

Kosrae State Business Regulations and General Business Resources

What every business person should know about operating in Kosrae State

Kosrae Small Business Development Center
PO Box 577
Tofol, Kosrae, FM 96944

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In partnership with the PISBDCN and the U.S. Small Business Administration

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Introduction

This guide has been prepared by the Kosrae Small Business Development Center to assist all businesses – both large and small, locally owned or foreign owned – to understand all applicable “rules and regulations” that they must comply with in order to operate a business in the State of Kosrae.

There are three sets of government rules and regulations which apply to all businesses. The Federated States of Micronesia National Government regulates certain areas of business and sets most taxes. The State of Kosrae regulates all businesses operating within the State and collects certain fees and excise charges. In addition, the Local Government Authorities have their own rules and regulations which apply to businesses operating within their boundaries. It is very important that each business meet all applicable requirements of National, State and Local Governments.

Additionally, this guide also provides a listing of locally available business resources and their contact information. The listing is intended to facilitate the linkages of business owners with local business resources.

If you need further assistance and/or guidance to finding information, contact:

Kosrae Small Business Development Center
P.O. Box 577
Tofol, Kosrae, FM 96944

Phone: (691) 370-2751/3044
Fax : (691) 370-2066
Email : kbdac@mail.fm

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GOVERNMENT REGULATIONS

The following list of requirements is provided to give the business owner a starting point. It is not intended as an interpretation of the laws of the FSM nor the laws of Kosrae State. It is the responsibility of all business owners and managers to contact the appropriate regulatory agencies for information about the laws that may apply to their business.

1. Federated States of Micronesia

- 1.1 Social Security Tax
- 1.2 Employer Identification Number
- 1.3 Worker's Social Security Number
- 1.4 Wage/Withholding Tax
- 1.5 Gross Revenue Tax
- 1.6 Import Tax
- 1.7 FSM Foreign Investment Permit
- 1.8 Entry and Work Permits
- 1.9 Food Import/Export License
- 1.10 Food Handler's License
- 1.11 Fishing License

2. Kosrae State

- 2.1 Kosrae State Foreign Investment Permit
- 2.2 Registration of Corporations & Partnerships
- 2.3 Kosrae State Business License
- 2.4 Health Certificate – Food Handling
- 2.5 Alcohol License
- 2.6 Transaction Tax
- 2.7 Environmental Impact Assessment

3. Local Government Authorities

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3.1 Municipality Business License

Certain cultural and traditional restrictions or requirements are imposed by various municipalities and with which businesses operating within those jurisdictions shall comply. Some of these requirements may be discretionary. Check with your Municipal Mayors to determine what you need to do.

1. FEDERATED STATES OF MICRONESIA

1.1 Social Security Tax

The Social Security Act provides that "All employees whether employed by an employer incorporated or doing business in the FSM, shall be covered unless both the employer and the employee are currently subject to any other recognized social security system." Employers should make reference to the booklet "*Employer's Guide to Social Security Tax in the Federated States of Micronesia*", available from the FSM Social Security Administration, for definitions of an employer and an employee, and details of their obligations under the Act.

All businesses must file the Employer's Quarterly Tax Return reporting the wages of their employees. Any business with at least one employee or which makes in excess of \$10,000 in gross revenue annually must pay the Social Security tax at the end of every quarter. The tax rate is 12% of the salary base of each employee; 6% of which is contributed by the employer and the remaining 6% is contributed by the employee through wage withheld by the employer. There are several forms which must be completed on a quarterly basis and submitted with payments to the FSM Social Security office by the 10th day of the month following the end of a quarter (i.e. April 10th, July 10th", October 10th, and January 10th).

Contact Information: FSM Social Security Administration; Kosrae Office; PO Box 870, Tofol, Kosrae FM 96944; Phone: (691) 370-3048; Fax: 370-3790; e-mail: Ksassa@mail.fm

1.2 Employer Identification Number

All employers must register with the FSM Social Security office in Kosrae State. There is a special form "Application for Employer Number" which must be completed and accompanied by the appropriate fee. The FSM Social Security Administration will then assign the applicant an Employer Identification Number (EIN). The Employer Identification Number must be entered on the Employer's Quarterly Tax Returns.

