



ICG Better Practices Report

by

Mark Frazier & Joseph McKinney

ICG Working Paper 1 - April 2019

Abstract

This paper outlines novel and effective strategies for creating future “startup societies.” These “better practices” are derived from a mix of citable sources and co-author Mark Frazier’s 30 years of field experience. The paper is split into three sections. First, the authors explain the existing market landscape. Second, they point to interesting future developments for startup societies. Lastly, the authors list six pragmatic approaches to create innovative startup societies in the future.

Note: This Working Paper was copy edited and formatted by Joshua D. Glawson. Glawson is a University of California Irvine Student of Political Science and avid political commentator.



ICG Better Practices Report

Table of Contents

ABSTRACT

I. Past Approaches to Startup Societies

- A. Frameworks
- B. Establishing Policies
- C. Selecting Sites

II. Technological Impacts on Startup Societies

- A. E-Governance
- B. Quickstarts
- C. Technologically-focused Private Zones

III. Six Better Practices

- A. Create an Aspiring Concept
- B. Attract Admired Partners
- C. Lead with a Gift
- D. Organize Competition
- E. Align Incentives of All Stakeholders
 - 1. Education
 - 2. Government
 - 3. Citizens
 - 4. NGOs
 - 5. Other Stakeholders
- F. Grow in Phases

CONCLUSION



Better Practices Report

I. Past Approaches to Startup Societies

1. Frameworks

In this paper, we define a startup society as any form of experimental government in a small geographic area. As a consequence, the possible iterations are virtually endless. While the better practices expressed in this paper are applicable to all types of startup societies, Special Economic Zones will be the foundation of our research and recommendations since they are the most practiced, contemporary example.

Five non-SEZ startup societies include:

- **Private Communities:** cities that are developed and operated by for-profit private developers. The city of Gurgaon, in northern India, is one such example.

- **Eco-villages:** environmentally sustainable towns in which policy experimentation is less of a focus than green infrastructure. For instance, Regen Villages, an ecovillage community in the Netherlands, is creating off grid communities powered by renewable energy sources, but has no policy concessions.

- **Seasteading:** floating, more or less, autonomous platforms on the sea. Current attempts focus on creating “Special

Economic Sea Zones” in cooperation with host governments, but many ultimately desire fully sovereign seasteads in international waters.

- **Charter Cities:** cities administered by third-party governments within a host country.

- **Communes:** any form of voluntary, non-capitalistic, communities. They often collectively operate the means of production and emphasize equity. For example, a commune can equally distribute shares of the cooperative community among long term residents.

Experimental governments (or Startup Societies) come in various forms: private communities, eco-villages, seasteads, charter cities, and communes.

The 2008 FIAS World Bank report offers one of the best overviews of the Special Economic Zone industry¹. It is a sweeping overview of the different zone frameworks.²

TABLE 2

Types of Zones

Type of Zone	Development Objective	Physical Configuration	Typical Location	Eligible Activities	Markets	Examples
Free Trade Zone (Commercial Free Zone)	Support trade	Size < 50 hectares	Ports of entry	Entrepôt and trade-related activities	Domestic, reexport	Colon Free Zone, Panama
Traditional EPZ	Export manufacturing	Size < 100 hectares; total area is designated as an EPZ	None	Manufacturing, other processing	Mainly export	Karachi EPZ, Pakistan
Hybrid EPZ	Export manufacturing	Size < 100 hectares; only part of the area is designated as an EPZ	None	Manufacturing, other processing	Export and domestic market	Lat Krabang Industrial Estate, Thailand
Freeport	Integrated development	Size > 100 km ²	None	Multiruse	Domestic, internal and export markets	Agaba Special Economic Zone, Jordan
Enterprise Zone, Empowerment, Urban Free Zones	Urban revitalization	Size < 50 hectares	Distressed urban or rural areas	Multiruse	Domestic	Empowerment Zone, Chicago
Single Factory EPZ	Export manufacturing	Designation for individual enterprises	Countrywide	Manufacturing, other processing	Export market	Mauritius, Mexico, Madagascar

¹ Akinci, Gokhan; Crittle, James. 2008. Special economic zone : performance, lessons learned, and implication for zone development. Foreign Investment Advisory Service (FIAS) occasional paper. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/343901468330>

³ *Id.*



economic zones in the developing world are private, which contrasts greatly with the 1980s, when less than 25 percent of zones worldwide were in private hands.⁴

- **Public-private zones:** mixture of private and public ownership and management that takes many forms. Popular arrangements are listed in Table 9.

