

Work file for drafting the proposals AVI needs to submit to Arbitrum DAO

Proposal Contributor Instructions

1. Please read the comms brief carefully. Make suggestions on how it should be evolved where need be.
2. Familiarize yourself with the additional resources, however without digging into them initially.
3. Read the draft of the proposal
4. Make edits to the document, and not comments whenever possible (like [this](#))
5. Add question to the Q&A section that you think might be concerns of the audience or should be answered or reaffirmed
6. Go back and dig into all the resources to get the full context and do more passes of this document

Resources necessary for framing the below proposal document:

Official Proposal Format instructions

<https://docs.arbitrum.foundation/how-tos/create-submit-dao-proposal>

Practical Instructions on submitting proposals to Arbitrum DAO

<https://forum.arbitrum.foundation/t/the-incomplete-guide-to-submitting-a-proposal-to-arbitrum-dao/22956>

Useful reference on a proposal that is getting a lot of traction and support that is relevant to our domain

<https://forum.arbitrum.foundation/t/catalyze-gaming-ecosystem-growth-on-arbitrum/22368>

Example of how the above proposal conducted a temperature check on Snapshot

<https://snapshot.org/#/arbitrumfoundation.eth/proposal/0x1a9f2097b0b5a0021628e9edb0e7c9bfae4fdbb104f9996463e40a3129c7718>

Example of how an actual proposal that passed on Tally was voted on

<https://www.tally.xyz/gov/arbitrum/proposal/43616303506326656287362617487331059827021737444126158637397168372555259240241?chart=list>

Title: (RFC) Proposal [Non-Constitutional]: Establishment of Arbitrum Venture Initiative (AVI)

Abstract:

Our vision for The Arbitrum Venture Initiative (AVI) is to support growth within Arbitrum's ecosystem through large scale strategic investments. Currently, we're proposing the formation of a group to conduct research into as the set-up of the legal, strategic, governance, and operational structures to support large scale investments.

Expanding beyond the traditional grant-based model, AVI aims to adopt a multifaceted investment strategy that encompasses not just grant funding but a broader spectrum of financial instruments. This approach includes allocating capital towards venture capital funds, engaging in debt facilities, TVL provision, or revenue-sharing agreements.

Additionally, AVI seeks to set up in such a way that we can provide a "fund in a box" mechanism for investment managers where appropriate, so that the legal, governance, and operational costs and time required to set up for venture capital firms and other managers and programmes can be streamlined and the whole fund deployment of Arbitrum be the leading example in Web3 and beyond.

For the avoidance of doubt - we are proposing to implement AVI in two stages, where:

1. Forming the group to conduct the research of such opportunities as well as the set-up of the legal, strategic, governance, and operational structures to support large scale investments. This what the successful vote of this proposal would cover and specifically the allocation of the funds described in the Overall Cost section only.
2. The investment fund is structured and allocated and the mandate awarded to a management team. It is the intention and commitment of the group described above to fill that role, however that would be the function of separate approval and approving this proposal would not create a commitment to that end.

AVI will not only enhance RoI, but also catalyze scalable and strategic investment across the ecosystem, unlocking innovation and growth for Arbitrum to lead the L2 market.

Motivation:

The rapid development of L2s in the Ethereum ecosystem is creating strong competition and a race for retaining and acquiring network activity. To grow effectively and to retain its number one spot in L2s, Arbitrum needs to engage capital to support its ecosystem and based on the competition, the capital

required is in the billions. In the best interest of the ecosystem, capital deployment needs to happen at scale to retain and attract the best builders. At the same time, Arbitrum also needs to consider the sustainability of its treasury in the long-term.

