SUSTAINABLE LAND USE: GOVERNANCE, FINANCE AND INNOVATION PATHWAYS FOR SCALING AGROFORESTRY IN EUROPE

Rym Ayadi, Martin Lukac and Tiago Zibecchi

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REFOREST

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1 EXECUTIVE SUMMARY

Agroforestry, the integration of trees with crops and livestock, offers a powerful pathway for transforming agricultural landscapes in Europe. By combining agricultural production with ecological restoration, agroforestry systems can simultaneously support climate mitigation and adaptation, biodiversity conservation, soil regeneration, water regulation, and rural economic resilience. These characteristics position agroforestry as one of the key instruments for achieving major European policy objectives, including the European Green Deal, the EU Biodiversity Strategy, and the Farm to Fork Strategy.

Despite its significant environmental and socio-economic benefits, agroforestry remains underdeveloped across Europe. Adoption is constrained by a range of structural barriers, including lack of knowledge, fragmented governance frameworks, lack of tailored financing instruments, inadequate economic valuation of ecosystem services, insufficient risk management mechanisms, and limited digital monitoring infrastructure. These barriers create uncertainty for farmers and investors and slow the transition toward more sustainable land-use systems.

This policy synthesis integrates insights from a series of mapping and discussion papers developed within the **ReForest project**, examining the governance, financial, technological, and institutional conditions required to scale agroforestry systems across Europe. The analysis highlights that expanding agroforestry requires a **systemic policy approach** that aligns agricultural policy, environmental governance, financial innovation, and digital infrastructure.

Several opportunities are emerging that could significantly accelerate agroforestry development. The evolving Common Agricultural Policy (CAP) includes instruments such as eco-schemes and agri-environment measures that can support the adoption of agroforestry. At the same time, the development of carbon farming frameworks, biodiversity markets, and payments for ecosystem services offers new opportunities to monetise the environmental benefits generated by agroforestry systems, thus making them more appealing to farmers. Advances in digital monitoring technologies, including remote sensing and data platforms, can further support performance-based environmental policies and improve the measurement and verification of ecosystem services.

However, unlocking the full potential of agroforestry requires **stronger policy coordination and targeted reforms**. Key priorities include establishing a harmonised definition of agroforestry across the European Union, strengthening financial incentives for farmers establishing agroforestry systems, developing ecosystem service markets, improving agricultural insurance and risk-sharing mechanisms, and investing in digital monitoring and verification systems.

2 INTRODUCTION

In Europe, agroforestry has emerged as a promising nature-based solution for transforming agricultural and land-use systems. By combining productive agriculture with ecological functions, agroforestry delivers multiple co-benefits, including climate mitigation and adaptation, biodiversity conservation, soil regeneration, water management, and enhanced rural resilience. As such, it represents a strategic approach to reconciling food production with environmental sustainability.

The relevance of agroforestry has become increasingly prominent within the evolving European policy landscape. It directly supports the objectives of the European Green Deal, contributes to the targets of the EU Biodiversity Strategy for 2030, and aligns with the ambitions of the Farm to Fork Strategy to build sustainable and resilient food systems. In addition, agroforestry is gaining importance within policy frameworks such as the Common Agricultural Policy (CAP) 2023–2027, the Carbon Removal Certification Framework (CRCF), and broader EU initiatives on carbon farming and nature restoration. These policy developments signal a transition toward performance-based and nature-positive agricultural systems, in which agroforestry can play a central role.

Despite the policy framework, agroforestry adoption across Europe remains limited and uneven. Its expansion is constrained by a range of structural barriers, including separate governance frameworks for agriculture, forestry, and environmental policies; insufficient and poorly targeted financial instruments specific to agroforestry; limited integration of ecosystem service valuation into economic systems; inadequate risk management mechanisms; and underdeveloped digital infrastructure for monitoring and verification. Together, these challenges create uncertainty for farmers, banks and investors, hindering the large-scale deployment of agroforestry systems. Against this backdrop, this policy synthesis aims to provide **a coherent framework for understanding the key barriers and opportunities**, and to inform policy pathways that can enable agroforestry to become a core pillar of Europe's transition toward sustainable, climate-resilient, and nature-positive land-use systems.

