

**How to implement a National
Coordinated System for the
Identification of Individuals and
Information Exchange to Improve
Fiscal and Social Equity.
Lessons from LACs**

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This system allows governments to confront the problem of informality, tax evasion and social expenditure jointly, with important economies of scale, because the data or some personal information can be optimally used for both objectives increasing social benefits while decreasing costs.

This system is about e-government inside the government itself. Hence it is concerned with E-management

In 1998 the Argentine government created the SINTyS, a system for coordination and exchange of information about individuals, uniquely identified, and with their tax and social attributes attached. Why? Because when a government does not have an adequate system of this nature two kinds of problems can occur:

Mistakes type I: to give social assistance to those who are not poor, that is to say, to those who do not need it; or **type II:** not give assistance to those who are in need).

On the tax side, to audit people with a good level of tax compliance (mistake type I) instead of evaders (mistake type II).

Objectives of the SINTyS

The system should allow the detection of those who evade, those who need social assistance and what kind of assistance they need.

Characteristics. To that end the system must be:

1. Logical. The connection among databases has to be logical and not physical. It should not be designed as a mega database or as another base. Rather it needs the existence of institutional and informatics links with each of the agencies involved with social and fiscal data. Therefore, one of the tasks of SINTyS in Argentina was the design of the data processing tools to exchange coordinated and continuous information among agencies.

2. Dynamic. The system has to have information updated without the need of periodic censuses. It is not a Census of characteristics of the population at a point in time, as usually most Government data on poor people is.

These characteristics imply that the system creates economies of scale in making available data produced by one organism that can be used by many, avoiding transaction costs among agencies.

3. Autonomous. Each Agency maintains its autonomy.

4. Transparent. The System provides tools and information that allow publishing through different media, such as WEB pages, the information about public social program beneficiaries and other social and tax attributes whose publication is not forbidden by privacy rules. The system allows citizen access to true government information in different databases. According to Pardo (2000) providing access to government information is the most common digital government initiative and there are many benefits both to the public and to government of this kind of service: reducing distribution costs for government agencies, ensuring 24 x 7 access to information, removing the delay between production of and access to information

5. Integral. It has to include:

a. The whole population.

b. Social attributes as well as tax attributes (income, consumption and assets). The use of the same data for both social and tax purposes produces a considerable economy of scale and allows separating those who have to pay taxes from those who have to receive social assistance.

c. All data bases (public and private) and social programs (federal, sub national and local) involving individuals. Provinces and municipalities have to follow the same rules that the central government when they provide social assistance and they have to share information. In this particular case they have to indicate to the system, who the beneficiaries of social programs are.

Here we find a considerable difference between centralized countries (such as Chile and Peru) and federal countries (such as Argentina and Brazil). While in the former countries most of the data bases are managed by the central government in federal countries many data bases are managed by provincial and municipality governments (and sometimes by the judiciary arm of these governments). Maybe this characteristic is the most difficult to achieve.

It is common to hear in some countries that the system is integral in spite not to include the informal sector, which in LAC countries is the hardest to include. In order to include the informal sector it is necessary that the system incorporates information such as assistance both to public and private schools and hospitals, information from the financial sector, such as bank accounts, credit card information, that is including information from the private sector. By definition, informality implies that people and their attributes do not appear in the usual official registers.

6. Sole system. Why do we recommend making only one system? Why not one system for social purposes and another for tax purposes? Why not one system at the federal level and several others at the provincial level? Three are the most important reasons for the creation of a sole tax and social system:

1. A considerable part of tax collection finances social public expenditure and in particular targeted social public expenditure. The will for paying taxes is associated with public expenditure that they finance. The waste of public resources has been corroborated as a cause of tax evasion in an Argentinean tax survey

2. Endemic informality in LACs allows that being easy for anybody to hide in the informal sector for evading as well as that being difficult to know the social attributes of people who are in it to target the social public expenditure correctly. Without information it is difficult to identify if individuals who are in the informal sector are evaders or poor who need social assistance. Only putting together tax and social information (income, consumption and wealth attributes such as labor activity, pensions, school and hospital attendant, social programs received) it is possible for deduction and inference to identify if a non-registered individual (that is to say who is in the informal sector) is poor or evader¹¹.

3. Independently from informality, in all countries information necessary to reduce tax evasion is useful for social purposes and vice versa. For instance, information of property registers is necessary for tax purposes (because to be owner shows ability to pay taxes) and for social purposes also (to be owner indicates that there are other individuals who need more social assistance).

