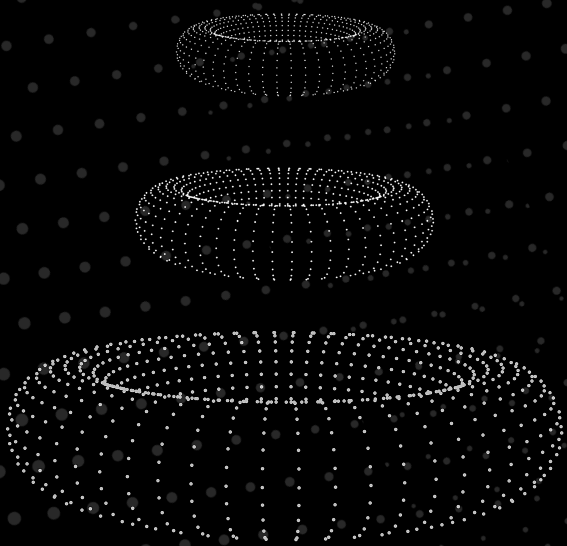
Dafi
PROTOCOL

Rewarding networks based on adoption



DAFI
token

V3.0 February 2021

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Project purpose: All contributions will be applied towards the advancing, promoting the research, design and development of, and advocacy for Dafi, an alternative demand-pegged model for token inflation for DeFi projects. You agree that you are purchasing DAFI to participate in the Dafi platform and to obtain services on the ecosystem thereon. The Foundation, the Distributor and their respective affiliates would develop and contribute to the underlying source code for the Dafi platform. The Foundation is acting solely as an arms' length third party in relation to the DAFI sale, and not in the capacity as a financial advisor or fiduciary of any person with regard to the sale of DAFI.

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Dafi – rewarding networks

Dafi *(daf-ee)*

Dafi creates long-term users by rewarding based on network adoption.

All decentralized economies distributes tokens to users. The problem is that distributing tokens when adoption is low, creates an excess supply & devalues the economy. There is no link between the release of network supply, and the network's adoption. This harms longer term users and only favours short-term participants.

Dafi enables **every** protocol and platform to create a synthetic flavour from their native token. This is then pegged to the demand of their network and distributed to users. Meaning users are still incentivized when adoption is low, but by being *rewarded later, not earlier*.

Individuals can stake the DAFI token for governance and to collateralize the creation of *d*DAFI, the first synthetic unit which is *tied to a network demand*. The quantity of the synthetic can increase only as network adoption rises – incentivizing longer term users.

A new model

DAFI is staked for rewards pegged to the demand of the protocol

Scarcity

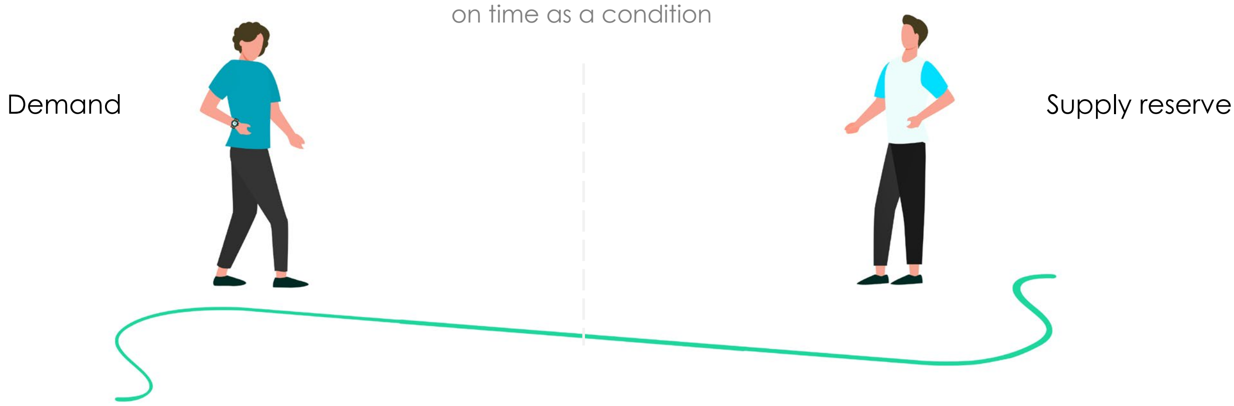
Dafi is a smarter way of creating scarcity, by reducing reward quantity if demand declines

Adoption

Dafi's new inflation model allows every layer-1, layer-2 protocols and cryptocurrency to reward their users based on adoption

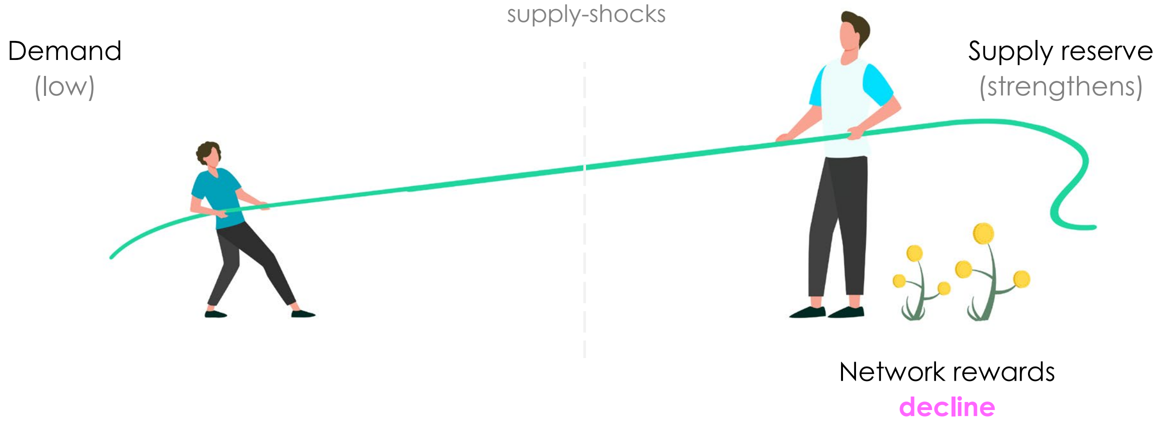
Currently there is no link between network rewards & their adoption