In the best interest of the Arbitrum ecosystem, we should explore different approaches to diversification of the available capital to be deployed, which provide direct RoI and drive co-investment activity from a wide variety of other ecosystem players. Specifically, this initiative is looking to:

- (a) research the process and the legal and governance frameworks to deploy capital in excess of \$1B in ARB equivalent while enabling the supported vehicles to attract an additional \$1B to \$3B from various Limited Partners (LPs) over a period of 5 years.
- (b) develop an investment thesis, deployment strategy, and set up the operational infrastructure required to execute the initiative.
- (c) examine the potential value multiplier effects from co-investment and portfolio growth and link them to strategic outcomes valued by Arbitrum.

The current grants-only based funding model limits our ability to engage in the large-scale, strategic business development and investments necessary for ecosystem development and long-term growth. Currently, these limitations are manifested in a variety of ways:

- Concerns about retention of grantees in the ecosystem,
- Concerns about the RoI of incentive programs,
- Concerns with the incentive alignment of ecosystem players,
- Inability to attract co-investment,
- Challenges with forecasting the revenue different programs could generate,
- Growing reporting structures and additional resources consumed in oversight,
- Legally uncertain IP licensing and ownership rights, including OSS libraries.

By incorporating elements such as equity/quasi-equity investments or revenue-sharing mechanisms (agreements), the Arbitrum DAO can complement grant programs with specialized accelerators, venture builders, VCs, and other instruments, and thus:

- create win-win outcomes and long-term incentive alignment with funded projects and funding programs,
- leverage best practices from public-private partnerships (facilitate collaboration with a variety of commercial partners to bring additional talent, capital, industry connections, and market insights),
- Attract co-investment and strategic partnerships,
- reduce concerns about project retention and reporting,
- improve ecosystem sustainability through generating RoI and diversifying revenue streams,
- and improve ecosystem tooling via accelerating decentralized capability development.

From a strategic point of view besides creating direct RoI from the ecosystem of funded protocols and thus diversifying Arbitrum's revenue streams, AVI will also look at all relevant metrics supporting the adoption and growth of the platform.

Our team has decades of entrepreneurial and venture experience across a very broad range of industries, where, among other things, we have been building on blockchain for the last 10 years. We have generated billions in exits, hundreds of millions in investments in startups, and further hundreds of millions in investments in venture capital funds. We can furthermore pull from deep talent pools in the 30+ countries in which we have operated.

We are very excited to share our vision about the overall Web3 space and apply it towards the success of the Arbitrum ecosystem, and to execute on it in the shortest timeline possible.

The work required to set up AVI, especially to go beyond creating it as a fund, but rather a powerful ecosystem platform is very significant. That includes and goes beyond legal, regulatory, strategic, financial management and governance infrastructure, design of community interfaces and stakeholder management mechanism, developing the investment thesis together with the community and potential investment managers, creating the smart contract and technology infrastructure, and more.

Rationale:

Arbitrum stands as a market leader amongst L2s, but faces significant competition from at least 45 L2s (according to L2Beat data). As such, Arbitrum's ability to leverage its large treasury effectively is a critical factor in its ability to survive, thrive, and stay continuously relevant.

Deploying capital as investments, in parallel with infrastructure and business development activities, provides a range of powerful mechanisms for ecosystem growth, revenue generation, and diversification. AVI can leverage these instruments and lessons learned, translate them to a Web3 context, and enable Arbitrum to reap the benefits. While the objective is for those instruments to be organized as profitable venture capital, AVI will focus on longer term fundamental metrics that will ultimately lead to increased sequencer fees, diversification of revenue streams, improved network effects within clusters of complimentary protocols, increase in TVL, new ventures and protocols adopting the arbitrum stack, and developers building in the ecosystem, among other strategic objectives.

Focusing on longer term opportunities and the success of the wider Arbitrum ecosystem is what differentiates AVI from other ecosystem funds that have a primary objective to drive financial returns.

Critically, AVI proposes a diversified and large scale investment approach: instead of putting all our eggs in one basket or vertical, and instead of creating a single VC, we aim to create a governance structure and fund allocation process that can select *multiple* funding programs that are run commercially.

