USAID was established in 1961 with a well-defined private sector development strategy that built upon earlier programs implemented by its predecessor agencies. The emphasis on how best to work with and to use the private sector to achieve host country objectives has evolved throughout the Agency’s history. As outlined below, each decade has seen different approaches to engaging the private sector to advance overseas development and democracy, producing innovations that may not have been fully recognized.

Starting in the 1960s, many USAID field missions had private sector offices that worked to develop local industry and to promote investment in support of host country and Agency objectives. Non-governmental grantees served as incubators for some of the most innovative programs. Private sector development (including civil society strengthening) has been one of the distinctive elements of U.S. foreign assistance throughout its history, especially in Latin America, the Caribbean and other regions.

All of the iconic foreign aid initiatives were supported and/or driven by private sector programs: the Marshall Plan in Europe, the Dodge Plan in Japan, the Point IV aid program, the development of Taiwan/South Korea, the Alliance for Progress in Latin America, the Chilean market-export policies, the Caribbean Basin and Central America Initiatives, the U.S.-Asia Environmental Partnership, the transition to market economies in Eastern Europe/Eurasia, the Africa Growth and Opportunity Act, the progress in advanced developing economies and others.

For over 50 years, USAID has worked with host country leaders to pioneer innovative approaches to partnering with the private sector. In the 1960s, the Agency supported the establishment of National Productivity Centers, Investment Banks (*financieras*), credit unions, savings and loan associations, and housing and other investment guarantee programs. It strengthened labor unions, began the first microenterprise program and implemented additional activities listed in the Annex. In the 1970s, the Overseas Private Investment Corporation (OPIC) was created from a USAID program, community-based NGOs were funded, and regional entities were established, such as the Latin American Agribusiness Development Corporation (LAAD).

The focus shifted in the 1980s to encouraging host country economic reforms, creating national export and investment promotion foundations in developing countries, and founding the USAID Private Sector Bureau and the Trade and Development Agency. “Think-tanks” and NGOs were developed to advocate for market reforms and trade liberalization. USAID backed a new emphasis on property titling and the informal sector through the Institute for Liberty and
Democracy (ILD) in Peru. Housing credit guarantees were expanded and microenterprise funding was increased, in addition to those shown in the attachment. In the 1990s, private sector development and the newly created “Enterprise Funds” accelerated the transition from state-run to market-driven economies in Eastern Europe and Eurasia.

The Global Development Alliance (GDA) was made operational in the 2000s to expand Public-Private Partnerships. Trade Capacity Building was incorporated into Free Trade Agreements and the Development Credit Authority (DCA) established, building on prior housing credit guaranty experience. The latter were further expanded in recent years, as described in USAID’s Policy Framework for 2011-2015. Other initiatives were begun, such as the “Development Innovations Ventures Fund”, “Power Africa”, Trade Facilitation Alliances, the Global Entrepreneurship Summits, and those activities being researched by USAID’s Global Development Lab.

From its earliest decades, USAID recognized that it required private sector partners to implement its programs, such as Robert Nathan & Associates, the American Institute for Free Labor Development (AIFLD), the Credit Union National Association (CUNA), the Pan American Development Foundation (PADF), the International Executive Service Corps (IESC), the National Rural Electric Cooperative Association (NRECA) and many others.

The Agency’s most successful programs have supported host country initiatives, especially those emerging from the private sector and implemented with local and international partners. They were executed as means to an end in the context of helping a society to advance its economic and social development and to improve overall governance.

It is now widely accepted that international development and democracy objectives cannot be achieved without a vibrant and robust private sector. As a result, private sector development remains a central element for USAID and other donors.

USAID describes its current private sector program as including five components: i) improving the enabling environment through policy dialogue and legal reforms; ii) supporting small and medium enterprises; iii) developing value chain investments in agriculture; iv) expanding access to credit; and v) engaging the private sector through public-private partnerships.

