

RUSSIA'S ENORMOUS UNMET FDI NEEDSFOREIGN DIRECT INVESTMENT PER CAPITA*
(\$M)

Hungary	111
Czech Rep.	83
Slovakia	44
Albania	16
RUSSIA	7
Azerbaijan	7
Ukraine	2

*in 1994. Russian figures for 1995.
Source: Russian-European Centre for Economic Policy

capital. "We are not dealing with the types of clients who are crying, complaining, always asking for help," Vid says. That doesn't mean a bank can't act in the national interest. For example, Alfa won a DM300 million loan from a German banking consortium for the industrial but poor Komi region, extending its own guarantee.

Universal banking seems to be the model of choice. Menatep, for one, is active in private banking, credit cards, and dealing—and is also establishing mutual funds and raising capital abroad. Though operating since the beginning of the century, Menatep is staffed with young, well-educated people—starting with its president. Zurabov is cool to investors' fears about Russia: "If you go hunting," he says, "you have to chase wild animals."

STALKING THE SECURITIES BUSINESS

"It's only a baby, but it's a baby with teeth," says Dmitri Subbotin, adviser to the Russian Securities Commission, of the agency he helps run. With his laptop, bilingual Internet site, and shelves stacked with fat tomes on Russian and Western market code, Subbotin is ready for foreign investors. He's also juggling 45 projects. "When I come to the office, I know I'll get done only 10% of what I need to do," he sighs.

Subbotin typifies the dynamic

young Russian who came back home to help make his country work. An Oxford graduate and former fellow at the prestigious Institute for International Economics in Washington, Subbotin found himself whisked into the upper reaches of the SEC before he was 30.

His youth parallels that of his agency. The two-year-old SEC isn't

just regulating Russia's markets, it's creating them. "It's the primary task of the securities commission to protect shareholder rights," Subbotin says. That means everything from helping major companies such as Lukoil and electricity supplier Mosenergo prep ADRs to coping with problematic custody rules to explaining to Russian managers "why it is important to be polite to investors."

Still, Russian market development is a zigzagging affair, dogged by fears that foreigners will run off with too much profit, by the government's tendency toward central control, and by nervousness that high dependence on foreign funds could lead to Mexico-style meltdown.

That hasn't stopped large Western banking firms such as CS First Boston, Salomon Brothers, and Bank of New York from taking the plunge. Bank of New York dominates Moscow correspondent banking, acting as a depository for all 11 Russian ADRs and doing about 65% of all

Moscow dollar clearing. "It's not really a case of cornering the market, it's a question of being focused," says BONY's senior securities officer in Moscow, John Yancey.

Salomon Brothers aimed for Russian rather than Western clients when it opened in Moscow in 1995. Salomon led Russia's first ADR, for Mosenergo, and has raised capital for oil company Yukos, upscale Moscow shopping center GUM, and the city of St Petersburg. Salomon invests heavily in research (it spent nearly a year doing four-volume analysis of the Russian oil market) and does much work on the ground. "It's hard to be successful carpetbagging in this market," says managing director Dannis.

One of the most prominent Russian investment banks is Renaissance. Founded by former CS First Boston executive Boris Jordan, the firm runs two mutual funds and last fall brought three companies to market: St Springs Water, restaurant chain Rostik, and cellular telephone company Bee-Line. Says research chief Damrau: "There's more to come." ☉



*"We've seen too many
ends of the world to believe in
the end of the world."*

—Jim Dannis
Salomon Brothers Moscow