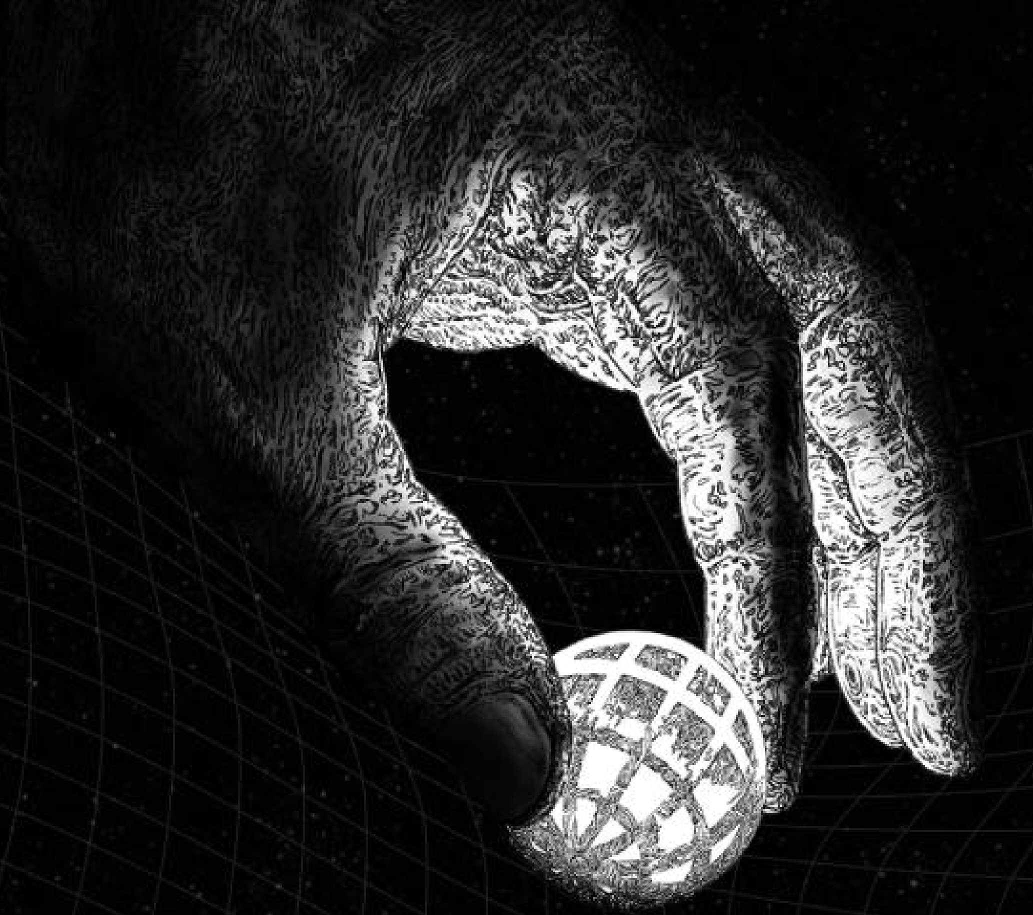


DAO Delegate Incentive Programs: How to Build for the Future

DAOstar, February 2025

Executive Summary

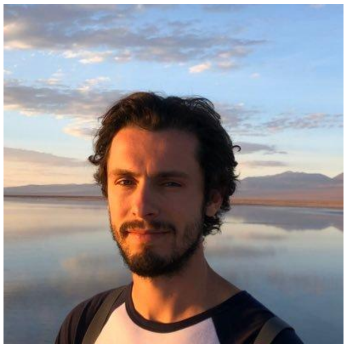
Delegation in DAOs–the practice of delegating tokens with voting rights to others–arose from a need to improve governance participation and bolster security, while also upholding democratic principles within decision-making processes. However, adequately performing the role of delegate requires an investment of time and energy. Reading the governance forums, communicating in Discord, deliberating over proposals, and generally staying informed about the goings-on within DAOs is work. As a result, delegate incentive programs, or DIPs, arose from the resulting need to compensate delegates accordingly.

This report aims to produce open-source, credibly neutral insights into current DIP structures–shared knowledge that helps DAO governance teams and communities make informed decisions about how to design and build their own DIPs moving forward. The research contained herein reflects data collected from market research and conversations within a working group of experienced participants, including governance leads, professional delegate organizations, and the delegates themselves. The information has been aggregated from publicly available data, and sourced from the following nine DAOs: 1Inch, Aave, Arbitrum, Hop, Lido, Maker / Sky, Optimism, Polygon, and Uniswap.

