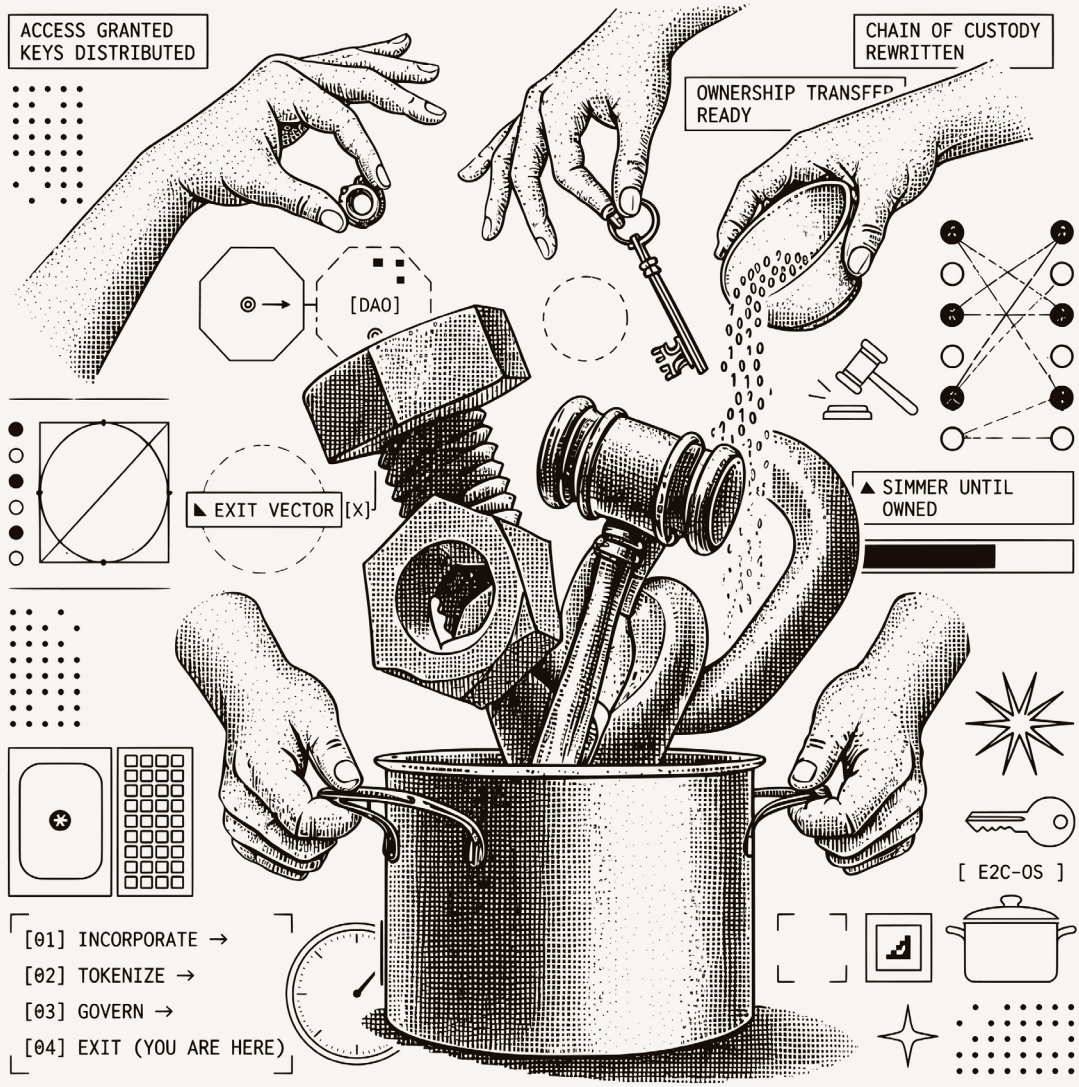
▲ E2C.HOW.
/RECIPES

■ COMMUNITY.SYS LOADED
■ OWNERSHIP TRANSFER READY



[HOW TO] EXIT TO COMMUNITY

A COOKBOOK FOR BLOCKCHAIN COMMUNITIES

[TARA MERK . PRIMAVERA DE FILIPPI . MORSHED MANNAN . NATHAN SCHNEIDER]

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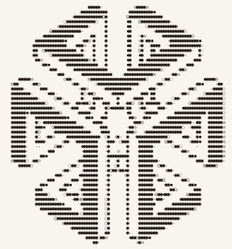

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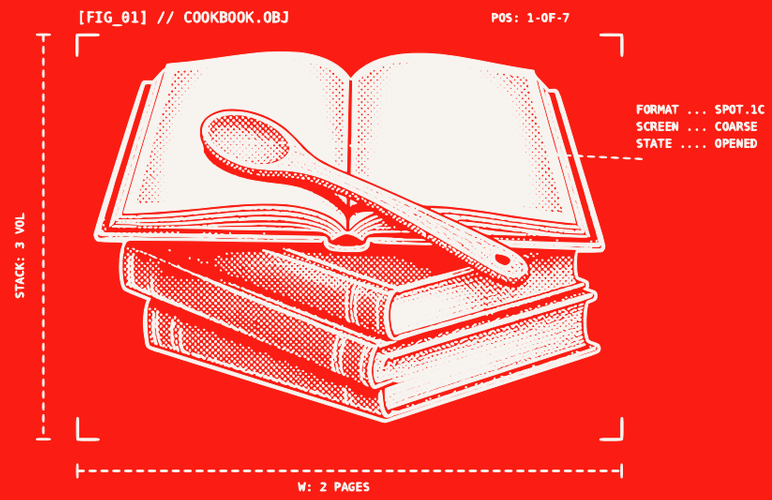
[TABLE OF CONTENTS] // INDEX.DIR

[CH_01] // INTRODUCTION.SYS

1_INTRODUCTION



[README.MD]

Understand why decentralized governance remains central in blockchains, what this cookbook is and who it is for.

[TREE] // 3 ENTRIES

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├── WHAT-THIS-COOKBOOK-DOES.MD
├── WHO-THIS-COOKBOOK-IS-FOR.MD
└── STRUCTURE-OF-THE-COOKBOOK.MD
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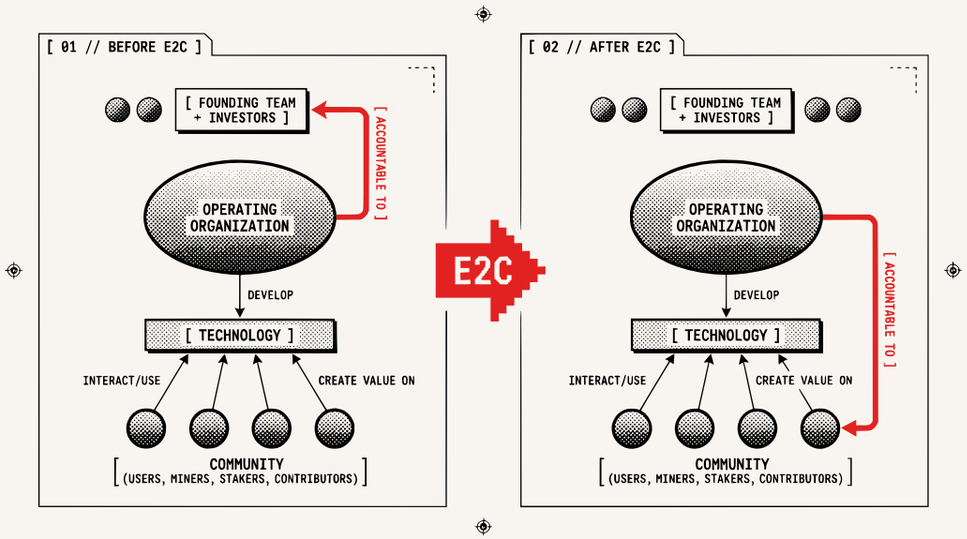
Decentralization has always been the central value proposition of blockchains. Without the conviction that decentralization can deliver more secure, censorship-resistant, accessible and equitable technologies, we might as well stick with what Web2 has to offer.

Decentralization can be realized on two levels: in technical architecture and in terms of governance. Technically, decentralization implies that a system is made up of a widely distributed network of nodes and will remain functional, even if many nodes break-down or act maliciously. This type of decentralization is not necessarily unique to blockchains.

Most large technology companies or widely used digital services, from Netflix to ChatGPT, rely on large distributed networks of servers to ensure they stay available, even when small parts of the system go down.

What makes decentralization in the block-chain industry meaningful is its governance



decentralization. In the blockchain ecosystem, governance decentralization means that a.) ownership and control of nodes themselves is also distributed widely, b.) all network nodes operate according to the same rules, and c.) no single party can unilaterally change the rules according to which the nodes operate.

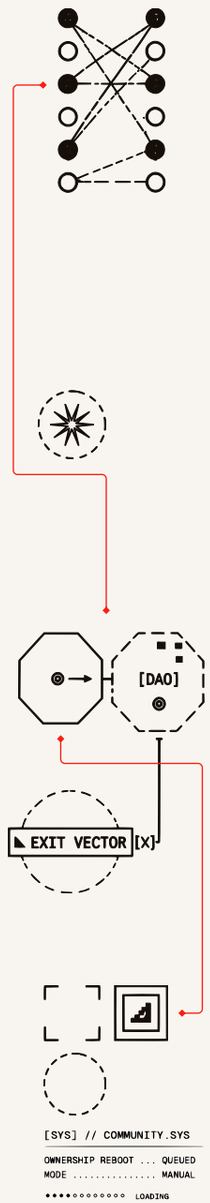
While the blockchain industry has been very successful at the level of technical decentralization, it struggles with establishing and maintaining governance decentralization in terms of a.) and c.). In recent years, projects typically deployed Decentralized Autonomous Organizations (DAOs) to achieve these goals. While DAOs are clearly needed for governance decentralization, they've tended to be chaotic, draining and vulnerable to capture.

On the one hand, this is due to mounting regulatory demands that increasingly require DAOs to duplicate their designs in legal code. Such requirements duplicate labor and contradict the inherent benefits of DAOs, i.e. being flexibly designed, digitally native organizations. On the other hand, DAOs have also struggled to optimize their internal structures, which often rely on plutocratic governance designs, weak off-chain enforcement mechanisms and intransparent operations. Thus, they've rightly faced a lot of criticism.

Yet, instead of giving up on them and the industry's goal and key differentiator of meaningful decentralization, we need to learn from past mistakes, identify best practices, design better going forward and stay true to the cause. This cookbook is here to help make that struggle more manageable.

WHAT THIS COOKBOOK DOES

This cookbook aims to provide best practices and practical guidelines on how to improve on governance decentralization in the blockchain industry. We take as a north star the idea of Exit to Community. Exit to Community (E2C) is similar to the concept of progressive decentralization, in that it acknowledges the benefit of starting projects where, in the beginning, small teams or groups of people control most of the nodes in a network and can iterate quickly on updating the rules of how these nodes operate. Governance decentralization then becomes a managed process that is implemented as the project matures and after it has attracted a substantial user base or community.



E2C advocates differentiate the strategy from progressive decentralization by adopting cooperative values and principles as guidelines that structure how the process of governance decentralization should be structured and what it aims to achieve. As such, it can be understood as a sub-set or more ambitious version of progressive decentralization, which more simply aims to achieve 'sufficient decentralization', i.e. a state where no single actor controls a large share of nodes or imposes new rules unilaterally.

Governance decentralization looks different for different projects, communities and needs. This cookbook outlines different flavors of how this process might look like, which can be used as blueprints for other organizations to follow.

Our flavors are compiled drawing on an analysis of 14 decentralization processes that have occurred in the blockchain industry since 2020 and our own experience from working in this space as

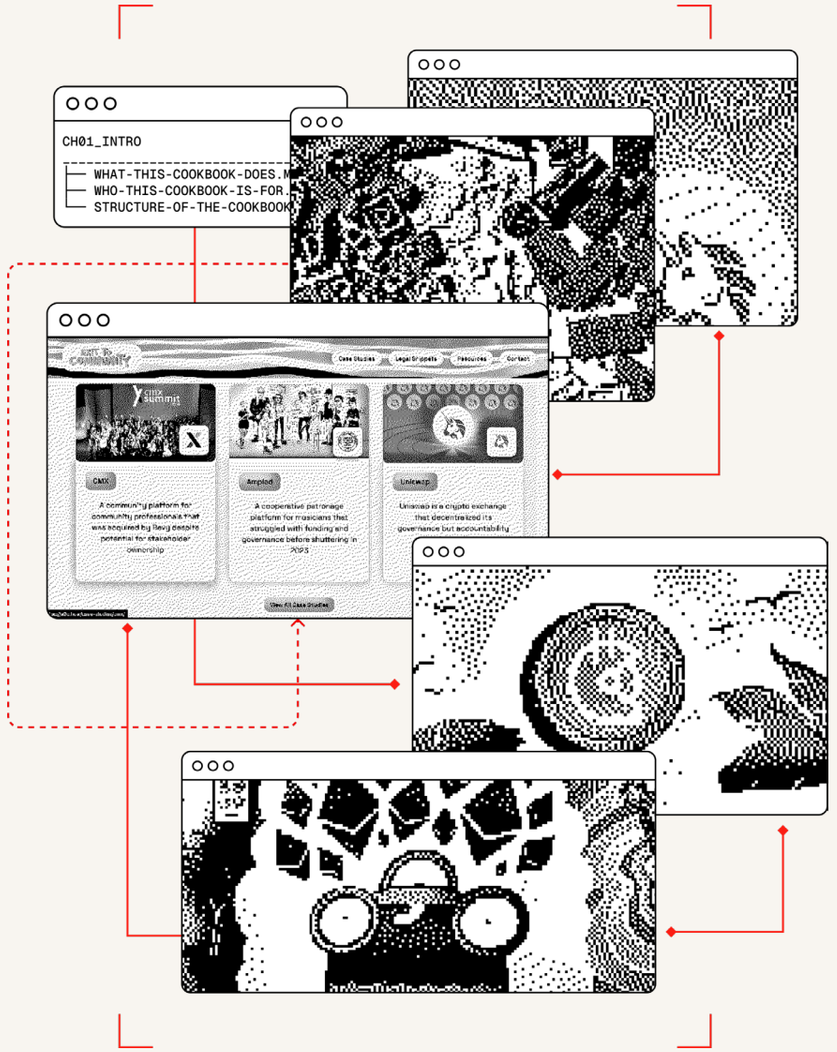
researchers and collaborators from various perspectives. We highlight legal tactics, governance design best practices, common dynamics and popular pitfalls.

WHO THIS COOKBOOK IS FOR

This cookbook is for projects in the blockchain industry looking for guidance on how to progressively decentralize meaningfully. The cookbook can also be a useful resource for organizations beyond the blockchain industry facing similar issues. Furthermore, for researchers and consultants it provides state of the art knowledge on the organizational change dynamics involved in decentralizing technology projects.

STRUCTURE OF THE COOKBOOK

- Flavors in E2C: mapping the key variables that make up an E2C recipe
- A selection of five E2C recipes
- Preparations: steps that apply to all E2C recipes
- Cooking utensils: tools for implementing your E2C recipe
- Serve: ongoing assessment and benchmarking
- Final thoughts



[CH_02] // FLAVORS-OF-E2C.DIR

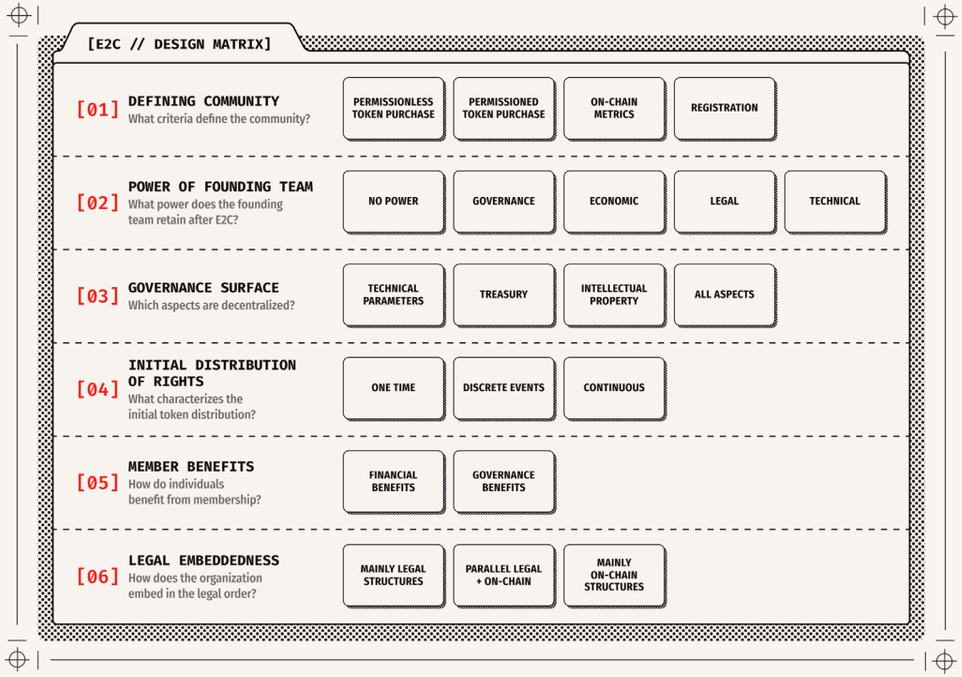
2_FLAVORS OF E2C

[README.MD]

E2C has different flavors, depending on how it is implemented. Understand the key dimensions along which different E2C strategies differentiate themselves and how to create your own flavor.

