

Hello Aave frens, it's been a while but time to recap what happened around RWAs in the Aave ecosystem this year.

In December 2021, the [RWA Market](#) launched and successfully connected the Aave protocol to real world assets on Centrifuge. Here is a recap of the last 12 months of the RWA Market and our future adventures.

[

Screenshot 2022-12-01 at 12.28.38

1807×418 38.4 KB

](<https://europe1.discourse-cdn.com/business20/uploads/aave/original/2X/e/e05e94d9bcc8fc80e71f188e5f9cb68cd5518708.png>)

What is the RWA Market?

The RWA Market is the first diversified real world asset market on the Aave Protocol, bridging DeFi to the infinite potential of the real world. Aave depositors were able to earn yield against stable, uncorrelated real world collateral, while Centrifuge issuers could borrow from Aave as an alternative liquidity source. The RWA Market served as a tool for issuers to automatically manage capital needs and for lenders to access alternative collateral and diversify their portfolio.

How did it start?

The Centrifuge and Aave teams started development of the RWA Market in [2021](#) and on the [28th of December](#), it went live. The RWA Market was envisioned to allow Aave to serve as a scalable liquidity source for real world economic needs. As DeFi's premier collateral market, Aave was able to integrate Centrifuge's securitization platform and issuers in a composable and crypto-native manner.

How does it work?

The Aave Protocol allows markets to be created where people can borrow tokens by depositing collateral. Interest rates go up and down depending on the utilization of the market.

Issuers create pools for their assets. Investors buy tokens from these pools by depositing stablecoins into the pool. The issuers can then borrow stablecoins against these assets and turn this into fiat currency for real world borrowers. All pools assets and the performance of the portfolio is fully transparent on chain. Pools typically focus on a specific asset class, for example real estate or trade finance.

With the RWA Market, when a pool has a need for capital the issuers can not just opt to accept direct investments but also deposit the pool tokens in the Aave protocol and thus directly borrow from any RWA Market investors. RWA Market investors through that get a diversified portfolio of senior secured real-world assets on the Centrifuge protocol, a portfolio completely uncorrelated to crypto assets.

How did it go?

The RWA Market quickly [grew to 10m](#), and would [soon reach 19m](#). Afterwards, the bear market soon set in and the subsequent conditions led to significant outflows and general market instability. The RWA Market had to lower borrowing to pools and users generally began downsizing their positions. The market has since hovered around 8m. Fortunately, the Aave and Centrifuge protocols worked as expected, with no losses or lost capital.

Ultimately, there are key challenges with the nature of RWA that prevent it from scaling further.

- The complexities of underwriting and risk assessment requires various domain experts.
- Lenders must consider strategies that adapt to the duration and liquidity characteristics of RWA collateral.
- Integrating governance processes that scale across two decentralized protocols, while both are growing and changing, is a unique challenge.
- The funding of RWA relies on consistent stablecoin liquidity on Aave's market, often dependent on factors outside of Aave.

Fortunately, the introduction of Aave GHO and Centrifuge's new Index Token feature, provide the ability to address these challenges directly.

What's next?

The next stage of collaboration is in Centrifuge's proposal for an RWA Facilitator for GHO. Our [perspective](#) is based on all that we've learned while bringing RWAs on-chain and into DeFi markets. The RWA Market was a major milestone, and will serve as the critical stepping stone to the future of real world assets.

