



EARN

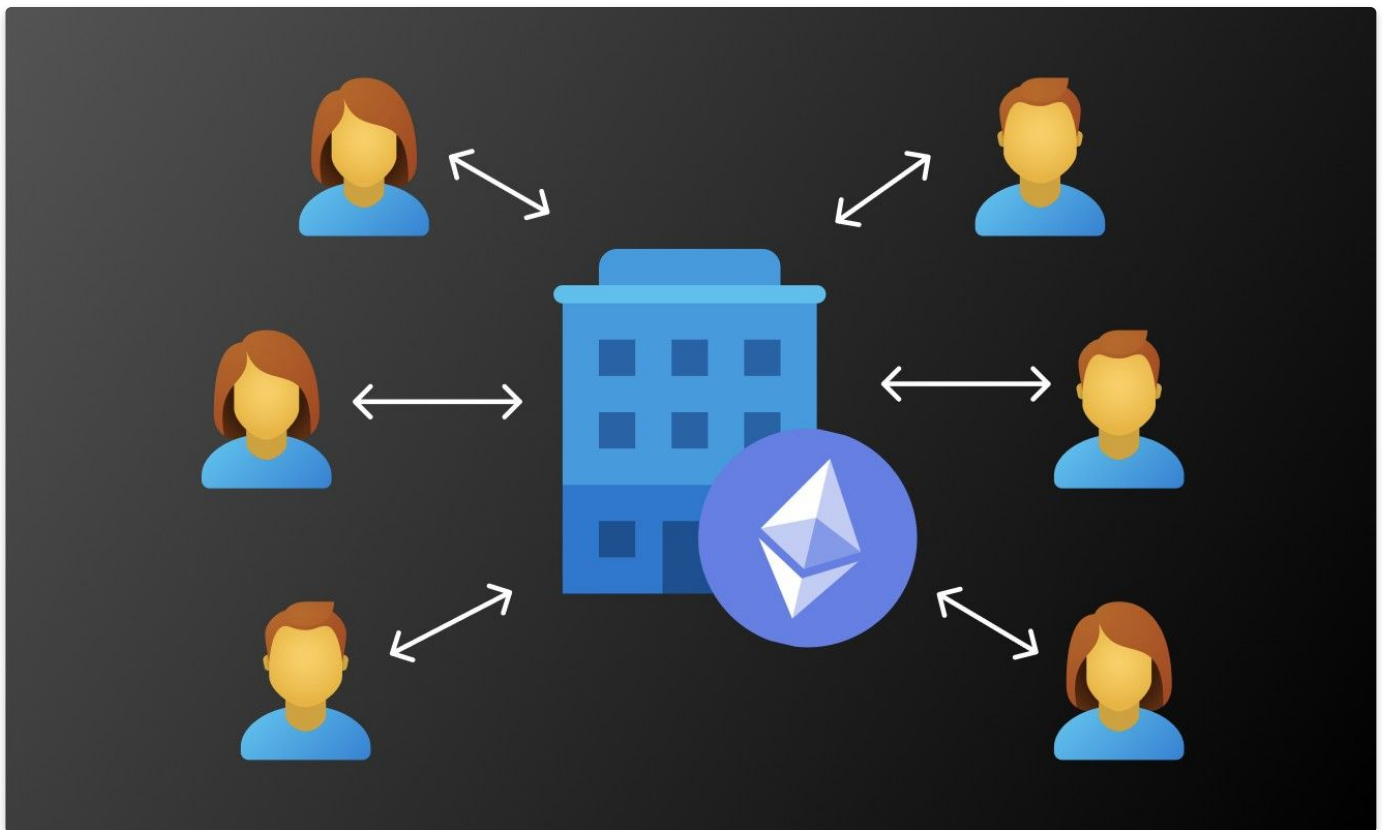
The ABCs of DAOs

How decentralized autonomous organizations are automating the corporation.



