

# MKR Holders Guide to Delegation

This page was written prior to changes in how the governance and delegation systems at MakerDAO work. While it still has some value, care should be taken to evaluate which parts are outdated.

## Five Key Points

There are five key points to keep in mind when considering delegating your MKR.

Trust - Delegation is an expression of the MKR Holder's trust in the delegate.

Incentives - Your delegate will have different incentives than you. These may not be solely financial. These may not always be permanent.

Recognition - Recognized Delegates are safer than Shadow Delegates (but not by much).

Balance - Be aware of the checks on power between delegates and Core Units. Having only a few large delegates is a risk. Delegation to Core Unit personnel is not advised by GovAlpha.

Cost-Benefit - Responsible delegation is much, much cheaper than responsible voting and almost as good for the Maker Protocol.

## Trust

Trust has taken on a bad name in the crypto-space. Frequently this is for a good reason. Nevertheless, trust plays a key role in life and human interaction. Trust comes into play heavily when delegating.

Delegation is an expression of the MKR Holder's trust in the delegate

When delegating, the fundamental trade-off made by MKR Holders is to benefit from an increased efficiency of governance, at the cost of increased trust requirements and centralization. These costs are unavoidable, though they can be minimized by delegating responsibly.

Ultimately the Maker Protocol (and the DAO) needs effective governance in order to operate successfully. If Maker cannot operate successfully, then the MKR token will lose value. Likewise, if delegates collude and attack the Maker Protocol, then the MKR token will lose value.

MKR Holders must create a balance between these two extremes that results in an operable protocol while minimizing the risk of governance attack.

## Incentives

Humans are both dynamic and varied in their motivations, and we should expect the same from delegates. Incentives in this context refer to more than just financial incentives.

Your delegate will have different incentives than you. These may not be solely financial. These may not always be permanent.

The table below shows a selection of relevant incentives that delegates may have. It is not exhaustive.

Source	Incentive Type	Stability	Governance	Controllable	Holds MKR	Extrinsic - Financial	Unstable	No Holds	vested MKR
Extrinsic - Financial	Stable	No	Paid percentage of Maker Protocol revenue	Extrinsic - Financial	Variable	Yes	Maker Protocol	is primary employment	Extrinsic - Financial
Variable	Variable	Morality	Intrinsic - Character	Variable	No	There are several items of note that can be taken from this table:			

1. Very few incentives are verifiably stable.
2. Governance only has control over a few incentives.
3. The character of the delegate is important.
- 4.

To simplify this somewhat, if you are considering delegating your MKR. Ask yourself the following questions:

- Does this delegate hold MKR? Is it locked for the duration of the delegate contract lifespan?
- Is this delegate paid by the protocol or an external actor? If the latter, by whom, and what is their motivation?
- Is this delegate reliant on the Maker Protocol for their financial stability?
- Does this delegate have a reputation on the line? Do they care about their reputation?
- Does this delegate enjoy being a delegate? Have they consistently enjoyed it in the past?
- Does this delegate believe the Maker Protocol is a public good?
- Does this delegate display strong morals? Are they trustworthy?

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Many of these questions are hard to answer, hence the requirements for trust:

- ...that the delegate is accurately representing their incentives.
- ...that you have accurately judged the delegate's represented incentives.
- ...that the delegate's incentives are stable over time or that you will be engaged enough to manage changes.
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## Recognition

The split into Recognized and Shadow Delegates has a few advantages, one of which is the integration of reputational collateral for the Recognized Delegates. By requirement, they are publicly known; this gives them an incentive to do a good job with any MKR delegated to them on pain of damage to their reputation.

Recognized Delegates are safer than Shadow Delegates (but not by much).

However, reputation is only one source of incentive alignment, it helps, but it is not a guarantee that a delegate is trustworthy.