Selecting and working with a wider range of VC and ecosystem development partners and related programs can bring additional expertise, industry connections, and market insights. In turn, this enables to more effectively source and select meaningful activities and investments, and significantly accelerate the growth of projects within the Arbitrum ecosystem. The rigorous due diligence procedures of these partners and programs ensures that projects with the highest potential for innovation and market impact receive support. This careful selection process aligns perfectly with the ethos of transparency and meritocracy, ensuring that the Arbitrum ecosystem is a fertile ground for projects that create value and long-term viability.

The mentorship, investee support, and professional management accompanying investment programs can be particularly beneficial in the fast-evolving blockchain sector.

The long-term investment horizon of selected programs (3-10 years) is in line with the forward-looking vision of Arbitrum's development, where investments in funds and programs with proven track record and their activities are strategically placed in projects that contribute to the enduring growth of the Arbitrum ecosystem.

The rationale for AVI aligns with the Arbitrum community's mission to create a scalable, efficient, and innovative blockchain ecosystem. The shift towards a more flexible and diversified investment model is driven by the understanding that the needs of the ecosystem are multifaceted and dynamic.

Thus the capacity to rapidly deploy and provision new investment teams on emerging frontier topics is paramount. In the short term, these are going to be focused on areas that already have significant traction in the ecosystem and can generate quick wins for the existing ecosystem participants. Arbitrum's ecosystem is particularly strong in DeFi and SocialFi, and we see those as key to generating stable usage by introducing fresh activity as well as capturing economic activity on-chain. Furthermore, we are going to explore newer trends like gaming, cross-chain tooling (bridges, deployment across different VMs, etc) as well as emerging categories that we see potential for support of long term initiatives onboarding critical real world data on-chain like DeSci. Our goal is to enable the ecosystem to pave the way to real economy adoption and participation by connecting initiatives, and eventually large enterprises across big industries as they make progress with their digital transformations. Examples include the climate economy, healthcare, traditional financial services, state governance, and many more.

To enable cross-pollination of web2 and web3 expertise and capabilities, we can engage both existing Web3 specialized fund managers as well as supporting Web2 players expanding into Web3 to enhance their capabilities and mandates. Success can be achieved by creating containers and mechanisms (off-chain and on-chain) to reduce the time, friction, and cost for anyone who wants to manage funds, has a demonstrated track record, and ability to bring coinvestment, to do so. It will also provide support and education services to such contributors.

