



THE DIRECTOR

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 2, 2003

The Honorable C.W. Bill Young
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the President, I am transmitting the first in a series of reports required under Section 1506 of the Emergency Wartime Supplemental Appropriations Act, 2003.

As you know, on May 12 Ambassador Bremer arrived in Iraq to serve as Administrator of the Coalition Provisional Authority and the President's Special Envoy. Ambassador Bremer is actively reviewing the personnel, organizational, relief and reconstruction requirements while at the same time directing urgent recovery operations. He is working closely with our coalition partners, international organizations and non-governmental groups to achieve immediate improvements in the quality of life for all Iraqis. To assure the effective management of all resources and activities he has established the International Coordination Council which will include representatives of all interested nations and will be chaired by a coalition partner.

The conditions in Baghdad are very fluid. We expect continued adjustments both in personnel and plans to allow us to respond rapidly as needs arise. Given these ongoing changes, we particularly appreciate the flexibility provided by the Congress regarding the administration of resources available in the Iraq Relief and Reconstruction Fund. Notwithstanding this dynamic environment, we will keep you current on all plans, programs and expenditures.

Sincerely,

A handwritten signature in black ink, reading "Mitchell E. Daniels, Jr.", is positioned below the word "Sincerely,".

Mitchell E. Daniels, Jr
Director

Identical Letter Sent to The Honorable Ted Stevens, The Honorable Robert C. Byrd, and
The Honorable David R. Obey

Report to Congress
Pursuant to Section 1506 of the Emergency Wartime Supplemental
Appropriations Act, 2003
(Public Law 108-11)

Section 1506 (a) of the Emergency Wartime Supplemental Appropriations Act, 2003, provides:

(A) INITIAL REPORT. -Not later than 45 days after the date of enactment of this Act, the President shall submit to the Committee on Appropriations a report on the United States strategy regarding activities related to post-conflict security, humanitarian assistance, governance, and reconstruction in Iraq that are undertaken as a result of Operation Iraqi Freedom. The report shall include the following:

- (1) The distribution of duties and responsibilities regarding such activities among agencies of the U.S. Government, including the Department of State, the United States Agency for International Development, and the Department of Defense (to be provided within 30 days of enactment of this Act).
- (2) A detailed plan describing the roles and responsibilities of foreign governments and international organizations including the United Nations in carrying out activities related to post-conflict security, humanitarian assistance, governance, and reconstruction in Iraq.
- (3) A strategy for coordinating such activities among the U.S. Government, foreign governments and international organizations, including the United Nations.
- (4) An initial estimate of the costs expected to be associated with such activities.
- (5) A strategy for distributing the responsibility for paying costs associated with reconstruction activities in Iraq among the United States, foreign governments, and international organizations, including the United Nations, and an estimate of the revenue expected to be generated by Iraqi oil production that could be used to pay such costs.

The report that follows has five sections that correspond to the five specified categories listed in Section 1506.

The American people have made a significant investment to liberate Iraq and stand ready to contribute to the rebuilding efforts. Our policy goals for the recovery of Iraq remain to:

- Establish a secure environment for the Iraqi people and the conduct of relief and recovery activities;
- Achieve measurable improvement in the lives of the Iraqi people;
- Maximize contributions from other countries and organizations; and
- Support Iraqis as they prepare for democratic self-government.

The United States' strategy to achieve these goals includes a coordinated interagency effort in the United States and on the ground in Iraq that is integrated with Coalition and other international efforts. Our strategy includes effective coordination among these participants to allocate resources for reconstruction.

(1) The distribution of duties and responsibilities regarding such activities among agencies of the United States Government, including the Department of State, the United States Agency for International Development, and the Department of Defense.

The Administrator of the Coalition Provisional Authority (CPA) reports to the President through the Secretary of Defense. He oversees, directs and coordinates all U.S. Government (USG) programs and activities in Iraq, except those under the command of the Commander, U.S. Central Command (CENTCOM).

The Administrator of the CPA is Presidential Envoy L. Paul Bremer, III. Ambassador Bremer arrived in Baghdad on May 12 and is currently conducting a review of personnel, organizational, relief and reconstruction priorities. This report is preliminary in anticipation of further decisions expected as his review continues.

The CPA exercises powers of government temporarily in order to provide for the effective administration of Iraq, to restore conditions of security and stability, to create conditions in which the Iraqi people can freely determine their own political future, (including by advancing efforts to restore and establish national and local institutions for representative governance) and facilitating economic recovery, sustainable reconstruction and development.

