

Enhancing Grant Programs for Decentralized Projects: Challenges and Solutions

Introduction

Grant programs play a pivotal role in the success of various projects, particularly decentralized ones. They act as a lifeline for public infrastructure, attract talented builders, and cultivate an ecosystem of skilled participants. Despite their importance, executing grant programs effectively is notoriously challenging due to misalignments between stakeholders, cost underestimations, and other issues. In this article, we will discuss these challenges and offer suggestions for improvement, drawing on insights from the CEO and Co-founder of Tally.xyz, to help enhance Arbitrum grant programs and create awesome things together.

Introducing Myself

My name is Dennison Bertram, CEO and Co-founder of [Tally.xyz](#) and an [Arbitrum Delegate](#). I previously founded [DappHero](#) and served as the first Developer Advocate at [OpenZeppelin](#). Tally played a key role in Arbitrum's initial decentralization, and we've gained valuable insights from working with numerous DAOs in the Ethereum ecosystem. In this post, I'll summarize our experiences and lessons learned from grant programs, which are crucial to the success of large-scale public infrastructure projects like Arbitrum.

The Importance of Grant Programs

Grant programs are critical to the success of projects for several reasons:

1. They support public infrastructure and independent builders who require funding for their efforts. Without grant programs, many valuable projects would struggle to attract the necessary resources and talent to make an impact.
2. They incentivize talented builders to enter the ecosystem and provide value through their work. By offering financial incentives, grant programs attract skilled professionals who contribute their expertise to drive innovation and growth.
3. They help contributors allocate their time and resources to projects that can support their real-world needs. Grants enable builders to focus on projects that have the potential to generate sustainable income and create meaningful impact.
4. They grow an ecosystem of experienced participants, fostering a community where the best minds compete to provide ever-greater value. As more individuals and teams join the ecosystem, they share knowledge, collaborate, and push the boundaries of what's possible.

Challenges of Grant Programs

Grant programs face numerous challenges, including:

1. Misalignment between grant committees, grantees, projects, and communities.

Different stakeholders may have conflicting goals and priorities, leading to inefficiencies and tensions in the grant distribution process.

1. Underestimation of the costs of building working projects.

Communities may not fully understand the financial requirements of developing high-quality software or infrastructure, resulting in insufficient funding for projects to succeed.

1. Failure to calculate the real-world costs of receiving grants, such as taxation.

Communities may be unaware that a significant portion of grant funding may be lost to taxes, limiting the resources available to grantees.

1. Inadequate consideration of grant recipients' cost of living.

Communities may unintentionally impose unfair financial burdens on grantees by failing to account for regional differences in living expenses.

1. Difficulty aligning grants with the long-term goals of the parent project.

Grants committees may struggle to allocate resources effectively due to a lack of clear guidance or understanding of the parent project's objectives.

1. The prevalence of decentralization theater, which can lead to stagnation and project death.

Grants programs that prioritize appearances over substance may become vulnerable to insider capture, inflated award amounts, and diminished oversight.

1. Difficulty fulfilling grant expectations and ensuring follow-up from the parent organization.

Grantees may not receive adequate support or feedback from the parent organization, limiting the potential impact and adoption of their work.

1. A lack of clear rules and support for grantees.

Unclear expectations and insufficient guidance can leave grantees feeling overwhelmed or unsupported, leading to subpar project outcomes.

1. Inefficient allocation of resources and misaligned incentives for successful grantees.

The grant distribution process may not adequately reward top talent, resulting in reduced motivation and suboptimal project outcomes.

1. Structural resistance to new ideas and risk averse behavior

Poorly designed stakeholder involvement in grants programs can lead to “death by committee” where little novel or pioneering work is accomplished because the penalty for failure outweighs the benefits of exploration.

