

SECTION 2207 REPORT

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Executive Summary

On November 6, 2003, President Bush signed into law the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, FY 2004 (Public Law 108-106). Section 2207 of this Act provides that the Director of the Office of Management and Budget, in consultation with the Administrator of the Coalition Provisional Authority (CPA) and the Committees on Appropriations, shall submit a report to the Committees on Appropriations no later than January 5, 2004, on the proposed uses of all funds (\$18.649 billion) appropriated by this Supplemental under the heading "Iraq Relief and Reconstruction Fund." The intent of this report is to satisfy the requirements of section 2207. Of the total amount appropriated for the Iraq Relief and Reconstruction Fund the Act specifies that \$110 million is to be made available by transfer to the International Disaster and Famine Assistance account of the U.S. Agency for International Development for Liberia and Sudan, and \$100 million to the Economic Support Fund of the Department of State for Jordan. These transfers have been completed, and this report will not address the use of these transferred funds.

This and future reports will cover:

- (1) The use of all funds on a project-by-project basis for which funds were obligated prior to the submission of the report, including estimates by the CPA of the costs required to complete each project.
- (2) The distribution of duties and responsibilities regarding such projects among the agencies of the United States Government.
- (3) Assistance for the reconstruction of Iraq provided by foreign governments and international organizations.
- (4) Revenues to the CPA attributable to or consisting of foreign assets seized or frozen, any obligations or expenditures of such revenues, and the purpose of such obligations and expenditures.

The CPA's strategic plan continues to have five principal objectives:

- **Security** – To defeat terrorists and Baathists and provide a secure environment that enables Iraqi citizens to participate fully in political and economic life.
- **Essential Services** – To provide essential services and infrastructure, especially electricity, water and health care, at an acceptable standard accessible by all citizens.

- **Economy** – To provide financial market structures, as well as fiscal and regulatory conditions, that will enable sustainable economic growth, the development of a dynamic private sector, the creation of jobs, and rising living standards for the Iraqi people.
- **Governance** – To enable Iraq to have a representative form of government that promotes the rule of law and protects the rights of all, including freedom of expression and religious practice, supported by a vibrant civil society. This objective will be underpinned by a democratically agreed constitution, a transparent electoral process and political institutions that do not tolerate corruption, as well as an accountable and responsive system of local government.
- **Strategic Communications** – To foster unity of effort among Iraqis, Coalition nations and the international community in achieving the above objectives. Achievement of this goal will mean the Iraqi people participate in a sustained, informed, and active manner in the civic affairs of the country.

These objectives are intertwined; none can be pursued in isolation. Iraq's reconstruction and political and economic progress depend greatly on creating a safe, secure environment. To achieve these objectives, the CPA proposes to use the Supplemental consistent with Congressional direction and the 10 categories of spending identified in the legislation.

As we identify the allocation of funds to projects, however, we want to highlight the need to maintain flexibility in order to execute successfully the reconstruction program in Iraq. Since the Administration submitted its original request for Supplemental appropriations for the reconstruction of Iraq in September 2003, there have been a number of significant developments that have a direct impact on the reconstruction effort. For example:

- The Madrid Donors Conference in October 2003 resulted in over \$13 billion in pledges from other countries and international financial institutions to assist in the reconstruction effort. As these pledges are made available, Supplemental resource allocations may change.
- In November 2003, the CPA and the Iraqi Governing Council agreed to accelerate the transition to full Iraqi sovereignty. This accelerated transition requires an increased emphasis on activities such as democracy-building.
- The security situation for Coalition forces and the Iraqi people continues to evolve, requiring revised emphasis on funding for security forces.

The US government continues to assess the current reconstruction program, the contributions of Coalition partners and allies, and other factors that directly affect the reconstruction of Iraq. As the assessment evolves, programs may need to evolve as well.

This report reflects the CPA and Iraqi Governing Council's priorities and plans in light of the current situation in Iraq. However, circumstances surrounding the reconstruction effort will continue to change, and these changes will be assessed as the reconstruction plans are executed. As the CPA and the Iraqi Governing Council's work progresses, we will keep the Congress informed and will update this report and the reconstruction effort to reflect developments and priorities within Iraq.