The CPA is vested by the President with all executive, legislative and judicial authority necessary to achieve its objectives, exercised consistent with relevant U.N. Security Council resolutions, including Resolution 1483, and the laws and usages of war. The CPA Administrator has primary responsibility for exercising this authority.

As the Commander of Coalition Forces, the Commander of U.S. Central Command directly supports the CPA by deterring hostilities, maintaining Iraq's territorial integrity and security, searching for, securing and destroying weapons of mass destruction, and assisting in carrying out Coalition policy. In Iraq, the Commander of U.S. Central Command currently has approximately 147,500 American men and women and 13,000 coalition troops performing these critical functions. The CPA Administrator and the Commander, U.S. Central Command communicate fully and continually, and cooperate in carrying out their respective responsibilities (See Tables 1 & 2).

The CPA Administrator is in charge of all USG employees in Iraq (subsuming personnel that were in the Office of Reconstruction and Humanitarian Affairs) except those under

the command of the Commander, U.S. Central Command. The CPA Administrator is reviewing the personnel resources now in his charge. He exercises final authority with respect to personnel composition, staff levels, and funding. Every USG agency under his authority must obtain his approval before changing the composition or mandate of its staff, regardless of the employment category. He is also the country clearance authority for all USG personnel traveling to Iraq on official business except those reporting to USCENTCOM. Finally, the CPA Administrator has the authority to see all communications to or from all USG elements in Iraq, however transmitted, except as directed by the Secretary of Defense, or as specifically exempted by law or Presidential decision.

The CPA Administrator is supported by an interagency team of 695 employees with the mission to help meet Iraq's relief, reconstruction, governmental, and administrative challenges by performing directly where required and advising where possible. The CPA team acts as the nucleus of Iraq's administrative apparatus, involves the Iraqi people in advising on and administering their country, and maximizes contributions from other governments and organizations. The team relies upon coalition partners, consultants, contractors and non-governmental organizations (NGOs). The CPA is identifying appropriate persons in Iraq to reestablish key ministries and providing ministry advisors and logistical support. At the President's direction, the Departments of State, Treasury, Defense, and Justice and 13 other executive branch agencies are providing personnel and support.

The CPA also establishes priorities for the execution of all U.S. Agency for International Development (USAID) activities including the Office of Foreign Disaster Assistance, Disaster Assistance Response Team (DART) operations in Iraq. The interagency DART and its implementing partners continue to address short-term needs. At its peak, the DART has been staffed at more than 60 persons. For the first time, the DART has included staff from the USAID Asia/Near East Division in order to effectively coordinate priorities and assure a seamless transition from DART's short term relief to longer term, USAID reconstruction programs. Along with the DART, the State Department's Bureau of Population, Refugees, and Migration is involved in assisting the United Nations, international organizations, and NGOs in providing emergency relief and support for humanitarian efforts on behalf of Iraqis who have been displaced or are refugees.

Of special importance, the U.S. has provided the largest contribution for the UN World Food Program (WFP) emergency operations in Iraq, providing \$60 million for logistics support and over \$400 million in cash and food. This contribution was planned and provided prior to the initiation of Operation Iraqi Freedom to assure no interruption in the food supply for the 60 percent of the population which has been dependent on the Oil for Food Program. Distribution of food shipments is scheduled to resume the first week of June.

In addition to immediate relief operations, the USAID has begun delivering reconstruction assistance in four primary areas: physical infrastructure; education, health and other social services; economic growth; and local government. (See Attached Tables 3 & 4) To implement this program, the USAID has enlisted the expertise of the American private sector through the award of eight contracts. These contractors have been addressing a range of immediate requirements including repair of the electric grid to opening the port to allow food shipments to resume.

The USAID has also tapped the expertise of the United Nations (UN) and other international organizations with prior experience in Iraq. To date, grants have been provided to support education, health activities and water sanitation to UNESCO, UNICEF and the World Health Organization. Grants are also being provided to non-government organizations.

While USAID and its partners are addressing immediate reconstruction requirements, they are continuing to conduct on-the-ground assessments of needs in the primary sectors that will guide future economic development plans and projects.

(2) A detailed plan describing the roles and responsibilities of foreign governments and international organizations including the United Nations, in carrying out activities related to post-conflict security, humanitarian assistance, governance, and reconstruction in Iraq.

