

SHARED RISK & REWARD

The Sharing Risk Newsletter

March 12, 2012

Issue 89

IN THIS ISSUE

♦ **MENAdrill gets \$130 million Islamic financing**

After Janahi left the promoter of MENAdrill, First Energy Bank, in February 2011, MENAdrill has taken the delivery of a second rig and put one into service. Now it has lined up partial financing for the first rig. With 2 rigs in service 4 years in, MENAdrill is 10% of the way to fmr Chairman Janahi's original goal of having 20 rigs in service within 5 years, a [better outcome than some of his other companies](#).

♦ **The Americas**

- Arcapita's PE CIO departs

♦ **From the blog...**

Green sukuk...Regulating Shari'ah scholars...Dana Gas update...

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MENAdrill (an Esam Janahi production)

MENAdrill Investment Company (MIC), an investment company "principally promoted" by Bahrain-based First Energy Bank announced that it [had issued \\$130 million in 3-year limited recourse Islamic debt](#) financing to First Energy Bank and Gulf Investment Bank, which arranged the financing. The debt is structured as a murabaha and will finance the MENAdrill 1 rig which was delivered in November 2010 and began drilling work for PEMEX, the Mexican national oil company in shallow water offshore of Mexico. The MENAdrill 2 rig was delivered in March 2011 and has been transported to Mexico where it is expected to be put into service next month.

The two rigs [cost a total of \\$364 million \(other sources say over \\$400 million\)](#) and were ordered in late September 2008 by the then-chairman Esam Janahi (who is also chairman of Gulf Finance House, which launched FEB) who was replaced in February 2011. When MIC was launched in 2008, First Energy Bank [expected](#) MIC (founded with \$1 billion paid up capital) to have over 20 rigs operating within 3-5 years (it will have 2 operating as of next month).

Updates from the Americas

Arcapita's Atlanta-based [Chief Investment Officer](#), Charles Ward, [jumped ship to return to the conventional private equity world](#) joining the New York office of [Perella Weinberg](#). Arcapita is [currently in talks](#) with its creditors who are concerned about the firm's ability to repay a \$1.1 billion murabaha coming due at the end of March. Ward's departure comes shortly after I reported in The Islamic Globe that J. Jill, a women's apparel retailer, saw its debt [downgraded from B3 to Caa1 by Moody's](#). J. Jill is the lone private equity holding that was acquired during Ward's tenure, and the only holding acquired since the financial crisis hit in 2008.

Until next week,
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SHARED RISK & REWARD

March 12, 2012 (Issue 89)

FROM THE BLOG...

FRIDAY
(Mar. 9)

[**More on the prospects for green sukuk**](#)

Last week, I [wrote a post](#) on the impact of green sukuk being used to reduce carbon emissions in the GCC (which would lead to more crude exports to countries that use oil more efficiently in terms of units of GDP per barrel). The Climate Bonds Initiative, an investor-focused non-profit, which is working with the Clean Energy Business Council of the Middle East and North Africa and the Gulf Bond & Sukuk Association, has a [Green Sukuk Working Group](#), that says its aim is "to channel market expertise to develop best practices and promote the issuance of sukuks for the financing of climate change investments and projects, such as renewable energy projects".

While I want to see some solid progress made, not just a press release, I am encouraged by the working group because renewable energy projects are areas where the Islamic finance industry (and the sukuk market, which acts almost as its public face) can differentiate themselves from most of conventional finance. One thing I would hope for the Working Group is that it makes documents relating to the meetings publicly available. As a non-profit, it would [benefit](#) the mission of the working group if ideas that originate within the working group were copied by Islamic financial institutions. Hopefully they will provide the maximum amount of transparency possible.

WEDNESDAY
(Mar. 7)

[**Dana Gas Sukuk news analysis \(update\)**](#)

In a news analysis I wrote for The Islamic Globe [about the Dana Gas sukuk](#), I wrote about the focus by investors on the ability of Dana Gas to turn receivables into cash in Egypt. I wrote: "Fortunately for Dana Gas, its production in Kurdistan through the Pearl Petroleum Co., of which it owns 40%, has continued to grow, although there is a problem collecting receivables there as well, albeit less severe than in Egypt." However, new developments in Iraq may put the [Kurdistan projects](#) at risk. The central government of Iraq has long maintained that oil deals with the Kurdistan Regional Government are invalid and the government has not been shy about making life difficult for companies that do deals directly with the regional government, [even oil majors like ExxonMobil](#). Exxon [has not made a final decision](#) about whether to abide by the central government's wishes or continue with its agreement with the regional government, but its decision could provide clarity on whether the Iraqi government is able to overturn existing contracts signed with the regional government. For Dana Gas, this clarity could be a positive, or another source of uncertainty about its ability to continue growing its production in Iraq, that provides a bright spot amidst continued uncertainties in Egypt.

[**Regulating Shari'ah Scholars**](#)

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March 12, 2012 (Issue 89)

The Director of Supervision of the Dubai Financial Services Authority David Gray [questioned](#) why there was not regulation for Shari'ah scholars in line with regulation of other areas of Islamic finance. He contrasts the lack of regulation of Shari'ah scholars with lawyers and accountants, who also provide advice to Islamic financial institutions.

I think he has an excellent point. It is not enough to just work on the faith that Shari'ah scholars will always act as objective parties, because they are human just like the rest of us. There have been few times when Shari'ah scholars have been directly implicated in a financial scandal, but that doesn't mean it cannot happen, and further that no regulation should be put in place to police potential violations of basic ethical guidelines about conflict of interest and confidentiality.

The guidelines need not lead to a central Shari'ah body like Malaysia has. They can focus on conflicts of interest caused by serving on many boards simultaneously, as well as providing an enforcement mechanism to discipline scholars, for example, if they disclose confidential information. These ideas are not meant to suggest there is a current problem, although there has long been concern that Shari'ah scholars may in some cases be faced with a conflict of interest, but why wait until there is a scandal that could damage the image of the industry. Much better to try and avoid an incident ahead of time.