HEALTH AID in TRANSITION
A Review of Japan’s Approach to Transition

November 2019

Summary

1. Currently the government of Japan has no unified transition approach across agencies and sectors, including health. Japan applies a case-by-case approach to guide transition decisions both in the health sector and in other sectors. However, there are policies and mechanisms in place that influence transitions across all sectors.

2. Theoretically, all countries that are included in the Development Assistance Committee’s (DAC) List of Official Development Assistance (ODA) Recipients are eligible for Japan’s support. However, in practice, Japan’s aid allocation is concentrated in a smaller subset of countries.

3. Japan shifts its aid modality and/or its terms based on country-specific needs and income level. As countries move along the spectrum from low- to middle- to upper-income, the mode of Japan’s support often shifts from grant aid to concessional loans.

4. Japan’s Development Cooperation Charter of 2015 stresses that it can continue to provide support to countries based on their development needs and affordability, even to those countries that have graduated from the DAC List of ODA Recipients.

Overview

Japan began providing official development assistance (ODA) in 1954. In 2016, of all government donors that provided health ODA, Japan gave the fifth largest amount—US$7 billion (or 5.4% of its total ODA). Several agencies within the government of Japan provide aid for health, but most of Japan’s health aid (89% in 2017) comes from the Ministry of Foreign Affairs (MOFA). The Ministry of Health, Labour and Welfare (MOHLW) provided the remaining health aid (11%) in 2017. MOFA plays a central role in Japan’s aid policymaking and strategy whereas the Japan International Cooperation Agency (JICA) is responsible for bilateral financing and implementation.

Japan’s aid portfolio has a high ratio of loans to grants, the highest among any member of the Organization of Economic Cooperation and Development’s (OECD) Development Assistance Committee (DAC). In 2016, 41% of all health aid was in the form of grants, 31% was loans, and 28% was technical cooperation. The largest share of Japan’s bilateral health ODA is for middle-income countries (MICs), making up over 50% of Japan’s ODA (Figure 1), reflecting Japan’s geographic focus on its neighboring Asian countries. In 2017, about 60% of Japan’s bilateral health ODA was concentrated in 10 countries. Japan’s ODA has historically been focused on countries within Asia, which received 50% of Japan’s health ODA in 2017 (Figure 2). Although this focus is likely to continue, Japan is increasingly shifting its focus to countries in sub-Saharan Africa as many countries in Asia are developing economically (Figure 2). Health ODA from Japan to Africa increased from 28% of Japan’s total health ODA in 2008 to 40% of Japan’s total health ODA in 2014.
Maternal and child health and infectious diseases have traditionally been priorities for Japan's health ODA. Japan's focus on health system strengthening (HSS) can be traced back to 2008, when HSS was recognized in the Group of Eight (G8) communiqué for the first time while Japan was chair. Since hosting the Group of Seven (G7) summit in 2016 (the Ise-Shima Summit), Japan has increased its global health engagement in HSS and universal health coverage (UHC). With this shift, Japan seeks to help address population aging and other demographic changes, epidemiologic transition, and the increasingly diversified health needs among recipient countries.

Key Policies Related to Transition

Although Japan has transitioned out of several countries, currently there is no unified approach across its agencies and sectors, including health. However, there are policies and mechanisms in place that influence transitions across all ODA sectors.

Eligibility Policy

Eligibility for Japan's ODA is determined by a country's income classification, as measured by gross national income (GNI) per capita. In theory, this includes all countries that are on the DAC's List of ODA Recipients. As of the end of 2016, 190 countries were eligible for ODA according to the DAC list and 141 countries were receiving ODA from Japan. In practice, Japan's aid allocation is concentrated in a smaller subset of countries, based on history, geography, and diplomatic relations. Japan's ODA has historically targeted a small number of countries, mostly MICs in Asia, with a primary focus on economic infrastructure support via concessional loans.

Japan's funding decisions are based on requests from a recipient government through diplomatic channels. MOFA puts out a “request survey” to all partners and then partners communicate their support needs to the Embassy of Japan according to their country's priorities. There is an internal process on how to respond to requests—several factors are considered in the response, including:

(i) the relevance of the request within the context of a country's national development,
(ii) Japan's resource constraints,
(iii) guiding principles from the government of Japan, including diplomatic relationships, and
(iv) a country's portfolio of support from other donors.

