mandate. The various stages of this procedure are described in Title VI of Qualified Law no.55/2003.

## GREAT AND GENERAL COUNCIL (OR COUNCIL OF THE SIXTIES)

The Great and General Council, composed of **60 Parliamentarians**, is the legislative body and is elected every **5 years** by universal suffrage. It can be considered a parliamentary body of a constitutional, **collegial**, representative and **unicameral** nature. According to Article 3, paragraph 7 of the “Declaration on the Citizens’ Rights and Fundamental Principles of San Marino Constitutional Order”, the Great and General Council shall exercise the legislative power, direct and control the Government policy. The internal organisation and the functions of the Great and General Council are disciplined by the Parliamentary Rules of Procedure adopted with Law no. 21 of 11 March 1981, amended by Laws no. 128 of 31 October 1986, no. 47 of 19 May 1994, no. 42 of 21 March 1995 and no. 2 of 12 September 2006. The Electoral Law governs the election, the causes of ineligibility, as well as the incompatibilities of the Parliamentarians. The Parliamentarians are elected by universal and direct suffrage for the duration of the legislature. Their mandate ends with the dissolution of the Council or in case of incompatibilities or disqualification. Besides the requirements to vote, the necessary requirements to be elected are: having attained 21 years of age on the election day, having resided in the Republic, not being a member of the Corps of the Gendarmerie, Civil Police, Uniformed Unit of the Fortress Guard, not being a diplomatic or consular Agent, not performing the functions of Magistrate or *Procuratore del Fisco* (a Prosecuting Magistrate). The Electoral Law also provides for incompatibilities of those elected: first-degree relatives in the direct line, spouses or cohabitants cannot be simultaneously members of the Great and General Council; the office of Head or member of Township Councils is incompatible with the mandate of member of the Great and General Council. Further incompatibilities have been introduced with Qualified Law no. 1/2007 with a view to avoiding that a member of the Great and General Council holds several elected offices. This can happen when a person is simultaneously the legal representative or a member of the management bodies of social, economic and financial organisations or associations. The mandate of member of the Great and General Council has become incompatible also with the following offices: legal representative or elected offices in the management bodies of Trade Unions and in the Executive Board of the CONS (San Marino National Olympic Committee); President of sports federations; President or Secretary General of Professional Associations; elected offices in the management or supervisory bodies of the Central Bank, of Public Bodies and of State Corporations; President of banking foundations; management or legal representative offices within the boards of directors of banking and financial institutions.

According to Article 3, paragraph 7 of the Declaration on the Citizens’ Rights, the Great and General Council shall exercise the legislative power, direct and control the Government policy.

The **legislative power** means, in a few words, the adoption of rules, which are binding on the entire community.

The **direction of the Government policy** mainly consists in determining the objectives of the legislative and administrative activities, with particular reference to the following: the approval of the Government programme and the appointment of the members of the Congress of State; the laws approving the State Budget and Balance Sheet; the laws ratifying international treaties; the provisions concerning the appointment of the State’s highest offices.

Decisions are considered an instrument to direct and control the Government policy since the Government or any other competent body politically undertakes to implement the measures approved through the Decisions, taking into account the financial resources of the State. Also the approval of the *Istanze d’Arengo* (specific popular petitions concerning matters/issues of public interest) can be considered a way to direct the Government policy since, in this case, the Congress of State undertakes to translate the will expressed by the Great and General Council in this regard into concrete measures. The *Istanze d’Arengo* are submitted by San Marino citizens of age to the Captains Regent, at

noon of the first Sunday following the investiture of the Captains Regent, in the Hall of the Great and General Council. By submitting the *Istanze d'Arengo*, San Marino citizens exercise their right of popular petition. These petitions must concern issues of public interest, be drawn up in a clear way and be signed by the petitioners in a legible manner and with an indication of their domicile. By 30 April and 30 October of each semester, the Captains Regent, having heard the opinion of the Bureau of the Great and General Council, decide whether the *Istanze d'Arengo* are compliant with the requirements provided for by law. Only the petitions deemed to meet such requirements are subsequently examined by the Great and General Council. The Great and General Council is required to discuss the *Istanze d'Arengo* within the six-month mandate of the Captains Regent, to whom the petitions are submitted. A petition rejected by the Great and General Council cannot be submitted again unless 3 semesters have passed.

The exercise of **control functions** by the Great and General Council also includes all activities aimed at controlling the Government policies, in particular questions, interpellations and motions. Constitutional Law no. 183/2005 has introduced another instrument enabling the Great and General Council to control the Government: the motion of no confidence, a typical institute of the parliamentary form of government, through which it is possible to verify whether the confidence relationship, necessary between the Parliament and the Government, no longer exists. In particular, in case a motion of no confidence is approved, the Congress of State is required to resign (Article 3 of Constitutional Law no. 183/2005). Also a single Minister, with regard to whom a motion of no confidence is voted and approved, is required to resign. However, the motion of no confidence approved vis-à-vis a single Minister has no consequence on the continuance in office of the entire Government.

The Great and General Council also exercises the **administrative powers** envisaged by the law (such as the disposal of the State property and provisions concerning the acquisition or re-acquisition of the San Marino citizenship). Finally, the Great and General Council has the power to grant an amnesty and pardon (Article 113 of the Criminal Code), as well as the so-called “abbreviated” rehabilitation (Article 119 of the Criminal Code).

Law no. 42 of 21 March 1995 has established five **Permanent Parliamentary Commissions**. The following Qualified Law no. 2 of 12 September 2006 has reduced the number of Commissions to four, appointed by the Great and General Council for the entire legislature. The Permanent Parliamentary Commissions are the following:

- Commission for Constitutional and Institutional Affairs; Public Administration; Internal Affairs, Civil Protection, Relations with the Township Councils; Justice; Education, Culture, Cultural Goods, University and Scientific Research;
- Commission for Foreign Affairs, Emigration and Immigration; Security and Public Order; Information;
- Finance, Budget and Planning; Handicraft, Industry, Commerce; Tourism, Services, Transport and Telecommunications; Labour and Cooperation;
- Hygiene and Health, Social Security; Social Policies, Sport; Territory, Environment and Agriculture.

The number of components, presently 18, may be updated through a Regency Decree with a view to guaranteeing proportionality criteria. The Commissions are appointed for the entire legislature through acknowledgement by the Great and General Council. The Ministers and the Captains Regent, throughout their mandate, cannot be members of the Permanent Parliamentary Commissions. The Captains Regent and the members of the Congress of State may participate in the sittings without voting right. The Commissions are composed of the various

Parliamentary Groups on a proportional basis. Their tasks are complementary to those of the Great and General Council with regard to the examination and approval of draft laws and motions. They perform **four specific functions**. More specifically, they meet:

- a) to examine and approve in first reading the draft laws, which are then submitted to the Great and General Council for the second reading;
- b) to examine and approve the articles contained in the draft laws to be submitted to the Great and General Council exclusively for the final approval;
- c) to express opinions on draft laws or matters assigned to other Commissions;
- d) to examine motions deriving from the transformation of interpellations.

Moreover, the Commissions meet to hear and discuss the communications of the Congress of State, as well as to perform the functions of direction, control and information with regard to the matters falling within their competence. As far as their functioning is concerned, the provisions contained in the Rules of Procedure of the Great and General Council apply to the Permanent Parliamentary Commissions, unless otherwise provided for in Law no. 42/1995.

## CONGRESS OF STATE

According to the San Marino constitutional order, the Congress of State (Government) is vested with the **executive power** and - in conformity with Article 3 of the Declaration on the Citizens' Rights - it is politically answerable to the Great and General Council.

In particular, the Congress of State, the sittings of which are convened by the Captains Regent, is entrusted with the following tasks:

- it collegially implements international policies, as well as international treaties and agreements concerning general international policies and matters relevant for the State's security, without prejudice to the functions performed by the Great and General Council;
- it determines the general administrative policies by defining the relevant objectives and general programmes and by issuing the necessary general directives of the Public Administration, without prejudice to its autonomy recognised by law;
- it settles any conflicts among the Ministers concerning their attributions;
- it is entrusted with the legislative initiative by drafting the laws to be submitted to the Great and General Council for their approval;
- it decides on any other matter concerning the implementation of the Government programme, unless otherwise provided for in law provisions.

