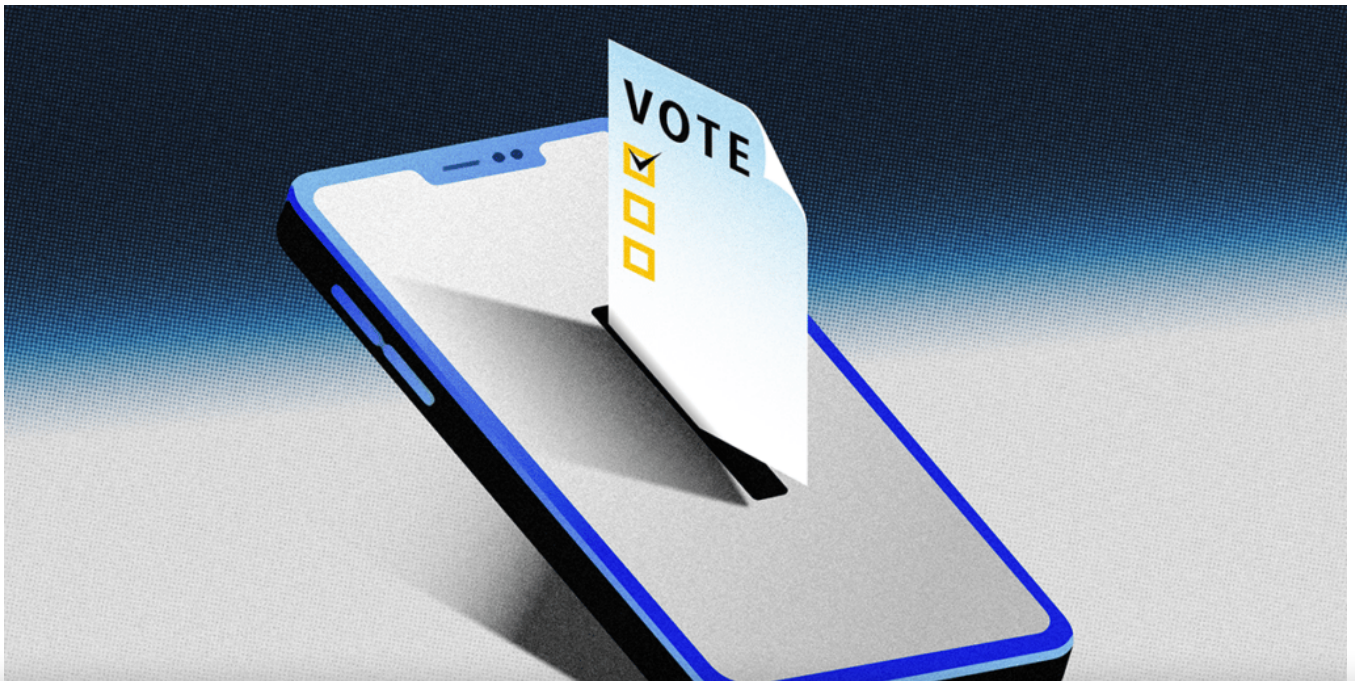


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What Are Governance Tokens?

Governance tokens give holders a voice in crypto and blockchain projects. Learn how it works in detail.

JUL 11, 2022 | BEGINNER



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Most traditional organisations are based on a hierarchy. A board of directors or other leadership comprised of a few people stand at the top of the organisation, making decisions.

Decentralised finance and other blockchain-based projects take a different approach. Instead of conferring all decision-making power to a small board, [decentralised autonomous organisations](#) (DAOs) distribute some of the power to token holders.

This process of directing a project's future via decentralised voting measures is called *on-chain governance*. However, the project leaders decide what parameters are eligible for change and stipulate how the approval process works.

Governance tokens are the voting chip in this process. They are [ERC-20](#) tokens tied to a specific project and give holders a say in the future of an organisation or blockchain ecosystem. A specified quota of votes by the token holders determines if and which changes will be made to the project. In other words, the tokens 'govern' the protocol.

What Are Governance Tokens Used for?

The population of governance token holders can make decisions collectively, influence decisions, or propose changes. These include e.g. the cost of transaction fees or UI (user interface) changes.

Votable parameters vary from project to project, as well as much influence is given to token holders. This depends on the blockchain's initial setup which determines the

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Examples of Popular Governance Tokens

If you want to explore the possibilities offered by governance tokens, you've got plenty of options. There are hundreds of blockchain projects with governance tokens.

Here are three of the most popular:

Maker (MKR)

- [Maker](#) is a DAO that allows users to lend a variety of crypto assets and borrow DAI
- Token holders can accrue interest fees on loans on the platform and vote on accepted collateral types for loans
- The [MKR](#) token saw 350% growth between Q1 2021 and Q1 2022

Watch our AMA with Maker Foundation's CEO Rune Christensen:

[Maker Foundation] - Live Video AMA with Rune Christensen, CEO



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- Holders can vote on accepted collateral types for loans and receive interest fees on outstanding loans

Tectonic (TONIC)

- [Tectonic](#) is a decentralised lending and borrowing platform that allows users to participate as liquidity suppliers or borrowers
- While starting out with centralised key decisions, its roadmap plans for full transfer of the governance process to the community and stakeholders over time
- Token holders can vote on interest rates, collateralisation ratio, and token allocation

Tectonic and its governance token [TONIC](#) are accessible through the [Crypto.com DeFi Wallet](#).

Read our [guide to DeFi for beginners](#) to learn more about lending and borrowing platforms and how to use them.

What to Be Aware of When Buying Governance Tokens

Before investing in governance tokens, research the total token supply and its distribution.

In some projects, a large portion of the total supply is locked up in a vesting schedule to stakeholders and hence not available to them yet. This can inflate the project's value,

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Due Diligence and Do Your Own Research

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Past performance is not a guarantee or predictor of future performance. The value of crypto assets can increase or decrease, and you could lose all or a substantial amount of your purchase price. When assessing a crypto asset, it's essential for you to do your research and due diligence to make the best possible judgement, as any purchases shall be your sole responsibility.

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