Agriculture and Agri-Food Canada   Agriculture et Agroalimentaire Canada

EVALUATION REPORT:

Evaluation of the Programs under the *Agricultural Marketing Programs Act*

Canada

The AAFC Audit Committee recommended this evaluation report for approval by the Deputy Minister on .

Evaluation of the Programs under the *Agricultural Marketing Programs Act*

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ACRONYMS

AAFC	Agriculture and Agri-Food Canada
AMPA	*Agricultural Marketing Programs Act*
APP	Advance Payments Program
APPEDS	Advance Payments Program Electronic Delivery System
CALA	*Canadian Agricultural Loans Act*
FCC	Farm Credit Canada
GPP	Government Purchase Program
OAE	Office of Audit and Evaluation
PPP	Price Pooling Program

EXECUTIVE SUMMARY

This report presents the findings of the evaluation of the programs under the *Agricultural Marketing Programs Act (*AMPA*)*. The evaluation was undertaken by AAFC's Office of Audit and Evaluation (OAE) as part of AAFC's Five-year Departmental Evaluation Plan (2014-15 to 2019-20). The evaluation assessed the relevance and performance of AMPA related programs from 2008-09 to 2014-15.

Background

The *Agricultural Marketing Programs Act* (AMPA*)* is a federal act establishing programs to facilitate and improve market opportunities for producers through the provision of loan and price guarantees. Three programs are governed under the AMPA:

1. The Advance Payments Program (APP) is a federal loan guarantee program intended to improve producers' cash flow throughout the year, enabling them to meet their financial obligations and benefit from the best market conditions.

2. The Price Pooling Program (PPP) is a federal price guarantee program intended to assist with the cooperative marketing of agricultural products and enhance the cash flow of producers through initial delivery payments.

3. The Government Purchase Program (GPP) is a federal program which provides the Minister with the authority to intervene in the purchase or sale of agricultural products.

Key Findings

The evaluation found that there continues to be a need for producers to have guaranteed access to low cost, short-term loans to support cash flow and marketing. Producers who are not able to acquire adequate alternative private financing benefit significantly from such support. Through the APP, these producers are able to access short-term loans, whereas they would not be able to otherwise. Producers who are able to acquire adequate alternative loans benefit from the difference in interest rate between the APP and private loans. As interest rates are currently low and commodity prices are high, the benefit to these producers is currently small. However, if and when interest rates rise or commodity prices decline, the benefits would increase.

Interviews with program management noted that the interest-free component of the APP loan is important as it helps to entice producers to participate in the program, increasing the program's ability to leverage private financing at low rates. As APP loans do not target producers based on the need for increased cash flow, it is likely that the APP provides benefits to some producers who are not experiencing cash flow difficulties. Demand for the APP is significant among Canadian producers, although participation rates over the evaluation period have declined significantly from 31,862 in 2008-09 to 21,547 in 2014-15.

The evaluation found that there is low demand for services offering price guarantees to facilitate delivery payments to members of cooperative marketing agencies (i.e. PPP). Some of the PPP agencies have become the APP administrators in order to reduce the risk associated with carrying large amounts of debt. Nonetheless, some interviewees noted that the PPP is important for assisting emerging marketing cooperatives to become established and provide initial payments to their members.

The evaluation found that the AMPA programs align with federal priorities and departmental strategic outcomes. The APP and PPP short-term advances complement other federal, provincial or private sector services that offer longer-term financing intended for capital investment and non-guaranteed working capital financing that require realizable assets for security.

In terms of the achievement of intended results, the AMPA programs have largely achieved their intended outputs and outcomes. Although program participation rates have declined over the evaluation period, the average loan amount per producer has increased from $68,740 in 2009-10 to $101,700 in 2013-14. As a result, the APP has achieved, or was very close to achieving, its performance target of providing at least $2 billion in APP advances in four of the last five years. Some key factors contributing to the decline in the number of producers participating in the APP are high commodity prices and low interest rates.

The evaluation found that the APP is achieving its intended outcomes of providing producers with low cost capital to reduce short-term financial pressures. According to evaluation survey results, in the absence of the APP in 2013, it is estimated that 3,092 producers would not have qualified for alternate financing, leading to a shortfall of approximately $315 million[1]. Producers, administrators and other interviewees all agreed that the APP helps producers to address short-term financial pressures. The evaluation also found that the increased marketing flexibility achieved as a result of the APP had a significant impact on producers of storable commodities who benefited significantly from the ability to delay marketing their products. It is estimated that the total increase in producer revenues achieved as a result of delayed marketing in 2013-14 was $184.4 million.