Solutions for Improving Grant Programs

Despite these challenges, grant programs remain crucial for the success of decentralized projects. Here are some suggestions for enhancing grant programs:

1. Fund more research:

Research grants can justify their own future work streams and help identify new topics for grants. By supporting research, grant programs can encourage the exploration of cutting-edge ideas that drive innovation and growth in the ecosystem.

1. Implement an RFP process:

Request for Proposals (RFP) can help align expectations and requirements between grant committees and grantees. By clearly outlining project goals, scope, and deliverables, RFPs can help attract the right talent and ensure that resources are allocated efficiently. Not all grants need to be RFPs, but for large or core grants RFP processes can identify the best candidates for a grant, enhance transparency on selection process, and foster collaboration opportunities between teams.

1. Foster mentorship opportunities:

Connecting grantees with experienced mentors within the parent organization can provide valuable guidance and support. These relationships can help grant recipients overcome challenges and contribute valuable feedback to the ecosystem. A mentor program itself can be a valuable grant, although selection of mentors should be thoughtful and mentors compensated with vesting tokens to ensure the role is taken seriously. Oversight can be done via anonymous feedback.

1. Encourage collaboration between grantees:

Fostering collaboration among grant recipients can lead to the sharing of knowledge, skills, and resources. This collaborative environment can drive innovation and improve the overall quality of projects within the ecosystem. Where possible, grants processes should strive to incorporate collaboration between recipients.

1. Develop clear guidelines and expectations:

Providing clear guidelines, timelines, and expectations for grant recipients can help ensure that projects stay on track and meet their objectives. This transparency can also help prevent misunderstandings and promote accountability.

1. Regular progress reporting and feedback:

Requiring grantees to submit regular progress reports can help grant committees monitor project development and provide necessary feedback. This ongoing communication can help identify potential issues early and ensure that projects are on track to meet their objectives.

1. Create a tiered grant system:

Implementing a tiered grant system can help allocate resources more efficiently and reward top talent. By offering different levels of funding based on project success and impact, grant programs can motivate grantees to deliver high-quality results.

1. Consider the cost of living and taxation when allocating grants:

To ensure that grantees receive adequate support, grant committees should take into account regional cost-of-living differences and tax implications when determining grant amounts. This consideration can help reduce financial burdens on recipients and improve project outcomes. This should not be used to penalize recipients in higher cost of living localities, but rather the ground expectations around cost for non-bounty style grants which aim to cover the costs of development, rather than reward some action after the fact.

1. Foster a transparent and inclusive grant decision-making process:

Involving the community in the grant decision-making process can help reduce the risk of decentralization theater and promote fair resource allocation. By fostering transparency and inclusivity, grant programs can maintain the trust and support of their communities.

1. Provide ongoing support and resources:

Offering continued support and resources to grant recipients can help ensure their projects' long-term success. This support can include mentorship, networking opportunities, access to tools and resources, and ongoing feedback and guidance. Many grants fail to make a significant impact due to the lack of followup, or alignment. While not all grants need to continue past their deliverable, should there be ongoing costs to the success of a grant, there should be funding in place to support that with a clearly defined scope of lifetime.

1. Diversify grant committees:

Forming multiple grant committees with diverse expertise can help ensure that projects across various fields are accurately assessed and supported. This approach can lead to a more balanced allocation of resources and foster innovation across different sectors.

1. Encourage research-focused grants:

By funding more research projects, grant programs can support the development of new ideas and technologies. Research grants can help uncover new areas for exploration and inspire further innovation within the ecosystem.

1. Offer flexible grant structures:

Providing various grant structures, such as seed funding or follow-on funding, can cater to the unique needs of different projects. This flexibility can help support a diverse range of projects and contribute to the overall success of the ecosystem.

1. Implement performance-based incentives:

Depending on the nature and goals of a grants program, introducing performance-based incentives, such as token rewards(vested), can motivate grantees to deliver higher-quality results. These incentives can also help grantees feel more valued for their contributions to the ecosystem.

