



What is Yield Farming?

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Introduction

In Decentralized finance(Defi), one of the ways to earn passive income is through yield farming, it's a strategy used to maximize returns on Defi investments.

What is Yield Farming?

Yield farming is way of earning interest or rewards by locking your crypto into Defi platforms. This can involves lending, borrowing, or providing liquidity to earn passive income. Yield farming means letting Defi platforms use your crypto and in return, they pay you back with rewards.

It's like putting your crypto to work so it can generate more income.

How Does it Work?

Yield farming usually involves;

1. **Providing liquidity** to the Defi platforms(like **Uniswap, Aave, and Compound**)
2. In return, you earn rewards, usually in the form of **interest, trading fees, or governance tokens**(like **UNI, COMP** etc)

For Example:

You deposit **DAI** and **ETH** into a liquidity pool on **Uniswap**;

- Traders used that pool to swap tokens
- Every time they do, you earn a small portion of a trading fees as a reward.

Popular Yield Farming Platforms

Some of the platforms that offer yield farming opportunities;

- **Uniswap**: offers liquidity pools and trading fees.
- **Aave**: lending and borrowing with interest rewards.
- **Compound**: Earn interest by lending your crypto.
- **Yearn.finance**: Auto optimizes your farming for the best yield.

Risk of Yield Farming

While it can be profitable, yield farming also comes with risk;

1. **Impermanent Loss**: You can lose value compared to just holding your tokens due to price swings in the pool.
2. **Smart contracts Bugs**: A coding error in the protocol can lead to the loss of funds.
3. **Rug pulls and Scams**: Bad actors can create fake platforms and run away with user's funds.
4. **High Gas fees**: On networks like Ethereum, high gas fees can reduce your profits, especially for small deposits.

Why do People Yield Farm

Despite the risks, many people still participate in yield farming because;

- It offers **passive income** in crypto.
- It supports the **growth of Defi protocols**.
- It provides **governance tokens with voting power**.

For those who are strategic and cautious, yield farming can be a great way to maximize their crypto assets.

Conclusion

Yield farming allows users to earn rewards by providing to Defi platforms. It's a smart way to grow your crypto, but it also comes with risk. As a beginner always take time to understand how it works before getting started.

About Author

Aminu Sirajo is a Web3 content writer focused on simplifying complex crypto and DeFi concepts for new users.