Moreover, the Congress of State:

- adopts delegated decrees provided for in Article 3 bis, fifth paragraph of the Declaration on the Citizens' Rights;
- in case of need and urgency, adopts decrees having force of law and subject to ratification by the Great and General Council within three months, under penalty of nullity;
- submits to the Great and General Council the annual and pluriannual budget law, as well as the relevant financial statements of the State and of State Corporations, accompanied by the necessary reports;
- prepares and submits to the Great and General Council the Budget Law and the relevant decrees to be adopted in this field;
- controls expenditure plans, as well as the single interventions, with a view to verifying their compliance with the approved budget and with the directives issued;
- orders immediate execution, under its own responsibility, of urgent and unpostponable measures, which are subject to the preventive control in conformity with the provisions in force;
- suspends the adoption of provisions by the competent Ministers in case they refer to political or administrative matters requiring an appropriate collegial decision;
- proposes administrative provisions falling within the competence of the Great and General Council;
- adopts regulations concerning the forms and implementation modalities of laws, as well as the organisation and functioning of public offices in conformity with law provisions.

It is composed of a **number of members** which, as expressly provided for by law, **cannot exceed ten**. The members of the Congress of State are appointed by the Great and General Council by absolute majority from among its members at the beginning of the legislature, when the government programme is approved (that is to say every **5 years**, or following a government crisis leading to the formation of a new

government or in case of anticipated elections). All members of the Congress of State assume the title of “Secretary of State” (corresponding to a Minister).

According to what provided for in a law passed in 1997 - subsequently confirmed with the legislative reform of 2005 - the mandate of Minister shall **not exceed a maximum of ten consecutive years** and the subsequent appointment shall not take place before five years have elapsed from the conclusion of the last mandate.

An important new element has been introduced by the above-mentioned reform, that is to say the possibility to appoint the so-called “**technical ministers**”. This means that the Great and General Council may appoint (by two-thirds majority) also citizens not from among its members, provided that they meet the requirements to be elected and on condition that their number does not exceed one third of the members of the Congress of State.

Another new element has been the replacement, within the Great and General Council, of the Parliamentarian appointed as Minister with the first who has not been elected on the same list, and this throughout the mandate of the member of the Congress of State. In his/her turn, the newly-appointed member of the Congress of State is no longer a member of the Great and General Council throughout his/her mandate.

Each Minister is responsible for some specific sectors of the Public Administration, which, according to the last 2005 legislative amendments, are ten. However, it is possible to identify other specific areas of intervention and activity if this is necessary to achieve the objectives envisaged in the Government programme.

The sectors falling within the competence of the Ministers are indicated when these are appointed by the Great and General Council. In particular, the Minister is assigned a Ministry, for which he/she is politically responsible on an individual basis. At the same time, he/she is vested with collegial responsibility as member of the Government.

## GUARANTORS' PANEL ON THE CONSTITUTIONALITY OF RULES

Established with Constitutional Revising Law no. 36 of 26 February 2002 - with particular reference to Article 7 of this Law, which has amended Article 16 of the “Declaration on the Citizens’ Rights and Fundamental Principles of San Marino Constitutional Order” - the Guarantors’ Panel on the Constitutionality of Rules is the “youngest” institutional body of San Marino constitutional order. The above-mentioned Article has therefore assigned a jurisdictional character to constitutionality review, which was previously entrusted to the Great and General Council according to Article 16, second paragraph of the Declaration on the Citizens’ Rights. Throughout the years, this solution had indeed presented several limits. The fact that the legislative body was responsible for the constitutionality review was justified, on the one hand, by the fact that the assessments and judgements involved were of a strictly political nature. However, on the other hand, this did not ensure the protection of individual rights since the Great and General Council was the same body that had approved the rule, which was supposed to be in contrast with the constitutional provisions. The fact that all political forces started to support a system of individual guarantees was at the basis of the decision, in 2002, to transfer this important function to a third body.

Constitutional Law no. 67 of 27 May 2003 governs the responsibilities of this Panel, while Qualified Law no. 55 of 25 April 2003 disciplines its organisation, incompatibilities, operation, appeal forms and procedures and the effects of its decisions. Through its own Rules of Procedure (Rules of Procedure of the Guarantors’ Panel no. 1 of 24 March 2004), adopted according to Article 38 of Qualified Law no. 55 of 25 April 2003, the Panel regulated in detail its own functions and the procedures of appeals brought before this body.

The Panel, **the functions of which are similar to those of a Constitutional Court**, is composed of **three effective members** (one performing the function of President) and **three substitute members**. All members are elected by a two-thirds majority of the Great and General Council’s members from among university professors of legal subjects, magistrates and law graduates with at least twenty years of experience in the field of law. The San Marino citizenship does not preclude a person from being elected.

At least one third of the Panel’s members are renewed every two years following the designation, by drawing lots, of two of its members, one effective and one substitute, from among those having served at least for four years during the first mandate. The drawing of lots takes place within the Bureau in the presence of the members of the Panel themselves.

However, the members of the Panel cannot serve for more than two consecutive mandates. Subsequently, they can be re-elected once four years have elapsed since the end of the last mandate. The substitute members may be elected as effective members and the other way round. In this case, the respective periods are aggregated.

After the first mandate, which **lasts 4 years**, one third of the Panel’s members are renewed every two years. The Guarantors’ Panel appoints its President for a two-year term, on the basis of the rotating principle, from among its effective members.

As already pointed out, the functions of the Guarantors’ Panel are similar to those of a Constitutional Court and, more precisely, it shall:

- verify the conformity of laws, of regulations having force of law, as well as of customary rules having force of law, with the fundamental principles of the Declaration on the Citizens' Rights or mentioned in it, upon direct request of at least twenty members of the Great and General Council, of the Congress of State, of five Township Councils, of a number of citizens making up at least 1.5% of the electorate and, with reference to proceedings pending before the Republic's courts, upon request of judges or the parties involved;
- decide on the acceptability of referenda proposals;
- decide in case of conflicts between constitutional bodies;
- act as "Regency Syndicate".

Besides the "constitutional" functions, with the transitional rule of the Declaration on the Citizens' Rights introduced by Article 9 of the Constitutional Revising Law no. 36/2002, the Guarantors' Panel composed of a single member has been entrusted with **jurisdictional functions once performed by the Council of the Twelve and the Great and General Council**. In particular, these functions include: decisions on disputes among jurisdictions and on the abstention and objection of magistrates; decisions, upon request of the parties involved, in case of difference between first and second degree judgements, both civil and administrative, and; decisions on appeals for the review of criminal judgements and on *querela nullitatis* and *restitutio in integrum* extraordinary remedies against final civil judgements. With the approval of the Judicial System (Constitutional Law no. 144/2003 and Qualified Law no 145/2003), the majority of these functions has been assigned to ad hoc Judges - that is to say to the Highest Judge of Appeal in Criminal Matters, the Highest Judge of Appeal in Civil and Administrative Matters and the Judge of Extraordinary Remedies in Criminal Matters. The Panel is still responsible for *querela nullitatis* and *restitutio in integrum* remedies since the Judge of Extraordinary Remedies in Civil Matters has not been appointed yet.

Moreover, according to Constitutional Law no. 144/2003, the Guarantors' Panel is **responsible for deciding on the abstention and rejection of the Judges** of Extraordinary Remedies and of Judges for Civil Liability Actions (verifying the civil liability of magistrates) (Article 5), as well as for **reviewing the magistrates** (Articles 7 and 8).

## COUNCIL OF THE TWELVE

The Council of the Twelve is responsible for **authorising companies and foreign individuals to buy real estate**.