The United States is actively seeking the involvement of foreign partners and international organizations in post-conflict Iraq. Numerous foreign governments have contributed military, humanitarian, and economic assistance to the post-conflict stabilization and reconstruction in Iraq. Coalition partners have offered assistance including:

- Military forces
Over 40 countries have offered, or are currently discussing offers of, forces for stabilization operations (including the UK and Poland, which have offered to lead multinational divisions for security and stability operations). There are currently over 13,000 non-U.S. coalition troops in Iraq.
- In-kind contributions of relief supplies
Australia, Bangladesh, Croatia, Czech Republic, Hungary, India, Pakistan, Russia, Serbia/Montenegro, and others have offered food and other humanitarian relief supplies.
- Field hospitals and “adopt-a-hospital” efforts
Czech Republic, Denmark, Italy, Korea, Kuwait, Lithuania, Spain, UAE and others have deployed or are deploying field hospitals, medical personnel, or equipment to Iraq.

- Liaison representatives

Eight countries (Australia, Denmark, Italy, Japan, Korea, Romania, Spain, and UK) have assigned representatives.

The CPA and an interagency fund-raising team led by DOD is soliciting further Coalition and international contributions of all kinds for the Iraq recovery effort.

International and non-governmental organizations are active in Iraq. In particular, the United Nations has a significant presence with almost 300 international staff in country. The UN Secretary General has appointed Mr. Sergio Vieira de Mello as his Special Representative for Iraq. As stated in UN Security Council Resolution (UNSCR) 1483 his responsibilities include working “intensively with the [Coalition Provisional] Authority, the people of Iraq, and others concerned to advance efforts to restore and establish national and local institutions for representative governance, including by working together to facilitate a process leading to an internationally recognized, representative government of Iraq.”

The CPA Administrator will coordinate closely with the UN Special Representative. The Secretary General noted that the UN Security Council “called on the United Nations to assist the Iraqi people, in coordination with the Authority, in a wide range of areas, including humanitarian relief, reconstruction, infrastructure rehabilitation, legal and judicial reforms, human rights and return of refugees, and also to assist with civilian police.” As noted, numerous UN agencies, including the Office for Coordination of Humanitarian Affairs, UNICEF, UNESCO, the UN Development Program, the UN High Commissioner for Refugees, and the World Food Program, are participating in this effort.

(3) A strategy for coordinating such activities among the United States Government, foreign governments and international organizations, including the United Nations.

The U.S. Government is working with the United Nations, the World Bank, other international organizations, and foreign governments to assess the short-term needs of Iraq, longer term development priorities, and financing strategies. Considerable collaborative effort went into the drafting of UNSCR 1483, adopted on May 22, 2003.

A key component of the U.S. strategy was to make available for the immediate and direct benefit of the Iraqi people the resources generated under the Oil for Food Program. To facilitate achieving this purpose, the CPA Administrator established the Development Fund for Iraq (DFI) in the Central Bank of Iraq. Shortly after passage of UNSCR 1483, the UN transferred into the DFI \$1 billion derived from Oil for Food proceeds. It is expected that eventually, the Development Fund for Iraq will be financed from multiple sources including oil revenues and assets from the former Iraqi regime located outside Iraq.

The U.S. Government is working with the United Nations and the World Bank to host an informal preparatory meeting in June to discuss Iraq's development requirements and funding mechanisms. We are also discussing a possible formal donors conference in late summer or early fall.

The coordination mechanisms within the CPA and between the CPA and coalition partners, international and non-governmental organizations are robust, including a number of Coalition officials integrated into the CPA leadership. There is a British Deputy for Coalition Coordination and a Danish Deputy for Humanitarian Affairs. In addition, eight nations (listed above) have sent liaison officials and numerous other countries, including Poland, Albania, Bulgaria, the Czech Republic, Greece, Jordan, Lithuania, Slovakia, Ukraine, and the UAE, have expressed interest in sending representatives in the coming weeks. With the adoption of UNSCR 1483 many more nations have begun discussions regarding their participation.

There are also positive relationships between the CPA and international and non-governmental organizations. With the Secretary General's naming of the UN Special Representative, the CPA Administrator anticipates closer cooperation with the UN and with relevant organizations. This coordination is already in evidence as UN agencies have designated liaisons to the CPA and vice versa.

