

Executive Summary

Section 2207 of the Emergency Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108-106) required the Office of Management and Budget (OMB) to submit a report to the Congress every 90 days that updates the estimates and assumptions for the \$18.4 billion appropriated in Iraq Relief and Reconstruction Fund (IRRF). OMB submitted the first financial plan to the Congress on January 5, 2004, with subsequent updates on April 5, 2004, and on July 2, 2004. This update recommends significant changes from the July 2 IRRF spending plan, which are the result of the recent strategic review conducted by the U.S. Embassy in Baghdad and previously announced to the Congress on September 14, 2004.

Since taking office on June 28th, Iraqi President al-Yawer, Prime Minister Allawi, and the Iraqi Interim Government (IIG) have demonstrated resolve, remarkable unity of purpose, and a clear commitment to Iraq's transition to democracy. The IIG is inviting all Iraqis into the political process.

In August, more than one thousand Iraqis attended the National Conference, which elected an interim National Council and played a key role in finding a peaceful solution to the standoff in Najaf. At the same time, members of the IIG have taken important steps to establish Iraq as a sovereign state, including extensive travel in the region to strengthen Iraq's ties with its neighbors. President al-Yawer has also visited Europe to bolster and broaden international support for Iraqi security and reconstruction. Iraq's participation in the United Nations General Assembly and Prime Minister Allawi's historic address to a Joint Session of Congress on September 23 will continue to raise the stature of the new Iraq. The Iraqi government is also in discussions with the Egyptian government about hosting an expanded regional conference in November, which would bring together leaders of Iraq, states in the region, representatives from the G-8, and other international friends of Iraq to discuss a broad range of regional concerns, including security, elections and economic issues.

These are, indeed, challenging times for the people of Iraq and the coalition supporting them. In the coming months leading up to and following the January elections, insurgents and infiltrators who want democracy to fail in Iraq can be expected to step up their efforts. Political stability ultimately depends on holding elections, which are scheduled for no later than January 31, 2005. The Independent Electoral Commission of Iraq is working closely with the United Nations to ensure that the elections succeed and that Iraqi voters have the opportunity to cast a ballot.

The Independent Electoral Commission of Iraq is pulling together a voter registration system, has launched a public information campaign, and is completing elections rules and procedures, with U.S. support and advice. The IIG and Multinational Force-Iraq (MNF-I) are also working towards an election security plan for the conduct of the elections.

IRRF STRATEGIC SPENDING PLAN REVIEW

With the increased security challenges and the plan to hold elections in January 2005, Ambassador Negroponte committed to undertake a strategic review of the spending plan for the \$18.4 billion in IRRF resources. The objective was to re-prioritize funding from projects that would not begin until mid to late 2005 and use these funds to target key high-impact projects, which would, in turn, support longer-term reconstruction efforts. The results of the strategic review were previously announced to Congress on September 14, 2004.

The plan is one that empowers the Iraqi people by:

- Strengthening their capacity to provide for their own security; and
- Improving the economic viability of their country through support for oil revenue generation and through increased efforts to tap into an already skilled Iraqi labor force.

The strategic review shifts \$3.46 billion from sector allocations outlined in the July 2, 2004 Section 2207 report into six key areas:

- \$1.8 billion for Security and Law enforcement;
- \$450 million for oil infrastructure enhancements and improved export capacity;
- \$380 million for comprehensive economic development;
- \$360 million to forgive approximately \$4 billion in bilateral debt owed to the U.S. Government;
- \$286 million to accelerate Iraqi employment; and
- \$180 million to support democracy and governance.

To meet these needs, an equivalent amount of funding will be shifted out of three sectors:

- \$1.94 billion from water resources and generation;
- \$1.07 billion from electricity; and
- \$450 million from refined oil purchases.

The following table shows the changes resulting from the strategic review.