[TREE] // 6 ENTRIES

- 01_DEFINING-COMMUNITY.MD
- 02_POWER-OF-FOUNDING-TEAM.MD
- 03_GOVERNANCE-SURFACE.MD
- 04_INITIAL-DISTRIBUTION-OF-RIGHTS.MD
- 05_MEMBER-BENEFITS.MD
- 06_LEGAL-EMBEDDEDNESS.MD



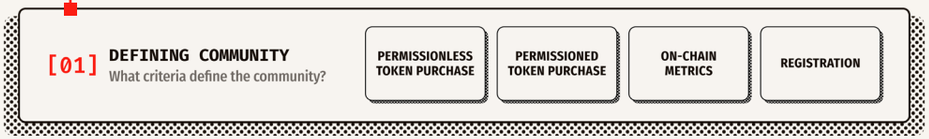
E2C recipes can take on very different flavors depending on how the founding organization structures and implements the strategy. In this section we describe six dimensions along which the preliminary E2C strategies that have emerged in the blockchain industry, seem to diverge.

Each dimension corresponds to a key question that organizations need to answer when planning how they want to E2C. There are several different ways in which an organization may decide to answer each question for themselves. We describe options that have emerged from our analysis of previous E2Cs in the blockchain industry, for each dimension below.

It is important to note that there is no generally ‘best’ way to answer each of the questions. Instead, it is important that decisions correspond to an organization’s needs and goals. Furthermore, it is also important to note that on some dimensions, different options can be combined to create more mixed flavors. We have noted this wherever it is the case.

1. DEFINING COMMUNITY

Ask yourself: What criteria do you draw on to define the community? Typical options are:



- **Permissionless token purchase:** The community comprises anyone who has purchased a token from the project be it for the token's utility, the governance or membership rights it conveys, or for financial reasons. Usually these are individuals and organizations who have participated as traditional investors or in a token sale (ICO). Apart from access to necessary capital, stakeholders do not need to fulfill additional requirements to purchase tokens and thus become part of the community.

  For example in Decentraland, the initial distribution of MANA tokens, which would later become governance tokens, in-game currency and could be traded against LAND during the project's 'terraform' event, were distributed to participants of Decentraland's ICO which took place in 2017, three years before the first public launch of the metaverse itself.

- **Permissioned token purchase:** The community comprises people who fulfill certain requirements (on-chain or off-chain), which make them eligible to purchase a project token. Eligibility to purchase tokens, and thus part of the community can be defined via legal requirements or on-chain mechanisms (e.g. holding a certain token).

  For example in CirclesCoop membership requires a KYC process and being approved to purchase a cooperative share in Germany.

- **On-chain metrics:** The community comprises wallets who have interacted with the project in a predetermined way. Depending how metrics are defined, they may describe different modes of participation in a project, for example: users, workers, contributors, etc. No KYC is required to determine eligibility. If requirements are met, the wallet receives rights automatically, without requiring a financial exchange. Often this is done via airdrops.

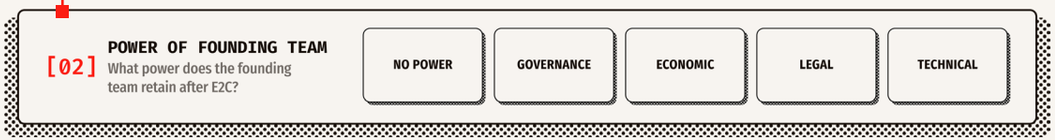
  For example, Uniswap determined its initial community by identifying all wallets that had interacted with the platform before September 2020, when their official airdrop took place.

- **Registration:** The community comprises anyone who fulfills membership requirements. Requirements can be on-chain or off-chain, and require KYC. Members receive rights automatically, without requiring a financial exchange.

  For example, as of the DAO's launch in 2021, any human successfully registering to Proof of Humanity receives the right to participate in the DAO. The process is ongoing and older members do not have more rights than newer members.

2. POWER OF FOUNDING TEAM

Ask: What type of power does the founding team (including founders, funders and early employees) retain over the project after the E2C? Combinations are possible. Typical options are:



- **No power:** The founding team retains no power or influence after the E2C. In some cases this means the founding organization has been transformed to the extent that the founding team does not hold more power than other teams. In other cases it means the founding organization has been dissolved.

  For example: After its initial transition, MakerDAO dissolved the original Maker Foundation. The dissolution of the founding meant that the founding organization did not retain any power within the ecosystem.

- **Governance power:** The founding team and organization retains governance power which can either be formal (e.g. the founding organization is officially recognized as an ecosystem thought leader) or informal (e.g. founders retaining outsized influence due to their network and clout).

  For example, although Yearn Finance founder Cronje had not worked on the project for over a year, his announcement to leave DeFi sent the price of Yearn's token plummeting, showing the sustained, informal influence he had over the project.

- **Economic power:** The founding team and organization retains economic stakes in the new organization. When this takes the form of governance tokens or equity, economic power can directly grant decision making rights. Even when this is not the case, economic power can influence decision making indirectly. For example, when the founding organization is the main funder of the new org it may be able to indirectly dictate priorities.

  For example Uniswap's airdrop distributed one third of all tokens to the Uniswap Labs team, its investors and advisors. While there are many good reasons to reward early effort, this also means that a relatively small group holds a relatively large chunk of governance tokens.

- **Legal power:** The founding organization or team retains legal rights that affect the new organization. For example, this may be the case when a DAO takes on protocol governance, but the founding organization retains intellectual property rights.

  For example in the case of Aave, the projects' founding company, Aave Labs, retained control over the project's main frontend. Aave Labs decided to use this power to alter the flow of certain protocol revenue streams, leading to heated discussions in the community.

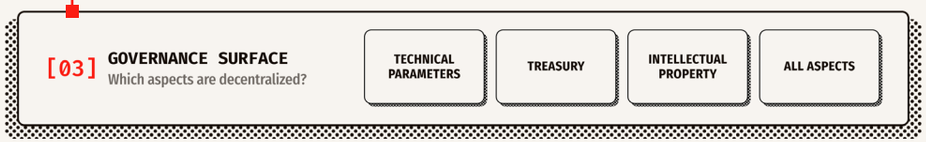
- **Technical power:** The founding organization or team continues to influence the technological development of the project. For example, if the founding organization employs engineers working on the project it may have influence

over the technology as a formal vendor of key components of the project's technology stack or informally by developing applications on top of the technology stack which influence how it is adopted. Similar dynamics ensue when the founding team remains the main contributor to the projects technology.

For example, although Proof of Humanity (PoH) is formally independent from its founding organizations, Kleros and Democracy Earth Foundation, in practice, most developers working on PoH are employed by Kleros. Furthermore, Kleros is the vendor of a key piece of technology within the PoH stack: the Humanity Courts. Overall, this gives Kleros informal power over how the PoH project evolves.

3. GOVERNANCE SURFACE

Ask: Which aspects of the project are being transitioned to the community? Different options can be combined, and different aspects can be transitioned at different times. Typical options are:



- **Technical components:** Some aspects of the technology are transitioned into community control. This might be control over a specific smart contract or specific protocol parameters.

  For example, in the case of Uniswap, the E2C transitioned control over the protocol's fee switch to the community. Other protocol parameters were purposefully constrained/made immutable. Uniswap Labs retained technical power by being the main developer of the protocol's new version post E2C.

- **Treasury:** A financial treasury is transitioned into community control. This treasury may be used to fund project development or conduct shared investments. The treasury may derive from a one time payment, token emission event or be funded via recurring revenue and/or investment returns.

  For example the Decentraland DAO controls a treasury seeded with 222 million MANA tokens, vested over 10 years, which was transferred to the DAO at inception. The DAO collectively allocates funds to community projects.

- **Intellectual Property (IP):** Intellectual property rights are transitioned into community control. These rights typically include brand assets like trademarks, web domains, patents and other copyrighted materials.

  For example in SongADAO, members own 100% of the rights to the songs produced daily, by Jonathan Mann, the project's founder. This also means the community has claims on any revenue these rights may generate.

- **All aspects:** All aspects of the technology are transitioned into community control. This implies all technical components, financial assets and legal assets.

  For example in the case of MakerDAO the community of MKR token holders gradually took

over control over all major protocol parameters, contracting developers via a community treasury and governing the DAI financial asset. In the case of MakerDAO specialized functions are executed by specialized community task forces and units, who remain accountable to the wider DAO community. IP assets are held by separate legal foundation. The original MakerDAO Foundation was dissolved, marking the complete formal transfer of governance and ownership.

4. INITIAL DISTRIBUTION OF RIGHTS

Ask: what type of event best characterizes the initial distribution of tokens? Note: different aspects of the project can be decentralized at different times. Look at the previous step to understand which aspects are relevant. Typical options are:

- **One time distribution:** Rights are distributed in a single event. For example, this may be a one time airdrop.

  For example Uniswap conducted its E2C via a one-time airdrop in September 2020.

- **Discrete events:** Rights are distributed in several rounds or at different stages of the project. For example, this may be done via recurring rounds of airdrops.

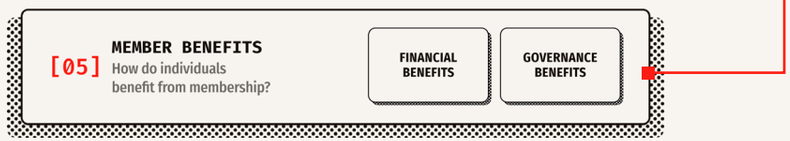
  For example Optimism has conducted five seasons of airdrops between 2022 and 2025.

- **Continuous distribution:** Rights are distributed on an ongoing basis over time. For example, whenever a new member signs up or buys into the project, they are allocated rights.

  For example in PoH anyone who creates a digital identity on the registry, automatically becomes a voting member of the community. This is an ongoing process where new members enjoy the same rights as existing members.

5. MEMBER BENEFITS

Ask: How do individuals benefit from being part of the community? Typical options are:



- **Financial benefits:** Community members are entitled to allocate financial benefits collectively or individuals are entitled to financial claims.

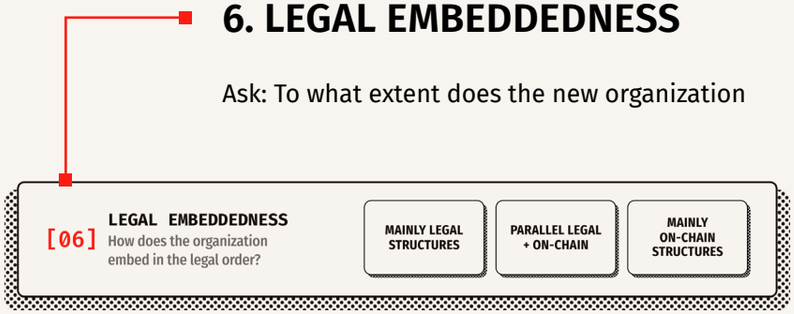
  For example in Decentraland DAO, members are entitled to allocate financial resources to community projects.

- **Governance benefits:** Community members are entitled to decision-making rights. Decision making rights can range from giving community members the right to signal preferences in certain processes, to making binding decisions over some or all aspects of the project.

  For example in Optimism, OP token holders and members of the citizen house can vote on protocol upgrades, inflation schedules or removing the director of the Optimism Foundation, which controls the main ecosystem treasury.

6. LEGAL EMBEDDEDNESS

Ask: To what extent does the new organization



embed itself in the existing legal order to ensure legal clarity? Typical options are:

- **Mainly legal structures for governance:** The new organisation has legal personhood and members have certainty about their legal rights and responsibilities.

  For example by being a cooperative under German law, CirclesCoop had full legal personhood and the rights and responsibility of community members was clearly structured via membership shares, the coop's bylaws and the German legal system.

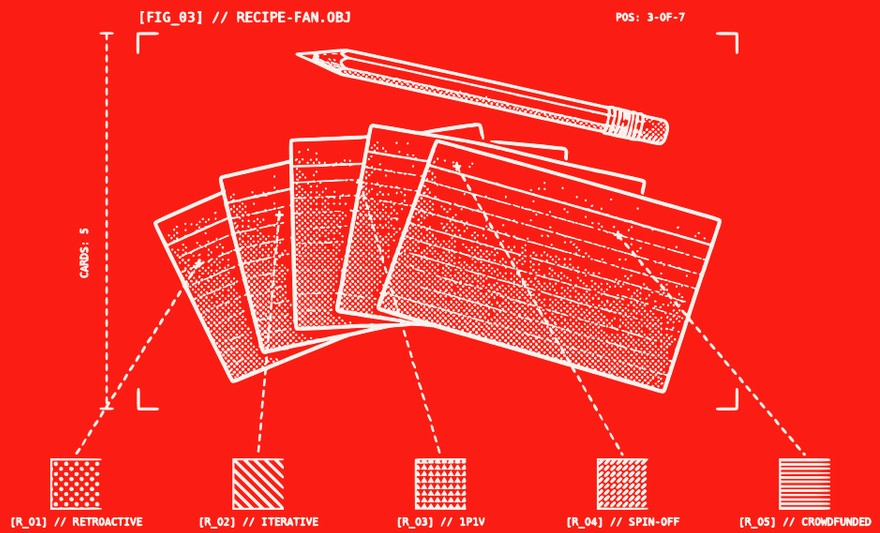
- **Parallel legal and on-chain structures for governance:** The new organization has some legal clarity but aspects of the organization remain ambiguous.

  For example Uniswap Labs, the founding company of Uniswap was notified of SEC investigations concerning the distribution and handling of unregistered financial securities. Amongst these, was the UNI governance token issued for the project's E2C. Although the investigations were closed in early 2025, the closure does not eliminate legal uncertainty for other projects or even, legal uncertainty in other areas for the projects that were subject to the investigation. Instead, the investigations highlight the legal ambiguity facing projects who are decentralizing in the blockchain industry.

- **Mainly on-chain structures for governance:** The new organization is 'alegal' i.e. not actively embedded in any jurisdiction and members do not have legal certainty over aspects such as liability.

  For example, YearnDAO deliberately chooses to have no formal legal entity associated with the project because this approach aligns with its manifesto and 'Blue Pill' vision of being a leaderless collective of contributors.

3_A SELECTION OF E2C RECIPES



[README.MD]

Understand how other blockchain organizations have combined flavors to create distinct recipes. We present five different recipes which you can draw on to inspire your own.

