Thirty billion dollars in funding for new homes in tsunami-ravaged areas is stuck in banks, leaving tens of thousands of evacuees facing a fourth winter in temporary dwellings.

**Tsunami evacuees caught in Japan money trap**

BY TAIGA URANAKA AND ANTONI SLODKOWSKI
Thirty billion dollars in funding for roads, bridges and thousands of new homes in areas devastated by the tsunami in Japan three and a half years ago is still languishing unspent in the bank. That means Keiko Abe is heading into a fourth winter of sub-zero temperatures in a cramped, temporary dwelling that is succumbing to the elements.

“I’m just clenching my teeth until I can move out and live like a human being again,” says Abe, 66, as she stands in the dim light of her living room with enough space for a couch, table and television. A gray mould clings to some walls of the prefab structure, where Abe has lived with her husband since shortly after a 9-metre wall of water obliterated large swathes of the city of Ishinomaki on the afternoon of March 11, 2011.

Abe, who lost her home and everything in it that day, is now the victim of a funding quagmire that has left her and tens of thousands of other evacuees stranded in temporary units that were supposed to house them for no more than two years.

Japanese government funds budgeted for reconstruction and transferred to local governments are stuck in banks across the tsunami-ravaged northeast, a Reuters review of budget and bank deposit data and interviews with bank officials reveals. The central government has paid out more than $50 billion directly to local governments in Miyagi, Iwate and Fukushima prefectures, the areas hardest hit by the disaster.

But almost 60 percent of the money, or $2.3 billion, remains in bank deposits. And fewer than five percent of the planned new homes for the city’s nearly 25,000 evacuees have been completed.

“I’ve given up on the local authorities,” says Abe. “They don’t think about us.”

A few minute’s drive from Abe’s temporary home, the mayor of Ishinomaki sits in his office directing part of the blame for the hold ups at bureaucrats in Tokyo. “It’s a massive disaster but central government officials are acting as if these were normal times,” says Hiroshi Kameyama, referring to the red tape he confronts in getting building plans approved. “It’s one of the reasons why public works are delayed.”

Makoto Kitamura, the deputy director general of the Reconstruction Agency, says local government spending of reconstruction money has been accelerating. “The pace of the construction projects has also been picking up,” he told Reuters, sitting in his office in Tokyo. “So it is not something you should worry about.”

For Prime Minister Shinzo Abe, the reconstruction delays are a potential time bomb. Before he became prime minister in December 2012, Abe campaigned in parliamentary elections on a pledge to speed up reconstruction – a promise he has repeated on both anniversaries of the disaster since he took office. As opposition leader he chided the government for not moving fast enough on rebuilding: “Japan has no future without reconstruction of disaster-hit areas,” he declared during a tour of Fukushima, where the tsunami crippled a nuclear plant.

As prime minister, he vowed in March 2013 that “reconstruction will have made a lot of progress and our lives will be better.
The reconstruction financing loop

1. Following the 2011 tsunami and earthquake, the Japanese government created a $190 billion reconstruction budget, partly financing it by issuance of government bonds.

2. It disbursed more than $50 billion to local governments dealing with the aftermath of the disaster.

3. But local governments, unable to spend most of the money, put $30 billion in deposits in local banks.

4. Regional banks used the surge in deposits to invest back into Japanese government bonds.

By doing so, banks have invested to fund the borrowing that the government undertook to make the disaster-related transfers in the first place.

Source: Japan Reconstruction Agency; Reuters

by March 11 next year.” A year later he repeated the promise: The government would make the year ahead one in which “everyone in disaster-hit areas feels the progress of reconstruction.”

So far, about 2,700 housing units of a planned 29,000 have been completed in the tsunami-hit areas. In its housing plan issued more than a year ago, the government said it aimed to complete 15,000 homes by March next year. It has since scaled back that target to 10,000 units.

A labor shortage exacerbated by the siphoning of workers away from the disaster zone to build commercial facilities for the 2020 Tokyo Olympic Games has slowed reconstruction. So have a spike in the cost of building materials and problems in procuring land in the disaster zone.

Initial government estimates for the cost of building a new home have been far off the mark. In 2011, the Reconstruction Agency budgeted $158,000 for a new home. In April, it revised that estimate upward, for a second time, to $217,000 – almost 40 percent higher than the original figure.

“We are struggling to keep up with the rise in costs,” Michio Oka, a section chief in Ishinomaki’s reconstruction office, told Reuters. “Because of the sharp rise in material and labour costs we have failed to attract contractors.”

Much of the reconstruction cash has ended up on the ledger of 77 Bank in Sendai, some 50 kilometers west of Ishinomaki. Government deposits at 77 Bank, the region’s largest lender, have jumped four-fold to almost $17 billion in the past three years as reconstruction money flooded in, the bank said.

