Context

Inspired by @jackanorak's work on Where Has the OP Gone?, we (Messari) would like to pick this initiative back up and provide a retrospective analysis to the community on projects funded! We aim to provide an objective, data-driven third-party report on the funded projects and their distribution methods. In doing so, we hope the community finds a reliable reference point in these reports and can utilize them for future iterations/experiments within the Collective.

We initially began analyzing on the project level using the open-sourced dataprovided by OP Labs (h/t @msilb7 @chuxin_h & the OP Labs team!). However, after beginning, we discovered that each project in a given incentive category (E.g., Uniswap V3 Liquidity Mining, trading rewards, etc.) would need to be analyzed to provide a relevant benchmark analysis. This new direction proved challenging as various funded projects and their respective programs are only partially in sync (if at all). That being said, we intend for this analysis to act as a V1 and encourage the community to participate in discussing the parts they find valuable.

Main Takeaways

- The retrospective analysis of grants funded by the Optimism Collective is crucial for understanding the effectiveness of funded projects and providing insights for future projects.
- Total Value Locked (TVL) across liquidity providers has shown a general upwards trend, with significant growth during the Uniswap Incentive Phases.
- Revert Finance drove a disproportionate share of total transactions, likely due to its larger allocation and broader rewards compared to the Uniswap liquidity managers.
- The number of daily transacting addresses spiked at the beginning and end of each program, indicating user behavior around reward periods. This could be due to users exiting positions, users claiming rewards, or a combination of both.
- The impact on Uniswap swaps was relatively limited, suggesting that liquidity incentives may temporarily affect LP rewards rather than sustainable long-term impacts on protocol fees.
- Timing, scale, customization, and length of incentive programs influence their effectiveness.
- The third phase of Uniswap's liquidity mining program has shown increased success, attributed to increased rewards and the involvement of liquidity managers in pool selection.

Introduction

The Optimism Collective has granted 127 projects with over 71 million OP across the Governance Fund and Partner Fund. In its first year, the Collective made great progress toward grant funding practices. However, one aspect that still has room for improvement is the retrospective analysis of grants funded. We believe that this analysis will be a method for the Collective to understand which funded projects are the most effective and provide insights for future projects to use when thinking through their distribution method.

One method of incentivizing Uniswap V3 LP positions has been via liquidity managers, which Uniswap elected to do with their Phase 0 funding. Uniswap chose four different liquidity managers to assist them in distributing 800,000 OP (80% of their funded amount) over three phases, beginning in November 2022. In addition to these liquidity managers, we'll also cover Revert Finance, another liquidity manager who received 240,000 OP from the Governance Fund, and launched its incentive program in November.

We've looked into the total value locked (TVL), daily transacting addresses, and the number of daily transactions to analyze these incentives' effectiveness. These metrics were analyzed starting one month before the incentives until the first week in June.

(Note: Phase 3 of the Uniswap Liquidity Mining campaign will conclude on July 26th, 2023. Additionally, programs such as Arrakis and Gamma have received additional funding via the Partner Fund and have ongoing incentives. This analysis will be updated following the conclusion of the programs still ongoing at the time of posting.

)

Incentive Description

How do OP incentives benefit Liquidity Managers?

Liquidity managers enable depositors access to varying benefits, automation, etc., when depositing their Uniswap V3 LP NFT. These protocols typically take a management fee on positions. Thus, an increase in depositors increases the revenue for the protocol.

How do OP incentives benefit Uniswap?

For depositors to farm rewards on these liquidity managers, they must first provide liquidity on Uniswap. Uniswap benefits from the liquidity managers' incentives by increasing the protocol's liquidity.

How do the incentives benefit the Optimism ecosystem?

The ecosystem benefits from increased liquidity offerings, leading to more stable markets, thus attracting more users and projects.

