



Agriculture and  
Agri-Food Canada

Agriculture et  
Agroalimentaire Canada



**Report to Parliament  
on the *Farm Debt Mediation Act*:**  
**Farm Debt Mediation Service**

December 2011

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Minister of Agriculture and Agri-Food

Canada 

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# 1. INTRODUCTION

Section 28 of the *Farm Debt Mediation Act* (1997, c. 21) requires that the Minister of Agriculture and Agri-Food (AAFC) conduct a review and report to Parliament every three years. This Report to Parliament is in accordance with those provisions of the *Farm Debt Mediation Act*.

In support of this report, a review of the Farm Debt Mediation Service (FDMS) covering the period 2007/2008 through 2009/2010 was undertaken. The review of the FDMS addressed issues of appropriateness, achievement of results, and management effectiveness. In addition, the main objectives of the review were to identify what, if any, changes should be made to the legislation or service as a result of:

- The transition of farm structure to larger farms (which tend to involve more complex debt situations);
- Changes in creditor involvement;
- Changes in the economy that may increase or decrease the use of the FDMS (in particular, the effects of changes in economic conditions and access to credit); and
- Access to other government funded initiatives (the effects of other government funded initiatives on the FDMS success).

The review was completed in June 2011. The key lines of evidence for the evaluation included:

- A detailed review of the FDMS documents and files including AAFC FDMS working group reports, client profile information and FDMS activity data obtained from the FDMS Database, FDMS documents, past FDMS reviews and surveys, Speeches from the Throne and AAFC Reports on Plans and Priorities.
- A review of literature related to factors affecting the need for and performance of the FDMS. The literature review examined best practices and similar programs and services in Canada, Australia, New Zealand, and the United States.
- Key Informant interviews with a total of 96 creditors, mediators, financial consultants, farmers, and AAFC staff. Interviews were held with key informants in every region of the country. The table on the next page illustrates the number of interviews by group and region.

NUMBER OF INTERVIEWEES BY GROUP AND REGION						
Region	Staff	Creditors	Mediators	Consultants	Producers	TOTAL
Atlantic	2	5	2	5	5	19
Quebec	1	5	2	5	5	18
Ontario	4	5	2	5	6	22
Prairies	2	5	2	5	5	19
Northwest	2	5	2	5	4	18
<b>Total interviews</b>	<b>11</b>	<b>25</b>	<b>10</b>	<b>25</b>	<b>25</b>	<b>96</b>

- Analyses of the primary and secondary data and a report of the results were completed. The data from evaluation methodologies were summarized to address each of the evaluation issues and questions. The data analysis strategy included the triangulation of multiple lines of evidence, taking into account the strengths and limitations of each line of inquiry.

## 2. BACKGROUND

The *Farm Debt Mediation Act* received Royal Assent in 1997 and came into force on April 1, 1998. The *Farm Debt Mediation Act* replaced the *Farm Debt Review Act*, which was developed in 1986 to assist with the resolution of debt problems of an unusually large number of farmers that were experiencing financial difficulty in the early to mid-eighties.<sup>1</sup>

Under the authority of the *Farm Debt Mediation Act*, Agriculture and Agri-Food Canada delivers the FDMS. The objective of the FDMS is to offer services that help bring producers and their creditor(s) together with a mediator in a neutral forum to reach a mutually acceptable solution relating to farm debt and financial obligations.<sup>2</sup> The FDMS is available to those who farm commercially and are insolvent. The FDMS is free and confidential.

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<sup>1</sup> Agriculture and Agri-Food Canada. 2008. Report to Parliament on the Farm Debt Mediation Act and Farm Debt Mediation Service.

<sup>2</sup> <http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1279223072999&lang=eng>

### 3. PERSPECTIVE ON THE INTERNATIONAL AND DOMESTIC FARM ECONOMY IN THE REVIEW PERIOD

During the period under review, most farmers were in a moderate to strong financial position. As reported in *Financial Situation and Performance of Canadian Farms 2009*:<sup>3</sup>

- 80% of Canadian farms were in a strong financial position;
- 9% of farms were in a moderate financial position; and
- 11% of farms were in a weak financial position.