TABLE 9
Examples of Public-Private Partnership in Zone Development

Country/Zone	Role of Public Sector	Role of Private Sector
Gaza Industrial Estate, West Bank and Gaza	Financing of all external infrastructure as well as factory shells; provision of land on long-term lease basis	Financing of all internal infrastructure and management of zones
Aqaba Industrial Estate, Jordan	Financing of all external infrastructure; provision of land on long-term lease basis	Financing of all internal infrastructure and management of zones
Subic Industrial Estate, Philippines	Financing of all external infrastructure; provision of land on long-term lease basis; equity stake in industrial estate	Financing of all internal infrastructure and management of zones
Tan Thuan EPZ, Vietnam	Provision of land on long-term lease basis; right of way development rights on access roads	Financing of all internal and external infrastructure and management of zones

2. Establishing Policies

This section draws upon the experience of one of the co-authors, Mark Frazier, in creating policy frameworks for zones.

Startup society founders sometimes work with the sponsoring government to ensure legislation necessary for a favorable business climate.

They can create a “working group” to orient local leaders and negotiate with the host state to craft reforms.

The goal is a world-class package of legislation, regulations, and a strategy document enjoying strong political support. The timeline for this can range from three months (if only minor changes are needed to current policies) to several years. A legal and technical advisory team in this period may cost between \$200,000

and \$2,000,000.⁵

The creation of a startup society also necessitates cooperation with the local host government. A completely new set of regulations may be necessary in order to ensure a favorable economic environment.

When the reforms are approved by the host state, founders support the institutions responsible for successful implementation. For example, founders may establish a national Free Zone Authority, if one does not exist. This agency chooses areas eligible for incentives, awards concessions to developers, registers incoming investments and administers compliance.

Ideally, the process ranges from 12 to 36 months, depending upon the existing level of development of the participating institutions and the degree of public sector support for efficient implementation of the regime.

Although expenses vary according to the readiness of the public sector, the costs of technical assistance for similar projects has ranged between \$500,000 to more than \$5 million, depending on local support.

Once startup society funders are satisfied with progress, they can proceed to select a site.⁶

3. Selecting Sites

Like the above section, the following is based on Mark Frazier’s past

⁴ *Id.*

⁵ Based on Mark Frazier’s experience with The Services Group and SRI in Caribbean Basin projects (1986-1990), and Israel Export Development Corporation-funded reforms for IEPZ (1992-5).

⁶ Based on Mark Frazier’s experience with USAID, OPIC, and World Bank budgeting for SEZ policy reforms in Africa (1988-1991).



work in site selection. This is the process he employed and the approximate costs of the work.

According to Frazier, in site selection, founders typically commit funding for site-specific, pre-investment, studies. Project founders can perform a comprehensive feasibility study for a specific location all at once or in phases. The former strategy makes sense in time-sensitive cases in which a site is ready and the host government seems certain to implement the policies.

Choosing a site for the startup society is split into several steps: an opportunity identification study, pre-feasibility study, and full feasibility study.

The phased approach is slower but safer because it allows startup society funders to commit funds on a step-by-step basis and proceed once they have received confirmation that all requirements can be met.

If the project founders opt for a step-by-step approach, they begin with an Opportunity Identification Study. The assessment evaluates several potential sites for their economic resources, obstacles, growth markets, and establishes a baseline configuration for a market test. A consulting partner can normally complete this within three months at a cost of \$50,000,⁷ plus expenses.

The next step is a pre-feasibility study which studies site conditions, needed

infrastructure/construction investments and potential production cost savings for future users. Then a market sampling of global firms is conducted to assess levels of interest. Market surveys generate occupancy forecasts, which enable planning specialists to create a baseline site plan with proposed phasing of development. Preliminary financial pro formas are then generated.

These reflect the costs of the phased development and revenue projections based upon the market survey findings. The financial projections aim to be accurate to within a margin of error of 20 percent. A pre-feasibility study normally takes from five to eight months and ranges in cost from \$200,000-\$400,000,⁸ depending upon the scale of the market survey. The full feasibility study combines the opportunity identification study, pre-feasibility studies, along with detailed costs for site infrastructure, buildings, and amenities. Physical plans include dimensioned drawings of the planned on-site structures.

It covers potential environmental impacts. Feasibility studies aim to generate financial projections accurate within 10 percent.

Often, a financial specialist will package the overall study findings in order to create a prospectus for circulation among potential funders.

North American, European, and Asian consulting firms charge more than \$500,000 for a full feasibility study. Partnering with local consultants, however, can substantially reduce the price.

⁷ Based on Mark Frazier's experience in telecenter, technology park, and SEZ opportunity appraisals in Kyrgyzstan, Bulgaria, and Africa (1988- 2005).

⁸ Based on Mark Frazier's experience with market surveys and prefeasibility studies for Montego Bay Free Zone, Jamaica (1985), private zone developers in Uruguay (1989), and Togo Free Zone (1989-1990).



II. Technological Impacts on Startup Societies Industry

Challenges facing tomorrow's startup societies industry will be much different than in the past. Exponential technologies such as robotic automation, AI, blockchain, and online tools, are set to radically alter the global marketplace. For developing countries, recent World Bank and UNCTAD estimates that two-thirds of traditional jobs are at risk.⁹ Special Economic Zones, which initially rose to prominence due to unskilled labor industries, are now losing their competitive advantage due to automation and software.