Contact Information: FSM Social Security Administration; Kosrae Office; PO Box 870, Tofol, Kosrae FM 96944; Phone: (691) 370-3048; Fax: 370-3790; e-mail: Ksassa@mail.fm

1.3 Worker's Social Security Number

Every person that is employed is required to obtain a Social Security Number. There is a special form "Application for a FSM Social Security Number" which must be completed and accompanied by a fee of \$2.00. The applicant must submit documentary evidence of age, identity, and citizenship or legal alien status before the application can be processed. Persons age 18 or over must apply in person for a Social Security card. The FSM Social Security Administration will then assign the applicant a number which must be presented to all employers when the individual is hired. Social Security cards should be shown to employers and every employer should be careful to record each employee's Social Security Number. Social Security Numbers should be accurately reported on the Employer's Quarterly Tax Return.

Contact Information: FSM Social Security Administration; Kosrae Office; PO Box 870, Tofol, Kosrae FM 96944; Phone: (691) 370-3048; Fax: 370-3790; e-mail: Ksassa@mail.fm

1.4 Wage Withholding Tax

All employees are required to pay part of their gross pay to the FSM government as a Wage Tax. The current tax rates are 6% for the first \$11,000 earned and 10% on any amount earned thereafter. The wage tax is taken out of the employee's gross wages by the business and held until the proper reporting time. It is the responsibility of the business owner to collect the tax, report the amount(s) due and submit payment at the correct time to the FSM Custom and Tax office. This tax is due by

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the last day of the month following the end of a quarter (i.e. no later than April 30th, July 31st, October 31st, and January 31st).

Contact Information: FSM Custom & Tax, Administration; Kosrae Office; P.O. Box 359, Tofol, Kosrae FM 96944; Phone: (691) 370-3382; Fax: 370-2047; e-mail: CTAKSA@mail.fm

1.5 Gross Revenue Tax

All business owners who are engaged in business to make a profit are required to pay Gross Revenue Tax. There are no exceptions based on the type of business being run. The current rate of tax is \$80 for the first \$10,000 in sales and 3% of any amount in excess of the \$10,000. This includes both cash and credit sales. If a business makes less than \$2,000 within a calendar year, they may apply for a refund at the end of the year. The appropriate form must be filed and submitted with payment to the FSM Customs and Tax office by the appropriate time. This tax is due by the last day of the month following the end of a quarter (i.e. no later than April 30, July 31, October 31, and January 31).

Contact Information: FSM Custom & Tax Administration; Kosrae Office; P.O. Box 359, Tofol, Kosrae FM 96944; Phone: (691) 370-3382; Fax: 370-2047; e-mail: CTAKSA@mail.fm

1.6 Import Tax

All items being imported into the FSM for any reason are subject to FSM Import Taxes. The amount to be charged varies depending on the type of item being imported.

Contact Information: FSM Custom & Tax Administration; Kosrae Office; P.O. Box 359, Tofol, Kosrae FM 96944; Phone: (691) 370-3382; Fax: 370-2047; e-mail: CTAKSA@mail.fm

1.7 FSM Foreign Investment Permit

Any business which has any foreign ownership interest may be required to obtain an FSM Foreign Investment Permit. If the business is doing anything that can be considered international or interstate or if the business is involved in banking, insurance, telecommunication, interstate/international commerce, sea and air transportation or fishing inside of the 200-mile EEZ

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of the FSM, the owner should contact the FSM Secretary of Economic Affairs to obtain the required foreign investment permit.

Contact Information: Department of Economic Affairs; P. O. Box PS-12; Palikir, Pohnpei FM 96941; Phone: (691) 320-5133; Fax: 320-5854; e-mail: fsmrd@mail.fm

1.8 Entry and Work Permits

The Immigration Act provides that no non-citizen, unless specifically exempted, is permitted to enter or otherwise remain in FSM without having been issued an appropriate Entry Permit. Different types of Entry Permits and Work Permits are issued depending on the purpose and length of the non-citizen's stay in FSM.