In addition, the overall financial situation in the sector appears to have improved over the review period based on several indicators. First, the number of Farm Credit Canada loans in arrears declined. Farm Credit Canada is a Crown corporation created to be a significant lender to agriculture and agribusiness. The corporation reports that the number of loans in arrears in its portfolio declined from 3,768 in 2004 to 2,267 in 2008 as indicated in the table below.

LOANS IN ARREARS: FARM CREDIT CANADA 2004 TO 2008					
Sector	2004	2005	2006	2007	2008
<b>Total</b>	<b>3,768</b>	<b>3,023</b>	<b>2,789</b>	<b>2,532</b>	<b>2,267</b>
Grain/Oilseed	1,938	1,698	1,451	1,126	858
Beef Cattle	856	550	498	490	482
Dairy	140	110	109	91	73
Hogs	121	97	125	173	127
Poultry/Egg	33	24	18	23	22
Other	269	174	124	131	132
Value Added Enterprises	226	201	223	195	203
Other Income Sources	185	169	231	302	359

Source: *Financial Situation and Performance of Canadian Farms 2009*, Farm Data Analysis Unit, May 2009, Agriculture and Agri-Food Canada. [http://dsp-psd.pwgsc.gc.ca/collection\\_2009/agr/A38-1-3-2009E.pdf](http://dsp-psd.pwgsc.gc.ca/collection_2009/agr/A38-1-3-2009E.pdf)

<sup>3</sup> [http://ageconsearch.umn.edu/bitstream/53769/2/situation\\_e.pdf](http://ageconsearch.umn.edu/bitstream/53769/2/situation_e.pdf)

Another indicator of sector financial health is the number of bankruptcies. The number of bankruptcies in the agriculture sector has been falling for a number of years.

<b>NUMBER OF BANKRUPTCIES IN THE AGRICULTURE SECTOR, 2004 TO 2009</b>						
<b>North American Industry Classification</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Total</b>	<b>227</b>	<b>236</b>	<b>216</b>	<b>139</b>	<b>127</b>	<b>93</b>
Crop Production	59	57	65	34	25	11
Vegetable and Fruits	23	22	14	12	18	17
Other Crops	26	23	25	17	20	18
Animal Production	75	88	84	48	40	27
Miscellaneous Animal Production	44	46	28	28	24	20

Source: Industry Canada; Office of the Superintendent of Bankruptcy.

These figures indicate a healthy industry even as expansion has required increasing debt. Although farm debt is increasing (aggregate debt increased for each of the major farm types between 1997 and 2007), the cost of servicing the debt has gone down due to the reduction in interest rates. In Canada, interest expenses were equal to only 7 cents per dollar of gross revenue in 2007 compared to 15 cents in 1981.

Another indication of sector health is the degree of financial leverage. Farm debt, although rising, remains small relative to total assets. The debt-to-asset ratio has only increased by 2% over the past 10 years. The relatively low debt-to-asset ratio indicates that the sector still has a strong equity base.

The current status of the industry has translated into optimism for the future. The 2010 annual survey by Farm Credit Canada indicated that the level of optimism among agriculture producers and agribusiness owners was at a four-year high. In 2009, 70% of those surveyed said their business would be better off in five years. In 2010, 76% had that view.<sup>4</sup>

Internationally, similar conditions of low interest rates and rising commodity prices are creating more prosperous farmers and more stable agricultural sectors. In the US, Federal Reserve interest rates had fallen to 0.25% in 2009 from 5% in 2007. The European Central Bank rate on the deposit facility which banks may use to make overnight deposits with the Eurosystem had declined from 3.00% in 2007 to 0.25% in 2009. The chart below illustrates the national bank rates for the top ten agricultural countries. These national bank rates are presented for comparison purposes. They do not represent the rates paid by consumers.

<sup>4</sup> <http://www.fccvision.ca>



<b>WORLD INTEREST RATES NATIONAL BANK RATES FOR THE TOP 10 COUNTRIES BY AGRICULTURAL OUTPUT IN 2009</b>	
<b>Country</b>	<b>National Rates</b>
China	6.06%
India	7.25%
United States	0.25%
Brazil	12%
Japan	0.10%
Russia	8.25%
Spain	1.25%
France	1.25%
Australia	4.75%
Italy	1.25%
Canada	1%

Source: <http://www.worldinterestrates.info>

In most countries, national bank interest rates were well under 2%; many were at historic lows.