SUMMARY OF PROPOSED CHANGES TO SECTOR ALLOCATIONS
(\$ in millions)

Section 2207 Sector	July 2207 Report	Increase	Decrease	New Allocation
Security and Law Enforcement	3,235.00	1,809.60	-	5,044.60
Justice, Public Safety Infrastructure, & Civil Society	1,484.00	460.50	-	1,944.50
Electricity	5,464.50	-	(1,074.55)	4,389.95
Oil Infrastructure ¹	1,701.00	450.00	(450.00)	1,701.00
Water Resources & Sanitation	4,246.50	-	(1,935.55)	2,310.95
Transportation & Telecommunications Projects	499.50	-	-	499.50
Roads, Bridges & Construction	367.50	-	-	367.50
Health Care	786.00	-	-	786.00
Private Sector Employment Development	183.00	660.00	-	843.00
Education, Refugees, Human Rights & Democracy	259.00	80.00	-	339.00
Administrative Expenses	213.00	-	-	213.00
TOTAL:	18,439.00	3,460.10	(3,460.10)	18,439.00

¹The strategic review moved \$450 million between two project lines within the oil sector. As a result there is no net change in the amount of IRRF funds dedicated to the oil sector.

Note: This chart represents sector changes recommended as part of the IRRF strategic review only. Changes made subsequent to the July 2 report and previously notified to Congress (First Responder Network), and those changes that will be notified prior to submission of this report (Political Party Support) are included beginning on page 15 and Appendix 1 sector descriptions.

Security and Law Enforcement

Establishing security by helping the Iraqis defeat terrorists, insurgents, and criminal elements that oppose a free Iraq is the key building block in promoting successful reconstruction efforts. An uncertain security situation affects all potential economic and political development, including private investment, foreign and domestic.

As part of the strategic review, the Department of Defense (DoD), under the leadership of General George Casey and Lieutenant General Dave Petraeus, conducted an extensive review of Iraqi security and law enforcement programs funded out of the current IRRF spending plan. Based on that review, DoD concluded that a number of infrastructure and Iraqi force structure capabilities enhancements were critically needed to meet the current threat environment. The increase of \$1.8 billion includes:

- \$788.4 million for the Iraqi Police Service (IPS) to train and equip an additional 45,000 police officers, bringing the total number to 135,000, including increasing training capacity at regional training sites;
- \$190.1 million for the Department of Border Enforcement to train and equip an additional 16,000 border officers, for a total of 32,000;
- \$442 million for the Iraqi National Guard to train and equip an additional 20 battalions, bringing the total number to 65, including establishing regional training bases and infrastructure support for 99 border posts;
- \$221.4 million for the Civil Intervention Force, Bureau of Dignitary Protection, and Emergency Response Unit for training, equipping and refurbishment and construction of infrastructure;
- \$62.5 million for the Iraqi Army Special Operations Forces for training, equipping, and expansion of the Iraqi special operations base;
- \$48.7 million for the Iraqi Intervention Force to support a logistics support base and logistics support unit to improve deployment capabilities; and
- \$22.5 million for the Iraqi Army to upgrade facilities and provide equipment and life support for a transportation battalion.

Oil Infrastructure and Capacity

Oil is Iraq's highest revenue-producing commodity. Iraq has proven oil reserves estimated at 112 billion barrels, ranking it second in reserves behind Saudi Arabia. During the strategic review the Embassy worked closely with the Iraq Ministry of Oil to identify projects that could quickly increase output capacity and generate additional export revenues for the IIG. Based on that analysis, the Embassy recommends shifting \$450 million for the following oil capacity enhancements:

- \$195 million specifically targeted for oil infrastructure projects in cooperation with the Ministry of Oil;
- \$150 million to expand Kirkuk production and exports, including the Al Fatah pipeline crossing, building a new pipeline from Kirkuk to Al Fatah and refurbishing gas oil separation plants (GOSPs) and wet crude facilities;
- \$100 million for Rumaylah crude oil production and exports, including water flood facilities and GOSPs; and
- \$5 million for a National Energy Strategy Study, including oil, gas, electricity, and water.