The Emergency Supplemental provided funding in 10 categories. The table below summarizes the estimated FY 2004 quarterly spending for each category. In many cases, planned spending for the 1st quarter shown below, which has been notified to the Congress, will be obligated in the 2nd quarter.

Estimated Iraq Relief and Reconstruction Fund (IRRF) Spending by Quarter

(millions of \$)	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	FY 2005
Security & Law Enforcement	772	1,561	586	324	0
Justice, Public Safety	99	920	221	161	75
Electric Sector	434	1,210	483	867	2,566
Oil Infrastructure	0	1,600	101	0	0
Water Resources & Sanitation	18	402	322	652	2,939
Transportation & Telecomm	0	164	259	77	0
Roads, Bridges & Construction	0	33	153	73	112
Health Care	50	280	225	173	65
Private Sector Development	0	65	66	24	30
Education, Refugees & Hum Rights	15	124	84	58	0
Totals*	1,388	6,357	2,499	2,408	5,787

* Totals may not match due to rounding

The table in Attachment 1 summarizes the spending plan for each sector.

Security and Law Enforcement (\$3.243 billion)

Security is the immediate priority of the Iraqi reconstruction effort. In order for Iraq to make a smooth transition to sovereignty, the people of Iraq must be free from fear of terror and a return to power of Saddam Hussein loyalists. To achieve this goal, trained professional Iraqi security forces under firm civilian control and imbued with respect for political and human rights are necessary. By June 30, the U.S. Department of Defense expects to have trained and equipped 9 battalions of the New Iraqi Army and 36 battalions of the Iraqi Civil Defense Corps. Within two years, the U.S. Department of State expects to have trained and deployed 35,000 additional police officers, for a total of 85,000.

Justice, Public Safety and Civil Society (\$1.476 billion)

The rule of law is a prerequisite for political stability, economic development and public confidence in the institutions of a constitutional democracy. Immediate needs in this sector are the protection of the judiciary, assistance for law enforcement personnel and the reconstruction of penal institutions to international standards. Among other activities, the U.S. Agency for International Development (USAID) through non-governmental organizations (NGOs) will make \$10 million in assistance available to Iraqi civilians who have suffered losses as a result of military operations. Several other projects will bring a measure of justice to those who suffered under the former regime by funding investigations of crimes against humanity.

One of the most important activities in this sector is the promotion of democracy-building activities with a focus on the transition to full sovereignty by June 30. These activities include technical assistance to support the administration of caucuses, initiate civic education programs and promote the development of responsible political parties. By June 30, USAID and the Department of State expect to have created an Iraqi Commission on Public Integrity, promoted voter education, provided leadership training to women, and helped NGOs and local government bodies sponsor discussion groups, debates and town hall meetings.

Electric Sector (\$5.560 billion)

A reliable supply of electricity is essential to every functioning modern economy. The Saddam regime neglected all components of the electrical system -- the generation, transmission, and distribution sub-sectors. As a result, the country now produces less than 4,000 megawatts daily. In contrast to the practices of the Saddam regime, the Ministry of Electricity is now distributing the limited supply of power equitably across the country. Approximately \$2.8 billion is planned for the construction of new generating capacity, adding about 2,800 megawatts at completion. By June 30, the CPA, with the assistance of USAID, the Department of Defense and the Iraqi Ministry of Electricity, expects to increase the total supply of electricity to 6,000 megawatts of peak power daily.

Oil Infrastructure (\$1.701 billion)

With 112 billion barrels, Iraq has the second largest proven oil reserves in the world. It has the theoretical potential to produce 3 million barrels a day. However, economic sanctions, technological isolation and economic mismanagement resulted in severe constraints on oil production. Moreover, continued sabotage by Saddam loyalists and foreign terrorists in some sections of the country hinders realization of Iraq's full potential for oil production. With U.S. assistance, production has risen to 2.3 million barrels a day in January 2004. By April 1, the CPA, with the assistance of the Department of Defense and the Iraqi Ministry of Oil, expects to have daily production up to 2.5 million barrels a day.