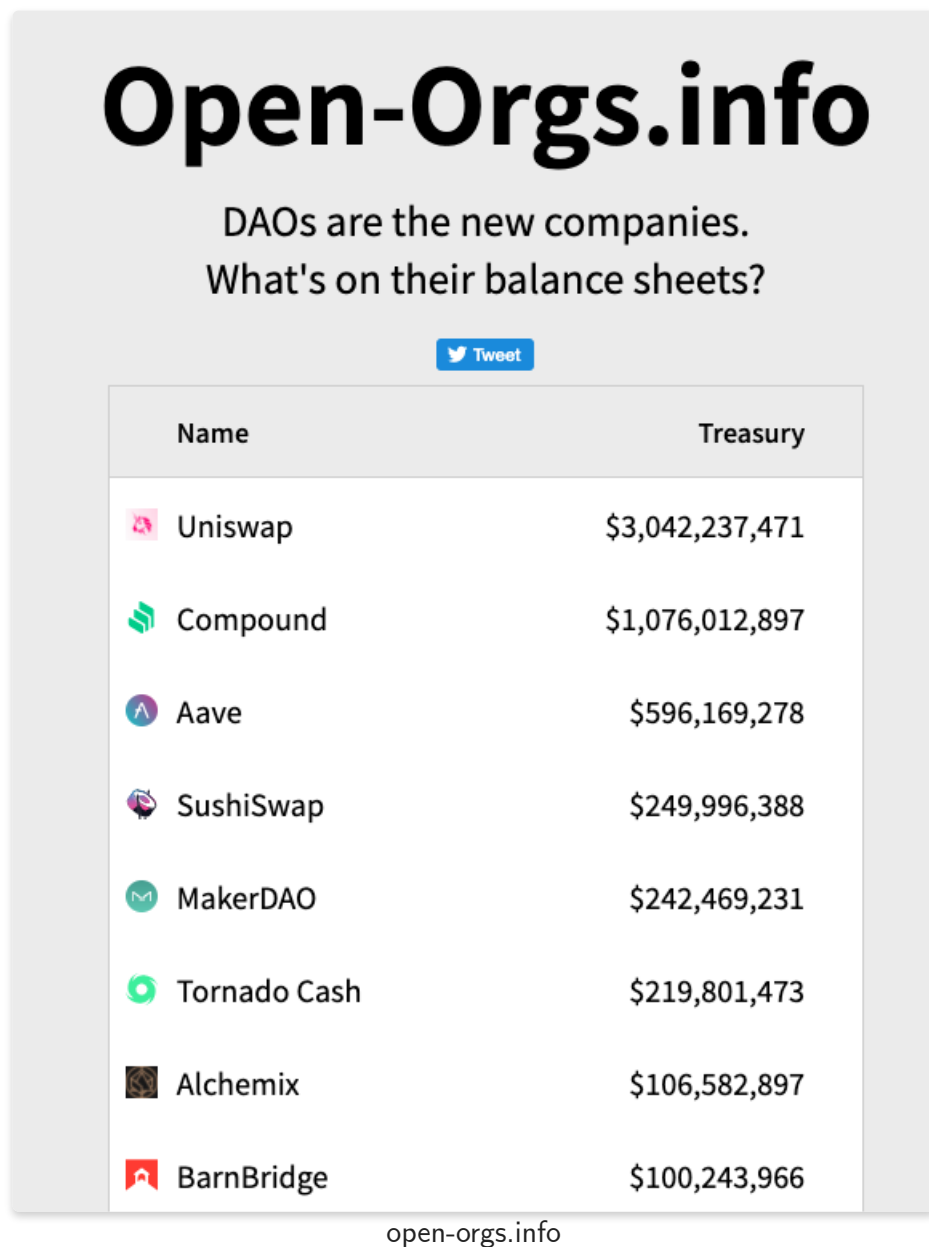
Theodor Marcu

Jun 30, 2021 • 8 min read



As of June 2021, over \$1 billion has been committed towards blockchain-native analogs of traditional corporations called decentralized autonomous organizations or DAOs. A DAO uses blockchains and smart contracts to organize the mechanics of corporate governance, thereby facilitating collective participation of distributed participants in the funding and production of community goods. There are now several prominent DAOs in the Ethereum community, and recent legal moves in places like Wyoming have begun establishing bridges between traditional legal structures and these new on-chain entities.

In this post, we'll explore what DAOs are and why they're important. We'll also look at some of the most exciting DAO projects out there.



What are DAOs and why are they important?

On a fundamental level, you can think of DAOs as *internet-native constitutions*. Like regular constitutions, DAOs embed a fundamental set of rules and principles that establish an organization and determine its governance structure. But unlike regular constitutions, *DAOs can execute some activities fully autonomously*. For example, a DAO with its own internal capital can automatically buy and sell cryptocurrencies based on specific programmatic conditions.

The autonomy of DAOs is enabled by smart contracts, which are self-executing contracts with terms written as code and then deployed on blockchain networks like

Ethereum. The use of smart contracts means that a DAO may function without necessarily relying on the human decision-makers in the organization. A smart contract will execute its terms regardless of what specific individuals think or want, which means that DAOs enable more decentralized decision-making for their users.