Changing technology provides three new opportunities for startup society founders.

1. E-Governance

E-governance can foster trustworthy business climates by increasing transparency and disincentivizing corruption. Consequently, stakeholders can benefit from increased land lease revenue due to declining corruption.

Estonia began to digitize governmental functions in 1997 with e-Estonia. Citizens can now pay taxes, vote, register their identities, and access public services online. Because digitization has improved transparency, instances of corruption have declined. Moreover, e-Estonia created an e-residency program,

offering international entrepreneurs a way to quickly and cheaply register their companies.^{10 11}

Startup society founders benefit from building “turnkey governance” software solutions. They create transparent, effective, governments in any new site they wish to develop.

Using AI, Blockchain and similar digital exponential technologies makes E-Governance an instrumental part of future startup societies.

E-governance becomes more transparent if it records all action on a decentralized ledger, a blockchain. The same technology which verifies transactions on the Bitcoin network¹² would do the same for transparently verifying contracts, permits, and land registration. Blockchain governance harnesses a constant army of auditors verifying all governmental actions, drastically reducing the possibility for corruption.

Because developing countries ineffectively protect the property rights of the poor, they cannot benefit from their assets. Hernando De Soto Polar claims that government mismanagement of property rights results in a loss of 9-14 trillion dollars in “dead capital.”¹³ Blockchain technology permits property

⁹ Robots and industrialization in developing countries. (2016). UNCTAD Policy Brief, 50.

¹⁰ “E-Governments vs. Corruption: The Case of Estonia.” Technology and Operations Management, rctom.hbs.org/submission/e-governments-vs-corruption-the-case-of-estonia/.

¹¹ Karv, J. (n.d.). E-Government and its ability to reduce corruption: The case of Estonia. Lund University. STVM23 Department of Political Science. Retrieved from

<http://lup.lub.lu.se/luur/download?func=downloadFile&recordId=5425282&fileId=5425287>.

¹² Nakamoto, Satoshi. “Bitcoin: A Peer-to-Peer Electronic Cash System.” Bitcoin.com.

¹³ Soto Polar, Hernando de, 1941-. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books. (2000)



registration among the developing poor, regardless of their local failing state.

If a startup society were to adopt these technologies, its funders would benefit from a surge of land-lease revenue due to an influx of newly activated capital.

2. “Quickstart” Zone

Startup societies can now be rapidly activated at low cost using Quickstart zones. Quickstarts are special zones that start within a single building or city block, then scale. Their concession agreements allow their policy framework to be extended further depending on how successful the zone is. As a result, Quickstarts could scale from single buildings to a city-sized zone.

Over the past four decades, traditional industrial park-style Special Economic Zones required substantial investments for infrastructure and buildings. They also had to be located close to existing ports and/or airports, in order to facilitate exports by apparel, electronics assembly, and light manufacturing ventures.¹⁴

Today, however, startup societies oriented toward online work can be started at a tiny fraction of former costs. Special Economic Zone concessions can be applied to any existing or new buildings with a market emphasis towards online work. This means building owners can set up hubs for freelancers seeking jobs in burgeoning online markets.

Startup societies can now be rapidly activated at low cost using Quickstart zones. Quickstarts are special zones that start within a single building or city block, then scale.

The Quickstart’s volume of high speed internet usage simultaneously measures community growth. Founders can use the data from the Quickstarts to prove success to policymakers and pick the most ambitious areas. For example, the Jamaica Montego Bay Free Zone set up a quickstart incubator for telecommunications services in order to test operations on a small scale. They soon expanded and created 2000 jobs at the Free Zone office park.

3. Technologically-focused Private Zones

Innovations enable startup society founders to lower risks by presenting their sites to showcase new technologies. Consequently, privately-funded projects can become a source of pride for the host community and region.

Already, Special Economic Zones are exemplars of advanced technologies. Zonamerica in Uruguay is a leader in logistics and information technology exports in South America.

Shenzhen, China, is recognized as the “Silicon Valley of Hardware.”¹⁵ Dubai hosts leading Free Zones for internet and media clusters;¹⁶ and Songdo, South Korea, is at the forefront of Smart Cities and green design.¹⁷

¹⁴ Guidebook on Free Zones, 1986, The Services Group for USAID.

¹⁵ “Shenzhen: The Silicon Valley of Hardware (Full Documentary) | Future Cities | WIRED.” YouTube, Wired, 5 July 2016, youtu.be/SGJ5cZnoodY.

¹⁶ Site designed and built by Hydrant (<http://www.hydrant.co.uk>). “Dubai’s Tech-Savvy Population and ICT-Focused Free Zones Create a Welcoming Environment for Start-Ups.” Oxford Business Group, 18 Sept. 2015.

