

Press Release: Department of Finance

Termination of discretionary deductions from PERSAL

The Finance Department has had several queries regarding details of the government's decision to stop the use of the PERSAL facility for discretionary deductions from the salaries of government employees.

From January 1, 2001, only deductions relating to statutory items, employee benefits in terms of a collective agreement, or those related to conditions of employment, will be allowed.

The decision comes as a result of the large numbers of public servants who are heavily in debt.

The Department wishes to make it clear that there will be a six-month phasing out period for all existing loans arrangements, a period that will allow both employees and their creditors to make alternative payment arrangements. Thus existing loans will continue to be deducted from employees' salaries until 31 December, 2000.

However, Government will not allow any new loans to be deducted from employees using the PERSAL system with immediate effect.

Employees who already have discretionary deductions will be given six months to transfer those payments onto their bank accounts, or arrange alternative methods of payment.

This should be seen as an opportunity for borrowers and lenders to consolidate their loans.

The Finance Department has carefully considered the effects of discretionary deductions on the welfare of public-sector employees, sought legal advice, and consulted with the banking sector, the Micro-Finance Regulatory Council, and the Departments of Trade and Industry and State Expenditure.

We have found that there has been a dramatic increase in the level of debt by public servants in the past two years. The worst consequence of this debt was the suicide by a civil servant in KwaZulu-Natal in early June. Some employees are so deeply in debt that they are taking home as little as R5 or R10 a month.

The consequences of such a low take-home pay is that the prospects for corruption increase, there is low morale, and thus productivity suffers. When people are taking home R10 a month, where is the incentive to perform at work? The end result is poor service delivery to citizens.

This high level of debt is brought about by disproportionately easy access to credit by civil servants. Moreover many lending agencies, because they can make deductions directly from employees' salaries, are quick to extend credit beyond the means of an employee. The salary deduction is often a sufficient guarantee to extend credit to an individual. Seldom are credit or even affordability checks performed.

We believe that if access to the state's payroll is stopped, then lenders would have to do proper risk assessment of their debtors, and that government employees would, likewise, limit their debt to more affordable levels.

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Inquiries: Pippa Green: 012-3155304