Ministry of Oil officials project that these projects can increase oil production capacity by up to 650,000 barrels per day (bpd), which would generate significantly higher oil export revenues. Assuming appropriate security conditions are maintained, these projects can be completed in six to nine months.

Economic Development

Although the oil sector dominates the economy, for the most part its capital-intensive nature yields limited employment creation potential. To encourage diversification and to develop a competitive sector surrounding Iraq's natural endowment of oil, we plan to shift \$380 million to help increase employment and increase productivity in the private sector. The funding in this category also provides support for higher education and humanitarian and resettlement assistance to vulnerable internally displaced persons.

Major economic development activities include:

- \$100 million for economic reform to increase employment, spur growth, and attract domestic and foreign investment. Key components include financial and managerial capacity for the Central Bank of Iraq, electricity and telecommunications regulatory capacity, and tax, fiscal, customs, monetary policy, banking, commercial law, and institutional reforms to promote investment;
- \$100 million to promote and strengthen the private sector, including restructuring and privatization of State Owned Enterprises, trade policy reforms leading to World Trade Organization accession, market access and trade and investment promotion, capital market development, micro-lending, and small and medium enterprise development;
- \$100 million to assist the IIG with restructuring its agriculture sector. Programs will contribute to developing policy and institutional reform options, improving crop technology, developing private sector agribusiness, and producing and processing high-value agricultural products for domestic and export markets;

- \$70 million to provide emergency relief assistance to over 100,000 Arabs and 50,000 Kurds, resettlement assistance to 300,000 Kurds, and to establish a contingency capability to respond quickly to sudden population displacement due to violence or natural disasters; and
- \$10 million to support higher education programs by purchasing computers and equipment for labs at 20 universities and 46 colleges throughout Iraq.

Forgiving Iraqi Debt

The President and other G-8 leaders committed at the June 2004 Sea Island summit to provide debt reduction for Iraq in 2004 sufficient to ensure sustainability. Paris Club creditors have aligned themselves with this commitment.

The United States supports Iraq's request to the Paris Club for deep debt reduction. Paris Club creditors are discussing a multilateral agreement which they aim to conclude by year-end. In order to be in a position to participate in such an agreement and forgive the approximately \$4 billion in bilateral debt that Iraq owes the United States, the Administration requested and Congress has authorized the use of IRRF resources to pay for the budget cost of forgiving this debt. The estimated cost of forgiving the approximately \$4 billion in bilateral debt is \$360 million.

The United States has led the effort to build a consensus among creditors for significant reduction of Iraqi debt. Our action to address U.S.-Iraq bilateral debt will be used to press other nations, including non-Paris Club regional creditors, to do the same to support Iraq and its transition.

Accelerating Iraqi Employment

To generate employment, stimulate economic activity, and provide immediate assistance in areas targeted by insurgents, the Embassy recommended shifting \$286 million to programs that have more labor-intensive, high-impact effects.

Program implementation partners estimate that this funding combined with other programs (e.g., elections assistance), will generate approximately 800,000 Iraqi short and long-term jobs. Employment programs and activities include:

- \$200 million to USAID's Office of Transition Initiatives. With this funding USAID estimates that it can provide an additional 2,500 to 3,000 grants and employ an average of 40,000 Iraqis a month over the next year in labor-intensive projects to meet essential service needs in areas of conflict; and

- \$86 million for a new Commander's Humanitarian Relief Reconstruction Program (CHRRP) for small-scale economic development projects in priority areas such as Baghdad, Samara, Ramadi, North Babil, among other areas. These funds will be augmented by the IIG's commitment to provide an additional \$86 million for projects under this program.