After giving a brief introduction to DAO delegation and DIPs, I present high-level results from the nine case studies, including a comparison of annual DIP cost and monthly cost per delegate. To add greater context and insight into the factors that influence DIP structure and relevant design choices, I then examine four primary considerations discussed among DAO governance participants: recognizing delegate work, encouraging inclusivity and transparency, distributing power and aligning incentives, and implementation timelines. I conclude with an exploration of potential innovation avenues regarding DIPs, as well as future research possibilities.

It is my hope that starting this conversation will help DAOs address critical questions related to delegate incentives, build for long-term, sustainable success, and address one of the ecosystem's most pressing challenges: how to attract, engage, and retain high-quality talent.

About the authors



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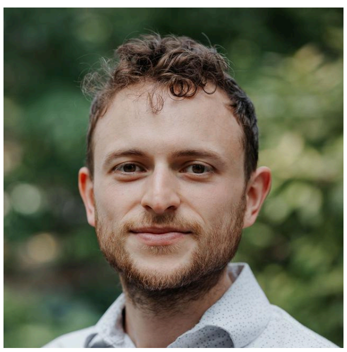

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Introduction: DAO Delegation & DIPs

Delegation in DAOs arose from a need to improve participation and bolster security, while also upholding democratic principles within decision-making processes. Low voting rates and misaligned incentives have left some DAOs unable to reach quorums and others vulnerable to governance attacks.

Ideally, delegates are governance participants–both individuals and organizations–with the skills, experience, and context required to make informed, effective decisions for the DAO. Delegate responsibilities typically include creating governance proposals, actively engaging in value-add deliberation, and voting with the augmented voting power (VP) granted to them by their delegators. Ultimately, delegation aims to produce more effective governance systems by addressing a common tradeoff faced by DAOs: decentralization vs. efficiency–that is, fostering inclusivity while also maintaining the agility and scalability required to succeed within a competitive environment.

As such, adequately performing the role of delegate requires an investment of time and energy. Reading the governance forums, communicating in Discord channels, deliberating over proposals, and generally staying informed about the goings-on within DAOs is work. Delegate incentive programs, or DIPs, arose from the resulting need to compensate delegates accordingly.

Research Overview: Motivation, Case Studies, and High-Level Results

The motivation behind this research is to produce open-source, credibly neutral insights into current DIP structures–shared knowledge that helps DAO governance teams and communities make informed decisions about how to design and build their own programs moving forward.

To this end, I created a public DIP Dashboard.

All the information has been aggregated from publicly available data, and sourced from the following nine DAOs: 1Inch, Aave, Arbitrum, Hop, Lido, Maker / Sky, Optimism, Polygon, and Uniswap. This sample includes some of the longest-running and largest DAOs (by treasury and TVL) from both the L2 and DeFi ecosystems.

I should note that I also looked at other DAOs (i.e. Compound, Gnosis, and Rari) that run programs whereby a portion of tokens from their treasury or foundation are delegated to individuals in an effort to ensure sufficient governance participation. However, where these programs do not yet include monetary compensation for the selected delegates, they were omitted from the data set.

In order to become eligible to receive rewards from these DIPs, participants typically need to meet certain thresholds within the following requirements:

- Amount of VP (as denominated by the project's token)
- Rate of voting participation (and to a lesser extent, rate of communicating a voting rationale)
- Minimum age of account (on either Discord or governance forum)
- Creation of a public delegate thread on the governance forum, announcing your participation in the program, presenting your experience and objectives, and accepting a code of conduct

The compensation is then paid out to eligible delegates according to various structures, with most DAOs placing a maximum limit on a per-delegate basis. These payment structures range from flat monthly installments, to payments calculated by formulas of varying complexity.

Some top-line numbers from the DIPs in the sample:

Ecosystem	DIP Duration	Annual DIP Cost ($)	Number of Delegates	Monthly Cost per Delegate ($)
1Inch	12 months	96k	2	4k
Aave	3 months	240k	4	5k
Arbitrum	12 months	2.7m	41	5.5k
Hop	6 months	8k*	7	approx $100*
Lido	6 months	300k	7	3.5k
Maker / Sky	In perpetuity	288k	6	4k
Optimism	6 months	1.76m**	100	4k**
Polygon	12 months	240k	18	1.11k
Uniswap	6 months	1.08m	15	6k

*Calculated with the price of $HOP = $.01
**Calculated with the price of $OP = $1.45. Note that $4k is the minimum paid to Top 100 delegates with >70% voting participation rate. Additional OP is allocated to other rewarded governance activities.