Water Resources and Sanitation (\$4.332 billion)

The Saddam regime's misuse and mismanagement of Iraq's water resources left large sections of the country with polluted waters, saline-saturated croplands and malfunctioning or missing water supply and sewage control facilities. In addition, Iraqi farmers, nomads, villagers and other citizens could not take full advantage of Iraq's abundant water resources because of excessive water loss and vital missing components for irrigation and water supply systems. By June 30, the CPA, with the assistance of the Department of Defense and USAID, expects to be on track to purchase vital supplies and equipment, and begin project construction.

Transportation and Telecommunications (\$500 million)

A moderately developed transportation infrastructure is essential for Iraq to make a transition to a functioning market based economy. Ports, railroads, and airports are vital links that will enable the reconstruction effort. In general, Supplemental funding will increase cargo handling volume and speed, increase the effective capacity of the railroad and enable passenger and cargo traffic at Iraq's three main airports. By June 30, the CPA, with the assistance of the Department of Defense and USAID, expects to make Iraq's three major airports (Baghdad, Mosul, and Basra) compliant with International Civil Aviation Organization standards, to enable a 100 percent increase in product imports through the ports, and to double the number of locomotives working the rail lines.

Iraq's antiquated telecommunications network suffered battle damage and heavy looting following the war. By February 2004, CPA expects to replace the battle-damaged telephone exchanges, returning the network to pre-war operational status. Meeting that relatively low standard, however, will not enable a more modern, functioning economy. By June 30, the CPA, with the assistance of the Department of Defense, expects to initiate the re-engineering and reconstruction of the telecommunications network. High-speed, high-bandwidth data networks in selected metropolitan centers will enable, among other things, banking and financial transactions as well as an Emergency Responders Network that covers 30% of the major metropolitan population.

Roads, Bridges, and Construction (\$370 million)

About 74,000 kilometers (about 40,000 miles) of major highways and local road systems are in disrepair, while 32 damaged bridges do not adequately support a high volume of transportation. In addition, dozens of public buildings were damaged or destroyed following the war. By June 30, the CPA, with the assistance of the Department of Defense and USAID, expects to have contractors designing or starting to work to repair 884 kilometers (~ 550 miles) of road, two bridges and four ministry headquarters.

Health Care (\$793 million)

The Iraqi health system has deteriorated as a result of years of neglect and mismanagement by Saddam's regime. At 102 deaths per 1,000 live births, infant mortality rates in Iraq have been among the highest in the world. Over 200 hospitals and 1,000 primary health clinics have outdated facilities and equipment and use outmoded approaches to provision of care. By June 30, the CPA, with the assistance of the Department of Defense, and in partnership with the Iraq Ministry of Health, expects to be on track to purchase \$200 million of medical equipment, repair and modernize 15 hospitals and construct new primary healthcare centers in every governorate, and train over 5,000 medical and other primary care staff to support the restoration of Iraq's health care system.

Private Sector Development (\$184 million)

Estimates of Iraq's unemployment rate range from 20 to 30 percent of the work force. High unemployment rates in Iraq are a persistent source of insecurity and instability for the country. They will continue to hamper reconstruction efforts until the rates decline. The goals of the private sector development projects funded in the Supplemental are to open employment centers to match the needs of the public and private sectors with the vast labor pool, refurbish existing and provide additional vocational training centers, provide banking and business skills training, and provide capital to establish micro, small and medium enterprises. By June 30, with the assistance of USAID and the Department of Defense, CPA plans to open 28 employment centers manned by 150 trained staff, to refurbish existing vocational training centers and to begin vocational training. It also plans to provide \$44 million in grants to promote micro, small and medium enterprises. Most of the investments in the other sectors will also help to generate Iraqi employment.

Education, Refugees, and Human Rights (\$280 million)

Prior to the 1980s, the education system in Iraq was among the most highly regarded in the region. Iraq had achieved nearly universal primary enrollment in 1980. Thereafter, as a result of more than two decades of major wars and irrational educational policies, the system went into a steady decline. With the assistance of USAID, the CPA will rehabilitate a significant portion of the Iraqi education system. To serve as models for the Iraqi schools, 162 Centers of Excellence (primary and secondary schools) are planned to be operational and 32,000 teachers are planned to have received teacher training.

