

Transparency Report March 2021

Period: October 1, 2020 to March 31, 2021

Introduction

The Algorand Foundation continues its commitment to the community to provide full transparency into our Algo flows, usage and holdings, including the changes over time and explanations of the Algo dynamics. Further analysis on Algo Dynamics will also be published in the forthcoming Algo Economic Evolution Report but key areas will be touched on in this Transparency Report.

This report covers a 6-month period, approximately one month less than the [previous transparency report](#), issued in October 2020 for the period February 11, 2020, to September 30, 2020.

The Foundation will publish the transparency reports on a semi-annual basis. Once Governance commences, the Foundation will begin to publish the transparency reports quarterly to ensure timely information, particularly in the context of the forthcoming Governance program, and to achieve reporting consistency and ease of period-to-period comparison.

The period covered in this report saw profound transformation in the Algorand Ecosystem and in the Foundation's organization. On December 9, we published the [Long Term Algo Dynamics](#) (LTAD) detailing our planned allocation of the Algos still held by the Foundation, aimed at rapid decentralization via the creation of an Innovation Fund, Institutional partnerships for Research and Social Good, the continuation of the Foundation Algo Grant Program, and a new approach to Protocol R&D.

Furthermore, inspired by an Algorand blog titled, '[A Proposal for Decentralizing Algorand Governance](#)' by our founder Silvio Micali, we touched on the goal of devolving the governance of these funds to the community through a Governance program allowing participants to vote on the most important decisions for the Ecosystem, including funding allocation via grants or partnerships. Since then, the Algo market cap has increased by a factor of 5, due to price increase, accelerated vesting, and other forms of Algo distribution. We have now published a final Governance proposal to be voted upon by the community, with the goal of starting the program in Q4, 2021. We also helped to improve the reporting of our circulating supply by different market info providers. We changed our approach to the custody of the community Algo funds we steward, by entrusting a large custodian with the creation of multilayer secure key management processes. This is a first step on a journey that will lead to moving control of our funds to smart contracts controlled by Governors' vote.

Equally importantly, we continued the execution of our large-scale ecosystem grant program to enable and accelerate the buildout of the infrastructure and applications on the Algorand blockchain.

As done in the past, we outline below the distribution of Algos to community players, our Algo holdings and their changes during this reporting period, as well as a forward-looking view about future Algo dynamics. Previous reports can be found [here](#), and the wallet addresses managed by the Foundation can be found [here](#).

Details of tokens entered into circulation by the Foundation

We first report the distribution of Algos by macro channels (Community Incentives, Ecosystem Development, Structured Selling, and Others) and by specific items within each channel, following a “financial flows statement” approach, listing Algo distribution for each category.

During the reporting period, 1.64B Algos have entered circulation through the following channels:

COMMUNITY INCENTIVES: 1.25B Algos

Algos have been distributed to the market in the form of rewards and incentives to different parts of the community.

Participation Rewards

Since mainnet launch, the primary form of rewards has been Participation Rewards. These are received by everyone holding Algos, proportional to their Algo stake. The amount distributed is regularly guided by the [LTAD](#) or other pages of our website. **Consistent with the published schedule, we have distributed 135.49M in Participation rewards during the reporting period.** This is slightly up from 124.7M distributed in the previous reporting period, that was one month longer than the current one, but the market capitalization has increased even faster. We expect a higher amount of rewards to be distributed in the forthcoming periods. Going forward, participation rewards will no longer be the only rewards open to all willing users. Governance rewards will be added by the end of this year, as we explain below in the section “Directions for future token Dynamics”.

Early Backers / Relay Nodes Vesting

The most significant source of Algo distribution during the reporting period has been the vesting of the Early Backer / Relay Node rewards. As explained in the LTAD, the vesting of these rewards as both an incentive for running relay nodes and a compensation for early support to the project, was an important element of inflation in the early days of the Algorand Blockchain. EIP-11252019AF was proposed as a reform based on input from the community, and approved with a blockchain vote by the Early Backers. This added some contingent rewards to the EB/RN vesting, and in return it spread the distribution from 2 years (with 50% vesting in the first year and the remaining 50% in the second year) to 5 years, with the following non-inflationary schedule, where

percentages refer to the originally allocated amount of 2.5B Algo, and sum up to 125% where 25% came from contingent rewards.