Democracy and Governance

To support the upcoming January 2005 elections and provide assistance for elections, monitoring, local and provincial government strengthening, and interim government support, we are planning to shift \$180 million into democracy and governance activities. Democracy and governance programs include:

- \$40 million to ensure the Iraqi Electoral Commission has the technical capacity to run and certify free and fair national elections, including establishing 8,000 polling stations and 300 regional elections offices, training 150,000 election staff members to register 15 million voters, 100 political parties, and certify 25,000 elections monitors;
- \$20 million to rollout a nation-wide elections monitoring program. International and local Non-Governmental Organization (NGOs) will help identify, train, and mobilize over 25,000 domestic monitors and execute a voter education campaign to reach eligible voters. Funding will also be used to field at least three domestic poll monitors per polling station and facilitate the limited participation of international monitors to certify Iraq's elections as free and fair;
- \$100 million to continue strengthening local and provincial government on budgetary training, administration, and public service standards to effectively and transparently deliver services, foster local economic development, and involve citizens in decision-making. Iraqi leaders will be better informed on policy issues that balance power between the central and local governments and guard regions breaking away from a national, democratic, and multi-ethnic state; and
- \$20 million to support the interim government's Presidency Council, Council of Ministers, National Council, and Interim National Assembly -- each of which is standing up much more rapidly than envisioned.

Offsets

The \$3.46 billion in recommended changes to the July IRRF spending plan are urgent and they must be funded in the next few months. Improving the security situation, the upcoming elections, the need to generate employment, and debt relief, are all critical requirements that must be addressed now.

The security and law enforcement, water resources and sanitation, and electricity sectors comprise almost 70 percent of the July IRRF spending plan. The only way to fund the proposed increases to the six sectors discussed above was to shift funds from the electricity and water and sewerage sectors. The decision to move \$3 billion out of these sectors was made after careful consideration. It is important to note that most of these large-scale infrastructure projects were not scheduled to begin until mid-2005.

By shifting IRRF resources to more urgent priorities now, these projects are more likely to be successfully completed at some point in the future. Such projects should be funded to ensure Iraq's full recovery. The State Department is optimistic that other donors and Iraqis themselves will ultimately be able to close this gap.

To demonstrate the importance the State Department places on these water and electricity projects, Deputy Secretary Armitage will attend the upcoming Donors' Committee meeting that will be held in Tokyo on October 13-14. There he will urge countries that have pledged funds for Iraq's reconstruction to make good on their commitments so that these needs will be met.

STATUS OF RECONSTRUCTION EFFORTS

This report outlines key accomplishments since the July 2 Section 2207 submission to Congress that have been funded from three principal sources: U.S. appropriated IRRF funds from the FY 2003 and FY 2004 emergency supplementals; the Development Fund for Iraq; and international donor contributions. Appendix 1 of this report incorporates overall accomplishments attributable to these sources of funding.

While the security situation remains challenging, the reconstruction effort is moving forward. With a combination of IRRF assistance and funds from the Iraqi budget, the coalition continues to rebuild schools and refurbish hospitals and health clinics, repair bridges, upgrade the electrical grid and ports, and modernize the communications system. Other achievements include:

- Iraqi National Airlines resumed international flights after being grounded for 14 years;
- The number of telephone and cell phone subscribers in Iraq now exceeds 1.5 million, approximately 90 percent above pre-war levels;
- Oil production recently has reached 2.5 million b/d; and
- USAID has repaired numerous breaks in Iraq's water networks significantly increasing water flow.

Of the \$18.4 billion appropriated in the FY 2004 Supplemental, \$13.745 billion has been apportioned through the 4th quarter to various agencies for a variety of projects. As of September 22, 2004, agencies have obligated approximately \$7.14 billion, representing almost 52 percent of the apportioned amount and almost 40 percent of the total appropriated level for Iraq. Obligations have increased by 35 percent since the July

report. As of September 22, 2004, implementing agencies have disbursed \$1.22 billion.¹ The table on page 15 provides an updated spending plan for the FY 2004 IRRF.

Commander's Emergency Response Program (CERP)

The CERP continues to be a highly effective and flexible program enabling quick response to urgent, labor-intensive, humanitarian relief and reconstruction requirements, which has built trust and support for the United States at the grassroots level. This program has allowed the local population in various communities to see immediate improvements to quality of life.