The steep rise in the price of commodities such as corn and wheat since 2002 has benefited farmers around the world. “Farmers in most of the world’s major markets are experiencing solid levels of income due to strong global demand for agricultural commodities.”<sup>5</sup> These prices are being driven by demand from a growing world population. The United Nations predicts world population will reach 9.3 billion in 2050. “The global trends towards increasing food quality and urbanization should support strong earnings performance for years to come.”<sup>6</sup>

The table below tracks these commodities during the review period.

<b>COMMODITY PRICE IN US DOLLARS PER METRIC TON</b>					
<b>Commodities</b>	<b>March 2007</b>	<b>March 2008</b>	<b>March 2009</b>	<b>March 2010</b>	<b>March 2011</b>
Wheat	199.10	439.72	230.98	191.07	316.75
Maize	169.52	233.85	164.52	159.01	290.43
Rice	326.18	672.64	625.25	540.13	508.96
Soybeans	276.96	495.69	333.66	348.95	498.74
Palm Oil	566.39	1,146.86	557.21	793.90	1,142.23
Sugar (US cents/lb.)	10.37	12.88	12.93	21.98	25.90
Beef (US Cents/lb.)	118.40	106.70	112.38	152.10	187.72

Source: International Monetary Fund, Primary Commodity Prices. [http://www.imf.org/external/np/res/commmod/External\\_Data.csv](http://www.imf.org/external/np/res/commmod/External_Data.csv)

<sup>5</sup> <http://moneymorning.com/2011/05/19/deere-co-nyse-de-reaps-benefit-from-rising-commodity-prices/>

<sup>6</sup> Ibid.

Although the indicators above suggest a strong to moderate financial position for the agriculture sector, there have been some commodity sectors that have experienced difficulty. For example, Canadian cattle and hog farms reported the lowest average net operating income among all farm types in 2008. Hog farms, in particular, faced serious financial difficulty and negative net market revenues due to a variety of factors, including record high feed prices, reduced demand due to an appreciated dollar, and fears of animal disease (e.g. H1N1). As a result of these crises, between early 2006 and 2009, the Canadian hog and pork sector experienced a period of significant rationalization and consolidation, losing 28 percent of its hog farms and 20 percent of its hog inventory.

An issue that may continue to have an impact on the health of the sector is the rise in the Canadian dollar. The Canadian dollar has risen steadily for the last two years against the US dollar and was above par in the Spring of 2011. The US is Canada's largest trading partner and the rise in the price of imported Canadian products will no doubt have some negative impacts on trade. However, it should be noted that the rise of the Canadian dollar against the US dollar has not been equalled against other currencies.

## 4. FARM DEBT MEDIATION SERVICE DESCRIPTION

### Objectives

The main objective of the FDMS is to bring producers and their creditor(s) together with a mediator in a neutral forum to reach a mutually acceptable solution.

### Applications

To be eligible for the FDMS, farmers must farm commercially and satisfy one of the following criteria:

- Unable to pay or have ceased paying their current debt in the ordinary course of business; or
- If sold, the value of their assets would not be sufficient to cover their debts.

In order to participate in the FDMS, insolvent farmers can make an application to the service under the *Farm Debt Mediation Act* through one of two options: a section 5(1)(a) application or a section 5(1)(b) application. The main difference between the two sub-sections is that Section 5(1)(a) includes a stay of proceedings and Section 5(1)(b) does not. Both options include a financial review of the farmer's financial situation, preparation of a recovery plan, and mediation services.

In cases where a farmer receives a notice of intent to realize on security from a creditor, he/she may choose to apply under Section 5(1)(a) of the Act which provides the protection of a stay of proceedings. The stay of proceedings restricts a creditor from realizing on security for a specified period of time. Initially this time period is for 30 days, with the option of up to three extensions of 30 days each, for up to a maximum of 120 days. It is during the stay of proceedings that the financial review is conducted, a recovery plan is prepared and the mediation meeting occurs<sup>7</sup>.