As part of his office, the Administrator of the CPA has established an International Coordination Council. The Council will consist of senior representatives from interested member states and will be chaired by Former Deputy Prime Minister Marek Belka of Poland. The Council will advise the Administrator of the Coalition Provisional Authority on matters of international assistance in Iraq reconstruction efforts.

(4) An initial estimate of the costs expected to be associated with such activities.

The \$2.475 billion requested and appropriated reflects USG assumptions about expected costs and was built on a sector specific relief and reconstruction plan. We are now evaluating how initial assumptions and requirements identified in that budget plan can address emerging needs in Iraq.

The Iraq Relief and Reconstruction Fund was requested with flexible authorities because of uncertain conditions and requirements. This has already proven useful. For example, damage to roads was not as significant as anticipated. In contrast, due to years of neglect and damage, we have encountered more serious problems with the electric grid. The flexible structure of the Fund will allow resources to be transferred and dedicated for use as and where urgent requirements are identified.

Iraq's crumbling infrastructure and problems began long before the war. Iraq has suffered from 30 years of mismanagement of the economy and deliberate policies of

neglect targeted at real or imagined foes of the former regime. These policies have taken a significant toll on Iraq's infrastructure and institutions. The Coalition is committed to helping repair damage done in the war and assisting the Iraqi people in their task of reconstructing infrastructure and institutions damaged or destroyed by years of misrule and systematic oppression. The following points are relevant to efforts to meet these substantial challenges:

- Numerous countries around the world are contributing to restoration efforts in Iraq.
- Iraq enjoys significant human and natural resources that will make an important difference in recovery -- the Iraqi people are talented, educated, and resourceful, and they have fertile soil, major rivers, and significant oil reserves.

(5) A strategy for distributing the responsibility for paying costs associated with reconstruction activities in Iraq among the United States, foreign governments, and international organizations, including the United Nations, and an estimate of the revenue expected to be generated by Iraqi oil production that could be used to pay such costs.

The U.S. Government's strategy for distributing responsibility for costs associated with reconstruction in Iraq rests on three main pillars. First, to the extent possible, rely on the Iraqi people's talents and resources. Second, as quickly as possible, help the Iraqi people create conditions conducive to free markets, the ultimate key to long-term development. Third, whenever possible, work with the international community, including the United Nations, to raise funds to support the transition to a free society in Iraq.

There are multiple sources for funding Iraq recovery requirements.

International contributions. The UN, other international institutions, and the U.S. and its coalition partners continue to urge all nations to contribute to meeting the needs of the Iraqi people in any way they can. Offers of assistance from the international community exceed \$1.9 billion. About \$790 million of this amount has been in response to a UN Flash Appeal to meet urgent requirements in Iraq. The remaining \$1.1 billion has been offered outside the Flash Appeal.

We anticipate other contributions as well, including troop contributions to create multinational divisions of stabilization forces. To generate and coordinate global contributions, the U.S. Government has established an strong interagency international fund raising team comprised of senior officials from the Departments of State, Treasury, Defense, and USAID.

Examples of international pledges and contributions to date include:

- Japan intends to contribute more than \$150 million in emergency aid.
- Australia has delivered more than \$26 million -- including 100 thousand metric tons of wheat. Australia is also providing expertise in agriculture.
- Canada has delivered more than \$41 million for critical water, sanitation, food, shelter, and health requirements.
- The United Kingdom has offered \$338 million in assistance.
- Spain has pledged \$56 million primarily in supplies.
- The Netherlands is contributing \$14 million in response to the UN Flash appeal. Assistance will be provided to Iraq through Dutch NGOs.
- Norway is donating up to \$21.6 million in assistance.
- The European Union (EU) has offered \$107 million, of which \$14.5 million has been delivered, including 10 tons of medical supplies that have been airlifted to Baghdad.
- Jordan deployed a field hospital to Baghdad to provide emergency medical services.

Development Fund for Iraq. UNSCR 1483 calls for certain monies to be placed in the Development Fund for Iraq which will be disbursed at the direction of the CPA. UNSCR 1483 also provides for an International Advisory and Monitoring Board and independent auditors of the DFI. As noted earlier, the DFI now has an initial deposit of \$1 billion derived from the UN's "Oil for Food" escrow account. It is expected to also accept proceeds from the sale of petroleum, petroleum products and natural gas and returned Iraqi assets provided from UN member states. The Fund is to be used for the humanitarian needs of the Iraqi people, for economic reconstruction and repair of Iraq's infrastructure, for continued disarmament of Iraq, for the costs of Iraq civilian administration, and other purposes benefitting the people of Iraq.

