The Importance of the ADA Cryptocurrency to the Cardano Ecosystem

emurgo.io/en/blog/what-is-the-purpose-of-cardanos-ada-cryptocurrency

Cardano, the first third-generation blockchain to emerge out of a research-first approach, uses ADA as its native cryptocurrency token. Despite ADA being at the center of the Cardano ecosystem, the reason for its existence may not always be clear. For newcomers and veterans of Cardano, it is important to understand the purpose of this cryptocurrency. Why is ADA important? What is it needed for? In this post, we'll look at the core reasons why ADA is critical to the Cardano ecosystem and how EMURGO is building products to support a mature Cardano ADA ecosystem.

Cardano ADA is Needed for Staking

Firstly, ADA is needed for staking. Staking exists because Cardano is a Proof-of-Stake (PoS) blockchain. To understand how this works simply, we previously used the example of a supermarket. In a supermarket, there are multiple checkouts. Each checkout is run by a cashier. These cashiers scan baskets of goods and cashiers are rewarded with money or assets for doing so.

Within Cardano, each cashier is a **stake pool operator**. Each checkout is a **stake pool**. A basket of goods is a bunch of transactions that are grouped together into a block, which are added to the Cardano blockchain permanently once they're scanned by the cashiers and are validated to be correct. Within the Cardano supermarket, there is room to support 1,000 cashiers and checkouts. These cashiers will need to use special equipment to operate a checkout 24/7 and keep the Cardano blockchain up-to-date. The Cardano blockchain is a supermarket that never closes.

However, not everyone who owns ADA wants to run a checkout. Some people will want to help the checkouts operate, without starting one themselves. This is why staking is important. Normal, daily users of Cardano can delegate their ADA resources (their stake) to certain checkouts. This allows cashiers to widen their checkouts to a

healthy size and increase their chances that a customer with a basket of goods will visit their checkout. For their effort, the cashiers (stake pool operators) are rewarded with ADA. Without this reward, the cashiers who work hard would quit and the Cardano blockchain wouldn't be able to continue. For people who stake their resources (coins) to these checkouts, they also receive a reward. This means people earn ADA from staking as an incentive mechanism.

Cardano ADA Allows Transfers of Value

After being rewarded with ADA, cashiers have the right to transfer or hold onto it as they choose. The cashiers (the stake pool operators), the people who help the cashiers (stake delegators) and anyone else who owns ADA has the right to transfer value to anyone with an ADA address. The ADA holder simply needs to know the public address of the person they're sending value to, much like sending value to an email address.

There are many examples of transfers of value that could happen. Recently, EMURGO brought crypto payments using ADA via EMURGO-developed Yoroi ADA Wallet to the famous Japanese Comedian Kenji Tamura's restaurant, "Charcoal Grill BBQ Tamura." This means that anyone can pay for an item on the menu with some ADA. There are many other examples of merchants, restaurants and outlets that have accepted ADA as a form of payment, including EMURGO's ADA Crypto Card campaign that successfully sold out in South Korea earlier this year.

EMURGO is constantly updating Yoroi Wallet for Android, iOS, Chrome, and Firefox to make transferring ADA a seamless, simple, and secure experience for all users. It is a free and essential tool developed for users to store, send, and receive ADA enabling Yoroi Wallet to be the "financial gateway to the future."

Furthermore, EMURGO is also supporting Cardano Fellow Robert Kornacki's Syre through our dLab/EMURGO accelerator program. Syre is a pioneering, tokenless invoice based protocol designed to make sending ADA easy and worry-free for users by removing any concerns about confirming recipient ADA wallet addresses, and will be applicable to Cardano ADA in addition to other blockchains.

Cardano ADA will be Needed for Smart Contracts

Smart contracts are a planned feature of Cardano in the upcoming future. Every purchase or transaction we make on a daily basis tells a story. Some stories are simple. One may be the story of a person buying their morning coffee. Another story might be payments for a mortgage or loan. These stories are more complex.

Each story needs a script. This means creating a meaningful set of rules and guidelines that allow transfers of value to take place. Smart contracts write the scripts needed for these stories. Cardano's ADA will be the actors of the script. This is the third reason why ADA exists.

Earlier in April 2019, EMURGO announced the development of Seiza - a new feature rich Cardano blockchain explorer - that was subsequently launched for public usage in May 2019. Seiza will allow users to track their ADA transactions and other vital information related to the Cardano blockchain including wallet histories, addresses, block size, and stake pools, among others. This essential Cardano ADA product will become increasingly important as Cardano moves toward full decentralization with staking, stake pools, and increased ADA liquidity.

Cardano ADA will be Needed for Cardano's Treasury

In a democratic system, each person has a voice. This voice allows a person to vote to elect officials, change laws and have a say in how their country runs. This democratic system is decentralized by nature. In a fair democracy, elections that take place on a nationwide level cannot be influenced by a single person. Stakeholders (people who own ADA) are like the citizens of the Cardano network. This means that every stakeholder has a voice. If each person who owns ADA acts in their own best interest, they will want what improves Cardano as a whole. This will make Cardano more valuable as a public blockchain. This would be similar to citizens voting for officials who promise to improve a country's roads and waterways. These improvements benefit everyone.

Cardano's improvements will one day be funded by a treasury and is important for sustainability of the Cardano ecosystem. This means that ADA will be entrusted to parties who work for the betterment of the ecosystem, as voted for by the "citizens of Cardano" - the ADA holders.

Conclusion

While the role of ADA is not always clear at first glance, there are a number of core functions the native cryptocurrency plays in Cardano's ecosystem. There is no single reason for ADA, however this blog post explained the four key pillars that explain ADA's purpose along with EMURGO's strategies to support the Cardano ADA ecosystem with product development. At the same time, with the dawn of Shelley comes the upcoming era of a fully decentralized Cardano. This era will usher in many new opportunities, allowing anyone to help participate in keeping the Cardano blockchain decentralized. The phases of Cardano's development can be clearly seen on the Cardano Roadmap.

Feel Free to Contact Us

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EMURGO drives the adoption of Cardano and adds value to ADA holders by building, investing in, and advising projects or organizations that adopt Cardano's decentralized blockchain ecosystem. EMURGO leverages its expertise in blockchain R&D as well as its global network of related blockchain and industry partners to support ventures globally.

EMURGO is the official commercial and venture arm of the Cardano project, headquartered in Singapore, with a presence in Japan, the USA, India, and Indonesia. EMURGO works closely with IOHK and The Cardano Foundation to grow Cardano's ecosystem globally, and promote its adoption. Learn more about the project at https://emurgo.io

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