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What is a Dao in Crypto? How to Use it?

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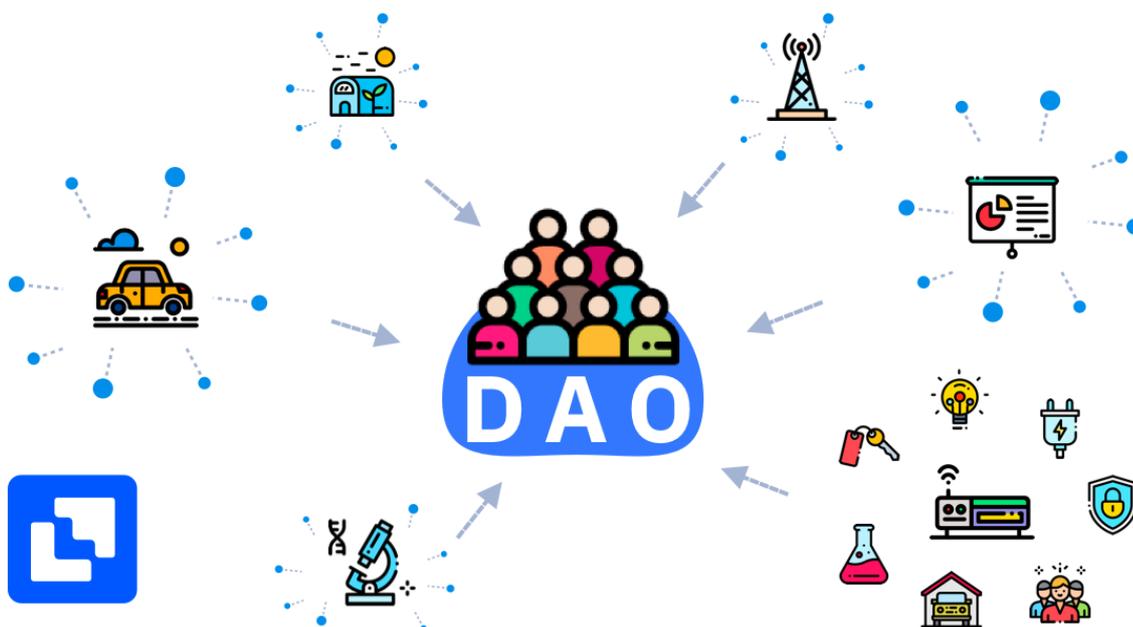
Can you imagine a way to organize with others around the world, not knowing each other but establishing rules and making your own decisions autonomously, all encoded on a blockchain?

DAOs are making this a reality. Recently, some DAOs have begun to attract the attention of more traditional investors, including billionaire Mark Cuban, who calls them “the ultimate combination of progressivism.” Venture capital firm a16z has also led multi-million dollar funding rounds in individual DAOs and companies that support DAO creation.

With Messari predicting that DAOs will be the “next big thing” in the space, you may be wondering what exactly a DAO is? Today, we’ll explain it to you.

So, What is a Dao?

The full name of Dao is decentralized autonomous organization. To understand Dao, you first need to understand the technology behind it. Most Dao rely on blockchain technology and smart contracts, which are a collection of code running on the blockchain.



For Dao, blockchain can act as the backbone and maintain the structure and rules on each chain. The birth of a Dao must have three basic elements:

- It has the organizational goals and culture (mission, vision and values of the organization) that can reach consensus with strangers
- It has a rule system that can reach consensus with strangers, including creation, governance, incentive and other contents, and this rule is placed on the chain through blockchain technology.
- It has a token that can form an interest relationship with all participants to realize full incentive.

Dao is not new, but they are becoming more and more mainstream. Next, let's break down how they work and whether they are safe.

Operation and Security of the Dao

A Dao needs a set of operating rules, funds such as tokens that an organization can use to reward certain activities of its members, and voting rights to establish operating rules. In addition, and most importantly, it is a good and safe structure.

A potential problem with the voting system is that even if a security vulnerability is found in its initial code, it cannot be corrected before a majority vote. Vulnerabilities can be exploited by hackers in the process of voting. In May 2016, the German start-up Slock.it launched the creative named "the Dao" to support their decentralized version of airbnb. At that time, crowdfunding was a great success, raising Ethereum worth more than \$150 million.

Unfortunately, there are some problems with the code they use in Dao. Inevitably, in June 2016, hackers attacked Dao based on these vulnerabilities. Hackers obtained 3.6 million eth, which was worth about \$50 million at that time. This has triggered a large-scale and controversial debate among Dao investors. Some have proposed various ways to solve the hacker problem, while others have called for the permanent dissolution of Dao. And this is still known as one of the largest hacking attacks in cryptocurrency, exposing the risk of Dao and weakening the trust of investors. According to IEEE spectrum, Dao is vulnerable to programming errors and attack vectors. In fact, there are many potential consequences of this organizational structure, and investors are worried that they will take responsibility for the actions taken by Dao as a broader organization.

How Do I Use the DAO Today?

So far, Dao has been used in many scenarios, such as investment, charity, fund-raising, lending, etc., all of which have no "intermediary" participation. For example, a charitable Dao can receive donations from people all over the world, and members can decide how to use it; The freelancer network Dao can create a network of contractors who use their funds for office space and software subscriptions; Venture capital Dao can create a venture fund, pool investment capital and vote for venture capital, and the repayment money can be redistributed among Dao members. In the past two years, due to the explosive growth of decentralized Finance (defi), people's interest in Dao has warmed up again.

What is the Future of the Dao?

By mid-2020, the originally envisaged Dao has not been restored. Nevertheless, interests in decentralized autonomous organizations as a broader group continues to grow. Dao also needs to overcome many potential regulatory and legal challenges, especially in the United States. There are still a few unknowns about how the potential legal framework in the United States affects Daos and how they operate.

Although there are many lingering concerns and potential problems in legitimacy, security and structure, some analysts believe that this type of organization will eventually stand out and may even replace enterprises with traditional structures.