### Services

Following a successful application to the FDMS, a financial consultant is assigned to the case to perform a financial review of the farmer's situation and to assist the farmer with preparing a recovery plan. The consultant visits the farm and meets with the farm family to obtain the relevant information pertaining to their situation and the financial information of the business. The assessment process usually includes:

- Assessment of the farmer's current financial situation;
- Exploration of options and development of a recovery plan for the future;
- Collection of financial information to prepare a financial statement and recovery plan;
- Completion of projections to evaluate the viability of the plan;

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<sup>7</sup> <http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1279911049633&lang=eng>

- Verification of amounts owed; and
- Attendance at the mediation meeting.

Following the financial review and preparation of the recovery plan, there is a mediation meeting to encourage open discussion between the farmer and their creditor(s). The mediator has no decision-making power and leads the discussion between the farmer and their creditor(s) to encourage all to participate equally, to help the parties to communicate effectively, and to explore and clarify all options for a mutually acceptable solution. If an agreement is reached, the mediator draws up the agreement, ensures signatures of all parties, and provides a copy to each party.

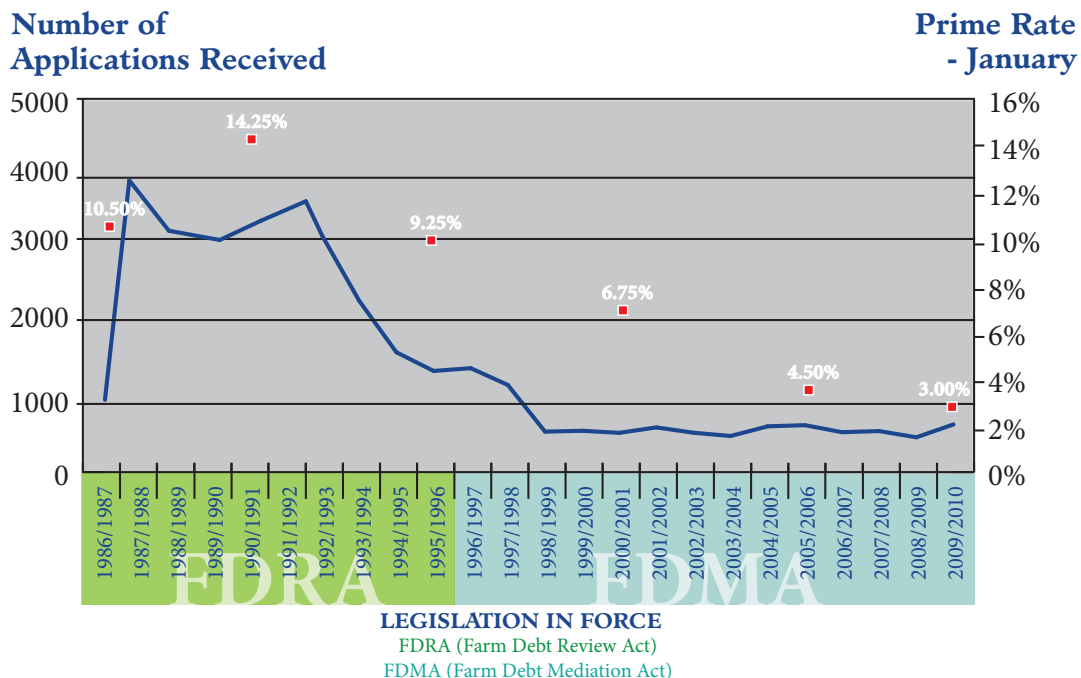
### **Beneficiaries**

Farmers and creditors are the ultimate beneficiaries of the FDMS services. There are various stakeholders of the service, some of which include farmers, creditors, financial consultants, mediators, farm associations, and provincial farm mediation services.

## 5. ACTIVITY LEVELS

The number of applications received under the FDMS peaked in the late 1980s and early 1990s when the sector was experiencing high rates of insolvency largely due to historically high interest rates, low commodity prices and erosion of asset values in some regions. As interest rates declined substantially and commodity prices and asset values rose, the sector began to experience more stability. This resulted in a decrease in the number of insolvent farmers and thus fewer clients for the FDMS. From 2000/01 to 2003/04, the number of applications averaged 612 annually. From 2004/05 to 2006/07, the number of applications averaged 540 annually and the average further declined to 508 annually from 2007/08 to 2009/10.

