In the discussion thread here, we are discussion allocations for AAVE emission

[Initial discussion: AAVE reserve emission for safety and ecosystem incentives][Governance

](/c/governance/4)

This thread is to bootstrap the discussion about the initial distribution of the AAVE reserve for safety and ecosystem growth. As readers might already know, 3M AAVE will be allocated in the reserve, and these 3M will need to be properly distributed between the Safety Module (to safeguard the protocol against shortfall) and the protocol liquidity providers to incentivize growth. The team proposal covers the first year of AAVE emission, and is defined as follows:

685 AAVE/day allocated for the…

- 685 AAVE/day allocated for the Ecosystem Incentives ("Liquidity mining") 250K AAVE allocated for the first year

Proposal tldr:

Provide 2% of yearly liquidity mining rewards for stakers participating in providing liquidity for Nexus Mutual smart contract insurance ([to learn more about Nexus Mutual]).

Why?

At the moment, there is about over $17.8M USD worth of smart contract insurance cover being taken out on Nexus Mutual, and 7.8% of that has been taking out by Aave. The hypothesis here is that there is a large untapped audience of potential Aave users (mostly whales) who would be willing to use Aave - but ONLY if there was insurance for their staked funds.

Currently Aave's safety module covers economic risk but not smart contract security risk.

Source: [NexusTracker.io]

→ Aave funds are insured → safety and protection → more willingness to risk funds in DeFi/Aave

It could be potentially a really positively self-reinforcing cycle.

What happens when you provide greater incentives for $NXM holders to stake on $NXM?

- More stakers will opt to on NXM
- More individuals will want to become $NXM stakers to earn $AAVE alongside $NXM rewards
- More capacity for smart contract security for Aave users

How much to dedicate to rewarding $NXM stakers?

Rewarding liquidity providers is mostly sound but there should be experiments in other ways of driving both supply and demand side liquidity for Aave. Incentivising insurance is another way.

1 Aave = (100 $LEND) = roughly $36.3036 USD worth at the moment

2% of 250k yearly liquidity incentives Aave = 5k $AAVE

5k AAVE = $181,518 USD worth of Aave

There are currently $2,095,636 worth of NXM staked securing $1.4M worth of Aave.

A 2% inflation would roughly represent an extra 10% APR on top of the current NXM rewards.

I believe that all this needs to do is incentivoze merely $2M more in $NXM staked into the platform to provide $2M+ worth of liquidity back into the platform (about 10x returns in incentive:reward ratio)