As a recent grantee from an Arbitrum DAO program, the last couple of weeks on ETH Dever were fantastic. I had dozens of wonderful meetings and specifically enjoyed the opportunity to contribute to the DAO during GovHack!

One key area that I got involved in is Arbitrum Ventures, a nascent initiative that revolves around four interconnected questions:

- how do we attract and support builders?
- how do we bring the best returns to Arbitrum?
- how do we diversify revenue streams?
- and how do we ensure sustainability and defensibility?

The typical approach is deploying grants to incentivize ecosystem development. Although very powerful, grants also have some limitations that manifest in tensions, such as:

- Concerns about retention of grantees in the ecosystem
- Concerns about the ROI of incentive programs
- Concerns with the incentive alignment of service providers
- Challenges with forecasting the sequencer fees that different programs could generate
- Growing reporting structures and additional resources consumed in oversight

Multiple conversations were underway exploring complementary options to grants. What if we invested in projects and programs and could benefit from their growth directly (on top of sequencer fees)?

From that point of view, one might ask why don't we put the treasury in A16Z or whatever your flavor of best-performing fund in Web3? Does that, however, align with developing Arbitrum? Likely, the token holders betted on scaling Ethereum and creating a vibrant Arbitrum ecosystem, not just on increasing the treasury of an investment DAO.

Could a middle way between pure ROI or pure developmental objectives provide the ideal answer?

This is the same question that a lot of corporate venture arms and government-backed VC instruments have been faced with for decades, leading to different answers based on their unique circumstances…

For example, when I worked with supporting venture scientists in the UK and we deployed over £25m, the answer proved to be:

- Developing a community of the funding recipients and measuring entrepreneurial mindset in all the individuals over extended periods of time regardless if they continued to run a venture, engaged in licensing deals or became supporting talent.
- Measuring how networks evolved
- Measuring the propagation of relevant knowledge related to our thesis

This model prioritized development objectives over ROI, being close to some DAO grant programs.

In contrast, when I was negotiating a mandate to deploy EUR 35m, coming mostly from the European Investment Fund, the solution was

- A straightforward VC with €30m, where 70% were anchored and 30% had to come from the market
- Commitment for 50% in fund 2 and 30% in fund 3.
- An additional 5 mil accelerator fund where the LP agreement was more akin to a grant. The fund manager was allowed to take an equity stake on the back of them, as long as very specific developmental criteria were met and a strict schedule for their deployment was followed. Where the upside of every successful exit was split 50:50 between the funder and manager, regardless if the overall instrument made a net loss.
- What was being measured was how much pipeline value was created from the accelerator, where the same manager can capture a lot of it from the fund mixed with private market capital, and how much co-investment from top-tier other funds was attracted to this pipeline.

This second model provided for both ROI and developmental objectives, by adjusting parameters around the "hurdle rate" and other important details.

Both models are flavors of developmental venture capital (dVC, for short). And many more models in this spectrum have been tried and could be explored.

During GovHack, we started to explore with delegates, representatives from the Foundation, and other experts in the community, and the conversation was beyond inspiring and encouraging.

So the question is:

Should the Arbitrum DAO explore dVC? And if so, On the spectrum between:

1. Arbitrum development focus: “We get that we need to go beyond grants, but we don’t care about equity value as long as more and more builders come to build on Arbitrum, scale up, and are happy.“

And

1. ROI focus: “As long as we are invested in the best builders in the market and they are growing, we do not care if they build on Arbitrum in the long run“

Where do we want to land?

And, crucially, how much capacity to design a dVC model is currently available in the Arbitrum DAO, given other needs.

As such, this post is an invitation to engage with this discussion and find out who’s interested in contributing so we can start maturing the idea!

What are your thoughts? Is this something exciting? Do you have expertise in this area and are available to contribute? Where in the spectrum should we go?