

Decentralizing Algorand Governance

Executive Summary

The Algorand Foundation believes in a fully decentralized Algorand ecosystem. An ecosystem in which everyone can impact economic, technical, and other policy decisions best enables the Algorand community to shape the shared future of the Algorand network and project, while also preventing any one group from exerting outsized influence.

We have listened to the community and are committed to building a simple, inclusive, and transparent system for community Governance. This proposal is based on a combination of [Silvio Micali's original proposal](#) and the governance discussions on the [Algorand Governance Forum](#), the [Algorand Governance Channel](#) on Discord, and several other community debates. In the coming months, the Foundation will provide further insight on Algorand's journey towards Decentralization. This will be accompanied by community engagement activities throughout this year.

We believe the time has come for a radical step in this important mission: we plan to yield to the community the decision making power over the remaining ecosystem resources currently entrusted to the Foundation. These resources, spelled out in a table below, include the participation rewards, research and innovation funds, and grant program, for a total of 3.2 billion Algos. Going forward, these Algos are referred to as the Algorand Ecosystem Resource Pool (AERP).

This ambitious new governance system will be deployed in two phases. An inception period for the system will begin in Q4 2021, where some aspects will be implemented off-chain. By early 2022, we expect a complete system to be ready, where all aspects will be on-chain and controlled by smart contracts.

As soon as the plan below is approved by the community, 2 billion Algos from the AERP will be immediately time locked, putting these funds beyond use by the Foundation. Once the inception period is over and the smart contract-controlled, on-chain governance system is established, control of these 2 billion Algos will be moved to that system. The remaining approximately 1.2 billion Algos will remain available for ongoing activities during the inception period, once the on-chain system is ready to go these Algos will also be locked into the same smart contract. At that time, all of the AERP will be controlled by a smart contract and will be unlocked only by an approval vote of the Governors.

This represents the next phase in the [vision for long term Algo Dynamics](#) that was published a few months ago. Since all accounts will be able to vote in this decision making process, we invite all ecosystem participants to read the proposal carefully, and to become Algorand Governors to participate in forthcoming decisions. The Foundation expects the smart contract-controlled, on-chain governance system to be ready by early 2022.

Governance Proposal

The goal of this proposal is to entrust the future of the Algorand ecosystem to participants who are committed to the Algorand network and its vision. To accomplish this, we invite all Algo holders to volunteer to become Governors and vote on some of the most important decisions regarding ecosystem development. Governors serve for a quarter at a time, committing their Algos and receiving rewards to compensate them for their time and their commitment to the role. All voting will be weighted by the governance stake of the participant (i.e., the number of Algos that they committed).

The Foundation will set up the votes but will not participate in the Governors' program. Other Algo holders may choose to disclose the number of Algos they intend to commit to the program in advance publicly. The Governance program will move decision making on utilization of the Algorand Ecosystem Resources Pool (AERP) into the hands of the community.

Algorand Ecosystem Resources Pool (AERP)

The following table details the resources that will be controlled by the Governors, and their *current* allocation.

Tokens for on-chain Governance	Anticipated amount on July 14, 2021	Locked during the trial phase	Ongoing ecosystem activities
Name	Amount (Algo)	Amount (Algo)	Amount (Algo)
Participation Rewards	1,955,350,000	1,455,350,000	500,000,000
Algorand Innovation Fund	400,000,000	300,000,000	100,000,000
Algo Grant Program	200,000,000	150,000,000	50,000,000
Research and Social Good Program	200,000,000	100,000,000	100,000,000
Contingent Incentives	495,350,000	0	495,350,000
Total	3,250,700,000	2,005,350,000	1,245,350,000

The AERP is made up of 5 separate funds, focused on supporting different pillars of Algorand network and ecosystem development, with the long term goal of building a robust, decentralized, broadly adopted and utilized, public blockchain network. These funds are scheduled to be diffused into circulation between now and 2030 - this is outlined in detail in [Long Term Algo Dynamics](#). These 5 funds are also described in detail in the Long Term Algo dynamics, but in summary:

- *Participation Rewards*: A fund designed to support the incentives to the community. It has supported the diffusion and the holding of the Algo token during the early growth phase of the Algorand network. In 2022, the Participation Rewards will be phased out and replaced by the Governors' rewards that are explained below.
- *Innovation Fund*: A fund designed to support projects with a significant opportunity to create long term business success, built on Algorand.
- *Algo Grant Program*: Ongoing Grant funding program designed to support infrastructure development for the Algorand ecosystem and the creation of proof of concept use cases to demonstrate the utility and power of the Algorand network.
- *Research and Social Good Program*: Partnership funding to support primary research in key areas of blockchain development and broad cryptography. Also funding in support of partnerships delivering on the vision of an ecosystem that is inclusive and transformative for communities around the world.
- *Contingent Incentives*: This is a reserve or contingency fund established to enable the Foundation and the Governors to address unforeseen trends or needs that may have a negative effect on the growth of the ecosystem.

Role of Governors

Governors will be responsible, more and more, for major economic and policy decisions. This will be done via periodic voting, whereby the Foundation will then execute responsibly, for the benefits of the overall ecosystem, based on the Governors' decisions.

The Foundation commits to keep the voting process as simple as possible: easy interfaces will be provided; there will be only one voting session for every governance period; and Governors will be allowed, if they so choose, to opt into accepting the Foundation's position in every vote.