[TREE] // 5 ENTRIES

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├── RECIPE-1_RETROACTIVE-RECOGNITION.MD
├── RECIPE-2_THE-ITERATIVE-E2C.MD
├── RECIPE-3_THE-1-PERSON-1-VOTE-E2C.MD
├── RECIPE-4_THE-SPIN-OFF.MD
└── RECIPE-5_THE-CROWDFUNDED-E2C.MD
```

While the above description of dimensions is intended to serve as a guide for organizations planning their E2C, putting everything together can seem very abstract. To make it easier to understand how different flavors play out in combination, in this section we present a selection of 'E2C recipes'. Each recipe represents an archetype of a typical E2C, identified through our case study research. The darker colors show where the emphasis of each recipe lies. E2C recipes do not correspond to the journey of any single project or organization. Instead they present typical flavor combinations we have identified across different cases.

The recipes are intended to serve as an orientation rather than rigid blueprints. As such, individual organizations can combine flavors of different recipes, like Proof of Humanity which qualifies both as a spin-off and as a 1-person-1-vote E2C.

RECIPE 1: E2C AS RETROACTIVE RECOGNITION

E2Cs as retroactive recognition occur when the founding organization wants to bestow rights, reward and incentivize a pre-existing community of users. To identify users and thus determine the initial community, this type of E2C usually relies on on-chain metrics. Rights are often bestowed in a one-time event using various airdrop mechanisms and fair launches.

[RECIPE_01 // TLDR]

Progressive decentralization, with token-distribution (done in multiple ways, e.g. airdrop, fair launch, etc.) to users interacting with the system, and reduced governance surface as E2C is implemented. Labs and Foundation still present in the ecosystem alongside a new DAO.

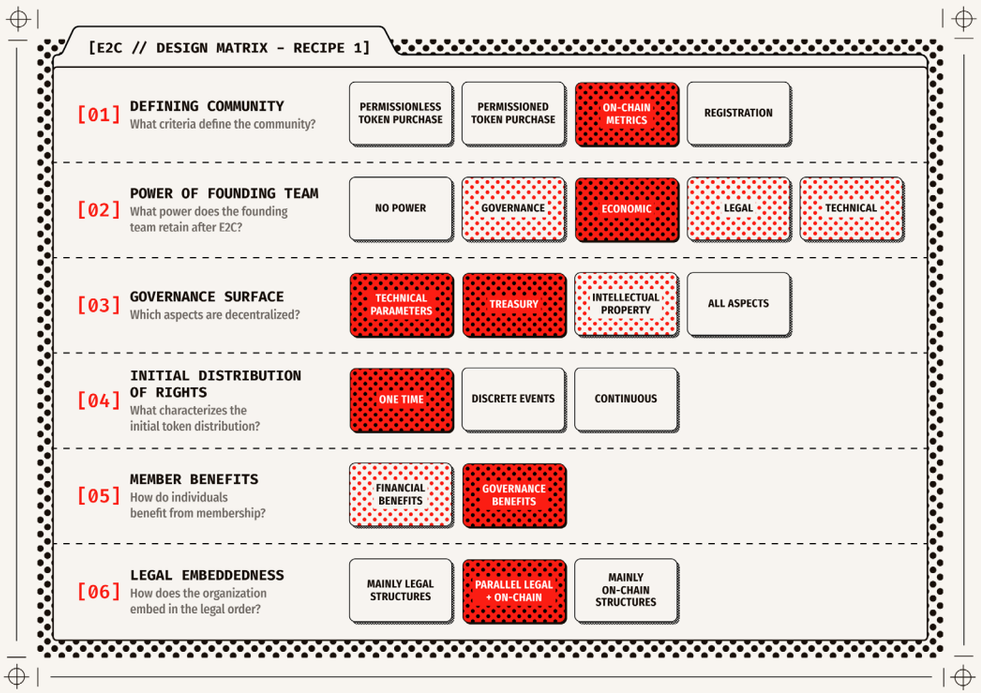
- **Advantages of this recipe:** Rewards early users, generates goodwill, and lets the founding organization and team retain meaningful control, making it a low-risk entry point into decentralization.
- **Disadvantages of this recipe:** May be instigated as a regulatory arbitrage strategy rather than a means to real decentralization.
- **Examples Type 1:** Uniswap, Maker, Yearn, ENS

Usually, the founding organization remains a strong presence after the transition. Because E2C as retroactive recognition usually occurs via the issuance of a new governance token and setting up a DAO, the founding organization might retain economic power by allocating some portion of governance tokens to itself or the team. Even when a fair launch takes place, where the founding organization does not receive a predetermined amount of governance tokens, it often retains other forms of power such as holding on to intellectual property of the project or often informally acting as an ecosystem steward due to its established position and thereby retaining governance power. Furthermore, the founding organization often continues to be the key technology vendor to the project, sometimes moving into a contractor role to the community.

Given this strong, continued presence of the founding organization, the community usually only acquires partial or shared decision making power. Often this is the case because the founding organization initially only transitions control over some technical parameters, such as core smart contracts that are especially important to the robustness of the overall protocol. However, the founding organization often retains decision making rights on other technical aspects.

Alternatively, the transition may also mark a point where some parts of the project's technology become hard-coded, i.e. they cannot be changed anymore. This is part of a governance minimization strategy where certain aspects of a project simply cannot be altered through governance anymore, thus reducing the overall governance surface. The founding organization often also seeds a community treasury via the token generation event or by contributing existing financial assets. In some cases, the founding organization may also transfer IP assets to a newly created legal entity which is under community control. Nevertheless, even without this new legal entity, E2C as retroactive recognition usually keeps the project at least somewhat legally embedded as the founding organization continues to exist as a legal entity.

The community benefits from the transition by receiving newly minted governance tokens which bestow some governance power. Furthermore, in this scenario, governance tokens can usually be traded on decentralized markets, thus also offering potential financial benefits to the initial community who receive the tokens without financial exchange. Finally, by coinciding with the creation of a community treasury, E2C as retroactive recognition often also offers financial benefits as the community is entitled to collectively allocate funds.



RECIPE 2: THE ITERATIVE E2C

[RECIPE_02 // TLDR]

Progressive decentralization through seasonal token-distributions and an iterative recalibration of the governance structure of the new DAO.

- **Advantages of this recipe:** Allows the founding organization to rightsize governance structures and community composition between rounds, reducing the risk of any single irreversible misstep.
- **Disadvantages of this recipe:** Managing multiple transition events increases coordination complexity and requires sustained commitment. Iteration can also lead to delaying power transfer indefinitely.
- **Examples Type 2:** Optimism, Collab.Land

As the name suggests, iterative E2C's are characterized as transitions that take place through a series of discrete events during which rights are bestowed on the community. To identify who falls within the community, organizations rely on on-chain metrics. Rights are distributed via token airdrops. The key differentiator is that the founding organization can adjust the on-chain criteria it applies from airdrop to airdrop.

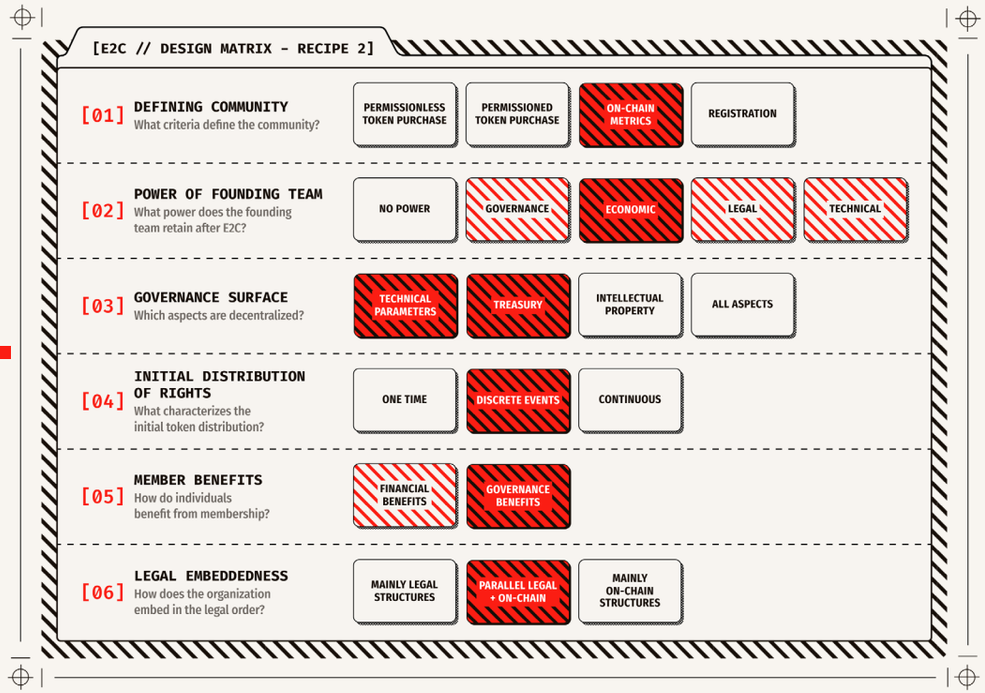
Thus, this strategy gives the founding organization more control over how the community make-up evolves over time. It also allows founding organizations to experiment with different airdrop mechanisms, governance setups and incorporate learnings from one iteration to the next.

In iterative E2Cs, founding organizations can transition different aspects of the project at different iterations, or successively increase the number of people allowed to participate in the governance of certain aspects of the project, by distributing more rights.

Organizations conducting iterative E2Cs might choose to decentralize aspects such as technical parameters of the project (e.g. allowing the community to determine certain parameters of the protocol) or seed a treasury which the community can use to set up its own operations or allocate to ecosystem projects via grants.

As such, community members in this type of E2C usually benefit in terms of governance rights. Community members may also gain financial benefits, if a treasury is involved or if the token they receive grants rights to some of the project's revenue. Furthermore, if the token distributed via the airdrop is tradeable, members may also choose to sell their token holdings, although this means forgoing any governance benefits associated with holding the token.

In this approach, the founding organization often continues to be a strong presence within the ecosystem, although its formal influence becomes less as power is decentralized progressively across iterations. Often, the founding organization retains economic power by holding governance tokens, or indirectly, by being the main funder of community operations. Often, at least in the early iterations of this E2C, the founding organization also retains legal power by holding the project's IP assets and



technical power, by being a key technology vendor to the project. Although governance power is formally transitioned away from the founding organization, its leaders often retain strong, informal governance power. Given the continued presence of the founding organization within the project's ecosystem, and the relatively strong role it takes across early E2C iterations, this type of E2C relies on parallel legal and on-chain structures for governance.

RECIPE 3: THE 1-PERSON-1-VOTE E2C

[RECIPE_03 // TLDR]

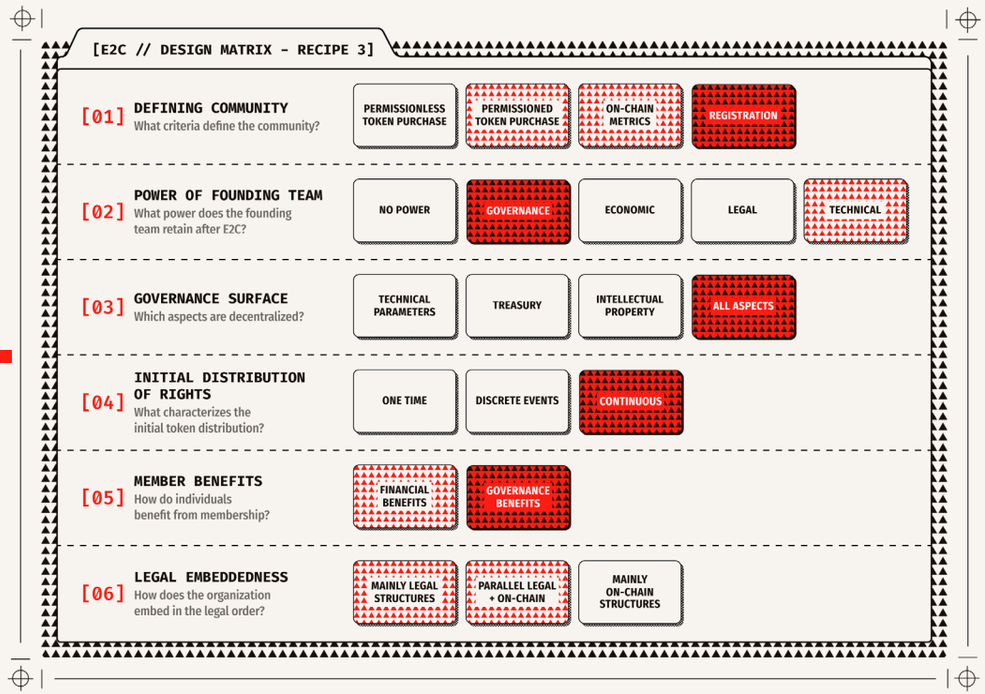
No airdrop, each member (natural person) has equal voting power.

- **Advantages of this recipe:** Signals a strong democratic commitment and avoids plutocratic token-weighted governance.
- **Disadvantages of this recipe:** Proof-of-personhood or KYC requirements introduce friction and regulatory complexity, as well as potentially raising privacy concerns.
- **Examples Type 3:** PoH, Circles, SongADAO

This E2C strategy distinguishes itself by including its community in governance on a 1-person-1-vote basis. Thus, it emphasizes egalitarian member participation. To work, this strategy requires the organization to implement some sort of proof of personhood or KYC to ensure each member only gets one vote.

Consequently, the community usually comprises registered members. Registrations can also be combined with on-chain metrics or reserved for those already holding specific assets. Given this mechanism to transfer power to the community, paired with the fact that members who join at different times have the same voting power, the transition process can best be characterized as being continuous.

This E2C strategy aims to transition all aspects of a project into community control, on a 1-person-1-vote basis. Consequently, the founding organization is either dissolved, transformed into the 1-person-1-vote organization or exists alongside it. In the latter case, the founding organization only retains informal governance power, as its members also cannot vote with more than 1 vote per person, once all aspects of the project are transitioned. However, where the founding organization is a key technology vendor to the project, it also retains technical power. Community members clearly enjoy governance benefits from joining. Depending on the project type, they may also enjoy financial benefits, such as the ability to allocate funds or by being eligible for profit distributions. This type of E2C can lead to outcomes that rely mainly on legal or on-chain structures for governance, as well as a mix thereof.



RECIPE 4: THE SPIN-OFF

This E2C strategy comes into play when a project, incubated in one organization, is spun out into a separate, community owned and governed organization. Here, the goal is not for the founding organization, which incubated the project, to be dissolved or change its own governance practices. Instead, it continues to co-exist alongside the new organization long term. The goal of the founding organization is to separate itself from the project's operations. As such, all technical parameters and intellectual property are moved under the mandate of the new organization.

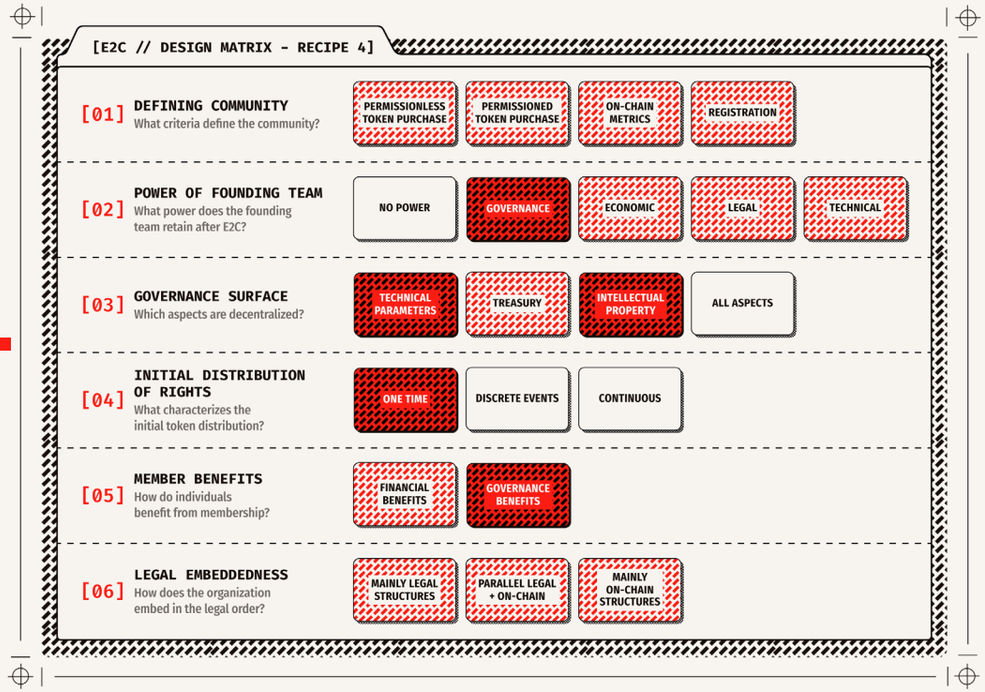
This transfer usually takes place in a one time event. In many cases, the founding organization may also seed a treasury to help the new organization set up its operations and get started. Because separation is the goal, the founding organization usually only retains informal governance power in the new organization. While this strategy is different to traditional spin-offs, because it emphasizes community ownership and governance of the new organization, the goal can be accomplished in many different ways. Consequently, and depending on the case, many different criteria can be applied to define the community make up.

Furthermore, the new organization may be set up to rely on either on-chain or legal mechanisms, or a combination thereof. The main benefit to the community is the right to govern the project. Depending on the project itself, the community may also enjoy financial benefits.

[RECIPE_04 // TLDR]

A project that is incubated in one organization, spins-off to an independent organization governed via a DAO. The relation to the incubating organization needs to be clarified.

- **Advantages of this recipe:** Gives the founding organization a clean operational, governance and legal separation from the project while preserving its own core business.
- **Disadvantages of this recipe:** The new organization may lack capacity and legitimacy early on, and when the founding organization's informal influence persists it may create ambiguous accountability structures.
- **Examples Type 4:** PoH, Safe, Gitcoin



RECIPE 5: THE CROWDFUNDED E2C

In this E2C strategy, the community is made up of people who originally crowdfunded a technology project. Usually, the crowdfund happens some time before the E2C. After the crowdfunding, the project is built out and grown by a founder-led organization. Once the project has reached a certain level of maturity, the founding organization and team transitions control over the project to people who participated in funding the endeavour.

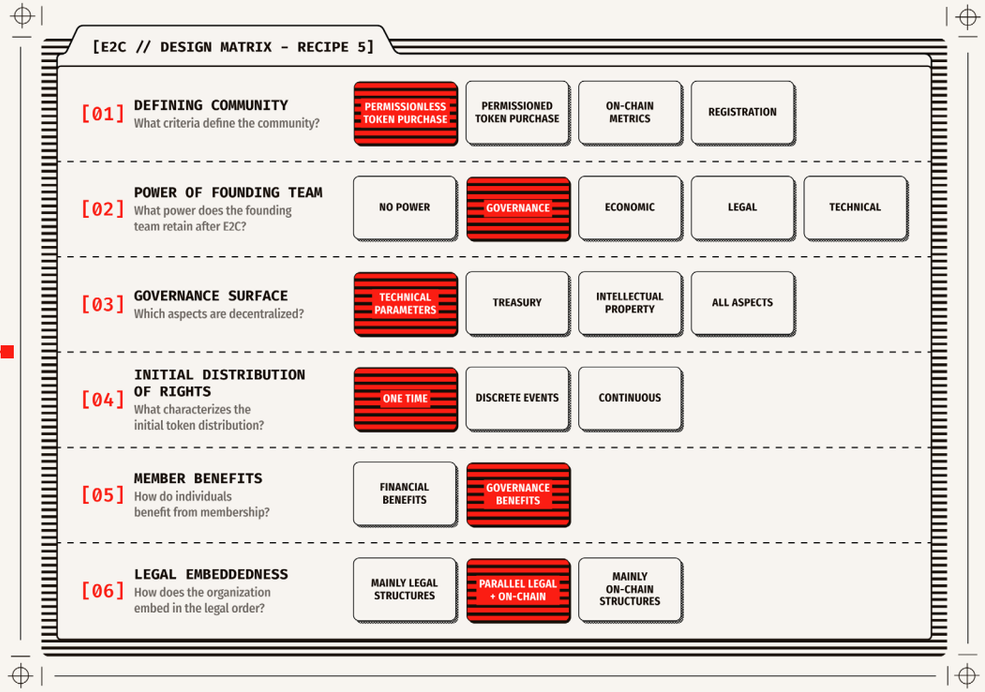
Consequently, the defining characteristic of this E2C strategy is that the community is defined as the group of people who financially invested in the project's development.

The transition usually takes place as a one-time event and focuses on granting governance rights over technical parameters to the community of investors. Depending on the type of project, the transition may also include financial benefits for the community, for example if the founding organization seeds a treasury, or if membership entails eligibility to profit distributions. Throughout this type of E2C, the founding organization retains a relatively strong role. Usually it still holds some sort of governance power (formal and informal), continues to be the project's main technology vendor, and retains legal rights to the project. Given this strong continued presence of the founding organization, this type of E2C relies on parallel legal and on-chain structures for governance.

