# Empowering STIP to measure the impact of incentives for new builders

UPDATE

- we want to draw attention to a budget clarification that the total listed for Data and Monitoring for Plurality Labs (performed by OpenBlock Labs) is not 100K ARB but 149,500 ARB. The total ask of 21.52M remains unchanged.

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STIP_Backfund_Opportunity

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Call to Action for Arbitrum ecosystem

This proposal represents a critical opportunity for our community to:

- Support diverse, emerging builders and make Arbitrum a welcoming environment for new projects

- Double the sample size and diversity of stages and categories in the STIP data set

- Uphold constitutional values of Inclusion vs Exclusion

- Avoid potentially irreversible harm of crushing small, high potential builders

Notes:

- This proposal draft has been prepared by the Arbitrum STIP Inclusion Working Group following a series of community calls and workshops involving various stakeholders. As a preliminary document, it seeks input from both the Arbitrum DAO and the Liquidity Working Group.

- This proposal frequently cites AIP-9.

- For all of our resources see here:[svy.gg/stip-backfund (DocSend)](https://svy.gg/stip-backfund)

# Abstract

This proposal outlines a one-time backfund to all "approved but not funded proposals'' from Arbitrum STIP. The proposed AIP increases the total budget by 21.4M to 71.4M while increasing the total participating protocols by 26, for a total of 56 funded projects. The program plans to allocate DAO-owned ARB towards incentives while leveraging distribution systems, consensus, and delegate diligence already created from STIP 1.

This program is designed to backfund approved protocols while maintaining the timelines and systems of STIP 1:

- Timeline: The program is scheduled to commence and conclude concurrently with STIP 1, or within a similar timeframe, starting from the first week of November and running through January 31, 2024.

- KYC: The program will utilize the same KYC system as STIP 1.

- Reporting: Participating grantees are required to self-report data, maintain dashboards, and regularly summarize grant performance

# Considerations

Before this proposal was drafted, a working group was formed to gauge sentiment, gather key data points, and outline the proposal's structure. The working group collaborated with delegates and projects affected by the STIP, engaging in multiple calls—including sessions with the creators of the STIP and the Incentive Working Group—to solicit feedback and refine the proposal accordingly.

Key concerns discussed include:

**Why not just push towards a round 2 and go through voting for all proposals again?**

First and foremost, we believe that the successful execution of this Backfund proposal will, in time, serve as a crucial catalyst for future grant structures, including a successful STIP round 2. Why? This opportunity will unify the Arbitrum ecosystem by addressing key weaknesses in the original STIP 1 structure by quickly providing approved projects and other stakeholders with the resources/data needed to design and support future programs.

Key issues associated with delaying an immediate backfund and moving towards a round 2 include:

- Proper design and execution add considerable time delay to a highly competitive environment within Arbitrum and other L2s

- Requires teams with limited resources approved already for STIP 1 to spend significant time lobbying delegates

- Removes attention away from new Round 2 proposals

- Adds additional burden to delegates that should be focused on long-term design improvements and new STIP grants not yet approved

- Removes key data for STIP experiment analysis by skewing learnings towards larger, well-established projects

- Delays the alignment of the STIP with the Arbitrum constitution values of inclusivity and diversity

- Negatively impacts new builder sentiment towards Arbitrum at a critical time in the L2 Wars

## The budget set aside was 50M, and the DAO decided that was the acceptable spend for a short-term incentive.

While the budget was set at 50M, the original working group proposed 75M so that:

"The budget was raised to 75M ARB to accommodate larger protocols (Pinnacle Grants) without compromising smaller applications." tnorm, September 3rd 2023.

Excess demand was a significant possibility due to the high interest in STIP and the absence of a cap for Pinnacle grants. Voters lacked the data to ascertain whether the initial 50M would be adequate to achieve the objectives of STIP.

Noteworthy is that, in the event of excess demand, measures including backfunding were already outlined as potential options.

Proper design and fulfillment of a Round 2 or similar future funding programs may take time to develop. Meanwhile, projects that received approval but no funding have immediate initiatives requiring support. Our opportunity is to fund these initiatives, level the competitive playing field, and enhance the data available for the STIP process.

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## Voting behaviors for a 50M proposal shouldn't carry over to a proposal that includes the additional backfunded amounts.

