DAO Governance Overview

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Plan for today

- Some examples of types of DAOs and their governance
- Zooming out: what are the goals of governance?
- How can we structure governance to achieve these goals?
- Future lectures: going deeper on specific design questions around voting and DAO constitutions, and exploring the frontiers of governance
Next lecture: hear from all-star cast of DAO/web3 leaders

- Silke Elrifai, DAO lawyer/coder and prev CLO, Gnosis
- Scott Moore, Gitcoin
- Will Papper, Syndicate
- Anika Raghuvanshi, Coinbase and she256
- Porter Smith, a16z crypto
- Devin Walsh, Uniswap Foundation
- Jason Zhao, Story Protocol
Some examples of DAO types
Some types of DAOs

No agreed-upon typology of DAOs, and it’s changing too quickly anyways

But here are three categories that get a lot of attention:

1. **Protocol DAOs** – running important protocols where (ideally) no one is in charge. Example: we discussed MakerDAO in lecture 1.

2. **Investment/Charity DAOs** – pooling resources to do something together

3. **Social/Cultural DAOs** – creating communities focused around a shared interest

This is nowhere near comprehensive!

Many times these also bleed together.
Protocol DAOs
Uniswap Wallet
Own and Use Crypto
Uniswap Labs

#92 in Utilities
4.8 • 76 Ratings
Free
Uniswap Governance

UNI tokens represent voting shares in Uniswap governance. You can vote on each proposal yourself or delegate your votes to a third party.

Read more about Uniswap governance

Proposals

Show Cancelled

2.37 Uniswap Deployments Accountability Committee SUCCEEDED

2.36 Uniswap v3 Gnosis EXECUTED

2.34 Governance Proposal - Uniswap V3 Launch on zkEVM EXECUTED
Uniswap Foundation Proposal

This proposal is being put forth by the Uniswap Foundation, a Delaware corporation formed by Uniswap community members Devin Walsh and Ken Ng to facilitate the steps outlined in this proposal.

TL;DR

- Today, we are thrilled to propose the creation of the Uniswap Foundation (UF).
- **Scope:** The UF, the first Foundation of a major protocol to go through the community governance process, will support the Protocol’s decentralized growth, reinvigorate governance, and serve as a Protocol advocate.
- **Team:** Devin Walsh will serve as the Executive Director, Ken Ng will serve as Head of Operations, and they will build out a team of 12.
- **Budget:** To fund these efforts, we are requesting:
  - A $14M Operating budget to cover a full team for 3 years
  - A $60M expanded Uniswap Grants Program (UGP) budget to cover 3+ years
  - We are requesting $74M total, which will be broken into two disbursements, with a first disbursement of $20M.
- **Governance Participation:** We are also requesting 2.5M UNI to participate in governance, primarily through delegation. Through usage of a new smart contract primitive The Franchiser, this UNI will be revocable by the DAO at any time, and cannot be used for any purpose outside of governance.
Investment DAOs
ConstitutionDAO (@ConstitutionDAO)

We tried to buy the Constitution in 7 days, raised $42M, onboarded thousands into web3 and educated millions.

constitutiondao.com  Joined November 2021

24 Following  75.9K Followers

We're buying the constitution and it will be governed by the people.

brb buying the Constitution 😎
Social/Cultural DAOs
Noun 683

Current bid

£ 25.00

Auction ends in

0h 45m 26s

Help mint the next Noun

£ 25.50 or more

Place bid

0x56...5A3E

£ 25.00

orrell.eth

£ 0.69

nullsec.eth

£ 0.01

View all bids
Governance

Nouns DAO

Nouns govern Nouns DAO. Nouns can vote on proposals or delegate their vote to a third party. A minimum of 2 Nouns is required to submit proposals.

<table>
<thead>
<tr>
<th>Treasury</th>
<th>28,245</th>
<th>$55,027,723.00</th>
</tr>
</thead>
</table>

This treasury exists for Nouns DAO participants to allocate resources for the long-term growth and prosperity of the Nouns project.
Nouns: Governance

- Proposal creation: 2 days
- Voting: active: 3 days
- Voting: ends: instant
- Timelock: 2 days
- End result: instant

Each step requires sending a tx • Voting period is specified in Ethereum blocks • nouns.wtf/vote
Proposal 266  Defeated

The Nouns Mechanical Keyboard

Proposed by nounsmk.eth at 0x9f8bf

Switch to delegate view

For 64

Against 147

Abstain 16

Threshold Current Threshold
100 votes

Ended 12:50 AM PDT
April 20, 2023

Snapshot Taken at block
17014274
Showcase Nouns 3D-Printed Collection on Times Square Billboards

Proposed by danit3d.eth at 0x156cd
Zooming out: what’s the point?
The whole point of crypto/web3 is governance

**Governance**
Who has power, who gets to decide, and through what process?

**web3**
“a programmable computer that lives in the sky, that is not owned by anyone and that anyone can use” – Tim Roughgarden

**web3 + governance**
a way to decentralize power – if it works

Governance is both the central promise and key challenge to crypto.
A logical extension of historical governance

<table>
<thead>
<tr>
<th>Corporate Governance</th>
<th>Civic Governance</th>
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</thead>
<tbody>
<tr>
<td>~600-year evolution of institutions that align incentives and prevent FTX-style debacles</td>
<td>2,000+ year evolution of institutions that aggregate preferences, distribute power, and create accountability</td>
</tr>
</tbody>
</table>

Technology should enable new improvements to governance.
Civic vs. Corporate Governance

Should DAOs look like corporations with token voting?
Should they look like governments and have one-person one-vote?
Should they do something in between?