[RECIPE_05 // TLDR]

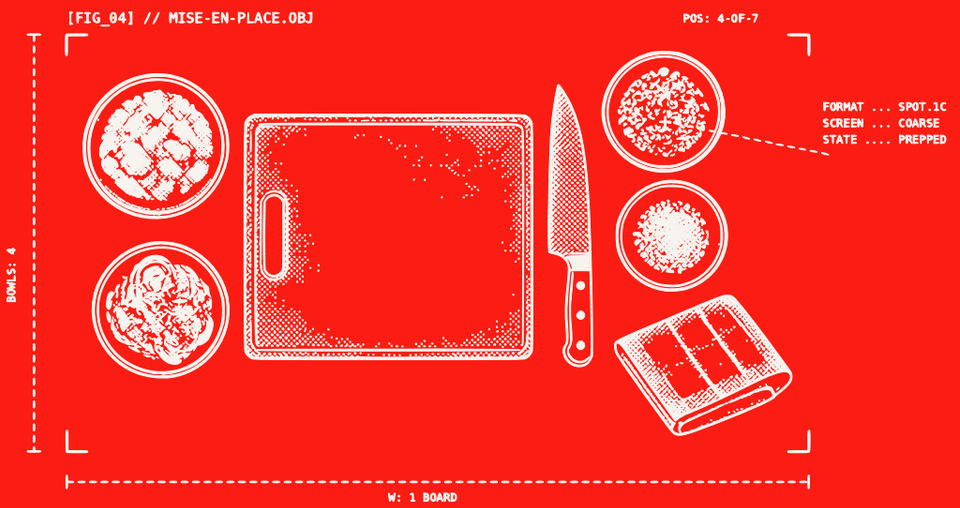
For projects launched via ICO or crowdfund. Crowdfunding participants gain governance power via governance token distribution at a later stage of the project. Legal entities (Labs, Foundations, etc) still present in ecosystem.

- **Advantages of this recipe:** Honors early financial supporters and fulfills (implicit) promises made at the project's inception.
- **Disadvantages of this recipe:** Crowdfunder community may be fragmented, absent or predominantly financially motivated, leading to low governance participation.
- **Examples Type 5:** AAVE, DCL



[CH_04] // PREPARATION.DIR

4_PREPARATION



[README.MD]

Gives an overview of practical steps to prepare for implementing your E2C recipe. Learn about the core ingredients required for any E2C and what it means to assemble the chefs and set-up the kitchen to start implementing. These suggestions apply to all recipes.

[TREE] // 2 ENTRIES

├── E2CS-CORE-INGREDIENTS.MD
└── PREPARING-THE-KITCHEN-AND-ASSEMBLING-THE-CHEFS.MD

In this section we move towards more practical considerations for individuals and projects planning an E2C. Just like most recipes require a pan, pot, stove, and trip to the supermarket, E2Cs require some upfront considerations and basic tools - regardless of the strategy you're cooking up.

Part one of this section turns to the two key ingredients that every E2C needs: community and an asset to be governed. Our salt and pepper, if you will. The second part turns to the different tools that may come in handy when planning and executing your E2C.

4.1. E2C'S CORE INGREDIENTS

Any E2C strategy requires two basic ingredients: a community and an asset that needs to be governed. Without these two ingredients, you may be cooking something, but it's not an E2C. In this section we describe what we mean by 'community' and 'asset' in more detail. We also provide pointers and questions that can help you better understand the type of community and asset you are dealing with.

Community

Community is a notoriously tricky term to define, especially in predominantly virtual environments such as the blockchain industry. In the context at hand, a community can be made up of:

- The people who contribute labor to a project. Think of founders, employees and contractors. This can also include people who have contributed labor in the past.

- The people who contribute services within the

platform or protocol, thus contributing to its value. This is equivalent to offering rides on Uber. In the blockchain context, it might include block producers, liquidity providers or staking tokens for security. Again, this may also include people who have contributed services in the past.

- The project's users, past and present - often focussed especially on recurring users.

- The communities of other, aligned projects in the blockchain industry.

It is important to note that communities are not primarily defined by speculative financial relationships. Instead, each stakeholder group within a project's community has a functional relationship to the project. As such, stakeholders have reason to care about the project beyond speculative interests: employees might enjoy their work and team, service providers may require the additional income their activities generate and take pride in their ecosystem role. Users may care about the project's existence to achieve their own goals and the communities of aligned projects might want to see complementary infrastructures succeed together.

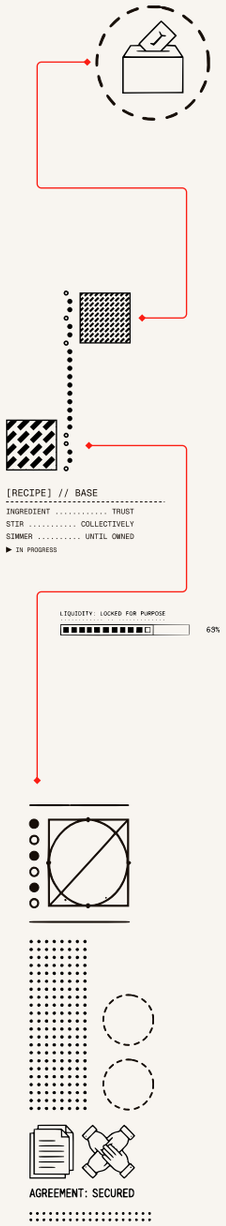
The most important thing before planning an E2C is to make sure you actually have a community. So ask yourself: has your project attracted a substantial group of people who care about seeing it succeed?

Despite the common denominator that communities are made up of stakeholders whose care for a project goes beyond speculative financial interests, communities come in very different shapes and sizes; both externally and internally. Externally, one community may be made up predominantly of people who contribute labor and services, while in another community, the users may greatly outnumber its contributors. Internally, communities can also be very heterogenous. For example, while a project's employees may be mostly English speaking women, working as developers and based in Europe, its user community may be made up of mostly Spanish speaking men who care about the social impact focus of the project and are based across South America.

In this example, any infrastructure for community participation will need to be set-up to accommodate both English and Spanish speakers. Community calls will likely need to take into consideration different time zones. There might also be a need to ensure that translation and interconnection between both groups is purposefully advanced. Furthermore, by understanding the specific diversity of their communities, E2C leaders will be able to better anticipate the likelihood for disagreement and conflict to emerge.

Consequently, before planning an E2C, it is important for founders and E2C leaders to familiarize themselves with the makeup of their communities. Ask yourself: Who is the project's community? What different relationships to the project do different stakeholder groups have? What is each stakeholder group like? What is their language, culture, values and skillset? Where do different stakeholder groups within the community converge? Where are they likely to disagree?

Depending on how E2C leadership teams answer these questions, they may need to set up different infrastructures for the transition and beyond. We discuss some of these infrastructures and tooling choices in section 4.2.



Asset

The second core ingredient required for any E2C is an asset worth exiting to community. In the context of the blockchain industry this might be a treasury, a protocol or a dApp. The crux here is that this asset is actually valuable. An E2C should not primarily be a way to make quick money for the founding team. This is important given the prevalence of scams and rug pulls across the blockchain industry. E2C is about transitioning ownership and governance rights over something that is already valuable to the people who contributed to making that thing valuable in the first place and care about its existence in the future.

Here, value is often but not exclusively defined as financial value. For example, a protocol underpinning many smaller profitable organizations may be valuable without generating revenue itself. Or, access to a specific community may be valuable because it grants access to new ideas, proprietary data, influential individuals, or exclusive events. Yet, in most cases, a good indicator of the existence of a valuable asset is the fact that this asset generates financial value in some way, i.e. revenue. To understand if you have an asset worth exiting to community, E2C leadership teams should ask themselves: does 'the thing' we want to E2C generate revenue? What other benefits does it generate for the people who own and govern it?

4.2. PREPARING THE KITCHEN AND ASSEMBLING THE CHEFS

In this section we describe a few basic steps, resources and tools you can draw on to kick-start your E2C process, once you have established that you are dealing with a valuable asset and an existing community to whom you want to transition the ownership and governance of this asset.

Familiarize yourself with the E2C experience of others

Beyond this cookbook, a great place to get started is by familiarizing yourself with the experience of organizations who have conducted E2Cs. Understanding the strategy, tensions and outcomes in other organizations, can help you better plan your own process and anticipate potential issues earlier. To this end, we recommend:

- Resources provided by the Exit to Community Collective: **https://e2c.how/**
- Check out their case studies in particular. They include all cases analyzed throughout this cookbook, and many more
- The Exit to Community Primer, a booklet developed by MEDLab at the University of Colorado Boulder in collaboration with Zebras Unite and a cohort of E2C pioneering startups (not blockchain specific). **Find the booklet here.**

Establish a transition leadership team

Like any type of exit or big organizational restructuring, E2Cs are complex processes that require some form of leadership to steer the ship and stay on course when unexpected issues arise. Consequently, we recommend that any organization planning an E2C, sets up a transition leadership team.

Four aspects are important to keep in mind, when setting up the team:

1. **Commitment:** The team needs to be committed to the E2C and feel motivated in guiding the organization through it.

2. **Capacity:** The team needs to have the capacity to steward the E2C process. For this, it is important that members of the team have time to dedicate to managing the transition and access to resources (financial or in kind) to help them execute the plan.

3. **Representation:** The team needs representatives from different stakeholder groups that will be affected by the E2C. This requires understanding who your community is, which we describe in section 4.1. Ensure that different stakeholder groups, who make up your community, are represented in the transition leadership team. Keep in mind that you need to balance the ideal of broad representation with that of maintaining swift operations. In other words: the transition team should include different stakeholder representatives, while still being small enough to make decisions fast and adapt their strategy if needed.

4. **Legitimacy:** The team needs to hold legitimate authority throughout the transition. This type of authority is established if the broader community views the team as legitimate leaders. Important steps in this direction may include selecting individuals who are already highly trusted within the broader ecosystem to be part of the team. In other cases, there might also be a public application process to join the team. Regardless, it is generally wise to be transparent about the idea of conducting an E2C and the people who will be leading the transition.

Clarify the goals of your E2C

As the different E2C recipes outlined above indicate, E2Cs can be done for many different reasons, and with different goals in mind. In the blockchain industry, E2Cs represent a set of strategies to bring about governance decentralization. Yet, it is important to be specific in particular contexts and ensure the transition leadership has a very clear and unified answer to the question: governance decentralization, for what?

Typical goals that organizations in the blockchain industry pursue via an E2C are:

- Increase the robustness of the protocol
- Reduce centralized attack vectors
- Differentiate against centralized competitors
- Avoiding regulatory liability
- Honoring implicit / explicit promises to early contributors
- Attracting capital
- Other project specific goals

Create and assess the readiness to change within your organization

In E2C, timing matters. While external events may affect the timing of your transition in unexpected ways, it is important to build as much internal readiness to change before your E2C kicks off and as it evolves. Readiness to change is a concept from management sciences. In our context of E2Cs in the blockchain industry, an organization's

readiness to change comprises three aspects: (1) the motivation to implement more distributed community governance, (2) the capabilities of the organization to do so, and (3) context i.e. technology specific capabilities required for the change.

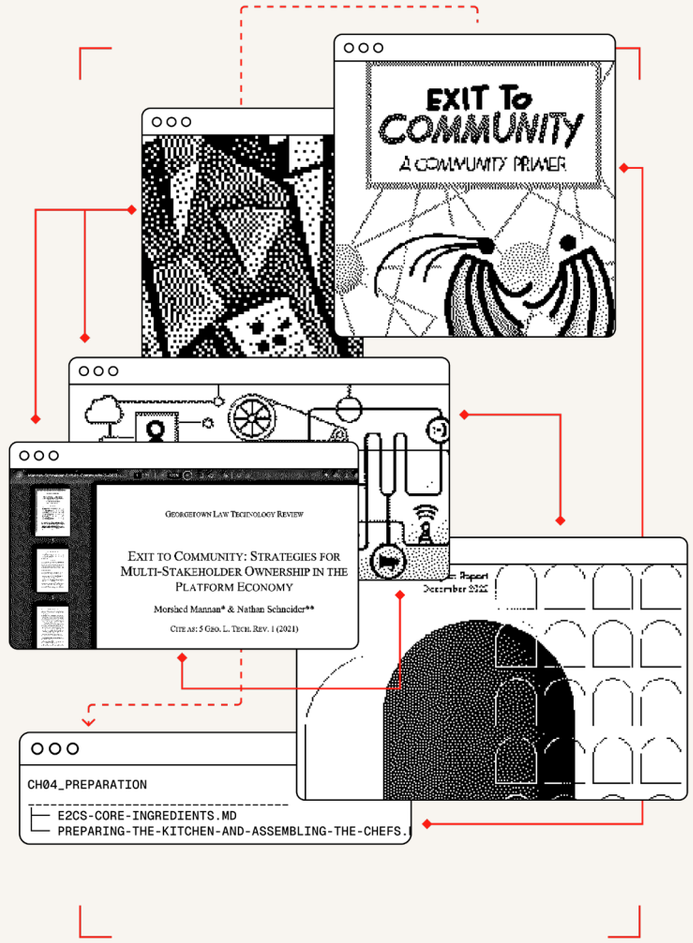
Readiness to change is not simply a metric that organizations need to evaluate for themselves from time to time, but a specific capacity that needs to be actively cultivated. In E2Cs, this is particularly important as the imminent change does not only affect a self-contained organization but a larger ecosystem of stakeholders, i.e. the community.

This means that both internal and external stakeholders need to participate in collectively building readiness to change by (1) aligning on their shared motivation to conduct an E2C, (2) ensure that both the organization and community have the capacity to manage the transition (think funding, education and activation initiatives, transparent bookkeeping, etc.), and (3) that the technology itself and technology development process is such that meaningful community stewardship are possible.

To both assess and build readiness to change for E2Cs in open-source contexts, it may be helpful to familiarize yourself with the **E2C calculator**. The tool is a simple questionnaire which should be taken together with other members from the transition leadership team. By comparing your results with others you will be able to determine:

- Are we on the same page regarding our motivation to E2C?
- Do we share the same assessment of our organizational capabilities?
- Do we share the same assessment of our technology specific capabilities?

Wherever the team has a high degree of disagreement, this indicates that more clarifying conversations need to be had or that internal capabilities need to be reassessed. Ideally, if you re-do the E2C calculator throughout your E2C journey, your transition leadership team should arrive at increasingly higher levels of convergence in their results, indicating that readiness to change is being built.



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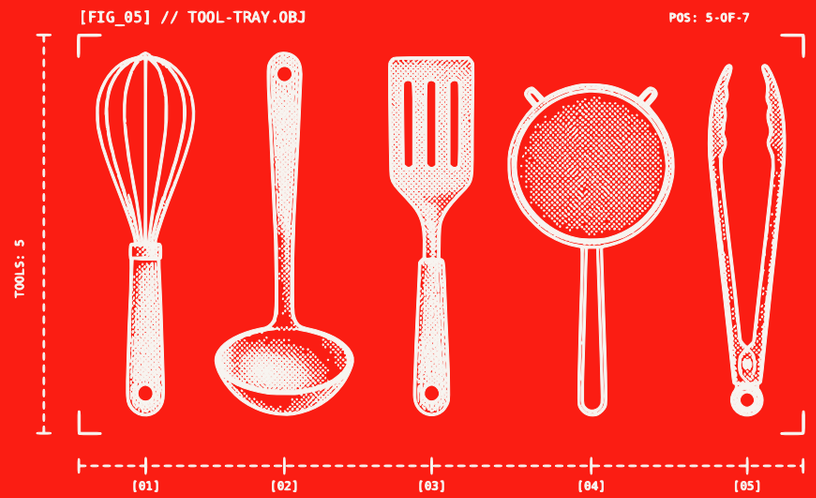
5_COOKING UTENSILS



[README.MD]

This section is an optional toolbox that you can draw on when implementing an E2C. It provides helpful frameworks, guides and tools that you can use to implement anything from on-chain governance design to a legal entity structure.

[TREE] // 3 ENTRIES

