

RFC - Fund an Incentives Working Group

Co-Authors: [@Matt_StableLab](#) and [@JoJo](#)

Abstract

This proposal aims to fund a working group to research incentive structures and design a new incentive framework. This working group aims to deliver a proposal for the DAO for a vote in December after the detox period. The working group will proceed in three phases: discovery, framework design, and Approval. The discovery phase includes delegate/protocol interviews, analyzing past incentive performance and limitations, and researching other ecosystem / traditional government incentive designs. This research will be used to create guidelines for incentives and design a framework for utilization. Finally, the group will take this framework to make a final proposal, including demonstrable KPIs, for a broader DAO vote.

Motivation

The DAO has consistently expressed interest in using incentives to attract users and protocols to the Arbitrum ecosystem. However, to date, we have not yet taken sufficient time to design from first principles, that is, to first understand the goals and objectives of the program, deploying incentives to achieve particular measures. Arbitrum has also not had a chance to thoroughly analyze past incentives' performance nor design a robust framework that may last more than a few months. We believe funding a small working group would create a better incentive program. Through a focused effort, we will help the DAO produce a sustainable incentives framework to satisfy both delegates and protocols.

How previous Incentives have been designed:

Prior Incentive Program Design

STIP. STIP was created quickly using a DAO-wide working group funded by a foundation grant in response to the DAO voting down [Camelot's incentive proposal](#) and requesting a larger framework for granting protocol incentives. It was the first major DAO initiative and achieved the goal of creating a first attempt at incentives. While it was not a perfect program, it got the ball rolling and taught us about incentives.

LTIPP. The creation of the LTIPP proposal was funded retroactively once it was passed. This proposal involved risk on behalf of the composing parties. It took four months of writing, lobbying delegates, and modifying the proposal to ensure ratification. The improvements of LTIPP focused on making operational changes to STIP challenges while providing incentives to protocols not funded in STIP. These changes allowed Arbitrum to broaden its incentive distribution while evaluating a new program structure that included the council and advisors.

STIP.B. The creation of STIP.B was not funded. STIP.B was a grassroots effort by protocols that argued that incentives should continue for protocols that used STIP rewards correctly to keep the largest Arbitrum protocols focused on Arbitrum while other chains offered large grants to migrate.

Prior Program Design Flaws

Insufficient Planning Period (Too Rushed)

The previous incentive programs were designed under tight time pressure. With STIP, the DAO was rushing to get something started. With LTIPP, the DAO wanted to ensure we had a program to immediately follow STIP. With STIP.B, the STIP protocols tried to ensure they could follow a similar timeline to stay competitive with LTIPP.

Without sufficient time, the DAO could not decide the concrete objectives of these programs. This has made it extremely hard to evaluate the success of the programs. Additionally, with a near-zero gap between programs, there was insufficient time to examine past performance and improve distribution efficiency. While LTIPP introduced the council and advisors to help protocols create better incentive plans, we need more data-driven guidelines on how protocols should utilize incentives to maximize return on ARB grants. Finally, because these programs were each planned independently, they have all been short 3-5 months as we have not had time to create a robust global framework to last 1+ years. This disconnection between programs has made protocols unsure of when their next chance at funding will be, making it much harder for them to plan their future in Arbitrum.

At present, we have a three-month break from incentives. This window presents an opportunity to research and create a thoughtful Arbitrum Incentives program. To best take advantage of this time, it makes sense to have a group of stakeholders focused on and responsible for completing the necessary research. With the research in hand, this group may then deliver a framework and program design to meet the needs of all DAO stakeholders.

No One Was Incentivized to Create a Long-Lasting and Sustainable Framework

Presently, there is no compensation or incentives for the research, coordination, and planning of Arbitrum incentive

programs. This is a nontrivial amount of work and requires both incentive research and operations research, ultimately translating these into effective program design. Without a clear commitment from Arbitrum, counterparties bear significant risks in performing this research. As a result, programs were underdesigned and underresearched.

In the absence of the necessary incentives, past program design opted for an open incentives working group. This format led to a diffusion of responsibility and inefficiency. The proposal creation phase was focused on passing a DAO vote quickly instead of optimizing for the best possible program.

A smaller group of responsible individuals will likely lead to better-focused outcomes. When a group is accountable to the DAO, we can expect better results as incentives are aligned with performance.

No clear objective

While everybody tends to agree, at a high level, that incentive programs should foster “growth” and “adoption,” we fall short of properly specifying the KPIs and the base ground values achieved before and after it. The byproduct is the inability to measure the effective success or failure. The lack of discussion on this topic will make every program meaningless.