**NUMBER OF FARM DEBT REVIEW/MEDIATION APPLICATIONS RECEIVED AND  
PRIME INTEREST RATES,  
FISCAL YEAR 1986/1987 TO 2009/2010**



The FDMS is a mature program which contributes to Departmental priorities by assisting farmers in resolving their financial difficulties.

During the course of the review, it was noted that at any time, various factors beyond the control of individual farmers can affect the ability of producers to meet debt obligations. Furthermore, the financial situation of farms can be strongly affected by factors such as commodity prices, weather, access to financing, and other external factors such as death or illness. Key informants also noted the importance of a neutral party and process to mediate negotiations between farmers and their creditor(s), the need of farmers for professional farm financial assessments, and the importance of supporting food production in Canada.

The interviewees reported that the economic downturn impacted both the financial viability of farms and the credit policies of financial institutions. There was a sharp increase in the number of applicants in 2009/10 relative to the number in the previous year (applications increased to 581 in 2009/10 from 438 in 2008/09 and 506 in 2007/08). Although there is increased involvement of larger farms, this is not viewed by interviewees as affecting the need for or the appropriateness of the service.

The numbers of applications received, applications completed, and agreements reached by province for each year during the review period are summarized in the table below.

<b>ACTIVITY REPORT FOR FARM DEBT MEDIATION SERVICE BY PROVINCE BY FISCAL YEAR OF REVIEW PERIOD, 2007/2008, 2008/2009 AND 2009/2010</b>									
Province	2007/2008			2008/2009			2009/2010		
	Applications Received	Applications Completed	Arrangements Reached	Applications Received	Applications Completed	Arrangements Reached	Applications Received	Applications Completed	Arrangements Reached
Quebec	231	178	145	184	162	136	243	194	155
Ontario	75	65	55	71	47	38	91	71	53
Saskatchewan	64	52	40	63	59	46	103	71	60
Manitoba	34	38	17	43	25	19	50	41	32
Alberta	43	45	41	29	29	25	46	41	31
Nova Scotia	24	16	11	17	12	2	10	10	8
New Brunswick	10	10	4	9	6	2	19	13	7
Prince Edward Island	17	9	8	9	12	6	7	3	2
British Columbia	8	7	6	9	8	5	12	9	7
Newfoundland and Labrador	0	0	0	4	0	0	0	0	0
Northwest Territories	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>506</b>	<b>410</b>	<b>327</b>	<b>438</b>	<b>360</b>	<b>279</b>	<b>581</b>	<b>453</b>	<b>355</b>

The table on the following page summarizes the characteristics of clients served under the FDMS during the review period by sector, gross farm sales, and region. Approximately one in three producers were active in the beef cattle and dairy sector, (31.02%), 17.70% were grain, oilseeds and forage producers, 15.74% were in horticulture (fruit, honey, maple, potato, vegetables), and 14.36% were hog producers. In addition, 25.44% of producers reported gross farm sales over \$250,000, 18.62% reported gross farm sales between \$100,001 and \$250,000, 21.31% reported gross farm sales between \$25,000 and \$100,000, and 18.62% reported gross farm sales below \$25,000.

CHARACTERISTICS OF CLIENTS SERVED UNDER THE FDMS					
Characteristics	Clients	Percent of Total Clients (%)	Total Can Farms 2006	Percent of Total Can Farms	Total Clients Per 1,000 Farms
<b>Sector*</b>					
<b>Total</b>	<b>1525</b>	<b>100.00%</b>	<b>229,373</b>	<b>100.00%</b>	<b>6.65</b>
Beef Cattle & Dairy	473	31.02%	75,598	33.00%	6.26
Hogs	219	14.36%	6,040	2.60%	36.26
Sheep	47	3.08%	3,815	1.70%	12.32
Poultry and Egg	10	0.66%	4,578	2.00%	2.18
Other Livestock	85	5.57%	26,779	11.70%	3.17
Grain Crops & Oilseeds & Forage	270	17.70%	61,667	26.90%	4.38
Horticultural Crops (Veg & Fruits)	240	15.74%	22,322	9.70%	10.75
Other Crops	163	10.69%	28,574	12.50%	5.70
<b>Gross Farm Sales*</b>					
<b>Total</b>	<b>1525</b>	<b>100.00%</b>	<b>229,373</b>	<b>100.00%</b>	<b>6.65</b>
Less than \$25,000	284	18.62%	88,392	38.50%	3.21
\$25,000 to \$100,000	325	21.31%	62,030	27.00%	5.24
\$100,001 to \$250,000	284	18.62%	39,971	17.40%	7.11
Over \$250,000	388	25.44%	38,980	17.00%	9.95
<b>Region</b>					
<b>Total</b>	<b>1522</b>	<b>100.00%</b>	<b>229,373</b>	<b>100.00%</b>	<b>6.65</b>
Atlantic	126	8.26%	8,829	3.80%	14.27
BC/Alberta/ YK, NWT, and NU	147	9.64%	69,275	30.20%	2.12
Manitoba/Saskatchewan	357	23.41%	63,383	27.60%	5.63
Ontario	237	15.54%	57,211	24.90%	4.14
Québec	658	43.15%	30,675	13.40%	21.45

