

# Optimistic Project Funding

**Short description:** Allow for users to nominate whitelisted projects with their DOT - this mechanism will be funded with a constant stream of DOT taken directly from inflation and distributed to projects based on the proportion of DOT that has nominated them.

## Context

The current funding methods available in the Polkadot ecosystem are as follows:

### Treasury

- X amount of DOT/ TKN for a specific task, distributed in full to an account when approved - or in tapered milestone payments
- X amount of DOT/ TKN for retroactive reward, distributed in full to an account when approved
- Bounty approved for X amount of DOT, with curators assigned by a secondary referendum - curators distribute the funds via “child bounties” based on some pre-approved mandate

All funding through the Treasury must be approved by DOT token holders through referenda.

### Grants

There are also a few grant programs running by W3F such as the [Decentralised Futures program](#), which funds individuals and teams looking to support the Polkadot ecosystem. These are approved by a board and funds do not come from the Polkadot Treasury.

The Polkadot ecosystem is spoilt for choices when it comes to funding options available to proponents - however, all require specific proposals to be made with yes/ no answers when it comes to the amount being funded. Even retroactive funding requires the proponent to request a specific amount of funding, which they must then justify to voters and will either receive the full ask or nothing.

Outside of the ecosystem there are retroactive schemes such as [Optimism Retroactive Public Goods Funding](#) - which allow for funding of many projects based on their perceived value add to the Optimism ecosystem. The Citizen’s House allocates these grants.

**Optimistic Project Funding offers a new, dynamic and continuous funding method for projects that incentivises the best to build on Polkadot - by allowing all DOT holders to nominate project(s) that they believe offer the most value to Polkadot.**

Inspired by Astar dapp staking, Optimism RetroPGF and many many painful hours in OpenGov :)

## How it works

- New mechanism implemented by the Fellowship - signal given to the Fellowship by an on-chain remark on the Wish for change track. Implementation specifics to be determined by the Fellowship.
- Projects can apply to be whitelisted to receive rewards via a referendum to all token holders - this acts as a first “filter” for whether a project is seen to provide value to the Polkadot ecosystem
- Parachains, apps and ecosystem wallets are all eligible to apply for whitelist - any project that brings value to Polkadot ecosystem users could stand to receive funding
- There are no rules regarding what projects should use the funding for - although this could impact how users vote
- The mechanism will receive a fixed proportion of DOT inflation directly (e.g. 1/10th of inflation) which will be distributed to whitelisted projects based on the proportion of DOT that is nominated to them. Example (more examples [here](#)) - 20,000 DOT funding per day:

Project	DOT nominated	% of stake	Daily rewards
Alpha	34,000,000	24.8%	4,960
Bravo	17,000,000	12.4%	2,480
Charlie	86,000,000	62.8%	12,555

- Nominators can use conviction to amplify their nominations, with locks that overlap with OpenGov locks - this means that there will be no additional opportunity cost imposed by this new system
- Rewards are calculated and distributed in-line with staking - once per era

- Nominations should be renewed every X period of time in order to avoid “stake and forget” behaviour, and encourage nominators to research projects and ensure they’re still providing value to the ecosystem

## “Not fund” votes

- In addition to nominating to fund projects that a nominator perceives to provide value to the Polkadot ecosystem, nominators can also vote to “not fund” a project - these “not fund” votes carry the same weight as a nomination
- “Not fund” votes are necessary in order to prevent funding for malicious projects (new information since they were whitelisted) and to prevent undesirable behaviour such as private bribes
- It is expected that newer projects will utilise Optimistic Project Funding as an alternative token distribution model as Crowdfunds become deprecated, and may therefore offer token rewards in exchange for nominations that secure them funding. This is acceptable as the information is symmetric and any DOT holder can take part to receive rewards
- What is unacceptable is when information is asymmetric and voters are privately offered lucrative incentives in exchange for their nominations. “Not fund” votes will deter this behaviour as any project receiving large amounts of nominations without any clear reason (publicly announced incentives or high-value project) will likely be targeted by “not fund” votes and therefore will not receive funding
- “Not fund” votes do not proportionally increase funding for other projects and instead any subsequently “reduced” funding will be redirected to the Treasury. This ensures that participants are not incentivized to vote against their competitors in order to secure more funds themselves. Example - 20,000 DOT funding per day:

Project	DOT nominated	“Not fund” votes	Resultant votes	% of stake	Daily rewards
Alpha	34,000,000	0	34,000,000	24.8%	4,960
Bravo	17,000,000	0	17,000,000	12.4%	2,480
Charlie	86,000,000	60,000,000	26,000,000	19.0%	3,800
Treasury	—	—	—	43.8%	8,760

- As you can see in the example, project Charlie received significantly reduced funding due to the “not fund” votes - all reduced rewards were sent to the Treasury and projects Alpha and Bravo received their original allocations based on their nominations
- Note that projects cannot have less than 0 votes/ 0 funding
- It is possible that we will see large amounts of “not fund” votes without equivalent nominations from DOT holders who are against Treasury spending - if this is noticeable over time such that the approved amount of inflation is not being distributed to projects, then a new referendum could be proposed to increase the overall inflation amount being directed to projects in order to balance out such activity
- Malicious projects can be blacklisted/ removed from this scheme through a referendum by DOT token holders

## Bribes

- Incentives received by projects from this initiative are a form of bribe - they are bribes to attract new projects to the ecosystem, and bribes to keep projects within the ecosystem - rewarding them for continuously providing value
- The relative bribes that projects receive demonstrates the perceived value of their project to DOT holders - this is at least the case for those voters/ nominators that want to see Polkadot succeed - that is, they are voting based on longevity
- However, there will also be bribes from projects to nominators in order to generate more nominations and therefore more rewards for their projects - this is healthy as long as these bribes are public and available for all (see above how “not fund” votes prevent private bribes)
- There will be an interesting dynamic between voters that are chasing bribes in order to maximize rewards, and voters that are voting based on longevity - but this should achieve equilibrium as there will always be at least some baseline of project quality as:
  - The whitelist process ensures that an outright scam/ malicious project is never supported
  - A valueless project cannot give bribes, as without value the “bribes” (project tokens) would be worthless

## Second order effects

- Additional value/ utility to DOT token as participation can result in bribes from projects seeking funding - similar to how ATOM stakers receive airdrops from new projects
- DOT holders more likely to participate in governance, as governance locks will boost the “votes” they can give to projects and therefore increase the size of any bribes they receive
- Bribes from new projects are an excellent distribution method for their token as the Crowdloans model is deprecated
- DOT holders will be encouraged to remove their DOT from CEX and self-custody as they will want to maximize their returns (from bribes)
- Switching the bulk of Treasury funding from a combative, controversial experience to a more optimistic and value-based model