As of September 11, 2004, the local commanders have disbursed \$528.4 million in CERP funds on 33,618 projects. Of this amount, approximately \$55 million is from DoD funds, and the remainder is from Iraqi assets (DFI and seized funds). These projects include repairing and refurbishing water and sewer lines, cleaning up highways by removing waste and debris, transporting water to remote villages, upgrading schools and clinics, purchasing school supplies, and refurbishing playgrounds, youth centers, libraries, other recreational facilities, and other public facilities.

The following table provides a summary of how local commanders have spent CERP resources:

Status of CERP Projects and Funding through September 11, 2004:

Project Type	Number of Projects	Amount Disbursed
Education	5,484	\$78.5
Electricity	937	\$17.5
Health	1,862	\$34.5
Other Public Services	5,944	\$84.8
Police/Security	4,586	\$124.2
Reconstruction	3,142	\$54.7
Rule of Law/Government	1,678	\$27.3
Social Programs	925	\$10.8
Transportation	422	\$11.7
Water/Sewer	2,770	\$48.5
Other projects	<u>5,868</u>	<u>\$35.9</u>
Total:	33,618	\$528.4

¹ An apportionment is defined as a plan, approved by OMB, to spend resources provided by law. An obligation is a binding legal agreement for a specific amount and purpose. A disbursement is defined as an actual payment (check goes out the door) for goods/services received.

Accelerated Iraqi Reconstruction Program (AIRP)

The AIRP, discussed at length in the July report, continues to improve the daily lives of the Iraqi people by creating jobs and providing additional security. More than 350 projects valued at more than \$324 million are under contract and are employing over 14,500 Iraqis. Of these, 124 projects valued at over \$25 million have been completed to date. Most of these projects will be completed by late spring of 2005.

THE DEVELOPMENT FUND FOR IRAQ (DFI)

Prior to transition, CPA created a sub-account of the DFI at the New York Federal Reserve Bank. This sub-account was to be used exclusively to pay outstanding, DFI-funded CPA contracts. In July, the Iraqi Ministry of Finance transferred \$800 million into this sub-account to cover all outstanding liabilities with the expectation that this amount would be increased as needed to ensure continued prompt payment for these contracts. At the request of DoD's Project and Contracting Office (PCO) in mid-September, the Ministry of Finance transferred an additional \$400 million into this sub-account.

The PCO office and Iraq Reconstruction Management Office (IRMO) staff, in close coordination with each of the Iraqi Ministries, have developed a detailed list of all outstanding contracts (liabilities) for the Minister of Finance so that final requirements can be properly budgeted. PCO and MNF-I personnel will assist the relevant officials from the IIG if the IIG decides to terminate or amend any contract.

INTERNATIONAL DONOR ASSISTANCE

While recognizing that the Iraqis are their own best advocates in seeking international assistance for their reconstruction, the United States has been supporting Iraqi efforts to encourage other nations to contribute.

The international community has continued to follow up on its pledges at the October 2003 Madrid International Donors Conference on Iraq. Pledges for 2004-2007 assistance from non-U.S. donors at Madrid totaled over \$8 billion from donor governments, including loan assistance, and another \$5.5 billion in potential lending from the World Bank and IMF.

About 30 donors have disbursed reconstruction assistance that, taken together, totals over \$1.3 billion as of September 2004. Appendix II provides more detail on international contributions to Iraq reconstruction.

In mid-October, international donors will gather in Tokyo for a meeting of the Donors' Committee of the International Reconstruction Fund Facility for Iraq (IRFFI) to review progress in Iraq's reconstruction over the past year and to hear Iraq's vision for the future.

The U.S. Embassy and other diplomatic missions continue to provide advice and support to the Iraqi-led efforts to chart a credible course of economic and social reform that will encourage international support and strengthen sustainable growth in the future.