Rewards e.g. staking are based on time as a condition



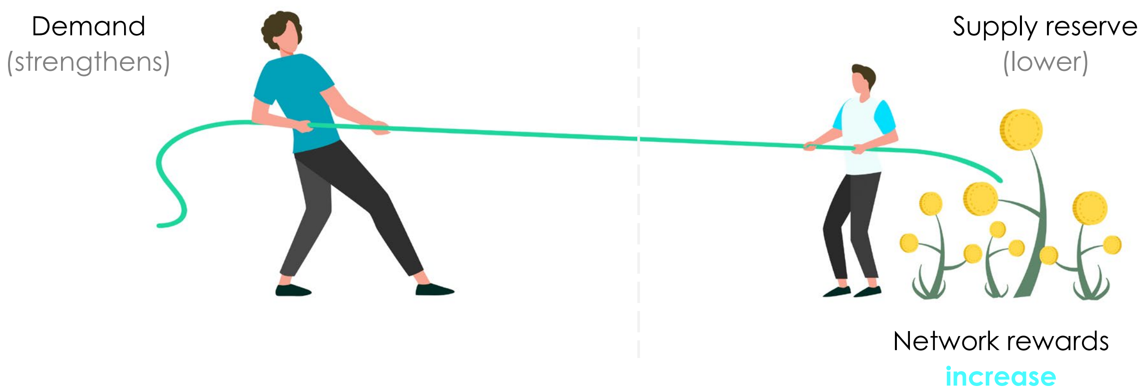
With Dafi - when demand is weak, the network rewards are reduced in quantity

Enhanced scarcity preventing supply-shocks



Users are rewarded greater through network adoption

Early participants are rewarded later



Sustainable adoption

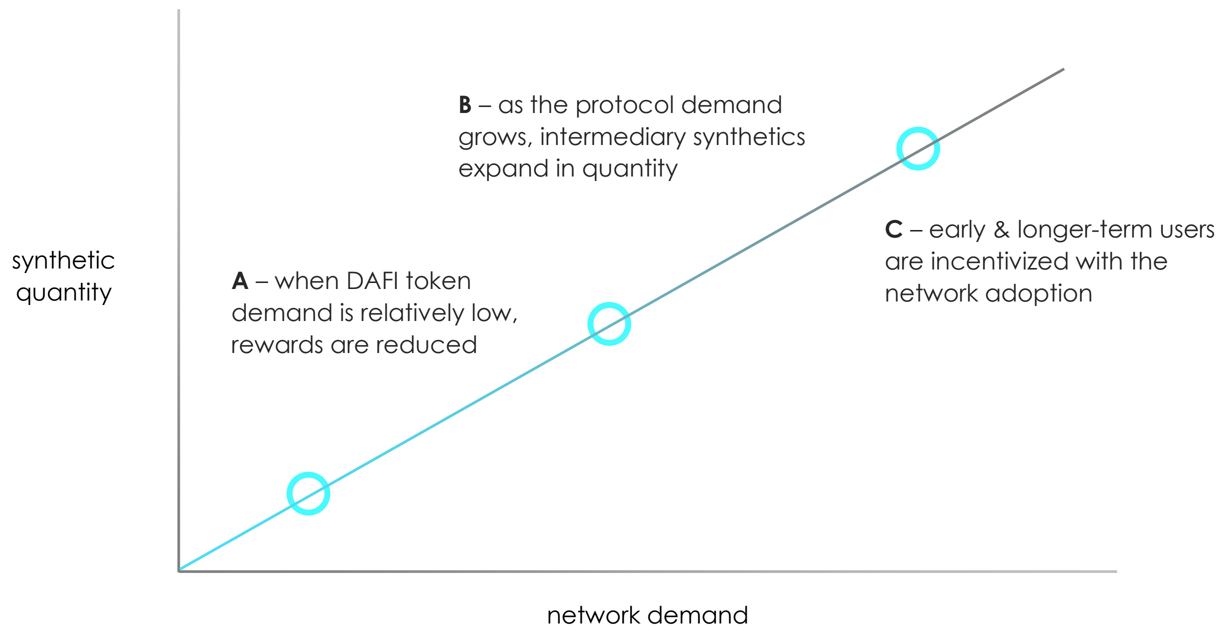
Dafi introduces a logical model, where reward quantity is tied to network demand. This incentivizes users to support a network longer, by being rewarded later, and not during reduced adoption.

Dafi is based on core economic principles, which include –

1. **Reducing quantity** of network rewards initially, as demand is too low. This would only lead to supply-shocks and risks such as single-user control of network value.

2. **Increasing issuance** of tokens only as adoption rises – forming a *direct link* between these two market-factors for a better, healthy growth of decentralized economies.

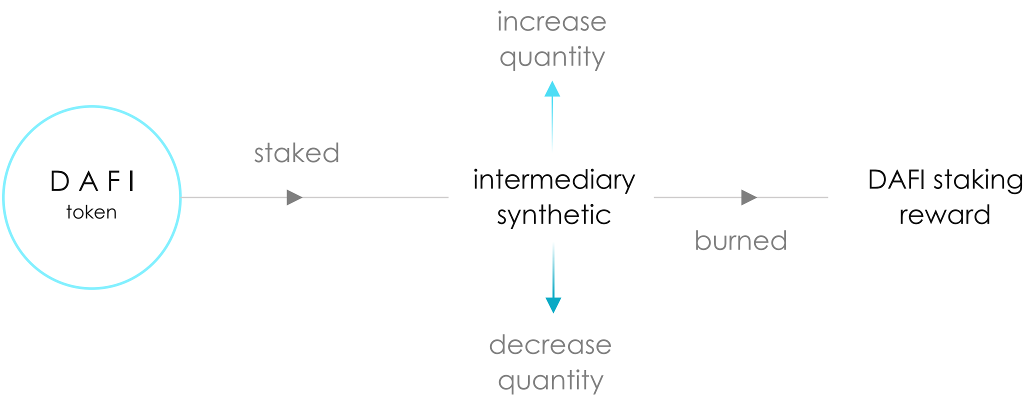
3. **Enhancing scarcity** when network's decline in demand, to protect an economy, an adaptive response is required to prevent an over-release of tokens. Even during low demand periods, users are still rewarded for participation later – when demand rises.