To avoid compensation volatility arising from token price movements, these amounts are typically budgeted for in dollars (with the exceptions being Hop and Optimism), while payments are made to the delegates in the project's token. In addition, funds for seven of the nine DIPs come from the DAO / community treasury, and thus subject to governance processes (the outliers being Aave, whose DIP is funded by the Aave-Chan Initiative, and Optimism, whose DIP is funded by the OP Foundation's Ecosystem Fund).

Discussion: Primary DIP Considerations

The summary data presented above only tells half of the story. In order to get a better understanding of the factors that influence DIP structure and relevant design choices, let's examine four primary considerations discussed among DAO governance participants:

1. Recognizing Delegate Work
2. Encouraging Inclusivity and Transparency
3. Distributing Power and Aligning Incentives
4. Implementation Timelines

1. RECOGNIZING DELEGATE WORK

As implemented today, DIPs tend to recognize and reward the quantity of delegate work more than the quality. This is reflected in an outsize focus on voting and participation rates within both eligibility considerations and compensation calculations.

When creating or modifying a DIP, a DAO must ask itself: what are we incentivizing?

A program that over-indexes on the quantity of work or VP will tend to motivate delegates to farm rewards by accumulating more VP and spamming comments in the governance forum, rather than focus on high-quality deliberation and governance practices.

Additionally, purely quantitative metrics do not necessarily capture the full-spectrum of valuable delegate contributions, which can include engaging the community, participating in IRL activities, contributing to working groups, mentoring, and knowledge sharing. And so, before designing any compensation system, it is important to first agree upon the types of delegate contributions that are truly meaningful to the growth and sustainability of the ecosystem. Only then will a DAO be able to create a DIP that allows it to reach its goals and objectives.

Newer programs–such as those recently launched within Polygon and Arbitrum–have begun to incorporate more qualitative metrics, rubrics, and reviews into the determination of compensation amounts. Optimism's intent-driven governance participation reward program offers yet another innovative strategy. However, these approaches engender their own tradeoffs, as assessing the quality of work often generates large amounts of overhead.

2. ENCOURAGING INCLUSIVITY AND TRANSPARENCY

The issue of inclusivity–concerning both delegate selection and reward calculation–largely revolves around how a DAO should balance the somewhat opposing objectives of engaging and retaining experienced delegates, while making sure not to "punish" new entrants or community members with low VP. This consideration is essential for preventing the ossification and centralization of power around established professional delegates and protocol politicians, while also ensuring that VP resides in the wallets of sufficiently active participants so that quorums are reached during the voting process.

Some ideas that have emerged to address this matter include:

- Compensation multipliers for specific metrics (i.e. voting history to reward long-standing delegates)
- Positively-skewed rewards towards delegates with smaller VP (see: Maker) and the periodic resetting of participation metrics to encourage recruitment and participation of new delegates
- Tiered-compensation structures that incorporate different levels of VP and participation history (see: 1Inch for simple tiering according to VP, or Arbitrum for more complex tiers according to calculated "Total Participation" scores)
- Delegate "races" that distribute VP from either the DAO treasury or associated foundation to prominent governance participants (examples include: Compound, Gnosis, Rari, and Uniswap)

In general, the delegate selection process should focus on the governance-related activities considered impactful to the DAO, rather than solely the fulfilling of certain metrics such as VP and participation rates. Here, I believe that DAOs can learn from traditional corporate governance structures, whereby separate nominating committees are frequently leveraged to propose and vet candidates, allowing for a deliberation process that considers a wider range of qualifications.

Regarding DIP transparency, the main concern revolves around the complexity and intelligibility of program implementation–that is, does the program balance the intricacy required for procedural nuance, with the simplicity required for general accessibility?

3. DISTRIBUTING POWER AND ALIGNING INCENTIVES

This is perhaps the most difficult consideration, and one that has recently been under public scrutiny.

