TLDR

Arbitrum needs to deploy money at scale into its builder ecosystem. It has to bring not only the best entrepreneurial talent, but also the best capital allocators and partner investors.

Purpose of this work group:

“if Arbitrum would be to deploy $500m-$1bn / ARB 250m-500m investments in its economy aiming to bring 2-3B extra investment in ventures capital in, how would that look?”

Announcement, Logistics & Project management

The Arbitrum Ventures Initiative Working Group came out of GovHack on ETH Denver aiming to respond to a variety of investment groups aiming to secure capital from Arbitrum for their own investment strategies, but there being a lack of a framework to execute on such deals and align them with Arbitrums long term interests.

After a couple dozen individual conversation since Denver, the kickoff call of the official working group calls was on 28th of March 2024 and is continuing weekly on Thursdays at 4pm UTC. (join the call by adding the Arbitrum Governance Calendar)

Summary of last meeting

- The first meeting was announced via the official governance calendar and was well attended and produced a set of priorities for the group to work on. More details can be found on:
- this Miro board
- and by watching the recording

Context

Web3 needs use cases being built fast and L2’s require differentiation and defensibility.

There are currently 47 Ethereum L2’s listed on L2Beat and furthermore other L1’s, many of which EVM compatible, are competing for attracting the same builders. A lot of them have or promise similar capabilities and are sufficiently competitive from a technical point of view. The whole space is growing fast and capital is coming in.

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](https://global.discourse-cdn.com/standard17/uploads/arbitrum1/original/2X/6/68c2b451b216dc22bbabf37dd5c8717e2c963361.jpeg)

Arbitrum is currently the dominant player, but needs to leverage its treasury intelligently to stay in the lead. Just last week Optimism announced the commitment of $3.3B in grants and all trends suggest there are likely more announcements like that to come.

Motivation and opportunity

Blockchain applications are still in their infancy, likely with the most significant players of the next 2 decades currently in early stages or still to be founded.

Venture Capital instruments are proven models used by sovereign wealth funds, corporations, and government economic development initiatives to support the development of ecosystems. Let us broadly call these instruments, targeted not only at healthy self sustainable returns, but ecosystem strategic objectives - Development Venture Capital or dVC.

What a lot of the above stakeholders have figured out over decades of work is that even if you only care about the ecosystem impact, having it enabled via high growth for profit schemes produces by far the best impact. And on top of that, returns are generated allowing for sustainability and growth of the treasury enabling even more funds to be deployed. These characteristics more than justify the added setup complexity compared to grant schemes, where applicable. For clarity, Grant financing is still a crucial part of the whole value chain, especially for funding public goods and infrastructure.

If Artibrum is able to rapidly leverage not only its progressive values and commitment to decentralized governance, but also the best in class talent and practices from more matured Developmental Venture Capital approaches in the Web2 world, it can jump ahead of the competition, attract the best builders, capital allocators, and ecosystem support players, thus setting the trend for others to follow.

Given the complex landscape of Web3 verticals and market segments, as well as the varying needs of ventures across the stages of their lifecycle, resource allocation is best done through a multitude of specialized programs and instruments.

Additionally, it’s best to partner with and support the emergent players of the ecosystem instead of trying to reinvent them top down, as this enables access to the talent, networks, market insights, and momentum of the emergent players. Thus enabling Arbitrum to move faster, with lower risk, and more cost effectively.

On the flip side, Arbitrum needs to do this without allowing any of the partners or capital allocators to capture AVI and the DAO’s resources for their own exclusive gains, but rather use the capital in deep alignment with Arbitrum, generating win-win outcomes for Arbitrum, program operators, and projects.

Key Considerations:

- The structure should have an executive team that is able to operate at speed and provide a stakeholder friendly counterparty for GPs to negotiate with and raise money from Arbitrum as an LP.
- Potentially be able to get involved in direct investments or acting as a liquidity provider, but without competing with its main objective to attract a broad group of VCs and programs to operate in the ecosystem. Whether AVI should at all make direct investments or act as a liquidity provider is debatable and will require further exploration.
- Have an oversight committee that is elected by the DAO and includes key qualified representatives. These might include key Arbitrum DAO contributors and delegates, representatives of the Foundation and of key investors of Arbitrum with relevant competence, whose main vested interest is clearly the success of the chain above all else.
- The liquidation of Arb tokens, while they are being funnelled to be used in the venture ecosystem should be done under policies dictated by the DAO in alignment with avoiding causing undesirable price action. Furthermore concentration of such tokens in this substructure should not concentrate governance rights as a result of delegation by the small group of appointed executives.

Case Studies

- The group referred to some of the many case studies from our experience in thread [What do we want from Arbitrum Venture Funds

](https://forum.arbitrum.foundation/t/what-do-we-want-for-arbitrum-venture-funds/22213). It is also running a research project to deeply understand all the mechanics of how other Web3 ecosystems are currently investing in their builders and leverage the best lessons learned.

- Some of these Web3 cases might be well known to the community, but as in many cases their success is debatable, they would be analysed in separate posts going forward.

Key Questions

- Legal Structure (in coordination with Foundation, M&A, Gaming Catalyst group and others)
- What is the governance mechanism that should be employed to enable the DAO to represent its interests
- What type of decisions should lead to a DAO wide vote
- What should be the powers of the oversight committee
- How should its members be elected and with what term
- How should the management team be selected and what should its mandate be
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- How should synchronization with ArbitrumDAO’s strategy and thesis development be done
- Engaging with other groups within the DAO. E.g. The Foundation, ARDC, OpCo, M&A, etc
- What should be the amount and mechanism of funding for the operational expenditure of the group for setup and then ongoing, and what incentives would provide alignment

Next Steps

- Rewrite the GovHack proposal in the correct format to be commented on by the DAO

- Progress on Legal Structure concept in collaboration with the Foundation, Gaming Catalyst group, M&A Work group, ARDC and other relevant stakeholders
- Consultations with the Foundation
- Consultations with interested VCs and program operators

Additional information

Relevant related posts:

- What do we want from Arbitrum Venture Funds?
- Catalyze Gaming Ecosystem Growth on Arbitrum
- Arbitrum M&A Working Group
- Business Clusters as a Strategy for Arbitrum
- Arbitrum Ventures Initiative GovHack proposal