The evaluation found that the PPP has achieved its intended outcome of providing a cash flow floor that helps to address the short-term financial pressures of producers. However, the low demand for the PPP has reduced the impact of the program.

In terms of efficiency and economy, the evaluation found that the administration of the APP and PPP has been efficient. However, a substantial increase in APP loan defaults due to the 2008-09 livestock emergency advances resulted in a short-term increase in

[1] Obtained by multiplying average APP advance of $101,700 by the total number of producers that would not have qualified for a loan (3,092 producers from 23,786) in 2013-14 production year.

program expenditures in 2012-13 and 2013-14. When compared to other loan programs, APP loan administration costs and honour rates[2] have been relatively low.
The economic benefits of the APP significantly outweigh the program costs. Producers are generally satisfied with the delivery of the APP and the APP and PPP have met their service standards in most instances. In terms of the PPP, the costs to deliver the program are very low and there has not been a claim made by marketing agencies against the PPP price guarantee since the AMPA was enacted in 1997.

In terms of design and delivery, the evaluation found that it would be useful for the program to develop a framework for assessing whether or not an economic emergency situation could be substantially mitigated by the APP through the Severe Economic Hardship provision. Nonetheless, recent legislative changes have addressed numerous design and delivery issues, which are likely to improve program efficiency.

[2] Honour rate: the total amount of guarantee payments AAFC made to the commercial lenders which were not repaid by the producers over the total original advanced amount, expressed as a percentage (%).

1.0 INTRODUCTION

This report presents the findings of the evaluation of the programs under the *Agricultural Marketing Programs Act (*AMPA*)*. The evaluation was undertaken by AAFC's Office of Audit and Evaluation (OAE) as part of AAFC's Five-year Departmental Evaluation Plan (2014-15 to 2019-20). The evaluation fulfills the requirements of the *Financial Administration Act* and the Treasury Board Policy on Evaluation (2009) for programs to be evaluated every five years.

The AMPA is a federal act establishing programs to facilitate and improve market opportunities for producers through the provision of loan and price guarantees. Three programs are governed under the AMPA:

1. The Advance Payments Program (APP) is a federal loan guarantee program intended to improve producers' cash flow throughout the year, enabling them to meet their financial obligations and benefit from the best market conditions.
2. The Price Pooling Program (PPP) is a federal price guarantee program intended to assist with the cooperative marketing of agricultural products and enhance the cash flow of producers through initial delivery payments.
3. The Government Purchase Program (GPP) is a federal program that provides the Minister with the authority to intervene in the purchase or sale of agricultural products.

1.1 Evaluation Scope

The evaluation included a comprehensive assessment of the relevance and performance of the APP and PPP. As the GPP has not had any activities, outputs or outcomes or direct spending since the enactment of the AMPA, the scope of the evaluation included only a review of the relevance of the GPP and whether there is a continuing need for the program. The evaluation covered the period from 2008-09 to 2014-15. In terms of performance, the evaluation focused on analysing APP's and PPP's achievement of intended outcomes, with particular emphasis on assessing the efficiency of program design and delivery. The evaluation addressed the following core evaluation issues in accordance with the Treasury Board of Canada's Directive on the Evaluation Function (2009):

1.2 Evaluation Issues and Questions

Relevance

1. Assessment of the extent to which the APP, PPP and GPP continue to address a demonstrable need and are responsive to the needs of Canadians.
2. Assessment of the linkages between the APP and PPP objectives and (i) federal government priorities and (ii) departmental strategic outcomes.

3. Assessment of AAFC's role and responsibilities in delivering the APP and PPP.
4. Assessment of the extent to which the APP and PPP complement or overlap with other government programs or financing provided by the private sector.

Performance

5. Assessment of progress toward expected outcomes with reference to performance targets, program reach and program design, including the linkage and contribution of outputs to outcomes for the APP and PPP.
6. Assessment of resource utilization in relation to the production of outputs and progress toward expected outcomes for the APP and PPP.

2.0 EVALUATION METHODOLOGY

2.1 Data Collection Methods

The evaluation of the APP, PPP and GPP relied on multiple lines of evidence including a literature review, a comparative analysis of similar programs, a document review, a review of program performance data, surveys of producers, key informant interviews and a cost-benefit analysis. By using multiple lines of evidence and triangulating the findings, the research methodology supported a comprehensive evaluation of the programs.

1) Literature Review and Comparative Analysis of Similar Programs

The literature review and comparative analysis were conducted to obtain information related to the need for the programs and to compare the effectiveness and efficiency of the APP and PPP with similar programs in Canada and in other jurisdictions (i.e. Australia and the United States). A total of 81 websites, journal articles and other literature sources were reviewed.

