REFOREST

ABSTRACT 6

A hybrid financing approach for long-term success of agroforestry

Problem:

Agroforestry creates environmental, social, and economic benefits, but these benefits emerge over different time scales. Conventional agricultural finance is generally designed for annual production systems and may not be well suited to long-term, diversified land uses. As a result, many farmers struggle to secure the investment needed to establish and manage these systems. We found that no single financial instrument can effectively support agroforestry throughout its entire lifecycle.

Solution:

We developed a hybrid financing model that combines different financial instruments according to the stage of agroforestry development. Rather than viewing funding sources as alternatives, the model treats them as complementary tools that work together over time. This approach reflects the multifunctional nature of agroforestry and recognises that different benefits are generated for farmers, society and the environment at different times.

Benefits and Practical Recommendations:

Match finance to the stage of development. Early establishment costs are best supported by grants and cost-based payments, while mature systems can increasingly benefit from market-based mechanisms.

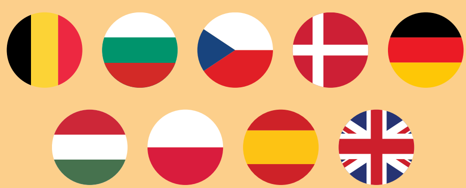
Combine public and private funding. Public support can reduce initial risk and encourage investment, while private finance and environmental markets can provide long-term revenue.

Do not rely on a single income stream. Agroforestry businesses are more resilient when they combine agricultural production with environmental payments, premium products and ecosystem service markets.

Use risk-sharing mechanisms. Loan guarantees, insurance products and cooperative financing can improve access to capital and reduce the financial uncertainty associated with long-term investments.

Integrate finance with value chains. The strongest business models link agroforestry production with local processing, product differentiation and environmental markets, creating multiple complementary revenue streams.

Geographical Location:



How to Use the Results:

Agroforestry should be planned as a long-term investment, with a financial strategy that evolves as the system matures. Rather than relying on a single source of funding, farmers should combine different financial instruments to meet the farm's changing needs.

During establishment, focus on grants and cost-based support to reduce the initial investment burden. As the system becomes operational, explore action-based payments that reward sustainable management practices. Once environmental benefits become measurable, investigate result-based schemes and market opportunities such as carbon and biodiversity credits. Throughout the system's lifetime, strengthen the business case through product diversification, value-chain development, and private investment, where appropriate.

When developing a business plan, map available public support schemes, identify potential markets for ecosystem services, and consider how agroforestry products can access premium or local markets. A diversified financial portfolio will generally be more resilient than dependence on a single subsidy or market.

How to Use the Results:

For advisors and policymakers, the ReForest research highlights that successful agroforestry expansion requires integrated financing strategies. Cost-based, action-based, result-based and market-based mechanisms should be designed to complement one another, creating a continuous pathway from establishment to long-term financial sustainability.

The central lesson is straightforward: different stages of agroforestry require different financial tools. A hybrid financing model can bridge the gap between early costs and long-term benefits, making agroforestry a practical and economically viable option for a much larger number of European farmers.

https://eu-cap-network.ec.europa.eu/projects/practice-abstracts/hybrid-financing-approach-long-term-success-agroforestry_en