The complex appointment procedure provided for by the Statutes and by Decree of 13 October 1921 is actually no longer applied. Some decades ago, the Great and General Council started to appoint the members of the Council of the Twelve by majority from among its members, in proportion to its Parliamentary Groups. The Council of the Twelve cannot include the members of the Congress of State since the latter, according to Article 7 of Constitutional Law no. 183 of 15 December 2005, are no longer members of the Great and General Council throughout their mandate. The Council of the Twelve is presided over by the Captains Regent, who shall coordinate it but have no voting right. Recently, in contrast with the tradition, a practice has been consolidated, according to which the member of the Council of the Twelve elected as Captain Regent is replaced by another member of the Great and General Council. As is customary, the convening procedures and the quorum necessary for the sitting and voting to be valid are the same of the Great and General Council. Law no. 9 of 16 March 1925 - Law regulating the term of office of elected members of Assemblies and Government Commissions - confirms that the term of office of the members of the Council of the Twelve corresponds to the “duration of the Legislature of the Great and General Council in which they have been appointed” (Art. 1) and provides for its dissolution *ipso jure* with the decree on the convening of electoral meetings, although it continues to deal with routine matters until the new members of the Council of the Twelve are appointed by the Great and General Council, possibly on the occasion of its first sitting (Art. 2).

## JUDICIAL SYSTEM

The judicial system - and the bodies making up the judicial power - are based on a **Single Court**, consisting of **two specialised sections**, the **ordinary** and the **administrative jurisdictions**.

The ordinary jurisdiction is internally subdivided according to the civil and criminal matters, to which the single Law Commissioners are assigned by the Head Magistrate in respect for law provisions and work distribution criteria approved by the Judicial Council.

More specifically, the present organisation chart of the Single Court (Laws no. 144 and 145/2003) is composed of the following staff:

- the Head Magistrate of the Single Court

### *Ordinary and Administrative Jurisdiction*

- Judge of Extraordinary Remedies in criminal matters
- Judge of Extraordinary Remedies in civil matters
- Highest Judge of Appeal in civil matters (who, according to the law, also deals with administrative matters)
- Highest Judge of Appeal in criminal matters
- Judge of Appeal of the civil jurisdiction
- Judge of Appeal of the criminal jurisdiction
- Law Commissioners (one of whom is also Head Magistrate)
- *Procuratore del Fisco* (prosecuting magistrate)

### *Civil liability action of magistrates*

- Judges for Civil Liability Actions of Magistrates, three effective judges and three substitutes

## DOMESTIC POLITICAL FRAMEWORK

The **political elections held in June 2006** have led to the creation of several new political groups, which have resulted in the last years from the break-up of the two main political parties existing in the country, i.e. PDCS (San Marino Christian Democratic Party) and PSD (Party of Socialists and Democrats - resulting from the unification of PSS, San Marino Socialist Party, and PDD, Party of Democrats). Although the two main parties suffered losses, the results of the political elections held in June 2006 have reconfirmed their role of main reference parties.

Following the 2006 elections, PDCS, as relative majority party, received the mandate to form the Government. However, following consultations, PDCS was not able to reach any agreement and the mandate was therefore assigned to PSD, the second party in the country, which formed a Government coalition with AP (Popular Alliance) and SU (United Left), with a majority of 32 members of the Great and General Council.

On **24 October 2007**, after less than one year and a half since the 2006 elections, **the Government faced a crisis**. Indeed, following the rejection of the second article of the draft law concerning the so-called “fair trial”, the draft law was withdrawn and all Ministers resigned.

On 30 October 2007, the Great and General Council acknowledged the resignation of the Congress of State and the Government crisis was officially declared. The Captains Regent assigned the exploratory mandate to PSD and after twenty-six days, on Saturday 17 November 2007, the institutional crisis was solved without having to resort to elections, with the entry of the Centre Democrats into the Government coalition.

The priorities of the new Government were justice, residence granting, Public Administration reform and relations with Italy and Europe. The preceding Government, formed in June 2006, had already identified as a priority the need to provide a strong impetus to foreign policy activities, in particular by strengthening international relations, intensifying economic cooperation with Italy and further integrating with the European Union.

On **27 January 2008**, following a financial scandal that involved the managers of a San Marino banking institution, **the tensions in the Great and General Council started again**, not only with the opposition but also within the Government coalition. Indeed, during the first voting of a Decision submitted by the minority parties - asking for a revision of the role, effectiveness and potentialities of the Central Bank, with particular reference to the Supervision Committee, with a view to guaranteeing the bodies’ authoritativeness and credibility to establish a dialogue with the counterparts of other countries, especially Italy - the majority was short of six votes, with a final result of 28-28, 1 abstention and 1 not voting.

After a period of considerable political turmoil and several consultations among the parties of the Government coalition, the Decision of the minority parties was submitted again to the Great and General Council on 29 January 2008 with a negative result: 33 votes against and 1 vote in favour. However, the political situation was still characterised by tensions and instability.

On **11 June 2008**, **the Government faced another political crisis** when Popular Alliance decided to withdraw its Government delegation, withdrawal that was formalised two days after. On 23 June, the Captains Regent convened all parties to assign the exploratory mandate to PDS. Following the necessary consultations, the latter decided to include in the Government coalition, besides the Centre Democrats and United Left, also the Sammarinese for Freedom.

On 14 June 2008, PDS presented the new Government coalition, composed of 7 Ministers. However, just before its taking office, 2 members of the Great and General Council belonging to PDS resigned. Therefore, the Government faced another crisis since it did not have the majority of members in the Great and General Council. This time, the Captains Regent assigned the exploratory mandate to PDCS but this was not able to form a new coalition. As a result, all Parliamentary Groups (both majority and opposition) resigned.

Following this long political crisis, which had started in June, and since the political parties were not able to create a new Government coalition, on 5 August 2008 Their Excellencies the Captains Regent, having acknowledged the resignation of the members of the Great and General Council and in conformity with the electoral law in force, convened the Electoral Meetings on 9 November 2008 for the renewal of the Great and General Council.

**On 9 November 2008, the elections to renew the Great and General Council were held.** These were the first elections after the amendment of the electoral law.

The winning coalition was the so-called **“Pact for San Marino”**, representing the centre-right wing, with 54.23% of votes, equal to 11,375 votes. This coalition gained 32 seats and, thanks to the “stability prize”, the parliamentary representative of the Government coalition was equal to 35 members of the Great and General Council out of 60. The centre-left coalition called **“Reforms and Liberty”** gained 45.77% of votes, equal to 9,602 votes, and 25 seats within the Great and General Council.

## GOVERNMENT COMPOSITION

The current Government is a coalition consisting of the following parties: San Marino Christian Democratic Party (PDCCS), Arengo and Liberty (A&L), Popular Alliance (AP), Liberty List (LdL) and San Marino Union of Moderates (USDMM).

The ten Secretaries of State (Ministers), with their respective responsibilities, are the following:

ANTONELLA MULARONI (AP)	Minister of Foreign Affairs, Political Affairs, Telecommunications and Transport
VALERIA CIAVATTA (AP)	Minister of Internal Affairs and Civil Protection
PASQUALE VALENTINI (PDCCS)	Minister of Finance and the Budget and Relations with the Philatelic and Numismatic State Corporation
ROMEO MORRI (USDMM)	Minister of Education and Culture, University and Youth Policies
CLAUDIO PODESCHI (PDCCS)	Minister of Health and Social Security, National Insurance, Family and Social Affairs, Gender Equality
GIAN CARLO VENTURINI (PDCCS)	Minister of Territory and Environment, Agriculture and Relations with the Public Works State Corporation
FRANCESCO MUSSONI (PDCCS)	Minister of Labour, Cooperation and Posts
MARCO ARZILLI (LdL)	Minister of Industry, Handicraft and Trade
AUGUSTO CASALI (LdL)	Minister of Justice, Information, Research and Relations with the Township Councils
FABIO BERARDI (A&L)	Minister of Tourism, Sport, Economic Planning and Relations with the Public Utilities State Corporation

## ECONOMIC SITUATION

San Marino's economy is based on small- and medium-sized enterprises. Tourism is thriving, with over 2 million tourists every year. The country has a modest agricultural sector which offers high-quality and genuine products and a well-diversified banking and financial sector.