In practice, this decentralization makes DAOs particularly well-suited to funding and managing projects on the internet. So far, people have created DAOs that fund and manage projects like stablecoins, venture capital funds, decentralized cryptocurrency exchanges, and meme-buying cartels. These projects manage hundreds of millions of dollars and allow strangers on the internet to come together and work towards common goals.

How do DAOs work?

To understand what DAOs are, let's explore a simple example. Let's say that you want to invest in the most interesting memes on the internet. Memes can be expensive when represented as NFTs (one went for over \$4M in a recent auction!), so it makes sense to pool money together with many people to buy them. But this plan poses several large-scale coordination problems.

- How do you find people to work with and verify that they're serious? You will need to dig through your network, post announcements online, interview and vet people, gain their trust, and make sure they're willing to commit to this project.
- How do you decide which memes to buy and what to do with them after you have them? You'll need a lot of meetings to select target memes, sort out who owns them, and decide when or if to sell them.
- Who's in charge of the organization and who gets to make the rules?
- And how does the organization allocate its capital?

To answer these questions, people have traditionally resorted to creating centralized entities like companies and institutions. These organizations have rules and procedures that allow them to coordinate people towards a common goal. However, this isn't practical to do at internet scale with people in many jurisdictions whose identity you may not even know. DAOs solve this coordination problem with the help of a blockchain and smart contracts.

In our meme buying example above, a DAO can help us each of the problems associated with coordinating large groups of people on the internet:

- DAOs can help you find serious people to work with by leveraging both monetary rewards and **proof of seriousness**. For example, a DAO may ask each of its members to buy a minimum amount of DAO tokens in order to join the organization. Similarly, each member can expect that the value of their tokens will appreciate as the DAO realizes its stated goal and more people buy into it.
- DAOs can help their members **coordinate** and decide on what memes to buy and sell using simple algorithmic-based frameworks. For example, a DAO may be designed such that members have to put forward proposals for what memes to buy, and if the proposal is voted by 2/3 of the DAO members, the DAO will automatically buy a specific meme. (In this sense, a DAO is *autonomous*, since it will deploy capital if a proposal passes regardless of what the leaders of the project want).
- DAOs can also contain **governance provisions**. For example, amendments to the DAO could be added when a quorum of members agree on them. A member could be defined as someone who owns a specific amount of DAO tokens, and multiple classes of members may exist, each with its own powers.

As internet-native constitutions, DAOs have several advantages compared to their traditional counterparts. By nature of being decentralized and relying on blockchain networks, they are better suited to grassroots organization. They also create more transparency, and they're open to anyone to participate from anywhere around the world. The ultimate goal of DAOs is creating organizations where all participating members have a say.

What are some interesting DAO projects?

Like traditional organizations, DAOs come in all shapes and sizes. However, there are a few categories of DAOs that have been particularly popular during the past few years. These categories include decentralized funds for investments and grants, crypto projects focused on decentralized finance (DeFi), and art (using Non-Fungible Tokens, aka NFTs).

MakerDAO is a prominent example of a DeFi project governed by a DAO. Maker is a stablecoin protocol that allows users to lend and borrow crypto without the help of third parties. Maker is governed by a DAO that allows the holders of its token to

change the rules of the protocol as well as provide the team with a mandate when it comes to community decisions. Currently, over \$6.5 billion is locked into Maker.

Besides Maker, other DeFi projects use or have adopted DAOs for their governance. These include Compound, which is a protocol for algorithmic interest rates on your savings, and Yearn.finance, which helps users navigate the increasingly complex landscape of DeFi products (similar to a robo-advisor like Wealthfront). Together, these projects have over \$11 billion locked in their tokens.

Another class of projects that leverage DAOs is that of automated market makers (AMMs). This class notably includes projects like Curve and Uniswap, which use liquidity pools in order to enable users to trade assets without the help of a centralized order book. Unlike a centralized exchange, using a DAO allows the most active and energetic users of these projects to help steer the direction of their organization, which leads to more active community involvement.

In addition to financial instruments, DAOs have also been used to manage funds that seek to invest in specific types of projects. One of these funds is MolochDAO, which seeks to fund projects that advance the Ethereum blockchain ecosystem and increase collaboration between different parties. Similarly, PleasrDAO is a group that leverages a DAO with the goal of buying art in the form of NFTs. Most members of this group have never met, and some are still anonymous, but this hasn't stopped them from buying an NFT of Edward Snowden for over \$5M in April.

DAO Tools

The popularity of DAOs has also led to the appearance of projects focused on helping people set up DAOs. For example, Aragon is a DAO focused on building tools for creating and managing DAOs. Aragon's products include a protocol for creating DAOs as well as a voting solution for managing community proposals and enacting them. DAOs like Aragon enable users to add DAO-like capabilities to their own projects without having to worry about the complexities of writing smart contracts.