During our consultation process, we engaged in numerous discussions that brought forth questions about backfunding. Despite the criticisms, backfunding remains the most straightforward method to address the current STIP's skewed sample size. We advocate that backfunding is the optimal approach to achieve the STIP's intended outcomes—specifically, to examine the impact that incentives have on the growth of the Arbitrum ecosystem.

Furthermore, if the STIP continues without rectifying the issues with its sample, the analysis will be compromised by a significant methodological flaw. Backfunding is not just the "best" option; it is essential for preserving the integrity of the STIP overall.

Voting behavior might have differed if the budget cap were set at 75M or 100M. The only way to determine this would be to repeat the experiment with a raised cap (an option that is unfeasible as time travel has not yet been realized).

It's helpful for us to remember the original objectives of the STIP:

- To provide incentives to a diverse and inclusive group of Arbitrum projects.

- To quickly establish an incentives program that is in harmony with Arbitrum's values and constitution.

- To generate robust, meaningful data to shape the future design of Arbitrum grants for projects of all types and sizes.

# Motivation

Motivation - A statement on why the Arbitrum community should implement the AIP.

How can Arbitrum create an incentives structure to grow the ecosystem? STIP started when the community began investigating creative uses for incentives. A short-term program was devised to act quickly, collect data about how incentives are used by Arbitrum protocols, and learn from the results to design new programs and grow the Arbitrum Ecosystem.

An unexpected budget problem caused many successful STIP applications to receive no funding. The real-world consequence of this mistake caused the STIP sample to be cut in half - but not at random. To determine the final STIP cohort, the applications were sorted by approval, which inadvertently skewed the sample towards incumbent protocols. This sampling bias is most egregious for collecting data about the smallest protocols; over 70% of Beacon grants were rejected due to the sorting algorithm that was used. Consequently, STIP may not be collecting sufficient data about new builders on Arbitrum.

This AIP seeks to achieve STIP's original motivations by:

1. nearly doubling the sample size;

2. adding protocols across a broad array of industry categories; and

3. including protocols at different stages of development.

This AIP will ensure an important builder population is included in the study, while increasing the validity of the STIP results.

One of the most important questions facing Arbitrum today is how to grow the ecosystem and win the L2 Wars. STIP is a novel study on the impact of incentives for growing the Arbitrum ecosystem. In practice, the STIP excluded most new builders from the study, severely limiting the data that will be collected about the early stages of the builder pipeline. This AIP includes a broader range of protocols in the STIP study, ensuring that Arbitrum gets the data it needs about how incentives impact new builders in the Arbitrum ecosystem. It stands to reason that extending incentives to smaller projects could serve to incubate projects that grow into the high-usage dApps of tomorrow. Extending the STIP may not only increase the inclusivity of the program but also incentivize significant growth for the broader Arbitrum ecosystem at a lower cost per project, and this possibility is worth exploring.

# Rationale

Rationale - An explanation of how the AIP aligns with the Arbitrum community's mission and guiding values

Arbitrum's community values highlight the importance of diversity, which increases the fitness of the entire Arbitrum ecosystem by representing the needs of many kinds of participants. The original work to design STIP was careful to consider how both large and small protocols would fare under the framework. However, the unexpected budget cutoff caused the sample to skew towards large protocols, which is at odds with the values of the Arbitrum community. The cost of falling short of this ideal is that STIP systematically overlooks the possibility that incentives might be uniquely interesting to small and new protocols. By failing to incorporate protocols at the first stages of the builders onboarding pipeline, Arbitrum will be unsure about how incentives operate among this crucial group of protocols.

The Arbitrum community also values neutrality, which received careful consideration during the STIP design stages. It was well-understood that incumbent protocols were likely to prevail with their STIP applications - but it was hoped this would not preclude smaller participants from also being funded. Unfortunately, this wish for inclusion was not fulfilled and - unintentional though it may have been - funding was nevertheless distributed according to a ranking that was likely to favor incumbents. Again, despite the best efforts of the DAO and the STIP designers, the result was at odds with the values of the Arbitrum community.

Above all, Arbitrum seeks to create and nurture a thriving ecosystem - and the DAO's values are designed to provide guiding values that will always trend towards the health of the ecosystem. When the values aren't met - even unintentionally - it is possible the best interests of the ecosystem aren't met, either. In the case of STIP, accidentally excluding Beacon grants falls short of the community values - which, in all likelihood, is a critical oversight that Arbitrum would benefit from fixing.