Incentives Overview

Distribution Timeline

Optimism liquidity managers' incentive programs are divided into two different allocations: Revert Compoundor and Uniswap V3, which redistributed 80% of its OP allocation to 4 different managers:

[

1600×897 412 KB

](https://global.discourse-cdn.com/business7/uploads/bc41dd/original/2X/a/aab689beabc9101bcf5ba5c05a0b40eb133d10e3.jpeg)

TVL

[

1600×900 446 KB

](https://global.discourse-cdn.com/business7/uploads/bc41dd/original/2X/5/57d6f132a7e067ed81194606e2ce1fc92604105d.jpeg)

While Phase 1 experienced a sharp increase in TVL following the program's start, it experienced a significant drop that appears to correlate with FTX collapse. Outside of this outlier, Phases 2 and 3 of the Uniswap Incentive Phases resulted in undeniable TVL growth from program onset, followed by a significant decrease in TVL in Phase 2. However, the total TVL across liquidity providers has increased significantly across each phase, with a general upwards trend.

Transactions

[

1600×900 515 KB

](https://global.discourse-cdn.com/business7/uploads/bc41dd/original/2X/f/f6f68ff660a220c0621e6b3adbd4ae5c0781e971.jpeg)

Transactions tell an interesting story, with Revert Finance driving a disproportionate share of the total transactions across Phases 1 and 2 compared to its rivals. This could be driven by Revert's relatively large allocation (60,000 OP) relative to the Uniswap allocation, which split 50,000 OP across three protocols. This could also have to do with the nature of Revert's program, which rewarded all Compounder deposits instead of a select number of pools.

[

1600×900 462 KB

](https://global.discourse-cdn.com/business7/uploads/bc41dd/original/2X/a/ac9c21b41acb17a16b03fa0c293ff658afc5f7bd.jpeg)

When comparing the sum of Uniswap liquidity manager's transactions against Revert's, we can reasonably conclude that Revert's dominance most likely results from the increased OP rewards. Revert's dominance begins to fade as Uniswap liquidity managers launch the second phase of their liquidity mining rewardson January 18th. At the beginning of Uniswap's second phase, Revert had already allocated 180,000 OP (75%), more than three times as much as Uniswap.

Revert regained ground following the conclusion of Uniswap's phase two but couldn't sustain these numbers following the protocol's third round and subsequent launch of Uniswap's third round. Uniswap's third round is expected to end July 26th, 2023.

Daily Transacting Addresses

[

1600×900 509 KB

](https://global.discourse-cdn.com/business7/uploads/bc41dd/original/2X/a/a13f8998a8dab29fcb97dd70836cb321ff0e8254.jpeg)

Transacting addresses give us a glimpse into how many users transact on the platforms daily. The number of addresses transacting on the protocols appears to spike near the beginning and end of each program, signaling that users transact (deposit) at the beginning of the rewards and exit (withdraw) at the conclusion. An increased reward duration could improve this.

Since launching the incentive programs in November, 28,000 addresses have transacted on the liquidity manager's platforms. Arrakis is responsible for 12,000 of these addresses, nearly double that of Revert (6,249) and Gamma (5,465). However, the period with the most transactions was when only Revert rewards were live (7,926). The period with only Uniswap rewards currently accounts for 6,174 total transacting addresses, with over a month left in the third phase.

Fees

[

1600×900 489 KB

](https://global.discourse-cdn.com/business7/uploads/bc41dd/original/2X/c/ca105275766b9fae4503e11e531a3eb1a1f94e8f.jpeg)

Network fees are a critical component of incentive funding, as the collective's public goodsflywheel can only be sustained long-term by generating network fees.

Revert Compoundor and native Uniswap V3 programs (Arrakis, Gamma, xToken, DefiEdge) generated 11.3 ETH since it began in November. Of the 11.3 ETH generated, 75% came while at least one program was live. Most of the remaining 24.5% came after Revert's third phase and between Uniswap's phases two and three. It's worth noting that between Uniswap's second and third phases, USDC depeg impacted the overall market conditions and risk sentiment leading to less volume and fees generated. However, the Uniswap liquidity mining program has responded strongly in the third phase. This can be seen with network fees generated amongst the Uniswap liquidity managers, who have generated a total of 3.6 ETH during live programs, of which 3.05 (85%) was generated during the third phase of incentives alone.