In conjunction with the Ministry of Human Rights, CPA will help address past atrocities of the regime and create a climate for the promotion of fundamental human rights and dignity in Iraq. By June 30, the CPA, with the assistance of the Department of State, and in partnership with the Iraq Ministry of Human Rights, expects to strengthen the local capacity to investigate and address past atrocities, develop the role of the

independent human rights NGOs and media, preserve documentation of past atrocities, and promote respect for human rights.

Contributions from Other Donors

International support for humanitarian assistance and reconstruction in Iraq is being provided either bilaterally, as grants, loans, export credits and guarantees or assistance-in-kind, or multilaterally through international organizations, including the World Bank and United Nations International Reconstruction Fund Facility for Iraq. International assistance is not provided as revenues to the CPA.

Humanitarian Assistance: In the spring of 2003, the United Nations sent out a “flash appeal” for humanitarian assistance for Iraq. The table below provides an overview by country of the assistance provided through UN agencies as well as directly to the Iraqi people as assistance-in-kind. Additional information on these donations, to include project level details, can be found on the ReliefWeb website (www.reliefweb.int)

Total Humanitarian Assistance for Iraq Crisis 2003
Major Donors by Total Contributions*
(carryover not included)
January 2, 2004

<u>Donor</u>	<u>Value US\$</u>
United Kingdom	\$187,331,510
Japan	\$100,555,940
European Commission	\$83,939,552
Australia	\$62,943,125
Saudi Arabia	\$47,991,605
Canada	\$41,258,595
Private/NGO/International	\$40,703,553
Spain	\$32,412,840
Kuwait	\$27,546,308
Germany	\$24,148,702
Netherlands	\$23,641,158
Norway	\$19,881,209
Italy	\$17,235,211
Others	\$95,966,233
Grand Total	\$805,555,541

* includes contributions to the Consolidated Appeal and additional contributions outside of the Consolidated Appeal Process (bilateral, Red Cross, etc...)

** These figures do not include funding from the United States or from the Oil for Food Program.
(www.reliefweb.int/fts/reports/reportlist.asp?section=CE&record_ID=605)

Reconstruction: The International Donors Conference for Iraq Reconstruction in Madrid, Spain, on October 23-24, 2003 was a particular success in the effort to help the Iraqi people reconstruct their country. Representatives from 73 countries and 20 international organizations attended. Donors other than the United States pledged loans and grants totaling a minimum of \$13 billion. That figure is based on the low end of the range of assistance offered by the World Bank, which pledged \$2.5-4.5 billion, and the International Monetary Fund, which pledged \$1.7-3.4 billion. Further, it does not include assistance in the form of humanitarian assistance, export credits and guarantees and assistance-in-kind that a number of countries offered. With the U.S. contribution, the total amount of grants and loans that the international community pledged toward Iraq reconstruction is at least \$32 billion.

Donors have the option of either channeling their financial assistance to Iraq bilaterally or through the International Reconstruction Fund Facility for Iraq that will be managed by the World Bank and United Nations. The purpose of the Fund Facility is to provide coordination and a trust fund mechanism for reconstruction and development in Iraq, in line with the priority areas emerging from the United Nations-World Bank joint needs assessment that was released in October 2003.

A breakdown of the pledges by country is below or can be found at:
[http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/Madird-Table2/\\$File/iraqsummarytable-2.pdf](http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/Madird-Table2/$File/iraqsummarytable-2.pdf).

Additional details can be found on the World Bank website (www.worldbank.org).