```
├── POST-E2C-GOVERNANCE-DESIGN.MD
├── ON-CHAIN-COMPONENTS.MD
└── OFF-CHAIN-COMPONENTS.MD
```

Two of the main tasks any transition team will face is designing and implementing a transition mechanism and a governance structure for the organization post-E2C. In this section we provide you with an incomplete list of tools and frameworks that will come in handy for these tasks.

POST-E2C GOVERNANCE DESIGN

One of the key things you'll need to grapple with is designing the community governance post E2C. Community governance will always consist of on-chain and off-chain governance. To familiarize yourself with different decentralized blockchain governance design approaches **The Blockchain Governance Toolkit** is a good starting point. Based on research of governance best practices from eleven leading blockchain projects and protocols, the Toolkit explains different trade-offs to consider when designing your post-E2C governance and high-level steps to implement different models.

Another great starting point is **Community Rule**, an interactive community governance toolkit that is not blockchain specific but gives a broad overview of tried and tested models of community governance setups that can be customized to specific needs. Once you have settled on a general approach, the following tools can be helpful to map out the details and move into implementation:

ON-CHAIN COMPONENTS

These are the aspects of your governance system that are implemented on-chain; think smart contracts and tokens. They are important components of the whole system but cannot be treated

in isolation or as superior to the off-chain components, which we discuss in the next section. You can find good arguments as to why an overreliance on on-chain components bears significant risks for projects in many places. We suggest reading Vitaliks blogs from **2017**, **2018** and **2021**, for concise descriptions. With these disclaimers out of the way, this section guides you through courses, tools and frameworks that may come in handy as you design and implement the on-chain components of your governance system.

1. **Courses:** While there's many free and paid courses available on the internet, the **Token Engineering Academy** remains a great place to learn relevant skills for designing and implementing token systems.

2. **Mechanisms:** **The Mechanism Institute's** library breaks down how individual on-chain governance mechanisms, that are mentioned in the toolkit, actually work and provides reference implementations. Especially consider the mechanisms presented in the categories 'governance', 'rewards and penalties', and 'data'.

3. **Implementation:** **OpenZeppelin** provides some open-source smart contracts that can be used to compose governance mechanisms and thereby build on-chain community governance systems.

4. **Frameworks:** If you do not need advanced customization and would like to use a more templatized, low code framework, there are many DAO platforms available. For example, **Aragon**, **DAOHaus** or **Juicebox** can help to set up simple DAO frameworks in minutes via their applications.

5. **Sanity check:** Designing on-chain governance mechanisms and tokens can be overwhelming. It can be helpful to return to some simple **sanity checks** throughout the design process. Before you transition, it is also essential that your technical governance stack is professionally audited. There are many established smart contract auditors in the industry.

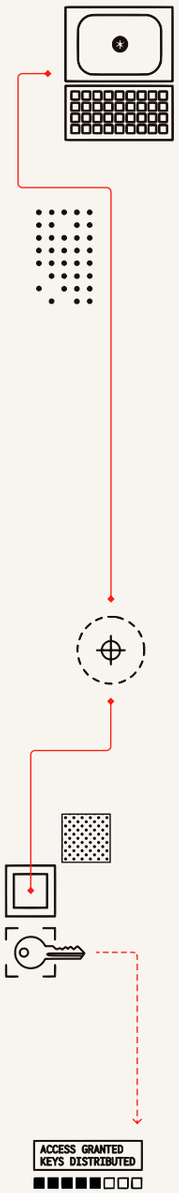
OFF-CHAIN COMPONENTS

These are the components of your governance system that are not implemented on-chain. While this includes many different aspects of a project and its governance, we focus on three key areas that need to be considered in all blockchain E2Cs: Anchoring purpose, deliberation infrastructure, and legal design.

1. Anchoring purpose

One of the great parts of E2C is that once it's done, the community gets to make important decisions! One of the scary parts about E2C is that once it's done, the community gets to make important decisions! Community decision making can feel like both a feature and a bug, especially to the early stewards of a project or organization. Constitutions are a tool to ground core values and rules. They ensure that the really essential bits are difficult (not impossible!) to change, even via governance. You can read more about the emergence of blockchain constitutionalism **here**.

By establishing a constitution during E2C, organizations can ensure that their core mission and values remain relevant and respected even after control over important parts of the project are transitioned to community governance. Consequently,



we recommend anchoring your governance design in a human readable, working constitution before you E2C. Metagov's **Constitutions of Web3** project includes a helpful guide on how to write a constitution, as does Chainscore Labs' guide **here**.

Ensuring that your constitution is enforced will depend on the **accountability protocols** put in place. A creative (albeit potentially risky) solution might be to set-up a **constitutional AI agent**, which is given the power to ensure that the constitution of the community cannot be amended due to, for instance, voter apathy (e.g., the AI agent has the power to pause the passage of a governance proposal until a quorum is reached and deliberation has taken place).

2. Deliberation and participation infrastructure

While on-chain mechanisms enable community members to vote via tokens and ensure that decisions are transparently registered on-chain and, if possible, enforced autonomously, off-chain deliberation and participation infrastructure includes all the interfaces and tools needed for a community to arrive at a vote. A lot of these processes require attention from your community.

Demanding too much attention or draining attention in the wrong places can lead to low participation rates and ultimately undermine efforts of effective community governance. Thus, when designing an organization's deliberation and participation infrastructure, it is crucial to consider how this infrastructure is entangled with attention economies. **This paper** describes how others have grappled with the issue and provides 5 key questions that can help to ensure that your deliberation and participation infrastructure is designed with attention economies accounted for. While these considerations are important for the design of the system, we now turn to describing some more practical tools and approaches for implementation.

Typically, an organization's deliberation infrastructure involves:

Community communications tools: This is the community chat; think **Matrix**, **Discord**, or **Slack**. While not being determinative of your final choice, consider which communication tools your community already uses and if there would be considerable friction in shifting to another platform. The community chat is where people can ask questions, connect, brainstorm, and discuss relevant topics and context for the organization. The goal is not to make decisions per se but to seed good ideas, engage in critical discussions, share announcements and strengthen community bonds. From our case studies and the experience of other organizations doing E2C, several things are important when setting up a community communications infrastructure:

1. **Choose your platform wisely:** Depending on the size of your community, it is important to choose a chat platform that can accommodate large numbers without getting too chaotic. Furthermore, as membership grows, many proprietary platforms will demand higher subscription fees for people to join. To keep these costs low and your communications platform customizable, we recommend using open-source frameworks such as Matrix. When choosing a platform, it is also important to consider how easy it is for members to exit one platform and create a competing version. While exit is always possible in online environments, it is important

to avoid the fragmentation of deliberation spaces. Especially when parts of the community disagree with each other, it is more constructive to disagree in a shared space than across fragmented silos. As the case of Proof of Humanity showed, allowing too much fragmentation in times of conflict can harm community cohesion in the long term.

2. **(Legitimate) Moderation is key:** Another key aspect to keeping communities focussed is good moderation. Moderation is real work, so you might consider hiring a community manager to do this. Moderation can also be a major point of conflict, as **moderators wield vast powers** in online communication spaces. Thus, in determining moderators for your communications spaces, it is important that they are trusted by the community and considered to hold this power in a legitimate way. To this end, it might be useful to consider having elected moderators or rotating the role among a group of people from time to time. Also, make sure that moderation happens in all the main languages spoken in your community to keep it inclusive. This may require the use of (automated) translation tools.

Proposal deliberation tools: this is the place where community members deliberate governance proposals. In most of our case studies, organizations hosted online forums where governance proposals are posted, discussed via comments, updated via a transparent versioning system and put to a vote after a predetermined time or soft-consensus seems to exist. There are many free and open-source frameworks that can be used to set up a forum website, like **Flarum** or **MyBB**. There are also more full fledged solutions that combine deliberation infrastructure with decision making mechanisms such as **Loomio** or **Decidim** (geared more at citizen participation). Although these applications are not on-chain, they can be very useful for community decision making processes that do not require on-chain voting, or where it's okay to anchor the result of a governance process on-chain later.

3. Legal design

Exit to community is not only a technical or social process, it is also a legal one. Once the decision has been made to exit to community, the question of choosing an appropriate legal entity for the community may become of paramount importance. We emphasise may because in the blockchain industry there are communities that do not wish to interact with the off-chain legal system (e.g., to help preserve the anonymity of community members)—which the choice of a legal entity will naturally require. However, using a legal entity can both enable the community to take certain actions and defend the community from certain risks. We are not your lawyers, and the discussion below is not intended as legal advice, but rather to provide you with a headstart in evaluating the need for a legal entity for your community.

1. **Legal Personality:** The legal entities discussed below have legal personality, which means that they can legally own assets (e.g., intellectual property, digital assets) in their own name, thereby disentangling these assets from the assets and debts of individual community members. Legal personality means that these entities can enter into contracts (including ones relating to financing or owning real world assets) and be parties to a lawsuit in their own name. This would mean that the entity is also subject to separate tax liabilities from community members.

2. **Limited Liability:** Another important feature that these legal entities have is limited liability, which means that the liabilities of the community members are limited to the amount they have invested in the legal entity and the creditors of the legal entity cannot generally pursue individual personal claims against community members. This is an important feature as without it, community members would be jointly and severally liable for the debts and wrongdoings of the community. On this latter issue of joint and several liability in the context of DAOs, **see this chapter**. Together, these features give community members greater confidence to invest in the community and enable them to manage their risks more effectively.

3. **Choosing between Legal Entities:** There are a number of considerations to take into account when choosing between the range of legal entities available for your community. Firstly, it is necessary to consider if the community wishes to operate on a for-profit or non-profit basis going forward, or potentially even both—with different legal entities responsible for the for-profit and non-profit dimensions of the community's activities. Second, as discussed further below, it is necessary to consider if the community will issue one or more tokens and the rights attached to these tokens (e.g., governance rights, financial rights, utility rights, etc.). This is not only significant in terms of managing legal risks, but is also relevant for preserving community governance. Third, the on-chain governance of the community has to be integrated into the management and administration of the legal entity, with an appropriate balance between the management of the legal entity being able to take the decisions necessary to fulfil its purpose and the community being involved in key decisions. Fourth, a community may wish to use one legal entity to 'wrap' all of their activities, or they may wish to use multiple legal entities for various specific purposes (e.g., separating the legal entity responsible for token issuance from the legal entity that is responsible for community governance). There will be many instances in which it is legally advantageous to have multiple legal entities, and it thus becomes necessary to ensure the community ultimately remains in control.

a. **Foundations:** One popular legal entity option is the ownerless foundation, which can be set up in jurisdictions like Switzerland, Panama, and the Cayman Islands. The board of this foundation is typically given wide-ranging discretion to make decisions relating to the objectives of the foundation (e.g., managing a treasury, protocol development), but the constitutional documents of the foundation can require the board to make such decisions in the interest of the community as a whole. This may be appropriate for communities where there is a preference for more indirect forms of governance, although the constitutional documents of the foundation could include direct forms of community engagement (e.g., requiring the election of the foundation's board of directors).

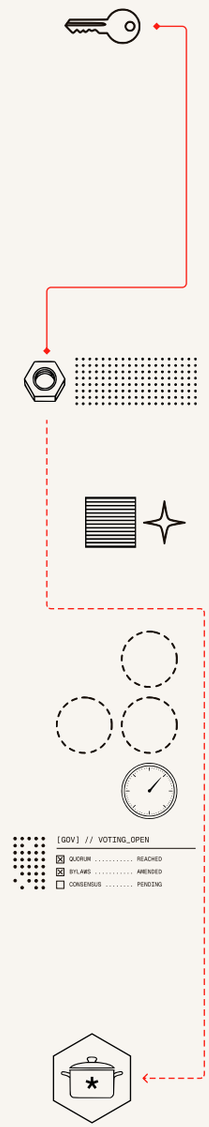
b. **Limited Liability Companies:** Limited liability companies, particularly in the Marshall Islands and the US state of Wyoming, have been popular choices for wrapping DAOs. Both of these jurisdictions have legislation specifically catered to DAOs (i.e., DAO LLCs), offering considerable flexibility in designing the governance of the LLC, including the design of highly-participatory governance systems involving both on-chain and off-chain elements. There are, however,

important differences. The Marshall Islands DAO LLC framework, for instance, specifically mentions that a governance token that does not confer "economic rights" will not be deemed to be an (unregistered) security under the law of the Marshall Islands (**52MIRCCh.7§703(2)(d)**). Wyoming's DAO LLC framework, in contrast, does not provide the same degree of certainty, with a **summary judgment** as recent as March 2026 indicating that membership interests in a Wyoming DAO LLC can be deemed to be an investment contract and hence qualify as an (unregistered) security. Nevertheless, the visibility and reputation of the US legal system and ecosystem for investors can still lead to communities wanting to use the Wyoming DAO LLC framework.

c. Non-profit entities: A community may wish to choose a legal entity because it can particularly facilitate non-profit purposes, whereby community members will receive no financial distributions from the legal entity. Instead, community members can receive "reasonable compensation" for their personal contributions to non-profit entities like the Marshall Islands non-profit DAO LLC and Wyoming Decentralized Unincorporated Nonprofit Association Act (DUNA). This may be particularly suitable for communities that wish to mainly reinvest revenue from their activities into the community itself. A non-profit DAO LLC formed in the Marshall Islands, for instance, allows the use of governance tokens and clarifies that their issuance, sale, or transfer to "its members or in advancing its non-profit purpose" will not be deemed to be (unregistered) securities (**52MIRCCh.7§703(2)(b)**). Wyoming's DUNA, while not specifically addressing US federal securities law, **seeks** to reduce the possibility of governance tokens being classified as (unregistered) securities by clarifying that profit cannot be distributed. Nevertheless, it remains to be seen if such a securities assessment holds and if courts deem compensation to members as being reasonable or not.

d. Cooperatives: A community may wish to choose a cooperative, such as a Colorado Limited Cooperative Association, as it can align the democratic orientation of a cooperative with a flexible governance structure that has both on-chain and off-chain elements. The governance of the Colorado LCA can be set up so that patron-members are distinct from investor-members—with restrictions on the voting power of the latter relatives to the former—and dividends can be tied to patronage of the community (e.g., participation, contributions) rather than pure financial investment. This can provide a third option between profit distribution based on investment and non-distribution of profits altogether.

e. DAO-specific entities: The COALA DAO Model Law charted a legal framework in which DAOs would be able to receive the privileges of legal personality and limited liability (among other things) if they took certain technical steps and introduced specific governance measures to address the policy goals underlying corporate registration and the appointment of registered agents. While no jurisdiction has adopted the COALA DAO Model Law's approach in its entirety, the US states of Utah and New Hampshire have drawn inspiration from the COALA DAO Model Law in designing DAO-specific legal frameworks that recognise the equivalence of a DAO to a domestic limited liability company, provided they meet a set of conditions (which, among other things, requires that these DAOs have a registered agent



in these jurisdictions). Nevertheless, both of these legal frameworks enable communities to benefit from legal personality, limited liability, and the extensive use of on-chain governance, provided they meet these formation requirements.

Ultimately, however, your choice of legal entity will not only depend on whether it enables community governance or not. The speed and costs of registering and maintaining the legal entity will be key considerations, as will be the tax treatment of the legal entity, the accessibility of financing in a given jurisdiction, and the reputation of the legal system in which the legal entity is formed.

4. Protecting Community Governance

Once a legal entity has been selected, a number of steps need to be taken to preserve community governance. Given the flexibility of several of the legal entities outlined above, these requirements and guardrails can usually be included in the entity's operating agreements/bylaws. You may consider including all or some of the requirements suggested here:

1. If there is delegated management in some form (e.g., board, council, stewardship committee, or equivalent), they should only be established where the community determines it serves operational needs. Indeed, the need for delegated management under a board structure may be one of the factors considered when choosing a legal entity. The composition, mandate, and continued existence of this body should remain subject to community recall and review. The community should retain ultimate authority over such 'delegates' at all times.

2. It should be possible to obtain membership of the legal entity in a number of ways, including through active participation, contribution of labour or skills, peer nomination, or demonstrated alignment with community purpose. In short, membership should not be restricted to or contingent upon capital investment alone.

3. To help prevent the capture of the community by wealthy investors, there should be a separation between governance rights and financial rights in a legal entity, potentially by having two or more classes of membership (and thus two or more classes of tokens distributed).

4. Where investor and non-investor/patron membership classes are created within a legal entity, the aggregate voting power of investor members shall at all times remain subordinate to the aggregate voting power of non-investor members. Restructuring, business sales, and other major corporate transactions should require supermajority approval by non-investor members as a distinct category of voter, even if investor-members are given voting powers.

5. Where possible, governance tokens should be non-transferable, or governance rights should be separated from transferable economic tokens.

6. The rights attached to a governance token may be delegated to third parties outside of the community, subject to the constraints mentioned here and pursuant to best practices regarding delegation (see **here**, for instance).

7. The rights attached to other tokens should be capped at a defined ceiling (e.g., 5%) and, where possible, calculated proportionally to a holder's

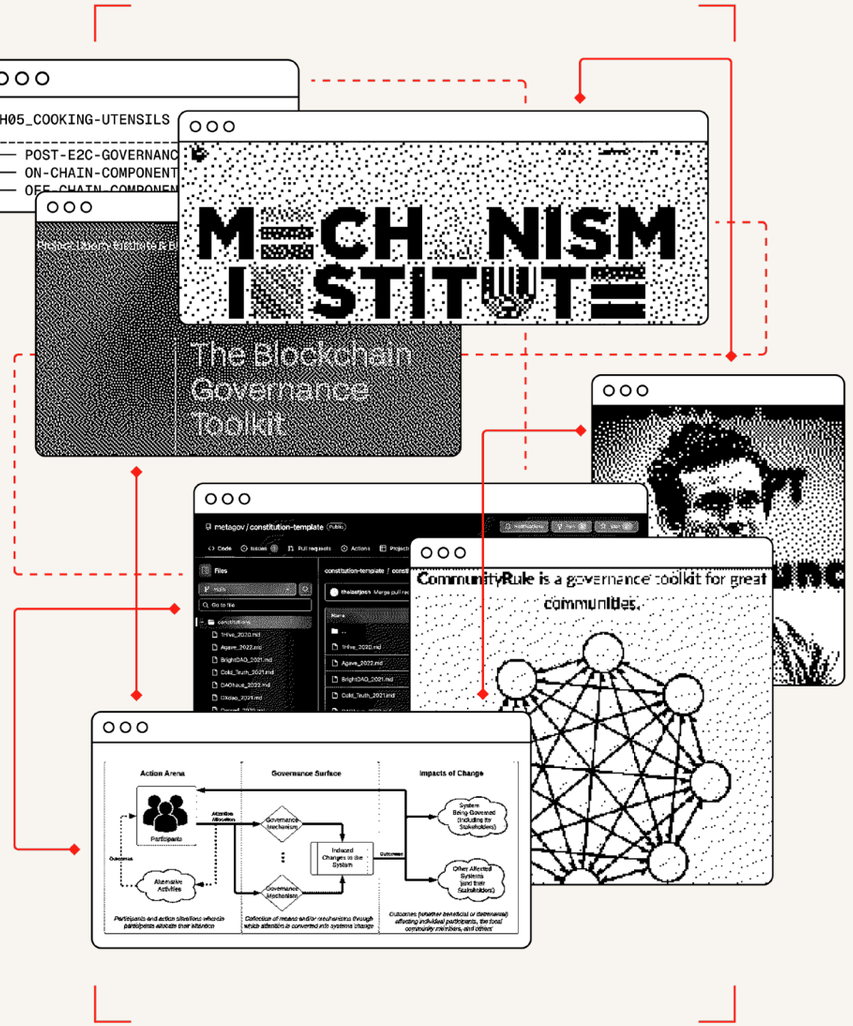
patronage of, or contribution to, the community's activities, rather than to the size of their capital contribution. This will align financial incentives with community engagement rather than passive ownership.

8. Certain categories of high-stake decision, including changes to the membership structure, amendments to core governance documents, dissolution, asset transfers, token issuance, should automatically trigger escalation to broad-based community participation, requiring higher quorum thresholds and extended deliberation periods. In some cases, supermajority voting requirements may also be appropriate.

9. Community assets should be subject to a permanent asset lock. Upon dissolution, residual assets of the legal entity should be transferred to organisations of a comparable community-owned or mission-aligned nature, rather than distributed to founding members or investors. This provision should be irrevocable.

10. The governance of the legal entity should be subordinated to community governance. For instance, any conflict between on-chain governance votes/decisions and actions or decisions by the board/representative of a legal entity should be resolved in favour of the on-chain governance vote/decision to extent legally possible.

11. There should be appropriate indemnification of legal representatives, administrators, and directors (where applicable) from community funds so as to encourage community members to put themselves forward for such roles when needed, thereby taming fears of ruinous personal financial liability arising from any missteps of the community. Appropriate insurances (D&O insurance or equivalent) should be explored too.



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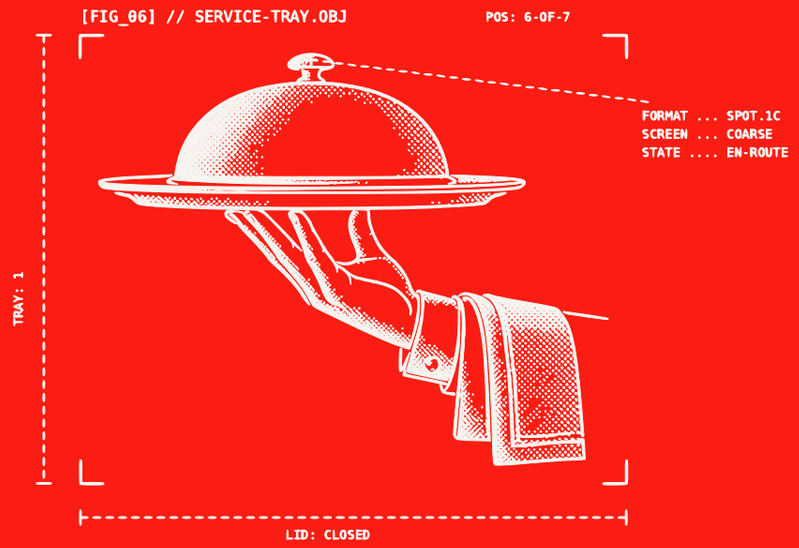


[README.MD]

Learn how to track your E2C progress and evaluate the outcomes of your strategy. We provide an overview of approaches, frameworks and metrics that you can use to assess if you're moving in the right direction and re-calibrate where necessary.

[TREE] // 3 ENTRIES

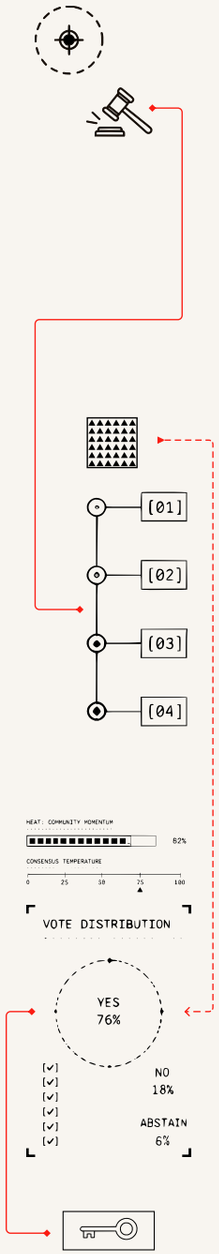
As we discussed at the beginning of this cookbook, like any other organizational strategy, E2C is a pathway to achieve organizational goals. While different organizations may pursue different secondary goals via their E2C (like growing their community, strengthening the robustness of their protocols, or differentiating against centralized competitors), underlying all this is the key objective to decentralize governance.

During and after your E2C, it is crucial to put measures in place to evaluate if this progress towards this objective is being made. In this section we point to several tools and frameworks that can help to evaluate whether you're moving into the right direction.

1. MEASURE YOUR DECENTRALIZATION PROGRESS

This is easier said than done. As we described in the introduction, governance decentralization means that a.) ownership and control of nodes themselves is also distributed widely, b.) all network nodes operate according to the same rules, and c.) no single party can unilaterally change the rules according to which the nodes operate. E2C is key to enabling a.) and c.). You can measure the impact in different ways.

a. The Nakamoto coefficient and other simple measures of decentralization: The Nakamoto coefficient is a simple benchmark that represents the minimum number of entities or stakeholders that collectively control more than 50% of the resources. These resources can be anything from hashrate, to staking power or token holding. For example, a Nakamoto coefficient of 5 means that



5 stakeholders collectively control more than 50% of resources. A Nakamoto coefficient of 500 means that 500 stakeholders need to coordinate to control more than 50% of the resources, making the project significantly more resistant to centralized control. To begin measuring the Nakamoto coefficient in your own project, it is important to first understand what resource is key to holding governance power. For example, is it hashrate, staking power or token holding? You can then use **this** python library to start using the Nakamoto coefficient in your project. While the Nakamoto coefficient is widely used to assess the decentralization of power in a blockchain project, there are various other simple indicators you can use to assess how difficult it would be for stakeholders to seize centralized control and assess if and to what extent your E2C is increasing this difficulty. **The Edinburgh Decentralization Index** describes these different approaches and provides frameworks on how to implement each. These approaches are great starting points but often do not account for soft power and different rights held by various governance bodies and entities within a system.

b. The concentration of power index in DAOs: This is a framework developed via an Optimism DAO grant, that measures the concentration of power in DAOs while explicitly accounting for the special rights held by various governance bodies within a given ecosystem. For example, it takes into account not only the distribution of voting power but also the fact that there may be special bodies such as a security council or oversight board that can exert increased influence in certain situations. As such, it is more nuanced than simple measures of decentralization like the Nakamoto coefficient. You can find a more detailed description of the concentration of power index in DAOs and how to implement it as a benchmarking tool in your own ecosystem **here**.

c. Invite external experts to help assess your progress and keep you accountable to your goals: The concentration of power tool was developed by an independent research team via an Optimism grant, with the goal for Optimism to have a framework that would help it evaluate its own trajectory. We encourage organizations that have the financial means to do so, to instigate similar research initiatives that can help them stay on course and simultaneously provide open-source tools for others in the ecosystem to use. While the concentration of power framework and nakamoto coefficient are useful approaches to assess how governance power is materially distributed in your ecosystem, it is also important to evaluate the ways that soft-power is or is not being decentralized throughout your E2C. To develop a more nuanced understanding of how your community is developing and grappling with its new role, and to identify challenges and potential solutions emerging within the ecosystem, it can be helpful to engage a qualitative, ethnographic research team. Such a team can help to surface 'unknown unknowns', i.e. dynamics, issues and blockers in your decentralization process that you did not and could not anticipate from the outset. An interesting example of the value of such work can be found here.

d. Legal assessments: Regulators have come up with their own assessment criteria to assess the degree of decentralization in blockchain organizations (for example, see **these six questions** that the SEC used to apply to determine the extent of decentralization in blockchain proj-

ects). In many cases (historically) being more decentralized gives projects certain advantages. If under certain legal assessments you move more towards decentralization, you may gain benefits (e.g. under MiCA). As the EU is a standard setter for digital laws (i.e., the 'Brussels effect') – even with the Trump administration not showing an interest in enforcing technical securities law violations – some communities may choose to treat MiCA compliance as a floor rather than a ceiling. This is what happened with data protection laws, with companies seeing compliance with the GDPR as a way of complying with multiple data protection regimes globally that either have the same standards/terms as the GDPR or weaker standards/terms. Amongst others, you can use existing **dashboards** and **reports** to monitor the regulatory situation facing your project.

2. ENSURE YOUR COMMUNITY OPERATIONS ARE SUSTAINABLE

As you E2C, more people will become involved in the project in different capacities. It is important to make sure their involvement and engagement is sustainable over time. Sustainability means that community members have both the knowledge and skills to advance the project meaningfully and also that measures are in place that ensure that contributions are worthwhile and healthy for contributors.

Taken together, these measures ensure that the community, identified at the outset of your E2C, continues to care about the asset and organization in question. To this end, we recommend two key measures, although many others may be valuable depending on the specific context.

a. Education and Capacity building: When it comes to sustainable community governance, a key challenge identified across various research initiatives is the issue of onboarding. Often, as projects decentralize, it becomes difficult for new people to understand how to join the community, participate in decision making and begin contributing to the project in other ways. To keep community membership accessible and ensure that new members have sufficient context to participate productively several aspects are key.

- Ensure your mission and values are clearly communicated internally and externally.

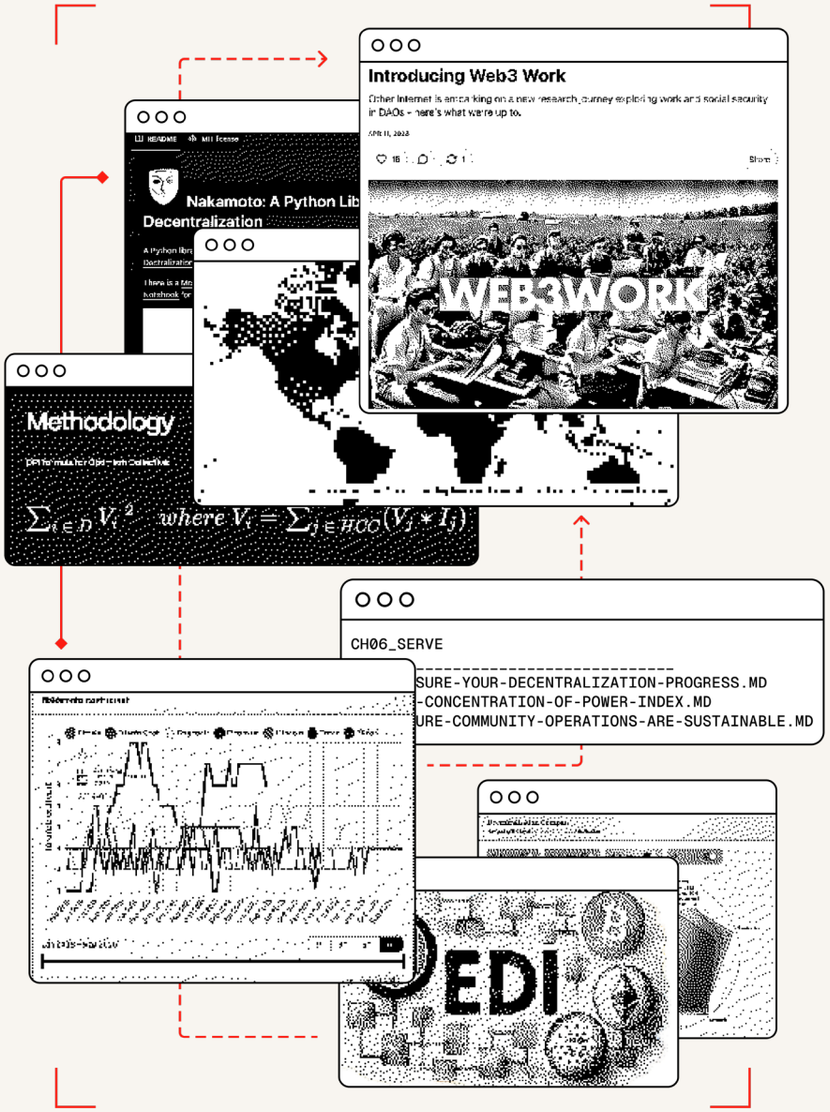
- Ensure your project and processes are documented in a transparent and accessible manner.

- Consider creating dedicated onboarding programmes for new members. Ideally this programme helps members to connect with others, educates individuals about the project, its culture and its aims, and builds capacity for people to start contributing in a meaningful way. While there isn't one perfect way to run such programmes, you can take inspiration from **this initiative** here and their **reflections** on the programme.

b. Contributor wellbeing: Depending on how you exit to community, new people who are not employees of the original organization may begin taking on important tasks related to your technology or ecosystem. We call these people contributors. If your project significantly depends on non-employee contributors, it is important to put measures in place that ensure

the wellbeing of these people. In cases where contributors are considered a form of labor (e.g. where contributors take on ongoing operational roles, previously held by employees) they require the same level of financial, psychological and legal security as formally registered employment entails.

This paper compiles various on-chain and off-chain mechanisms that you can implement by yourself or with others in the ecosystem, to increase contributor wellbeing.



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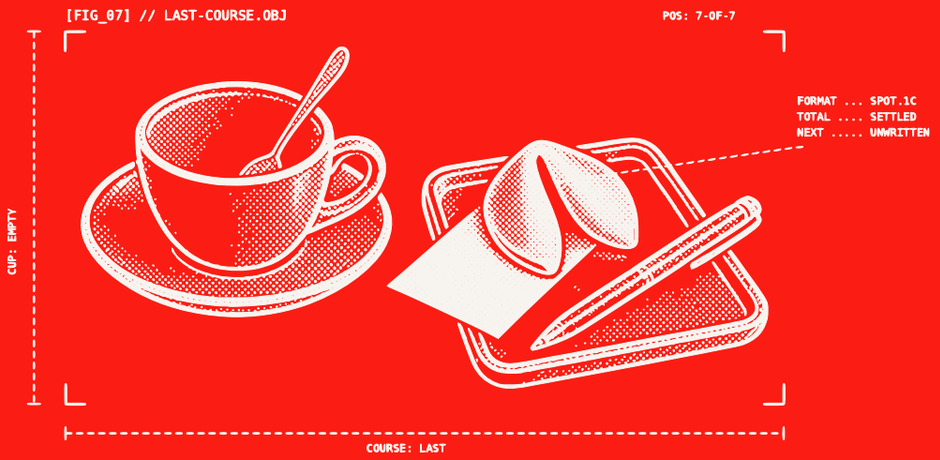


[README.MD]

Understand what fake flavors of E2C are, why it's hard to identify them early and how the blockchain ecosystem can protect itself against them as a whole.

[TREE] // 1 ENTRY

└── PROTECTING-AGAINST-FAKE-FLAVORS.MD

It has been our intention throughout this cookbook to guide projects towards genuine governance decentralization. Indeed, part of what motivated us to write this cookbook is that a lot of previous guides and experiments is what one might refer to as fake flavors of E2C, i.e. governance transitions and token airdrops that only shifted power in a nominal or superficial way.

The lack of substance of these transitions often became clear when founders were still able to crash token prices in a single tweet, or when founding organizations, multisig signers or large token holders were able to unilaterally enforce decisions against the will of the wider community.

Fake flavors of E2C usually pop up as a marketing strategy (decentralization-washing or theatre), a way to pump the token price (by increasing volume and trade activity, and thus the project's market cap), or as a regulatory arbitrage strategy (in the past, this was often done to avoid falling under securities regulation in the US).

Just like artificial flavors in food are not healthy for our bodies, fake flavors of E2C can undermine the vitality and values of the blockchain ecosystem. However, it is not always easy to identify fake flavors of E2C. They usually reveal themselves when something goes wrong, i.e. when a small group of actors is able to implement decisions against the will of the community or when the community is not able to execute and enforce its ideas.

Because it is difficult to identify fake flavors of E2C before something goes wrong, it is important to set the right incentives and guardrails upfront.

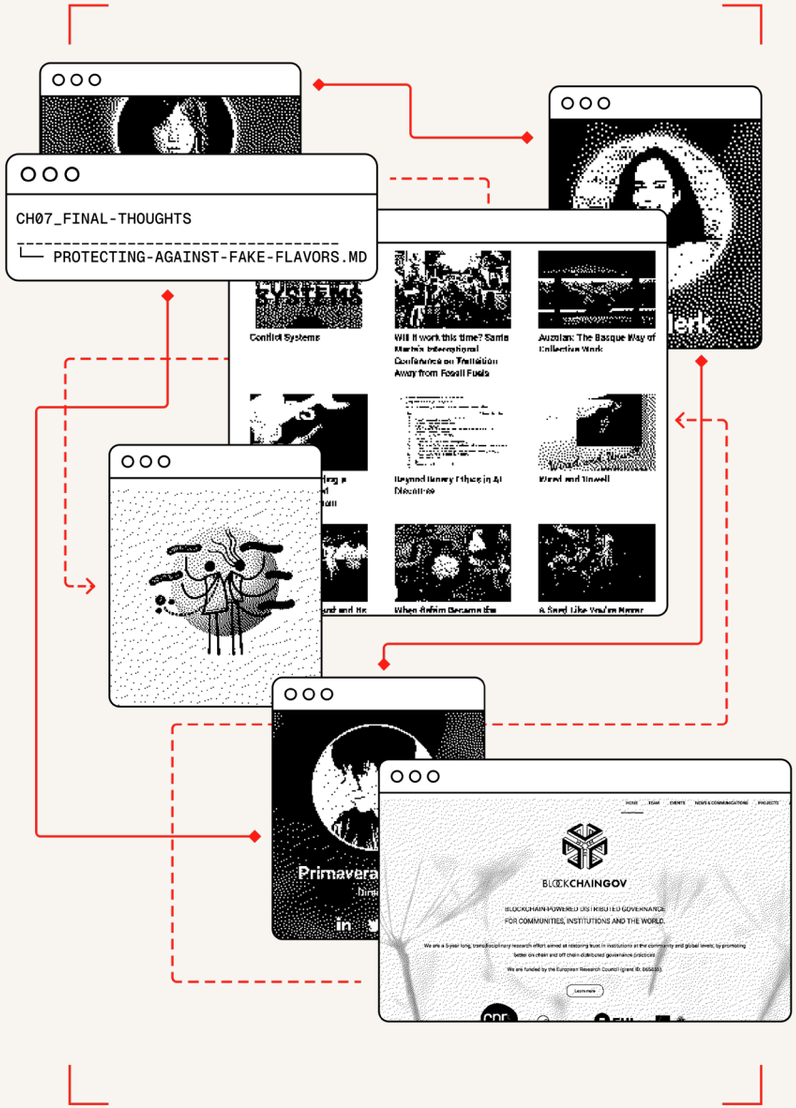
The first line of defense against fake flavors of E2C is simply the fact that founders actually want to decentralize governance and that their communities see enough value in the project to take on the burden. This in turn depends on how well the blockchain ecosystem does in stewarding and defending its original values.

It also depends on the strength of associated social norms which can support founders in taking pride in decentralizing their projects, the ecosystem rewarding genuine efforts and calling to account those that only pay lip service to decentralized governance.

The second line of defense is more concrete and involves supporting national regulations that enable, incentivize and support decentralized technology governance. The blockchain ecosystem has invested historic amounts to shape policy positions in the US and elsewhere.

While their efforts seem to be paying off in terms of more legal clarity for token launches, we call on these efforts to also consider advocating for laws that incentivize the genuine governance decentralization of blockchain projects and encourage moving away from centralized operators in the technology industry beyond blockchain.

Regulatory frameworks that incentivize genuine decentralization are beginning to emerge and should be supported.



[AUTHORS.MD]

Tara Merk

Tara Merk is a Postdoctoral Researcher at CNRS (Paris) and Associate Researcher at the Weizenbaum Institute (Berlin), as well as an ICDE Research Fellow. Her work examines “Exit to Community” strategies, cooperative data centers, and blockchain governance in the digital economy, and she contributes to the Metagovernance Project.

Primavera De Filippi

Primavera De Filippi is Research Director at CNRS (Paris) and Faculty Associate at the Berkman Klein Center for Internet & Society, Harvard University. Her scholarship addresses the legal and governance implications of blockchain technologies and artificial intelligence; she is co-author of Blockchain and the Law (Harvard University Press, 2018) and Blockchain Governance (MIT Press, 2024).

Morshed Mannan

Morshed Mannan is Lecturer in Global Law and Digital Technologies at Edinburgh Law School and holds a postdoctoral fellowship at the EUI BlockchainGov project. His research focuses on blockchain governance and cooperative governance in the platform economy; he is co-author of Blockchain Governance (MIT Press, 2024).

Nathan Schneider

Nathan Schneider is Associate Professor of Media Studies at the University of Colorado Boulder and Director of the Media Economies Design Lab. His research centers on platform cooperativism and democratic design for online governance; recent books include Governable Spaces (University of California Press, 2024) and Everything for Everyone (Bold Type Books, 2018).

[CONTRIBUTORS.MD]

Guilherme Maueler

Guilherme Maueler is a creative director and designer based in Berlin. His practice spans strategy, visual identity, and digital products, with a focus on freedom tech and community-driven projects. He designed and illustrated this book.

Lovisa Björna

Lovisa Björna is Head of Platform at BlockchainGov, an ERC-funded initiative on governance in decentralized systems. She also initiated and leads the Governance Module at Polkadot Blockchain Academy, bringing political and institutional perspectives into blockchain education.

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As part of this process, we would also like to thank members of the case study projects for reviewing our work. We would also like to thank the Exit to Community Collective for providing existing case studies for the development of this cookbook.

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APPENDIX: CASE STUDIES

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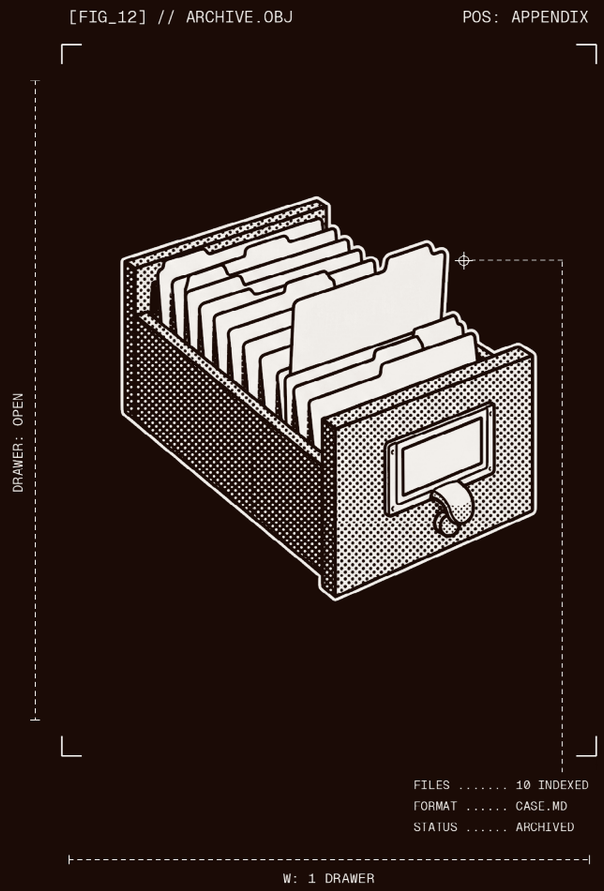

AAVE

■ Full case study with active links:
https://e2c.how/case-studies/aave/

Summary

Aave is a decentralized lending protocol that transitioned to community governance in 2020 via token-based voting. While initially successful, recent tensions between the DAO and Aave Labs over revenue control and brand ownership reveal how decentralization remains fragile - especially when founding teams retain control of key infrastructure like frontends, IP, and communication channels.

Motivation and Readiness

Aave has always aimed to be decentralized and already promised to move to DAO governance in the ETHLend whitepaper. As such, progressive decentralization has been part of the project's strategy since inception. In terms of readiness, Aave had been in development for over three years before granting its community governance rights via the Aave token. By this time, it had already established itself as a leading decentralized lending protocol. Furthermore, Aave's transition towards community governance needs to be understood in terms of its temporal context: the launch of Aave Governance V2 came amongst a boom of DAO transitions within the DeFi space at the time. As such, the transition can also be understood as a move to keep up with competitors as well as maintain the project's attractiveness and