Similarly to what happened in many countries, during the past three years (2008/2011) San Marino's economy experienced an overall contraction in major indicators due to a combination of various factors that, simultaneously, affected the economy in that period. The economic situation characterising the sector, also in relation to **global economic downturns**, was marked by a fluctuating and negative trend compared to the economic performance of previous years. The analysis of the main macroeconomic indicators, such as the GDP, employment indicators and the number of economic activities, shows that such decline was widespread, although it was marked by lower contractions than at an international level.

First of all, the global economic crisis also had an impact on San Marino's economy, thus leading to a slowdown in exports. Indeed, although the crisis did not affect the "internal" sectors of the economy, the general fall in demand at international level turned into a decrease in exports and, consequently, in a drop in domestic production of goods and services.

In addition to this phenomenon, uncertainties and **consequences resulting from actions taken unilaterally by Italy** arose and had an impact on the economic relations between Italy and San Marino.

Because of the lack of a bilateral Agreement in force for the avoidance of double taxation (indeed the agreement concluded in 2002 has never been ratified and therefore has never entered into force), and since the Protocol bringing this Agreement in line with the most recent OECD standards on exchange of information in tax matters has not been signed (this Protocol was initialled in 2009 and San Marino has repeatedly requested its counterpart to sign it), there are still some operational uncertainties between businesses of both countries and San Marino is still included in the so-called fiscal black list of individuals of Italy.

San Marino had to cope with problems not depending on its economy and with extraordinary events, which negatively affected the production of value. The effects of **the Italian tax amnesty**, which led to a reduction by 1/3 of total bank deposits, are an example of these dynamics. Similarly, Italy's adoption of the so-called "**decreto incentivi**" reinforced the uncertainty in the economic relations among businesses of the two countries, thus keeping the Republic of San Marino in the black list annexed to such decree. This determined for several San Marino businesses a further reduction in the exports to Italy and, accordingly, in their turnover, and, in some cases, had a negative impact on the conditions under which goods and services were purchased from Italy.

The negative performance of San Marino's economy due to the above-mentioned factors can be summed up as follows:

As regards imports and exports, the volume of **trade** has been the same as in 2005. On the whole, in 2009 exports decreased significantly (-16.1% compared to 2008) and this trend was confirmed also during 2010 due to the reduction in turnovers on account of the above-

mentioned phenomena. Also with regard to imports, in 2009 imports significantly dropped by 18.4% compared with 2008. This trend was confirmed during 2010.

Over the last three years, **the number of businesses** decreased sharply. This was also due to the monitoring and control action carried out on economic activities, which led to the closing down, either spontaneously or imposed by the authorities, of those activities damaging the Republic and its international relations. The first effects of the crisis were felt in the manufacturing, commercial and tertiary sectors, but in the first months of 2010 contraction continued, thus further weakening business activities in most all sectors. Indeed, whilst at the end of 2009 the number of businesses decreased by 109 compared with the preceding year, in September 2011 the number of businesses decreased by 900 compared with 2008. This decrease affected the manufacturing sector (-111), the real estate sector (-464), the building and plant sector (-60), the trade sector (-213).

Over the last three years, also all **indicators relating to the labour market** worsened. As of September 2011, employees decreased, in absolute terms, by 659 compared to 2008 with a percentage decrease by -3.2%. At the same time, the number of self-employed people continued to decrease. As of September 2011, the self-employed were 1931 (-119 compared to 2008), with a percentage decrease by -5.8%. During the first half of 2011, based on a comparison between corresponding periods, trends in labour force showed a slight decrease equal to 284 (-1.2%). This figure, although negative, shows that the labour market, despite the difficult time, still could absorb part of the workforce that had lost their jobs because of the economic downturn. Moreover, worth underlining is that the presence of many cross-border workers (more than 6,000), who especially come from the neighbouring provinces of Rimini and Pesaro and are employed in all production sectors, is very important. Indeed, their work contributes significantly to San Marino's development and is also a resource for the economy of neighbouring Italian provinces.

With regard to public finances, the current economic situation has resulted – since the 2009 fiscal year – in **budget deficits** due to a progressive reduction of the tax revenue. For the year 2009, the budget deficit amounted to about EUR 41 million, for 2010 to about EUR 37 million, whereas a deficit of about EUR 50 million is projected for the 2011 fiscal year. As mentioned above, such deficits are the results of a reduction in the tax revenue, which has decreased, in gross terms, to about EUR 200 million since 2008. According to the forecasts for the three-year period, the next fiscal years will end with a deficit, although such deficit should gradually reduce by implementing measures aimed at cutting expenditure and increasing revenues, with a view to achieving a balanced budget within two fiscal years.

The 2012 budget forecasts a deficit of about EUR 26 million and its total gross amount is equal to about EUR 621 million.

**MAIN MACROECONOMIC INDICATORS**

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>GDP (Mln of € prices as of 1995)</b>	823.93	861.54	882.00	916.00	943.00	938.93	816.93
<b>GDP real variation rate</b>	3.9%	4.60%	2.40%	3.80%	3.50%	-1.0%	-13.0%
<b>GDP composition</b>	Manufacturing sector 48.4%	Manufacturing sector 48.6%	Manufacturing sector 48.4%	Manufacturing sector 46.6%	Manufacturing sector 44.5%	Manufacturing sector 41.9%	Manufacturing sector 39.3%
	Agriculture 0.1%	Agriculture 0.1%	Agriculture 0.1%	Agriculture 0.1%	Agriculture 0.1%	Agriculture 0.1%	Agriculture 0.1%
	Trade 9.7%	Trade 10.2%	Trade 10.7%	Trade 10.9%	Trade 11.4%	Trade 9.1%	Trade 13.5%
	Services 41.8%	Services 41.1%	Services 40.8%	Services 42.4%	Services 44.0%	Services 48.9%	Services 47.1%
<b>Gross national product per capita (in thousand of €)</b>	21.85	22.29	22.80	23.42	23.47	22.49	18.51
<b>Total employment rate</b>	95.85%	96.34%	97.29%	97.47%	99.31%	101.44%	100.48%
<b>Total unemployment rate</b>	4.12%	3.36%	3.57%	3.31%	3.02%	3.11%	4.48%
<b>Inflation rate</b>	2.5%	2.0%	1.7%	2.0%	1.7%	3.2%	0.7%
<b>Currency</b>	€	€	€	€	€	€	€
<b>Exports (Mln €)</b>	1,459.50	1,603.37	1,624.00	1,805.00	1,916.00	2,096.00	1,749.00
<b>Imports (Mln €)</b>	1,528.60	1,638.85	1,657.00	1,808.00	1,893.60	1,939.60	1,554.60
<b>Main exports</b>	Manufacturing	Manufacturing	Manufacturing	Manufacturing	Manufacturing	Manufacturing	Manufacturing

	sector	sector	sector	sector	sector	sector	sector
	Trade	Trade	Trade	Trade	Trade	Trade	Trade
	Services	Services	Services	Services	Services	Services	Services
<b>Main imports</b>	Manufacturing sector	Manufacturing sector	Manufacturing sector	Manufacturing sector	Manufacturing sector	Manufacturing sector	Manufacturing sector
	Trade	Trade	Trade	Trade	Trade	Trade	Trade
	Services	Services	Services	Services	Services	Services	Services
<b>Main supplying countries</b>	Italy	Italy	Italy	Italy	Italy	Italy	Italy
<b>Main client countries</b>	Italy	Italy	Italy	Italy	Italy	Italy	Italy
<b>Foreign debt</b>	~	~	~	~	~	~	~

## LABOUR MARKET AND ASSISTANCE

Over the last years, employment in San Marino has had a negative trend. The **domestic employment rate** in the strict sense was 70.99% in 2006, 71.18% in 2007, 71.29% in 2008, 70.55% in 2009 and 70.15% in 2010, reconfirmed also in June 2011.

The unemployment rate in the strict sense decreased from 1.59% in 2006 to 1.47% in 2007. It was 1.61% in 2008 and rose to 2.68% in 2009, to 3.16% in 2010 and to 3.27% in June 2011.

