Abstract

This proposal requests 250 million ARB with the main objective to enable The Arbitrum Foundation to further foster key strategic partnerships. All expenditures will follow The Arbitrum Foundation's well-established practices and evaluation criteria when pursuing partnership deals, as detailed in a high level manner here and here (these guidelines apply mainly for the Foundation Grant Program, however, it offers insight into what the Foundation looks at when giving strategic grants or establishing strategic partnerships). Should the proposal be approved by the ArbitrumDAO, the Foundation will update its upcoming annual transparency report due in Q1 2025 to include and detail this additional budget.

Motivation

In line with its mission as laid out in itsbylaws, The Arbitrum Foundation is committed to fostering ecosystem growth through strategic partnerships. All agreements are designed to support projects that can grow the Arbitrum ecosystem and provide value to the ArbitrumDAO. By seeking projects that advance or contribute to the adoption of Arbitrum technology, the Foundation aims to grow activity on the Arbitrum networks.

Agreements typically last for a few years with the intention to align a project's interests with the long-term objectives of the Arbitrum ecosystem. This results in significant capital locked in commitments and reserved for projects based on the agreed performance milestones. This restricts the Foundation's ability to pursue new partnerships and stay ahead of the competition. Given the aggregate size of Foundation's current budget, it is difficult for us to pursue multiple large deals simultaneously.

Challenges

The Arbitrum Foundation runs two funding programs:

- Arbitrum Foundation Grant Program
- Strategic Partnership's Program

Both programs invite applicants from the ecosystem while actively pursuing new opportunities by participating in competitive bids to prospective partners. In both cases, The Arbitrum Foundation signs milestone-based agreements with the recipient that are often multi-year contractual commitments. To date, agreements for our strategic partnerships program typically exceed 2M ARB with an average duration of 2.1 years.

Table: Capital Commitments to Grants, Strategic Partnerships and Infrastructure Service Providers (as of June 30, 2024)

Jan 1 - Jun 30 2024

Future Capital Commitments

Spend1

Signed Agreements2

Pre-agreement Offer

USD

ARB

USD

ARB

USD

DeFi & Fintech

$4,211,916

3,277,700

$8,785,000

1,842,500

$89,000,000

Gaming

$6,691,353

9,579,703

$1,200,500

6,510,000

$13,900,000

Infra Service Providers

$28,181,124

42,941,326

$8,372,988

0

$5,585,000

NFT

$1,265,825

377,900

$1,300,000

10,017,000

$0

Other 3

$3,576,582

1,235,343

$2,054,525

240,000

$0

Total

$43,926,800

57,411,972

$21,713,013

18,609,500

$108,485,000

1 Actual spend in the first half of 2024 including payments made in ARB converted to USD using the ARB spot price at the time of payment

2 Numbers include both confidential and non-confidential grants. Details of non-confidential grantees are publicly available here.

3 “Other” category includes items that fall outside the scope of Fintech & DeFi, Gaming, Infra Service Providers, and NFTs

The above table provides an overview of The Arbitrum Foundation’s outstanding capital commitments since inception, as of June 30th 2024. Based on the stage of commitment, we can classify all existing deals into two categories:

- Signed agreements.

The Arbitrum Foundation and the grant recipient or service provider have entered into an agreement. Most grant recipients will be entitled to grant payouts as milestones and/or other criteria are reached. The amounts in the table reflect the value of future financial obligations related to signed agreements.

- Pre-agreement offer.

An agreement has not yet been reached but is in negotiation. The Foundation has reserved funds to ensure we can act upon the commitment when an agreement is reached. The amounts in the table reflect the full value of the agreement.

In both cases, The Arbitrum Foundation must have adequate reserves immediately available before it can make an offer to a potential partner. Given the competitive landscape, The Arbitrum Foundation must be able to make multiple offers to different partners at the same time. Also, the Foundation must be prepared for all offers to be accepted and reserve amounts accordingly even if negotiations fail at a later stage.

With the above in mind, The Arbitrum Foundation is at a distinct disadvantage from extending competitive offers to strategic partners due to the size of our overall allocation from the DAO. The three major financial challenges currently facing The Arbitrum Foundation from extending continued support to ecosystem expansion are:

- Tight budget.

Relative to competitors, the budget that the Foundation can allocate for strategic partnerships is small and puts the Arbitrum ecosystem at a significant disadvantage. For example, if we consider allocations relative to token supply, Starknet has allocated ~20% to its Foundation and grants, Optimism has 25% for ecosystem funding, ZkSync has 19.9% for ecosystem initiatives, while The Arbitrum Foundation has 7.5% allocated, but to date, The Arbitrum Foundation has only had access to approximately 1.8% because of the vesting contract. Making competitive offers requires a lot of capital that we have not been allocated relative to other Foundations.