This is Dafi

Dafi introduces the first alternative since Satoshi, to use network rewards for building a decentralized economy. Instead of directly issuing tokens for staking & liquidity – Dafi ties synthetics to each network's adoption.

This means that the token's released & network demand is proportional. By *linking these two factors,* it attracts longer-term users to be incentivized longer, supporting adoption.



DAFI, creates the first transition from simple token-rewards, to **demand-tied** rewards – incentivizing users better, for liquidity/staking.

1. DAFI is staked, to create a second, synthetic token
2. This *d*DAFI is tied to the adoption of the network
3. As demand rises, the synthetic expands in quantity. As demand declines, it reduces to prevent an excess emission of rewards

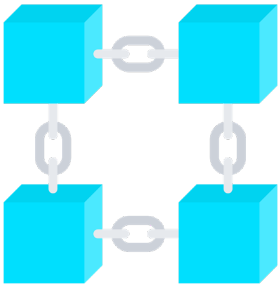
Dafi can be implemented by all networks to reward their users, without the risk of over-issuing too many native tokens. It will create stable adoption without hyperinflation. Creating chains and finance that will last. **This is DAFI.**

Same chains. Better users

Staking

Blockchains are secure because of their reward model e.g. BTC being released to miners. This is dependent on time (e.g. x amount issued every y months). It does not factor any network demand/adoption – meaning it struggles to incentivize during low-demand without causing severe devaluation (we saw this in 2018).

Dafi allows every Blockchain protocol to maintain the network even if adoption is low. A synthetic *d*Token is created and distributed to nodes. As demand rises – early participants will have a greater quantity, rewarding them later.



Liquidity

Liquidity is the heart of every decentralized finance application. Liquidity mining involves distributing tokens to users e.g. on Unsiwap. This model is plagued with unsustainable emission of tokens – which attracts short term users, at the cost of hyperinflation.

Instead of issuing a direct-token, project's can distribute a synthetic, which incentivizes users greater as adoption in the network rises. (instead of large amounts when there is zero adoption).

Bounty

Standard bounties are associated with huge sell-pressures, and often cause more harm than good.

Using Dafi – projects can create a synthetic which is tied to their adoption/demand. Incentivizing longer term users, better. A smarter method of acquiring users without flooding the market with an excess amount of tokens.

A broken model

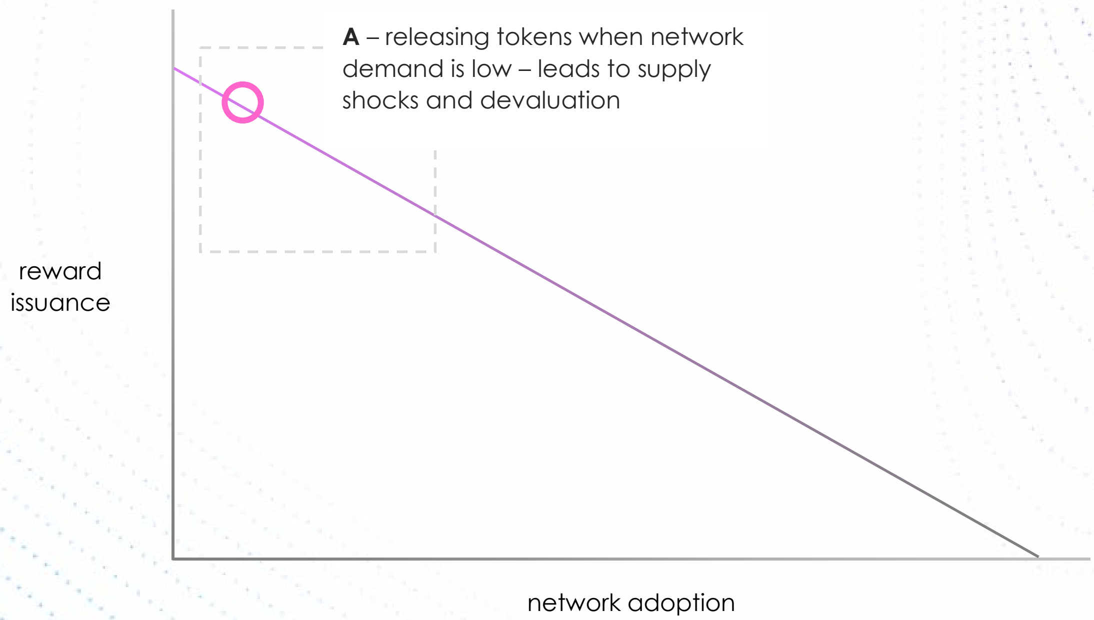
The biggest problem in decentralization, is the way we incentivize users within a network.

Typically, a new project will distribute tokens through high staking rewards, bounties, and incentivizing their liquidity providers.

The flaw is that they do not factor in network adoption – with their network supply. Meaning, their economy is constantly in an **unpredictable state**. It began with Bitcoin, which in 2010 had an inflation rate of 160% (compared to 2.2% today). This higher reward in the *launch phase is more prone to unstable, devaluation and hyperinflation risks.*

While this is the *foundation of everything decentralized – it is fundamentally broken*. Releasing a large supply to attract participation in bearish markets or for new projects, is a short-term solution, with a long-term punishment in devaluation.

So of course, the question for everything in Blockchain is – how to incentivize users while factoring in network demand?



The problems with DeFi

1 Hyperinflation

Incentivizing users to participate in a decentralized economy is important. This becomes difficult when demand is already low – simply issuing tokens during this period creates harmful supply-shocks.