By virtue of the increase in the unemployment rate, the Ministry of Labour urgently introduced Decree Law no. 130 of 9 August 2011, ratified with Decree Law no. 156 of 5 October 2011 “Urgent interventions for the simplification and efficiency of the labour market”. This Decree Law intervenes on some fundamental aspects of the labour sector by identifying mechanisms and benefits to support employment of young people; by favouring the employment of workers on permanent contracts through tax incentives and benefits to businesses; by supporting the weakest groups of the population (young people, families with only one parent and dependent children, unemployed people older than 50); by introducing correction and protection rules promoting a healthy use, instead of abuse, of mobility lists and wage supplementation fund; by establishing stricter rules to combat illegal work.

All the activities aimed at ensuring the placement of available persons within the labour market are carried out by a public office, namely the Labour Office. In particular, the Public Employment Office is entrusted with the task of finding a job to workers in accordance with the procedures set forth in Law no. 7 of 17 February 1961 “**Law for the Protection of Labour and Workers**”, revised in the part relating to job placement through Law no. 95 of 19 September 1989 “**Law on Employment**”.

Law no.7/1961 “**Law for the Protection of Labour and Workers**” regulates the minimum rights of workers. Importance is attached to the fact that employment contracts take effect *erga omnes*, that is to say the collective agreement signed between one of the Trade Unions and a counterpart has binding effect upon all those belonging to the categories to which the agreement refers and it continues to be effective after it expires, until a new collective agreement is signed.

Furthermore, by virtue of Law no. 131 of 29 September 2005 “**Law on the promotion, support and development of employment and training**” the right to work and the choice thereof are made effective, thus contributing to the human and professional development of workers and increasing the effectiveness of the matching between supply of and demand for labour. This Law is also aimed– through the work-entry contract, which is a specific kind of contract providing for contribution exemption – at improving the integration into working life of those looking for their first job and of unemployed people in a difficult situation. Therefore, such Law is designed to increase the employment levels of vulnerable groups in the labour market, who are facing the threat of social exclusion.

Therefore, **new additional services have been implemented**, such as vocational guidance and information service, in order to provide advice to businesses and deal directly with the guidance of workers, who are provided with all information relating to the labour market, regulations, employment and training opportunities. In addition, employment and training incentives have been envisaged. They have been put in place through new training contractual methodologies, focused especially on young people holding a high school certificate or a university degree.

This Law has also established the “**Employment and Training Executive Committee**” with a view to linking educational policies to professional training, employment and economic development policies in a more direct and efficient way. This Committee is composed of the Minister of Labour, the Minister of Industry, Handicraft and Trade, the Minister of Education, as well as the University Rector, the Labour Office Director,

the High School Director, a Director of lower secondary school, the Director of the Vocational Training Centre, a representative of employers' associations and a representative of Trade Unions.

As regards entry into employment, Law no. 71 of 29 May 1991 **“Employment of disabled and handicapped persons”** obliges the overall public sector and private businesses with more than 20 employees to hire a disabled or handicapped person every 20 employees. Law no. 160 of 21 September 2010 **“Provisions concerning social and service cooperation”** is aimed at encouraging the promotion, development and qualification of social cooperation, especially when there is a difficult situation in the labour market or in case of an economic crisis. Indeed, a reform has been proposed that defines a new context in which social cooperation, understood as a safeguard of the country's public interest and social integration of citizens, can be provided in a more updated and concrete way.

The major employment subsidies referred to in Law no. 73 of 31 March 2010 **“Reform of social safety nets and new economic measures for employment and employability”** include:

- (a) wage supplementation fund (article 11 of Law no. 73/2010); it is an economic benefit which partially replaces the income of dependent workers. It is paid by employers (subject to the exclusions referred to in Article 6 of this Law). The wage supplementation fund can be provided to workers that have worked for the same employer for five consecutive months, when they are temporarily laid off or work reduced hours in the event of :
  - force majeure
  - temporary market situations which lead to a reduction in or interruption of the activity
  - professional requalification, reorganisation of production, organisational changes;
- (b) special economic benefits: economic benefits replacing the income of dependent workers on open-ended contracts, as well as of members of production or labour cooperatives, who have been laid off because of redundancy plans or cessation of the activity of the employer, as referred to in Law no. 23 of 4 May 1977 “Law laying down rules on disciplinary sanctions and individual and collective redundancies”;
- (c) Unemployment benefits: these are economic benefits replacing or supplementing the income of dependent workers on a fixed-term contract, as well as of any person having already benefited from the Special Economic Benefit, who are involuntarily unemployed;
- (d) First job benefit: such benefit is granted to unemployed workers looking for their first job and registered in the apposite Employment List envisaged by Article 22 of this Law for at least 12 months;
- (e) Benefit for reallocation of special categories of workers: for San Marino citizens or residents considered to be seriously disadvantaged (workers older than 50, long-term unemployed people, women absent from the labour market for more than 18 months) who are not granted any economic benefit supplementing their income.

The entry and stay of foreigners in the Republic of San Marino are regulated by Law no. 118 of 28 June 2010.

The Republic of San Marino became **Member State of the International Labour Organization (ILO)** on 18 June 1982. ILO is a United Nations Agency promoting decent and productive work under conditions of freedom, equality, safety and human dignity for men and women. Its

main objectives are: promoting workers' rights, encouraging employment under decent conditions, improving social protection and enhancing dialogue on work challenges.

A tripartite Committee gathers on a regular basis at the Ministry of Labour to coordinate the participation of San Marino institutions and social partners in ILO's activities.

The Republic of San Marino has ratified the major Conventions of the International Labour Organization, including the Forced Labour Convention, the Equal Remuneration Convention, the Collective Bargaining Convention, the Human Resources Development Convention and the Worst Forms of Child Labour Convention.

## SOCIAL SECURITY AND WELFARE SYSTEM

In San Marino, also by virtue of the measures adopted throughout the years, there is an average life expectancy which is one of the longest in the world among all WHO Member States.

San Marino social security system provides for the following protection measures and services:

Medical care: Law n. 42 of 1955 establishes “a compulsory Social Security system providing for health services, temporary and life-long benefits, social assistance and family benefits.” (Art. 1). All residents have free access to health assistance, mainly provided through the Social Security Institute, which operates a hospital and three health centres for basic health care, the pharmacies, a rest home and a disabled centre. Since 1955 targeted legislative measures have been adopted to create health and social services provided to children, disabled persons and the elderly. Health services not available on the territory are guaranteed by sending patients to foreign facilities, mainly Italian, which have signed an agreement with San Marino Hospital. In this case, services are provided free of charge. Essential drugs are also free. Health assistance is financed through general income taxation. No co-payments are envisaged.

Sickness benefits: (Law no. 42/1995 and subsequent amendments and supplements). Sick workers (both dependent and independent) receive a temporary benefit ranging from 86% to 100% of their remuneration/income. Such benefits are financed through the social contributions paid by employers in case of employees and by the self-employed themselves in case of independent work.

Maternity benefits: (Law no. 137/2003). Working mothers (both dependent and independent) receive a maternity benefit equal to 100% of their remuneration/income for 150 days. Such benefits are financed through the social contributions paid by employers in case of employees and by the self-employed themselves in case of independent work. Dependent working mothers have the right to be absent from work, following the mandatory maternity leave provided for by law, within the first eighteen months of life of the child. Working mothers shall receive 30% of their daily net wage until the first year of age of the child and 20% for the remaining period, if the child does not attend a nursery school. In alternative to the benefits mentioned above, working mothers resuming their job after the mandatory maternity leave shall be entitled, within the following ten months, and in any case until the first year of age of the child, to be absent from work for two paid hours a day, even separate, for breast-feeding. In case of multiple delivery, the two paid nursing hours a day shall be doubled, till a maximum of half the weekly working hours established by contract. The preceding provisions shall also apply to working mothers registered in the so-called mobility list (working mothers who, involuntarily, have temporarily lost their job). Under Article 5 of Law No. 40 of 25 May 1981, working fathers shall be entitled to post-partum leave instead of the mother. Moreover, in accordance with the provisions in force, a dependent or independent working mother can take an early maternity leave if the activity she carries out may pose a safety risk to her

and/or her child. Under Law no. 47/2008, with respect to the post-partum leave, qualifying credited contributions for access to and amount of a future pension shall be credited to the contribution record of the working mother.