3 THE STRATEGIC ROLE OF AGROFORESTRY

Establishment and utilisation of agroforestry systems represent a multifunctional land-use approach that integrates trees, crops, and in some cases livestock within the same production system. By combining ecological processes driven by woody vegetation with agricultural production, agroforestry delivers a wide range of environmental, economic, and social benefits, making it a central component of sustainable and resilient land-use strategies in Europe.

3.1 Climate mitigation and adaptation

Agroforestry plays a critical role in addressing climate change by contributing to both mitigation and adaptation objectives. Trees integrated into agricultural landscapes act as natural carbon sinks, capturing and storing carbon in both biomass and soils, thereby contributing to climate mitigation efforts (Mosquera-Losada et al. 2011)). At the same time, agroforestry systems enhance climate resilience. Tree cover helps regulate local microclimates by providing shade, reducing temperature extremes, and limiting evapotranspiration. These effects can improve crop performance under increasingly variable climatic conditions. Moreover, agroforestry systems enhance the capacity of agricultural landscapes to withstand droughts, floods, and extreme weather events, thereby reducing vulnerability and stabilising production over time (Pancholi et al. 2023).

3.2 Biodiversity restoration

By increasing structural complexity within agricultural landscapes, agroforestry systems create habitats for a wide range of species, including pollinators, birds, and beneficial insects (Jose, 2012). Enhanced biodiversity supports key ecosystem functions such as pollination, pest control, and nutrient cycling. Compared to monoculture systems, agroforestry landscapes foster greater ecological connectivity and resilience, helping to counteract the widespread loss of biodiversity associated with intensive agricultural practices. As such, agroforestry represents a practical pathway to integrate biodiversity objectives into productive agricultural systems.

3.3 Soil and water management

Tree roots improve soil structure, enhance organic matter content, and promote nutrient cycling, thereby increasing long-term soil fertility. Agroforestry systems also reduce soil erosion by stabilising the soil and protecting it from wind and water runoff. In addition, tree cover enhances water infiltration and retention, thereby improving hydrological regulation and reducing pressure on water resources (Marques et al. 2022). These processes not only support environmental sustainability but also improve the long-term productivity and resilience of agricultural systems.

3.4 Rural economic resilience

Beyond environmental benefits, agroforestry strengthens the economic resilience of farming systems. By diversifying production, agroforestry reduces farmers' dependence on single crops and creates multiple revenue streams (Rois Diaz et al. 2018). These may include: annual crops, fruit and tree-based products, timber and biomass, and emerging income streams from ecosystem services, such as carbon and biodiversity credits. Diversification helps buffer farmers against market volatility and climate-related risks, thereby enhancing income stability over time. In addition, agroforestry can

reduce input costs by stimulating natural processes, such as improving soil fertility and regulating pests, further strengthening farm profitability in the long term. Taken together, these multiple functions position agroforestry as a high-impact, cross-cutting solution capable of addressing interconnected challenges related to climate change, biodiversity loss, and sustainable food production.

4 CHALLENGES FACING AGROFORESTRY DEVELOPMENT

4.1 Governance and Regulatory Barriers

Despite its strong alignment with European food security and sustainability objectives, the expansion of agroforestry across Europe remains constrained by a range of governance and regulatory challenges. These barriers stem largely from the cross-cutting nature of agroforestry, which spans multiple policy domains but can not be fully integrated into any single one. As a result, existing institutional frameworks often struggle to effectively support its development and scaling.

Policy fragmentation

Agroforestry operates at the intersection of several policy areas, including: agriculture, forestry, biodiversity conservation and climate policy. These areas are typically governed by separate institutions, regulatory frameworks, and funding mechanisms at both the EU and Member State levels. Resulting institutional fragmentation leads to a lack of coordination and coherence in policy design and implementation. As a consequence, agroforestry systems are often subject to overlapping, inconsistent, or even conflicting regulations.