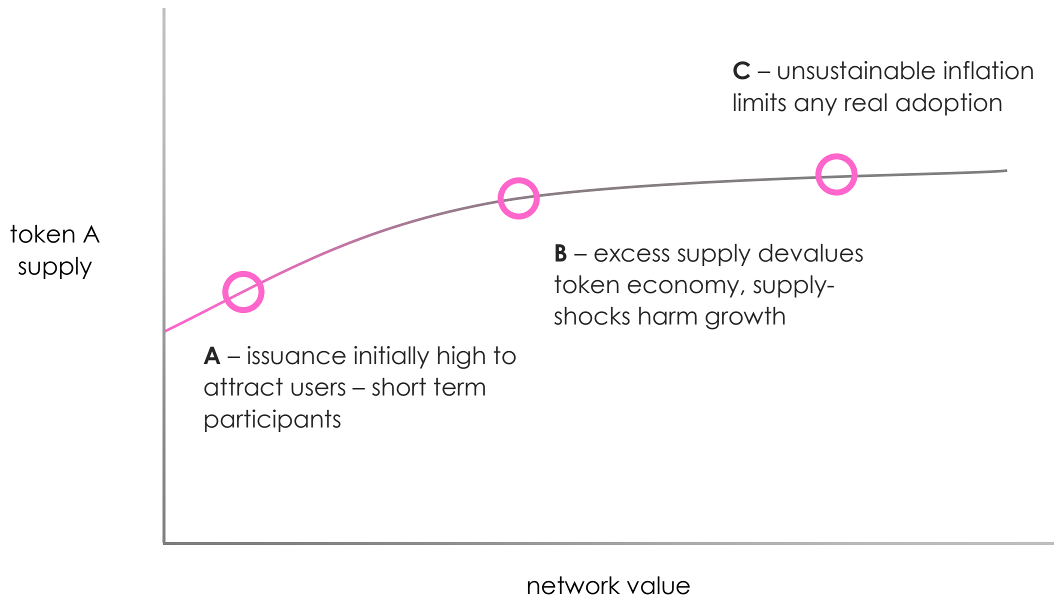
2 Short-term users

Distributing token rewards attracts new users, but doesn't favour those that are longer term. There is no economic incentive to those users who accumulate rewards to support until adoption rises.

3 Market declines

In 2018 we saw the same inflation model crush many token economies. Even Bitcoin miners were forced to shut down operations due to the lack of incentives. Dafi was inspired by this – to create a model where the network emission of tokens would be tied to its demand, which could have enhanced scarcity to protect an excess supply in such conditions.

Rewarding Networks - Example A



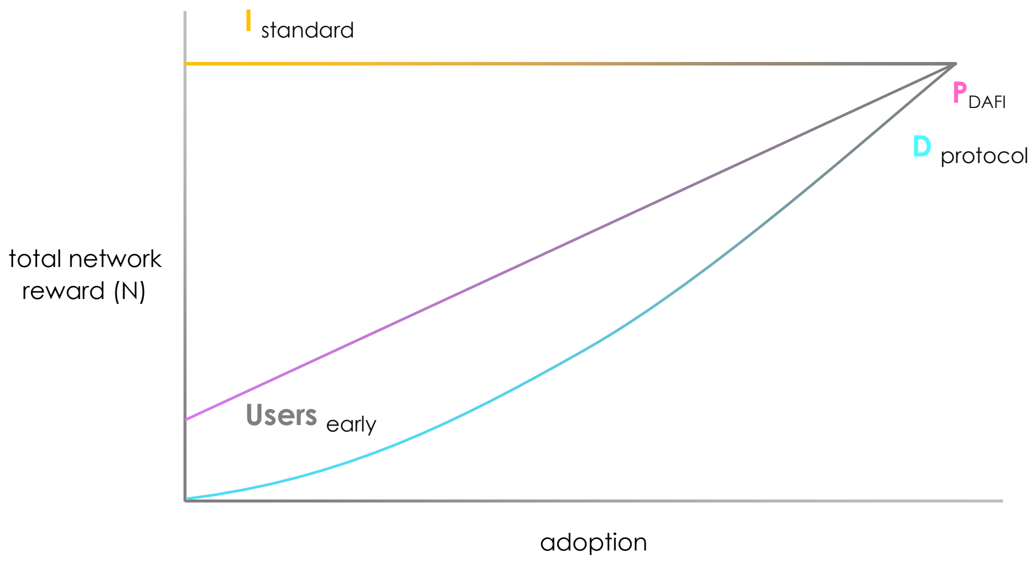
DAFI staking

DAFI is the native-token of the protocol and is used for both staking and governance. When DAFI tokens are staked as collateral, they generate synthetic *d*DAFI units – which are pegged to the demand of the DAFI network.

By supporting the network, users are rewarded for their staking collateral by accumulating synthetics that further expand in quantity, only as demand rises.

This will be the first implementation of an adoption-tied reward model. As more networks adopt DAFI to reward their users, the governance model will be gradually implemented.

The graph below compares typical distribution (**I**) of network tokens. *Simply – without Dafi the release of network supply is not linked to the adoption & demand.* DAFI creates a direct correlation between network rewards and network adoption for longer term users, and more adaptive economies.



$$N_{\text{reward}} = D_{\text{protocol}} * dToken_{\text{synthetic}}$$

(**N**, the total network reward, **D**, the protocol demand coefficient, **P**, changing market-price, and **I**, standard network inflation without DAFI)

DAFI Token

The native digital cryptographically-secured utility token of the Dafi platform (**DAFI**) is a transferable representation of attributed functions specified in the protocol/code of the Dafi platform, which is designed to play a major role in the functioning of the ecosystem on the Dafi platform and intended to be used solely as the primary utility token on the platform.

DAFI is a non-refundable functional utility token which will be used as the medium of exchange between participants on the Dafi platform. The goal of introducing DAFI is to provide a convenient and secure mode of payment and settlement between participants who interact within the ecosystem on the Dafi platform, and it is not, and not intended to be, a medium of exchange accepted by the public (or a section of the public) as payment for goods or services or for the discharge of a debt; nor is it designed or intended to be used by any person as payment for any goods or services whatsoever that are not exclusively provided by the issuer. DAFI does not in any way represent any shareholding, participation, right, title, or interest in the Foundation, the Distributor, their respective affiliates, or any other company, enterprise or undertaking, nor will DAFI entitle token holders to any promise of fees, dividends, revenue, profits or investment returns, and are not intended to constitute securities in Singapore or any relevant jurisdiction. DAFI may only be utilised on the Dafi platform, and ownership of DAFI carries no rights, express or implied, other than the right to use DAFI as a means to enable usage of and interaction within the Dafi platform.

