In RetroPGF 3, the community had a lively discussion about VC funding and it's role within RetroPGF.

Understanding the relationship between VC funding and RetroPGF is an important component of the Optimistic Vision. The goal of Optimism's Retroactive Public Goods Funding is to retroactively allocate rewards to realize impact=profit — the principle that positive impact to the Collective should be rewarded with profit to the individual. Part of the initial vision behind RetroPGF is to foster a market for venture investment into public goods. Distributing rewards based on the past impact of public goods, allows for a possible return on investment for public goods.

The topic of VC funding and how it should or should not be considered in RetroPGF was the subject of discussion and debate among badgeholders and across the Ethereum community. In this post, we highlight key discussion points from various perspectives, representing the viewpoints of individual badgeholders, and close with the Optimism Foundation's perspective.

# The Debates

### Is the amount of venture funding received by a project relevant to evaluate impact = profit?

Background:

The application guidelines of RetroPGF 3 did not require projects to disclose their venture funding, with the rationale that VC funding is not relevant to evaluating whether impact = profit.

- VC funding should be considered in impact evaluation and should be disclosed by projects:

- "If I had to give a single negative bit of feedback it would be that it seems incomprehensible to me why there was not a question on the application form concerning VC funding. Clearly, this should be included." Tjrush

- "As someone that is choosing to factor in VC funding into my votes, it has taken a lot of extra time (maybe 3+ hours?) so far to look up the funding info about the hundreds of RPGF applicants. So in the future I'm definitely in the camp of people that would be happy to see disclosed VC funding be a requirement on the applicant form." Zoomer

- "As a badge holder, I want to simply ask you to sell us on the vision of RetroPGF so we can deprioritize the investment numbers, but don't intentionally exclude this relevant info." Griff

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- VC funding should not be considered in impact evaluation and disclosure should not be required:

- "I don't view private funding as a bad thing, which is the reason I think neither the VC funding nor or past grants info should be asked, I think wealthiness doesn't matter for the purposes of what's being evaluated in this experiment. so it's better to not ask, so badgeholders are not influenced by how rich you are when taking a decision" Willian

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### Should RetroPGF rewards only go to projects who are in need of funding?

Background:

Badgeholders and community members discussed whether it's sensible to reward projects if they already have significant funding at their disposal or if RetroPGF should only focus on projects in need of funding.

- RetroPGF should only go to those in need, not projects that already have funding:

- "Giving funding to projects that are FULLY FUNDED is burning money." hanniabu.eth

- "I would argue that companies with hundreds of millions of dollars getting a portion of the RPGF3 funds will actually cause the smaller, less funded orgs to struggle more, creating a monopoly. I don't think having a scheme that will make the rich more wealthy at the expense of others is in 'the spirit of crypto'." Hudson

- "If you can afford to throw a happy hour at one of the biggest Ethereum events on the global calendar, you shouldn't be

asking for public goods funding." Laurence

- "It's disappointing to see multiple projects that have raised millions in funding participate in public goods funding programs, like RetroPGF." Awkweb

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- RetroPGF should reward people and projects for their impact, irrespective of their need for funding:

- "…we shouldn't care how projects are funded or what their ownership structure looks like. As long as the project itself generated value for the OP Collective in a non-exclusionary manner, imo we should reward it appropriately." Spencer Graham

- "…subjective needs-based funding based on who can tell the best story and be the most well known amongst badgeholders is more more likely to reward those who are already established vs impact-based funding which has no barriers to outsiders or people without established reputations who have made an impact." Michael Vandermeiden

- "I don't think VC backed projects should be discounted. But I do wonder if it might make more sense to have separate RPGF rounds for different groups of projects." JoanBP

- "In general, it seems like doing a little bit of prioritizing projects that have not discovered business models has advantages, but we should not do too much of that. Projects should be judged by their effect on the world first and foremost." Vitalik, 2021, on RetroPGF1

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- RetroPGF should reward people and projects for their impact, but should prioritize projects which are in need of funding

- "I took into account not only donations/grants funding but also VC/angel investments and any other form of revenue the project has had. The idea follows the impact = profit guideline, just makes sure to not only subtract the value of the grants/revenue but also investments (with a smaller multiplier as they are not income)." Lefteris

- "I focused my votes on things that I am knowledgeable of + punishing some VC founded projects." Kris Kaczor

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## Should RetroPGF consider the resources that were used to create impact?

Background:

The community discussed if RetroPGF should consider the resources that were used to create impact, to prevent well funded players from capturing more RetroPGF rewards as they are advantaged in creating impact.