For example, tree planting may change land classification from agriculture to forestry, leading to the application of different rules and thus creating uncertainty about eligibility for subsidies or compliance with regulations. Potential oversight of different policy areas also complicates administrative processes for farmers and reduces the overall effectiveness of policy support.

Lack of harmonised definitions

A major challenge for agroforestry development is the lack of a common, harmonised definition across the European Union. Member States apply different criteria to define agroforestry systems, particularly regarding tree density thresholds, land-use classification, and eligibility criteria for agricultural support schemes. These discrepancies create significant inconsistencies in access to public funding and policy support, in monitoring and reporting systems, and in the statistical representation of agroforestry within national datasets.

Without a shared definition, agroforestry systems are often misclassified or excluded from policy instruments, limiting their visibility and reducing incentives for adoption. Furthermore, the lack

of standardisation complicates efforts to measure environmental outcomes and integrate agroforestry into performance-based policy frameworks.

CAP implementation gaps

The Common Agricultural Policy represents the primary policy instrument for supporting agricultural practices in Europe and includes several tools that can promote agroforestry, such as eco-schemes, agri-environment-climate measures, and rural development funding. However, the implementation of these instruments varies significantly across Member States. Differences exist in the level of financial support provided for agroforestry, eligibility criteria and administrative requirements, design and ambition of eco-schemes and monitoring and evaluation approaches.

This variability results in an uneven policy landscape, where farmers in some countries benefit from relatively strong support for agroforestry, while others face limited incentives or complex administrative barriers. Moreover, CAP measures often remain insufficiently tailored to the specific characteristics of agroforestry systems, particularly their **long-term investment horizon and multifunctional nature**. As a result, existing support mechanisms struggle to fully address the financial and operational challenges faced by farmers transitioning to agroforestry.

Overcoming these governance and regulatory barriers is essential for scaling agroforestry across Europe. This requires moving toward a more integrated and coherent policy framework, where agroforestry is explicitly recognised as a distinct and valuable land-use system. Strengthening coordination across policy domains, harmonising definitions, and ensuring more consistent implementation of CAP instruments will be critical steps in creating an enabling environment for agroforestry development.

4.2 Financial Barriers to Agroforestry Adoption

Financial constraints remain one of the most significant barriers to the widespread adoption of agroforestry systems across Europe. The structural characteristics of agroforestry are often misaligned with existing agricultural financing models, which tend to prioritise short-term returns and standardised production systems.

High upfront investment

Transitioning from monocropping to agroforestry requires substantial initial investments. These include:

- the establishment of tree systems through planting and maintenance
- land preparation and redesign of farm businesses
- acquisition of new knowledge, equipment, and management practices.

These upfront costs are often incurred not only without immediate financial returns, but also with a drop in revenue due to giving some land to trees. The transition thus places a significant financial burden on farmers, particularly smallholders. Typically, farmers face liquidity constraints that limit their ability to invest in such transitions, even when long-term benefits are evident.

Long investment horizons

A defining feature of agroforestry systems is the time required for trees to mature and generate economic returns. While annual crops provide relatively immediate income, tree-based components may take several years or even decades to become productive. This temporal mismatch creates a structural barrier, as most financial institutions and agricultural support schemes are designed around annual production cycles. As a result, agroforestry investments are often perceived as less attractive or more risky from a financial perspective, despite their long-term value.

Limited availability of tailored financial instruments

Current agricultural finance systems are not well adapted to the specific characteristics of agroforestry. Existing credit products, subsidies, and investment schemes typically prioritise annual crop or animal production, lack flexibility for long-term investments, and do not account for diversified income streams. As a result, farmers often face difficulties in accessing affordable, long-term financing tailored to agroforestry systems. This financing gap significantly constrains the scalability of agroforestry across Europe.

4.3 Economic Valuation Challenges

A fundamental barrier to the expansion of agroforestry lies in how agricultural systems are evaluated economically. Traditional farm accounting frameworks focus primarily on short-term production metrics, such as yields and annual gross margins, which fail to capture the full value generated by agroforestry systems.

