Hey everyone! This is a joint post created by Robo and Mackay (@mgg), the Community Grantors for the DGP. As part of our ongoing effort to give the community more insight into the grants program, we felt it would be helpful to write up this post detailing some of the factors we consider when doing due diligence on a prospective grant.

We prioritize thoroughness of screening over expedition of approval in order to ensure accountable spending that prevents waste of community funds. Not all grants will be successful, but with a proper due diligence process we can ensure that instances of unsuccessful grants are kept to a minimum. So, without further ado, here are some of the things we think about when running due diligence on a prospective grantee's application.

Note: The following criteria do not represent a comprehensive list of every factor that is considered as part of the due diligence process. Every grant is unique, and circumstances unique to each grant will affect the due diligence process. This is just a list of some of the common things that we think about when determining whether to recommend a grant application to the DGP trustees for funding.

Who Are We Funding?

One of the most important aspects of the due diligence process is the prospective grantee. Funding a grant requires relative confidence that the entity being funded is capable of completing the milestones associated with the grant. As part of the due diligence process, we will nearly always look into the background of the team requesting funding to determine their competence and experience in the industry.

The blockchain industry is a relatively small space, so in many cases, teams applying for grants are well-known. These prospective grantees can usually point to a rich body of comparable work that they have done for other protocols. In this case, we can conduct due-diligence on the prospective grantee by reviewing that work and speaking to individuals associated with those protocols (this is where it is helpful to have grantors that have significant contacts in the industry).

Other times, prospective grantees will be less known or relatively unknown, and may have less work to point to as an example of their experience. In such cases, proper due diligence requires getting more hands-on with the grantee, meeting with them and asking detailed questions about the topic of their grant to ensure that they are subject-matter experts. It can be harder to ensure success with grantees that are less well-known, and this factors into our consideration process, but it's important to balance this with the potential to onboard strong new long-term contributors to the protocol (which should be the goal of any good grants program).

Other important factors in diligence on the grantee themselves:

- Does the grantee have experience in the type of work for which they are requesting funding (ex: a strong infrastructure provider may not be the best grantee to build out a line of new products)?

- Does the grantee have a history of completing work in a timely manner?

- Does the grantee have a history of positive community feedback and ecosystem impact?

- Will the grantee provide clean and original work tailored to the protocol–and not merely copy-paste work from other projects?

Does the Grant Have Alignment With the Protocol's Roadmap?

Successful applications should address the present needs of the protocol as defined in the protocol roadmap. Applicants should look at the roadmap as both a treasure map for potential contributions and as guidelines to what does and doesn't make sense. Often what works for some projects will not align with what works for others.

Some applications have a clear value to the long-term goals of the protocol, but aren't in line with the protocol's current priorities. In these cases, it is extremely common for the DGP to put an application on hold or deny it with advice to resubmit in 3-6 months. We'll often try to stay in touch with these applicants as well, and contact them again when the present need for their application becomes clear.

Will the Grant Grow the Protocol's Contributor Base?

A decentralized protocol is only as good as its community of contributors. In a competitive environment, DAO contributors help a protocol iterate quickly and shoulder some of the burdens that may not be able to be fully borne by a protocol's core teams. When evaluating grant applications, one factor that we take into consideration is whether the grant is likely to lead to a longstanding relationship between the grantee and dYdX.

dYdX has a storied history of shipping innovative features and taps a rich base of contributors to achieve this. A successful contributor not only has the aforementioned traits, but the eagerness to commit to long-term partnerships for mutual benefit; this means setting reasonable timelines, A/B testing, addressing the community, and delivering consistently over time. A grantee should seek to achieve these goals and it should be communicated in their grants application.

Notably, many protocol and DAO contributors dedicate their time and efforts with little to no up front expectation of grants or compensation. In these cases, retroactive grant funding is an extremely valuable tool because it:

1. Helps with contributor retention by ensuring that DAO contributors feel seen and valued by the protocol and its community.

2. Advertises to prospective contributors that dYdX is a community that welcomes their contributions, thereby creating a flywheel of net-new contributor activity.

Is the Grant's Cost Justified?

Accurately valuing a grant (and negotiating accordingly) is always one of the more difficult parts of the grant review process. Different vendors value their work differently, and public goods funding has the potential to attract mercenary contributions that don't provide long-term benefits to the protocol.

The DGP must balance giving new and less experienced contributors while still attracting high-quality and high-impact applicants; this principle will influence how pricing is considered.

Some relevant cost assessment factors:

- Cost of comparable work performed for other projects - We look to other projects

- The fair market value of the project (at what rate has their work been funded before?)

- The protocol impact (how much is this needed within dYdX at this time and measured internally on needs v.s. externally on the market)

- Time and labor needs (is this grant fairly compensated at the labor required and within a reasonable length of time)