The FSM Foreign Investment Act provides for Expatriate Worker Authorizations (EWAs) to be issued to foreign investors with valid Foreign Investment Permits (FIPs). Currently, one EWA is issued automatically for a "senior management position" for each FIP. Application can be made for additional EWAs "if a suitably qualified and experienced citizen is not available". FIP holders can also apply for additional expatriate workers under the Protection of Resident Workers Act. Similar conditions apply to holders of Kosrae State FIPs.

If non-FSM citizens are working for your business, each non-citizen employee must have a valid FSM Work Permit and is required to register annually with the FSM Department of Immigration. Further information may be obtained by contacting the local FSM Immigration Office.

Contact Information: FSM Immigration and Labor; Kosrae Office; PO Box 359, Tofol, Kosrae FM 96944; Phone: (691) 370-3051; Fax: 370-3227; e-mail: kil@mail.fm

1.9 Food Import/Export License

Any business which imports any kind of food items into the FSM must obtain a Food Import License and an FSM Health Permit. Also, any business which exports local food stuffs for commerce outside or to another FSM State must obtain a Food Export License. Businesses involved in the processing and/or selling of Betel Nut, and Sakau are exempted from these

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requirements. Both an application fee and a license fee are required for these licenses. Further information on these licenses can be obtained from the FSM Secretary of Economic Affairs and FSM Sanitation, Kosrae Office.

Contact Information: Department of Economic Affairs; P. O. Box PS-12; Palikir, Pohnpei FM 96941; Phone: (691) 320-5133; Fax: 320-5854; e-mail: fsmrd@mail.fm and FSM Sanitation Kosrae Office: P.O. Box 127; Tofol, Kosrae FM 96944; Phone: (691) 370-3199; Fax: 370-3073

1.10 Food Handler's License

Any facility of a business handling food is required to conform to the appropriate building specifications, a copy of which can be obtained from the Office of Sanitation and Food Safety. Upon inspection before opening the business, a Food Handler's License will be issued with a grading for cleanliness. Inspections may be conducted without prior notice. No fee is charged for this service.

Contact Information: Division of Sanitation and Food Safety, Department of Health Services; PO Box 127, Tofol, Kosrae FM 96944; Phone: (691) 370-3199; Fax: 370-3073

1.11 Fishing License

Any person or business engaging in commercial fishing activities outside of the State's 12 mile territorial waters and inside of the FSM 200 mile EEZ is required to obtain a Fishing License from the National Oceanic Resources and Maritime Authority. Commercial fishing inside of the State's 12-mile territorial waters by non-citizen individuals or entities is regulated by the State.

Contact Information: National Oceanic Resources and Maritime Authority, P.O. Box PS-122; Palikir, Pohnpei FM 96941; Phone: (691) 320-2700; Fax: 320-2383; e-mail: norma@mail.fm

2. KOSRAE STATE

2.1 Kosrae State Foreign Investment Permit

Foreign investment in Kosrae State that is not subject to the FSM Foreign Investment Act is governed Kosrae State Law No. 6-163 and its Foreign Investment Regulations. This Act requires all non-citizens engaging in business, or any business entities having any foreign ownership interest, to obtain a Foreign Investment Permit from the State Department of Commerce and Industry prior to the commencement of business. A permit processing fee of \$150 is required of first-time application and a renewal fee of \$50 every year when a permit is renewed. The permit period is October 1, to the next September 30, irrespective of the issuance date.

Contact Information: Department of Commerce & Industry; P.O. Box 600, Tofol, Kosrae FM 96944; Phone: (691) 370-2044/3044; Fax: 370-2066; e-mail: kosraeci@mail.fm

2.2 Registration of Corporations and Partnerships

All businesses operating in the State of Kosrae which are not sole- proprietorships (owned by one individual or married couple) are required to register with the Kosrae State Attorney General's Office or FSM Registrar of Corporation. This includes, but is not limited to Corporations for Profit, Non-Profit Corporations, General Partnerships, Limited Partnerships, and Foreign Corporations wishing to do business within the State. You may wish to contact a Legal Counselor to assist you with this process.