Today, the entities who typical fill the role of delegate include:

- Individual delegates
- Professional delegate organizations, whose stated purpose is to represent the interests of token holders in governance matters (i.e. StableLab, GFX Labs, PGovTeam, and 404 DAO)

- Service providers, who add delegation to an existing service, product, or business (i.e. karpatkey, Reverie, Llama, and Gauntlet)
    - Note that Aave explicitly does not allow Aave service providers to fill the role of and be compensated as a delegate
- University blockchain clubs (i.e. Michigan Blockchain, Blockchain at Berkeley, and Franklin DAO)

Regardless of classification, these governance participants rarely–if ever–participate as official delegates in only one DAO. This practice raises a host of questions around potential conflicts of interest on one hand (e.g. should a recognized delegate be able to work for competing DAOs?), and the potential for synergies and knowledge sharing on the other (e.g. does being involved in multiple DAOs actually provide benefits in certain instances?). The widespread cross-pollination of governance leaders and decision makers could even pose an existential risk to the entire ecosystem as most DAOs end up with similar frameworks, practices, and programs, thus limiting the scope of innovation and differentiation.

Crucially, DAOs should concern themselves with the question: with whom are their delegates aligned?

Considering the wide breadth of delegate participants, the range of potential stakeholders and interest groups outside the DAO include delegators, external organizations, the ecosystem, and the individual delegates themselves. This renewed instance of the principal-agent problem opens up a can of worms regarding stakeholder accountability, legal and regulatory liability, as well as financial oversight and governance responsibility.

In response, DAOs have focused on rewarding what they consider to be the "right" kind of delegation–usually referring to self-delegation (to have skin in the game and avoid the "nothing at stake" problem) and community delegation (to promote decentralization).

Still, what other policies and procedures should be put in place to allow delegates to exist and not take advantage of their position (e.g. signing a Conflict of Interest statement or Code of Ethics)? And does offering monetary rewards in exchange for contribution actually incentivise rent-seeking behavior among delegates in the first place–prioritizing personal gain over DAO interests, attracting "mercenaries" not "missionaries", and crowding out more intrinsically-motivated, "value-aligned" participants? Further, should delegates be able to debate and vote on these programs, or should they be disqualified from having influence over their rewards, which instead, requires something like an independent compensation committee?

Lastly, DAOs directly incentivizing delegates changes the dynamic between delegates and delegators–a topic that has recently captured public attention with the launch of Lobby Finance, now the largest Arbitrum delegate. While I won't rehash the entire issue (for more context, see: thread), Lobby Finance has created a smart contract where tokenholders can delegate VP, and which anyone can then buy–essentially paying for the right to use someone else's VP. This "democratization of onchain lobbyism" has caused delegates to offer direct kickbacks to their delegators from income made through DIPs, and more generally, illustrates coin voting's inherent vulnerability: vote buying–an issue previously raised by Vitalik.

4. IMPLEMENTATION TIMELINES

While answering the question, "Does our DAO even need a DIP?", it is important to determine whether there is a clear need within the DAO to create such a level of engagement from its delegates, or primary governance participants, as to necessitate this role becoming a full-time or even part-time job that requires compensation.

Once determined to move forward with a DIP, the critical factors a DAO should consider when making the decision as to when to launch include:

- Competition for the best delegates from the DAOs with existing DIPs;
- A desire for experimentation and iteration, as well as an appetite for the related risks;
- The careful consideration required to create effective incentive systems that leads to good governance and long-term success.

Conclusion: The Future of DAO Labor

As things stand, DAOs have not yet fostered an ecosystem that is capable of effectively and consistently luring high-quality participants from more traditional enterprises. In order to build a sustainable, long-term future for Scroll, as well as the rest of the DAO ecosystem, figuring out how to attract, engage, and retain talent remains one of the most pressing problems.

Working in DAOs today involves a great investment of time, highly specialized knowledge, low income stability, and potentially high regulatory risk. A holistic plan that ensures a bright future–one in which DAOs become the predominant structure of digital organization and collaboration–has to include a system of payments, benefits, and protections that adequately compensate individuals for their contributions.

DIPs are a good start to a much wider-ranging solution. A few areas for exploration and innovation both within DIPs, and as a complement (or substitute) to DIPs, include:

- Delegate nomination and selection via formal vouching and appraisal frameworks;
- Peer recognition and feedback systems that include dynamic, verifiable attestations of participant activities, achievements, and impact;
- Sortition (i.e. randomized participant selection into "cohorts" of incentivized participants)
- Active recruitment and training of potential full-time delegates (see: Arbitrum's Governance Bootcamp as an early experiment)
- Small, focused, high-context groups / committees (perhaps facilitated by Contribution Paths) with outcome-based rewards (rather than rewards tied to general governance participation)

A future, larger research agenda could explore these possibilities, and more importantly, include an in-depth interview process with prominent stakeholders. Ideally, this research would gather a comprehensive first-person account of delegate incentivization, and contribute to the emergence of an initial set of best practices regarding DAO labor.