

**This is an outdated draft. Please see the updated draft [here](#).**

## Abstract

This AIP establishes a Long Term Incentives Pilot Program for the DAO to test new incentives designs and answer the necessary questions to ensure we are ready to commit to the long-term program. This Pilot Program will distribute 35M ARB to protocols that have not yet received incentives. The program will run from January 2024 until April 2024.

## Motivation

### Testing Incentives Mechanisms For a Long-Term Framework

The Arbitrum DAO has spent the last few months experimenting with incentive programs to attract new users and liquidity to Arbitrum. There is a consensus the DAO will use what we learn from these short-term programs to establish a long-term framework. While STIP V1 brought tons of attention to Arbitrum and has resulted in [upticks](#) in protocol metrics, we have learned there were many flaws with the structure of STIP Round 1. This Pilot Program looks to implement new mechanisms to address the issues seen in STIP V1. The DAO will use this Pilot Program as a test run for a long-term framework before committing to a year-long program.

The Pilot Program will operate using a Council, have Application Advisors to ensure protocols receive adequate feedback and assistance, and allow protocols more freedom to create innovative ARB incentive plans. We believe these changes will help remedy many of the pain points seen in Round 1. Running the Pilot Program to test these new features will allow the DAO to compare different program methods before implementing a long-term framework beginning in Q2 2024. This will help ensure we have all the knowledge necessary to implement the most effective long-term incentives program for Arbitrum.

### Why Protocols Need a Round 2

STIP was an experimental program to distribute ARB to protocols to use as incentives for their users. While it was initially intended to have two rounds, the program was substantially more popular than expected, and the entire 50M ARB budget was used in Round 1 as was permissible in the original rules.

This meant no funds remained for Round 2, leading to its cancellation. Many protocols either missed the Round 1 deadline or intentionally waited for Round 2. This left several protocols with no alternative route to apply for ARB incentives. Many STIP Round 1 grantees have seen [upticks](#) in their metrics. This Pilot Program would allow protocols that missed out on Round 1 the opportunity to apply to gain these benefits, which will help level the playing field for these protocols. The Pilot Program will replace a round 2 and will be funded with 35M ARB to accommodate the large expected protocol demand we have already seen. This will complete the incentivizing of Arbitrum-based teams to create a holistic competitive edge not against each other but against other chains.

## Rationale

There is a DAO consensus that Arbitrum will need a long-term incentive program in 2024. However, many delegates feel the DAO is moving too quickly and spending too much money on backfund or V2 proposals without yet receiving any of the data on STIP's effectiveness.

We have learned a lot from STIP and can use what went wrong in STIP and the Backfund to hypothesize what changes would create a better long-term framework. However, we have little evidence to prove these new ideas would be a better solution. DAO members currently don't have the resources or funds to create a long-term program, nor do we understand what a good long-term program looks like.

This proposal focuses on obtaining this evidence using a committed working stream to guarantee we come away from this program ready to make informed decisions on a long-term framework. The pilot program also allows the DAO to test new aspects of an incentive program such as Application Advisors, Councils, and more flexible incentive distributions before committing long-term.

This will help save the DAO money and time in the long term by preventing the need for more short-term programs before we are ready to commit to the Long-Term Framework

## Specifications

## Problem / Solutions:

The specifications of the Pilot Program were designed to remedy the 3 largest complaints regarding STIP Round 1. The Pilot Program hopes to be a test run for these additions for the DAO to determine if they should also be included in the long-term framework.

### Problem #1:

Too large a burden placed on delegates

In the original STIP, delegates voted on each incentive proposal individually, with almost 100 snapshot votes. This was extremely tiring for delegates and left many feeling they could not make informed decisions on every proposal.

### Solution #1

To remedy this problem, the Pilot Program will have a 5 person council approved by the DAO responsible for evaluating applications and deciding which protocol will receive ARB. This will ensure all applications are thoughtfully evaluated with only the most deserving receiving incentives. Not only will this help to reduce the burden on delegates, but it will also help expedite the process and allow protocols to receive incentives quickly and efficiently.