1. Develop an "upgrade" path for successful grantees:

Establishing a clear path for successful grantees to receive additional support or funding can help ensure that their projects continue to grow and thrive. This approach can also help retain top talent within the ecosystem. While grant programs do not need to operate as "funds", the ability for grantees to receive follow on investment can help grow the prestige of grants programs and accrue long term value to the ecosystem.

1. Ensure legal and regulatory compliance:

Grant programs should adhere to all relevant legal and regulatory requirements, including taxation and corporate governance. Compliance can help maintain the integrity and credibility of the grant program while protecting the interests of all stakeholders. Legal structures, such as an LLC with bylaws that define and constrain their roles and responsibilities can protect committee members from liability and unforeseen legal complications.

1. Maintain transparency and accountability:

Ensuring that grant programs operate with transparency and accountability can help build trust within the community and demonstrate the program's commitment to supporting high-quality projects. Transparent processes can also help mitigate any potential conflicts of interest or other concerns. Grant committee members should be required to disclose conflicts of interest and be properly informed as to the processes required for dealing with material non public information to prevent accusations of self-dealing or insider trading.

1. Implement robust application processes:

A thorough and transparent application process can help ensure that grants are awarded to projects with the greatest potential for success. This approach can also help maintain the integrity and credibility of the grant program. In general, it is often best if the grant committee determines grant recipients, rather than by election of the community, but it is quite acceptable to promote on occasion a "people's choice" category to provide inclusiveness for unexpected proposals.

1. Encourage community engagement and feedback:

Inviting input from the community throughout the grant process can help identify potential areas of improvement and ensure that projects align with community needs and values. This engagement can also help foster a sense of ownership and investment among community members. Opportunity for community feedback should be, where reasonably possible, constrained to specific periods of comment. Grant recipients should not be required to respond to community feedback and comment at random which can promote insecurity and undermine confidence. Feedback should also be collated and delivered in one document, rather than requiring recipients to read through continuously expanding forum threads.

1. Monitor and track project progress:

Regularly monitoring the progress of grant-funded projects can help identify any potential issues or roadblocks and ensure that resources are being used effectively. This oversight can also help maintain accountability and encourage grant recipients to stay on track with their project goals.

1. Celebrate and share grant successes:

Acknowledging and celebrating the achievements of grant recipients can help motivate and inspire others within the ecosystem. Recognition can also help build a sense of community and camaraderie among grant recipients, grant committees, and parent organizations. Too often grants programs fail to adequately promote the success of their grantees and their efforts. Communities should ensure that being a recipient of a grant is considered prestigious. This should be more than just a tweet or blog post.

1. Foster a culture of innovation and excellence:

Cultivating an environment that values innovation, creativity, and excellence can help attract top talent and encourage grant recipients to strive for exceptional outcomes. This culture can contribute to the overall success and growth of the ecosystem. This means an open mind to wild or untested ideas, but also accountability and intellectual rigor.

1. Encourage diversity and inclusion:

Promoting diversity and inclusion within grant programs can help ensure that a wide range of perspectives, ideas, and experiences are represented. This approach can lead to more innovative and well-rounded projects, benefiting the entire ecosystem. Diversity and inclusion should also take into consideration language and geographic location. To the extent possible and practical, major non-english languages should be accommodated.

1. Develop clear communication channels:

Establishing clear communication channels between grant committees, the community, parent organizations, and grant recipients can help ensure that everyone is on the same page and working towards common goals. Effective communication can also help address any issues or concerns that may arise during the grant process. Where it's not possible to keep the parent organization involved due to legal constraints, grant committees can refer to their charter to help align expectations in public.