¹⁷ Sisson, Patrick. “Songdo, South Korea’s City of the



In the near future, breakthroughs are set to transform the ways that health, education, transport, food, and construction are done. Startup societies can gain global and national support by leading in technology. In doing so, they make it less likely that local opponents will be able to block policy reforms.

SEZs are exemplars of advanced technologies. Zonamerica in Uruguay is a leader in logistics and information technology exports in South America. Shenzhen, China is now recognized as the “Silicon Valley of Hardware.”

Private startup societies attract higher tech industries as a result of their incentives which cater to “higher value added” companies. Private zones absorb their costs (unlike public zones) and attempt to recoup them through higher value tenants.

This often prompts startup society founders to attract high tech tenants through better infrastructure.

Private startup societies with high tech infrastructure can immediately plug into growing sectors such as robotics, AI, blockchain, and biotechnology.

As a consequence of higher value, the FIAS report notes higher lease rates in private zones, benefiting investors.

For instance, the private Dominican Republic Zones demand a price 3 times higher than their public counterparts.¹⁸

Future, Has a Green Vision.” Curbed, Curbed, 2 Nov. 2015, www.curbed.com/2015/11/2/9904808/songdo-korea-city-planning.

¹⁸ Akinci, Gokhan; Crittle, James. 2008. Special

III. Six Better Practices

Given these technological changes, land values in startup societies land values can grow faster in the coming era than the world has ever seen. The developing world has countless inactivated assets whose value can be captured by removal of implicit taxes from (inflation, corruption, crime, deadweight of public sector education), and providing good policy environments. But in order for all stakeholders to benefit from new startup societies, they must have safeguards to hedge against risk.

The rest of the paper lists six better practices for funders to mitigate risk and promote better governance around the world.

1. Create an Inspiring Concept

A bold vision can reduce risk by attracting committed global and local allies. Rather than pursue an undifferentiated startup society opportunity, founders gain leverage in negotiating prime sites and world-class policy reforms by offering global visibility combined with exceptional asset gains.

Startup societies that create beachheads for new technologies can be at the forefront of harvesting these gains.

An inspiring way to focus a startup society vision is for founders to create a world-leading project. The chosen niche can be tightly focused – startup society founders may opt for breakthrough technologies in specific aspects of transportation, tourism, agriculture, healthcare, robotics, ocean, and space

economic zone: performance, lessons learned, and implication for zone development. Foreign Investment Advisory Service (FIAS) occasional paper. Washington, DC: World Bank



development. Once they have identified a distinctive focus, they can form international advisory networks as the nexus for a future global “center of excellence” to be based at the venue chosen for the startup society.

This branding focus should not be construed to keep the startup society project from attracting a wide range of ventures. Rather, it is a lever to secure the most favorable possible sites and reforms from the sponsoring jurisdiction.

The chosen niche of a startup society should be tightly focused – startup society founders may opt for breakthrough technologies in narrow aspects of specific fields, instead of a generalized approach.

A large-scale growth scenario is also key to minimizing startup delays and setbacks. The prospect of creating a new world city on the scale of Singapore, Hong Kong, or Dubai opens the vision of awakening tens of billions of dollars of assets for local and global beneficiaries.

When such expansion scenarios are central to the Founder’s vision, local gatekeepers will hesitate to put an immense future windfall in jeopardy.

2. Attract Admired Partners

Trust and credibility are crucial to lowering risk. A diverse coalition of respected international partners demonstrates that the project is not in the interest of any one individual, group, or state.

Establishing a baseline of credibility allows for favorable commitments, while it reduces concerns from the government and other local-stakeholders (citizens, local

businesses, etc.). The Partners also serve as the global liaison between startup society founders and the international community.

Potential Startup Society Partners include:

- **Investors:** provide more resources and a network to recruit new partners.
- **Technology leaders:** conduct pilot projects to demonstrate the value of new technologies that improve communications, finance, education, power, transportation, water, health, food, and housing.
- **Successful SEZ developers** - advise on best practices and alert to any potential roadblocks.
- **Third party auditors:** observe the startup society Partners’ operations to disincentivize corruption and grow trust among stakeholders.
- **Media specialists:** present the Partners’ efforts to the public, generating interest among private and public sector decision makers.
- **Humanitarian NGOs/philanthropies:** communicate moral validity to all stakeholders and helps address the explicitly humanitarian aspects of startup society development.

If enlisted in order, the listed startup society Partners can serve as the advisory and planning network. They could plan the next better practice, Lead with a Gift, which employs non-profit economic interventions.

Many of the Partners, such as NGOs, could implement it themselves. In return,



Partners would be offered shares of startup society land lease revenues and share the prosperity of future hubs, at little or no risk.

3. Lead with a Gift

The Phoenicians were the economic juggernauts of the Mediterranean due to their vast trade network.

However, communities in the ancient world were justifiably risk-averse towards foreigners. As a way to earn trust, Phoenicians would repeatedly leave gifts on the shores of intended trade partners.

