

# User Growth Fund Proposal

Kava Labs

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## Abstract

To incentivize early adoption of the network, we propose a new governance controlled account that will be funded via inflationary monetary policy. This proposal specifies the inflation schedule for funds dedicated to user growth and outlines our intention to use these funds to give time-locked KAVA tokens to users who create initial liquidity for USDX. If this text proposal is approved, a future implementation of the Kava blockchain will include a technical implementation of this proposal and can be activated as part of a governance-approved software upgrade.

## Overview

### Goal

- Overcome the bootstrapping problem of USDX liquidity by incentivizing the creation of 10M+ USDX backed by 30M+ USD of collateral assets.

### Methods

- Modify the KAVA inflation curve so that additional KAVA is created and used for growth incentives.
- Asset holders will be incentivized, in protocol, on the amount of USDX they mint and on how long their USDX is minted for.
- To avoid large initial increases in circulating supply, additional KAVA will be locked for 52 weeks before becoming liquid.

## Motivation

Framework Ventures has backed KAVA with the goal of building a CDP platform and USD stablecoin to rival that of Maker. While this is a large goal, we believe accomplishing that goal is a step towards building a synthetic asset and stablecoin platform that reaches far beyond this initial use case. To get there, we need to make USDX and the KAVA CDP systems successful at launch by enhancing the distribution of and liquidity within KAVA. It's from this perspective, with a long-term viewpoint, that we propose adjusting the KAVA token distribution to incentivize initial growth.

We propose that Kava should use an inflationary monetary policy with the purpose of mitigating the bootstrapping problem of USDX liquidity as fast as possible. Kava's success is predicated on user participation and accumulation of buy-in into KAVA. Rewarding users in KAVA for taking actions has the added benefit of buying them into the network and further aligns their interest in its growth. By increasing the transparent inflation schedule and targeting it at user behaviors that will drive network growth, we believe Kava can kickstart USDX liquidity quickly and create a flywheel of growth that the network can rely on going forward.

## Growth Incentives

Growth incentives are critical in young networks and products to gain initial usage and attention. This is particularly evident with Kava as USDX must initially be created, before liquidity can be found or any specific use cases developed. A clear incentive structure which rewards early participants with stake in the network is perhaps the most incentive aligned method for growth.

The power of incentives should not be ignored - our entire industry is built on top of them. Inflationary block reward incentives for miners/stakers drive security, and they are already in place and working for KAVA staking. This same model is what has made the Bitcoin mining network so robust and antifragile. Specific inflationary rewards are powerful incentives which can be used to influence precise user behaviors within a product. The DeFi project Synthetix created an incentive to provide liquidity for their sETH/ETH Uniswap pool and now it is the largest pool within Uniswap.

Alignment of incentives requires both positive feedback mechanisms as well as negative ones. We all believe in the future potential of Kava and are excited to be assisting along this journey with everyone. For those network participants, token holders or institutional investors who don't help during these early stages, non-participation in these growth initiatives will come with a deflationary effect. While we never want to purposely undercut these passive participants, we also want to provide disincentives for non-participation.

## Community Feedback

We've already spoken with many leaders within the Kava ecosystem about this proposal and this is what they have had to say:

"Kava is well positioned to become the number one DeFi platform in the blockchain space. In order to seize this opportunity however, Kava needs a stronger set of tools to drive user adoption. This monetary policy proposed by Framework Ventures is a great first step to giving the Kava ecosystem the tools it needs to grow aggressively into the leading platform in the space." - Brian Kerr, CEO of Kava Labs.

"This new monetary policy, with a focus on network growth, allows the flexibility of the community to create incentives to those adding value to the network. Networks live or die based on their growth and usage. Incentives work and are a huge step in the right direction to kickstart the Kava network." - Etienne vantKruys, Token Research Group.

"This is a really exciting idea. It's a pretty well incentive-aligned mechanism for bootstrapping USDX liquidity, which is incredibly important for the early stages of creating a new stablecoin. Great to see that Kava is not only building upon the shoulders of giants like Maker, but also advancing innovation and bringing to the table new mechanism design ideas."- Sunny Aggarwal, Founder of Sikka.

"Incentives driving asset deposits into Kava will be critically important to bootstrap initial USDX supply and liquidity. While there is an implied con of inflation, the negatives should be drastically outweighed by the positives of the network growth that results from this new monetary policy." - Michael Ng, Cofounder of StakeWithUs.

## Proposal

### Inflationary Monetary Policy

Kava will inflate an additional 15% in the first year, halving its inflation rate each year over four years. The additional Kava created will be reward in protocol to users depositing assets and minting USDX.

Table 1: Kava Projected Inflation Model

Year	Initial Supply	Staking Inflation	Growth Inflation	Projected Total Supply
1	103,000,000	4.75%	15%	123,342,500
2	123,342,500	3.625%	7.5%	137,064,353
3	137,064,353	3%	3.75%	146,316,196
4	146,316,196	3%	2.5%	154,363,587

These are best estimates and should not be taken as predictive of the exact supply schedule. Model assumes that rewards inflation goes live around May 2020, and that staking inflation continues on its current downward trajectory towards the lower limit value of 3%.

## Implementation

Kava should strive to have the implementation of the monetary policy be as automated and community driven as possible. The core pieces will include a community growth pool “Growth Pool”, and distribution hooks to the Growth Pool based on business logic that ultimately drive the user action incentives. The amount of effort to add new incentive distributions from the Growth Pool will be minimized in software.

## Components

- Kava Governance “Growth Pool”
  - This pool will be a Kava address, which no entity holds the key for. Operations on that address will be controlled solely by parameter changes in governance votes or software upgrades that governance approves.
- Inflation Mechanism
  - The monetary policy will be produced by extending the existing staking inflation software functionality to a new inflation mechanism whose parameters are solely outlined by the inflation schedule outline above.
  - New inflationary KAVA will be distributed directly to the Growth Fund
- Growth Fund Distribution Hooks
  - From the Growth Pool, hooks into the existing distribution model are constructed based on desired user action incentives.
  - The initial hook will be the distribution of KAVA from the Growth Pool to user accounts based on the percentage of total USDX that account has created by collateral type.
  - The amount, frequency, and addition of collateral types is entirely dictated by parameter changes in governance votes. The exact parameters of each distribution hook will be decided by future governance votes, the scope of this proposal is limited to the creation of the Growth Pool.
  - The distribution hooks are designed in such a way that new hooks, based on additional business logic, can be easily uploaded and voted on to incorporate into the system (delays in ‘hard forks’ for these scoped updates will be minimized).

## Kava Reward Details

Growth incentives will be denominated in KAVA, distribution will be locked and require action.

- Users receive KAVA
  - Critical to get early participants bought into the network through their usage
- KAVA rewards are locked for 52-weeks
  - 52-week lockup ensures favorable tax treatment in many jurisdictions and filters for stronger hands
  - Locking the KAVA rewards removes immediate sell pressure and aligns users to stake the KAVA to help secure the network and earn more block rewards.
- Rewards are denominated in KAVA

- Denominating rewards in KAVA aligns users with the growth of the network.
- Weekly reward distributions
  - Rewards are distributed at the same time each week to encourage periodic clustering of users activity for better engagement
  - Users will have two weeks to redeem before their reward goes back into the pool.
- Users action is required to redeem rewards
  - Given tax view in certain jurisdiction, requiring a user to take actions allows them to opt into the reward and potential requisite taxes paid on it.
  - Periodicity of user action build up strong user habit. Additionally, other valueable actions can be added into this users habit.

## **Voting Date**

Intended Deposit Submit Time: Friday 2020-03-20 at 14:00UTC