Undervaluation of ecosystem services

Agroforestry systems provide a wide range of ecosystem services that have significant economic and societal value, including:

- carbon sequestration and climate regulation
- biodiversity enhancement and ecosystem restoration
- soil regeneration and improved fertility
- water regulation and improved hydrological cycles.

However, these benefits are rarely reflected in farm income or financial assessments. As a result, agroforestry systems are systematically undervalued compared to conventional agricultural systems.

Misalignment between public benefits and private incentives

While agroforestry generates substantial additional public goods compared to monocropping, such as climate mitigation, water regulation, and biodiversity enhancement, these benefits are not adequately compensated by existing market or policy mechanisms. This creates a misalignment between societal value and private economic incentives, reducing the attractiveness of agroforestry for farmers and investors.

Need for integrated valuation frameworks

Addressing this challenge requires the development of integrated valuation approaches that incorporate both market outputs and ecosystem services. Such frameworks are essential to:

- improve investment decision-making
- support the development of environmental markets
- align financial incentives with sustainable land-use practices.

4.4 Risk Management and Insurance Mechanisms

Perceived and actual risks represent another major barrier to the adoption of agroforestry. Farmers often view agroforestry systems as more uncertain compared to conventional farming, particularly during the transition phase.

Agroforestry systems are exposed to multiple sources of risk, including:

- uncertain yields during the establishment phase
- delayed returns from tree components
- exposure to climate hazards such as droughts, storms, pests, and wildfires
- market uncertainties related to new or diversified products.

These risks can discourage farmers from adopting agroforestry, even when long-term benefits are well documented.

Limitations of existing insurance systems

Current agricultural insurance schemes in Europe are primarily designed for monoculture crop systems and do not adequately account for the complexity of agroforestry systems. In particular:

- risk assessment models are not adapted to mixed tree–crop systems
- coverage for long-term investments is limited

- ecosystem services are not considered within insurance frameworks.

Need for tailored risk-sharing mechanisms

Developing agroforestry-specific insurance products and risk-sharing mechanisms is essential to reduce uncertainty and encourage adoption. Potential approaches include:

- public–private insurance partnerships
- guarantee schemes and risk-sharing facilities
- climate adaptation insurance instruments
- mutual funds for farmers.

Strengthening risk management systems will be critical to making agroforestry investments more secure and attractive.

5 OPPORTUNITIES FOR UPSCALING AGROFORESTRY IN EUROPE

5.1 Digital Technologies and Monitoring Systems

The transition toward performance- or outcome-based environmental policies and ecosystem service markets requires robust systems for measuring and verifying environmental outcomes. Digital technologies can play a central role in enabling this transformation.

Role of digital tools

A range of digital technologies can support agroforestry monitoring and management, including:

- satellite monitoring and remote sensing for land-use and biomass assessment
- digital farm platforms for data collection and management
- geospatial information systems for mapping and analysis
- emerging technologies such as blockchain for reporting, traceability and transparency.

Enabling MRV systems

These technologies are essential for developing Monitoring, Reporting and Verification (MRV) systems capable of, for example:

- measuring carbon sequestration
- tracking biodiversity indicators
- assessing soil and water outcomes.

Reliable MRV systems are a prerequisite for the functioning of ecosystem service markets and performance-based policy instruments.

While digital tools offer significant potential, challenges remain related to:

- data standardisation and interoperability
- access to digital technologies for farmers
- data governance and privacy.

5.2 Emerging Opportunities: Ecosystem Service Markets

The growing recognition of ecosystem services is creating new financial opportunities that could support the expansion of agroforestry.

Carbon markets

Agroforestry systems have strong potential to generate carbon credits through:

- above-ground biomass accumulation
- soil carbon sequestration.

The development of carbon farming initiatives and certification frameworks can provide **additional revenue streams** for farmers.

Biodiversity finance

Emerging biodiversity credit markets aim to reward land management practices that enhance ecosystems. Agroforestry systems are particularly well-positioned to contribute to such markets due to their positive impacts on biodiversity.

Blended finance approaches

Blended finance mechanisms, combining public funding with private investment, can help address the financing gap in agroforestry by:

- reducing investment risks
- leveraging private capital
- supporting large-scale implementation.