### Problem #2:

Protocols did not receive adequate feedback on their proposals

A major gripe from protocols was they struggled to get feedback from delegates before the deadline. This left many feeling as though the better-connected protocols had an advantage as they were able to modify their proposals based on feedback to make them more competitive during the vote. Many protocols were willing to make changes to their applications to make them more appealing to the DAO but never received the proper feedback necessary to do so.

### Solution #2

The Pilot Program introduces Application Advisors. This will be impartial organizations tasked with providing each applicant with detailed feedback and guidance on how to improve their applications. This ensures each applicant can iterate on their proposal so they can put forward the best possible incentive plan for the council.

### Problem #3:

Strict Limitations on Incentives Mechanisms

STIP Round 1 had strict limitations on how the ARB could be used as incentives. This was done to protect the DAO and prevent misuse of funds. However, the strict rules resulted in the stifling of many innovative incentive designs. Many protocols had interesting designs that used the ARB in ways that increased alignment, improved cost efficiency, or helped to limit the dumping of ARB. However, these designs were not permitted in Round 1 leading to almost all protocols resulting in generic liquidity incentive models.

### Solution #3

The Pilot Program provides more flexibility to protocols to create innovative incentive structures. With the addition of the Council and Application Advisors, the Pilot Program does not require the rules to be as stringent. Malicious or inefficient designs will be first filtered out by the Application Advisors and then rejected by the council. Allowing protocols to innovate on incentive distribution mechanisms will allow Arbitrum protocols and community members to get a better idea of which designs work and which don't work. This will help everyone as we prepare for a longer-term incentives program.

## Flow of V2

### Application Period (2 week)

Protocols will have 2 weeks to apply using the Pilot Program application template. Applications will be posted in the Pilot Program section of the Arbitrum forum. Protocols only need to post the initial draft of their application during this period. They will then have 2 additional weeks during the feedback period to edit their applications. The template will be posted to the Forum well before the start of the application period to give protocols time to start their applications early. No late submissions will be accepted.

### Feedback Period (2 weeks)

During the feedback period, the Applications Advisors will provide feedback and guidance on all proposals. Both Application

Advisors will provide feedback on all applications on a rolling basis. Protocols will then use this time to edit their proposals according to this feedback before applications lock at the end of the 2 weeks.

StableLab will also read all submissions during this period and highlight any rule violations to allow applicants to edit their submissions to ensure they comply with all program rules.

### **Selection Period (1 week)**

During this period, the council will complete a rubric for each protocol to decide which protocols will receive ARB. The council will be required to publish these rubrics and provide a brief reasoning for all of their decisions on the forum to create transparency and accountability.

The council must judge applications as they are and cannot accept protocols at lower amounts than their application states. For example, if an application asks for 200,000 ARB the council can not fund them with 100,000 ARB

### **Incentives Period**

Selected protocols will receive their requested ARB using bi-weekly Hedgey streams until April 26th. During this time, protocols will be required to provide bi-weekly updates on the progress of their incentives using this [template](#). Protocols will be required to finish their incentives distributions or return any unused funds to the DAO by May 10th.

## **Roles & Responsibilities**

### **The Council**

The council will comprise 5 DAO members. These members should be unbiased and knowledgeable builders or delegates who will collaborate to allocate the 35 Million ARB to protocols. The council does not need to spend

the entire 35M should they feel there are not enough quality applications. Any unused funds will be returned to the DAO to be used in the Long Term Framework.

The council members will be responsible for creating a rubric that all protocols will be judged against. The council will design this rubric with input from the Application Advisors and will communicate what they are looking for with the Application Advisors to ensure the Application Advisors guide protocols in the right direction. The highest-scoring protocols will be awarded incentives. The council will be responsible for publishing the rubrics as well as a brief explanation for all decisions.