Of the four native Uniswap liquidity managers, there's been around 7.8 ETH generated in network fees since November, with Gamma and Arrakis representing over 83% of these fees (6.5 ETH). So far, Gamma has led all managers with around 47.8% (3.7 ETH) in network fees generated, with Arrakis a close second at 36% (2.8 ETH). The remaining two managers have combined for 1.3 ETH, with DefiEdge (0.88 ETH) surprisingly leading xToken (0.43 ETH) by over 2x!

Revert's Compoundor generated 3.9 ETH in this same time frame, which still leads all managers for now.

Uniswap Stats

[

1600×900 443 KB

](https://global.discourse-cdn.com/business7/uploads/bc41dd/original/2X/c/ca9f1406141fd86c410874c704ce7649765d1240.jpeg)

Uniswap liquidity providers earn fees upon swaps on the protocol. We've looked at the overall change in swaps during the program to measure impact. As with all previous metrics, the spike in the first phase for both Revert and Uniswap is somewhat attributed to the FTX scenario.

While liquidity providers were incentivized, little was done to incentivize Uniswap transactions. One speculation could be that the liquidity incentives increase TVL and usage on liquidity manager platforms, but the incentivized liquidity could be under-utilized. Given what we've seen with most liquidity leaving at the conclusion of the program, the incentives can almost be seen as a temporary increase in LP rewards.

[

1600×900 447 KB

](https://global.discourse-cdn.com/business7/uploads/bc41dd/original/2X/0/00aa97baa54260eecad7c0136ca4ec0308d6b4b3.jpeg)

As seen in the daily volume, the liquidity increases (TVL) do little to increase the fees of the liquidity providers. Ideally, liquidity would increase with incentives, and trading fees would follow, making the OP rewards a temporary buffer to increase liquidity until trading fees adjust and sustain incentives long-term.

[

1600×900 450 KB

](https://global.discourse-cdn.com/business7/uploads/bc41dd/original/2X/2/2c9b935b879b0c7ad426bc294c3b5af239f37c51.jpeg)

If an increase in TVL minimally impacts both volume and revenue, an alternative incentive type, such as fee rebates, may be a more optimal solution. With fee rebates such as Synthetix (and, by extension, Kwenta and Polynomial), Uniswap could incentivize LPs with the potential increase in protocol fees and traders with a rebate on their fees paid. However, the question of whether this method would be sustainable long-term remains.

Observations

The availability of incentive data across five liquidity management protocols on Uniswap offers a valuable opportunity to conduct cross-program analysis. Several key insights emerge from this data:

- Timing: The timing of a program and its execution is key. Broader market conditions can deeply reduce the impact of the incentives, as seen in Phase 1 (post-FTX) and Revert Phase 3 (USDC depeg, US banking failures).
- Scale: While it makes sense for a project to test and refine incentive program parameters before allocating huge amounts, the Uniswap approach (gradual and progressive allocations) makes more sense than the Revert one (small, big, small allocations).
- Customization: Revert offered incentives on all LP positions deposited, while the Uniswap programs initially selected specific pools based on TVL. Moreover, Uniswap let the community vote on what pool should be incentivized. Moreover, Uniswap let the community vote on what pools should be incentivized.
- Selecting specific pools may limit the scope/impact of incentives, but incentivizing every Uniswap pool across all fee tiers may be less practical in different instances, such as LM vault strategies.
- Selecting specific pools may limit the scope/impact of incentives, but incentivizing every Uniswap pool across all fee tiers may be less practical in different instances, such as LM vault strategies.
- Length: Incentive programs that last only 2-3 weeks provide a very small sample to digest, making it difficult to truly understand the program's impact. Additionally, various funding sources and overlapping programs make pinpointing each program's impact difficult.
- Overall approach: The impact of incentive programs on TVL, fees generated, transactions, and users is not guaranteed. It's worth acknowledging the iterative approach of the Uniswap program and the time between programs that Uniswap took to conduct diligence on the program and adjust accordingly.

