

Our site uses cookies. By continuing to browse you are agreeing to our use of cookies.  
Review our [cookies information](#) page for more details.



## The Economist - Main report: May 21st 2016

### Crypto-investing: The DAO of accrue

A new, automated investment fund has attracted stacks of digital money

IT SOUNDS like a cult, but it wants to be a venture-capital fund of sorts. As *The Economist* went to press, the DAO (short for decentralised autonomous organisation) had already raised the equivalent of nearly \$150m to invest in startups. This, say its fans, makes it the biggest crowdfunding effort ever.

To understand the DAO it helps to keep in mind the concept of "smart contracts". These are business rules encoded in programs that execute themselves automatically under certain conditions: for example, funds are only transferred if the majority of owners have digitally signed off on a transaction. Such contracts can also be combined to form wholly digital firms that are not based anywhere in the real world, but on a "blockchain", the sort of globally distributed ledger that underpins crypto-currencies such as bitcoin.

The DAO literally lives in the ether, meaning on the blockchain of Ethereum, one of bitcoin's rival crypto-currencies. Investors send digital coins (called "ether") to the fund, which allows them to take part in votes on whether to put money in a given project. Candidates for investment put themselves forward, providing not only a business plan, but also smart contracts that define the relationship between them and the DAO. Once a proposal is approved, funds flow automatically: firms get money under the rules specified in the smart contracts.

Schemes of this kind have not done well. The crowd may have wisdom, but not a lot of commitment. Similar but smaller vehicles operated by a firm called BitShares, for instance, are suffering from a lack of participation in votes, in large part because it takes time and energy to consider proposals. Investors in the DAO can also withdraw money not yet committed to a project at will. This means that the \$150m in ether could quickly vanish into the ether, blue if investors got nervous.

Yet it would be unfair to dismiss the DAO as no more than a public-relations exercise for Ethereum and Slock.it, a maker of electronic locks controlled via the blockchain, which has developed the fund's smart contracts and hopes to be the beneficiary of its first investment. Many of the DAO's investors are believers, and it will provide an interesting test both of how regulators deal with a stateless fund and, in particular, what happens at such outfits when a dispute arises.

Moreover, if you believe that Ethereum is the future, it makes sense to invest in a fund that could increase demand for the currency--in particular if there are not many other ways to spend ether (the DAO, which will stop accepting new funds on May 28th, has already attracted nearly 14% of all ether ever issued). In the strange world of crypto-currencies, faith and rationality go together like yin and yang.