Contact Information: Kosrae State Attorney General's Office; P.O. Box 870; Tofol, Kosrae FM 96944; Phone: (691) 370-3043/215; Fax: 370-2222; e-mail: agkosrae@mail.fm

2.3 Kosrae State Business License

All businesses operating in Kosrae are subject to the Kosrae State Code under Title 9 and its Regulations. Currently, all four different municipal governments are empowered to impose license fees not exceeding \$100 for a commercial activity conducted in that municipality. . A different license is needed for each location so that a single business may be required to obtain more than one

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business license. The business license is renewed by January of each calendar year. A municipal government may not tax ownership or use of a motor vehicle, or use of public road; the sale, possession or consumption of alcohol drink; transaction tax or goods made or produced in the state.

Contact Information: Division of Budget & Finance, Department of Administration, P.O. box 878; Tofol, Kosrae FM 96944; Phone: (691) 370-3004/3163; Fax: 370-2004; e-mail: kosfinance@mail.fm

2.4 Health Certificate – Food Handling

A Health Certificate must be obtained for any individual handling food in any type of business. A physical examination is required as part of the Certificate process. A fee of \$14 is charged for the Certificate. The health certificate must be renewed every 6 months.

Contact Information: Public Health; Kosrae State Hospital, PO Box 127, Tofol Kosrae FM 96944; Phone: (691) 370-3199; Fax: 370-3073

2.5 Alcohol License

An alcohol license must be obtained by any business that sells alcoholic beverages. Information can be obtained from the Kosrae State Attorney General's Office..

Contact Information: Kosrae State Attorney General's Office; P.O. Box 870, Tofol, Kosrae FM 96944; Phone: (691) 370-3043; Fax: 370-2222; e-mail: agkosrae@mail.fm

2.6 Transaction Tax

A transaction tax of 5% of the transaction price received attaches to the following transactions:

1. lease of office or dwelling place;
2. lodging;
3. meal;
4. motor vehicle rental; and
5. video tape or film rental

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The consumer, who purchases, leases or rents the goods or property, pays this tax at the time of the transaction.

Contact Information: Division of Finance & Budget, Department of Administration; PO Box 878, Tofol, Kosrae FM 96944; Phone: (691) 370-3044/3163; Fax: 370-2004; e-mail: kosfinance@mail.fm.

2.7 Environmental Impact Assessment

Environmental Impact Statements are required of business projects requiring earth moving or whose scope of business can result in altering the balance of the natural environment. The appropriate forms and more detailed information are available by contacting the Kosrae Island Resource Management Authority.

Contact Information: Kosrae Island Resource Management Authority; PO Box 480, Tofol, Kosrae FM 96944; Phone: (691) 370-2076; Fax: 370-2867; e-mail: kirmp@mail.fm

3. OTHER

3.1 Municipality Business License

On top of the requirement to obtain a Kosrae State Business License, businesses located within the municipal boundaries of the four municipalities are required to obtain a Business License from each respective municipal office.

Contact Information: Mr. Jerson Freddy, Mayor, Lelu Municipality; PO Box 307, Tofol, Kosrae FM 96944; Phone: (691) 370-3037; Fax: 370-3387

Contact Information: Mr. Nena Kilafwasru, Mayor, Malem Municipality; P.O. Box 339; Tofol, Kosrae FM 96944; Phone: (691) 370-4501

Contact Information: Mr. Johnson Taulung, Mayor, Tafunsak Municipality; P.O. Box 758; Tofol, Kosrae FM 96944; Phone: (691) 370-3211

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Contact Information: Mr. Truman Waguk, Mayor, Utwe Municipality; P.O. Box 909, Tofol, Kosrae FM 96944; Phone (691) 370-3207

GENERAL BUSINESS RESOURCES

The following list of business resources is provided to give the business owner access to a point of contact. It is not an endorsement of any products, opinions or services.

1. Banks

1.1 Bank of the FSM

The Bank of the FSM is the only commercial bank that is currently providing commercial banking services in Kosrae State. It is U.S. FDIC insured and has all the necessary banking facilities required by businesses.