International Donors' Conference for Iraq
Madrid, October 23-24, 2003

Summary Table by Donor

Table 2

in USD millions

Donor	2004	2005-2007	Unspecified by Year	Total
Countries	569.59	758.62	25,118.50	26,446.71
Australia	45.56	0.00	0.00	45.56
Austria	1.94	3.53	0.00	5.48
Belgium	5.88	0.00	0.00	5.88
Bulgaria	0.64	0.00	0.00	0.64
Canada	0.00	0.00	187.47	187.47
China	0.00	0.00	25.00	25.00
Cyprus	0.00	0.00	0.12	0.12
Czech Republic	7.33	7.33	0.00	14.66
Denmark	26.95	0.00	0.00	26.95
Estonia	0.08	0.00	0.00	0.08
Finland	5.88	0.00	0.00	5.88
Greece	0.00	0.00	3.53	3.53
Hungary	1.24	0.00	0.00	1.24
India	10.00	0.00	0.00	10.00
Iran	5.00	0.00	0.00	5.00
Ireland	3.53	0.00	0.00	3.53
Iceland	1.50	1.00	0.00	2.50
Italy	0.00	0.00	235.62	235.62
Japan	0.00	0.00	4,914.00	4,914.00
Korea	0.00	0.00	200.00	200.00
Kuwait	0.00	0.00	500.00	500.00
Luxembourg	1.18	1.18	0.00	2.36
Malta	0.00	0.00	0.27	0.27
Netherlands	9.42	0.00	0.00	9.42
New Zealand	3.35	0.00	0.00	3.35
Norway	4.29	8.58	0.00	12.87
Oman	0.00	0.00	3.00	3.00
Pakistan	0.00	0.00	2.50	2.50
Qatar	0.00	0.00	100.00	100.00
Saudi Arabia	120.00	380.00	0.00	500.00
Slovenia	0.27	0.15	0.00	0.42
Spain	80.00	140.00	0.00	220.00
Sri Lanka	0.00	0.00	0.00	0.00
Sweden	0.00	0.00	33.00	33.00
Turkey	0.00	0.00	50.00	50.00
United Arab Emirates	0.00	0.00	215.00	215.00
United Kingdom	235.48	216.85	0.00	452.33
United States	0.00	0.00	18,649.00	18,649.00
European Community	235.62	0.00	0.00	235.62
EC + EU Member States + Acceding Countries	614.83	369.04	272.54	1,256.41
International Financial Institutions	1,350.00	4,200.00 — 7,900.00	0.00	5,550.00 — 9,250.00
IMF	850.00	1,700.00 — 3,400.00	0.00	2,550.00 — 4,250.00
World Bank	500.00	2,500.00 — 4,500.00	0.00	3,000.00 — 5,000.00
Total	2,155.21	4,958.62 — 8,658.62	25,118.50	32,232.33 — 35,932.33

This table summarizes pledges made at the International Donors' Conference for Iraq in Madrid, Spain, on October 23-24, 2003.

A pledge is an indication of intent to mobilize funds for which an approximate sum of contribution is specified.

Source for all exchange rates: IMF exchange rates in SDR terms for October 24, 2003

Amounts do not include identified humanitarian assistance (total of 115.17 M USD).

Amounts do not include export credits and guarantees: Austria 11.78 M USD, Saudi Arabia 500 M USD, and Denmark 154.54 M USD

The World Bank and the IMF announced a range of assistance.

Most donors were not able to specify the type of grant assistance at the time of the Donors' Conference.

Amounts unspecified between grants and loans are: Italy (235.62 M USD) and Qatar (100 M USD)

Many donors were not able to provide a breakdown of their by year.

The US pledged 20.3 B USD at the Donors' Conference, subject to Congressional approval. Subsequently, the US Congress approved 18.6 B USD in grants toward security and reconstruction needs.

In addition to the amount in the table above, Iran pledged an economic package, with an estimated value of 1,495 M USD, which includes credit facilities, restoration of religious sites, tourism and pilgrimage, technical and advisory services, trade, investment, market access, and humanitarian assistance.

Japan's assistance of 4,914 M USD consists of (i) grant assistance of 1,414 M USD for the immediate reconstruction needs of Iraq within the Japan's commitment, chiefly corresponding to the reconstruction needs anticipated through 2004; and (ii) assistance of up to 3,500 M USD, basically utilizing concessional yen loans, chiefly corresponding to the medium-term reconstruction needs for a period extending approximately through the year 2007, taking into account the situation of Iraq including security and the advancement of political process, the progress of the reconstruction projects, developments toward the solution of debt issue, and discussion of the international community etc.