By default, Shadow Delegates lack even this incentive alignment. GovAlpha recommends that MKR Holders consider delegating to a Shadow Delegate only under the following circumstances:

- The Shadow Delegate has verifiably locked more MKR than you plan to delegate to them for the duration of the delegate contract lifespan.
- You have a personal or professional relationship with the Shadow Delegate that the Shadow Delegate values.
- There are no Recognized Delegates.
- MKR is concentrated in the hands of too few Recognized Delegates.
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## Balance

The distribution of power within MakerDAO is governed by a moderately complex web of checks and balances. By and large, the disengaged MKR Holder does not need to worry too deeply about this. That said, there are a couple of places where this impacts delegation.

Be aware of the balance of power among Delegates and Core Units.

There are two main points to consider here.

# 1 Delegate-Delegate Balance

The more delegates that have a say in the passing or not-passing of proposals, the better. If your favorite delegate already has a large amount of MKR delegated to them, consider delegating to a different delegate.

The delegation contracts support MKR Holders splitting their MKR between multiple delegates. This may be advisable to mitigate the risk posed by any individual delegate.

# 2 Delegate-Core Unit Balance

Delegates and Core Units check each other's power. Delegates can propose (and potentially vote through) whatever they want. However, they require experienced personnel to construct proposals. Further, any decision that impacts the Core Units requires their implicit consent to accept that impact.

On the other hand, delegates can refuse to vote through proposals created by the Core Units, if they do not believe they are in the interests of MKR Token Holders.

In the worst case, a complete combination of the two groups means that a single collection of entities is responsible for implementing and ratifying changes.

Here are some examples of potential negative outcomes that could result from the combination of Core Units and Delegates:

- Core Units proposing and approving their own budgets.
- Delegates constructing and approving their own remuneration.
- Reduction of transparency to the community and MKR Holders.
- Core Units with attached delegates receiving a disproportionate amount of budget relative to those without representation.

- Centralization of control within the DAO.
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All this being said, GovAlpha is aware that exceptional individuals and circumstances may exist. We are aware that no rule can be enforced here due to the permissionless nature of the delegate contracts.

MKR token holders must judge when and if it is appropriate to delegate to Core Unit personnel.

#### Cost-Benefit

The cost-benefit calculation for the governance of the Maker Protocol has never been particularly favorable to MKR holders. There is much to govern and much to keep up with. Delegation represents a long-awaited improvement to this calculus.

As a general rule, governance safety and effectiveness decrease as you go down the following scale:

- Responsible Voting
- (Best Action)
- Responsible Delegation
- (Best Action for Cost)
- Apathy
- Irresponsible Voting
- Irresponsible Delegation
- (Worst Action)
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Responsible delegation is much, much cheaper than responsible voting and almost as good.

Delegation increases the variability of outcomes relative to individuals voting. The chance for greater governance effectiveness exists, but it is balanced by a greater amount of centralization and collusion risk.

With individuals voting, there is less chance for effective governance, but also less chance for malicious governance. With delegation, there is a greater chance for both outcomes. For this reason, we view apathy as preferable to irresponsible delegation.

To aid in cost-benefit judgments, here is our estimate of the cost to the individual in terms of responsible delegation to one or more Recognized Delegates. Note that delegate contracts currently expire every year. So these should be considered annual costs:

- Spend a few hours reading over the Recognized Delegate platforms, and figure out which delegates care about what you care about. Watch 'Meet Your Delegate' recordings if you prefer video.
- Spend 30 minutes thinking about incentives and trust in relation to your chosen delegate(s).
- Take note of the metrics surfaced by GovAlpha on the [Voting Portal](#)
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- Spend gas to delegate your MKR to your chosen delegates.
- Spend an hour each month to check-in. Check your delegates are still active and check their metrics are still good.
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Ineffective or participation-starved governance will kill the Maker Protocol over the long term just as surely as governance attacks will in the short term.

If you are holding non-trivial amounts of capital in the MKR token, you should seriously consider delegating responsibly.

Page last reviewed: 2022-10-31 Next review due: 2023-10-31

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