

# Author: Polygon Community Treasury Board

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## Summary

The Polygon Community Treasury Board proposes a strategic initiative to restore relationships and strengthen ties between the Polygon and Aave communities, and drive new growth of Aave on Polygon PoS. The following proposal introduces a \$3M joint liquidity incentive program that seeks to enhance liquidity and adoption of Aave on the Polygon PoS chain, and re-align our respective communities. This proposal is being put forth by the Polygon CTB, which is external from Polygon Labs and acts on behalf of the Polygon community and ecosystem.

## Motivation

### Long History of Success of Aave on Polygon PoS

There is no debate that Aave's deployment on Polygon in early 2021 is what kickstarted the multichain revolution, and since then, the collaboration between our two ecosystems has yielded tremendous results. With Polygon's high throughput and low transaction costs complementing Aave's robust lending and borrowing infrastructure, we have witnessed exponential growth of Aave TVL on Polygon:

- Aave v2 on Polygon PoS reached \$3.5Bn+ TVL at its peak.
- Aave v3 on Polygon PoS reached \$450M+ TVL at its peak (\$335M TVL as of 1/14/24).
- Polygon and Aave, together with so many other protocols and community members, were able to contribute to the first successful high-scalability ecosystem on Ethereum. This was a proof of concept that led to many of the amazing innovations happening across the current, very healthy Ethereum scaling landscape. Polygon, with the Aave community's amazing support, was able to prove having a scalable and affordable extension to Ethereum was not just a dream, but the future of Ethereum. We would like to continue to work together to build this future with many more firsts.
- Polygon is the 2nd largest in 'Cumulative Fees' on all Aave chain deployments per Defillama <https://defillama.com/protocol/aave#fees-revenue>\*
- Aave users on Polygon are continuing to grow, despite the lack of an incentive program. There are clearly many users in the community that are choosing to use Aave on Polygon. We have noticed that many of these users come to Aave with Polygon as their first experience. <https://dune.com/queries/4573060/7624783>
- I think this video may help people to remember how close our communities used to be. The video is with Stani, Sandeep, Mark Cuban, myself and Justin Wu. This was actually supposed to be an in-person conference, but Covid sort of messed that up: <https://youtu.be/oaMBAI51P2Y?si=7RCmQniHacvDtJwG>

### Status of Aave on Polygon PoS

December's [Pre-PIP](#) (aka "Stake the Bridge") received strong engagement from both the Polygon and Aave communities and resulted in the pre-proposal being rejected. The following discourse amongst community members and back-and-forth between leaders from each respective protocol point to a future where Aave is not usable on Polygon PoS. Stakeholders emphasize that this future should not be today in order to protect users, but that it could, or should, be tomorrow:

Analysis from [Llama Risk](#), Aave's risk manager:

1. Considering the current sentiment indicating the Polygon pre-PIP proposal is unlikely to proceed, we recommend no immediate changes to Aave Polygon market parameters are necessary as the risk profile remains unchanged.
2. Should Aave DAO opt to reduce network exposure, we recommend a measured and gradual approach to protect both users and dependent protocols (e.g., some Curve pools use A-tokens on Polygon).

Commentary from [EzR3aL](#), a very active and long-time Aave community member:

- Aave user on Polygon shouldn't be the affected ones by this vote and should have time to act accordingly.

So my proposal would be, instead of moving away from Polygon immediately by changing parameter drastically, I would suggest the DAO simply stops business there over time. This means we don't raise caps anymore, we don't add new assets, we raise the RF over time and encourage user to move to other chains, as there were already a few comments from those chains where they would incentivize this. That way user have enough time to adjust their loans without getting rekt on day one. We keep the market functional as long as needed but don't invest more time and money into it.

We are concerned with the feedback shown above:

- Not only does the community believe that Aave should not increase supply caps, but that it should decrease them,

eliminating hopes for any future growth

- Removing potential listings for future assets is a lose-lose for both communities, as users will miss out on future blue-chip assets coming to Polygon
- Raising RF's over time will make Aave unusable practically for Polygon PoS users

There is additional commentary from other community members, risk managers, and Aave leaders that further support our concerns of the existing trajectory.

## Useful Links

[Pre-PIP: Polygon PoS Bridge Liquidity Program - Proposal Ideas](#)

[\[ARFC\] Adjust Risk Parameters for Aave V2 and V3 on Polygon - Governance](#)

[AAVE - DefiLlama](#)

Specification

Proposal for Joint Incentives

To build on previous success and address the evolving needs of both our communities and the market at-large, the Polygon Community Treasury Board proposes a "Joint Liquidity Incentive Program" featuring a combined \$3M of incentives:

- Polygon Contribution: \$1.5M USD in POL tokens from the Polygon Community Treasury
- Aave Contribution: \$1.5M USD in AAVE tokens from the Aave Treasury

The combined incentives would be used for the following:

1. Liquidity Incentives: Attracting new users and liquidity providers to Aave on Polygon PoS by offering competitive rewards.
2. Protocol Growth: Retaining and enhancing the utility of POL and AAVE tokens while driving adoption of Aave v3 on Polygon PoS.

The combined \$3M of incentives could be distributed to Aave users on Polygon PoS over the course of the next 4 months. This could result in an incentive APR of 3-4% for lenders, and 1-2% incentive APR for borrowers.

The Need for Joint Incentives

Given the Aave Community is in the AFRC stage with both [Mantle](#) and [Sonic](#), who will each provide eight figures of liquidity incentives, along with additional discussions with other chains, we believe that a program of this size is needed in order to provide competitive rates to other markets. Furthermore, we believe that this proposal needs to move along swiftly given that other proposals seem to be in final stages that will target the migration of liquidity from Polygon PoS to Aave markets on other chains.

## Useful Links

[\[ARFC\] Deploy Aave v3 on Sonic - Governance](#)

[\[ARFC\] Deploy Aave v3 on Mantle - Governance](#)

Disclaimer

This proposal is being submitted by Roc Zacharias, who is on the Polygon Community Treasury Board (CTB), which oversees the Polygon Community Grants Program (CGP); on behalf of the CTB and Polygon community. Roc Zacharias is not an employee of Polygon Labs, and the CTB operates on the community's behalf. This proposal has been voted 'Yes' by the members of the CTB with a majority vote pending results of this joint proposal.

## Next Steps

Should this proposal gain the support of the Aave DAO, we envision the following steps:

1. Token Allocation: Disbursement of \$1.5M in POL and AAVE tokens into a multisig wallet managed by representatives from both communities.
2. Liquidity Program Design: Finalize the specifics of the incentive program, ensuring transparency, inclusivity, and

measurable KPIs.

3. Deployment and Monitoring: Launch the program, actively monitor its progress, and adjust strategies based on performance metrics and community feedback.

The proposal is more than just a funding request; it represents a renewed commitment to collaboration, signaling that Polygon and Aave have put previous differences aside in order to prioritize the long-term growth and success of our ecosystems. By leveraging combined strengths, we can create a lasting impact that benefits not only Aave and Polygon, but also the broader decentralized ecosystem and its users.

We invite the Aave DAO and Polygon governance participants to engage in an open dialogue, share their thoughts, and ultimately support this initiative. Together, let's build a brighter future for DeFi. Whatever happens, in the end I hope our communities can stay friends, regardless of how this all turns out.

With all of our Love,

Roc

Polygon Community Treasury Board

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