After a few repetitions, Phoenicians would approach the recipients and begin negotiating terms of trade. The startup society industry should apply a similar strategy to reduce the risk of failure from mistrust, and lead with a gift.

Residents in most poor communities often doubt that startup societies will benefit them. Consequently, startup society advocates have frequently run into grassroots resistance. Citizens are arguably the most important local stakeholders and must be appropriately addressed.

Once multiple sites have committed to introduce concentrated reforms, founders (including Partners if performing steps in order) can create a pooled offer which immediately benefits its citizens.

Some of the direct benefits that can make up a “Lead with a Gift” bundle are:

- **eLearning:** Global and regional

learning networks can enter into continuing partnerships to help local residents build skills. This can help lift standards of living as the startup society expands;¹⁹

Projects to invigorate dormant assets and abilities can start with offerings of learning and governance services, with tiered rewards for societies that meet metrics set out by the outreachers. In case the local experiment fails, costs are kept to an appropriate minimum.

- **eHealthcare:** Free and near-free remote diagnostic support services can be provided to local residents and health providers in partnering communities. This can reduce mortality and morbidity rates in communities sponsoring startup societies.²⁰

- **Online freelance marketplaces:** High performing work-study students can also earn through ongoing freelance opportunities in such markets as Fiverr.com and Freelancer.com, which today host more than 50 million freelancers and more than \$1 billion annually micro-projects. Success in these markets can also make residents more employable in large-scale startup societies.^{21,22}

- **Open source e-government allies:**

¹⁹ Examples: OpenCourseware, EDX, Teachur.

²⁰ Tata of India, which has launched a free remote diagnostic service in radiology for villages Baidu of China (which has created an AI-driven chatbot for assessing health issues) and other developers of cell phone-based apps and sensors. Moreover, the coalition could attract health NGOs, such as Doctors Without Borders, to aid in development.

²¹ “Home.” Oxford Internet Institute, www.oii.ox.ac.uk/blog/how-the-worlds-largest-companies-use-online-freelancing-platforms-new-report/.

²² Kuek, Siou Chew; Paradi-Guilford, Cecilia Maria; Fayomi, Toks; Imaizumi, Saori; Ipeirotis, Panos. 2015. The global opportunity in online outsourcing. Washington, D.C. : World Bank Group.



International partners providing e-government solutions can play an ongoing role. Online apps can streamline investment approvals and otherwise improve business climates, including freelance contracts. Blockchain-based land registry and arbitration agreements can awaken land values.²³

- **High-tech Infrastructure:** Sites would be a testing ground for innovative infrastructure. A baseline is necessary in order to support high speed telecommunications, new energy needs, and transportation to adjacent markets. For example, Elon Musk could use these sites as testing grounds for self-driving cars, hyperloop transportation, and solar energy, as he recently suggested for Puerto Rico.²⁴

Google²⁵ and Facebook²⁶ shown their interest in providing high speed internet for development purposes.

- **Security Services:** Violence deters economic growth, especially in the developing world where protection is scarce.²⁷ Providing protection would allow individuals, businesses, and communities the assurance that they could develop unmolested. Organizations like Detroit Threat Management can use non-violent solutions to reduce violence in potential

sites.²⁸

“Leading with a gift” will rely on a one-time expense for the creation of the relevant tools, and may be a better long-term model than performing 3-step studies for each potential site.

Costs for startup society Partners to offer such “Lead With a Gift” packages can be well under the cost of conducting field studies at multiple sites. Moreover, because the challenge offers are in digital form, they can be (conditionally) offered to scores or hundreds of locations around the world.^{29 30}

The gifts are released iff the local responses meet a threshold set by the founders and Partners.

In addition to building trust, the “Lead with a Gift” strategy also measures the economic progress of the site.

Net income from freelancing, micro-loans repayments and e-learning course completion can indicate community responsiveness and the successful implementation of government reforms. Moreover, due to the introduction of e-governance, founders can measure the host

²³ See *supra* note 11; “Governments May Be Big Backers of the Blockchain.” *The Economist*, *The Economist* Newspaper, 1 June 2017; “Zonamerica.” Zonamerica. web.zonamerica.com/#!/zonamerica-bitz-news/zonamerica-fue-certificada-por-aduanas-como-operador-economico-calificado.

²⁴ Carter, Brandon. “Elon Musk, Puerto Rico Governor Speak on Tesla Rebuilding Power Grid.” *The Hill*, 7 Oct. 2017, thehill.com/policy/technology/354361-elon-musk-puerto-rico-governor-speak-on-tesla-rebuilding-power-grid.

²⁵ Crew, Bec. “Google Is Working on Beaming High-Speed Wireless Internet Into Your Home.” *ScienceAlert*, www.sciencealert.com/google-is-working-on-beaming-high-speed-wireless-internet-into-your-home.

²⁶ Dzonzi, Thembisile, and Loni Prinsloo. “Facebook Is Launching Rural Internet Access Via Satellite for Africa.” *Bloomberg.com*, Bloomberg, 31 Aug. 2016.