2) Document Review

The document review addressed the evaluation issues related to relevance and performance. It examined, for example, published data on producers' risks and need for cash flow, legislation including the *Agricultural Marketing Programs Act* and the *Agricultural Growth Act,* Agricultural Marketing Programs Regulations, Speeches from the Throne, Federal budgets, AAFC Reports on Plans and Priorities, Departmental Performance Reports, previous evaluations of the AMPA programs, the APP Advance Guarantee Agreement template, program financial expenditure reports, the APP and PPP service standards reports and the AMPA Program Performance Measurement and Risk Management Strategy. A total of 31 documents were reviewed as part of the evaluation.

3) Review of Program Performance Data

A review of program performance data was conducted to obtain information related to the relevance and performance of the APP and PPP.

The APP uses the Advance Payments Program Electronic Delivery System (APPEDS) to manage program administration processes. APPEDS contains information on program administrators, APP advance recipients and APP advances. The APPEDS data analyzed in this evaluation included the following:

- APP advances and pro-rated repayments by province/product for the period from 2008-2015 (as of December 31, 2014);
- APP advances by producer/administrator/province from 2011-2013;

- Summary data of the APP honoured rates[3] as a percentage of the total APP advances issued from 2001-2007;
- Interest claims by crop year/production period from 2011-2013;
- Guarantee amount and risk rating by APP administrators from 2011-2013;
- Agreement lender information by administrator/production year and account type, from 2011-2013;
- Producer defaults by administrator/production year from 2011-2013;
- Producer interest rate by account type (interest bearing rate, default rate[4] and repayment without proof of sale) and administrator in 2013; and
- Product advance rates by province/product group in 2013.

The PPP uses the Program Access Database to manage program administrative processes. The Program Access Database includes information on the number and value of PPP loan guarantees. Data sourced from the Program Access Database and analyzed during this evaluation included data on the contingent liability, initial payment, product delivery volume and average wholesale price by administrator/product from 2010-2013.

4) Key Informant Interviews

A total of 54 interviews were conducted with key informants between April and May 2015 to address evaluation questions dealing with the relevance and performance of the APP and PPP. Respondents were included from the following categories of stakeholders:

- AAFC’s APP and PPP program staff (6);
- AAFC senior management (2);
- Commercial lenders (3);
- Representatives of agricultural associations (4);
- APP administrators (36); and
- PPP administrators (3).

5) Surveys of Producers

Three separate surveys were conducted in 2015 to collect feedback from producers regarding the APP. Separate questionnaires were developed for producers who obtained APP advances in 2013; producers who obtained advances in 2009 but not in 2013; and producers who have never participated in the APP.[5]

[3] Honour rate: the total amount of guarantee payments AAFC made to the commercial lenders which were not repaid by the producers over the total original advanced amount, expressed as a percentage (%).
[4] Default rate: the value of APP advances which was not repaid by the end of the production period and moved to a ‘default account’ divided by the total amount of APP advances issued for the production period.
[5] It should be noted that because only the 2009 and 2013 program years were used for the survey, responses will be based on producers' experiences during those years and may not represent their experiences in other years. Producers’ experiences in those program years may be unique and not generalizable to other years.

The purpose of the survey of producers who obtained APP advances in 2013 was to obtain information regarding the uses and benefits of the APP financing, as well as producers' motivation for participating in the APP and their degree of satisfaction with the services received. The purpose of the survey of producers who obtained advances in 2009 but not in 2013 was to obtain insight into why some producers chose not to participate in the APP in 2013, and what alternative methods, if any, they employed to address short-term financial pressures and achieve marketing flexibility. The purpose of the survey of producers who have never participated in the APP was to obtain information on the awareness of the APP among eligible producers, and their rationale for not participating in the APP.

The three survey questionnaires were programmed into the online survey software FluidSurveys. The programmed questionnaires were then tested for functionality and ease of administration prior to contacting respondents.

Respondents for two of the producer surveys (i.e. those who received an APP advance in 2013 and those who received an advance in 2009 but not 2013) were randomly selected from the APPEDS database. In order to maximize response rates, and to help promote an "informed" discussion about the APP, all participants were sent pre-survey communication which included a letter of introduction from AAFC and a copy of the survey questionnaire. Following field testing, survey administration began on March 25, 2015 and was completed on May 11, 2015.

To obtain feedback from producers who have never participated in the APP, AAFC solicited 27 producer organizations involved in a wide variety of eligible commodities to email their members, or include a notice in their monthly newsletter, to request that their members complete the online survey regarding the APP. A total of 19 producer organizations agreed to notify their members about the survey. The efforts of these producer organizations resulted in 172 survey questionnaires completed by producers who have never received an APP loan.