legitimacy vis-a-vis the blockchain ecosystem and its users.

Process and Tensions

The process of transitioning to Aave Governance v2 went relatively smoothly at the time. The project also incentivized Aave users to stake their tokens to the project's security module, by rewarding them with more Aave (and thus voting power) for doing so. As such, the transition towards decentralized governance directly contributed to the protocol's security. Two years after the transition, Aave began entering the cross-chain decentralized lending space. To accommodate for the added complexity of governing a multi-chain ecosystem, the DAO adopted **Aave Governance V3** in 2023.

Tensions arose in late 2025, as the DAO and Aave Labs began renegotiating power arrangements between them publicly. The tension began over protocol revenues from decentralized exchanges being funnelled to Aave Labs, rather than the DAO. Aave has long integrated with decentralized exchanges, to allow users to swap different cryptocurrencies on Aave without leaving the application. Previously, this integration was done with ParaSwap, a specific decentralized exchange, which in return for Aave sending new customers its way, sent a portion of the fees it took per swap back to the Aave DAO. In early December 2025, Aave Labs announced a new partnership with CowSwap, who would be the new main decentralized exchange users would access when using Aave through the frontend application maintained by Aave Labs. Following this switch, the DAO quickly realized that it meant that referral fees (likely around $10 million per year) were now flowing to wallets controlled by Aave Labs, rather than the DAO treasury. This unilateral move by Aave Labs triggered a more **widespread (and very heated!) debate** within the community concerning the relationship between Aave Labs and the DAO. Several proposals were made by the DAO to transfer ownership over the project's IP and communications channels to the DAOs which could then contract Aave Labs with maintaining these assets. In turn Aave Labs argued that anyone was welcome to build a competing frontend to the protocol, and that these fees were generated by a product built on Aave, rather than the protocol itself and that Aave Labs therefor had the right to take these fees, which it proposed sharing with the DAO.

Nevertheless, following this episode, debates over ownership and control between the DAO and Aave Labs are ongoing in the ecosystem. Discontent was especially high, when Aave Labs pushed a **proposal** for the transfer of brand assets to the DAO, to a vote over the Christmas days and seemingly coordinated its own token holders to vote against it. The role of Stani Kulechov, who remains Aave Labs' CEO and recently published his own **vision** on how Aave will win in the long term (which does not make mention of decentralized governance and focuses on products instead), is especially contested. In the aftermath, several key DAO service providers have decided to leave the project.

Results

Although Aave Labs seems to have been successful in living up to its mission to decentralize the protocol over the first few years after activating V2

governance, the recent events show that decentralization remains vulnerable. It is vulnerable in the sense that the current setup still allowed Aave Labs to unilaterally re-route funds to its own address, and that the community lacks adequate enforcement mechanisms to prevent such behaviour from individual actors.

Aave's E2C outcome is also vulnerable in the sense that tensions triggered core service providers to exit, leaving the ecosystem dependent on single vendors (like Aave Labs) or more vulnerable to technical exploits. Three months after the conflict between Aave DAO and Aave Labs emerged, **the Aave Chan Initiative (ACI)**, a key governance group inside the DAO resigned. **Shortly after**, BDG Labs, a developer firm working on Aave v3 also stepped away from the protocol and Chaos Labs, a risk service provider followed. It remains to be seen, to what extent Aave's journey towards decentralization can be characterized as being successful or unsuccessful.

Sources

- **Project history and overview**
- **Blog post announcing V2 governance**
- **ETHLend whitepaper**
- **Background of EthLend ICO**
- **2026 governance drama at Aave**
- **Founders Master plan for Aave**

CIRCLESCOOP

- Full case study with active links:
https://e2c.how/case-studies/circlescoop/

Summary

Circles Coop was a German cooperative running a blockchain-based UBI pilot in Berlin, aiming to build a community-stewarded local economy. Despite successful community organizing and local market events, the project shut down in 2024 after running out of funds to subsidize business adoption. This demonstrated how financial sustainability can undermine even well-designed community governance experiments.

Motivation and Readiness

The core motivation underlying the wider Circles project is to showcase and advance the effectiveness of blockchain based universal income based on trust (in the form of a social graph of users vouching for each other in the system). Furthermore, many members of the Circles pluriverse (a term used within the ecosystem to describe the various organizations and stakeholders involved in the wider Circles project) were interested in practically advancing more equitable, anti- or post-capitalist economic models. Members included many early, idealistic blockchain adopters (including people working in the industry on projects such as MakerDAO or Consensys), which led to the technology becoming central to the Circles project.

After the initial launch of the CRC in October 2020, which was accompanied by several technical difficulties but also relatively fast adoption by cryptocurrency users (more than 20.000 accounts registered in the first week alone), Circles Coop e.G. was initially formed from members of the Basic Income Lab eV, who wanted a more democratic organizational structure going forward. The Circles Coop included people from the platform cooperativism ecosystem, activists and hackers from the peer-to-peer technology community. The pilot was launched with the intention to demonstrate the potential of a community stewarded local economy. To achieve this, of course the pilot had to be stewarded by local community. This constitutes the main motivation for the E2C.

Process and Tensions

The main tension in the roll out of community governance was the strong reliance on the subsidiary program. The subsidiary program aimed to incentivize more businesses to join the Circles ecosystem in Berlin by allowing them to exchange CRC for a fixed amount of Euros each month. The rationale behind the subsidy program was to enable businesses such as farmers and local producers to join the pilot without bearing the economic risk from accepting a new currency backed by novel, experimental technology. The funding for the subsidy programme came from Martin Koppelmann, who is listed as the project's initiator and is also the founder of Gnosis, a blockchain company based in Berlin. While the incentive worked to onboard various businesses, it unfortunately did not achieve the desired effect of creating a critical mass of closed loops within the Circles economy.

After almost three and a half years, the Circles Coop ultimately ran out of funds to continue the subsidiary program and sustain itself, thus leading to the Coop needing to shut down and end the Berlin pilot. Within the Coop Handbook, summarizing the activities and key learnings gathered by the Coop throughout its time, the financial stress that resulted from the need to continue providing subsidiaries without having a clear revenue model in place, is cited as a key factor contributing to the Coop continuously functioning in a 'state of emergency/ urgency' which limited the teams ability to conduct better long term and strategic planning. Underlying this tension was also the Coop's continued dependence on a single funder whose interests it had to cater to and which were difficult to reconcile with the interests of the members of the cooperative. As such, this case highlights the tensions that can arise for cooperatives from relying on external funding.

Results

The pilot succeeded at showcasing what community stewardship of local economies using blockchain based currency might look like, yet it failed to grow to the extent that the local economies would become financially self-sufficient. While the Circles Coop and with it the Berlin pilot closed down in January 2024, after subsidies ran out, the CRC infrastructure, built open-source on Gnosis chain, remains intact and will continue to be maintained by the Gnosis team. While Poetic Technologies UG, which was founded by Circles Coop members retains the **joincircles.com** website, all other project assets were transitioned to Gnosis. Gnosis has used these assets to create

an updated version of the project. The smart contracts were upgraded to support the Circles V2 (CRC) cryptocurrency and the wallet infrastructure is integrated in the Gnosis Wallet, which supports Circles V2.

Sources

- The Circles Coop Handbook
- Papadimitropoulos V and Perperidis G (2024) Universal basic income on blockchain: the case of circles UBI
- Website
- Whitepaper
- Circles Coop closing announcement
- Circles Coop final report

ENS

- Full case study with active links: https://e2c.how/case-studies/ens/

Summary

Ethereum Name Service (ENS) helps simplify public keys on the Ethereum blockchain. Public keys, which represent crypto transactions on a ledger, are long sequences of numbers and letters which, while unique and secure, are almost impossible to memorize. So, ENS offers the Ethereum equivalent of a domain name: a customizable phrase that is easier to remember and find than a full public key. Purchasing an NFT on **the ENS website** grants the ability to customize the key associated with your wallet address by creating a unique username ending in .eth. Founded in 2017, ENS is today used by over 300,000 accounts. In November 2021, a DAO was launched to decentralize governance of the protocol, and 25% of governance tokens were airdropped to existing active users. ENS is now collectively owned and stewarded by its DAO, **using tools** like Discourse forums to hold public discussions and voting interfaces like **Tally** to facilitate the creation and execution of proposals. While they have a DAO constitution, their **governance processes** are intended to be continually owned, modified, and enforced by the community.

Motivation and Readiness

After four years of development, ENS was initially controlled by a small set of people. However, in step with the values of decentralization and com-

munity governance often touted in Web3, the team wanted to decentralize control and management of the protocol to their community. So, in November 2021, the ENS DAO was launched, along with the ENS Foundation, established in the Cayman Islands to legally represent the DAO. By virtue of being built on the blockchain, it was possible for ENS to assess the users who had previously registered .eth domains and airdrop them governance tokens, enabling them to begin participating in the protocol's stewardship.

Process and Tensions

The ENS exit to community was done in a Web3-native way, through an airdrop of governance tokens. After deciding to opt for decentralized governance, the ENS team came up with an algorithm to fairly distribute 25% of the ENS token supply to active users. Because ENS is built on top of the Ethereum network, the team was able to take a snapshot of the wallet addresses of active users, and then create an interface allowing them to claim ENS governance tokens. As part of the claiming process, participants delegated their votes to active community members, and also voted on resolutions for the **ENS DAO Constitution**, which outlines the scope of legitimate actions for the DAO.

Results

The airdrop successfully put 25% of the token supply into the hands of ENS users. Many accounts claimed to have received token allocations through the airdrop worth over $20,000. After the initial distribution, the users ended up having more

control and power than the core contributors, who collectively received 18.96% of the token supply. As a result of the airdrop, the ENS DAO has created a way to self govern an integral part of Web3 infrastructure. Following its success, the airdrop model executed by ENS could become a standard way to decentralize services into collectively-owned and democratic networks.

Sources

- **ENS DAO Constitution**
- **ENS Docs: Governance process**
- **Tweet thread: ENS governance token airdrop, explained**

GITCOIN

- Full case study with active links:
https://e2c.how/case-studies/gitcoin/

Summary

Gitcoin is a platform for developers and creators to fund open source projects, particularly within the Ethereum ecosystem. Despite its name and its founding during the ICO boom in 2017, Gitcoin did not initially issue a coin or token, but was backed by the venture studio Consensys. In 2021 it spun out of Consensys with an $11.3 million investment round, which included a distribution of tokens to platform users. Since its exit, the goal has been to put the platform fully under the control of the token-governed GitcoinDAO, which follows a liquid democracy model based on stewardship.

Motivation and Readiness

With a culture deeply tied to a vision of decentralization, Gitcoin co-founder Kevin Owocki sought a strategy to develop his company itself. The company began to achieve success during the crypto market downturn following the 2017 boom, becoming the main clearinghouse for grants and gigs for developers of Ethereum-related infrastructure. As Gitcoin's success took hold, it became clear that it was ready to expand beyond Consensys.

Process and Tensions

During the crypto boom in 2021, Gitcoin raised an $11.3 million investment round that included the Ethereum Foundation, Paradigm, and others. Through this, it exited Consensys and launched the GTC token on the Ethereum blockchain. In a "retroactive airdrop," 15% of tokens were distributed to users who had donated or received funds on Gitcoin already, or who had participated in some other way. 50% of tokens went to the new GitcoinDAO, the token-governed entity intended to control the platform, and 35% went to the original company, Gitcoin Holdings, for distribution to founders, employees, and investors. The governance for GitcoinDAO was forked from the DeFi protocol Compound, centered on a "liquid democracy" model of delegating voting power to self-nominating "stewards." All of this was relatively new and little-tested, so there were many uncertainties in the process.

Results

The GTC governance token is traded on major crypto exchange platforms, and within a few days of launch it had reached a market capitalization of over $200 million — meaning over $30 million in value for the platform's early contributors. Gitcoin continues to progress toward developing day-to-day management and governance through GitcoinDAO and further decentralizing, moving from being a single platform towards a more widely-usable protocol.

Sources

- E2C conversation with founding team
- **Introducing gtcETH: A New Way to Fund Public Goods through Staked ETH - Gitcoin blog**
- **"Passing the Torch" blog post by Kevin Owocki**
- **Gitcoin on Crunchbase**

MAKERDAO / SKY

■ Full case study with active links:
https://e2c.how/case-studies/makerdao/

Summary

MakerDAO is best known for creating the decentralized DAI stablecoin. It introduced the MKR governance token and dissolved its Foundation in 2021 to achieve full community governance. However, founder Rune Christensen returned in 2024 to push the “Endgame Plan,” recentralizing before re-decentralizing into sub-DAOs. The case shows how E2C is rarely linear: projects may oscillate between centralization and decentralization based on efficiency needs.

Motivation and Readiness

The main motivation for MakerDAO’s E2C was to increase decentralization of the protocol and ecosystem. MakerDAO has always differentiated DAI as a decentralized stable coin, as opposed to centrally controlled competitors such as USDT (controlled by Tether Ltd.) or USDC (controlled by Circle, a publicly traded company). Decentralization here meant that rules on collateral backing the stable coin would be algorithmic and that decisions on how to change these rules would not be controlled by any single entity. Decentralization thereby also contributes towards DAI’s censorship resistance, i.e. making it harder to seize or freeze when held in non-custodial accounts. Consequently, dissolving the Maker Foundation and handing full control to the community has always been part of Maker’s vision and strategy.

By 2019, MakerDAO was well established in the broader blockchain industry, focussing on a clear use case (issuance of DAI) and with the protocol having been stress tested by various market shocks. As such, MakerDAO transitioned at a relatively mature stage of the project.

Process and Tensions

A core tension of the MakerDAO transition process is balancing decentralization with organizational and economic efficiency. After the dissolution of the Foundation Maker founder Rune Christensen became relatively absent from the project which was then operationally stewarded by Core Units based on decisions made by MKR token holders.

However, a little under two years later, Rune returned to propose **‘The Endgame Plan’**. This plan problematized the level of complexity of MakerDAO, with increasing voter apathy from MKR token holders, who didn’t feel like their voice in the project mattered anymore and had become disgruntled as to how much revenue Core Units were consuming. The Endgame Plan proposed to re-structure MakerDAO into a more minimalist ‘core DAO’, narrowly focused on core protocol functions. Autonomous sub-DAOs would then replace many Core Units to focus on smaller moonshot projects which the community had started incubating within MakerDAO. The plan was adopted via token governance and has resulted in a significant restructuring of the project and its recent rebrand to SKY (where DAI tokens became USDS and MKR tokens became SKY tokens).

Another centralizing force in MakerDAO is the issue of remaining OFAC compliant. To maintain compliance (i.e. being able to exclude actors blacklisted by OFAC from transacting within the system), usually a centralized entity is required. Yet, MakerDAO does not have a centralized entity to enforce requirements. To comply, the Endgame plan introduced an emergency kill-switch and the concept of a legal defense fund for the protocol. This requirement highlights external pressures shaping the E2C strategy of a project.

Results

Throughout the various iterations of its ongoing E2C, the project is clearly progressing on its goal of making DAI more decentralized. Nevertheless, the Maker ecosystem continues to grapple with the tension of balancing decentralization and efficiency as evidenced by the ongoing implementation of the Endgame plan. As part of this transition the community has adopted a provisional constitution and the SKY Atlas. The Atlas is an evolving set of foundational rules which the community anticipates will become unchangeable over time/ as they become perfected.

Sources

- **2017 whitepaper**
- **2019 multi-collateral whitepaper**
- **Sky protocol whitepaper**
- **Maker Foundation shuts down**
- **Presentation on how MakerDAO works**