Contact Information: Manager, Bank of the FSM / Kosrae Branch; PO Box 148, Tofol, Kosrae FM 96944; Phone: (691) 370-3225/2225; Fax: 370-2077; e-mail: bofsmkos@mail.fm

1.2 FSM Development Bank

The FSM Development Bank is a business development financing institution. It provides business loans on concessionary terms. The bank normally charges a 9% interest rate.

Contact Information: Manager, FSM Development Bank / Kosrae Branch; PO Box 104, Tofol, Kosrae FM 96944; Phone: (691) 370-3070; Fax: 370-2170; e-mail: kfsmdb@mail.fm

1.3 Pacific Islands Development Bank (PIDB)

PIDB is a regional development banking institution which funds business projects in its member governments' jurisdictions. Its member governments comprise the Commonwealth of the Northern

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Marianas, Territory of Guam, Republic of Palau, and the FSM States of Yap, Chuuk, Pohnpei and Kosrae. PIDB makes business loans on concessionary terms.

Contact Information: President, Pacific Islands Development Bank; Suite 204, GCIC Building, 414 West Soledad Avenue, Hagatna, Guam 96910; Phone: (671) 477-0047; Fax: 477-0067; e-mail: pidbank@kuentos.guam.net

1.4 Other Business Funding Sources

Farm Service Agency

Farm Service Agency is a U.S. federal program. It is a farm loan program aimed at helping existing and beginning farmers establish themselves in financially viable, commercial farming operations. It should be noted that program eligibility is restricted to U.S. and U.S. Pacific Affiliate citizens.

Contact Information: Kosrae Small Business Development Center; PO Box 577, Tofol, Kosrae FM 96944; Phone: (691) 370-2751/3044; Fax: 370-2066; e-mail: kbdac@mail.fm

Production & Development Loan Fund

Production Development Loan Fund (PDLF) is a Kosrae State Government funded program. It is a production and value-added loan program intended to help beginning and existing production and value-added small scale businesses. Eligibility is restricted to Kosraens, however other citizens is acceptable through a local partner.

Contact information: PDLF; P.O. Box 600, Tofol, Kosrae FM 96944; Phone: (691) 370-2044/3044; Fax: 370-2066; e-mail: kosmarketing@mail.fm

2. Power Generation

2.1 Kosrae Utility Authority

All of Kosrae has electricity provided by the Kosrae Utility Authority. The electricity rate for businesses is 8 cents per kwh for the first 100 kwh and 15 cents per kwh thereafter. There is a hookup fee the amount of which depends on your site's distance from the main distribution lines.

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Contact Information: General Manager, Kosrae Utility Authority; PO Box KUA, Tofol, Kosrae FM 96944; Phone: (691) 370-3344/3799; Fax: 370-3798; e-mail: kua@mail.fm

3. Water

Water is managed and provided by each of the four municipal offices at no charge. Contact the municipal office where your business is located.

Contact information: Lelu Municipal (691)370-3037; Malem Municipal (691) 370-4501; Tafunsak Municipal (69) 370- 3211; Utwe Municipal (691) 370-3207.

4. Telecommunication

4.1 FSM Telecommunications Corporation

The FSM Telecommunications Corporation provides all necessary telecommunication facilities for all of Kosrae. It has lines for telephone, fax, telex and the Internet for both local and international uses 24 hours a day. It also provides such features as direct dialing, caller ID and pager. FSMTC also has a cellular phone system network that has both domestic and international calling and messaging capabilities and cable TV.

Contact Information: Manager, FSMTC / Kosrae Branch; PO Box TC, Tofol, Kosrae FM 96944; Phone: (691) 370-3164; Fax: 370-3000; e-mail: jsigrah@mail.fm

5. Air Transportation

5.1 Continental Micronesia

U.S.-flagged carrier Continental is the only passenger airline that services Kosrae through its subsidiary Continental Micronesia. Continental flies a 124-seater 737/800 Series Boeing aircraft to Kosrae six days a week. Continental flies from Guam to Kosrae via Chuuk and Pohnpei then on to Honolulu on Mondays, Wednesdays, and Fridays, then returns to Guam on Tuesdays, Thursdays and Saturdays. It returns from Honolulu the same route stopping in Kosrae en route to Guam.