Old-age benefits: Established by Law no. 42 of 22.12.1955, the San Marino pension system started to be effective on 01.01.1965 (Law no. 37/1964) and provides for a compulsory contribution system. The pension system was reformed for the first time with Law no. 15/1983. If partial legislative measures adopted during the 90s are excluded, Laws no. 157/2005 and no. 47/2008 have considerably modified the pension system. In general, pensions are paid to all workers (both dependent and independent, men and women) at the attainment of their 65th year of age and with a minimum contribution period of twenty years. In case of dependent workers, social contributions are paid partly by the employer and partly by the worker himself. Also independent workers (artisans, shop keepers, professionals, entrepreneurs, farmers and trade agents and representatives) must pay social security contributions. Retirement is also envisaged when workers (both dependent and independent), except for farmers and entrepreneurs, at the attainment of their 60<sup>th</sup> year of age, have paid contributions for 40 or 35 years. In the latter case, the amount of the pension is reduced (disincentive). Under Law no. 15/1983, pension funds are partly financed through the State budget. The State contributes from 10% of the contribution revenue up to 25%, if the fund is running in a deficit.

Invalidity benefits: San Marino has signed a Convention on Pension and Social Security Matters with the Italian Republic and the Swiss Confederation. As regards the social security system, the Convention lays down provisions for the recognition and issuance of life-long invalidity benefits. The requirements to be fulfilled to have access to such benefits are: any age, at least 7 years of contribution and a degree of invalidity of at least 65%.

Survivors' benefits: Surviving spouses and minor children (or even children of age 18 or older, under specific circumstances, such as students or disabled) receive survivors' benefits, the amount of which varies according to the number of survivors and to the contribution period of the dead spouse. Such benefits are financed through the compulsory pension fund.

Social pensions: the San Marino social security regime also provides for a range of economic and social benefits financed through the State budget and, therefore, through the general income taxation. Such benefits are granted to residents that do not have access to the compulsory contributory social security. For instance, social pensions, both old-age and invalidity amount to 504.28 euro per month for the year 2010, with possible supplements in particular economic circumstances. In case of disabled or elderly people, an invalidity benefit guarantees a minimum monthly income of 1,287.95 euro for the year 2010. Such benefits are financed through general income taxation.

Employment injury or occupational disease benefits: in the event of an employment injury or occupational disease recognised by the Social Security Institute, sickness benefits equal to 100% of the remuneration/income are guaranteed. If the employment injury or occupational disease leads to permanent invalidity and reduction of working capacity of at least 15%, a life-long benefit is granted. If a worker dies due to an employment injury or occupational disease, the surviving family members are entitled to receive life-long survivors' benefits, the amounts of which are the same as those envisaged for survivors' benefits.

Family benefits: They are regulated by Decree n. 15/1976 and by Law n. 64/2009 and are granted to dependent workers, retirees and artisans. The amount of such benefits depends on the number of family members for whom the worker has to provide, irrespective of the income received by the right-holder. The last Law has reformed income supplementation benefits, which are granted every year to those who receive family benefits and are in difficult economic situations.

## FOREIGN POLICY

Given its special geographic location, San Marino, which is an enclave in Italy, has privileged relations with the Italian Republic. Such relations have been strengthened and numerous agreements have been signed in different fields.

If, on the one hand, since its origins San Marino has had dynamic and active relations with neighbouring Italy, on the other, the small Republic has preferred to adopt a prudent policy vis-à-vis the rest of the world. However, as time went by, the country became aware that it was necessary to play a more dynamic role and, thanks to its century-old history of freedom, neutrality and respect for human rights, San Marino has managed to fully participate in international Organisations, where the values of peace and solidarity promoted by the Republic are universally recognised.

Therefore, the foreign policy of the Republic of San Marino is based on traditional **neutrality** which, however, is **defined as “active”**, because of San Marino’s involvement in major international challenges.

In the mid 70s the country formally opened up to the international community, by firstly taking part in the Conference on Security and Cooperation in Europe (**CSCE**) together with non-aligned countries. In 1988 it became a member of the **Council of Europe**, of which it held the six-month **Chairmanship of the Committee of Ministers** for the first time in 1990, the second time in the semester November 2006-May 2007.

In 1992 San Marino became a Member State of the **United Nations**. Moreover, it is the only small European State that became a member of the **International Monetary Fund**, always in 1992, and of the **World Bank** in 2000.

In the past few years, the Republic of San Marino has actively pursued a policy that has highlighted its **full status as a person having rights and duties in international law**, by broadening and strengthening its international relations. At present, the Republic of San Marino has **diplomatic and consular relations with over 100 European and extra-European countries**. San Marino is a Member State of numerous International Organisations, including the United Nations Organization (UNO) and many United Nations’ Programmes, Funds and Specialised Agencies, such as the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations Children’s Fund (UNICEF), the Food and Agricultural Organization (FAO), the International Labour Organization (ILO), the World Health Organization (WHO), the World Tourism Organization (UNWTO), the International Civil Aviation Organization (ICAO), the International Maritime Organization (IMO), the World Intellectual Property Organization (WIPO) and the Organization for the Prohibition of Chemical Weapons (OPCW). San Marino has also joined the International Criminal Police Organization (INTERPOL) in 2006.

In 1983 the Republic established **official relations with the European Union**. It takes part, with its own parliamentary delegation, in the Inter-Parliamentary Union, the Parliamentary Assembly of the Council of Europe and that of the Organization for Security and Co-operation in Europe (OSCE).

In the framework of the **United Nations**, during the most recent debates on the reform, developed according to the new initiative called *Uniting For Consensus*, which have been held within the General Assembly, San Marino has constantly drawn the attention to the objective of guaranteeing increasing representation, democratic nature and transparency of this Organisation. The country plays an active role in coordinating small States' support to the reform of the United Nations, which favours the process of democratisation of this international forum. The commitment and involvement of our country in the activities of this International Organisation was also stressed by Foreign Minister Antonella Mularoni in her speech, on the occasion of the opening of the **65th General Assembly (September 2010)**. She pointed out that even in a period of severe global crisis like the current one, it is important to involve small States, which often must pay a very high price for decisions taken by others and can actively contribute to finding solutions to recover from a crisis that affects all countries.

During this legislature, the members of the San Marino Government have carried out some **missions to Eastern countries**, aimed at further enhancing the bilateral relations with some Asian countries, promoting the knowledge of San Marino in that area and, at the same time, verifying opportunities for development, investment and commercial collaboration. The internationalisation of San Marino's economy has become paramount to establish or strengthen business relations between San Marino businesses and those of important markets. For this reason, the interest expressed by some Arab countries in intensifying bilateral relations was a source of satisfaction. Obviously, the signing of double tax agreements or of other economic agreements is the first step to favour the strengthening of such relations and such aspect has been a priority during this legislature. In this regard, some meetings have been organised with local political and economic leading personalities and mass media to make them aware of the opportunities that the Republic of San Marino can offer to foreign investors. On several occasions, also professional associations and the Chamber of Commerce have been involved and they have described and promoted the country as a system and the advantages of establishing business relations with San Marino.

## DEVELOPMENTS CONCERNING TRANSPARENCY AND INTERNATIONAL COOPERATION

### IN THE FRAMEWORK OF OECD

The San Marino Government, since its appointment in December 2008, has been deeply committed to a process of greater transparency and, since April 2009, has **signed a significant number of Tax Information Exchange Agreements (TIEAs) and Double Taxation Agreements (DTAs) according to the new OECD standards** with several countries and jurisdictions. As a consequence, on 23 September 2009 San Marino was placed on the OECD *white list*. Since that date, the ongoing and unwavering commitment of the Government, also in the framework of the newly restructured OECD's Global Forum on transparency and exchange of information, led to the signature of several other DTAs and TIEAs.