DAFI would provide the economic incentives which will be consumed to encourage users to contribute and maintain the ecosystem on the Dafi platform, thereby creating a win-win system where every participant is fairly compensated for its efforts. DAFI is an integral and indispensable part of the Dafi platform, because without DAFI, there would be no incentive for users to expend resources to participate in activities or provide services for the benefit of the entire ecosystem on the Dafi platform. Given that additional DAFI will be awarded to a user based only on its actual usage, activity and contribution on the Dafi platform, users of the Dafi platform and/or holders of DAFI which did not actively participate will not receive any DAFI incentives.

In order for the Dafi platform to function properly, users would need to be incentivised to stake DAFI as collateral/liquidity to back the issuance of secondary DFY tokens. As compensation for opportunity costs, these early supporters which help to promote adoption of the Dafi platform would be rewarded with additional token incentives (i.e. "mining" on the Dafi platform), according to each user's relative contribution after various adjustment and correction parameters.

DAFI are designed to be consumed/utilised, and that is the goal of the DAFI token sale. In fact, the project to develop the Dafi platform would fail if all DAFI holders simply held onto their DAFI and did nothing with it. In particular, it is highlighted that DAFI: (a) does not have any tangible or physical manifestation, and does not have any intrinsic value (nor does any person make any representation or give any commitment as to its value); (b) is non-refundable and cannot be exchanged for cash (or its equivalent value in any other virtual currency) or any payment obligation by the Foundation, the Distributor or any of their respective affiliates; (c) does not represent or confer on the token holder any right of any form with respect to the Foundation, the Distributor (or any of their respective affiliates), or its revenues or assets, including without limitation any right to receive future dividends, revenue, shares, ownership right or stake, share or security, any voting, distribution, redemption, liquidation, proprietary (including all forms of intellectual property or licence rights), right to receive accounts, financial statements or other financial data, the right to requisition or participate in shareholder meetings, the right to nominate a director, or other financial or legal rights or equivalent rights, or intellectual property rights or any other form of participation in or relating to the Dafi platform, the Foundation, the Distributor and/or their service providers; (d) is not intended to represent any rights under a contract for differences or under any other contract the purpose or pretended purpose of which is to secure a profit or avoid a loss; (e) is not intended to be a representation of money (including electronic money), security, commodity, bond, debt instrument, unit in a collective investment scheme or any other kind of financial instrument or investment; (f) is not a loan to the Foundation, the Distributor or any of their respective affiliates, is not intended to represent a debt owed by the Foundation, the Distributor or any of their respective affiliates, and there is no expectation of profit; and (g) does not provide the token holder with any ownership or other interest in the Foundation, the Distributor or any of their respective affiliates.

The contributions in the token sale will be held by the Distributor (or their respective affiliate) after the token sale, and contributors will have no economic or legal right over or beneficial interest in these contributions or the assets of that entity after the token sale.

The $DAFI Token

Adoption

By using DAFI, **every** decentralized economy can reward users based on their network adoption - incentivizing users later, not earlier

Staking

DAFI is staked to release demand-tied synthetics – which are **pegged** to the protocol's adoption

Governance

DAFI users can decide on key changes within the protocol – including new **products** to be built