Specifications

Working Group Roles, Responsibilities, and Deliverables

Qualitative Stakeholder Interviews

- Interview delegates to understand what they would want to see from an incentive program
- Interview protocols to understand what they would want to see from an incentive program

Web3 and Traditional Market Research

- Study the landscape of incentive programs in crypto in other ecosystems to avoid pitfalls and better understand benefits.
- Examine what categories and/or objectives a future incentives framework should include. Previous programs have tried to fit all protocols into one box, making it hard to accommodate the several types of protocols and objectives in the Arbitrum ecosystem.

Protocol Domain and Performance Research

- Create guidelines for how different types of protocols should use incentives. Now that we have seen 100+ protocols distribute incentives, we better understand the optimal way to structure an incentive plan for different types of protocols. We need to create clear guidelines to remove ineffective incentive plans and optimize the effect of the ARB being spent.

Arbitrum-Specific Framework Development

- Help the DAO decide on an incentive program’s goals through a DAO-wide vote.
- Understand how to fill in some clear gaps we have had so far, such as dedicated marketing and operational resources.
- Research the optimal operational structure, software, and human resources and determine appropriate costs.
- Help onboard contributors and vendors to the necessary roles.

Community Involvement

- Host open biweekly calls to allow the DAO to monitor progress and share their opinions
- Post biweekly updates to the Forum.
- Facilitate community discussion on the goals of an incentives program. This will culminate in a DAO vote to select the main objectives. This will allow us to build a program specifically designed to accomplish these goals and implement specific KPIs into the proposal so the DAO can track the success of the incentives framework.

Live Operations Proposal

- Develop a full incentives framework and create a proposal that the DAO can vote on.
- Adjusts the proposal to delegate feedback and lobby delegates to move the proposal to a vote.

- Create a continuous/recurring program that, while having internal checkpoints and reevaluation phases, can be adopted by the DAO without reworking and debating it every quarter.

These tasks take a lot of time. To achieve the best results, Arbitrum should assign a modest budget to ensure satisfactory delivery. Funding this working group will give the DAO more information in three months to make a smarter decision when voting on the next incentives program.

Considering the scale of the programs, potentially 50,000,000+ ARB, an operational expenditure of approximately 0.4% is acceptable and reasonable examining market comparables. In general, fund operations cost around 2% per annum, exclusive of planning and setup costs. Our hopes are to vastly improve the performance of ARB incentive programs, leading to long term cost savings and efficiency gains.

Team

- Matt StableLab: PM for STIP/LTIPP/STIP.B, Proposal Author LTIPP, MSS signer, Arbitrum delegate.
- JoJo: LTIPP/STIP.b Advisor, Grant committee of Questbook and UAGP, delegate in Arbitrum, MSS signer, product and risk analyst at Jones.
- Castle Capital: Research and Advisory Collective with experience as an LTIPP/STIP.b Advisor, a Media Publisher, a Protocol Consultancy, an MSS Member, and a delegate in the DAO
- 404DAO: Arbitrum Delegate who served as a LTIPP Council member, MSS Member and Onboarding WG
- GMX: LTIPP Council Member, Active Arbitrum Delegate, One of the oldest and largest Arbitrum Protocols.
- Blockworks Research: ARDC Research Member, Active Arbitrum Delegate, published numerous reports on STIP

Process Overview

Only three steps are required to operationalize this proposal.

1. Pass a Snapshot Vote to approve the Working Group budget.
2. Working group members complete Foundation onboarding, including compliance and execution of required agreements.
3. The LTIPP multisig transfers funds to each respective working group member. Payments are made in a single lump sum upon initiation of work to reduce operational complexity and overhead

Timeline

The project is projected to span from mid-September, targeting an incentives go-live date of February 2025.

- Mid-September - Form and Execute Working Group and associated DAO proposal.
- Late September - Late-November: Research, Ideation, and Proposal creation to produce an initial working draft
- Late-November - Mid-December: DAO feedback stage and modify the proposal to reflect feedback
- January: DAO votes on Incentives Program Proposal. Pending approval, contributors are onboarded, and the program is initialized.
- February: Incentives Program Begins

Overall Cost

225,000 ARB

Cost Breakdown

Five working group members paid \$7,500 per month. (Blockworks would forgo payment as their contributions to this working group would be covered by ARDC v2 funding, if approved)

Three months of work (2 months for research and proposal creation + 1 month for feedback, modification, and setup)

$5 \times 3 \times \$7,500 = \$112,500$ (225,000 ARB at current prices)

This proposal would not require any additional funding from the DAO treasury. Over 24,000,000 ARB remain from LTIPP in

the [LTIPP multisig](#). Part of these leftover funds can be used to fund this incentive working group.