Yoshikazu Onodera, a 77 Bank executive, said the rapid inflow of deposits has been a challenge for the bank to manage since the money could be withdrawn on short notice. The solution, said Onodera, has been to invest in short-term government bonds. As a result, 77 Bank’s government bond holdings have risen two and a half times to $20 billion since 2011.

Like 77 Bank, other regional lenders have also ploughed funds into Japanese government bonds, creating a closed loop of financing. By buying government bonds, the banks’ investments are essentially...
helping to fund the borrowing that the government undertook to make the disaster-related allocations in the first place. The central government issued $130 billion worth of reconstruction bonds in the three years after the disaster.

The unspent funds sitting in bank deposits also come at a cost to Tokyo. The government is under mounting pressure to cut a public debt load that is more than twice as large as annual economic output.

Bank officials said they did not expect the money to be withdrawn soon because building projects face further delays. “It’s almost certain reconstruction efforts will not be completed within the national government’s five-year period,” said Ryutaro Katsube, a spokesman for the Bank of Iwate. “Municipalities are already asking for extensions.”

Forging consensus among residents over reconstruction plans “is a time-consuming process,” said Kitamura of the Reconstruction Agency, which is responsible for the disbursement of $20 billion out of the $50 billion allocated directly to local governments. “This is the result of going through the necessary process.”

Separate from the money allocated directly to the prefectures, the central government has poured $140 billion into disaster-relief and reconstruction projects, including emergency loans to small- and medium-sized businesses hit by the tsunami.

In the Ishinomaki suburb of Hebita where Keiko Abe has been told her new home will be ready by spring, six workers pumped water out of a construction site on a mid-September afternoon after heavy rain had swamped the area. The foundations have been laid for some homes but there were few signs of building activity. Several cranes and trucks stood idle next to piles of sand and gravel.

A group of women sitting around a wooden table in a nearby evacuee community, eating pickled onions and cake, discussed their predicament. “We feel abandoned and forgotten,” said Mitsue Sasaki, 69, who has been living in a temporary home for three years. “They think they can keep us here forever.”

“I was allocated a flat, but so what,” said Mitsuko Muramatsu, 67, an ex-tax office official. “Right now it’s a cloud, it’s an empty space.”

Mayor Kameyama, 72, a former chemistry professor, is concerned with the mental health of the evacuees. “I’m worried that many people are becoming weak and depressed,” he said, sitting in a deep armchair in his office. “If they don’t stay healthy and lose the will to move to a new place, it will be a huge problem.”

The government’s five-year reconstruction plan was built on unrealistic assumptions, said Yoshikiyo Shimamine, the chief economist at Dai-ichi Life Research Institute in Tokyo. “Given bottlenecks such as labor shortages and material cost rises and difficulties in getting consensus among residents who are relocated, reconstruction budgets are not something that can be spent within five years,” he said.

Officials in Ishinomaki, home to 150,000 people, say spending the more than $4 billion in reconstruction aid has proven tough. With all of the city-owned land having been designated for temporary housing after the tsunami, the local government had to negotiate the purchase of an additional 9,000 plots to build permanent homes, the reconstruction office’s Oka said. That inflated the price of a plot of land in Ishinomaki by 15 percent last year, the biggest jump anywhere in Japan.

Before the city could buy land, it had to track down the legal owners. That proved tedious, said Oka. Officials discovered that in many instances, properties had been passed down without proper inheritance procedures.
Other areas have been beset by similar delays. Miyagi, the prefecture that includes Ishinomaki and Sendai, planned to build some 15,000 public housing units by March 2016. In early October it extended that deadline by two years.

After the tsunami, about a third of public works projects in Miyagi failed to attract bidders in the first round as construction companies say they held back for fear the projects would be unprofitable, Miyagi prefecture officials said. That failure rate compares with just 3 percent before the disaster.

To be sure, rebuilding a city like Ishinomaki is a vast logistical undertaking. Parts of the city need to be built from scratch.

A strip of Ishinomaki’s shoreline where 6,500 homes once stood has been declared too dangerous to build on. And many local government officials, who would otherwise have played a role in reconstruction, either died in the tsunami or had their homes destroyed and are themselves living in temporary dwellings.

“It’s the largest such operation ever attempted in modern Japan,” says Kazusue Konoike, a special adviser to Konoike Construction Co., which is building public housing units in the country’s northeast. “The construction industry as a whole has several times the amount of work it used to have before the disaster. That’s why naturally there is a shortage of workers and machines.”

Prior to the earthquake and tsunami there were five buildings with reinforced concrete that were taller than five storeys in Ishinomaki, says Hirotaka Kamata, a sales representative at Endo Kogyo, a construction company working in the city. “Right now the city is building about 20. It’s like building something in three years that took 50 post-war years to build.”

Kamata says his company is also worried about making long-term investments when it knows the tsunami-fueled building boom will only last a few more years. “The reconstruction budget is huge,” he said. “The more money you pump the faster the construction companies will run away. There’s no way we can take on any more work.”

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