1. Implement periodic evaluations:

Regularly evaluating grant programs can help identify areas of improvement, assess the impact of funded projects, and determine the overall effectiveness of the program. These evaluations can provide valuable insights for refining and optimizing future grant cycles. Committee members should provide evaluations initially in private, especially when there are potential issues to give grant recipients an opportunity to address concerns they may be unaware of. Following a round of internal feedback, an amended evaluation and feedback can be shared with the community. It is important to recognize that when dealing with grant recipients of diverse cultural backgrounds and experiences on the internet, it is normal that there might be a misalignment. Poorly executed public evaluations can lead to grant recipients being publicly shamed and maligned over even the smallest of mistakes or misunderstandings.

1. Cultivate a supportive community:

Fostering a supportive and collaborative environment within the grant ecosystem can help grant recipients feel more connected and engaged, leading to increased motivation and success. Encouraging a sense of camaraderie can also promote the sharing of ideas and resources, benefiting all participants.

1. Encourage risk-taking and experimentation:

Supporting projects that take risks and push boundaries can help drive innovation and uncover new possibilities. Grant programs should embrace experimentation and be willing to fund projects that may not have guaranteed outcomes but have the potential for significant impact. Moonshot grants need their own form of accountability when deliverables are unclear or potentially not possible. In these cases open development, public working groups, and public forums for updates can substantially derisk projects that are otherwise difficult to measure.

1. Establish a strong feedback loop:

Creating a robust feedback loop between grant recipients, grant committees, and parent organizations can help ensure that all parties are continuously learning from one another and adapting to changing circumstances. This feedback process can

also help identify areas for improvement and inform future grant program decisions. The feedback loop also provides a strong communication tool to future grantees about expectations and process for being successful in the grants program.

1. Establish clear metrics for success:

Defining clear metrics for success can help grant programs evaluate the effectiveness of funded projects and determine the overall impact of the program. These metrics can also guide grant recipients in focusing their efforts and resources on areas that contribute to the program's goals. Success metrics can be difficult to meaningfully measure, but they should be metrics that depend primarily on the effort and capabilities of the grant recipient. Metrics that require buy in or collaboration from other organizations or groups often leave recipients without sufficient control over their grant success.

1. Share best practices and lessons learned:

Encouraging the sharing of best practices and lessons learned can help grant recipients and grant committees learn from each other's experiences and improve their approaches. This shared knowledge can also benefit the entire ecosystem, driving growth and innovation. Opportunities for sharing can occur at a Grantee offsite, and shared during community events such as Ethereum conferences.

1. Variable scopes and durations:

In addition to the creation of multiple grants organizations with different scopes, grant programs should also be given different predetermined durations of time before coming up for renewal. Historically, the effectiveness of grant programs can be difficult to evaluate, so it is important that grant programs are given sufficient time to show impactful. Grant committees with smaller scopes can be renewed at shorter intervals based on their mandate, while committees with much larger, more fundamental mandates, should similarly have larger timescale to demonstrate their effectiveness. In the early times of an organization, the Grants committee should be expected to spend a larger amount of time and resources understanding how to operate, while successive committees should be expected to learn and incorporate previous learnings and thus be more effective, sooner.

1. Continuously evolve and improve:

Grant programs should be committed to continuous improvement and learning, adapting their strategies and approaches based on feedback, evaluations, and changing circumstances. This commitment to growth can help ensure the long-term success and impact of the grant program. It is important that evolution should be baked into the assumption of the creation of grant programs, the failure of a grant program should be interpreted as a learning for the community and rather than devolving into debate and recriminations, the community should take learnings and move forward with a new experiment. Grants programs should be viewed as opportunities to innovate on technology, explore applications and grow a healthy vibrant and diverse community.

In conclusion, effectively executing grant programs is crucial to the success of various projects, particularly in decentralized ecosystems. By addressing the challenges and implementing solutions to improve grant programs, parent organizations can foster innovation, cultivate a vibrant community, and drive the development of impactful projects. Continuous improvement, adaptability, and a commitment to collaboration will help grant programs remain relevant and effective in supporting the growth and success of the entire ecosystem.

I hope this document will prove helpful to the Arbitrum ecosystem, and at tally.xyz we are always excited to help where we can.