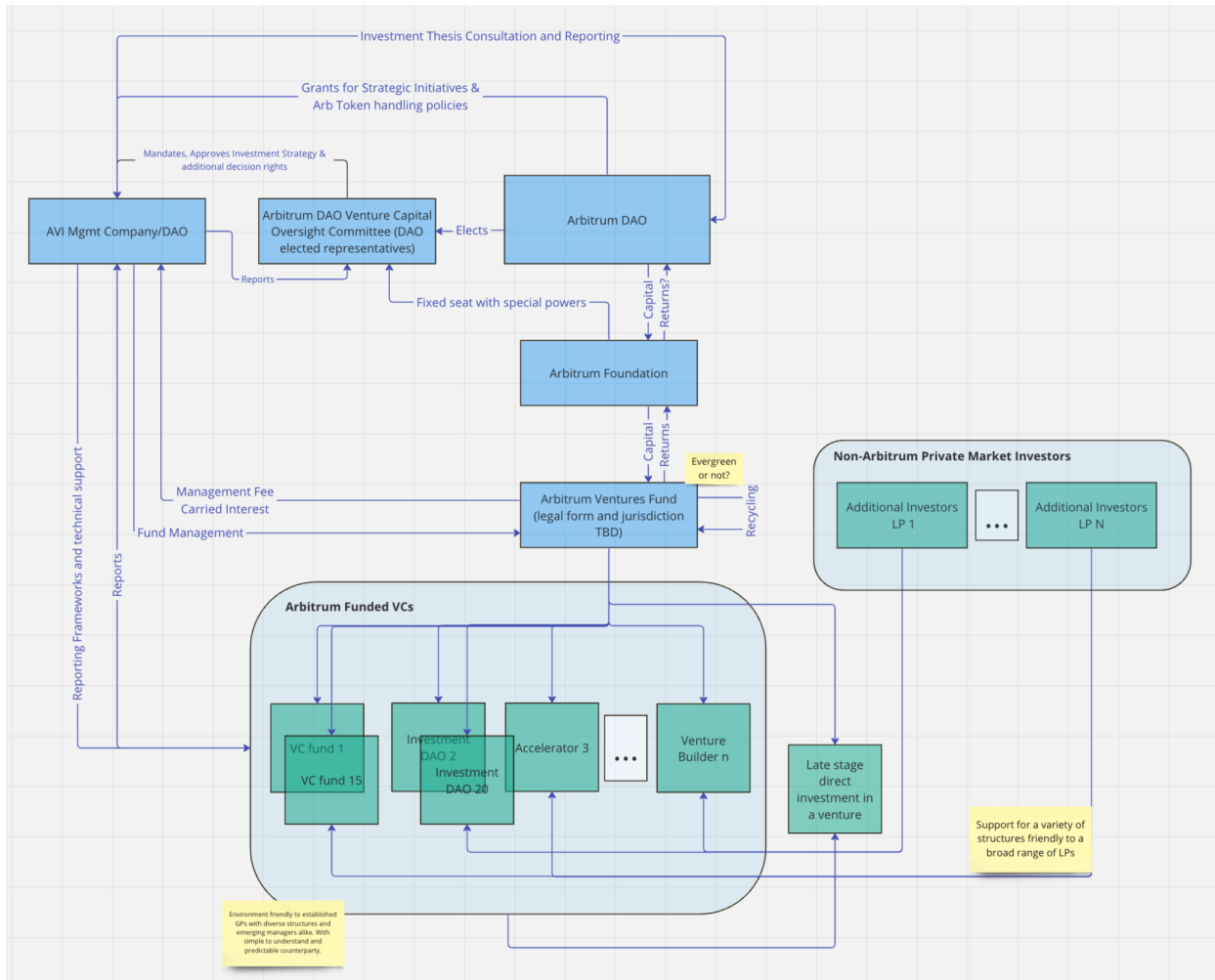
Key Terms:

- **AVI (Arbitrum Venture Initiative):** A new investment model within the Arbitrum ecosystem focusing on strategic growth through varied funding mechanisms.
- **VC (Venture Capital):** Funds allocated for investment in early-stage companies within the Arbitrum ecosystem.
- **Debt Facilities:** Loans provided to support ecosystem projects with expected return on investment.
- **Revenue-Based Financing:** Contracts that allow the ecosystem to receive a percentage of revenues from supported projects.
- **Warrants** - using covenants linked to desired strategic outcomes to secure favorable investment terms for investees who are strategically aligned to specific ecosystem objectives and benefit directly from scaling into the ecosystem.
- **Venture incubation / Venture building** is a process providing repeated and systemic conceptualization, test and launch new businesses by leveraging resource pooling, IP sharing, economies of scale and network principles
- **Container / Fund in a Box:** legal and governance automation for the setup and operation of investment manager entities or groups, fast and cost-effectively.

Specifications:

- **Platforms and Technologies:** The AVI will utilize existing Arbitrum infrastructure and new legal Initiatives to facilitate investments and activities. The focus will be on selecting investment opportunities and activities that align with Arbitrum's strategic interests.