Additional information about USAID priorities is provided at the following links:
http://www.usaid.gov/partnership-opportunities/corporate;

USAID Innovations

Taking into account the definition of innovation being used by UAA as “better solutions that meet new requirements….” or, “….a process that brings together various novel ideas that have impact on society…”, the following are noteworthy USAID innovations:

- **Strategic Focus on Private Sector Development:** The concept of private sector development is a significant USAID innovation. When USAID was established in 1961 many Third World governments and donor agencies were indifferent or hostile to working with the private sector to promote economic and social development. Throughout its history, USAID led the way to encourage host countries to focus on private sector development, including civil society strengthening, to advance national
objectives and democratic governance. Other multilateral and bilateral agencies have often built upon and used the policies, programs and strategies originally begun by USAID. The private sector became a mainstream international development concern largely because of USAID’s leadership and pioneering work over the past half century.

- **Country Programming:** Prior to USAID, most foreign assistance was delivered through specific projects or technical assistance. Starting in the 1960s, USAID was the first to begin “country programming” in which policy weaknesses, capital formation limitations, institutional-technological constraints, human resource deficits, and others were analyzed in a “holistic” fashion, with specific interventions prioritized to address them. Private sector development was a key factor in driving this approach since it required a number of actions in different sectors. While this analytic process is quite common today, it is often forgotten that USAID initiated country programming for strategy formulation and program and project design.

- **Institution-Building for Capital Formation:** USAID began support to develop host country institutions that could generate local capital for development projects, such as investment banks, savings and loan associations, credit unions, stock exchanges, incentives for capital formation, trade & investment entities, Enterprise Funds among others. USAID-assisted investment banks and the Enterprise Funds were the first to provide equity capital in many countries that represented a major innovation within the host nation context. Building local institutions that could generate savings and investment had not previously been done by foreign aid agencies. Today hundreds of such institutions trace their origins to USAID programs.

- **Development Credit Guaranties:** USAID was an early innovator in using investment guaranties to mobilize foreign capital for specific development purposes, first in housing and then more broadly to facilitate private capital flows to industrial projects in Third World economies. The latter were implemented through a guarantee-insurance program pioneered by the LAC Bureau in the 1960s that became the Overseas Private Investment Corporation (OPIC) established in 1971. In its 40 year history, the Housing Credit Guaranty (HG) program generated over 4.5 billion dollars in private funding for housing and urban development, supporting 200 projects in 40 countries. The HG began numerous innovations in low-income home construction, housing finance and upgrades in urban squatter settlements implemented through specialized Regional Housing and Urban Development Offices (RHUDOs). Even when the HG was eliminated by the Congress in the late 1990s, the concept was re-created and broadened with the establishment of the Development Credit Authority (DCA) in 2000 that has already mobilized $3.0 billion in private resources, demonstrating the longstanding relevance and innovative nature of such guaranties.

- **Private Incubators & Advocacy Groups:** USAID has funded hundreds of non-governmental organizations that served as incubators and advocates for new development ideas and for educating their societies on the need for fundamental reforms. USAID-assisted private entities pioneered micro-enterprise development, entrepreneurship training, public-private partnerships, agro-industries, non-formal education, family planning services, trade and investment policies, property titling-ownership by the poor, export processing zones, resource conversation, environmental protection, human rights and democratic advances, agricultural value-chain investing, among others. USAID’s policy dialogue process has been unique among donors since it has often been
implemented through local private “think-tanks” and NGOs. They have served as advocacy groups that use public education campaigns to build consensus in the broader society about the need for specific reforms or other changes, and to influence public sector decision-makers through technical studies and strategic research funded by USAID. This process for advancing the development and democracy agenda should be seen as innovative and unique to USAID. It has produced significant policy and program achievements throughout the Third World for more than 50 years.