Iraq's own efforts to generate support from the international community appear to be bearing fruit. The Prime Minister has visited most neighboring states. Pledges of official assistance and the strong interest of private sector firms in doing business in Iraq have encouraged and pleased Iraqi officials. The Iraqis have also made good progress in their negotiations with creditor nations toward relieving the unsustainable debt burden looming over the country's future.

IRRF ADMINISTRATIVE EXPENSES

As noted in the July report, the Congress provided authority for the Administration to use up to 10 percent of the funds appropriated to the Iraq Relief and Reconstruction Fund (IRRF) to fully cover the cost of implementing these funds:

Provided further, That of the funds appropriated under this heading, up to 10 percent of such funds that are obligated, managed, or administered by an agency of the United States Government, other than the Coalition Provisional Authority, shall be made available to such agency to fully pay for its administrative expenses:

Implementing agencies used this authority to fund their operating costs during FY 2004. The July report noted that FY 2004 operating costs totaled \$290.4 million or nearly 1.6 percent of the amount appropriated to the IRRF.

For FY 2005, operating costs are estimated to be \$429.2 million.

- DoD/PCO: \$329.5 million
- US Agency for International Development: \$89.6 million
- Department of State: \$8.6 million
- Department of Treasury: \$1.0 million
- United States Institute of Peace: \$.5 million

FY 2005 operating expenses for the DoD Project Contracting Office (PCO) will be covered from funds appropriated for operations in Iraq in the FY 2005 Defense Appropriations Act (P.L. 108-287).

Section 134(1) of the FY 2005 Continuing Resolution (H.J. Res 107), enacted on September 30, 2004 authorizes the Administration to provide up to \$90 million from the IRRF to USAID to cover its administrative expenses.

Of the Department of State's \$8.6 million in operating expenses, about \$3.2 million for International Narcotics programs will be covered using funds explicitly provided in the

IRRF appropriation for INL's administrative needs. The balance of State's costs will be covered from existing resources.

The operating expenses for the Department of the Treasury and the United States Institute of Peace (USIP) will be covered using the IRRF under the 10 percent authority.

The table below details expected administrative expenses for FY 2005 for all agencies that are implementing the IRRF. Some of these estimates are likely to change as security conditions continue to evolve on the ground in Iraq.

**Proposed Iraq Operating Budgets for All USG Agencies Implementing FY 2005
IRRF Funding**
(\$ dollars in thousands)

	DOD	USAID	Treasury	State	USIP	TOTAL
FY 2005 Total						
Civilian Pay	24,266	11,422	454	4,280	66	40,488
Travel/Training	2,793	10,168	43	673	25	13,702
Transportation of Items	-	800	-	225	-	1,025
Rent, Commo & Utilities	366	7,501	79	790	150	8,886
Printing & Replication	366	40	-	200	27	633
Contractual Services	286,367	54,434	427	1,850	100	343,178
[Army Contracts]	[39,417]	-	-	[25]	-	[39,442]
[PMO Management]	[146,950]	[27,600]	-	[100]	-	[174,650]
[Security Services]	[100,000]	[3,084]	-	[1,725]	[100]	[104,909]
Supplies and Materials	-	1,015	-	150	22	1,187
Equipment	15,354	4,225	-	200	-	19,779
Land & Structures	=	=	=	<u>250</u>	<u>64</u>	<u>314</u>
FY 2005 Total	329,511	89,605	1,003	8,618	454	429,191
FY 2004 IRRF Funds	219,016	63,379	957	6,556	454	290,362
FY 2004-2005 Total	548,527	152,984	1,960	15,174	908	719,553

OPERATING COSTS OF U.S. MISSION

Opening the Embassy was an essential step toward conducting business on a broad range of bilateral and multilateral issues directly with the Iraqi government. The Embassy furthers U.S. economic and commercial interests and provides opportunities for political reporting, public diplomacy outreach, and interagency coordination on matters of interest in Iraq.

