This post outlines which sources of grants and funding projects need to report when applying to Retro Funding 5.

Challenges

The [deliberative process on profit in Retro Funding 4](#) highlighted the many challenges in collecting information about grants and funding received by projects:

1. Verifiability

: The amount of grants (other than Optimism grants), funding and revenue a project has received is usually non-public information, making it impossible to verify the accurate reporting by projects. This dynamic creates an incentive for projects to not disclose grants, funding and revenue.

1. Attributing Optimism Grants

: Optimism issues a number of different types of grants (Token House missions, Foundation missions, and Partner Fund grants). A grant might be received for a variety of purposes with distinct grant conditions. Participants in the deliberative process have highlighted the complexity when considering these many different grant types, a prime example has been the distinction between Token House Builder grants and Growth grants.

1. Attributing Profit to Impact:

A project might receive grants and funding for different services or products benefitting different types of users, companies and ecosystems. To implement impact = profit, Retro Funding needs to attribute what forms of grants and funding relate to the impact that is rewarded in the relevant retro round. This attribution poses a complex challenge, as it requires an understanding of the purpose of different grants and funding that were received.

1. Attribution of Funding and Revenue:

The structuring of legal entities can have a significant effect on how revenue, grants and funding are attributed to projects. Some companies may pursue a structure where the development of different products (closed and open source) takes place within separate legal entities, while others combine open and closed source work within a single entity. Projects which combine open and closed source work within a single entity might be worse off, as all their funding and revenue is considered, while projects with separate entities benefit.

Retro Funding 5: Information Collection

For Retro Funding 5, the application process will provide badgeholders with relevant information relating to grants and funding, based on feedback from the [deliberative process experiment](#) and [previous retro rounds](#). In Round 5, the voter exit survey will aim to measure the importance of this information to voters, to understand the value this information provides in the voting process to inform future application processes.

The following information will be collected from projects

1. Pricing:

Projects are required to report if their product/service is free, freemium or pay-to-use. If one of latter two categories is selected, the project is asked to report the pricing model for their product/service. This information is aiming to give voters insights into the business model of a project and its value extraction. The application review process will rely on publicly available information to enforce the accurate reporting of this information. The correct reporting of non-public information can't be enforced.

1. Optimism Grants:

Due to the verifiability of Optimism grants, projects are required to report grants which they received from the Token House, Citizens' House or Optimism Foundation since January 2023. This includes Token House Missions, Foundation Missions and Retro Funding rewards.

1. Investments

: Projects are required to report funding which they received in exchange for equity since January 2020. They reporting is done by selecting between ranges of funding (Less than $1M, $1M-$5M, $5M-$10M, $10M-$25M, $25M-$50M, more than $50M). The application review process will rely on publicly available information to verify the accurate reporting of this information. The correct reporting of non-public information can't be verified, this poses a significant risk of including funding in the definition of profit.

The following information will not be collected from projects:

1. Other Grants

: Information on non-Optimism grants will not be collected due to its non-verifiable nature combined with the results of [the](#)

[deliberative process on profit](#), in which 74% of participants voted to not consider "Other Grants" in Retro Funding.

1. Revenue → Replaced by Pricing

: Information on non-Optimism grants will not be collected due to its non-verifiable nature combined with the results of [the deliberative process on profit](#), in which 80% of participants voted to not consider "Revenue" in Retro Funding. Instead the application process is collecting information on pricing to provide insights into the value extraction of a project (see above).

Risks and Drawbacks

Badgeholders should be aware of the risks and drawbacks introduced by the current state of defining impact = profit. A key goal of Retro Funding is to sustainably reward Optimism core contributors for the impact they provide to the Collective. Key to achieving this goal is creating reliability for projects when it comes to Retro Funding rewards, so that they can contribute to Optimism knowing that they will be rewarded for their impact.

The current state of defining profit, poses a significant challenge to achieving reliability.

It creates high uncertainty for projects, as they are not able to understand how grants and funding may impact their Retro Funding rewards.

Further, the current design leads to inconsistency on how grants and funding are taken into account within impact evaluation. Each badgeholder may apply a different definition of profit across projects. This results in a system in which the grants and funding of two identical projects may have vastly different effects on their Retro Funding rewards.

In the spirit of Governance minimisation, Retro Funding should strive to use a minimal set of rules required to reward impact.

This is a core principal of Optimism Governance because each additional rule adds high costs to the system by requiring more bureaucracy to support its enforcement, increasing the surface area for attack and overall complexity and rigidity of the system.

We appreciate the many discussions badgeholders have had on the topic of profit over the past four rounds. We've used insights and outputs from the deliberative process to make incremental progress towards this definition in Round 5. It will continue to be an iterative and gradual process to define the goals and implementation of profit as it pertains to impact evaluation.