Transition Policy

Japan does not have a clear definition of transition nor a systematic guideline to govern transitioning out of countries. It applies a case-by-case approach that guides transition decisions in the health sector as well as other sectors. Each country has its own specific ODA policy, developed by MOFA, namely the Country Development Cooperation Policy.
In principle, Japan’s ODA can support any country as long as the country remains on the DAC List of ODA Recipients. To Japan, a transition is removal from the DAC List of ODA Recipients, though removal from the DAC list does not lead to automatic discontinuation of financial support from Japan. However, Japan does shift its modality and/or its terms of support (i.e., grants, loans, or technical cooperation), based on country-specific needs and income level. While not a formal transition policy, this method of allocation is a way for Japan to support increasing country commitment and self-reliance among recipients.

Country Development Cooperation Policy

The Country Development Cooperation Policy, developed by MOFA, serves as Japan’s country-specific ODA policy. The policy is formulated based on a comprehensive assessment of the development plans and challenges of each recipient country, considering its unique political, economic, and social situation. The policy concisely outlines the aim, basic policy, and priorities of development cooperation in each recipient country, and thereby intends to show a clear direction for development cooperation.

A Country Development Cooperation Policy is formulated, in principle, for countries eligible for ODA. As of October 2017, Country Development Cooperation Policies for 122 countries had been formulated. Country Development Cooperation Policies are typically issued for a period of five years in most countries, outlining specific projects and assistance amounts for each priority area, in order to improve the predictability of Japan’s assistance.

Tailoring Support to Country Capacity

In principle, Japan’s ODA adopts different modalities of support depending on a recipient country’s income level and context-specific challenges. As countries move along the spectrum from low- to middle- to upper-income, the mode of Japan’s support often shifts from grant aid to concessional loans. However, a country can still receive both grant and loan support simultaneously. Technical cooperation can be provided to countries throughout their time as recipients of Japanese ODA, depending on their changing capacity and development needs (Figure 3). While each of these modes of support can be provided to a country at any income level, the use of loans and technical cooperation instead of grants is a way of gradually increasing self-sufficiency among recipients as they develop economically.

Grant Aid

Low-income countries (LICs) are the primary recipients of grant aid. Grants can be extended for diplomatic reasons, for promotion of human security, or when the recipient country is too debt-distressed to receive ODA loans (“soft” or highly concessional loans). Within health ODA, the target areas for grant support include health services and infectious disease control. This support is primarily targets financing for the construction or upgrading of health facilities and equipment, and of public health and research labs and equipment.

Loans

Japan’s ODA loans can be highly concessional, although the degree of concessionality provided to a country varies according to a recipient country’s per capita income level. However, there is no strict income cut-off and there are several exceptions.

Recipient countries that have recently moved from least developed country (LDC) status benefit from a three-year transition period in which the terms and conditions for LDCs are still applied for loans. Japan’s ODA loans also have preferential terms for LDCs and MICs for challenges related to: (i) global environmental and climate change, (ii) health

![Figure 3: Japan’s ODA modality shifts](image-url)

LDCs=least developed countries, MICs=middle-income countries, HICs=high-income countries
Health aid in transition: a review of Japan’s approach to transition

The 4Ds is a project led by the Center for Policy Impact in Global Health that focuses on integrated research across four major global health transitions: disease, demography, development assistance for health, and domestic resources for health.

Japan’s support for polio is one example of how it shifts the financing instruments that it uses. Japan previously funded polio primarily through grant assistance, but now it has shifted to loan-based assistance in Pakistan and Nigeria, both of which are lower-MICs (LMICs) (Box 1).

### Technical Cooperation

Japan provides technical cooperation to all countries and regions according to recipient needs and capacity gaps. The format of technical cooperation is shifting to a partnership of “mutual dialogue” rather than a philosophy of knowledge transfer. Typically, technical cooperation comes in the form of dispatching one or more technical experts to help meet specific country needs, or inviting officials from a recipient country to Japan for training in specific technical areas. Technical cooperation is provided via grant assistance, although cost sharing is encouraged for higher income countries. Japan’s support for upper-MICs (UMICs) is mainly provided through technical cooperation, although grants and loans are also extended occasionally to certain UMICs.