The council will also be responsible for determining when to halt a protocol's stream should they violate program rules or misuse funds. All reports of violations will be evaluated by the council. It will require 4 out of 5 council members to vote in favor of halting the stream for a stream to be stopped.

Additionally, the council will be responsible for selecting who completes each research bounty. While there is 200,000 ARB allocated for research bounties. This selection will be made via a simple majority by council members and will require them to provide their reasoning for all choices made. The council does not need to spend the full amount

should they receive lower budget requests or do not find an appropriate party to fill a bounty.

In the long-term incentives framework, council members will be elected by the DAO. However, as this is a short-term program designed to move quickly, the council in the Pilot Program will be predetermined and ratified by the DAO. This is to avoid an election process significantly delaying the Pilot Program.

### **Delegates Ability to Veto the Council**

After the Council makes its final selection on which protocols get funded, the delegates will have the opportunity to veto any protocol the Council has chosen. This will be done via a snapshot vote to signal to the multisig not to start the stream. If this occurs, the vetoed funds will be returned to the Arbitrum treasury. This aims to keep the council accountable and give delegates the final say in how DAO funds are spent.

### **Council Responsibilities:**

- Design a rubric to grade applications
- Grade all protocols against the rubric to determine who will receive funding
- Provide public reasoning for all funding decisions made
- Decide whether a protocol's funding should be halted if they violate the rules or fail to distribute ARB
- Read over all Research Bounty applications and select who completes each research bounty based on the budget requested and level of expertise in that field of research.

## Council Members

Potential Council members are currently being discussed and vetted and will be added to this proposal before it progresses to a vote to allow the DAO to ratify the council.

- TBA 1
- TBA 2
- TBA 3
- TBA 4
- TBA 5

## Removing Council Members

Should the DAO feel a member or members of the council are not fulfilling their duty they may remove them using a snapshot vote. An emergency Snapshot vote will then be used to elect replacement member(s).

## Application Advisors

There will be two impartial organizations with research expertise that will serve as Application Advisors. Application Advisors are tasked with providing detailed feedback on all applications. Protocols will be able to use this to edit and improve their application during the review period. Protocols do not have to listen to the advisors but may consult their advisor for help. Application Advisors will schedule public office hours for protocols to meet with them to work on adjusting their applications. These calls will be open to anyone so that all applicants have access to the same advice.

The Application Advisors will also work closely with the council to create the application template and grading rubric. This will ensure the council and advisors are on the same page so they can provide the best feedback to applicants and ensure the council understands the details of the incentive mechanisms the Advisors are helping protocols design.

As this is an experimental addition to the incentives framework, having expert advisors working with protocols will help protocols and the DAO understand what is most helpful from an advisor and allow the DAO to adjust the role for the longer-term framework. This will also help protocols design more innovative incentive distribution mechanisms that can be tested to see how effective they are going into a long-term incentives framework.

### Advisors:

Potential Application Advisors are currently being discussed and vetted and will be added to this proposal before it progresses to a vote to allow the DAO to ratify the Application Advisors.

- TBA 1
- TBA 2

### Application Advisor Responsibilities:

- Work with the council and program manager to design the application template.
- Provide detailed feedback and recommendations for the applications they are assigned during the review period
- Communicate with applicants to facilitate the application process and improve proposals
- Host office hours to allow applicants to ask questions and get help with their proposals

## The Multisig

The same [STIP-ARB multisig](#) used in Round 1 and the backfund proposal will continue for The Pilot Program. The funds in the multisig belong to the DAO, and the signers act as grant managers on behalf of the DAO in coordination with the Arbitrum Foundation. Funds held in the multisig are explicitly banned from usage in DAO governance, including delegation.

The STIP-ARB multisig includes two features to ensure the accountability of signers and grantees:

1. Clawback capability so the DAO can retrieve funds if the multisig violates the agreement.
2. Streaming of funds to grantees every second week for the grant's duration using Hedgey. This allows for the halting of funds if misuse is discovered to stop bad actors, not punish bad designs.