It is too early to project the amount of revenue that may result from the sale of Iraqi oil. The oil infrastructure has been allowed to deteriorate and will take time to bring up to industry standards. Moreover, in the distorted economy developed under Saddam Hussein, 60 percent of Iraq's people have been dependent upon government provided rations primarily paid for with oil sales proceeds. The transition to a more normal economy will not happen overnight and, as a consequence, in the near term it is expected that oil revenues will continue to be needed to meet these immediate humanitarian needs.

Iraqi state assets. President Bush has directed that Iraqi state assets under U.S. control will be used only for the benefit of the Iraqi people and their nation's recovery. These assets fall into three categories:

Vested assets: \$1.7 billion in formerly blocked and confiscated Iraqi state assets in the U.S. which the President has vested in the Treasury Department for apportionment to Federal agencies for requirements that benefit the Iraqi people;

Seized assets: To date, about \$1 billion in Iraqi state assets have been brought under U.S. control in Iraq by U.S. forces and are being controlled pursuant to the laws and usages of war. The seized assets, which include cash and gold bars, need to be verified for authenticity; and

Iraq Assets Returned to the US by the UN: UNSCR 1483 requires the Secretary General to return to the US approximately \$200 million in Iraq assets provided by the US to the UN in 1992 to fund humanitarian aid to the Iraqi people.

Appropriations. In the Emergency Wartime Supplemental Appropriations Act, 2003, Congress appropriated \$2.475 billion for the President's Iraq Relief and Reconstruction Fund which is the primary source of U.S government funding for Iraqi recovery activities. Congress also made \$489 million to the Department of Defense within the Iraqi Freedom Fund to be used if needed to repair damage to Iraqi oil facilities and to preserve a petroleum distribution capability.