\*Sector and Gross Farm Sales were not reported for every application. This table reflects data as it was reported.

The table also compares the characteristics of clients to the characteristics of all farms in Canada and outlines the number of clients served under the FDMS for every 1,000 such farms in Canada. Overall, the 1,525 clients served under the FDMS over the three-year period (from 2007/08 through 2009/10) represents 6.65 clients for every 1,000 farms which existed in Canada as per the latest available 2006 Census. As indicated in the table above, relative to the total number of farms, use of the FDMS: tends to be highest in the hog, sheep, and horticultural crop sectors; increases with the gross sales of the farm within the categories where data is available; and is much higher in Quebec and in Atlantic Canada.

Gross farm sales and farm size have been increasing. There has been significant consolidation in the sector with the result being fewer, larger operations. In 1980, the average farm in Canada was 511 acres; by 2005, it increased to 728 acres.<sup>8</sup> The 2006 Census of Agriculture figures available from Statistics Canada indicated that the number of farms in Canada declined by 7.1%, from 246,923 farms in 2001 to 229,373 farms in 2006. However, the total farm land base remained stable, meaning an increase in average farm size.

<sup>8</sup> Financial Situation and Performance of Canadian Farms 2009, Farm Data Analysis Unit, May 2009, Agriculture and Agri-Food Canada. [http://dsp-psd.pwgsc.gc.ca/collection\\_2009/agr/A38-1-3-2009E.pdf](http://dsp-psd.pwgsc.gc.ca/collection_2009/agr/A38-1-3-2009E.pdf)

## 6. CONTRIBUTION OF THE FARM DEBT MEDIATION SERVICE TO DEPARTMENTAL PRIORITIES AND TO RISK MANAGEMENT IN THE AGRICULTURE SECTOR

The objectives of the FDMS are aligned with Agriculture and Agri-Food Canada's Departmental priorities of reducing producers' income losses and helping the industry become more proactive in managing risks.<sup>9</sup> The activities of the FDMS contribute to this strategic outcome by facilitating relationships between producers and their creditor(s).

The objectives are also consistent with Speeches from the Throne in 2006 and 2010, which highlighted the federal government's commitment to supporting producers by stating that the government "... will take steps to support a competitive livestock industry and pursue market access for agricultural products"<sup>10</sup> and recognized the unique challenges faced by those who make their livelihood from land by stating that it will take action "...to secure a prosperous future for Canadian agriculture... respond to short-term needs, create separate and more effective farm income stabilization and disaster relief programs and work with producers and partners to achieve long-term competitiveness and sustainability."<sup>11</sup>

In addition to the FDMS, under the *Growing Forward* Policy Framework, which replaced the Agriculture Policy Framework (APF), programs have been developed with the objectives of building a competitive and innovative agricultural sector; ensuring the sector contributes to society's priorities; and being proactive in managing risks.<sup>12</sup> (This is a reference to all programs, including Business Risk Management, that support income of farmers. These programs are providing support to help farmers avoid financial difficulties/insolvency. However, the approach of these programs to dealing with income issues is quite different from that of the FDMS.)

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<sup>9</sup> Agriculture and Agri-Food Canada. Plans and Priorities 2009-2010

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<sup>10</sup> Speech from the Throne 2010.

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<sup>11</sup> Speech from the Throne 2006.