The availability of incentive data across five liquidity management protocols on Uniswap offers a valuable opportunity to conduct cross-program analysis. Several key insights emerge from this data, the first of which is the importance of highlighting the larger crypto market's influence on smaller datasets. The aftermath of the FTX collapse impacted the initial wave of incentives provided by both Uniswap liquidity managers and Revert.

Furthermore, the initial two phases of the Uniswap distribution were comparatively smaller in scale when contrasted with the third phase. This could be why Revert dominated most categories early on, despite having one of the lowest TVL among the programs. However, it's also worth noting that Revert offered incentives on all LP positions deposited, while the Uniswap programs initially selected specific pools based on TVL.

Though still ongoing, the third phase of Uniswap's liquidity mining program has already seen great success compared to the first two. Several factors could contribute to the third phase's increased success, such as:

- Increased rewards: over 80% of the 800,000 OP will be distributed in Uniswap's third phase.
- Liquidity managers appear to choose the pools for phase three of the Uniswap liquidity mining.
- Does this make the most sense?
- Does this make the most sense?
- Market Environment during phases one and two (FTX, Circle).

Finally, it's worth acknowledging the time between programs that Uniswap took to conduct diligence on the program and adjust accordingly. However, incentive programs that last only 2-3 weeks provide a very small sample to digest, making it difficult to understand the program's impact truly.

Recommendations:

A competitive approach to funding network incentives

Currently, projects apply for funding to fund incentives on their platforms, and there's no clear framework or process for deciding how much of one incentive type or platform type should be funded. An alternative approach to funding incentives with the addition of competition amongst protocols could be an interesting experiment.

For Example:

- The Collective allocates 5 million OP to liquidity incentives per season.
- This OP is divided amongst various incentive 'types' (e.g., vaults, LP incentives, trading incentives).
- A trial wave of 10% of the OP (similar to Uniswap phases 1 & 2) is conducted. Projects compete for their future share of remaining OP rewards during this time. The community &/or the grants council could establish the metrics to determine program impact.
- The remaining 90% of the OP is allocated to projects based on their results in wave 1.

Increased rewards duration

The diligence was great on Uniswap's behalf, but the program duration that Uniswap was analyzing provided a very small sample. Longer programs could enable the community (both Uniswap and Optimism) to conduct a more thorough evaluation.

Closing Remarks

We hope that this analysis provides value to future funding decisions, and would love to hear how it could be iterated upon for future analysis!

We will update the post following the conclusion of Uniswap's third phase. At that point, we'll look into retention metrics, pool-level comparisons, etc.

Sources

- OP Analytics Repo
- Incentive Stats Summary
- Incentive Program Performance Summary - Dune @oplabspbc
- Optimism - Project Usage and Growth Trends
- https://twitter.com/UniswapFND/status/1585289526179667970
- Optimism ($OP) Liquidity Mining Pool is LIVE on xToken Terminal! | by Ben J. | xToken | Medium
- Incentive Stats Summary
- Incentive Program Performance Summary - Dune @oplabspbc
- Optimism - Project Usage and Growth Trends
- https://twitter.com/UniswapFND/status/1585289526179667970
- Optimism ($OP) Liquidity Mining Pool is LIVE on xToken Terminal! | by Ben J. | xToken | Medium
- https://defillama.com/chain/Optimism

Additional Resources

- Uniswap LM Program Analysis (multiple bounty submissions)
- Gauntlet's Uniswap Liquidity Mining Analysis