- **Public-Private Partnerships:** While PPPs existed well before USAID, building partnerships with the private sector has been one of the Agency’s distinctive competencies. This is symbolized by the “U.S. Asia-Environmental Partnership (USAEP)” established in 1986 and the formation of the “Global Development Alliance (GDA)” in 2000 as a mechanism for systematically implementing public-private partnerships in a number of sectors. Such alliances recognize the growing importance that the private sector is playing in development and the opportunities to leverage and influence how their resources are allocated. GDA provides a USAID mechanism that allows it to engage the private sector, to incentivize corporate social investing, and to orient USAID staff and host country officials on the critical role of the private sector in the development process. The GDA model has been replicated by USG agencies, such as PEPFAR, MCC and the State Department, and others have drawn upon its lessons learned. Likewise, USAID’s partnership approach has been studied and used by donors and has been cited in DAC peer reviews as a major strength of U.S. development assistance. In this sense, a number of observers have recognized the GDA approach as innovative, especially when implemented in close coordination with USAID field missions and experienced NGOs operating on the ground in developing countries.

- **Selected USAID Innovations:** Throughout its history, USAID-supported projects have produced private sector breakthroughs with impacts over many decades. Thousands of business enterprises, agro-industries, cooperatives, credit unions, and other non-governmental entities have benefited from USAID funding, technical assistance and training. For example, in the 1960s, USAID grants allowed the Pan American Development Foundation (PADF) to pioneer microenterprise development, ten years ahead of the Grameen Bank that is often credited with initiating this movement. The Agency was the first to recognize the importance of supporting labor unions. Beginning in the 1970s, USAID grants to host country family planning NGOs dramatically increased the coverage of such services, reaching millions of beneficiaries with the fundamental right to determine the size of their families. No other international donor would involve itself in early family planning programs, especially in the private sector. India’s current high-tech revolution was accelerated by USAID funding of that country’s Technology Institutes and Engineering Colleges.

In the 1980s, USAID assistance to the Peruvian Institute for Liberty & Democracy (ILD) revolutionized the international development agenda with its focus on the informal sector, property titling for the poor, and the need to remove bureaucratic obstacles to the incorporation of local businesses. In the 1990s, the “Enterprise Funds” and related private sector programs allowed an historic transition from state-run to market-driven economies in Eastern Europe and Eurasia. As indicated above, the establishment of PEPFAR and MCC in the 2000s used private sector models and techniques pioneered by USAID. The State Department’s Global Partnership Initiative and the NSC’s Global Engagement Program replicated the GDA experience begun by USAID. These examples are similar to
the earlier creation of the Overseas Private Investment Corporation (OPIC) and the Trade 
& Development Agency (TDA) that began functioning within USAID.

What the above cases illustrate is that USAID has been far more innovative than may be fully 
recognized and popularly appreciated.

Yet despite this track record, private sector development has not been seen as a totally legitimate 
area for USAID programming. There have been decades of intense engagement with the local 
and international private sectors, such as in the 1960s and 1980s, in Eastern Europe and Eurasia 
in the 1990s and 2000s, or in recent years with PPPs or the Global Entrepreneurship Summits. 
These were followed by periods of indifference or anecdotal approaches. Some of USAIDs most 
successful programs, and many of its economic growth strategies, have been spun off to 
independent agencies such as OPIC, TDA, MCC, or replicated by other entities such as the 
Departments of State and Treasury. Over the past half century a number of studies have 
questioned the strategy of promoting economic growth through private sector development and 
whether the poorest people actually benefit from such programs. Others believe that sustainable 
development for the poor or anyone else cannot be achieved without the private sector and 
economic growth.