TABLE 1

Coalition Provisional Authority Organization

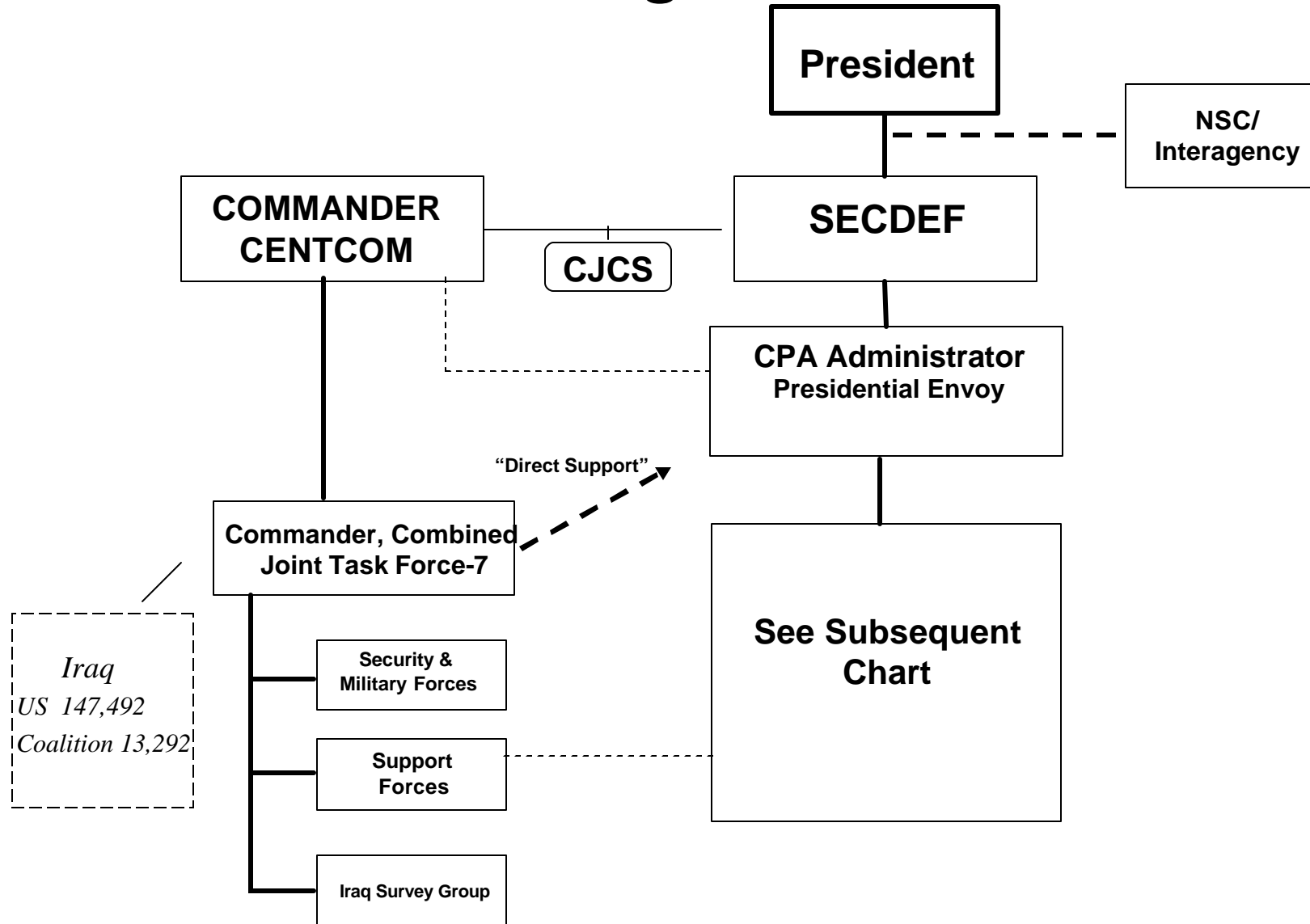


Table 2
COALITION PROVISIONAL AUTHORITY

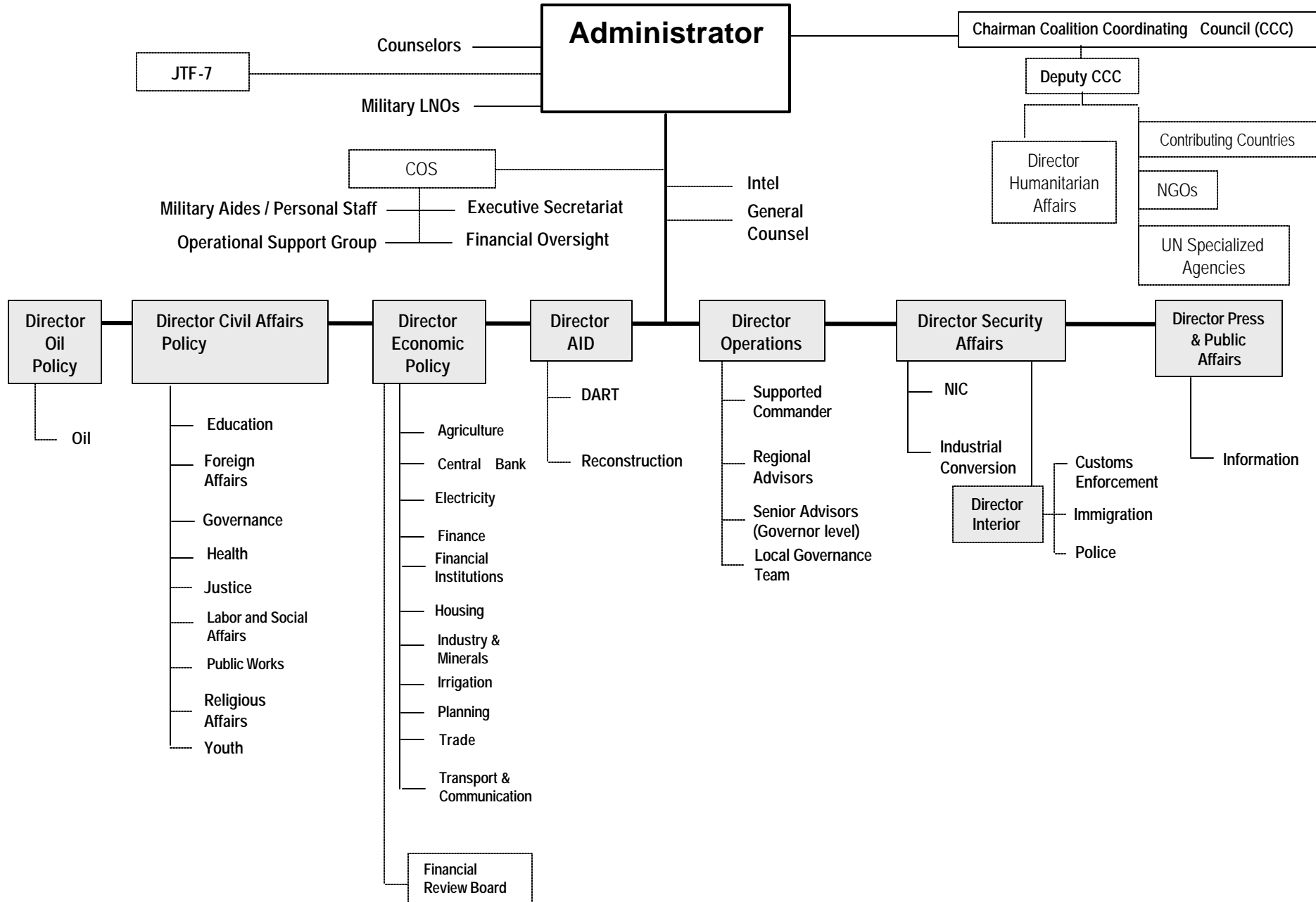


TABLE 3

IRAQ RESOURCES MANAGED BY NON-DEPARTMENT OF DEFENSE (DOD) AGENCIES (\$M)

Funding	Iraq Relief & Reconstruction Fund (Appropriated)	Other Accounts/Commitments
	Apportioned	Apportioned
RELIEF		
USAID		
Office of Foreign Disaster Assistance (OFDA)		72.5
Office of Food for Peace (FFP) [including USDA]		478.0
Office of Transition Initiatives (OTI)		6.0
STATE		
Bureau of Population, Refugee, and Migration (PRM)		39.1
Bureau of Political-Military Affairs (de-mining)		1.5
SUBTOTAL, RELIEF	0	597.1
RECONSTRUCTION		
USAID/Bureau for Asia and the Near East (ANE)	239.1	110
STATE/Bureau for International Narcotics and Law Enforcement (INL)		25
TREASURY/Office of Technical Assistance (OTA)		2.2
SUBTOTAL, RECONSTRUCTION	239.1	137.2
TOTAL	239.1	734.3

TABLE 4

IRAQ RESOURCES MANAGED BY NON-DEPARTMENT OF DEFENSE (DOD) AGENCIES (\$M)

Funding	Iraq Relief & Reconstruction Fund (Appropriated)	Other Accounts/Commitments
	Apportioned	Apportioned
(1) Water/Sanitation Infrastructure [See Note]		
(2) Feeding and Food Distribution		478.0
(3) Supporting Relief Efforts Related to Refugees, Internally Displaced People, and Vulnerable Individuals		111.6
(4) Electricity [See Note]		