# Key Terms:

- Approved but not funded STIP proposals

- AIP-9

- Backfund

- Extension

- STIP

- STIP Round 1

- STIP Backfunded

# Specifications:

Specifications - A detailed breakdown of the platforms and technologies that will be used.

Will approve funding of an additional 21.4M ARB through the end of January 31, 2024.

Please note the STIP Backfund will leverage the multiple sections of AIP-9 such as Specification section and Outstanding Questions and Concerns and specifically:

- Financial Proposal

- Multisig Setup

- Eligibility Requirements and Eligibility and Evaluation Guidelines.

- KPIs

Steps to Implement -

The steps to implement the AIP, including associated costs, manpower, and other resources for each step where applicable. For the avoidance of doubt, any AIPs involving transactions with third parties (such as grants) will need to ensure that applicable legal documentation and procedures are also included.`

## Specific Recipients and Amounts for Backfund Proposal

We used data provided by ARB STIP — raho.me to determine which successful STIP proposals did not receive funding. This list is also available via google docs.

Which protocols are included in this AIP?

We used data provided by https://www.raho.me/stip to determine which successful STIP proposals did not receive funding. This list is also available via google docs.

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The 26 Backfunded Builders

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Total ARB for backfund

- 21.4M ARB

- 26 protocols

Project

ARB Amount

WOOFi

1,000,000

Gains Network [1]

4,500,000

DefiEdge

200,000

Synapse

2,000,000

PancakeSwap

[2]

2,000,000

RabbitHole [3]

1,000,000

Notional

500,000

Rodeo Finance

250,000

Magpie

1,250,000

Stargate Finance

2,000,000

Savvy

200,000

Tales of Elleria

50,000

Thales

500,000

TIDE

80,000

Solv Protocol

150,000

Furucombo

59,500

dForce

1,000,000

Sanko GameCorp

500,000

Ramses

1,248,000

Vela

1,000,000

Thetanuts Finance

200,000

JoJo

200,000

Wormhole

1,800,000

Shell Protocol

750,000

Realm

300,000

unshETH

375,000

StakeDAO

200,000

WINR [4]

38,000

[1] Gains Network originally asked for 7M ARB, but reduced their ask to 4.5M ARB. See announcement.

[2] PancakeSwap has removed their proposal from consideration because of KYC requirements.

[3] RabbitHole's inclusion in backfunding would replace their proposal titled: "Proposal: Grow Arbitrum & STIP Teams by leveraging Quest Protocol built by RabbitHole"

[4] Currently, WINR will receive 462,000 of their ask - with backfunding WINR would receive 500,000.

## Overall Cost

Overall Cost - The total cost to implement the AIP.

Overall Cost - 71.4M ARB

# Projected Timeline

Timeline - Relevant timing details, including but not limited to start date, milestones, and completion dates.

*Note: Timeline may change based on option selected or amount of work needed to update and develop. For DAO proposals and voting procedures please see

[Section 2 in the constitution.

](https://docs.arbitrum.foundation/dao-constitution#section-2-dao-proposals-and-voting-procedures)

Phase

Date / Duration

Title

Description

Phase 1: Temp check (1 week)

Th, Nov 2nd

Draft posted to forum

Discussion hosted on forum, revisions to draft, broader working group call and revisions to AIP.

Mon, Nov 6th

Temp check posted to snapshot by sponsor delegate

Reconvene in forum to post results and conclude temperature check.

Phase 2: Formal AIP and call for voting (3 days):

Tues, Nov 8th

Phase 3: DAO votes on AIP, on Arbitrum One (14-16 days):

Thurs, Nov 10th

Snapshot vote begins(submit to Tally)

During this Phase 3, the ArbitrumDAO will be able to vote directly on-chain on a submitted AIP. Vote to approve AIP for non-constitutional funding. Tally voting: Quorum ~71.4M ARB; greater than 50% voting in favor.

Thurs, Nov 24th

DAO vote ends, results are final

Phase 4: L2 Waiting Period (3 days)

Wait

Waiting period of 3 days; then schedule on-chain txs to disburse ARB