Celo Governance Call #9

August 5, 2021

Documentation for New Celo Governance Repo ([Link](#))

- <u>Target Audience & Purpose:</u> This documentation is primarily aimed at potential CGP proposal creators, and our goal is to help people understand how to create proposals.
- <u>Next Steps:</u>
  - Eric N, Yorke R, Yaz K, and Tobias K to review.
  - CGP Editors to incorporate feedback and publish.

Context for CGP-0033 through CGP-0036

1. Epoch rewards incentivize certain behaviors in the ecosystem to ensure the growth and development of the network.
2. The protocol is rewarding ahead of schedule, so rewards are being scaled down automatically. Because of that, the cLabs economics team has been looking into ways to adjust the protocol.
3. The downscaled rewards are okay right now, but eventually lower rewards may lead to lower participation, which could cause the protocol to run into trouble.
4. This is why we care about effective incentives:
   a. They make voting and validating attractive.
   b. They ensure the security of the network.

CGP-0033: Activate Dynamic Voting Yield Adjustment Factor ([Link](#))

- <u>Proposal Summary:</u> This change activates dynamic staking reward rate adjustment by setting the staking yield adjustmentFactor to a positive value of 0.00000112799. Currently the staking reward rate adjustmentFactor is at zero which keeps the staking reward rate constant at 6%.
- <u>Why It's Needed:</u> When Celo started, there weren't a lot of other ways to monetize Celo besides voting and validating. Ubeswap and other apps have increased the opportunity cost of those activities, so this proposal will make voting rewards change more quickly in response to those kinds of external pressures, which should make sure voting stays attractive enough.
- <u>Discussion Summary:</u> See discussion summary for CGP-0034.

CGP-0034: Increase targetVotingGoldFraction from 50% to 60% ([Link](#))

- <u>Proposal Summary:</u> This change increases the target voting gold fraction from 50% to 60%.
- <u>Why It's Needed:</u> A higher voting gold fraction would make the network more secure because it'd be harder for any single individual or group to have undue influence on the validator elections.
- <u>Discussion Summary:</u>
  - Voting rewards are the biggest factor involved in the issuance of new Celo, so it'll impact Celo's inflation. Could there be any negative runaway effects?

- It's difficult to know how it'll evolve over time, but there was agreement that it would impact inflation.
  - What analysis led to the voting fraction? No analysis - based on forum discussion.
  - Who will monitor, and is there an option to rollback? cLabs economics team has been monitoring on testnet. It could be rolled back through governance proposals.

CGP-0035: Reduce the Epoch Rewards Community Fund share from 25% to 5% ([Link](#))

- Proposal Summary: This change decreases the share of Epoch Rewards that contributes to the on-chain community fund from 25% to 5%. This would basically make the on-chain community fund grow by 1M CELO per year instead of 5M CELO per year.
- Why It's Needed: There are 7M CELO in the on-chain community fund, and it's growing by 5.5M per year, but less than 1M has been allocated. Slowing the growth of the on-chain community fund would mean fewer CELO are issued each Epoch, and that would mean that the overall downscaling of rewards would slow.
- Discussion Summary:
  - Arguments against: May demotivate community, funds built up now could be used in the future, optics associated with decreasing community rewards and increasing validator rewards, and whales may not want to increase again.
  - Many people voiced an opinion that it would be helpful to rename the Celo Community Fund to avoid confusion with the on-chain community fund, but it would be a heavy administrative lift because the creators have already set up a legal entity (Celo Community Fund, Inc.), established legal docs, a bank account, and exchange accounts.

CGP-0036: Increase Validator Target Rewards from 75k to 85k per year ([Link](#))

- Proposal Summary: This change increases the annual targeted validator payments from 75,000 cUSD to 85,000 cUSD.
- Why It's Needed: Validator Rewards are currently being scaled down to ~87% of their original level, so only ~65000 cUSD is being paid out to validators (on an annual basis). The increase to 85000 cUSD per year roughly restores the original 75000 cUSD validator rewards per year. Validators make < 10% of total epoch rewards, so increasing it by 10% doesn't cost a lot.
- Discussion Summary:
  - Args Against: Validator demand is high now and validators are rewarded well, bad optics to increase validator payments and decrease community fund contributions. There are alternative sources of validator rewards that lessen the impact of downscaling.
  - Is there a way we can make it so CGP-0036 is not dependent on 35? Bundling proposals together isn't great because they are separate changes. Makes conflict of interest because validators would be rewarded. Also increases bad optics because they'd be more linked together.
  - Discussion on paying validator rewards in CELO vs cUSD: Stability of rewards is good for people to stick around in long-term
  - Could also be helpful to just to not downscale validator rewards.