These approaches are essential for mobilising the level of investment required to scale agroforestry systems across Europe.

6 REFOREST PROJECT PROPOSALS

Over the course of the ReForest project, EMEA produced a series of three Mapping Reports to better understand the evolving finance and policy landscape of the agroforestry sector in the EU. From a barrier perspective, the overarching goal of this study was to collect and organise, from literature reviews and partner Living Labs, the main pressing points blocking the adoption and scaling of AF projects.

The Mapping Report on Agroforestry Sector Finance and Policy I (2024) identifies **regulatory fragmentation** across the agricultural, forestry, and climate policy domains as a central obstacle. The absence of a harmonised agroforestry definition and high administrative burden, together with inconsistencies in eligibility criteria under Pillar I and Pillar II, constitute a critical gap that has limited the integration of agroforestry measures into national CAP Strategic Plans and their effective implementation on the ground (Hajdukovic, 2024a).

Mapping Report on Agroforestry Sector Finance and Policy II (2025) extends the analysis with a particular focus on the current (2023-2027) Common Agricultural Policy, State aid frameworks, and emerging carbon farming schemes. It confirms that, although the new CAP architecture opened eco-schemes and agri-environment-climate measures (AECMs) to AF, implementation remains highly heterogeneous across Member States. Substantial variation in payment rates, tree-density thresholds, monitoring requirements, and administrative complexity. The report also examines how sustainable finance, insurance tools, and hybrid action-based and result-based carbon-farming schemes could strengthen the economic viability and resilience of agroforestry systems, laying the groundwork for payment for ecosystem services (PES) models (Hajdukovic, 2025).

Mapping Report on Agroforestry Sector Finance and Policy III (2025) situates AF within a rapidly evolving EU policy environment shaped by initiatives such as the *Carbon Removal Certification Framework (CRCF), the Corporate Sustainability Reporting Directive (CSRD), the Omnibus Simplification Package, and the Strategic Dialogue on the Future of EU Agriculture*. These initiatives mark a shift toward performance-based and innovation-driven agricultural governance, where AF can serve as a keystone solution for carbon sequestration, biodiversity enhancement, and rural resilience. However, the report underscores that scaling agroforestry remains contingent on administrative simplification, strengthened advisory systems, improved market integration, and better access to long-term investment instruments (Zibecchi, 2025).

Complementing these analyses, the University of Bonn (UBO) provides a comparative assessment of agroforestry implementation across Member States under the CAP 2023–2027. The **Country-Specific Mappings of Institutional Barriers (2025)** confirms the persistence of structural bottlenecks, including complex land classification systems, unclear ownership frameworks for mixed

tree-crop systems, and limited administrative and technical capacity (Kasargodu Anebagilu et al., 2025a). Coupled with this, the **European Agroforestry Institutional Support-Scheme Database (CAP 2023–2027)** provides the first EU-wide comparative overview of national AF support mechanisms, documenting significant variation in legal definitions, financial incentives, eligibility criteria, and advisory support across EU Member States (Kasargodu Anebagilu et al., 2025b).

In parallel to the mapping work, EMEA has developed a Sustainable Agroforestry Financing Scheme, first introduced in the deliverable **AF Sustainable Financing Scheme** (Hajdukovic, 2024b). The scheme provides a practical, evidence-based framework to bridge the gap between ecological performance and financial viability by directly addressing the high-risk perceptions that continue to hinder agroforestry investments.

The current state that we encounter is marked by a structural funding and investment gap in which projects remain severely undervalued. Mainstream valuation models fail to account for the full potential of regenerative agriculture in terms of farm-level regulating ecosystem services (ES); land-level marketable and non-marketable provisioning; and resilience factors. Currently, many farmers, especially smallholders, rely on direct payments as "financial crutches." This dependency is unsustainable because subsidies typically cover only a fraction of operational costs, entail heavy administrative burdens, and are subject to constant regulatory shifts and volatile member-state budgets shaped by fiscal cuts and competing priorities. This situation is further complicated by high risk perceptions and costs among financial market players, and by a lack of tested, quantifiable financial mechanisms and digital tools.