- RetroPGF should consider the resources available to a project:

- "And people/projects with the most funding will have the most "impact". […] Projects with the most money extract the most out of all these funding mechanisms. Money makes more money and small players die out. That's what I fear and what I see through this mechanism." [Lefteris](#)

- "Companies that have millions in funding will be able to make a larger impact than someone paying for development out of their own pocket and goodness of their heart." [Hanniabu.eth](#)

- RetroPGF's role should not consider resources available to a project:

- "Solving hard problems usually requires upfront funding. Do we not want significant investment oriented towards solving Optimism's hard problems? If we discourage VC-backed projects, we'll be left with fewer significantly impactful projects and the side effects of other projects." [Spencer](#)

# The Common Ground

- VC funded projects can create public goods:

There is consensus that VC funded projects can create and maintain public goods. It's important to remind ourselves that we're not rewarding projects or people for being

public goods, but rather we're rewarding them for creating

public goods and services. Of course, a VC funded company is not a public good in itself, but this VC funded company can create a public good.

# The Optimism Foundation's Perspective

In its future form, Retroactive Public Goods Funding accurately rewards impact generated across the Collective, and beyond. The mechanism becomes reliable and predictable enough that a market-like dynamic for providing impact emerges. Each builder, be it a VC funded, for-profit business, or an individual open source developer, can predict the reward they will receive based on the impact they deliver. The incentive landscape in this future looks radically different, where building impactful public goods is much more profitable than extractive closed source SaaS business models.

This vision of reliably rewarding impact within the Optimism Collective is also referred to as [Ether's Phoenix](#). To realize this vision, we need to transition from our current subjective review process to a data-based decision model, which measures and rewards impact.

### The following beliefs are core to the Foundation's vision of reaching Ether's Phoenix:

- The amount of venture funding received is not relevant to evaluating impact = profit.

Reflecting the original vision of the Optimism team, the ["impact = profit framework"](#), defines profit as the total value a contributor has extracted from the Optimism Collective. For example, profit may come from the Collective paying for a contributor's service or product or granting OP tokens or monetary rewards. Venture investment is made in exchange for ownership in a project and, therefore, does not meet the definition of profit in this framework. However, the Foundation does not unilaterally define the path to Ether's Phoenix, and there has been strong feedback by badgeholders to require the disclosure of VC funding from projects in their RetroPGF application. In the spirit of continued experimentation, this requirement will be implemented in the next RetroPGF round. The Collective can consider how these disclosures affect the badegholder voting process, and iterate accordingly.

- The funding needs of a project should not be considered in RetroPGF.

RetroPGF is not intended to be a charity. The intention has always been to create a new economic system, in which there is a profit motive for providing impact to the Optimism Collective.

[In the initial vision](#), we describe how reliably rewarding impact allows for a venture capital market to emerge for public goods. This will allow builders to pursue their project, even if grant giving organizations perceive them as too high risk to issue upfront grants.

- RetroPGF is an infinite game.

From the public discourse on Twitter, we observed that a RetroPGF round is commonly understood as a single shot game, which significantly changes the perspective on the game. As a single shot game, it's understandable to optimise for allocating rewards to those in need, but doing this repeatedly in an infinite game considerably changes the incentives.

By only rewarding those in need, or providing outsized rewards to them, we fail to create a reliable market for providing impact to the Optimism Collective. Further, this could slow the emergence of an investment market for public goods, as a project which raises upfront capital can expect to receive less RetroPGF.

We should focus our effort on the infinite game and the long term incentivise we want to set. It's worth highlighting that the Optimism Collective also provides upfront grants for projects to create impact, via a Token House Grants administered by the Grants Council.

- The role of RetroPGF is not to create an equal playing field.

The role of RetroPGF is not to create an equal playing field, in which each player is equipped with the same resources. Instead, it aims to ensure that each player is rewarded fairly for the impact they provided to the Optimism Collective less any value it extracted from the Collective. In market based systems, an individual, collective or company with significant resources at their disposal, has an unfair advantage over those with a lack of resources. It should not be the role of RetroPGF to solve this problem, but the Collective should continue its efforts of ensuring a diverse set of builders can access grants and venture investment via other means.

This post focuses on one critical debate that occurred during RetroPGF 3. Given the relevance of this specific topic to the [Optimistic Vision](), it is important to represent differing perspectives within the Collective, and to provide clarity on the original vision of RetroPGF. We expect many more debates as the Collective evolves as discussions like these play an important role in the maturation of Optimism governance.

There were many other interesting points of discussion and feedback received during RetroPGF 3, which will be summarised in an upcoming retrospective for badgeholders (see the public governance calendar for details.)