Japan also supports volunteer programs (e.g., Japan Overseas Cooperation Volunteers, Senior Volunteer Program) to help meet the needs and program requirements of recipient countries. In addition, Japan’s private sector is increasingly engaged in providing technical support to developing countries.

Japan is indeed shifting its aid modalities within the health sector according to recipient country income-level and medical care and services, (iii) disaster prevention and reduction, and (iv) human resource development.

In 2014, JICA signed an innovative financing agreement with the Bill & Melinda Gates Foundation for polio eradication in Nigeria. As part of the partnership, the Government of Japan agreed to provide an ODA loan of up to US$77 million to the Federal Government of Nigeria to support polio eradication efforts and the procurement of oral polio vaccine doses to vaccinate children under the age of five years. The loan applies an innovative financing approach referred to as a "loan conversion" mechanism. Under the agreement, the Gates Foundation will repay the loan to JICA on behalf of the Federal Government of Nigeria if the project is successfully implemented by the Nigerian government verified by the agreed performance indicators. The aim of this innovative mechanism is to incentivize the recipient government's commitment to its polio eradication efforts without imposing a significant financial burden.

Japan’s long-standing support for polio eradication around the world is in line with the Global Polio Eradication Initiative (GPEI)’s framework. This collaborative partnership, coupled with Japan’s ODA loan, aims to help the Federal Government of Nigeria step up its activities to eradicate polio nationwide. The same arrangement is also applied in Pakistan.

(Figure 4). Compared with data from ten years ago, UMICs are receiving a smaller share of total grant-funded and loan-funded projects. Technical cooperation is typically provided as a grant, which may explain why UMICs are still receiving projects funded with grant aid. Grants are

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**Box 1: Japan’s “loan conversion” mechanism—the case of polio funding in Nigeria and Pakistan**

Figure 4: Japan's bilateral health ODA project count by income groups, 2008 and 2017

Authors’ own calculation using data from the OECD CRS database

The numbers shown in the figure refer to the number of projects in each year across countries of different income levels.
primarily provided to LDCs and LMICs, whereas loans are overwhelmingly extended to LMICs and UMICs.

Development Cooperation Charter and Japan’s Continuous Support

The Development Cooperation Charter of 2015 stressed that Japan will extend cooperation to countries based on their development needs and affordability. Countries faced with development challenges for sustainable economic growth, or global challenges such as exposure to natural disasters, infectious diseases, and environmental issues and climate change, remain eligible for Japan’s support.12,14

By the end of Financial Year 2016 (FY2016), 18 countries (or regions) had graduated from the DAC List of ODA Recipients: Bahamas, Bahrain, Barbados, Brunei, Croatia, French Polynesia, Hong Kong, Israel, Kuwait, New Caledonia, Oman, Qatar, Romania, Saint Christopher and Nevis, Saudi Arabia, Singapore, Trinidad and Tobago, and the United Arab Emirates.2,15,16 Among the 18 countries or regions that have been removed from the DAC List of ODA Recipients as of FY2016, 14 countries were still receiving a small amount of grants (US$5.4 million) and technical cooperation (US$1.34 million) from Japan (Table 1).17

According to Japan’s Development Cooperation Charter in 2015 and the JICA Law of 2008, Japan can continue to provide aid to countries that have graduated from the OECD DAC List of ODA Recipients. In theory, Japan can even extend aid to countries defined as “developing areas” by the government of Japan, including some high-income countries. To Japan, “developing areas” are those that are “laden with challenges that hamper sustained economic growth, notably the so-called ‘middle income trap,’ as well as with development challenges including global challenges such as exposure to natural disasters, infectious diseases, and environmental issues and climate change; small island countries and others that are faced with special vulnerabilities despite having attained a certain level of per capita income.”12,14 Countries classified as “developing areas” include the Bahamas, Bahrain, Barbados, Brunei, Kuwait, Oman, Saudi Arabia, Trinidad and Tobago, and the United Arab Emirates.12

Transition Status

Upcoming Graduations

There is no official projection of countries likely to transition away from Japan’s support in the near future since Japan’s ODA uses a case-by-case approach to guide ODA policy and transition. In principle, if a MIC moved to high-income status, based on its GNI per capita, it would graduate from Japan’s ODA. However, under the Development Cooperation Charter, even such a country could be eligible for continued support.