²⁷ Butchart, A. “Manual for Estimating the Economic Costs of Injuries Due to Interpersonal and Self-Directed Violence.” *World Health Organization*.

²⁸ Hamilton, Amelia. “Self-Defense Business Booming In Detroit.” *National Review*, 23 July 2014.

²⁹ In 2005, 25 Kyrgyz communities offered land grants in a competition to be chosen as for a small number of pilot sites eligible for \$25,000 in micro-vouchers. (Academy for Educational Development/Openworld project for USAID). Its success led to a network of for-profit franchises.

³⁰ “E-Centers Final Report.” USAID, Dec. 2006.



state's transparency and community propensity to uphold their contracts.

Founders can provide an appealing opportunity to be won, which prompts many parties to compete. Contests, rather than individual pre-selection, are a way to significantly hedge against risk.

If executing the better practices in succession, Partners can receive a pre-agreed share of future annual lease revenues flowing from large projects in exchange for their “Lead with a Gift” contributions. Partners who enter into ongoing partnerships in operational startup societies can receive a correspondingly higher share.

4. Organize Competitions

Founders tied to pre-selected specific sites often find themselves “pushing on a string.” Regardless of costs sunk into the project, little progress tends to be made following an initial wave of enthusiasm. Powerful interests in the host government know when a preselected site has become the founders’ only attractive development option.

Founders can instead pull on the string, by providing an appealing opportunity to be won, which prompts many sites to compete. Contests, rather than individual pre-selection, are a way to significantly hedge against risk for the following reasons:

- **More options:** because the high

likelihood of failures, multiple options must be available to eliminate any single point of failure.

- **Self-selection:** competitor sites seek out to become startup societies, making them more likely to follow through with the necessary reforms.

- **“Sunk cost” thinking:** founders avoid ending projects because of the effort they put in, which leads to accepting lackluster reforms in an effort to maintain the project. The contest provides more options in order avoid sunk cost thinking.

- **Publicity:** broadcasting the contest produces more trust than backdoor agreements and bestows prestige on winning contestants.

- **Direct benefits:** contestants will more readily enacts reforms when they have an immediate benefit from participating.

A recent example of the “power of pull” is the \$5 billion dollar contest to select which city would house a new Amazon headquarters.³¹ This case demonstrates that wealth can project soft power in order to influence policy changes. Other examples include Google’s city competition for high speed data, the eCenters in Kyrgyzstan, and the OPIC/USAID³² sponsored contest for the first private Free Zone in Africa.

The OPIC/USAID Africa Free Zone competition hosted semifinal and final rounds as a means of intensifying competition and incentivizing reform from sites.

Again, if done in order, the better practices support each other. After the

³¹ Green, Dennis. “Amazon Has Triggered a \$5 Billion Bidding War - Here Are the Cities That Are in Competition for Its New HQ.” Business Insider, Business Insider, 4 Oct. 2017.

³² http://pdf.usaid.gov/pdf_docs/PNABK565.pdf.



competition has been announced, the Partners can create a series incentives which align stakeholder interests, and use it as the criteria of the contest. This increases the likelihood of their implementation and the enthusiastic support of stakeholders. The incentives are listed in the section below.

5. Align the Incentives of All Stakeholders

Another risk-lowering step is to align the incentives of all parties in startup society success. If everyone benefits from the success of a startup society, it will lessen the desire to oppose it, and likely motivate enthusiastic, supportive, action.

Agreements between the founders and other parties can cover the following:

A. Education

Educating stakeholders is the first, and simplest, step to align incentives. Implementation will be smoother if all parties are knowledgeable about the proposal and how they benefit. Many startup societies fail because locals are uniformed and suspicious, not because it does not benefit them. Orientations can easily address this by explaining the general proposal and its consequences to citizens, governments, civic groups, and local businesses. However, in order to build trust, founders cannot simply present the upsides. The orientations must honestly discuss past startup society failures and obstacles. If a startup society encounters roadblocks without informing the community of their possibility, locals will react negatively.

B. Government

Government cooperation is a necessary condition for startup society success, and therefore it must benefit from

it. In return for hosting the startup society, the government is guaranteed a share of ensuing ground lease revenues from annual auctions and tenders. The host state's interests are aligned with the startup society's success because it would receive more treasury funds.

State employees should also be incentivized to support the startup society's success. Lease shares could be escrowed to fund Singapore-style "flexi-wage" annual bonuses for civil servants in the host country. Singapore, at one stage, was struggling with problems stemming from a bureaucratic mentality and administrative inefficiency.

If everyone benefits from the success of a startup society, it will lessen the desire to oppose it, and likely motivate enthusiastic, supportive, action.

In the mid-1980s, however, flexi-wage began to implement a revolutionary policy that has effectively made civil servants into stakeholders in wide-ranging private sector success. Its success-sharing compensation partnership, based on a transparent system of linking public sector pay to the efficiency of administrative services, has helped produce a remarkable transformation in the quality of the business climate.