Embassy Baghdad currently operates out of three locations. These sites are the interim chancery property, which serves as the office of the Ambassador and some limited number of staff, the Embassy Annex that provides space for most non-public operations, and the ambassador's residence. Beyond Baghdad, the U.S. diplomatic presence includes four regional offices in Mosul, Kirkuk, Hilla, and Basra, as well as provincial teams located with five military units across Iraq.

The estimate for the U.S. Mission costs for FY 2004 and FY 2005 is approximately \$1.5 billion. For start-up and FY 2004 fourth quarter operations, \$477.6 million was available to support readying temporary facilities and housing, implementing Department of State security requirements, providing additional information technology infrastructure, administrative, and personnel support costs associated with embassy start-up, and to establish regional State Department teams and a temporary IRMO.

The Department of State and the Department of Defense have worked closely together to coordinate transition resources issues. The Department of State funded FY 2004 U.S. Mission operational costs by applying funding already provided in the Emergency Supplemental Appropriations for Defense and for Reconstruction of Iraq and Afghanistan (P.L. 108-106) and prior supplemental appropriations, and funds made immediately available as part of the Department of Defense Appropriations Act, 2005 (P.L. 108-287) including \$184.5 million of the \$685.3 million appropriated by P.L. 108-287 for costs associated with U.S. Mission operations, technological support, logistical support, necessary security costs, and interim facilities.

The FY 2005 estimated operating cost remains approximately \$1 billion, which is exclusive of capital facility costs for a new embassy compound and the PCO. The largest cost components of running the U.S. mission in FY 2005 are logistics and security support. The FY 2004 spending plan estimate leaves a balance of \$685 million to be apportioned in FY 2005 to continue funding FY 2005 operations. This amount includes \$481.3 million in Diplomatic and Consular Programs funding, \$19.5 million in Embassy Security, Construction, and Maintenance funding provided with the Department of Defense Appropriations Act, 2005 (P.L. 108-287), and \$184 million available from the one percent transfer of the Iraq Relief and Reconstruction Fund to support the operating costs of the U.S. Mission. These funds and any carryover balances from FY 2004 can address requirements through the middle of FY 2005 until the Ambassador's team can assess additional needs.

A new permanent embassy is currently in the planning process. The State Department has identified a site for this new American embassy facility. The proposed compound would include offices, housing, and support facilities for U.S. and locally engaged staff. The Department continues to work to develop requirements, such as determining the appropriate long-term staffing projection for the facility, so that when State Department does present a final cost estimate, it is based on the right size for U.S. foreign policy goals in Iraq.

Facility and operational costs extend beyond Baghdad. The cost of operating and securing the regional sites in relatively vulnerable areas is reflected in the FY 2005 estimates.

THE REPORT

The table beginning on page 15 provides an updated spending plan for the FY 2004 IRRF. Appendix I of this report provides, by sector and by project, a discussion of changes from the July report, developments to date, and those anticipated in the next quarter. Appendix 2 of the report provides information on international donor contributions to Iraq reconstruction.

Pursuant to P.L. 108-106 and except as noted below, this report serves as notification as required by Title II, Chapter 2, by the third proviso under the heading Iraq Relief and Reconstruction Fund and section 2207(b).

The number of attacks on United States and Iraqi personnel is increasing. Since January 1, 2004, more than 700 Iraqi security force members have been killed, and hundreds of Iraqis civilians have been killed as well, including those Iraqis seeking to volunteer for the police and military. Insurgents and foreign fighters continue to mount barbaric attacks against Iraqi civilians and security and law enforcement and it is likely that these attacks will escalate as Iraqi elections approach. Thus, due to the urgent and compelling needs of moving quickly on the security and law enforcement programs as outlined herein, this report also serves as notification to Congress of the use by the Department of State to waive the regular reprogramming notification procedures for the \$1.8 billion in security and law enforcement funding, pursuant to the third and fourth provisos of section 515 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2004, Division D of P.L. 108-199.