## Program Manager

Matt from StableLab will act as the program manager. StableLab will function in a similar capacity as they did for STIP Round 1. They will help coordinate between the multisig, council, Application Advisors, applicants, foundation, and community to ensure the Pilot Program program runs smoothly. StableLab will serve as a neutral party and have no power to decide which protocols receive funding or which streams are halted.

StableLab was responsible for designing this Pilot Program and will continue working on designing a long-term Framework with the help of the incentives working group and the DAO. StableLab will be responsible for publishing a research report on the effectiveness of the Pilot Program and their findings on how it operationally compared to STIP V1.

Should the DAO feel StableLab is not fulfilling their duties as program manager, they may remove them using a snapshot vote. An emergency Snapshot vote will then be used to elect a replacement program manager.

In the Long Term Incentives Framework, this position will be decided by the DAO. However, because the Pilot Program is intended to move quickly, it will continue using StableLab's services given they have experience from managing STIP V1 and already have knowledge from designing this process.

## **StableLab Responsibilities**

- Provide feedback on all applications regarding their eligibility. They will not provide any thoughts on the merits of the applications.
- Answer any questions regarding incentives from the community, protocols, council, Application Advisors, foundation, and multisig
- Handle forum communication regarding the program.
- Provide bi-weekly updates on the progress of the program.
- Help the council coordinate the review and selection process. They will have no say in the council's decisions.
- Help the data provider coordinate with protocols.
- Coordinate KYC progress with foundation and multisig.
- Coordinate streams between multisig and protocols.
- Continue designing the Long Term Framework, ensuring it has DAO approval and will be ready to begin in Q2 2024.
- Publish a detailed research report breaking down the operational effectiveness of the Pilot Program compared to STIP V1 in terms of DAO costs and effort.

## **Data Provider**

As in STIP round 1 and the Backfund proposal, the Pilot Program will use a data for data monitoring and reporting. Their exact responsibilities will be the same as they were for STIP and the backfund and can be seen in the [RFP - Arbitrum Short-Term Incentive Program \(STIP\) Data Monitoring and Reporting](#).

This will be an elected position in the long-term program. Additionally, given the long-term framework will have a much larger scope and will include many separate incentive categories, it will most likely require the DAO to onboard multiple different organizations to handle the long-term framework's data monitoring and reporting. However, because the Pilot Program is intended to move quickly, the Data provider will be selected and ratified by the DAO similar to STIP round 1. Potential data providers are currently being discussed and vetted and will be added to this proposal before it progresses to a vote to allow the DAO to ratify.

## **Research Bounties**

The Pilot Program proposal will include research bounties to ensure the DAO collects sufficient data and draws meaningful conclusions from STIP, the Backfund, and the LTIP Pilot Program. There will be up to 200,000 ARB available to those who complete bounties.

When this proposal goes live to Tally, it will include many questions the DAO wants answered. Some examples Include:

- Which protocol incentive designs were most effective at attracting sticky users/liquidity?
- What is an appropriate budget for a Long Term Incentives Incentive Program?
- What was more effective the council or delegates voting?
- What category of protocol received the most funding? Were any categories left out?

Researchers will then apply to claim these bounties by providing why they are the best fit to answer the question as well as

providing a budget. The council will be responsible for selecting who completes each bounty. This process guarantees the DAO will have multiple teams working on providing meaningful conclusions regarding incentive programs. These conclusions will be essential to allow the DAO to possess all the information necessary to create the best possible long-term incentive framework.

## Arbitrum Delegates

This program is designed to reduce the large burden delegates faced during STIP round 1. While many of their responsibilities are replaced by the Council and Application Advisors, the Arbitrum delegates will still retain the final say in many aspects of this proposal.