In addition to the amount in the table above, Norway pledged up to 30 M NOK from NORAD's global facilities for promoting private enterprises.

The following countries offered in-kind assistance: Bahrain, Chile, Egypt, Germany, Jordan, Latvia, Mexico, Poland, Philippines, Portugal, Slovakia, Sri Lanka, Switzerland, Thailand, Tunisia, Vietnam.

Coalition Provisional Authority (CPA) Coordination: On December 10, 2003, the CPA in Iraq announced the establishment of a new Iraqi-led development coordination mechanism. This new mechanism will be responsible for all donor activities in the country, including the prioritization of needs and the approval of project proposals.

The new mechanism will be made up of three parts:

- A five-member Iraqi Strategic Review Board, which will provide overall policy guidance and approval for reconstruction activities.
- A new Ministry of Planning and Development Cooperation (MoPDC), which will follow up on donor pledges; recommend sectoral allocations and funding sources to the Board; establish guidelines for developmental activity among the Ministries; and monitor implementation, including identifying developmental gaps.
- The Council for International Coordination (CIC), newly under the Chairmanship of the Minister for Planning and Development Cooperation and currently consisting of 23 countries involved in the reconstruction of Iraq, will be the main forum for dialogue amongst donors and between donors and the Iraqi authorities.

Development Fund for Iraq

United Nations Security Council Resolution 1483 states that, “all Member States in which there are funds or other financial assets or economic resources of the previous Government of Iraq ... shall cause their transfer to the Development Fund for Iraq.” To date, foreign governments have transferred over \$548 million to the Development Fund for Iraq (DFI) in accordance with that resolution.

These funds are not tracked and expended separate from other Iraqi funding sources. They are deposited into the DFI, which is the fund that supports and finances the Iraqi Government’s budget. Funds in the DFI come from multiple sources including regular funding sources, such as oil proceeds as well as event-specific deposits such as the transfer of the uncommitted balances in the UN Oil for Food Program. As of December 31, 2003, the DFI had a cash balance of \$8.3 billion.

These revenue sources and the plan for spending them are outlined in the Iraqi budget. The full details of the 2003 and 2004 Iraqi budgets, including the breakout of funding by ministry, are available at the CPA website (www.coalitioniraq.org/budget/).

To date, disbursements from the DFI have been in support of the wheat purchase program, the currency exchange program, the electricity and oil infrastructure programs, equipment for Iraqis security forces, and for Iraqi civil service salaries and ministry budget operations.