- **Related Work:** Other blockchain ecosystems have implemented similar Initiatives, adjusting funding models to support strategic growth and sustainability. These include, but are not limited to: Optimism, Celo, EOS, Polygon, Solana, Polkadot, Avalanche, Near.
- **Governance of the initiative:**
 - 5 multi-sig signers (3/5 approval) will receive and manage the funds and execute milestone payments
 - 3 project oversight committee members will review the completion of milestones (2/3 approval). These members will be 3 of the 5 multi-sig signers.
 - The workgroup will execute the work.
- **Governance of the fund after approval:**
 - The approval of the setup of the fund will be the result of thorough considerations orchestrated by the AF leading to a mature executive oversight aligned with the best interests of the DAO and a structure resilient to capture by any special interest group.
 - Such setup would likely include the following elements
 - An oversight committee the members of which will be selected via elections in DAO
 - Permanent role of the Arbitrum Fondation
 - Treasury management policy established by the DAO
 - Clear decision making agreements where certain decisions might be governed through DAO vote
 - Clear reporting and consultation structure to the DAO
 - It is part of the scope of this mandate for the working group to collaborate with the relevant structures to support the creation of the oversight structure, but it ultimately should be established independently from the working group to avoid potential conflicts of interest
- **Anticipated Structure**
 - The legal structure has to take into consideration a large variety of issues which are in an early stage of discussion. The below diagram is for illustrative purposes only.



Steps to Implement:

- **Initial Project Setup:** The 3 reviewers will be invited as a result of the deliberations in this thread and their names will be featured in the proposal once up for a vote. So will be the additional multisig signers.
- **Legal and Executive Setup:** Development of legal structures and executive teams.
- **Community and Stakeholder Engagement:** Establishing communication channels for feedback and collaboration. Community engagement and consultation mechanisms to ensure that investment and business development decisions align with broader interests of the ecosystem, fostering inclusivity and alignment of goals.
- **Market Consultation with GPs:** in order to support the structuring of the initiative and developing an investment strategy the AVI team will conduct an open market consultation with a interested fund managers and ecosystem programs to understand their strategies and how they can be best supported.
- **Investment Strategy Development:** Identifying and assessing potential investment opportunities and partners, identifying and funding VC funds with a proven track record and alignment with Arbitrum's strategic interests. This requires intensive scouting and research followed by thorough

due diligence to assess the investment funds' performance, investment thesis, portfolio composition, and alignment with Arbitrum's goals and values.

- **Operational Initiative Implementation:** Setting up departments and policies for investment analysis, deal sourcing, and management. Deal negotiations involving structuring investment agreements, negotiating terms, and ensuring alignment of interests between Arbitrum and all investment partners. Procedures enabling efficient and transparent investment operations while maximizing value creation and mitigating risks.
- **Governance and Oversight Structure:** Implementing a governance Initiative for transparency and accountability. Establish clear roles and responsibilities, decision-making processes, and reporting mechanisms to oversee investment activities. Governance structures (investment committees, advisory boards) and oversight bodies including internal or external stakeholders to represent different and diverse perspectives and interests. Transparency measures - regular reporting on investment performance, risk management procedures, and compliance with ethical and regulatory standards, to enhance trust and confidence among stakeholders.

Team Introduction:

Project oversight committee:

- 1
- 2
- 3

Additional multi-sig signers:

- 1
- 2

Core Team:

- Lino: 3x founder, 15 years of experience in developing startup ecosystems and specifically through VC instruments with development aspects.
- Konstantina: MSc in Investment Banking and Securities from the London School of Business and Finance, ca Head of Equity Financial Instruments in a EUR 1.3 billion Fund of Funds, focusing on Venture Capital ecosystem development.
- Victor: A serial entrepreneur and the former head of D10X for Citi Ventures, where he has brought a multitude of major success cases around blockchain and AI innovations in the wholesale financial services industry.
- Paul: Entrepreneur with 7 exits worth \$4.7B and later head at Innov8 a \$250m Singtel corporate venture fund.

Timeline:

- **The AVI Workgroup is envisioned as being able to operate for up to 18 months, however it intends to reach consensus and transition to an operational fund structure in the shortest time viable. That can be as little as 3-6 months after commencement.**
- **Start Date (1-3 weeks after proposal approval)**
 - KYC completed & initial payment received

Completion => 50k Arb released for work towards milestone 1

- **Milestone 0 (projected 1-2 months)**
 - Detailed execution plan aligned with the community and broken down in clear milestones
 - Legal Framework and executive Setup approved. (legal incorporation and producing of legal documents to be completed in the next milestones).