- **Maker Constitution**
- **SKY Atlas**
- **Updates on Endgame plan transition**

OPTIMISM

- Full case study with active links:
https://e2c.how/case-studies/optimism/

Summary

Optimism is an Ethereum scaling solution that launched a bicameral governance system in 2022: a Token House (token-weighted) and Citizens House (one-person-one-vote), underpinned by a working constitution. After ongoing iterative governance experiments, Season 9 shifted strategic decision making and capital allocation back toward centralized operations via OP Labs. The case highlights the ongoing tension between decentralization ideals and competitive market pressures.

Motivation and Readiness

Optimism has advertised itself as a scaling solution to Ethereum that upholds the core protocol's security. To achieve this, the OP Stack itself cannot be stewarded centrally as this would increase the risk of a centralized operator arbitrarily changing aspects of the protocol. Consequently, decentralizing governance has always been part of Optimism's long term strategy. It is also the project's main motivation to conduct an E2C.

The project kicked off its transition in April 2022, when the Optimism Foundation launched the OP token shortly after OP Labs had raised a series B investment round of USD 150 million, and at a time when the network was leading the layer 2 scaling solution industry for Ethereum with significant

user traction and a production ready network. As such, its readiness to transition was likely relatively high.

Process and Tensions

E2C in Optimism is an ever changing and ongoing process. Since the launch of the Optimism Collective, the ecosystem has been iteratively adapting its governance and structure each 'season' (time periods similar to 'sprints' in agile workflows). The goal is to design a new system of platform governance that would result in a better product and a more sustainable business model. To monitor its progress, the Optimism Collective commissioned researchers to come up with the **Concentration of Power Index**.

Notable updates since have included specifying **milestones** for the ecosystem on its path towards decentralization and governance minimization, the transition towards the **'superchain'** narrative and strategy which sees Optimism as an ecosystem that encompasses all chains that are built using the technical OP stack and thus able to interoperate with each other, depend on unified governance as well as shared security and developer tooling. Although the superchain strategy was dropped again, the pivot illustrated that decentralizing governance pre-product-market-fit can be challenging as it requires re-aligning multistakeholder ecosystems when strategy changes.

Results

The current state of Optimism makes its internal tensions tangible: On the one hand, Optimism

is trying to simplify in order to balance decentralization and efficiency, on the other hand, the superchain strategy increases complexity but is deemed necessary to increase competitiveness in the increasingly crowded market of Ethereum scaling solutions. It remains to be seen, if and how these different objectives and tendencies can be balanced successfully within the ecosystem.

In its 9th season, Optimism **announced** it would switch away from community driven initiatives (i.e. members of the Token and Citizen House proposing initiatives or allocating funding), and instead focus on fostering stronger community accountability while the main strategy and operations are conducted through OP Labs. This switch positions Optimism more akin to a public company albeit with accountability to a different set of stakeholders and possibly using novel mechanisms to enforce this accountability.

Sources

- **OPerating manual**
- **Outlook OP Foundation 2026**
- **Optimism's decentralization milestones**
- **Optimism's working constitution**
- **Optimism Documentation**

PROOF OF HUMANITY

■ Full case study with active links:
https://e2c.how/case-studies/proof-of-humanity/

Summary

Proof of Humanity, a blockchain-based digital identity registry, launched as a one-person-one-vote DAO in 2021. Rapid growth brought diverse communities with conflicting visions for the project. Fragmented Telegram groups prevented effective deliberation. The DAO forked in 2022 after failing to reconcile differences, showing how democratic governance requires robust deliberation infrastructure.

Motivation and Readiness

PoH was transitioned into a DAO to experiment with the potential of a **one-person-one-vote DAO**, a relatively rare mechanism in the broader blockchain ecosystem. The move gave PoH a type of 'first mover advantage'. As the registry had only been launched a couple of months before being transitioned into a DAO, no real use case, beyond the distribution of UBI had been established or tested in the market. The early stage of transition likely contributed towards lower readiness.

Process and Tensions

The main tension throughout the transition was a lack of unified vision in the community and an incomplete governance design which hampered the community deliberation process and lacked

enforcement mechanisms. The transition was announced in a blog post and accompanied by the launch of a governance forum, the description of a very simple voting process (Humanity Improvement Proposals 'HIP's), and a Snapshot voting page connected to a Kleros Governor smart contract (anchoring votes on-chain).

Initially the DAO was set up to control the PoH smart contracts, the UBI smart contract and a 4.000.000 UBI treasury. The newly formed DAO was tasked with figuring out the rest, including which of the many potential **use cases** to prioritize. As the community rapidly grew, it swiftly began adopting several HIPs to build more comprehensive governance processes, such as clarifying how exactly HIPs would progress through different stages and instituting the Mission Board to implement decisions that could not be enforced automatically on-chain.

However, despite its growing sophistication, the governance process and set up was not able to accommodate for the widely different visions that different parts of the community had for the project. A crucial factor that seems to have contributed to this failure was the fact that the community relied on various different Telegram chat groups for its deliberation. Although there were 'official' channels set up by the project founders, the community disagreed about who should be the admin of these groups and contested actions of existing admins. Given the low cost of exit new, competing groups began to emerge at a high rate. This ultimately led to a fragmentation of discourses and hampered efforts to find compromise.

Another issue that became apparent in the setup of the Mission Board was the fact that the two founding organizations, DEF and Kleros, also held different opinions on where the project should go, which led to infighting and undermined the legitimacy and efficacy of the Mission Board itself. The fact that the UBI token lost most of its value within the first few months of the DAOs existence further contributed to tensions within its community.

Results

While PoH demonstrated that large-scale DAOs following a 1-person-1-vote principle are technically possible, the early transition and lack of supporting structures (especially for deliberation and decision enforcement) ultimately undermined the project's success. The PoH community decided to conduct a **'Peaceful Fork'** in November 2022. For this fork to come into effect, each side had to draw up and ratify a constitution outlining its vision and core values for the project. By voting for either of the constitutions, users could decide on which version of the protocol they would remain active. At the time of writing, only the PoH version supported by Kleros seems to remain active.

Sources

- **PoH launch announcement**
- **UBI launch announcement**
- **PoH DAO launch blog post**
- **Ethnographic research report on PoH's governance and crisis**

SONGADAO

- Full case study with active links:
https://e2c.how/case-studies/songadao/

Summary

Singer-songwriter Jonathan Mann has written and released a new track every single day since January 1st, 2009. The ongoing project, known as Song a Day, has earned him a Guinness World Record for the most consecutive days of songs recorded. However, this project is much more than one person's ambitious creative endeavor; it wouldn't be sustainable without **the financial support** of Mann's loyal fanbase. That's why Mann exited to his community of listeners by launching SongADAO, a registered Limited Cooperative Association. He has minted an NFT for every Song a Day release, and to become a member of the DAO, you must own at least one of these NFTs (as of writing, over 4,000 are currently available to purchase **on OpenSea**). SongADAO's members democratically own and govern "100% of the rights to – and revenue from – all Song A Day songs," according to **Mann's website**. It demonstrates how artists **can break the fourth wall** and expand their creative practice from individual to collective ownership.

Motivation and Readiness

Mann had developed an early interest in NFTs after coming across the CryptoPunks project in 2017, which sparked his curiosity around using blockchain technology to monetize and distribute music in new ways. After many years of creating a song

a day, Jonathan felt limited by how his fans and audience could interact with his songs. As NFTs became more widespread, this developed into a new idea: What if people could collect Jonathan's songs? What if a participatory community could be built around the project?

Process and Tensions

SongADAO is taking the decentralized, internet-native DAO formation and pairing it with a formal cooperative. In fact, SongADAO is officially a Colorado Limited Cooperative Association (LCA), which members can join by owning one Song A Day NFT. The group avoids some of the associated web3 challenges for sybil resistance by requiring members to confirm their identity through a service called Bright ID. The governance structure follows a one-person-one-vote format, because it's more democratic than token-weighted voting (which is characteristic of most DAOs). That's why membership of the DAO/cooperative is represented as an NFT rather than through a fungible ERC-20 token. There are also creative ways to earn membership, like participating in **challenges to create art every day for a month**.

Results

The unique model of selling an NFT of a song every day has been incredibly successful for a musician like Jonathan, as over 1,600 people now own a Song A Day NFT. According to the SongADAO website, the organization hopes to inspire other creators to replicate their model and new business models in music more broadly.

Sources

- **Song a Day website**
- **Song A Day YouTube Channel**
- **How to Make a Song Every Day and Turn it in to a DAO Cooperative: Interview with Jonathan Mann - The Blockchain Socialist**
- **Evolution of the Solopreneur - Metalabel**

UNISWAP

■ Full case study with active links:
https://e2c.how/case-studies/uniswap/

Summary

Uniswap is a free application for buying and selling cryptocurrencies. Compared to major exchange platforms like Binance and Coinbase, Uniswap is much more decentralized: users are incentivized to provide crypto they own to liquidity pools on the application, and the crypto is made available to other users who are interested in purchasing it. The trading fees on each crypto purchase via Uniswap go directly to **the original providers** of liquidity, whereas Binance and Coinbase have total control over their liquidity, and all trading fees go straight back to the platforms. Uniswap is also more decentralized in its ownership structure, which was established with an airdrop in 2020 that rewarded governance tokens to previous users. Finally, Uniswap is an open source protocol, meaning its code base is public, so anyone can see how it works. Like-minded developers who want to build their own exchange platforms from scratch can therefore "fork" the code and iterate on it as the basis for their own new projects.

Motivation and Readiness

In 2020, as the cryptocurrency market experienced a dramatic upturn and crypto became more widely traded among the general public, a number of exchanges – including major players like Coinbase and Binance – rose in popularity. However, these

centralized exchanges were seen by some as antithetical to the spirit of crypto, which embraces decentralization. Uniswap sought a more distributed model than its competitors by distributing governance tokens, called UNI tokens, to users. The motivation to distribute **UNI tokens** was to create "community-led growth, development, and self-sustainability" and enable "shared community ownership and a vibrant, diverse, and dedicated governance system, which will actively guide the protocol towards the future."

Process and Tensions

Uniswap performed an airdrop that rewarded past users, giving them voting power to make decisions about the future of the protocol. In September of 2020, Uniswap **announced** their governance token, UNI. This allowed anyone that had used the protocol up until that point to claim an airdrop of UNI tokens, which grant them voting power to govern and control the protocol. As part of this process, 60% of the UNI genesis supply would be allocated to Uniswap community members, 21.51% to team members, and 17.8% going to investors. A minimum of 400 UNI was airdropped to retroactively reward everyone who used the service (even once) prior to September, thereby giving control of the network to over 50,000 Ethereum addresses that had contributed to its value and success. However, while Uniswap's governance model is more decentralized than its competitors, it is ultimately based on token-weighted voting, and is not immune from developing concentrations of power.

Results

Uniswap has seen active and engaged community governance, with initiatives and conversations publicly visible on its **governance page**. In addition to governance, the UNI tokens are used to give grants as an incentive to help build the Uniswap ecosystem. In 2021, the **UNI Grants** program awarded 95 grants, totaling over $5.6M, funding projects ranging from liquidity management research to the development of new governance apps to Solidity bootcamps.

Sources

- **Governance | Uniswap**
- Other Internet Uniswap Research Report: Discord, Governance, Community

YEARN FINANCE

- Full case study with active links: **https://e2c.how/case-studies/yfi/**

Summary

Yearn Finance launched with a “fair launch” in 2020, distributing all governance tokens to users rather than reserving any for founder Andre Cronje. Despite formal decentralization, Cronje’s informal influence persisted; when he announced leaving DeFi in 2022, the token price crashed. The case illustrates how founder dependence can outlast formal ownership transitions.

Motivation and Readiness

Three key factors seem to have driven Yearn’s decision to distribute governance and ownership rights to its community. Firstly, as a decentralized finance project, the goal was always to be credibly decentralized. This required Cronje to cede control. Secondly, the project benefitted from the user influx created through the incentive of its new governance token. And third, YFI launched at a time where launching a governance token simply seemed to be the ‘thing to do’ within the blockchain industry.

It is difficult to make statements about the project’s readiness to transition. Cronje frequently stated that he had built the project for his personal use, that he was ‘testing in production’, that it was likely there would be bugs in the code and that anyone using the application would be doing

so at their own risk. As such, the intention was never for the software to be mature or 'ready' in any way. Instead, this narrative tried to encourage participation from individuals who were willing to take risks. This culture of 'living dangerously' is explicitly heralded in the Yearn Manifesto as something the community embraces.

Process and Tensions

A core tension throughout YFI's E2C is that despite its formal independence from Cronje, the founder still retains outsized informal influence. This became clear when Cronje's **announcement of leaving the DeFi** space in March 2022 sent the YFI token plummeting, despite the maturation of the ecosystem and the fact that Cronje had not worked on the project for over a year. This indicates that in the minds of many, Yearn continued to be connected to its founder. Furthermore, and perhaps unsurprisingly given the culture of 'living dangerously', the project has faced numerous **hacks** and crises over the past years. Finally, an interesting tension that arose shortly after community members acquired YFI tokens via the fair launch, they voted to halt token distribution, thus making YFI governance tokens a more scarce resource than initially envisioned.

Results

Through its E2C and evolution since 2020, Yearn has clearly progressed on becoming more decentralized as its community now handles major decisions and Cronje has since decoupled himself from the project and moved onto other projects (remaining in DeFi). Nevertheless, Yearn sees its

E2C as an ongoing process. Yearn Finance 3 **whitepaper** describes: "we've got a firm goal in mind: become a truly community driven Decentralized Finance platform (DeFi), where our investors can make their voices heard and the Yearn Finance 3 team just provides the foundations and a framework to create a real governance over the token YFI3." This indicates that Yearn understands its community as being one of investors, thus emphasizing the financial relationship that people have with the project rather than anything else.

In late 2025 the community also adopted a **proposal** for another governance overhaul which changed yTeams from being relatively independent, functionally organized squads, to becoming self-contained, revenue earning units. To receive a budget, these units have to justify their needs by showing their revenue on-chain. Maintenance work is kept minimal and constrained to tightly scoped, time-bound projects executed within the 'DAO Ops Team'. The new yTeams also mandatorily need to adopt a split contract to automatically allocate rewards amongst their contributors.

Sources

- **The Yearn blue pill**
- **About Andre Cronje**
- **YFI profile**
- **Yearn Governance 2.0**
- **YFI Governance overhaul proposal passed in 2025**
- **Yearn Finance 3 whitepaper**
- **Token-Centric Work Practices in Fluid Organizations: The Cases of Yearn and MakerDAO**

CHAPTER LINKS

Chapter 4 - Preparation

- Exit to Community Primer
  - https://www.colorado.edu/lab/medlab/sites/default/files/attached-files/exittocommunityprimer-web.pdf

- Exit to Community Calculator
  - https://medium.com/metagov/exit-to-community-calculators-a-framework-and-tool-to-help-organizations-assess-their-e2c-5fcbd006d227

Chapter 5 - Tools for cooking up your E2C

- Blockchain Governance Toolkit
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- CommunityRule governance toolkit
  - https://communityrule.info/

- Vitalik Buterin - Notes on Blockchain Governance (2017)
  - https://vitalik.eth.limo/general/2017/12/17/voting.html

- Vitalik Buterin - Moving Beyond Coin Voting Governance (2021)
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  - https://osf.io/download/cdrmp

- Matrix
  - https://matrix.org/

- Flarum
  - https://flarum.org/

- MyBB
  - https://mybb.com/

- Loomio
  - https://www.loomio.com/

- Decidim
  - https://decidim.org/