(5) Healthcare	11	31.0
(6) Telecommunications		.1
(7) Economic and Financial Policy		6.2
(8) Education	57.9	3.9
(9) Transportation	5.6	5.4
(10) Rule of Law and Governance	45.7	33.9
(11) Humanitarian Demining		1.5
(12) Agriculture		
(13) Capital Construction [See Note]	113.4	34.6
(14) Other	2.5	8.5
(15) Program Management/Oversight	3	13.6
(16) Transition Initiatives		6.0
TOTAL	239.1	734.3

NOTE: Activities supporting Water Sanitation/Infrastructure and Electricity are supported under the Capital Construction line.

TABLE 5

DOD IRAQ RELATED RESOURCES OBLIGATED TO DATE (\$M)		
Funding	Iraq Relief and Reconstruction (Vested*)	Other Accounts/ Commitments**
Emergency Payments to State Employees, Pensioners, and Specialized Workers	158.5	
Ministry Startup and Other - Equipment and facilities repair	16.4	
Subtotal	174.9	
Natural Resources Risk Remediation - Removal of unexploded ordnance - Emergency repairs - Environmental assessments - Preparing facilities for production		175.0
ORHA Operating Expenses - Logistics/Headquarters support - Deploying and equipping -Other in-country costs		256.0
TOTAL	174.9	431.0

*Vested - Iraqi assets frozen under Executive Order 13290 transferred to DOD via the Iraq Relief and Reconstruction Fund

** These funds have been “cash-flowed” from other DOD accounts and are pending reimbursement from the Iraq Freedom Fund.