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<sup>12</sup> Agriculture and Agri-Food Canada, "*Growing Forward, Overview*," <http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1238606407452&lang=eng>



## 7. HIGHLIGHTS OF FARM DEBT MEDIATION SERVICE ACHIEVEMENTS DURING THE REVIEW PERIOD - 2007/08 THROUGH 2009/10

The FDMS provides services that have encouraged constructive relationships between farmers and their creditors, leading to the development of mutually acceptable agreements.

Of the 1,525 applicants applying to the FDMS from 2007/2008 through 2009/2010, 111 were rejected and 136 were withdrawn. Of the remaining 1,278 farmer participants, 961 (75%) eventually signed an arrangement with creditor(s). The percentage of farms that eventually signed agreements tended to be somewhat higher amongst livestock operations and to increase with the value of net worth. The rate of signed agreements by those accepted into the FDMS was generally consistent across Canada, with the exception of Atlantic Canada where it was significantly lower; the rate did not vary significantly by type of creditor.

Of the total 1,525 applications received during the review period, 2 files were not yet closed or completed in status. Therefore, there were 1,523 closed files during the period under review.

The FDMS database tracks the primary action expected to be taken by farmers as part of the negotiated agreements. As indicated below, the most common actions reported included restructuring debt (accounting for 50% of the primary actions reported), development of exit arrangements (25%), and disposal of some assets (14%). A satisfactory exit arrangement is not seen as a failure of the service as this may be the most suitable result for an individual farmer. For less than 1% of farms, obtaining off-farm employment was the action identified. The table below summarizes the percentages for the current review period with comparison data from the previous period (2004/05 to 2006/07).

COMPARISON OF FDMS ACTIONS REPORTED FOR THIS AND THE PREVIOUS REVIEW PERIOD		
FDMS ACTIONS REPORTED	2004/05 to 2006/07	2007/08 to 2009/10
Restructured Debt	46%	50%
Satisfactory Exit Arrangement	15%	25%
Dispose of Some Assets	21%	14%
Mgmt. Changes/Sale Asset/other	14%	9%
Obtain Off-Farm Employment	<1%	<1%
No Change	<1%	<1%

Source: FDMS Database

The FDMS does not regularly follow up with the farmers and creditors to determine the extent to which these agreements are actually implemented. However, almost two-thirds (65%) of respondents to a client impact survey that was sent to farmers in 2007 who had participated in the FDMS in fiscal year 2004/05 reported that their agreements were fully implemented. In addition, in 2007, a survey was sent to creditors who participate in FDMS on an ongoing basis to gather results on common outcomes. At the time of the survey, creditors reported that in general, 19% of agreements that they had through the FDMS were fully implemented and 75% were partially implemented.

The results from these two surveys are not comparable due to differences in methodology. The client impact survey was distributed to farmers who had participated in the FDMS in 2004/05 (i.e. several years in the past) and the purpose of the survey was to measure specific impacts of participation. However, the creditor survey was sent to creditors who participate in the FDMS on an on-going basis and was conducted to gather information on general outcomes of the FDMS. Therefore, it would be fully expected that the results would be much higher in the farmer survey because enough time has lapsed for them to implement the agreements (i.e. they had participated several years in the past). However, the creditors surveyed deal often with more than one farmer through the FDMS and on an ongoing basis; therefore, one would expect that these agreements may not all be fully implemented due to the fact that not enough time has passed since participation.

The FDMS may assist producers to repay debt by negotiating more time and favourable conditions for repayment and asset sales, into the agreements. Some creditors, consultants and staff interviewed consider the repayment of the debt to be the most important measure of the FDMS impact; however, data on actual repayments is not available.

As part of the review, creditors were asked to estimate what percent of the amounts owed to their organization by the FDMS client producers will eventually be repaid (including by those who entered into agreements and those who did not). When weighted by the loans outstanding, the creditors estimate that an average of 77% of the debt will be repaid.

The program tends to be less successful in reaching agreements where operations are affected by personal issues; the debt has been in arrears for a long period of time; there is low net worth and no off-farm income; and/or there is large credit card debt.

