

# Rothschild's roadmap for Dubai's economic recovery

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It is payback time for Rothschild in Dubai. The 200-year-old banking house, perhaps the bluest of the blue bloods of the world's financial dynasties, has always prided itself on the strength of its relationships, especially with governments and global power brokers.

Now, after years of cultivating Dubai corporations with advice and assistance, it has landed the big one - the brief to advise Dubai Inc on the strategy for recovery from the financial crisis. Last month it was announced that Rothschild's Dubai office had been retained by the Government's Department of Finance to advise on the US\$10 billion (Dh36.7bn) financial support fund (FSF) raised by Dubai on the bond markets (with a further \$10bn in the pipeline).

When it came to it, Dubai - with a portfolio of borrowing relationships with most of the world's big banking groups - had only two real alternatives: Rothschild, or its great rival, Lazard. As the financial crisis has thinned the ranks of the old-fashioned merchant banks, only those two were in a position to offer Dubai the kind of independent, objective advice it needed. Its final choice was recognition of Rothschild's commitment to the emirate and the strength of its reputation as a financial problem solver.

No doubt Nasser al Shaikh, the director general of the Department of Finance, who was personally involved in the selection process, was also impressed by Rothschild's current involvement in the restructuring of the troubled US motor industry, as well as its role as adviser to European governments tackling the fallout of the financial crisis.

Since it was appointed, Rothschild has maintained a low profile on the details of its brief. It has been quietly putting in place the ground rules and structures that will govern the day-to-day administration of the FSF. But details are beginning to emerge among informed sources in the Dubai financial community, and - although its strategy is still being finalised - elements of it are beginning to clarify as the disbursement of the first \$10bn tranche gets under way.

Already, Nakheel, the troubled property development arm of Dubai World, has admitted to receiving funds from the FSF, although it has declined to say how much or on what terms.

It may seem illogical that Nakheel was a recipient of funds while the strategy governing disbursement is still being finalised, but the developer's admission that it had received money, in fact, illustrates two important factors behind Rothschild's thinking - urgency and strategic importance.

Nakheel, faced with an immediate need to meet financial commitments to contractors and suppliers, obviously satisfied the first condition for eligibility for FSF funding. Of course,

other parts of Dubai Inc, squeezed by the global financial crisis, also need short-term liquidity, but what made the Nakheel case special was its position as one of the key components of Dubai's ongoing economic development, identified by Rothschild and the Government of Dubai.

A key qualification for FSF eligibility, as explained on Saturday by Mr al Shaikh to the media at the World Economic Forum in Jordan, is this: recipients will be those government-related corporations that are regarded as essential for the long-term future development of Dubai's economy. In practical terms, this is likely to boil down to a fairly short list of business sectors - infrastructure, transportation - including the Metro and Maktoum airport projects - aviation, ports and shipping. Tourism is also said to be included on the list, as a key component of Dubai's role as a global hub.

This would appear to relegate to a category of secondary importance the once-dominant property sector, the downturn of which has been one of the main reasons for Dubai's financial predicament. But the Rothschild guidelines are flexible with regard to real estate. If the corporation or project satisfies the key benchmark of being essential to the emirate's long-term development, it will be eligible for funding; if not, it will have to weather the full rigours of the global climate.

This gives a hint of another crucial component of Rothschild's thinking. There is a commercial imperative at work, too. Those seeking FSF cash will have to demonstrate they have a long-term plan for financial and commercial viability, not least because the cash will have to be repaid, probably within a three- to five-year time frame.

Applicants will be subjected to a robust and commercially driven analysis of their core strategy, with consistent focus on financial viability. It would be to nobody's benefit to simply throw money at the problem. It is Dubai's equivalent of the American "stress tests" that preoccupied the US financial sector in recent weeks.

It is worth noting, too, that the Dubai financial sector appears to fall outside the Rothschild guideline of FSF eligibility. Although they are obviously a key part of ongoing economic development, the emirate's banks are generally regarded as being in a comparatively healthy condition, well-capitalised and with acceptable levels of non-performing loans. But whether the Rothschild strategy would allow a big financial institution with a high real-estate exposure to qualify for FSF funding is open to debate.

There are tough decisions to be made on the future of Dubai Inc. Rothschild is helping the Government make them in a considered and strategic fashion, with a focus on long-term commercial and financial imperatives.

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