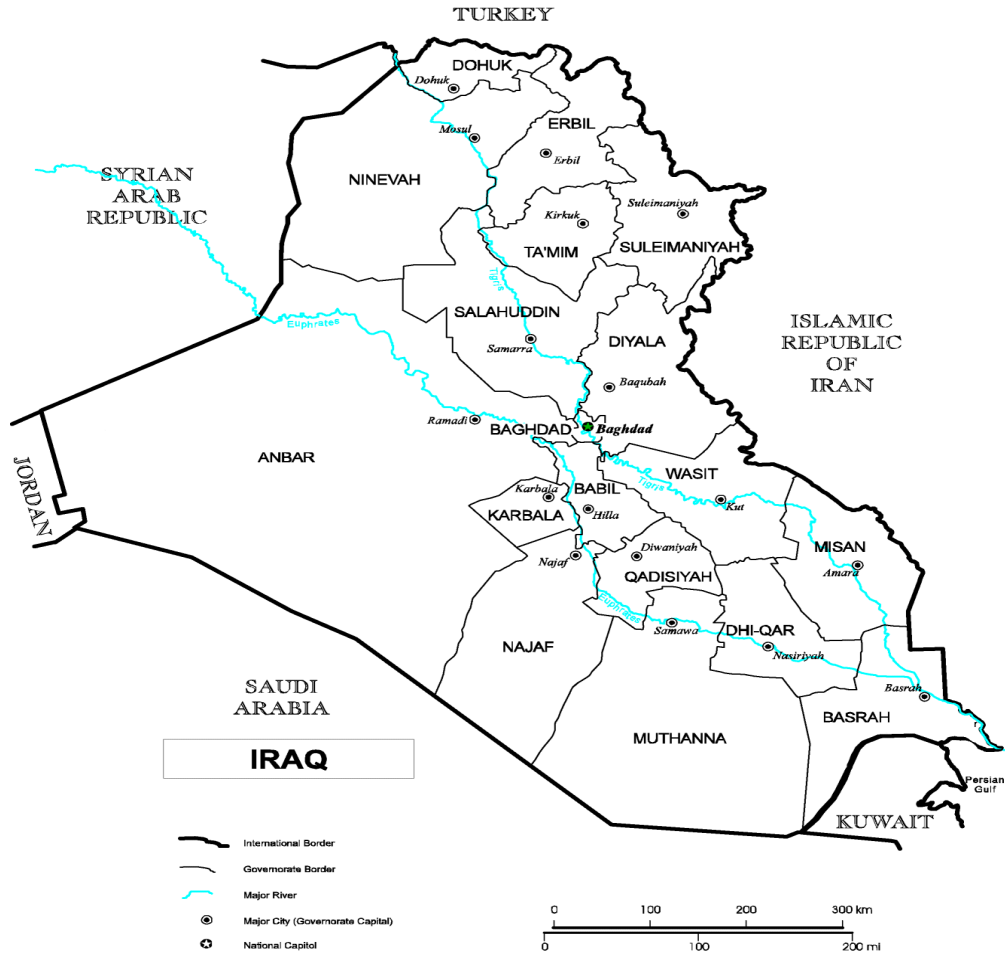
Introduction

Less than two weeks after President Bush signed the Emergency Supplemental Appropriations Act (Public Law 108-106), the CPA and the Iraqi Governing Council agreed on a process by which to bring a sovereign government to the people of Iraq at the end of June 2004. Under the agreement, a representative interim government would be selected through a broadly based consultative process. The first step in this process will be a basic law that will ensure individual rights for citizens and define the process by which an Iraqi government will be formed. Under the agreement with the Iraqi Governing Council, the law will be published by the end of February 2004. The interim government will remain in office for about 18 months. At the end of 2005, it will be replaced by a government elected by the people of Iraq under a constitution written by an assembly that is directly elected.

These important political changes, along with the security situation in Iraq, require an update from earlier plans in the allocation of the resources of the Supplemental that will be described in more detail in the relevant sections of the report. Principally, the revisions address changing priorities in the allocation of resources among the various security forces and the allocation of substantially more resources to democracy-building activities.

To execute the reconstruction program for Iraq successfully, flexibility in the allocation of resources among projects and for new projects is critical. This is particularly true as the security situation for coalition forces and the Iraqi people continues to evolve, as the \$13 billion of pledges from non-U.S. sources become available, and as the transition to full sovereignty progresses. The Administration continues to assess the current situation and plans and will endeavor to ensure that the CPA, Coalition Forces, and the Iraqi Governing Council remain focused on the proper priorities. Future reports will provide updates to the reconstruction effort that reflect developments and priorities in Iraq.