Why a coordinated system for information exchange is necessary

In Argentina before SINTYS, every agency managed its own information of social and tax attributes without any type of coordination. Most of these agencies did not exchange this information, neither have they registered data useful for other agencies and not specifically for them. Moreover, even if some bilateral agreement on information sharing was signed between organisms, the exchange of data could be frustrated since some individuals could not be identified univocally. Some individuals appeared with their first and second name only (without an identification number), in other bases same individual appeared with a different ID numbers and hence the merging of data was basically impossible¹³

In Chile, there was not either an organism that controlled the eligibility of all the Social Programs. Hence, an effective interagency coordination for social Programs and Policy was essential for an adequate social protection. For this reason we recommended in 2003 to create a SINTyS

Problems during the implementation of the system

1. Political. In federal countries most data bases are in subnational and local governments and the federal government lacks the power to oblige them to share this information. Therefore, it is necessary that subnational governments are incorporated into the system.

2. *Civil Servant* (“burocratic”) excuses.

3. Information confidentiality. Although, sometimes civil servants argue that the information is secret when by definition it is public (for instance, the Property Public Register information), in other occasions a legal secret exists. Some examples are bank secrecy, statistical secrecy, share secrecy or habeas data.

4. Incompatible ends. It is not in the interest of the organism to improve aspects of their data that do not benefit the main function of this organism. Hence, it is costly for the Organism which asked for data to provide it to the agency requesting it.

5. “Clientism”. Some agencies or agents might want to divert the resources on Social Programs to some different group (i.e., favor the poor in their Province of origin) and hence sharing of information can uncover this diversion. 15

6. Budget restriction to adapt information

7. Lacks of cooperation. Although many times citizens are positive about e-government; other times they are more concerned for safeguards on privacy and security. For instance, in countries like Peru or Guatemala taxpayers do not present their declaration forms electronically when it is mandatory. The general idea exists if they evade the tax administration will detect them easily if they present electronically, when, if they present hardcopy it will be more difficult for the tax administration detected them.

How to incorporate information. A system without papers and hardcopies

1. *Adoption of the unique identification number.* Implies the obligation of using this number in every transaction and its incorporation to all data-bases. It has to be unique; It should never change: should not include particular and personal features of the individuals (for instance, age or sex); is recommendable that ordinary people know it; a short number is better than a big number, difficult to remember; it should not include letters because the experience shows that soft systems recognize numbers more easily; it is recommendable that the unique identification number include a verifier figure, thus programs could refuse the registration if it is registered incorrectly.

2. Data-bases analysis. This task begins with the inventory of data-bases with social and tax information and continues with their adaptation with the aim they can cross-check among them. This implies not only programs and computer language juggling but also the adoption and inclusion of the unique identification number of every individual.

3. Data Bases incorporation process. This process includes at least the following steps:

A. Determination of the periodicity of sending information in order to update the system.

B. To generalize the use of the unique identification number.

C. To organize the information through its consolidation.

D. To homogenize bases common data, to guarantee the information readability. That is to say, given a unique identification number it is necessary to cross-check all data bases that were included in the system in order to control that common attributes of this unique identification number are the same in all bases. In other words that, attributes such as income, age, sex, name or surname belonged to a unique identification number is identical in all bases. In other cases it will be able to capture different values or alternatives for the same attribute. That is the case of the address.

E. Definition of a periodic routine for updating the information.

Benefits

In Argentina real benefits were higher than expected giving a rate of return of more than 100%. In March 2001, when Phase I had not yet finished, public expenditure savings in avoiding leakages to individuals not eligible to receive benefits (and that had received if SINTyS had not cross-check date-bases) and for reducing tax evasion were ten times the investment (benefits of U\$\$104.366.000 to an investment of U\$\$10.400.000).

A considerable share of this amount was generated by eliminating the benefits claimed by deceased people (in fact, the claim by some family member or acquaintance). Monetary benefits were not quantified in the case of the better targeting of the poor that the system achieved. Hence, these benefits underestimate the true benefits of the system.

The use of same data and registries for different ends by helping to reduce tax evasion and improving the targeting of social expenditure produces also large economy of scale (see box en section). Also, in economies like Argentina and other Latin American countries with a large informal sector, it also helps to draw a line between the informal that can be subject of social help and those that are simply tax evaders.