36% of LDO tokens are held in the treasury. I propose that some of these be distributed via a long term liquidity mining program for ETH stakers in Lido.

Liquidity mining has been used by a significant proportion of major DeFi protocols, including Uniswap, Sushiswap, Curve, Synthetix, and Compound. There are in my opinion many arguments for introducing a liquidity mining program for Lido.

A liquidity mining program will assist in achieving a broad distribution of the LDO token to the biggest users of the protocol. Those who have staked ETH in LDO will have a growing stake in the lido project itself and presumably be more loyal to the project and have a greater stake in decisions going forward.

There are many Ethereum staking services already, and many more will continue to pop up as eth 2.0 staking pools will undoubtedly grow as a percentage of the total supply of ETH. Lido has arguably set itself ahead of the competition with early yearn and curve integrations. With that said it is very likely that other protocols that pop up will incentivise deposits with their native token in order to win over market share. We saw how Sushiswap was extremely successful in taking Uniswap liquidity with their liquidity mining program, rapidly flipping Uniswap in liquidity. Uniswap was able to win back market share by introducing liquidity mining of their own, but sushi is again gaining the upper hand, no doubt thanks in part to their broader and longer term liquidity mining program.

If someone wanted to gain market share in the ETH 2.0 staking pool area, recent history tells us it would be rather easy for them to do if they were to introduce such a liquidity mining program if competitors did not have one. It seems highly likely that this will happen as eth 2.0 staking pools grow.

One concern that has been expressed in discord is that liquidity mining will primarily benefit large farmers who will systematically sell their LDO tokens. While no doubt some people will do this, as they have done in Sushi, Curve and others, I would say that nonetheless liquidity mining is still a net positive for the project for a number of reasons. Firstly, none of the other projects that utilise liquidity mining appear to have regrets in doing so. For Sushi in particular, it has been a resounding success. For Compound there were teething issues, and liquidity mining rewards were rapidly slashed shortly after they started. It’s worth considering the differences in these two projects that led to different outcomes of their liquidity mining programs.

For Sushi, liquidity miners have an inherent interest in the success of the project. Liquidity miners are taking on real risk, market making volatile tokens which can substantially diverge from each other, resulting in impermanent loss. Trading volumes need to be sufficiently high to compensate market makers for this. On the other hand, liquidity mining on compound did not involve a huge amount of risk: it was possible to recursively deposit, borrow and deposit again, without really taking on exposure to any individual tokens, and one could use USD stablecoins as a starting deposit to truly take away any skin in the game.

In my opinion, Lido finance is closer to Sushi in this regard. Ethereum is not a stablecoin and is highly volatile. Most people who are long ethereum have a long term stake in the success of Eth 2.0. On top of that, ethereum stakes are locked, and there’s nothing preventing stEth from losing its peg. Staking on lido is fundamentally long term in nature and not appropriate for yield farmers who systematically switch to the highest yielding project. Indeed, if a new Eth yield farm popped up and professional yield farmers decided to switch from lido en masse, this would result in stEth losing its peg and making it unprofitable for them to do so.

Unlike Compound where one could have earned a high interest rate on USD without any skin in the game, stakers on lido inherently are tied to the long term success of Lido, Ethereum and Ethereum 2.0.