Can’t answer these questions until you specify your goals.
The big question for crypto founders

What do you want governance to do for you?
Three main things web3 governance can try to do

1. Resist censorship
2. Create user demand
3. Build trust

All have to be balanced against the downsides of democratic governance: it’s slow, conflictual, prone to interest-group capture, etc.
Governance purpose #1: Resisting censorship

Ossification

Immutable aspects are most resistant

What can’t be ossified must be governed

Things arise, and new decisions have to be made.

Democracy means no one is in charge...

For decisions that must be made, democracy is popular because it leaves no one as “manager” (see ‘The Bahamas Test’)

But to help with this, democracy has to work...
Projects are vulnerable when participation is low

Source: ongoing research w/ Dan Boneh, Ricky Grannis-Vu, Jaeyong Park
Example of resisting censorship:

**Progressively decentralized**

*Started with a foundation to oversee work, then dissolved the foundation*

**Decentralized workforce**

*Core units now transitioning to sub-DAO model*

**Trying to build effective governance**

*Professional delegates, incentives to participate*

For this goal, not clear you need “civic” governance
Governance purpose #2: Creating user demand

“Governance alpha”

Some people want to join communities that have credible, effective community governance – a sense of buy-in

The governance flywheel

As people join and become active in governance, the community takes off, and more people want to join, which makes governance more active…

Democratic communities

Lots of use cases where people value this sense of self-determination: fan groups, art, social, etc.
Example of creating user demand: Nouns

– one Noun auctioned every day
– one Noun, one vote in NounsDAO
– massive treasury managed through voting
Governance purpose #3: Building trust

**Making credible commitments**

In long-run, people will work with and build on top of protocols they trust to continue existing and to treat them well.

Good governance engenders this trust.

**Including the right stakeholders**

You can increase incentives for people to join, partner, and build if you allocate governance power to them so that they know their interests will be heard.

**Aligning incentives**

Design governance so that when participants win, the project as a whole wins.

Here, you pretty clearly need some kind of civic governance.
Example of building trust: Lido

**Lido’s scale has created trust concerns**

People worry that an attack on Lido could damage Ethereum’s PoS system

**To restore trust, Lido will include stETH holders in governance**

Building mechanism for stETH holders to veto LDO votes (“dual governance”)

**Aligning incentives**

Seeking to design the veto mechanism so that LDO holders and stETH holders can work together to protect the protocol and Ethereum
Lido Dual Governance – the stETH veto

*How do you build in a stETH veto?*

- What kinds of votes should stETH holders be allowed to veto? How do you implement this?
- How high should the veto threshold be?
- What should happen after the veto is triggered?
  - The vote fails and nothing else happens?
  - Negotiation period?
  - Protocol unwinds?
Example of building trust + user demand: Optimism

**Token voting can deter community**

If whales dominate, contributors may not feel buy-in to the project in the long run

**Optimism is moving beyond token voting**

Consistent contributors are awarded membership in a “Citizens’ House” that votes on funding public goods projects

**Could help with long-run trust**

People may be more likely to build on top of Optimism if they believe their interests are reflected in governance
Becoming a Citizen of Optimism

"How do you decentralize the citizenship process?"

- What should the criteria be for becoming a voting member of the Citizens’ House?
- Is there a way to automate the process of selecting new citizens? What are potential risks?
Writing your constitution
Four questions about your constitution

1. **Scope.** *What decisions are made through governance?*
2. **Distribution.** *Who gets to decide?*
3. **Rules.** *How are decisions made?*
4. **Timeline.** *When are you going to give over these powers?*
Scope: how much do you want governance to do?

Less governance

- Keeps project nimble
- Often lowers risk of bad decisions
- Reduces scope for conflict
- May reduce buy-in, trust
- May be less compelling to users
- May hide governance behind the scenes

More governance

- May increase buy-in, trust
- May attract users
- Governance explicit, transparent
- Slows down decisions
- Often increases risk of bad decisions
- Increases scope of conflict
Distribution: who gets to decide?

**Distributing your tokens**

*Broader token distribution can increase sense of fairness, community buy-in. But could lead to uninformed voting, also.*

*Tokens earned through behavior rather than bought can be useful for empowering good community members.*

**Considering going beyond token voting**

*Building additional governing bodies, empowering “citizens” could be good strategies for broader stakeholder inclusion.*

*Of course, including stakeholders who don’t have strong incentives to care or who have hostile intentions is bad.*
Rules: how are decisions made?

**Spelling out the proposal process**

Can anyone make a proposal? Depending on your project, there may be critical business/legal issues that cannot be proposed.

**Designing voting rules**

Delegation and “liquid democracy” could be especially valuable for getting around low participation rates.

Directly rewarding participation may also be a good idea.

More complicated voting rules (e.g., “quadratic voting”) might be useful in certain instances but are rarely high impact.
Timeline: when are you going to give over these powers?

Going too big, too fast

It is much harder to pull back governance powers once granted than to delay granting them in the first place.

Waiting too long can also backfire, though

For some projects, governance is the sell from the very beginning.

1. Product / Market Fit

Often, the first and most prioritized step in the planning process

2. Community Participation

3. Sufficient Decentralization (community ownership)

Practical things not covered here

**Securing your governance**
- code audits
- building from popular governance contracts (e.g., Governor Bravo)
- best practices for preventing governance attacks (quorums, time locks, etc.)

**Stimulating community**
- services can help curate your community, oversee your forum, Discord, etc

**Coordinating with stakeholders**
Good to keep in close contact with major tokenholders, investors, etc on governance issues including governance design as well as important proposals/votes.