Indeed, as of today, San Marino has signed 5 Protocols bringing pre-existing DTAs in line with the latest OECD standards (with Austria, Belgium, Luxembourg, Malta and Romania), 5 DTAs to the standard (with Hungary, Liechtenstein, Malaysia, Portugal, and Saint Kitts and Nevis) and 23 TIEAs (with Andorra, Argentina, Australia, Bahamas, Canada, Czech Republic, Denmark, Faeroes Islands, Finland, France, Iceland, Germany, Greenland, Guernsey, Monaco, Netherlands, Norway, Samoa, South Africa, Spain, Sweden, United Kingdom and Vanuatu). 21 of these agreements are already in force, namely those with Andorra, Australia, Austria, Bahamas, Canada, Denmark, Faeroes Islands, Finland, France, Guernsey, Hungary, Liechtenstein, Luxembourg, Malaysia, Malta, Monaco, Norway, Romania, Spain, Sweden and United Kingdom. All of the other above-mentioned agreements, signed but not yet in force, have been ratified by the San Marino Parliament.<sup>1</sup>

San Marino concluded a DTA with Croatia and Cyprus, respectively, in 2005 and 2007. Both Agreements are in force. By means of a Verbal Note dated 15 June 2011, the amending Protocol to the DTA with Croatia, which aligns the provisions on exchange of information with the most recent OECD standards, was agreed for signature. A Protocol to the same effect has been submitted for consideration to Cyprus. As for Italy, San Marino's most relevant partner, a DTA was signed in 2002 and a Protocol to said Agreement, aligning the Article on Exchange of Information with the 2005 OECD standards, was initialed in 2009.

4 other DTAs (Greece, Libya, Qatar and Vietnam) and 2 TIEAs (Indonesia and Poland) have been initialed and are ready for signature. Furthermore, DTA negotiations with Georgia have recently been concluded.

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<sup>1</sup> On 21 January 2010 the San Marino Parliament ratified the Amending Protocols to the pre-existing DTAs with Belgium and the TIEAs with Argentina, Greenland and Samoa. On 19 March 2010 said Parliament ratified the TIEAs with Iceland and the Netherlands, on 1 June 2010 the DTA with Saint Kitts and Nevis, while on 22 July 2010 the TIEA with Germany. The DTA with Portugal was ratified on 27 April 2011, while the TIEAs with South Africa and Vanuatu on 21 July 2011 and the TIEA with the Czech Republic on 19 January 2012.

At the end of this first stage of the process, **San Marino will have in place 40 Agreements, meeting the latest OECD standards, 24 of which with OECD or EU countries.**

In its Report to the G20 Finance Ministers Meeting in Washington D.C. on April 22-23, 2010 OECD's Secretary General acknowledged that San Marino, as well as other 11 countries, "have passed legislation aimed at implementing their commitments to the international tax standard".

The San Marino Government considers these important steps as a starting point and is currently negotiating agreements (DTAs and TIEAs) with 37 further jurisdictions. Furthermore, it is an active member of the **Global Forum on Transparency and Exchange of Information for Tax Purposes**, as emerges from its participation in the Peer Review Process.

On 14 June 2010 San Marino adhered to the OECD Declaration on Propriety, Integrity and Transparency in the conduct of International Business and Finance, adopted at the Council Meeting at Ministerial Level on 28 May 2010.

Since November 2010, significant progress in the field of transparency and exchange of information has been made, also in the framework of the evaluation of San Marino by the PRG. These steps, which include amendments to bank secrecy legislation in order to ensure an effective exchange of information, have brought the San Marino legislation into line with international standards and are duly reflected in the Supplementary Report on San Marino published by the Global Forum on 26 October 2011. The Supplementary report concludes Phase 1 Review of San Marino, i.e. the analysis of its legal and regulatory framework; Phase 2 Review, scheduled for the second half of 2012, will instead examine the actual implementation of San Marino legislation on transparency and exchange information in tax matters.

In the **Report to the Ministers of Finance of the G20** gathered in Cannes on **3 and 4 November 2011**, the Global Forum on Transparency and Exchange of Information **has repeatedly underlined the progress made by San Marino** in this field. Indeed, as shown by the comparative tables contained in said report, San Marino is now among the countries and jurisdictions for which all elements at the basis of the assessment are judged as "present", except for three elements, which have been defined as "to be improved". This last judgement is mainly due to the fact that Italy, the most relevant partner of San Marino, has until now delayed the signing of the Protocol initialled on 25 June 2009, which puts the 2002 DTA in line with the most recent standards on exchange of information for tax purpose.

#### **IN THE FRAMEWORK OF MONEYVAL AND FATF**

In the last two years, San Marino has taken and continues to take clear action in the framework of MONEYVAL in order to improve its AML/CFT regime and has undertaken great efforts to ensure compliance with FATF Recommendations.

As was the case with the OECD, even with respect to MONEYVAL the San Marino Government has adopted resolute and far-reaching measures in order to address the concerns voiced by this organization and has timely and effectively responded to its requests.

In view of the achievements of the San Marino Government and Authorities, the Plenary Session of Moneyval, **on 24 September 2009, lifted the compliance-enhancing procedure under which San Marino had been placed in April 2008** (although limited to the first of the six steps) mainly because of the non-compliance of San Marino legislation to international standards and of the shortcomings identified in the work of the authorities responsible for the monitoring of such sensitive issues.

Since then, the San Marino Government, the Financial Information Agency, the Central Bank, the Judicial Authorities and the Technical Committee for Combating Money Laundering and Terrorist Financing have worked hard to improve and further develop the existing San Marino laws and regulations, also in preparation for the Moneyval on-site visit, which took place in September 2010. The Moneyval evaluation team focused on determining not only if San Marino has AML/CFT instruments in place, but also how effective these instruments are. During the Plenary Session of September 2011, the Moneyval Committee approved the AML/CFT legislative measures taken by San Marino defining them as largely compliant with the standards and adopted the San Marino report, published on 24 November 2011 on the website of the Committee itself.

The action taken by the San Marino Government and Authorities has also been acknowledged and commended by the Financial Action Task Force (FATF), which did not include San Marino in the list of countries subject to strict monitoring. This list was disclosed during the FATF Plenary Session of 25 June 2010.

It should also be pointed out that during its sitting of 1 June 2010, the **San Marino Parliament** ratified the United Nations Convention against organized transnational crime, the Additional Protocol to the United Nations Convention against organized transnational crime to prevent, suppress and punish Trafficking in Persons, especially Women and Children and the Protocol against the Smuggling of Migrants by Land, Air and Sea, supplementing the United Nations Convention against Transnational Organized Crime, which were signed in Palermo on 14 December 2000.

Moreover, on 22 July 2010, the Parliament ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism, adopted in Warsaw on 16 May 2005, which entered into force on 1 November 2010. Furthermore, on 13 August 2010 San Marino joined the Partial *Agreement* of the Council of Europe establishing the Group of States against Corruption (*GRECO*) as its 48<sup>th</sup> member.

The Republic of San Marino is presently considering the possibility of adhering to a series of conventions and protocols gradually adopted over the years by the United Nations and its specialised Agencies with a view to combating specific forms of terrorist acts, including those committed against civil aviation and maritime navigation security, the physical protection of nuclear materials and the taking of hostages.

## RELATIONS WITH THE EUROPEAN UNION

San Marino is not a member of the European Union. San Marino established diplomatic relations with the European Union in 1983. The **Cooperation and Customs Union Agreement** entered into force on 1 April 2002 (after a long ratification process during which the commercial and customs part of the agreement signed in Brussels on 16 December 1991 was however in force). According to this Agreement, the parties have undertaken to start cooperation not only in the field of commerce, but also in many other sectors, including industry, environment, tourism, culture and mass media. Following the enlargement of the European Union, the Republic of San Marino signed in Brussels a Protocol to the Cooperation and Customs Union Agreement.

