

## Context of the peer review of Italy

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This section describes the political context of the reviewed member and outlines recent developments in Italy's governing coalition. The section presents the latest economic growth estimates for Italy, which could impact the outlook of Italy's development finance commitments. The section also focuses on the changes to the development co-operation system since the last DAC peer review. It notes a number of important structural changes over the past five years focused on new ministerial responsibility, new entities created, and new responsibilities assigned.

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## Political and economic context

Italy's parliamentary election held in March 2018, resulted in a coalition led by Prime Minister Conte of the Five Star Movement (*Movimento 5 Stelle*) and the Lega party. Leaders of the Five Star Movement (Di Maio) and Lega (Salvini) serve as Deputy Prime Ministers. The Lega party gained ground in the May 2019 European parliamentary elections, and support for the Five Star Movement dropped (Tozzi, 2019<sup>[1]</sup>). In August 2019, Deputy Prime Minister Salvini withdrew from the ruling coalition, calling for early elections. Instead, members of the Five Star Movement and the Democratic Party (*Partito Democratico*) struck a deal to form a new governing coalition. At the time of writing, a new government had just been formed.

Italy faces a double challenge of reviving growth and making it more inclusive. Real gross domestic product (GDP) per capita in Italy has not increased since 2000, and it is well below the pre-crisis peak. Italy has held on to its credit rating of BBB, but its economy is expected to grow by only 0.1% in 2019 according to the European Commission and the IMF (Sanderson, 2019<sup>[2]</sup>). The new government has stated that it will adopt an expansive budget that does not endanger public finances (Johnson, 2019<sup>[3]</sup>).

Italy's employment rate is at a record high with labour force unemployment at 10.6% in 2018 (OECD, 2019<sup>[4]</sup>). However, there are large regional disparities with a 20 percentage point gap between highest and lowest regional unemployment rates (OECD, 2016<sup>[5]</sup>). The increasing number of older Italians and the country's low fertility rate have widened the intergenerational divide, threatening public spending, including pension schemes. In 2017, for every 165 people over 65 years of age, there were only 100 less than 15 (Segond, 2019<sup>[6]</sup>). Among the OECD member countries, Italy has the lowest share of young people (under age 35) working for the central government, at just 2% (OECD, 2017<sup>[7]</sup>).

Immigration has tended to dominate most policy discussions, including international development, not least because of Italy's geographic location.

## Development co-operation system

In August 2014, the Italian Parliament approved Law 125/2014, the primary legislation that reforms the Italian development co-operation system. The law set out to broaden partnerships, operationalise Italian development policy, and create greater accountability and transparency. The primary objectives of Italy's co-operation are poverty eradication, reducing inequalities and sustainable development; human rights, including gender equality, democracy and rule of law; and conflict prevention and peacebuilding.

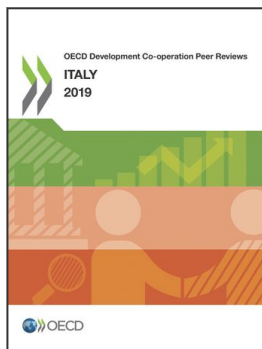
Specifically, the law officially assigns the political responsibility of development co-operation to the Minister of Foreign Affairs and International Co-operation. The Minister delegates the development co-operation portfolio to a Vice Minister. The law also established an Agency for Italian Development Co-operation (AICS) and entrusted *Cassa Depositi e Prestiti S.p.A.* (CDP) with the role of Italian development finance institution. Not since a Minister of International Co-operation and Integration post had been created in November 2011 under the Monti government had Italian development co-operation been given as much institutional prominence.

The reform institutionalised an Inter-Ministerial Council for Development Co-operation (CICS) to facilitate the co-ordination of all public development activities and alignment with the three-year programming plan. A National Council for Development Co-operation (CNCS) with broad multi-stakeholder involvement has a clear mandate for policy coherence for sustainable development.

The reform coincided with an upward trend in Italy's official development assistance (ODA), even when excluding in-donor refugee costs, until 2018, when ODA dropped significantly after six years of steady net ODA increases.

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