As part of the solution, EMEA's Scheme proposes a systemic approach that organises existing funding options into three boxes: (1) up-front payments; (2) action-based payments, and (3) results-based. It links financial flows to ecosystem service co-benefits and integrates public subsidies with private/ blended financing instruments, risk mitigation tools, and advisory support.

The report **Application of the Agroforestry Sustainable Financing Scheme** stresses EMEA's scheme through surveys and qualitative interviews with farmers across ReForest Living Labs (Zibecchi, 2025a). Their feedback confirms the previously identified structural barriers, including high establishment costs, delayed revenues from tree components, and policy frameworks that remain poorly aligned with mixed tree–crop systems. Farmers also emphasised that administrative complexity and regulatory uncertainty make long-term investment decisions difficult, reinforcing the need for financing models that better reflect the phased development of AF systems. Overall, farmers responded positively to the scheme.

As the ReForest project reaches its final phase, EMEA has also delivered a series of 6 Discussion Policy Papers to bridge the gap between scientific evidence and actionable policy reform. This body of work is designed to inform the ongoing discussions on the post-2027 Common Agricultural Policy at

the EU level, coming at a particularly timely moment when policy directions are still being shaped and can directly benefit from the project's findings. It translates technical findings and field-based insights into concrete policy directions.

The recommendations that follow build on this cumulative evidence and outline a practical pathway for positioning AF as a central pillar of European land-use systems.

7 POLICY RECOMMENDATIONS

Scaling agroforestry in Europe requires a **systemic and coordinated policy approach** that addresses governance, finance, risk management, and technological challenges.

Strengthen governance frameworks

- Harmonise the definition of agroforestry across the EU
- Improve coordination across agriculture, forestry, climate, and biodiversity policies
- Integrate agroforestry more explicitly into CAP Strategic Plans

Expand financial support mechanisms

- Strengthen CAP eco-schemes and agri-environment measures
- Provide targeted transition funding for farmers
- Develop long-term financing instruments adapted to agroforestry – Reforest Scheme
- Promote blended finance initiatives

Develop ecosystem service markets

- Expand carbon farming frameworks
- Support the development of biodiversity credit markets
- Standardise methodologies for ecosystem service valuation

Improve risk management systems

- Develop agroforestry-specific insurance products
- Expand CAP risk management tools
- Promote public–private partnerships in agricultural insurance

Invest in digital infrastructure

- Develop and scale digital MRV systems
- Expand satellite monitoring and remote sensing capabilities
- Improve interoperability of environmental data platforms

Strengthen research and knowledge transfer

- Expand agroforestry research and innovation programs
- Strengthen advisory services and farmer training
- Promote living labs, pilot projects, and knowledge-sharing networks

Agroforestry represents a powerful pathway toward sustainable and resilient agricultural systems in Europe. By integrating ecological restoration with agricultural production, agroforestry can simultaneously support food security, climate mitigation, biodiversity conservation, and rural development. However, scaling agroforestry requires systemic policy reforms, including improved governance coordination, innovative financing mechanisms, stronger risk management frameworks, and advanced digital monitoring systems.

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About the ReForest project

ReForest is a Horizon Europe-funded project (No. 101060635) bringing together 14 partners from 10 countries and focusing on temperate agroforestry. Running from July 2022 to June 2026, it supports innovation, knowledge exchange, and practical solutions to help farmers deliver multiple objectives: food production, carbon capture, and biodiversity.
EMEA's role in the ReForest project

Within ReForest, EMEA leads Work Package 5 on Finance and Policy and also contributes to co-creation, stakeholder engagement, and capitalisation activities. Its work focuses on developing financing mechanisms for agroforestry business models and policy recommendations to support their implementation at EU level. EMEA also supports stakeholder dialogue through the ReForest platform, which helps connect research, policy exchange, and practical farming needs while improving access to project knowledge and dissemination of results.

Project website: https://agroreforest.eu/ ReForest platform: https://reforest.euromed-economists.org/

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