The historical debate about the proper place of private sector programming in foreign assistance 
is deeply rooted in American history and is not something new. America as a nation was born 
with conflicting views of how the country should develop, characterized as the “Hamiltonian 
Vision” and the “Jeffersonian Vision”. Alexander Hamilton laid out a clear strategy of growth 
that depended on the development of capital markets, a central bank, corporations, new banking 
institutions, and the creation of a policy environment that promoted entrepreneurship, property 
ownership, private investment and the rule of law. Thomas Jefferson, on the other hand, 
questioned this approach and articulated a different vision based on small farmer agriculture, 
rural development, decentralization, public education and actions to maximize the liberty of the 
common man. The tensions between these two ideas have played out throughout American 
history and within USAID policy. They explain the variations in perceptions about private 
sector programs compared to those in health, education, agriculture and democracy. And this 
debate will continue.

Attached are examples of USAID private sector initiatives and publications that shaped them 
from the 1960s to the present.

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Organization of American States. He served as USAID Director in Ecuador, Peru, Honduras, El Salvador and was 
Director of the USAID/LAC Policy Planning & Program Office and Chief of Project Development in LAC/DR. He 
began his international development career in 1965 with the Peace Corps in Venezuela and retired from USAID in 
1997 with the rank of Career Minister in the Senior Foreign Service. For nearly 50 years he has led private sector 
development and civil society strengthening programs. He is working on a history of foreign assistance. Comments 
on this paper are welcome and can be sent to: jsanbrailo@padf.org
Annex
USAID Private Sector Initiatives
1961 - 2014

Below are major themes and approaches that characterized USAID private sector programming from the 1960s to the present:

1960s: Decade of Development & Alliance for Progress

- Supported Import-Substitution Industrialization & Macro-Economic Reforms proposed by United Nations Economic Commission for Latin America and the Caribbean
- Introduced USAID Country Programming to identify actions/incentives to encourage private investment & economic growth
- Implemented Commodity Import Programs (CIP) to promote private sector development
- Funded major infrastructure projects (e.g. roads, electrification, port expansion) to stimulate private investment
- Developed National Productivity Centers to facilitate industrial technology transfer, feasibility studies, technical assistance
- Established investment banks (financieras) & capital markets to provide loans and equity funding for new industries
- Created graduate business schools such as INCAE in Central America and ESAN in Peru, modeled after the Harvard-Stanford Business Schools
- Expanded Participant Training of Ph.D. economists: the “Chicago Boys” in Chile & similar scholarship programs in other countries
- Trained managers & factory workers—supported vocational training institutes & workforce development
- Began housing investment guaranty program (HG), savings & loan associations & mortgage financing to establish local housing banks
- Initiated Investment Guaranty Program in LAC Bureau that evolved into OPIC
- Supported American Institute for Free Labor Development (AIFLD)
- Strengthened labor unions, credit unions, cooperatives, artesian export centers, community organizations, local PVOs in accordance with Title IX of FAA
- Originated micro-enterprise development & public-private partnerships through the Pan American Development Foundation in LAC region
- Encouraged land reform to create small farmer property owners
- Implemented “Operation Tycoon” to recruit business leaders to staff USAID (1961-1962)
- Helped create the International Executive Service Corps (IESC) to advance private sector development abroad modeled after the Peace Corps (IESC began in 1964)
- Others (e.g. export assistance in selected countries such as Taiwan & South Korea)
1970s: “New Directions”: Targeting the Rural Poor

- USAID’s investment guarantee program used to establish the Overseas Private Investment Corporation (OPIC) in 1971
- Inter-American Foundation (IAF) created by USG based on USAIDs pioneering work in the 1960s with community-based organizations, labor unions and local PVOs
- Shifted away from macro-economic reforms, large infrastructure, urban-industrial development, & capital assistance to making grants for specific projects
- Targeted the “poor majority” through “basic human needs” assistance
- Focused on small farmer agriculture, rural health & education, non-formal education, etc.
- Strong Congressional earmarking of aid to specific purposes & sectors to assist the poorest segments of a developing country
- Empowered the poor through local participation, community organizations, cooperatives & NGOs and an integrated rural development approach
- Expanded agricultural producer & marketing cooperatives
- Built farm-to-market roads to encourage rural enterprises and agro-industries
- Implemented family planning service delivery through formation of local NGOs
- Created “Appropriate Technology International” as an independent NGO
- Promoted PADF National Development Foundations to finance micro-enterprises and facilitate corporate social responsibility
- Established Regional Agri-Business Investment Enterprises (e.g. LAAD see book the “Possible Mission”) & others
- Continued to focus on strengthening local labor unions, community-based organizations and NGOs with support from CARE, AIFLD, CLUSA, NRECA, Aid to Artisans, etc.
- Implemented Economic Support Fund Resource Transfers with significant private sector components and assistance to local industry
- Others