Delegates will retain the following powers:

- Ratify all roles included in this proposal
- Remove any position holder via a snapshot vote should the delegates feel they are not fulfilling their responsibilities
- Veto any funding decision made by the council
- propose the final research bounty questions

## Eligibility Requirements

- Grantees must be live on Arbitrum at the time of application
- Grantees must not farm their own incentive programs.
- Grantees must outline a spending plan, provide a pro forma, and state the grant's objective.
- Grantees must commit to providing data on distributions, all ARB spending transactions, and key metrics like daily TVL, transactions, volumes, unique addresses, and transaction fees. This data should cover 30 days before, during, and after the Incentivization period, and be presented preferably in a Dune Spell/dashboard.
- Grantees must agree to share all contract addresses being used to distribute incentive rewards.
- Grantees must disclose the contracts being incentivized and denote any external contracts being incentivized as part of the program.
- Grantees can only incentive contracts on the Arbitrum Network.
- Grants are not to be used in DAO governance.
- Grantees are expected to not encourage or partake in sybil attacks against the forum to sway community opinion.
- Grantees must agree to KYC with the Arbitrum Foundation to receive funds.
- Grantees must apply using the approved program application [template](#)

By streaming grant payments, the multisig will be empowered to hold grantees accountable to their proposals by halting fund streaming for any of the following reasons:

- Any use of funds not explicitly described in the grantee's application.
- Failure to comply with data reporting standards.
- Grantee recipients will be required to provide Dune dashboards uploaded and posted to the forum
- Dashboard requirements are: Daily TVL, transactions, volumes, unique addresses, and transaction fees for incentivized protocols. This data should cover 30 days before, during, and after the Incentivization period. If a metric does not apply, or this is not achievable, it should be noted in the application.
- More granular dashboards (including pool-level and user analysis) will be noted by the community for future programs.
- Dashboard requirements are: Daily TVL, transactions, volumes, unique addresses, and transaction fees for incentivized protocols. This data should cover 30 days before, during, and after the Incentivization period. If a metric does not apply, or this is not achievable, it should be noted in the application.
- More granular dashboards (including pool-level and user analysis) will be noted by the community for future programs.
- If dashboards are not posted by this date, the multisig will be empowered to halt incentive funding streams for protocols at their discretion.

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- More granular dashboards (including pool-level and user analysis) will be noted by the community for future programs.
- If dashboards are not posted by this date, the multisig will be empowered to halt incentive funding streams for protocols at their discretion.

In that this proposal aims to be experimental, the multisig is not intended to provide quality control on the design of incentive programs. Rather, they are empowered to halt streaming in the event of negligence or misuse of funds.

## Steps to Implement

- Protocols can begin applying for incentives after a snapshot vote passes.
- At the same time, it is recommended applicants begin the KYC process with the foundation to expedite the process should they receive funding.
- Once protocols begin applying, the Application Advisors and the council will begin providing feedback on proposals on a first come first serve basis.
- Once this proposal passes the on-chain vote, the total amount of ARB will be sent to the [multisig](#).
- Protocols will work with Application Advisors to improve their applications.
- The Council will design a rubric and grade each application using this rubric to select which applications are funded.
- All protocols that will be receiving funding will have to pass KYC and sign grant agreements.
- Once the foundation notifies the program manager and multisig that protocols are ready for funding, the program manager will coordinate with the protocols, and the multisig will initiate the streams.
- Research Bounties will be selected and completed throughout the process.

## Overall Cost

### Total Cost: 35,665,000 ARB

- Incentives:

35,000,000 ARB.

- Council Members:

125,000 ARB - 25,000 ARB each

- Application Advisors:

70,000 ARB - 35,000 ARB each

- Research Bounties

: 200,000 ARB Total - the exact amount and sizes of specific bounties will be selected by the Council and can be vetoed by delegates.

- Data and Analytics Provider:

150,000 ARB for data monitoring and reporting

- Program Manager:

100,000 ARB for program design, organization, management, research report, and continuing development of the Long Term Incentives Framework. See the full list of responsibilities above.

- Multisig Signers:

20,000 ARB - 2,500 ARB each