In the light of the developments occurred after the signing of the agreement, the “**Aide Memoire**”, sent on 17 October 2002 to the EU Presidency, the President of the European Commission, Commissioner Patten and the President of the European Convention, highlighted that “San Marino economy is closely intertwined with the European one” and therefore mentioned the possibility of “new forms of collaboration over and above the Co-operation and Customs Union Agreement now in force”. Moreover, it pointed out that San Marino, being a microstate desirous of preserving its own identity, had to thoroughly consider all implications of a possible membership in the European Union, and that the European Convention was a “valuable opportunity” to jointly address these issues. In the light of this, the Republic of San Marino expressed its willingness “to start together a study and assessment activity”, with a view to subsequently defining, together with the Community Institutions, a common strategy, so as “to meet the expectations of both parties” and “lay the foundations of the relations between the Republic of San Marino and the new European Union of the third millennium”.

Moreover, according to the **Monetary Agreement** presently in force, San Marino is entitled to use the Euro as its official currency and to mint Euro coins under the conditions agreed upon with the Community.

Always at the Community level, in October 2004 the competent European authorities accepted the request submitted by San Marino to enable San Marino nationals to benefit from the treatment granted to Community nationals while crossing EU external borders, through the so-called “EU corridors”, at the check posts on the external frontiers of Member States that apply the provisions of the Schengen Agreement. This did not undermine the control regime, which would cease to apply only in case of an ad-hoc agreement.

Moreover, on 7 December 2004, San Marino concluded with the European Union an **Agreement on taxation of savings income** based on the same elements already provided for in the agreements with Switzerland and the other European small States (Andorra, Monaco and Liechtenstein). A Memorandum of Understanding between Member States and San Marino is attached to this Agreement. Point 4 of the Memorandum of Understanding establishes that, in the context of the strengthening of relations between San Marino and the EU, “the conclusion of tax agreements with Member States of the European Union” “and San Marino’s commitment to provide, within this framework, for information exchange in accordance with OECD standards would enhance wider economic and tax cooperation”. In this case, “recognising the efforts made by San Marino, consultations could take place between San Marino and the Member States with the objective of eliminating or reducing, on a bilateral basis, double taxation in relation to different forms of income”.

San Marino's position vis-à-vis the European Union is still nowadays being given a special focus in the country. The current Government is taking action to adopt a strategy for improved relations with the EU, also with a view to overcoming the rigidity of some dynamics concerning bilateral relations.

In April 2010, San Marino adopted the **“Omnibus” Decision no. 1/2010 of the EU-San Marino Cooperation Committee** in the area of customs union. Such Decision includes all decisions previously made by San Marino in order to comply with the provisions of the Interim Agreement on Trade and Customs Union and it reiterates the full effectiveness thereof in the framework of the current Agreement on Cooperation and Customs Union. In the text of the Decision new aspects are introduced, including the enforcement of the legislation protecting endangered species of wild fauna and flora (**CITES**), by virtue of which the territory of the Republic of San Marino shall be now considered a Community territory, thus leading to a simplification of the administrative procedures applying to imports and exports between San Marino and the EU. The Decision also defines the procedure for the transposition of the customs union rules in the following areas: common commercial policy, market surveillance, health, safety and protection of consumers, agriculture, food safety, veterinary and phytosanitary matters. Finally, the list of customs offices authorised to carry out customs clearance of goods coming from third countries and destined for the Republic of San Marino has been extended, as wished by San Marino economic categories.

Since the beginning of the present legislature, the Ministry of Foreign Affairs has promoted a process of analysis and study of the various modalities of a possible European integration, also by establishing, from the very beginning, political and diplomatic contacts. In July 2009, a first meeting was held with the European Commissioner for External Relations and European Neighbourhood Policy, Benita Ferrero-Waldner, who acknowledged the excellent relations existing between San Marino and the European Union and welcomed the intention to possibly strengthen such relations in the forms and ways most suitable to the characteristics and typical aspects of our State.

The relations with the EU are fundamental, also because some matters concerning the relations with other countries fall within the exclusive competence of the EU. To this end, in January 2010, a **Technical Group** was established (coordinated by the Foreign Affairs Department) **to assess new policies for the integration with the European Union**. Such Technical Group has carried out an analysis on the problems of the country with a view to proposing technical solutions through different forms of integration.

The **Final Report of the Technical Group** was submitted to the Great and General Council in its sitting of December 2010. At the end of the sitting a **Decision** was approved which gives to the Government the mandate to start negotiations aimed at achieving a greater and better integration of the Republic of San Marino at a European level, to obtain all useful elements and assess the existence of political and international conditions necessary to start negotiations for the accession of the Republic to the European Union.

In January 2011, the Minister of Foreign Affairs sent, on behalf of San Marino Government, a **letter to the President of the European Commission and the President of the European Council** to inform them of the activities and initiatives carried out to analyse European issues thoroughly, and to request to undertake consultations aimed at verifying forms of greater integration of San Marino with the European Union.

During 2010 and 2011, several political and diplomatic meetings were held. In October 2010, the Minister of Foreign Affairs met in Brussels with the Vice Prime Minister and Minister of Foreign Affairs of Belgium, Stefen Vanackere, at that time President of the European Union, who

expressed the intention of the EU to favour San Marino's greater integration, in the forms to be considered together as the most satisfying for both parties.

In September 2011, the Minister of Foreign Affairs met in Brussels with the President of the European Council, Herman Van Rompuy, who expressed his satisfaction with San Marino's desire to strengthen relations with the EU, by underlining that greater integration with small States is for the European Council a priority and commitment to identifying the best legal framework, so that the needs of all parties involved can be met.

Moreover, with a view to finding the best possible solution in terms of increased integration with the European Union, the relations with the services of the European Commission have been strengthened, with particular reference to the External Action Service.

This intense activity has resulted in the adoption, in June 2011, by the European Council and under the aegis of the Hungarian Presidency, of a **Report prepared by the EFTA Group** concerning the integration of the micro-States of San Marino, Andorra and Monaco. This Report provides for a reference legal basis, which is the same for all three micro-States, but which takes into account their specific national features during negotiations. Finally, it invites to carry on consultations, considering that, to start negotiations, the Commission will need to receive the relevant mandate by the Council. In this regard, the Report is an important turning point since, for the first time, the European Union commits to dealing with micro-States with quite a precise timing: the competent services of the Commission will have to provide recommendations on the integration of micro-States with the internal market by June 2012, after having carried out an in-depth analysis of the new possible institutional framework.

In June 2011, the San Marino Parliament approved a **second Decision** submitted by majority Parliamentary Groups and Representations, according to which the Institutions commit themselves to guaranteeing full implementation of the Cooperation and Customs Union Agreement with the EU and to starting negotiations for the Republic's European integration. These indications were then discussed in a meeting of the Parliamentary Commission for Foreign Affairs of 13 July 2011, during which **another Decision** was approved by unanimity. Such Decision substantially reiterated the contents of the Decision approved by large majority by the Great and General Council on 7 June 2011.

On 14 July 2011, the competent services of the European Commission received an official letter convening the EU - San Marino Cooperation Committee, envisaged by the Cooperation and Customs Union Agreement in force, relative to a series of issues that have risen over the last years, with a view to improving the application and functioning of the Agreement and to considering new fields of collaboration.

The **Committee met** on 20 October 2011 and discussed some issues, including the possible establishment of a San Marino customs office, the improvement of free circulation of some goods, the strengthening of cooperation in the infrastructure and tourism field, as well as in the health sector. Moreover, some particularly sensible issues related to the financial sector were underlined.

In November 2011, the Minister of Foreign Affairs and the President of the Permanent Parliamentary Commission for Foreign Affairs went to Berlin to participate in an initiative organised by the German Government and Parliament and aimed at carrying out an in-depth analysis of the strengthening of relations between the European Union and the micro-States of Europe (Andorra, Monaco and San Marino).

On 1 January 2012, the “Directorate of European Affairs” was established within the Foreign Affairs Department, as envisaged by the reform of the Public Administration, with the precise task of following the process of increased integration with the European Union, which will have an increasing importance.