DAFI

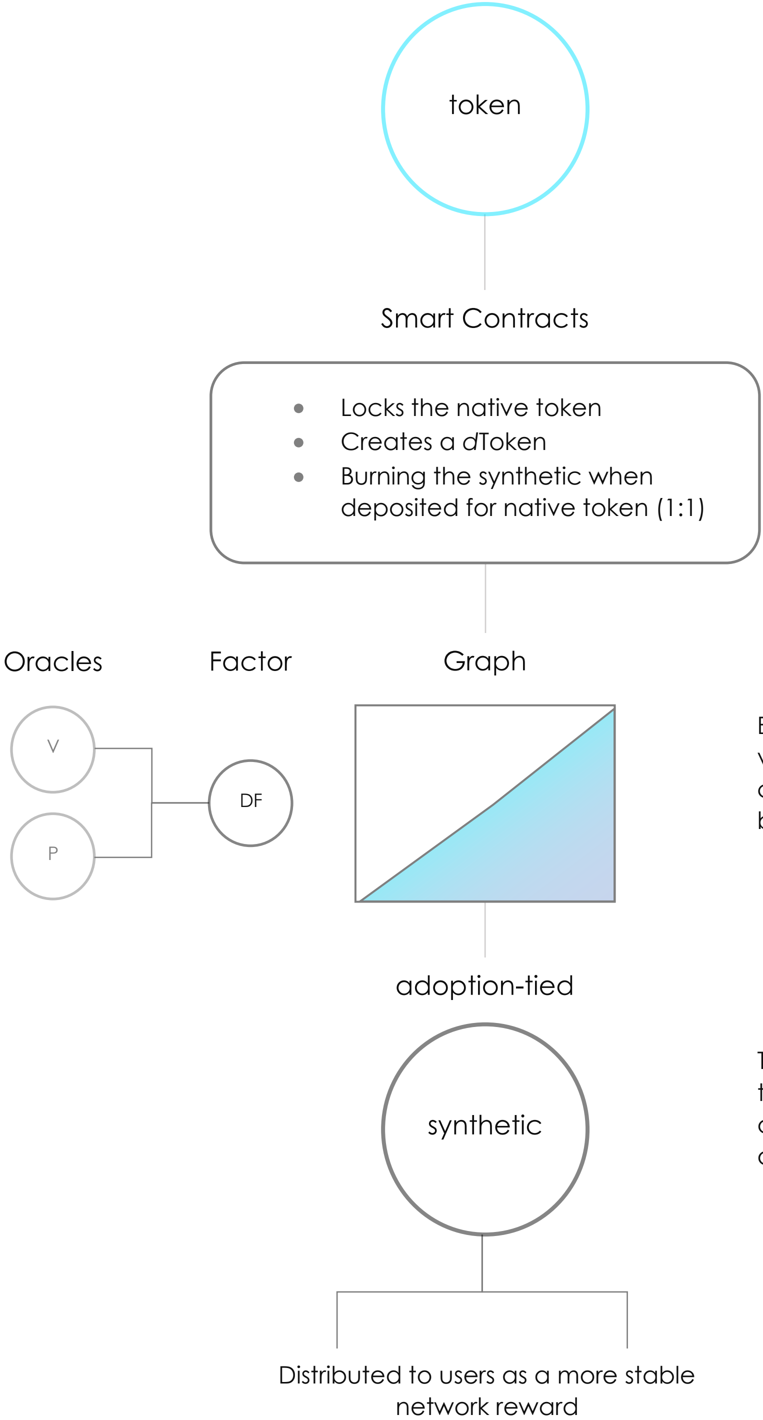
DAFI Exchange Listing

Token symbol:	D A F I
Total supply:	2,250,000,000
Exchange listing:	March

SIGN UP

DAFI will be available on exchanges soon, join the waiting list dafiprotocol.io

Overview



Based on the desired metrics, e.g. volume & price, a demand graph is created relative to a chosen baseline value

The created *d*Token is now pegged to the demand of the network algorithmically, and it increases in quantity only as the network grows

Create Dafi flavours

Flavours are different versions of DAFI's synthetics.

While *d*DAFI is pegged to the demand of the DAFI protocol, and replaces traditional staking and liquidity rewards, different versions of it can be created.

Let's refer to it as a *d*Token, where *Token* can be any layer-1 protocol, cryptocurrency, or DeFi application.

- ## Example 1 –

Project A is somewhat the same as most Blockchain/DeFi networks. It's in an early-stage with low demand. To attract users they distribute their Token A (TKA) via large reward rates.

This however leads to their users, liquidity providers, or node validators, to be benefitted in the short-term for an immediate gain. There is no incentive for the longer-term users, as this is fundamentally a short term model.

The large emission of network supply, plus the weak network adoption – creates supply-shocks and damages the entire economy.

Instead, they could create their own synthetic flavour, called *d*TKA. This would be pegged everyday to their network's own adoption & value. *dTKA would immediately lower issuance rates to the network's users, while incentivizing greater quantities as the network grows.*

- ## Example 2 –

Network B follows the same token-distribution model. A year after they launched, the market declined. They are now struggling to incentivize their network participants – as releasing large amounts of tokens in a bear market, has even worse effects for users.

Network B (NTB) could collateralize the 1M tokens they planned to allocate, as they are currently at $0.10 in price, they could create a synthetic pegged to $1.00 (creating 100k *d*NTB). They have now reduced the amount of tokens issued to their network *by a factor of 10 immediately – enhancing scarcity*.

Participants still supporting during this period are rewarded later when their adoption grows.

How to quantify demand

Each decentralized economy issuing synthetics with Dafi, would select a range of metrics to calculate their network's demand. Some may require specific oracle-types, which Dafi's formula can enable.

Dafi creates a plug-and-play architecture which can be simply used by most networks – while also being compatible to be modified for other factors slightly, including -

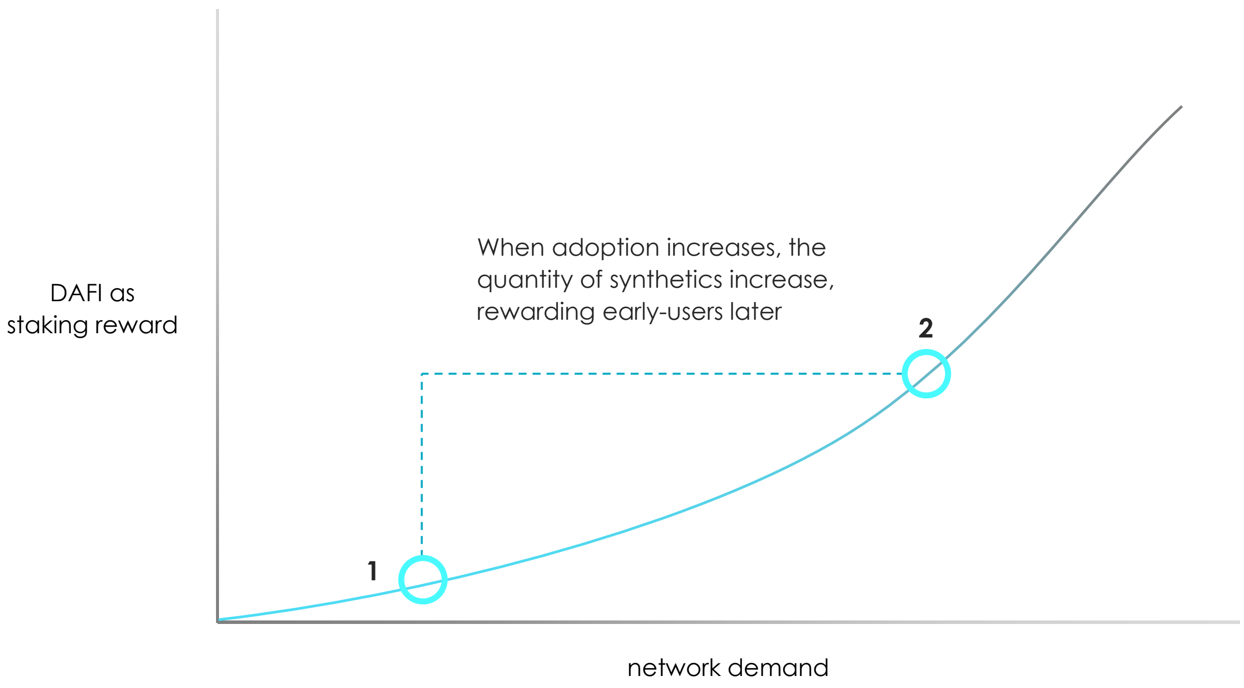
- **Price** (the most significant weight, to calculate a demand factor)
- **Onchain volume** (TX quantities)
- **Transaction value** (Beckstroms law, value of TX's minus cost of TX's)
- **Offchain volume** (A chosen CEX)
- **Nodes** (Metcalfes law, nodes quantity squared, n^2)
- **TVL** (Value locked in the network e.g. in Staking contracts)