1980s: Developing Free Markets, Exports, Private Investment & Democracy

- International Debt Crisis: Change in Development Strategies & Economic Policies
- Replicated success of Taiwan, South Korea, other “Asian Tigers”, Chilean models of export-led development & integration into world economy
- Encouraged outward-oriented economic policies that promoted investment, diversification and productive employment
- Implemented Caribbean Basin Trade & Investment Initiative (CBI) & promoted Chilean economic policies throughout the developing world
- Established USAID’s Private Sector Bureau and the U.S. Trade & Development Agency (1982) from USAID’s Trade and Development Program
• ESF Support for Stabilization & Structural Reforms that create incentives for exports, investments & job creation
• Funded host country “think-tanks” to conduct business climate studies & advocate for market-trade liberalization
• Pioneered new focus on informal sector, property ownership & costs of doing business as keys to accelerating development (e.g. ILD)
• Established Private Investment & Export Promotion Institutes (e.g. FUSADES in El Salvador, FIDE in Honduras, CINDE in Costa Rica)
• Developed Export Processing Zones & Production Sharing Strategies with U.S manufactures modeled after maquiladora industries along U.S.-Mexico border
• Promoted privatization of National Corporations and State-Owned Enterprises
• Initiated dialogue on private delivery of social services (e.g. technical training, health & education services)
• Encouraged a vigorous response by the private sector to a more favorable policy environment
• Accelerated opportunities for participation through development of Micro-Enterprises, NGOs, Cooperatives, Labor Unions, etc.
• Initiated democracy promotion programs with local civil society and the public sector
• Others
  • Books influencing USAID policies: “Free to Choose” by Milton Friedman; works by Economists Arnold Harberger & Steve Hanke; “Structure and Change in Economic History” & “Institutions, Institutional Change and Economic Performance” by Douglass North; articles by Muhammad Yunus; Hernando de Soto’s The Other Path, etc.; USAID Compendium of Africa Bureau Mission Private Sector Projects, 1980-1992; ILD in Peru supported by USAID symbolizes new private sector approach that focuses on the revolutionary potential of the informal sector and property titling; Muhammad Yunus establishes Gramheen Bank in Bangladesh to expand micro-enterprise development that becomes world famous.

1990s: Responding to Collapse of Communism, Renewed Focus on Sustainable Development & Democratic Governance

• Supported transition from state-run economies to market-driven economies in Eastern Europe & Eurasia
• Emergence of “Washington Consensus” on development policies to encourage market-trade reforms and improved governance
• Promoted trade reforms through regional agreements (e.g. ATPDEA, NAFTA, Summits of the Americas, etc.)
• Established new private sector programs & Enterprise Funds in former Communist countries
• Renewed focus on developing international competitiveness & implementing recommendations of Michael Porter
• Increased emphasis on sustainability through private entities
• Supported privatization & private social safety nets
• Developed micro-enterprises through NGOs and the banking system
• Expanded child survival, family planning & health programming through NGOs & the private sector
• Broadened programming for environmental protection & natural resource conservation through local and international NGOs
• Decline of traditional agricultural development & education programs with public sectors
- Strengthened democracy through civil society & private sector development and new emphasis on improving democratic governance
- Increased use of consulting firms & NGO partners in face of declining USAID staff
- Others
- Publications influencing USAID policies in 1990s: *The End of History and the Last Man* by Francis Fukuyama; *Underdevelopment Is a State of Mind: The Latin American Case & The Pan American Dream*, by Lawrence Harrison; *Limits of Growth* by the Club of Rome; *Only One Earth: The Care and Maintenance of a Small Planet* by Barbara Ward; *The Earth Summit* in Rio de Janeiro 1992; *Banker to the Poor: Micro-Lending and the Battle Against World Poverty* by Muhammad Yunus; Herando De Soto’s “Mystery of Capital”; Michael Porter on “The Competitive Advantage of Nations”; *Plowing the Sea: Nurturing the Hidden Sources of Growth in the Developing World* by Michael Fairbanks & Stacy Lindsay; “Secret Successes of USAID” by Michael Pillsbury.