The set of popular DAO tools includes DAOHaus, which allows users to find other DAOs. DAOHaus users can also create a DAO using a predefined set of parameters like the primary token, the proposal velocity, the voting period, and proposal mechanics like deposits and rewards. Other tools that focus on enabling DAOs

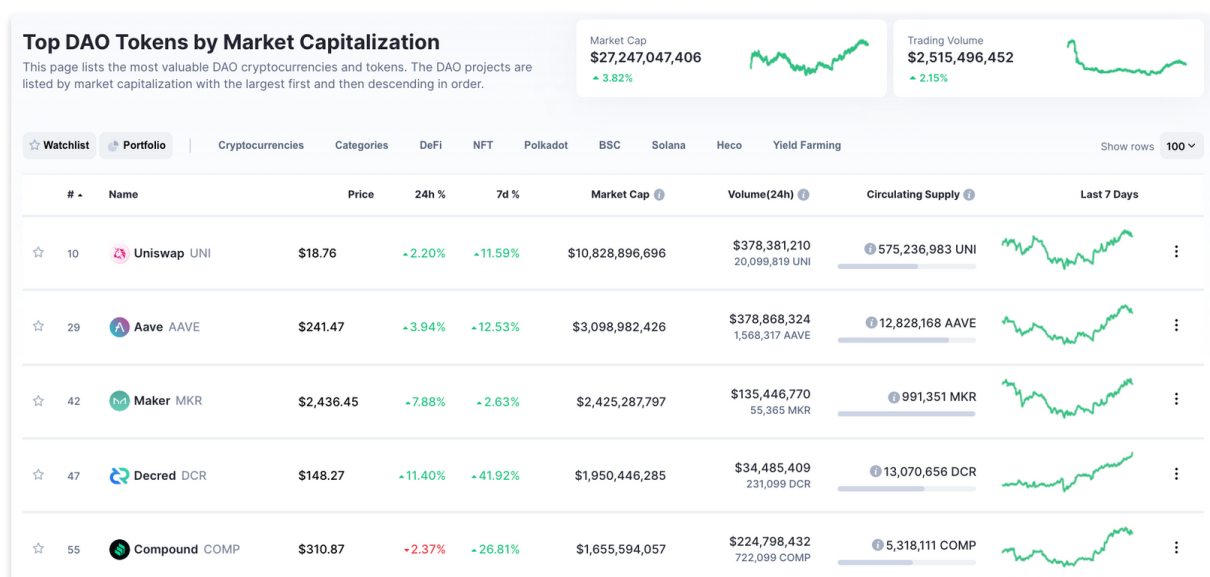
include [Snapshot](#) (proposal voting management) and [DAOStack](#) (tools for launching a DAO).

A few projects also focus on providing high-level information about other DAO-related projects. These include [defillama.com](#), which provides information about the amount of money locked in the top DAOs, and [llama.community](#), which is a hub that allows users to find interesting DAO projects.

What is the legal status of DAOs?

While DAOs are very similar to regular organizations, only a few places around the world recognize them as legal entities that benefit from the protections usually afforded to traditional organizations like LLCs. One of these places is the US state of Wyoming, which [passed legislation](#) in April that allows DAOs to register as LLCs. Similarly, the European country of Malta also recognizes DAOs as valid legal entities.

However, while there is some interest in recognizing DAOs as new legal entities, these are still early days, so most DAOs operate under general partnership rules that may burden DAO members with any debts or liability faced by the DAO. To counteract this issue, people have started projects like [OpenLaw](#), which promise a liability wrapper around DAOs that allows them to operate safely. Nevertheless, most DAOs still operate without any kind of traditional liability protection for their members.



coinmarketcap.com/view/dao

What's next for DAOs?

While DAO use cases tend to be specific to the blockchain industry right now, DAOs may also spread to more traditional areas. For example, joining a DAO may soon become more attractive than joining a startup because DAOs can provide liquidity much faster while allowing employees to directly participate in the governance of the organization.

Another way DAOs may start impacting the real world is through real estate. It's easy to imagine that DAOs, which already own digital property like NFTs, will soon start owning physical property. Physical property will give DAOs more leverage when it comes to regulation, which could pave the way to a loose network of DAO-owned properties that provide their members with a type of pseudo-citizenship that gives them freedom of travel between those properties. Nevertheless, this is only the beginning for DAOs, which means that the most interesting use cases for this novel type of organization may yet to be discovered.