Year	2019	2020	2021	2022	2023	2024
Vesting %	14%	3%	8%	25%	35%	40%

This reporting period covers 3 months in 2020 and 3 months in 2021. **Consistent with this schedule, we distributed 64.68M Algo in base vesting during the reporting period.** The goal of this distribution was to make vesting happen only when the market cap was sufficiently large to absorb this supply without inflationary effects. Additionally, the EIP also contained a vesting acceleration mechanism, which, in the case that certain market conditions were reached, would accelerate the vesting of these tokens and bring forward the end date of the early backer program. The purpose of vesting acceleration was to make a faster distribution still possible, as an incentive to the EB/RN to agree to the contractual change, but only when the market conditions could allow it without inflationary effects. Consistently with the original purpose, there was a limited acceleration in 2020, and a much more significant acceleration in early 2021, when the Algo market cap was increasing quickly. **As a result of acceleration, we distributed an additional 1.003Bn Algo in accelerated vesting during the reporting period, for a total supply of 1.067Bn Algos due to vesting in this period.** This is significantly up from the 194M of the previous period, yet, the acceleration under the current market conditions had a fully sustainable effect, it advanced the end of the early backers program by one year (bringing the vesting budgeted for 2024 to zero), and increased strongly the decentralization of Algo holdings. Further analysis will be provided in the forthcoming Algo Economic Evolution Report.

Contingent Incentives

Contingent Incentives were established to enable to address unforeseen trends or needs that may have a negative effect on the growth of the ecosystem. All the previous uses of these rewards addressed the supply issues that emerged in the first months of the network and aligned the interest of participants to the community. The part of contingent rewards used to facilitate the EIP has already been covered in the previous section. **The only remaining part of contingent rewards relevant for this reporting period were 50M algos paid out as a semiannual tranche of the 200M Staking Program reward.**

ECOSYSTEM DEVELOPMENT: 348M Algos

Another crucial channel for Algo distribution is the outflows to facilitate the development of the platform and the growth of the ecosystem. We expect the relevance of this channel to grow significantly in the coming years as we implement the decentralization plan outlined in the LTAD plan.

Protocol Development and other R&D expenses

In the reporting period, 30M Algo was paid to Algorand Inc for its protocol R&D efforts for the 2nd half of 2020. This compares with past payments of 50.2M Algo for 2019 and 27.7M Algo for the first half of 2020 (paid in USDC). In order to replace these unpredictable flows with a predictable expense, to achieve a more advantageous annual cost for the next 8 years and to cement the ongoing commitment of the Algorand Inc. in

supporting the protocol, 300M Algo from the Fund for Protocol Development, R&D and Capital Markets has been transferred to Algorand Inc, based on agreement reached at the end of 2020. These 300M Algos will, from now on, be covered by Algorand Inc's transparency report, and will be visible in a public wallet. Expectation is that they will not leave the wallet in the short to medium term, in line with the LTAD 10-year plan. As a result, the Foundation will continue to work closely with Algorand Inc. to advance capabilities of the Algorand platform on this new basis, without any further bond or liability and while bringing more decentralization to the contributions in the advancement of the protocol.

Development and Ecosystem Grants and Awards

During the reporting period, **the Foundation also distributed 16.68M Algos as grants and awards to developers and companies as part of the Foundation Algo Grant Program.** Please note this amount represents only part of the total grant awarded as the Foundation paid the other part of the grants and awards in fiat currencies or stable coins.

The amount of Algos distributed in this reporting period is more than twice the amount distributed in the previous reporting period, consistent with the increasing maturity and reputation of our grant program. We expect the Ecosystem category of the Transparency report to grow significantly in the next few years due to the implementation of the decentralization plan explained in the [Long Term Algo Dynamics](#), through grants and awards but also through endowments to supporting partners and funds.

Ambassadors, and other forms of ecosystem promotion

A total of **1.17M Algos were distributed to Algorand Ambassadors and community and market partners** for their help in building global awareness and promoting the Algorand network.

OTHER DISTRIBUTION CHANNELS: 45.7M Algos

Algo Distribution through Structured Selling

During the reporting period, the Foundation has distributed 45.3M Algos via the structured selling program it has implemented since December 2019. The plan is executed through approved 3rd parties, with the following guidelines, also stated in the [Foundation's previous reports](#):

- *The seller only makes offers above market price, and doesn't sell into bids.*
- *Daily sales remain materially below a fixed amount set based on medium term volumes, and with the constraint of remaining below 5% of estimated real market volume on any given day.*
- *Automatic halting of sales if*
- *there is a 10% price drops within 24hrs*
- *the price goes below a fixed threshold set based on medium term market conditions*

Differently from the past, however, during the latest period the last guideline regarding a threshold to stop selling has been essentially ineffective, leaving only the fully algorithmic ones. In the future, we will make this channel of Algo distribution part of a larger general funding treasury strategy, for further details see the final section below. Also, in this reporting period the total amount of Algos sold has been reached by consistently selling approximately the same amount every day, since the maturity of the market, particularly in terms of volumes, made pauses or quantitative changes in sales happen more rarely.