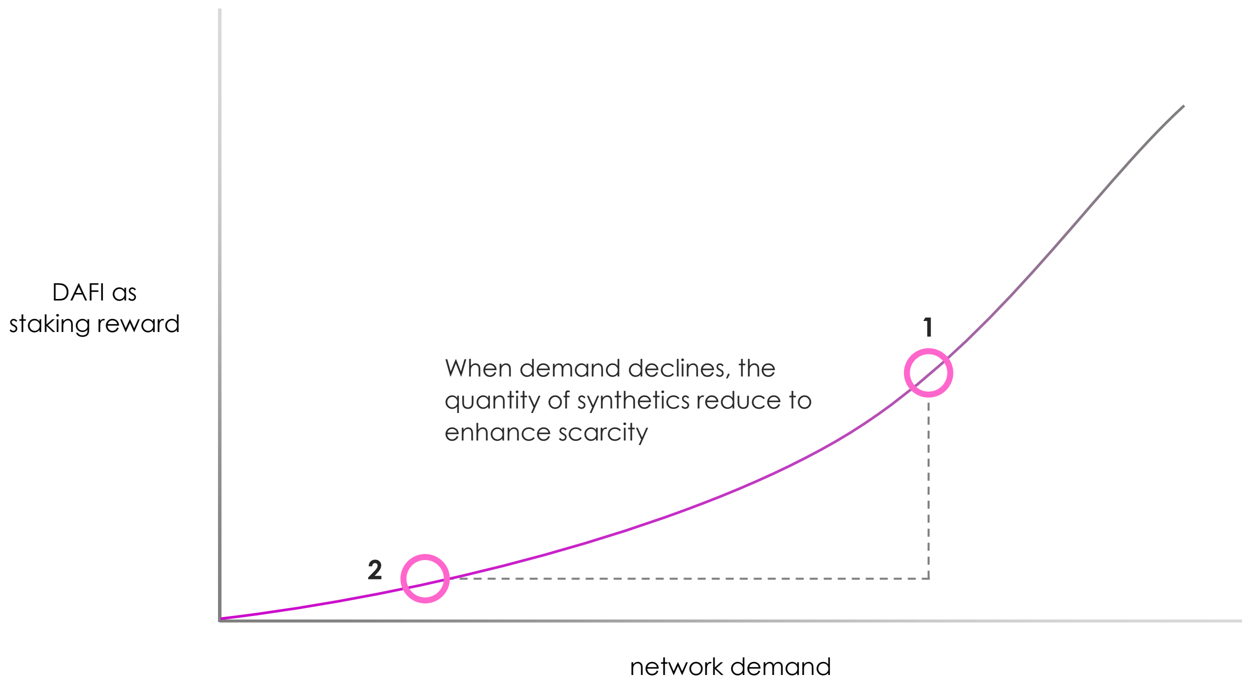
Each network has to assign a baseline, where it can be compared to. This creates a curve where the demand factor can be calculated from. This baseline is a value that can change, but it is usually assigned to a much greater price level.

By feeding oracle data into a demand-pegged curve, a demand-coefficient (DF) is quantified every day. As this value changes, it becomes a multiplication factor against the synthetic quantity for all user's in the network – effecting token emission and reward quantities - relative to network demand.

Adoption-tied rewards

DAFI. Δ Demand = Δ Inflation





DAFI – *d*NFT

Flavours of network-pegged *d*Tokens are not tradeable, or transferrable. They are distributed by the adopting network, and burned for their underlying native-token.

However, to add an additional incentive to this, users can use their *d*Token to create a unique NFT. This NFT is categorised with greater rarity for when network demand is low (e.g. when the demand factor is <0.05).

This **gamifies decentralized networks** with a demand-based rarity system of collectibles. While the NFT itself is unique to the user, they can be used within the compatible protocol for better staking rewards – or to be traded on marketplaces, among other benefits.

This brings a collectible-style feature where users can mint tradeable NFT's with different styles, and greater rarities – within existing decentralized economies.

We have already seen examples, in 2017 the NFT 'Crypto Kitties' was launched as rare collectibles on Ethereum. The most expensive NFT, Dragon, was sold for $170,000.

Collectibles as Incentives

By enabling protocols to incentivize with synthetics tied to adoption, combined with the collectible nature of NFT's – we could further add to the long-term user model which Dafi builds.

For example, in the 2018 bear market, protocols like Ethereum could have enabled their users to mint a '0.01 *d*NFT', which could be represented as art, gaming items, digital pets, or even simply just a Proof of Support representation. It is the *low demand & higher rarity that is unique about NFT's on Dafi.* This would be implemented in the form of DApps, however it's the adoption-like incentive that collectibles bring - which further adds to Dafi rewarding during low demand periods, differently.

What actually is DeFi?

Imagine an open world of finance, which anybody can use. Zero censorship, trust, and geographical-restrictions.

Fiat currency is any government-issued money, which is backed by the trust in the issuer e.g. USD, EUR, GBP. Fiat, in Latin, is simply defined as '**let it be done**'.

Decentralized Finance, or DeFi flourished during 2020 as a more user-centric alternative to traditional finance. With more than **$39 billion** dollars locked in DeFi already, it is gaining momentum.

Interestingly, in the last financial-recession of 2008, Bitcoin was first developed. In **2020**, central-banks were printing billions due to the pandemic. To put things in perspective, the US Fed created more fiat currency in **June** alone, than they did from 1776-1979.

Cental banks try to control the money supply, depending on the state of the economy, by typically modifying the interest rates (making borrowing easier or harder). However, *it is these adaptive-traits associated with Traditional Finance that makes it **functional**.*

To **summarise** –

1. Fiat currency's supply is manipulated by central banks, a centralized model which can make the holders of the currency poorer through dilution. This centralized form of modifying supply, however, makes traditional finance functional.

2. The distribution of newly created fiat currency takes time to reach every individual, and passes as government spending. Most of the leverage goes to whom the government decides.

DeFi grew in 2020, as a way to bank the unbanked, and replace many old financial features. The way in which these decentralized economies are created, relies heavily on network participants and incentives – inspiring new inflation models like DAFI.