Completion => 150k ARB + anticipated approved costs for prioritized activities released for work towards milestone 2 (e.g. legal incorporation costs)

- **Milestone 1 (projected 2-3 months):**
 -
- **Milestone: 2-n:**
 - TBD
- **Completion Date:**
 - Full operational capability of AVI

Overall Cost:

- **Budget:** ARB 1.8 million for strategy and thesis development, setup and legal infrastructure.

The budget is anchored on the basis of the ultimate total cost of setting up a similar structure in Luxemburg from Konstantina's experience. It is designed so it can sustain the operational costs around the initiative for at least 1 year (up to 18 months). Our team believes that we can achieve the results for lower costs and with much more aggressive timelines. We will aim to find the shortest path to fielding a sustainable organization and either return the funds to the DAO or roll them up in the newly setup structure organization after the appropriate approvals.

- **Compensation for Arbitrum oversight:**
 - 3 members for project oversight committee at ARB 3,000 per person per person per month
 - 2 additional multi-sig signers - ARB 1,000 per person per month
- **Operational Costs:** Detailed breakdown of expected operational costs, timeline and milestone will be produced on the basis of completing the work in the first milestone. This will include the following line items:
 - Workgroup coordination;

- Legal and Regulatory Expenses for initial setup;
 - Fund admin, accounting, tax compliance analysis;
 - Investment research and due diligence (legal and financial);
 - Setting up Compliance structure (AML, KYC);
 - Communications and outreach;
 - Technology and infrastructure (if required);
 - Investment analysis
 - Strategic Development
 - Smart contract development and audits
- **Budget Management and Cost Saving Measures:**
 - The budget will be carefully spread out over specific line items and milestones (e.g. incorporation). Once the criteria for actioning on a milestone are met the respective funds will be released by the oversight committee and multisig signers.
 - Additionally the part of the budget meant for working group member compensation will be managed per quarter. The oversight committee will have control over it and release it no more than two weeks before the beginning of the upcoming quarter if all relevant expectations are met.
 - The working group and oversight committee will work closely with representatives of the Arbitrum Foundation as well as other groups with overlapping activities to ensure the avoidance of double spending on activities like legal and that all deliverables and learnings produced by the group and organized and managed in a way such that Arbitrum can own and benefit from them regardless if the work get discontinued for any reason or the vehicle ultimately does not get set up. Example adjacent initiatives include the M&A Working Group and Gaming Catalyst Program.
 - Transparency reporting will be provided to the DAO.

FAQ

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<summary>1. Ok so what? What will happen if we don't set up a structure like AVI?</summary>
 If we don't set up a structure like AVI, we risk missing out on strategic investments that could significantly benefit the Arbitrum ecosystem.

AVI enables attracting more capital to the market, thus de-risking and reducing the amounts Arbitrum needs to fund itself.

Many initiatives approaching Arbitrum for investment also have access to other capital, but integrating these opportunities isn't straightforward. Without a friendly environment, we risk losing this capital even if we fund the Arbitrum-specific side of the projects.

We also risk backing multiple smaller structures without ensuring appropriate oversight or efficacy metrics.

Without a coordinated approach, attracting top specialized teams and aligning them with Arbitrum's goals will be challenging, potentially slowing ecosystem growth and innovation.

For those that do come on board, past experiences show that a lack of coordination can lead to suboptimal outcomes, resolved later at much higher costs and lost opportunities.

Key outputs of the AVI approach include:

An appropriate and predictable counterparty for fund managers raising from Arbitrum
A team that actively works with fund managers, leveraging the Arbitrum brand and networks to support fundraising efforts
Proprietary talent and venture pipelines through global community development activities, event programs, university incubators, etc.
A clear theory of change, logic model, and efficacy frameworks to align and measure all stakeholders effectively
Predictability in capital availability with a longer time horizon
Ensuring Arbitrum remains a friendly environment for builders to raise funding through volatile macro market cycles
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<summary>2. Why an evergreen fund of funds instead of a simpler ecosystem VC fund?</summary>

Web3 is broad, and we need specialized teams that understand different verticals and geographies. A Fund of Funds (FoF) approach can attract and align these teams more rapidly than building all this expertise in-house. These managers usually have traction in specific opportunities and relationships with other LPs, bringing additional capital into the ecosystem.