✓ Task: Earn \$10 in ETH

Crowdsource links about DAOs.

Help us compile a list of high-quality links on DAOs. You should do the following:

1. Find a useful link on DAO projects or DAO laws.
2. Post it on social media and mention @oneseventwonine or 1729.com.

For each post selected, the submitter will earn \$10 in ETH. We will reward up to 100 posts for a total of \$1,000 in ETH.

Here are two examples to get you started:

**Theodor Marcu**
@theomarcu



Check out this awesome map of the most important DAO-related projects and services from [@corbpage](#).

cc [@oneseventwonine](#)

**Corbin Page** @corbpage

DAOs are generating massive revenue, allocating capital from billion-dollar treasuries & will have their "mainstream moment" this cycle or next.

So we've compiled a map of core services (B2D / D2D) that support this new type of org below. Keep an eye on this market! 🙄



6:22 AM · Jun 25, 2021



♡ 11 💬 ↗ Share this Tweet

Tweet your reply



Theodor Marcu

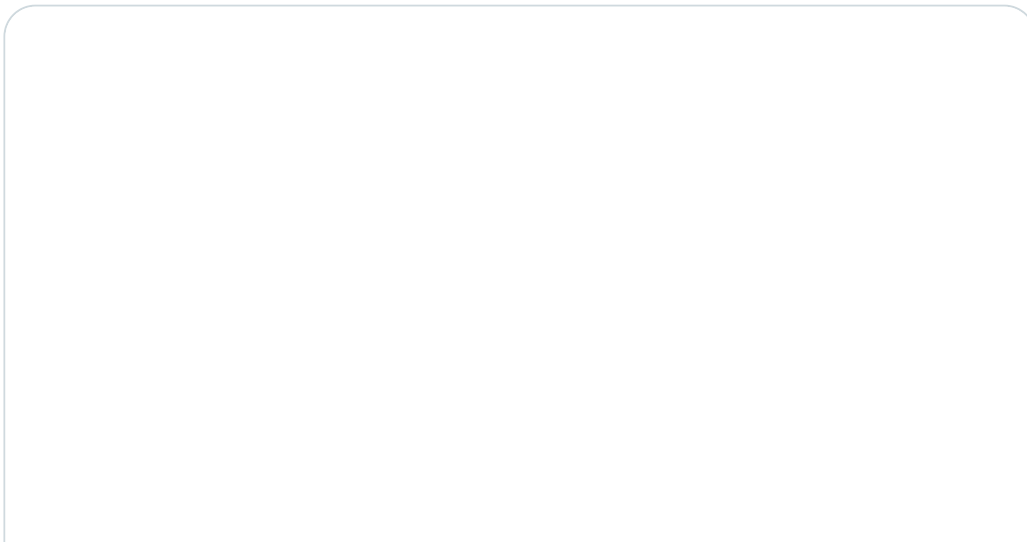
@theomarcu



CoinMarketCap has a great ranking of the top DAO tokens by market capitalization.

coinmarketcap.com/view/dao/

cc @oneseventwonine



Top DAO Tokens by Market Capitalization | CoinMarketCap

coinmarketcap.com

6:29 AM · Jun 25, 2021



♥ 4 💬 1 ↗ Share this Tweet

[Tweet your reply](#)

Task Complete!

All crypto rewards have been paid, and submissions are now closed for this task. View the winners below.



Winners: Best Links

One hundred submissions received \$10 in ETH for sharing high-quality links on DAOs. Below are some of our favorites from the submissions, listed by category.

Best DAO Landscape:

- [DAO Landscape](#) by Coopahtroopa

Best DAO Market Overview:

- [Open Source DAO Market Research](#)

Best General Links on DAOs:

- [A beginner's guide to DAOs](#) by Linda Xie
- [The Dao of DAOs](#) by Packy McCormick
- [DAO First Capital Formation](#) by Kain Warwick
- [DAOs, DACs, DAs and More: An Incomplete Terminology Guide](#) by Vitalik Buterin

- [15 Ways the World is being Transformed by DAOs by Aragon](#)

Best DAO Dashboard:

- [DeepDAO](#)

Best DAO Forum:

- [DAOtalk](#)

Best Links on DAO Laws:

- [The Rise of Decentralized Autonomous Organizations: Opportunities and Challenges](#)
- [Cardoza Law Review - Deconstructing the DAO](#)
- [COALA - Model Law for Decentralized Autonomous Organizations](#)

Best DAO Template:

- [DAO Canvas](#)

Best List of Links on DAOs:

- [Awesome DAOs](#)

Terms of Service

Privacy Policy

Report Bug