Dafi Roadmap

ACTIVE

DAFI Launch

The first platform for users to use compatible tokens to create synthetics pegged to different network demands.

Soon after, DAFI tokens will become **available** to the public.

SOON

Staking for synthetic rewards

In the medium-term, DAFI will be staked for synthetic rewards – tied to the demand of the network.

Following this, gradually protocols and platforms will be able to implement Dafi to create their own smarter, sustainable network model.

FUTURE

New possibilities

In the long-term, the vision for Dafi is to change the foundation for all decentralized economies.

Multiple DeFi products can be built on top of DAFI's adoption-tied release of rewards. Including AMM's, DEX's and more.

DAFI governance will be live and functional for users.

This is the story

The Dafi Protocol was first formed during the catastrophic 2018 crash – where it became obvious that the incentive model for decentralized economies is fundamentally flawed.

Originally, Dafi was building a simple marketplace around AI tools and data. The fixation on developing a stable token economy became the sole focus. After years of research into a smarter inflation model, *working with leading universities, and the Royal Bank of Scotland* – Dafi gradually left stealth mode.

Dafi was originally a bootstrapped research project in 2018, testing different models in Blockchain

In October 2019, Dafi's team was invited to speak at the largest IoT World Congress

Dafi Protocol was added to the National Westminster bank's incubation in 2020

RISKS

You acknowledge and agree that there are numerous risks associated with purchasing DAFI, holding DAFI, and using DAFI for participation in the Dafi platform. In the worst scenario, this could lead to the loss of all or part of the DAFI which had been purchased. **IF YOU DECIDE TO PURCHASE DAFI, YOU EXPRESSLY ACKNOWLEDGE, ACCEPT AND ASSUME THE FOLLOWING RISKS:**

1. Uncertain Regulations and Enforcement Actions

The regulatory status of DAFI and distributed ledger technology is unclear or unsettled in many jurisdictions. The regulation of virtual currencies has become a primary target of regulation in all major countries in the world. It is impossible to predict how, when or whether regulatory agencies may apply existing regulations or create new regulations with respect to such technology and its applications, including DAFI and/or the Dafi platform. Regulatory actions could negatively impact DAFI and/or the Dafi platform in various ways. The Foundation, the Distributor (or their respective affiliates) may cease operations in a jurisdiction in the event that regulatory actions, or changes to law or regulation, make it illegal to operate in such jurisdiction, or commercially undesirable to obtain the necessary regulatory approval(s) to operate in such jurisdiction. After consulting with a wide range of legal advisors and continuous analysis of the development and legal structure of virtual currencies, a cautious approach will be applied towards the sale of DAFI. Therefore, for the token sale, the sale strategy may be constantly adjusted in order to avoid relevant legal risks as much as possible. For the token sale, the Foundation and the Distributor are working with the specialist blockchain department at Bayfront Law LLC.

2. Inadequate disclosure of information

As at the date hereof, the Dafi platform is still under development and its design concepts, consensus mechanisms, algorithms, codes, and other technical details and parameters may be constantly and frequently updated and changed. Although this whitepaper contains the most current information relating to the Dafi platform, it is not absolutely complete and may still be adjusted and updated by the Dafi team from time to time. The Dafi team has no ability and obligation to keep holders of DAFI informed of every detail (including development progress and expected milestones) regarding the project to develop the Dafi platform, hence insufficient information disclosure is inevitable and reasonable.

3. Competitors

Various types of decentralised applications and networks are emerging at a rapid rate, and the industry is increasingly competitive. It is possible that alternative networks could be established that utilise the same or similar code and protocol underlying DAFI and/or the Dafi platform and attempt to re-create similar facilities. The Dafi platform may be required to compete with these alternative networks, which could negatively impact DAFI and/or the Dafi platform.

4. Loss of Talent

The development of the Dafi platform greatly depends on the continued co-operation of the existing technical team and expert consultants, who are highly knowledgeable and experienced in their respective sectors. The loss of any member may adversely affect the Dafi platform or its future development. Further, stability and cohesion within the team is critical to the overall development of the Dafi platform. There is the possibility that conflict within the team and/or departure of core personnel may occur, resulting in negative influence on the project in the future.

5. Failure to develop

There is the risk that the development of the Dafi platform will not be executed or implemented as planned, for a variety of reasons, including without limitation the event of a decline in the prices of any digital asset, virtual currency or DAFI, unforeseen technical difficulties, and shortage of development funds for activities.

6. Security weaknesses

Hackers or other malicious groups or organisations may attempt to interfere with DAFI and/or the Dafi platform in a variety of ways, including, but not limited to, malware attacks, denial of service attacks, consensus-based attacks, Sybil attacks, smurfing and spoofing. Furthermore, there is a risk that a third party or a member of the Foundation, the Distributor or their respective affiliates may intentionally or unintentionally introduce weaknesses into the core infrastructure of DAFI and/or the Dafi platform, which could negatively affect DAFI and/or the Dafi platform. Further, the future of cryptography and security innovations are highly unpredictable and advances in cryptography, or technical advances (including without limitation development of quantum computing), could present unknown risks to DAFI and/or the Dafi platform by rendering ineffective the cryptographic consensus mechanism that underpins that blockchain protocol.

7. Other risks

In addition, the potential risks briefly mentioned above are not exhaustive and there are other risks (as more particularly set out in the Terms and Conditions) associated with your purchase, holding and use of DAFI, including those that the Foundation or the Distributor cannot anticipate. Such risks may further materialise as unanticipated variations or combinations of the aforementioned risks. You should conduct full due diligence on the Foundation, the Distributor, their respective affiliates, and the Dafi team, as well as understand the overall framework, mission and vision for the Dafi platform prior to purchasing DAFI.

Switch to DAFI

Sign up for the DAFI token waiting list here.

You can also take action and get involved in the project by joining the social channels below.

There you can ask further questions, attend community meet-ups, and support the Dafi protocol.

Same chains. New possibilities. Long term users.

DAFI
token

www.dafiprotocol.io

hello@dafiprotocol.io

@dafiprotocol

@dafiprotocol