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Contact Information: Continental Micronesia, Kosrae Office, P.O. Box 599; Tofol, Kosrae FM 96944; Phone: (691) 370-3024/2024; Fax: 370-3438

6. Sea Transportation & Repair

6.1 Philippines, Micronesia and Orient Lines (PM&O)

PM&O, out of Oakland, California calls Kosrae via Ebey, RMI on its westbound voyages. PM&O comes through Kosrae once a month..

Contact information on PM&O: Meuser Sigrah ; PO Box BC, Tofol, Kosrae FM 96944; Phone: (691) 370-2587; Fax: 370-2587; e-mail: masigrah@mail.fm

6.2 Kyowa Lines

Kyowa Lines out of Japan calls Kosrae normally on the average of once a month, via Guam, Chuuk and Pohnpei.

Contact information on Kyowa: Tropical Breeze, PO Box 177, Tofol, Kosrae FM 96944; Phone: (691) 370-2157; Fax: 370-4110; e-mail: cchugrad@mail.fm.

6.3 Inter-States Shipping

There is currently no regular inter-state shipping among the four FSM states. Caroline Voyager, FSM National Government owned, services between Kosrae and Pohnpei on chartered and/or request basis.

Contact information: Theodore Sigrah (agent), PO Box ACE, Tofol, Kosrae FM 96944; Phone: (691) 370-2250; Fax: 370-3750; e-mail: KosraeAce@mail.fm

6.4 Semo Micronesia, Inc.

Kosrae Shipyard offers hull repair, cleaning and painting, propeller and shaft repair, engine overhaul repair and alignment, electrical and electronic equipment repair, parts fabrication. The company also builds steel tanks and supply, and builds fabricated buildings.

Contact information: Semo-Micronesia Inc.; P.O. Box 940, Tofol, Kosrae FM 96944, Phone: (691) 370-2364/2864; Fax: 370-2621; e-mail: semokos@mail.fm; website: www.smkship.com

7. Law

7.1 Kosrae Trial Counselors Association

This is an association of certified local trial counselors sanctioned to practice law in the State of Kosrae.

Contact Information: Mr. Canney Palsis, President; Kosrae Trial Counselors Association; PO Box 38, Tofol, Kosrae FM 96944; Phone: (691) 370-3032; Fax: 370-2232; e-mail: MLSCKosrae@mail.fm

7.2 Micronesian Legal Services / Kosrae Office

Micronesian Legal Services is part of the U.S. federally-funded Legal Services Corporation. It provides free public legal services to economically disadvantaged U.S. and U.S. Pacific Affiliate citizens, including owners of small businesses having met program eligibility guidelines. It should be noted that service eligibility is restricted to specific program eligibility guidelines.

Contact Information: Directing Attorney, Micronesian Legal Services Corporation / Kosrae Office; PO Box 38, Tofol, Kosrae FM 96944; Phone: (691) 370-3032; Fax: 370-2232; e-mail: MLSCKosrae@mail.fm

8. Accountants

Private accountants for hire are not currently available.

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9. Bookkeepers

Private bookkeepers for hire are not currently available.

10. Business Development Assistance

10.1 High Grade Computer

High Grade Computer specializes in the sale, installation and maintenance of computer hardware and software. Of specific interest to businesses is its setup.

Contact Information: High Grade Computer; PO Box 41, Tofol, Kosrae FM 96944; Phone: (691) 370-4962; e-mail: higrade@hotmail.com

10.2 Kosrae Small Business Development Center

The Kosrae Small Business Development Center is a public entity that provides free business development counseling and assistance to clients, and conducts business training workshops. The Center has trained business counselors who provide these services. The Center is an affiliate of the University of Guam Pacific Islands Small Business Development Centers Network. Because the Network receives U.S. federal funding, client counseling may be restricted to U.S. and U.S. Pacific Affiliate citizens.

Contract Information: Director, Kosrae Small Business Development Center; PO Box 577, Tofol, Kosrae FM 96944; Phone: (691) 370-2751; Fax: 370-2066; e-mail: kbdac@mail.fm