Staking vs Yield-farming vs Liquidity-mining in DeFi

STAKING

- Holding (locking) a cryptocurrency asset (cryptoasset) in a designated wallet for a specified (typically long-term) period to support the network as well as earn both interest on the staked amount (APY) and rewards in the form of more of the same cryptocurrency or other cryptocurrencies.
- Staking can be either Proof-of-Stake (PoS) which allows those with a prescribed amount of stake to become validators and participate in the network and validate transactions or Delegated Proof of Stake (DPoS) which allows users to vote for delegates who will validate transactions on their behalf.

YIELD-FARMING

- The process where users deposit their cryptocurrency assets- cryptoassets (either for a short or long-term period) in smart contracts called liquidity pools in order to earn rewards in the form of interest, governance tokens or other rewards as well as provide liquidity to the protocol.
- Investors (yield-farmers) earn passive income via yield (APY) on cryptocurrency they deposit in the liquidity pool or via a share in the interest paid (APR) on the part of their holdings lent out to users borrowing on the liquidity pools.
- Yield-farmers actively seek out the maximum yield on their investments, switching between pools to enhance their returns.

LIQUIDITY-MINING

- The process of providing liquidity to a **specific** decentralised exchange (DEX) or other liquidity pool in order to earn rewards in the form of the platform's native coin or token or to participate in trading fee revenue.
- The tokens received as reward are distributed to liquidity providers in proportion to their contribution to the liquidity pool.
- Liquidity mining is a way for DeFi protocols to incentivise users to provide liquidity to the specific protocol and enable trading to take place on it. By providing liquidity, liquidity providers are, however, taking on the risk of impermanent loss. However, the rewards earned can offset the impermanent loss and potentially generate profits.

The main difference between staking and yield farming/liquidity mining is that staking is focused on earning rewards for supporting i.e holding and validating transactions on a blockchain network, while yield farming and liquidity mining allow for rewards to be derived from providing liquidity to decentralised exchanges and liquidity pools.

Source: Blockchain Council

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