The flexi-wage system has enabled all civil servants in Singapore to enjoy high levels of compensation, as annual flexi-wage bonuses equal to the private sector growth rates have compounded year after year. The performance bonus typically adds the equivalent of about three weeks of regular salary each year per public



employee.³³

The same practice can be used to align the incentives of state workers to support startup society success. Civil servants within the startup society should tie their flexi-wage bonuses to the rise in land lease values. Whenever land values rise in value, state workers would receive a bonus from the long term leasehold agreement mentioned above.

E-governance, specifically blockchain governance, can further improve transparency and incentivize governments to support startup society projects. Because blockchain software is distributed, the network is completely transparent and fosters a better business climate. For example, Dubai, which will record the majority their governmental functions on a blockchain by 2020. However, blockchain governance isn't merely to restrict states, it can also reward them.

A blockchain land registry can be tokenized, meaning that shares of land lease revenue can be distributed via cryptographic tokens.

Instead of paper share agreements, the government's agreed upon revenue shares could be denominated in tokens. To combine all the incentives together, startup society founders establish a blockchain e-government, denominate shares of land leases with cryptographic tokens, and distribute shares to the host government who determines their flexi-wage bonuses based on the token's relative value.³⁴

C. Citizens

While states permit startup societies to exist, their success is determined by the well-being of citizens. However, citizens are often skeptical that startup societies benefit them, especially in sites that are ideologically averse to foreign businesses.

To address their concerns, it may be to the benefit of founders to establish an "Employee's Land Trust," in which workers can distributed shares of land lease and auction proceeds. Leasing out public land for the public benefit is already an established policy in Hong Kong,³⁵ Singapore,³⁶ and Macau.

In fact, Macau uses revenue from land leases and auction proceeds to fund a universal basic income.

After the fund accumulates for a certain period, the startup society could conduct a public vote to determine how to spend the funds. If land leases are tokenized, as recommended above, all citizens could simply receive equal token shares. As the tokens rise in value, it could serve as a universal basic income.³⁷

Founders can also gain support by activating community land trusts donated by municipalities outside of the Zone. Startup societies often fail because residents outside nearby zones resent not sharing in their growth.

Combining land trusts with business-friendly policy reforms could lead to the creation of "endowment zones," whose value would rise in proportion to the quality of the sites and of the reforms

³³ Colclough, C. (1997). *Public sector pay and adjustment: Lessons from five countries*. London: Routledge.

³⁴ Radcliffe, Damian. "Could Blockchain Run a City State? Inside Dubai's Blockchain-Powered Future." ZDNet, ZDNet, 5 Oct. 2017.

³⁵ Qu, Weidong, and Xiaolong Liu. "Assessing the Performance of Chinese Land Lease Auctions: Evidence

from Beijing." *JRER*, Nov. 2012. Vol. 34, No. 3, pp. 291-310.

³⁶ Saxena, C. "Virtuous Cycles: THE Singapore Public Service and National Development." United Nations Development Programme.

³⁷ "Macau City Residents to Receive Annual Basic Income Again." BIEN, 30 June 2015.



introduced.

Non-zone residents would benefit from the reforms and get a share of increased lease rates with shares of revenues generated by community land trusts/endowment zones, since the parallel sites would have the same policy reforms.

In this way, local residents and civic leaders could fund good causes and revitalize areas in their communities that are now struggling economically.

For example, enabling all licenses and permits for starting new ventures to be completed online and given guaranteed 24-hour response times could turn now idle sites into places attractive to investors and entrepreneurs. Lease revenues from the Community Land Trusts and endowment zones can go directly to fund micro-vouchers for local residents.

The local community might vote where the micro-vouchers should be spent, including in education, sanitation, health, micro-loans, infrastructure, and safety.

D. NGOs

NGOs must be rewarded for their continued support of startups societies in gaining support from the international community and their development interventions (“Lead with a gift”). They should be allowed to introduce potential pilot project opportunities in areas of interest to them. NGOs can engage with startup society Partners to work out the nature of demonstration projects and the resources they are prepared to contribute to their realization. Also, global resource partners can receive shares in revenue from the rising ground lease earnings of the startup society to fund future projects.

E. Other Stakeholders

SEZ consultants and tech leaders who test their technologies in the startup societies can be motivated by shares/tokens of land lease revenues. Tech entrepreneurs who implement new infrastructure would certainly benefit because their value is reflected in land values.

In order to maintain impartiality, Media specialists and third-party auditors should not be given share/tokens, or any form of financial benefit.

However, they should be granted exclusive access to the site, fostering trust and demonstrating honesty.

If taking the steps in order, founders have used contests to motivate implementation of the incentives in this section. However, as the next better practice asserts, it’s better to implement these reforms, and distribute payments, in stages.

