

BANK OF BOTSWANA

PRESS RELEASE

Response to Comments by the Former Managing Director of Debswana

There have recently been a number of press reports concerning comments made by the former Managing Director of Debswana, Mr Louis Nchindo, on the role of non-executive directors of the company. According to one of the reports carried in The Botswana Gazette of September 29, 2004, Mr Nchindo is reported to have said that non-executive Board Members' interference in the day-to-day running of Debswana was distracting them from efficiently running their own departments and parastatals, some of which had consistently been reporting erosion of the value of the assets which they manage.

It is understood that this comment was aimed at, among others, the Bank of Botswana, whose Governor, Mrs Linah Mohohlo, is a non-executive director of Debswana. The Bank, therefore, finds it necessary to clarify the position with regard to the assets under its management, which comprise primarily the country's foreign exchange reserves.

As has been reported on many previous occasions, including in the Bank's various Annual Reports and regular meetings with stakeholders, the foreign exchange reserves have declined in recent years due to a number of reasons. In Pula terms, the reserves decreased from P41 182 million at end-2001 to P23 717 million at end-2003, a decline of 42 percent. In foreign currency terms, the reserves fell from SDR4 707 million to SDR3643 million over the same period, a decline of 23 percent.

The reasons for the decline have been clearly elaborated. First, the reason for the decrease in the Pula value of reserves has been the exchange rate impact as the Pula appreciated against major international currencies in 2002 and 2003. The former Managing Director of Debswana should know that, for the period in question, the value of the US dollar receipts from Debswana's sale of diamonds was lower in Pula terms for exactly the same reason. Second, the reserves were affected by the Government's commendable decision to establish and fund the Public Officers' Pension Fund, as a result of which over P12 billion was transferred from Government deposits at the Bank of Botswana to domestic private sector fund managers. The fund managers, in turn, invested a substantial proportion of these funds offshore, which had to be financed by a draw-down of the foreign exchange reserves, a result which was both expected, intended and desirable. Third, the reserves declined during 2002 and 2003 due to the underperformance of the international financial and capital markets, in which the reserves are invested, particularly following the terrorist attacks in the United States of America on September 11, 2001, and also malfeasance in corporate America which led to the closure of major companies such as Enron. The domestic private sector fund managers who have been allocated part of the Public Officers Pension Fund portfolio to manage and, therefore, are engaged in international portfolio diversification, as they should, are fully aware of this incontrovertible fact.

It is, therefore, highly unfortunate and misleading to suggest that the decline in the reserves (since 2001) is because of management inefficiency. Indeed, the Bank has an exemplary and stellar record, dating back many years, with respect to transparency and accountability on its entire operations, and aspires to the highest standards of corporate governance. Hence the Bank's

Board has unfettered access to information, even when they do not explicitly request it, and this would never be regarded as “interference” by the Management.

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