Governor Rewards

Governors will be rewarded for their efforts, based on their participation stake in governance. The Governance program will feature quarterly entry points, allowing participants to join the program and commit their Algos for the entire period. The Governors will participate in the quarterly vote to decide on the allocation of the AERP, and will receive rewards at the end of the period only if they gave a valid vote and maintain the committed number of Algos in their governance wallets. This is a transformative step that is putting forward the mechanics and incentives that guarantee a form of governance that is simultaneously decentralized, secure and efficient, like our consensus protocol.

The Governance program marks the shift from the early days of the Algorand network to a more mature phase in which the community takes charge of its own destiny and rewards are distributed in return for verifiable commitment. The shift from Participation Rewards to Governance Rewards, however, will be gradual and smooth.

From Participation to Governance Rewards

July 14 2021, an important day in the history of democracy as the anniversary of the French revolution, is incidentally the last day for which the current [Participation Rewards have been planned](#), with rewards distribution of 21,850,000 Algos in the last period, the highest of the year until then. Thereafter and until the end of 2021, the Foundation will continue to distribute Participation Rewards at the same level.

The Governance program will start in October and will distribute additional rewards to Governors. Participants in the Governance program will therefore see their total rewards grow significantly above the then fixed level of Participation Rewards. In 2022, Participation Rewards will be phased out, to be completely replaced by Governance Rewards.

Reward Frequency

Rewards will be distributed at the end of each quarter to all Governing wallets that participated in the votes and maintained their committed number of Algos. Governors that miss a vote, or fail to maintain their committed number of Algos, will lose their rewards for that quarter.

Leaving the Program Early

Governors will be able to leave the program at any time during the quarter, but those who leave early will lose all the rewards for that quarter. Initially, there will be no additional penalties for those who leave earlier, making it particularly attractive to commit Algos to the program. In the future, subject to a vote of the Governors, there could be additional penalties.

Governance Rewards Rate

The reward rate for Governors in a given period will be determined by the willing participants, based on the total tokens being committed against the total reward pool for that period. For example, in 2022 approximately 300m Algo will be allocated for Governance Rewards: that is, approximately 75m reward Algos in each quarter. Thus, in a given quarter of 2022:

- If there are **4 billion Algo** committed in Governing Accounts for that quarter, their rewards will be $75m/4b = 1.875\%$ for every Algo committed for the quarter, corresponding to annualized **7.7%**.
- If there are **2 billion Algo** committed in Governing Accounts for that quarter, their rewards will be $75m/2b = 3.75\%$ for every Algo committed for the quarter, corresponding to annualized **15.9%**.
- If there are **1 billion Algo** committed in Governing Accounts for that quarter, their rewards will be $75m/1b = 7.5\%$ for every Algo committed for the quarter, corresponding to annualized **33.5%**.

Governing Mechanics

Governors will be called regularly to vote on a growing list of tasks, including distribution of grants, ecosystem partnerships and related fund transfer, node-runner and governance incentives, and more. New tasks to be voted on will be announced by the Foundation well in advance of each vote. To participate in the governance system, a would-be Governor needs to:

- Register an Algorand address that she intends to use for governing for the current period (of three months), and commit to holding a certain Algo balance in that account throughout the period. This can be an existing address that this participant already has, or a new address that she establishes specifically for this purpose.
- Participate in the vote that the Foundation calls in that period.
- The weight of the Governor's vote will equal the Algo stake that was committed at the beginning of the period: One Algo, One Vote.

Governors who maintain their committed Algo balance throughout the period and participate in all the votes, will be able to claim their Governance Rewards at the end of the period.

The Foundation, working with our partners, will strive to provide tools that make these tasks as easy as possible. At inception, portions of the Governance system will be implemented via an off-chain mechanism. After that, the entire system will be implemented on-chain.

Conclusion

Further decentralizing the Foundation's token supply and other decision rights represents an important evolution for the Algorand network. We are deeply committed to the Algorand blockchain being a fully decentralized network in both its node distribution and voting power. However, the path to decentralization is one that must be carefully paved in the early stages. Before enacting the Governance program, the Foundation will call a network-wide vote to approve it.

The Algorand network is founded in principles of transparency, inclusivity, and collaboration and maintained by a dedicated community with a shared vision of a decentralized, borderless future. Algorand is rooted in the idea that the system should allow for changes and avoid inflexible policies - enabling both the community and the protocol to evolve. We take the same approach towards responsible decentralization in fulfilling the mission-driven nature of our envisioned future together.

The Foundation believes that this proposal meets the goal of creating a unique, innovative, and inclusive approach to the governance of public blockchains. In this proposal, all stakeholders are empowered to control the direction of growth of the Algorand ecosystem and the community of Algo token holders. By making substantial commitments to the long term holding of Algo and voting, the Governor community will all benefit at the same rate from their participation in this governance mechanism.

In this context, the Foundation submits this proposal for your consideration, recommends an approval vote in the upcoming network-wide vote, and moves onto the next step in the development and maturation of the Algorand ecosystem. If this proposal is approved, we will begin by decentralizing the decision-making allocation of AERP. In sum, we follow the guiding principles and distinct roles where **the Foundation facilitates, the Governors decide.**

As always, thank you for your continued participation in the Algorand ecosystem. We look forward to this next step in the network's growth.