- Vesting.

The Foundation can only make offers based on the ARB that has vested to date. This is because the ArbitrumDAO can clawback the funds at any time and we must have the ARB available to pay milestones. The Foundation is committed to being solvent at all times, so our assets should always exceed our contractual liabilities.

- Capital lockup.

All committed ARB in a milestone-based agreement must be allocated until the agreement terminates. For example, we could run into a situation where a grantee has not yet hit their milestones, but we need to assume they will and hold the potential payout in reserve. Additionally, some agreements require capital lockup (like RWAs), in projects where the funds belong to the Arbitrum Foundation, but they are utilized by the strategic partner’s protocol.

Together, The Arbitrum Foundation does not yet have access to its full budget which has caused issues over the past year, but even if the vesting was complete, our budget still remains the smallest amongst all rollups. This impacts all programs run by The Arbitrum Foundation including strategic partnerships, technical advancement, educational and community activities.

We believe the most straightforward approach to ensuring The Arbitrum Foundation can pursue competitive deals is by increasing our budget for strategic partnerships.

Proposed Solution

Funding Request:

250 million ARB

In light of the above mentioned challenges, we believe that there are several reasons why increasing our budget to specifically better support strategic partnerships is essential:

- High costs of pursuing partnerships.

Strategic partnerships are essential for the Arbitrum ecosystem’s growth, and these partnerships often come with significant capital investments from the Foundation. For example, onboarding RWAs is both challenging and capital-intensive, as experienced by the DAO as well.

- Expanding Orbit Chains.

Despite more than 50 chains publicly announcing their intent to build using Orbit since the launch of the Arbitrum Expansion Program in January 2024, the rollup as a tech stack ecosystem is still in its early stages. Additional funding is required to enable The Arbitrum Foundation to pursue major Orbit partnerships and allow the Arbitrum ecosystem to access new markets, use cases and communities. Additionally we should note that sometimes part Orbit chain grants could be rebates on the revenue that they contribute to the Arbitrum DAO, creating a mismatch between the Arbitrum Foundation allocating resources and the DAO collecting chain fees.

- Gateway to DAO.

The DAO has previously contributed to onboarding partners via programs like STEP, however, the experience has been that most institutions are not inclined toward engaging and participating in public forums, and even when they do it is after extensive conversations with The Arbitrum Foundation and its service providers, who are making them aware of the opportunities and encouraging them to get involved. As front line enablers, The Arbitrum Foundation actively builds relationships with partners and encourages all partners to engage with the DAO. Most recent examples include Securitize (via BlackRock BUIDL) and Franklin Templeton.

- Proven track record.

The Foundation has a proven track record of managing and allocating funds effectively for various initiatives, as evidenced by the 2024 Biannual Progress Report and successful collaborations with industry leading projects. Additionally, The Arbitrum Foundation has capitalized on emerging opportunities such as LRTs, RWAs and onchain gaming, ensuring the Arbitrum ecosystem remains competitive and innovative.

We also believe the current vesting schedule for our entire budget is still critical to remain as is for setting expectations for the Arbitrum Foundation and holding us accountable for how we execute our mission statements. This sets a good example that all programs approved by the DAO must remain accountable and should not assume they can receive all their funding immediately.

With the above in mind, we are requesting 250 million ARB from the Arbitrum DAO. The amount will solely focus on agreements fulfilling the following 3 criteria:

- Key opportunities exceeding 2 million ARB
- New agreements signed after approval of this proposal
- Contractual commitments lasting 1 year or longer

Some foreseeable capital-intensive areas include, but are not limited to, expanding the Orbit Chain ecosystem, securing new RWA opportunities, and onboarding well-known TradeFi institutions on Arbitrum. Tokens will only be allocated on an as needed-basis and will only be exchanged as contractual obligations need to be fulfilled.

The Foundation plans to expand on the special strategic partnership allocation in our future Transparency Reports. Our goal is to enhance visibility into how these collaborations are structured and how resources are allocated, giving the DAO a clearer understanding of the impact on the Arbitrum ecosystem. At the same time, we remain committed to respecting any confidentiality provisions stipulated in such agreements. By balancing transparency with confidentiality, the Foundation aims to balance both the sensitivity of onboarding traditional institutions to Arbitrum and also providing updates to the DAO on how the funds are being spent.

Our goal with this proposal is not to maintain the status quo, it’s to ensure that we can continue to foster ecosystem growth through strategic partnerships. The funds will not be used for Arbitrum Foundation operating expenses, including marketing, operations, service providers, or existing signed agreements.