Transition Learning

MOFA carries out policy and thematic evaluations, while JICA carries out operations evaluations for all technical cooperation, ODA loans, and grant aid projects.18 An evaluation feedback system has been established between Japan and its ODA recipient countries, although there have not been any evaluations to date that have been related to transition.19

Transition Impact: Country Experiences

Below are examples of countries that graduated from Japan’s ODA but developed different partnerships with Japan after they transitioned out of aid support.

Singapore

Japan’s ODA to Singapore began in 1966. Given Singapore’s remarkable economic growth, Japan ended its ODA in 1996. After transition, the two countries started a partnership program to transfer their accumulated technology and expertise to other developing countries. The Japan-Singapore Partnership Programme for the 21st Century (JSPP21), which supports human resource development in developing countries and is being implemented by the two countries together, has become

<table>
<thead>
<tr>
<th>Country</th>
<th>Grant ODA received, FY 2016 (US$)</th>
<th>Technical Cooperation ODA received, FY 2016 (US$)</th>
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<tbody>
<tr>
<td>Bahamas</td>
<td>$1,840,000</td>
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<tr>
<td>Bahrain</td>
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<tr>
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<td>Qatar</td>
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<tr>
<td>Saint Christopher and Nevis</td>
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<td>Saudi Arabia</td>
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<td>Singapore</td>
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</tr>
<tr>
<td>United Arab Emirates</td>
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a symbol of the cooperative relationship between Japan and Singapore. It combines the experience and expertise of the two countries to carry out third-country training for many developing countries in a wide range of disciplines.\textsuperscript{20} In FY2016, Singapore received a US$1.07 million ODA grant from Japan.

**China**

From 1979 to 2018, Japan provided a total of US$32.4 billion in loans, grants, and technical cooperation to China.\textsuperscript{21} Over the past 40 years, the form of Japan’s ODA has changed in response to China’s development. In 2018, Japan decided to end ODA to China due to China’s economic development.\textsuperscript{22}

With the increasing number of countries that have graduated from Japan’s ODA, there is reason to believe that Japan will play an important role in forging similar partnerships with its former ODA recipients.

**Outlook**

Japan’s country-by-country policy approach allows for programmatic flexibility. As countries develop, Japan’s health focus areas will likely continue to shift from more traditional areas of focus, such as maternal and child health and infectious disease control, to other emerging areas of concern for MICs, such as non-communicable diseases and demographic shifts. As a recipient country develops, this shift in focus areas will likely continue to be matched with a shift in the financial mechanism used, from primarily grant-based assistance to a mix of grants and loans.

The recent change in the OECD’s methodology to calculate ODA will affect donors with high a proportion of ODA loans, including Japan. From 2018, the ODA value of loans will be calculated using what is referred to as the “grant equivalent” method: under this new methodology, “only the ‘grant portion,’ or the amount the provider gives away by lending below market rates, counts as ODA.”\textsuperscript{23} Previously, the full-face value of a loan was counted as ODA and then loan repayments were subtracted. Now, the grant element required for loans to count as ODA differs according to a recipient country’s income level: 45% for LDCs and LICs, 15% for LMICs, 10% for UMICs, and 10% for multilateral loans to multilateral institutions.\textsuperscript{24} The goal of this new methodology is to “incentivize donors to send the most concessional loans, and more grants, to the countries that need them most.”\textsuperscript{23, 24}

Some of Japan’s ODA recipient countries are facing transitions from other global health donors, such as Gavi, the Vaccine Alliance (Gavi), and the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). Although not an explicit policy, Japan is considering how to support these countries to smooth their transition process. With the replenishments for both the Global Fund and Gavi in October 2019 and mid-2020, respectively, Japan’s vision for transition support may become clearer.

As this year’s G20 president, Japan’s first G20 presidency, Japan has continued to prioritize global health.\textsuperscript{25, 26, 27} The G20 health ministers’ meeting was held in October 2019 in Okayama\textsuperscript{28} and the “Okayama Declaration of the G20 Health Ministers” was adopted. This declaration endorsed the commitment of G20 countries to address major global health issues, and to pave the way towards an inclusive and sustainable world, as envisioned in the 2030 agenda for sustainable development.\textsuperscript{29}

**Resources**

3. OECD. Creditor Reporting System; OECD. DAC members’ imputed multilateral contributions to the health sector, secretariat estimations.
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