Algos are distributed to the market by the Foundation to fund its operations, build the ecosystem and community, support research and development, and increase token circulation and decentralization. We present below how sales proceeds and algos have been used in achieving these objectives.

Board and Advisors Compensation

A total of 395,000 Algos were used as compensation for members of the Foundation's board of directors and advisors. This is up from 200,000 Algos in the last reporting period since board members and advisors have become more involved in the Foundation activity.

In Closing Statement

We conclude this transparency report by adding further information of interest for the community:

1. Providing further details on the usage of funding obtained by structured selling proceeds.
2. Providing, after the above classic "financial flows statement" view of the foundation activity, also a "balance-sheet" view updating the composition of our Algo funds.
3. Describing the fundamental directions for future Algo Dynamics that were already referenced above.

HOW SALES PROCEEDS ARE USED

We have already mentioned that part of the total grant awarded was paid in fiat currencies or stable coins, and that, beyond this, sales proceeds were used to fund operations, to support further efforts in building the ecosystem and community, and to support research and development. Here we provide some more precise figures.

1. Grants and awards in fiat or stablecoins: **USD 2.5M**
2. Marketing and other forms of ecosystem promotion in fiat or stablecoins: **USD 0.4M**
3. Daily operations, Staff costs, and other programs and fiat expenses: **USD 14.3M**

LONG TERM ALGO ALLOCATION, UPDATED

We also want to add a balance-sheet view updating the composition of our Algo funds, to be compared with the [LTAD tables](#) (where the different pools refer to the initial LTAD allocation).

Community Incentives

Participation Rewards (to become Governance Rewards)	1887.94M
Early Backers Relay Nodes*	328M
200M Staking Contingent Incentives	Completed
Contingent Incentives for the future	495.35M

*The Early Backer Relay Node pool includes an amount of Algos already vested but not yet claimed.

**The 200M Staking pool includes rewards not yet distributed because participants have not completed compliance.

Ecosystem Support

Innovation Fund	400 M
Foundation Algo Grant Program	212 M
Research and Social Good Program	200 M
Contingent Incentives for the future	406M

DIRECTIONS FOR FUTURE TOKEN DYNAMIC

In the above report we have already highlighted some of the important changes that are impacting our expected future distribution, and consequently the structure of future Transparency reporting.

1. Participation Rewards will stop growing in 2021 and will exist alongside Governor rewards, which will fully replace Participation Rewards by the end of 2022, as explained [here](#).
2. Future R&D with Algorand Inc support has been settled by the transfer of 300M Algos, cementing the collaboration with Algorand Inc for the next 8 years while terminating any further unpredictable obligation from the community or [Foundation funds](#). The 300M Algos will be part of Algorand Inc transparency report and visible in a public wallet.
3. The vesting of the Early Backer and Node Runner Rewards allocated before inception has been accelerated following the EIP, and the Foundation is already designing and testing a different program that will reward new or existing Relay Nodes (no matter if Early Backer or not) with transfers that will work as an economic incentive but of different (smaller) order of magnitude than the pre-inception program aimed at Early Backers. Details of the program will be forthcoming.
4. The Foundation funding structure is planned to evolve, diversifying structured distribution and sales with an active management of the Long Term Funding Treasury, that coincides with the 500M Algos endowment of the Foundation. This will bring a diversified and prudent risk and revenue management, including Algos for long term distribution, a share of crypto, fiat and commodity holdings, opportunities from DeFi and other forms of capital utilization. The management will be fully transparent.

5. The Decentralization and Ecosystem Development plan described in the LTAD is expected to increase the relative importance of transfers towards ecosystem programs and partners in the forthcoming years.

The Foundation is committed to building a more inclusive, organic ecosystem with broad community participation, while maintaining the security of the protocol over time. We are also committed to increasing the availability of tools and dashboards for transparent monitoring of Algo flows and statistics, beside the publication of regular transparency reports. Economic publications will continue to report, explain and describe the Foundation's Algo dynamics. For further details on the topics covered here, we will publish the aforementioned Algo Economic Evolution Report in the next few weeks (May 2021).