The FDMS may also be less successful in reaching agreements as a result of changes in creditor involvement. Of the 21 AAFC staff and mediators interviewed and who responded to this question, 10 reported that they have noticed a change in creditor involvement. Of those, 4 reported that this change has affected the outcomes of the FDMS. Of the 25 creditor organizations which were interviewed, 20 were account managers who usually attended the mediations. Of the remaining five creditor organizations, two indicated that they are usually represented by a lawyer and three indicated that they are usually represented by someone else from their collections unit.

## 8. HIGHLIGHTS OF OPERATIONAL REVIEW

The FDMS is well-established in terms of its delivery structure, focus, and governance structure. The existing performance measurement system is considered effective in tracking activities and the development of agreements. Other considerations going forward include the need to continue to balance resources with the demand for the services; to continue to facilitate effective communication across the offices; to ensure that there is strong regional input into any future decisions regarding the service; and to streamline the process of gathering and reporting data.

During the review period, FDMS administrators have worked to improve the design and delivery of the service. This group examined the FDMS delivery processes across the regions to establish consistency in delivery and documentation, and to update and streamline correspondence and forms. Prescribed forms, core FDMS letters, and a procedures and processes document were developed. A new database has been created that accurately tracks file activity and provides greater security of the data collected.

The FDMS is considered to be efficient. When asked to rate the efficiency of the FDMS on a scale of 1 to 5, where 1 is not at all cost efficient, 3 is somewhat cost efficient, and 5 is very cost efficient, staff provided an average rating of 4.6. More specifically, staff noted that the service operates with very low staffing levels and efforts are continually made to improve the system. The efficiency of the service is illustrated by the low cost per file and the relative speed of the process. The average cost to AAFC per file during the review period was approximately \$7,000.

The FDMS is a unique service which complements programs and services designed to support the viability of farms in Canada. There are two other programs that offer mediation. The Saskatchewan Farm Land Security Board and the Manitoba Farm Mediation Board were identified as the programs most similar to the FDMS. Most interviewees believed that there is no overlap or duplication; rather, the programs and services benefit from referring clients to the one that is most appropriate to their needs. The presence of these programs likely reduces the demand for the FDMS. The number of clients served under the FDMS in Saskatchewan and Manitoba is equal to 5.62 farms for every thousand farms in the two provinces. This is somewhat lower than the average of 6.64 clients for every thousand farms in Canada (7.01 clients in the regions outside of Manitoba and Saskatchewan).

The results of the evaluation indicate that the FDMS is appropriate for larger farms as well as the smaller farms. Interviewees noted that the process is flexible enough for all sizes, and that the principles are the same except the amounts of debt and number of creditors involved tend to be higher. However, larger farms may require more time for the mediation process compared to smaller operations.

While the findings of this review were generally positive, in the course of the review, AAFC received some suggestions for change or improvement to certain aspects of the FDMS. It was suggested that consideration could be given to: the implementation of a follow-up service to provide assistance to producers beyond the completion of a signed agreement with their

creditor(s), extending the contract period for consultants and mediators, increasing promotion of the FDMS, ensuring better integration of the FDMS and the Advanced Payment Program (APP), and examining possible options to further complement the provincial farm mediation programs in Manitoba and Saskatchewan.

## 9. FUTURE STEPS

The policy direction of *Growing Forward* puts emphasis on building a profitable sector through its three strategic outcomes:

- A competitive and innovative sector: From idea to invention to consumer, growing new opportunities that support innovation and competitiveness.
- A sector that contributes to society's priorities: Enabling the sector to contribute to the priorities of increasingly health-conscious and environmentally aware Canadians.
- A sector that is proactive in managing risks: The business risk management (BRM) suite offering more responsive, predictable and bankable programs for farmers.

Under *Growing Forward*, AAFC committed to flexible programs that better meet local needs. This is a key element of the framework in the case of the agriculture industry as this sector, more so than many business enterprises, operates in a dynamic environment with many factors governing prosperity out of the control of the operators. The FDMS is a well-established and mature service that contributes to the objectives of *Growing Forward* by providing assistance to farm operators to cope with the cycles of the industry that may endanger their viability.

Administrators of the FDMS have and will continue to refine the process and procedures to improve delivery of the service.



## 10. NEXT REPORT

As provided for by the *Farm Debt Mediation Act*, the Minister will next report to Parliament on the *Farm Debt Mediation Act* in three years' time.