2000s: War on Terrorism, Reconstruction, Nation-Building & Addressing MDGs & Transnational Challenges

- Established the Millennium Development Goals (MDGs): No.8: “Develop global partnerships for development”.
- Promoted new consensus on foreign assistance & renewed commitment to central role of private sector in the development process
- Made operational the Global Development Alliance (GDA) to engage companies, philanthropies, etc. through Public-Private Partnerships (PPPs)
- Developed hundreds of PPPs that became mainstream activities in multiple sectors
- Established “Development Credit Authority” & loan guarantee programs, building on past USAID instruments/experiences
- Implemented Trade Capacity Building, especially trade hubs in Africa in support of African Growth and Opportunity Act (AGOA)
- Integrated trade capacity building into negotiations of FTAs (e.g. CAFTA) and supported development of Trans-Pacific Partnership (TPP)
- Formulated USAID “business roadmap” that led to “World Bank Doing Business Reports” to guide private sector programming
- Improved International Competitiveness (e.g. further promotion of Michael Porter methodology)
- Established Millennium Challenge Corporation (MCC) & its “Private Sector Initiative Toolkit” built on prior USAID programs
- Created PEPFAR & used private sector delivery systems for HIV/AIDS programs
- Growing recognition ODA declining while FDI, remittances, corporate donations were increasing (significant privatization of aid)
- Dramatic increase in public sector aid—largest since the Marshall Plan in late 1940s
- Privatization of foreign aid through major increases of family remittances from developed economies to those in developing countries
- Others

Erosion of USAID, by Gerald Hyman; “The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It” by Paul Collier; “Dead Aid: Why Aid is Not Working and How There is a Better Way” by Dambisa Moyo. Also see: “U.S. Development Aid: Achievements and Failures in the Twentieth Century” by Samuel Hale Butterfield; The Moral Consequences of Economic Growth, by Benjamin Friedman.


- Launched Quadrennial Diplomacy and Development Review (QDDR)
- Continued emphasis on PPPs in accordance MDGs, QDDR, USAID Policy Framework
- Promoted Increased exports & trade-capacity building as part of FTAs (e.g. Peru, Colombia)
- Focused on reducing costs of doing business for private sector in developing countries
- Enhanced skills training & workforce development
- Implemented “Partnerships for Growth” (PFG) to reduce growth inhibiting constraints in selected countries
- Developed Trade Facilitation Alliances
- Expanded “Development Credit Authority” for loan guarantees for development projects
- Extended microenterprises support to empower the poor
- Established “Feed the Future” Private Sector Engagement Hub
- Began Innovations Venture Fund & USAID Global Development Lab
- Focused on developing local NGOs & private sector systems
- Expanded health and other PPPs as described in: http://www.mintpressnews.com/public-private-partnerships-win-win-global-health/193630/
- Supported Global Entrepreneurship Summits
- Partnering to Accelerate Entrepreneurship (PACE) Initiative
- Growing criticism of support to civil society groups and private sector leads to closure of USAID Missions in some countries (e.g. Bolivia, Ecuador, Russia)
- Others