6. Growth in Phases

Implementing policy reform in market driven phases reduces risk for startup society funders. If a site fails out of one stage, funders conserve more resources if they paid for each phase all at once.

In many instances, government-funded startup societies have ignored the need for market-paced development.³⁸ Political pressures in these projects tend to favor overbuilding in early stages, to the benefit of crony contractors but to the detriment of financial sustainability.

The founders should begin, as noted earlier, with a quickstart area developed by a risk-taking local entrepreneur. The zone can expand after the quickstart proves the reality of reform in a small

³⁸ China’s “Ghost Cities.” (2014). East Asian Policy, 6(2).



demonstration area. For the phases II-III, founders develop the expanded sites themselves or hold open tenders to “flip” these larger concession opportunities to the international developers.

Upfront concession payments and annual percentage shares paid by such developers can reward founders, the local risk-taking partner and the global partners.

Phase I

Quickstart areas can be profitable within a short period, given market-priced, fully deregulated internet and international telecommunications links. Local entrepreneurs and global outsourcing firms interested in exporting services can set up in existing or new buildings owned by the risk-taking local partner.³⁹

Office lease rates benefit from exceptionally affordable telecommunications prices that can be capitalized into office lease rates, generating above market returns for the local partner.

In some telecommunications-oriented SEZs, office buildings with 30,000 sq. ft. have accommodated as many as 1000 information service export workers operating on a three-shift basis.

Entrepreneurial co-working and co-living spaces would be ideal locations for startup society quickstarts because they have already demonstrated a commitment to innovation and economic growth. For example, Thiel Fellow Tom Currier founded Campus,⁴⁰ a co-living space

network that intended to scale to an entrepreneurial city. It quickly folded due to the Bay Area's stringent zoning codes.

However, the model would likely work if coupled with startup society quickstart policy reforms. Fort Galt Chile⁴¹ is another example of a co-living space attempting to scale into a startup city.

At the Startup Societies Summit, Balaji Srinivasan outlines how startup societies can harness the growing ranks of digital nomads. He suggest they could be polled for their policy preferences and suggested startup societies through a matchmaking service.⁴²

This software could be used to link digital nomads to quickstart co-living/co-working spaces, later scaling into digital nomad startup cities.

Phase II

Phase II begins after the quickstart area meets pre-agreed policy reform and market success tests. Afterwards, funders can develop the SEZ directly or flip it to a third-party concessionaire via a transparent auction or tender in order to avoid greater risk.

In the latter option, the third-party concessionaire pays upfront fees to startup society funders, which are shared with local quickstart partners and other mutually agreed upon stakeholders (owners of the Phase I site, allied civic groups, etc.).

This could be an area of 100-200 acres (e.g. for campus-style “Innovation Parks”) or a larger area for tourism, agriculture, logistics, or other purposes.

³⁹ “Fillip and Foote. “Making the Connection.” Information Technology Applications Center.

⁴⁰ Kasperkevic, Jana. “Co-Living – the Companies Reinventing the Idea of Roommates.” The Guardian, Guardian News and Media, 20 Mar. 2016.

⁴¹ “What Is Fort Galt? Interview With Founder Gabriel Scheare.” ZeroHedge, 2 Sept. 2017.

⁴² Srinivasan, Balaji. “The Network State.” YouTube, Startup Societies Foundation, 15 Sept. 2017, youtu.be/KiLUPvUsdXg.



The Phase II concession opportunity could also be designed as a “Build-Operate-Transfer” agreement, in which new privately-funded infrastructure assets created in this area would transfer slowly over time to designated beneficiaries. These could include founders, global and local partners, and trusts formed to sustain ongoing vouchers for education, health care and other causes valued by the sponsoring community.

Phase III

After the Phase II site is fully occupied, founders develop as much as 200-400 sq. miles for a full-scale World City (on a long-term leasehold basis with the host country).

As with Phase II, the founders choose to develop the zone directly or set up a global open tender for a risk-taking third-party developer.

If the tendering option is exercised, any upfront and ongoing concession fees received from the winning bidder would be shared in a pre-agreed way with global and local partners. The winning concessionaire would also be bound by any Build-Operate-Transfer provisions contained in the tender document.

Conclusion

To summarize the better practices in sequence, the startup society partners assemble trusted international players to build credibility and organize startup society efforts. Next, the partners organize its members to “Lead with a Gift” in order to build local trust and measure potential site candidates. The partners then invite promising sites to compete in a startup society contest that rewards them for implementing desired reforms. The contest criteria is a series of incentives which align the interests of all stakeholders, reducing the risk of conflict.

The reforms and prizes are implemented in stages in order to accurately measure success and further distribute risk.

If implemented correctly, these practices offer the opportunity for startup society founders to use exponential technologies to build the next Hong Kongs and Singapores. By sharing success with local entrepreneurs, residents, and host governments, startup societies created in the ways outlined here can become exemplars of how to make the most of a new era.