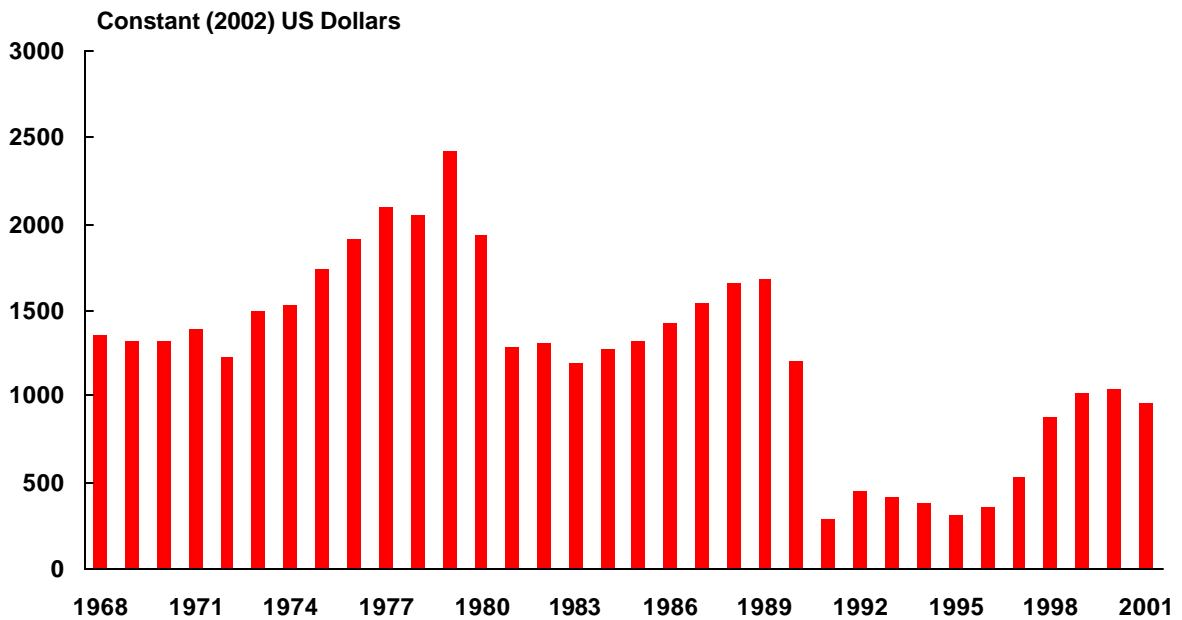
The CPA plans that substantially more resources -- both from the Supplemental and from Iraqi budget resources -- be spent to help the people of Iraq develop democratic institutions and processes. These changes are described in detail in the relevant section of the report.



This map shows the major cities and governorates (which are similar to provinces or states) in Iraq providing a guide for the location of planned projects and activities.

Iraq's centrally planned economy has been on a downward course during the Saddam years, a situation exacerbated by three wars over the last twenty years. Capital formation collapsed in the 1980s as the war with Iran drained national resources and forced an increase in foreign debt of great proportions, ranging from an estimated \$125 to \$300 billion. As the following chart shows, Iraq's per capita gross domestic product (GDP) dropped substantially over this period:

Iraqi per capita GDP: 1968-2001 (\$U.S. 2002)



Source: Ministry of Planning, CPA estimates.

About 60 percent of Iraq's 27 million people are completely dependent on food provided through the Oil for Food program, which the United Nations began in 1995. Every person in Iraq is entitled to a food basket, which includes such staples as wheat, rice, dried milk, sugar, tea and soap. The food basket is distributed through a network of about 45,000 local grocers and other agents, with the food imported from abroad and supplied to the local distribution agents through Iraqi state owned enterprises. Although estimates vary, the food basket has a monetary value in Iraq of roughly \$8 to 10 per person per month. One reason so many people in Iraq are forced to rely on the food basket is high unemployment. Estimates of Iraqi unemployment range from 20 to 30 percent.

Production from Iraq's oil wealth provides approximately 95 percent of Iraq's exports and 95 percent of its government revenues. Oil revenues in 2003 were about \$3.9 billion and are currently forecasted to be about \$13 billion in 2004. These revenues are highly uncertain in that they depend on the volume of oil production (and of more relevance, oil exports) and the price of oil. During 2004, all of these revenues will be necessary to pay for the salary and operating costs of the Iraqi government. As of early January, expenditures from the Iraqi budget were estimated to be about \$15.6 billion. These expenditure estimates will be reviewed early in the Iraqi fiscal year (which is the same as the calendar year) to reflect new spending requirements and available resources. Among these new requirements are spending in anticipation of the transfer of

sovereignty, including funds to promote transparency in government. Additional investments in electricity, transportation, housing and communications also may be necessary. Much of the spending from the Iraqi budget is on domestically produced goods and services and so will be a direct stimulus on the Iraqi economy, with large multiplier effects.

In this context, most of the necessary capital investment for Iraq will have to come from outside donors. The United States is the most generous of these donors in providing \$18.4 billion, while other donors will provide about \$13 billion.

The structure of this report follows the same structure as the program, project and activity table included in the report that accompanied the Emergency Supplemental Appropriations Act. Each section defines the context in Iraq with particular reference to the problems being addressed through Supplemental funding and the goals for Supplemental spending.