They also have their own channels, ecosystem access, talent, and pipelines.

Given that the primary objective is to grow the ecosystem, not just generate direct profit for the DAO. An evergreen structure can be used to signal the commitment to maintain a healthy capital market in the Arbitrum ecosystem through both bull and bear markets, regardless of other DAO dynamics.

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<summary>3. After backing GCP and M&A marching forward, can the DAO afford another big deployment in such a short time? Shouldn't we see how the other things go or at least develop a budget for the DAO first?</summary>

How much should be budgeted for supporting builders in the ecosystem is a higher-order consideration and not within this group's remit to determine.

What's important is having a budget and strategy before making too many disjointed allocations. Certain strategies have minimal requirements and market prerequisites to make sense. It's dangerous to commit too much money for early-stage support without ensuring follow-on capital is available or vice versa if the pipeline of projects isn't present.

Myth: committing funds towards AVI now means that we want to allocate money in that category on a very short timeline. The point is to develop long-term foresight with allocated amounts, then decide as a DAO when and how much to deploy. The AVI team can then respond with strategies that make sense given these constraints.

The timeline before significant allocations is cited as 3 to 18 months.

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<summary>4. What is the timeline assumed here before first significant allocations of capital?</summary>

3 to 18 months.

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<summary>5. How does AVI tie together with the GCP, M&A, and other proposals like BoB Infinite Launchpad and Startup Collective?</summary>

- **GCP:** GCP is a 3 year program. There needs to be a plan for what happens next. They could remain unrelated, or it can be within the natural remit of AVI to support the eventual continuation.

- **M&A:** M&A provides an exit environment for projects, benefiting all investment initiatives. There are natural collaboration areas, and Areta's strategic area deliverables that are due as part of the M&A pilot will inform AVI just on time, thus avoiding duplication of effort.

- **Betting on Builders (BoB) Infinite Launchpad, Startup Collective, and the other accelerators coming through the ThankARB RFPs:** AVI aims to find the right mix of funding and mandates to support Arbitrum's strategic interests, align with budgeting and sustainability considerations over a long time horizon, and ensure quality oversight. It is the structure meant to handle these initiatives effectively.

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<summary>6. Why 1.8M ARB towards stage 1, isn't that a lot?</summary>

The amount is based on industry analog and our recent experience.

At time of writing this amount seemed appropriate. Since then on the back of the GCP project a lot is being accomplished and it looks like the M&A initiative will produce a number of resources that the AVI team can use.

As a result we expect the total cost to get down to less than half what was originally quoted. But it is hard to get a good enough sense of the scope before there is more clarity around the other initiatives.

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<summary>7. Where would the fund managers come from?</summary>

In the pilot project we are market consultation to understand existing GPs' perspectives and how they would like to work with AVI. We have direct access to a large network of managers and plan to run a marketing campaign and leverage the Arbitrum community to uncover more.

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<summary>8. Where would the external capital come from?</summary>

External capital can be raised from external investors by the selected funds/programs, depending on their nature. These funds/programs will be chosen as a mixed portfolio to balance strategic development objectives and ROI. Selecting and overseeing the right mix of funds/programs is core to AVI's work, and developing initial guidelines, alignment, legal, and organizational structures is the focus of this proposal.

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Discussions so far and considerations

The team has already been working on this initiative for over a month and gathering feedback. An (incomplete) summary of the conversations can be found here by reviewing the Miro board and recordings detailed here:

<https://forum.arbitrum.foundation/t/announcing-the-arbitrum-ventures-initiative-working-group/23012>