Completion targets were established for each cohort to ensure statistical reliability and adequate representation from all types of producers and all regions of the country. As highlighted in Table 2.1, the surveys met the anticipated targets for all groups with the exception of the survey of producers who received APP advances in 2013. However, the number of completions for the survey of producers who received APP advances in 2013 was still very large (531 producers) and able to generate statistically significant results (estimated sample error of ±3.8%).

Table 2.1: Key Survey Metrics by Cohort

Group	Initial Sample	Valid Sample	Target Completions	Actual Completions	% of Target	Response Rate	Estimated Sample Error*
2013 Producers	3,000	2,656	600	531	89%	20.0%	±3.8%
2009 Producers	1,926	1,516	200	202	101%	13.3%	±6.4%
Total	**4,926**	**4,172**	**800**	**733**	**92%**	**17.6%**	**n/a**

***** At the 95% confidence interval

6) Cost-Benefit Analysis

The purpose of the cost-benefit analysis was to determine the economic benefits of the APP and compare these benefits with the costs of delivering the program. The economic benefits included in the analysis were producer interest savings and increased revenues obtained by delayed marketing of agricultural products. The major costs included in the analysis were the direct program operating costs and fees paid by producers to administrators. Information for the cost-benefit analysis was obtained from a variety of sources including the survey of APP producers, APP administrator interviews and the document, file and database review.

2.2 Methodological Considerations

The evaluation had three considerations in assessing the APP and PPP:

- <u>Potential response bias in the findings of the administrator and key informant interviews</u>. Given the respondents' personal involvement in the APP and PPP, there was potential for a positive response bias because stakeholders want to ensure that the programs are viewed favourably. This limitation was mitigated by clearly communicating the purpose of the evaluation, its design and methodology; by cross-checking the responses with those of other stakeholder groups; and by using multiple lines of evidence and triangulating the evaluation findings.

- <u>Reliance on Producer-Reported Information for the Cost-Benefit Analysis</u>. One of the primary sources of data for the economic analysis was producer-reported information obtained from the survey of 2013 APP advance recipients. For example, the estimated savings in interest costs incurred by producers have been calculated using the average interest rate surveyed producers expect they would have to pay for alternate financing. Similarly, the increased producer revenues achieved through greater marketing flexibility were calculated using producer-reported incremental revenues obtained by delaying the marketing of their agricultural products. The information may be inaccurate as a result of incorrect estimates on the part of survey respondents, or a positive response bias from some producers to ensure they will continue to have access to APP advances in the future. Due to the possibility of bias in the producer-reported information, the economic benefits reported for the APP may be over or understated.

- Limitations in the representativeness of the sample of producers surveyed. The producer survey respondents who received APP advances in 2013 are fairly representative of the overall population by type of commodity, province and APP loan value. Some exceptions are grain and oilseed producers as they are slightly over-represented by 10 percent (65% of survey respondents versus 55% of all recipients). Recipients in Ontario and Prince Edward Island are under-represented by approximately eight per cent, but these two provinces accounted for less than 10 percent of total APP advances in 2013. Finally, vegetable (0.6% versus 8.1%), pulse (1.0% versus 4.7%) and forage/hay (0.4% versus 3.5%) producers are under-represented but these three types of producers combined accounted for less than 15 percent of the total number of APP recipients. To account for differences in the characteristics of the survey sample versus the total population of producers, the producer survey results were weighted.

  The reader should use caution when interpreting the results of the survey of producers that have never obtained APP advances due to the low number of responses. The purpose of the survey was not to be representative of all eligible producers who have never obtained APP advances, but to obtain anecdotal evidence on the level of awareness of the program and the motivations for not participating in the APP. The survey results should be used to provide information on the specific opinions of those respondents who participated in the survey.

3.0 PROGRAM PROFILE

3.1 Program Context

Agricultural cash advance programs were first implemented in Canada in the 1950s to help provide cash flow to grain producers whose crops were marketed by the Canadian Wheat Board. The programs were designed to provide immediate cash flow to the producers while the Canadian Wheat Board marketed their product throughout the year. Over time, the program was expanded to include all different types of agricultural products in every region across the country. The expanded program was intended to ensure that industry has timely and broad access to credit, thereby reducing the risk of producers being forced to make operating and marketing decisions based solely on the need for working capital, and ultimately increasing producers' incomes. The AMPA was enacted in 1997 by the Government of Canada and combined the following four acts and pieces of legislation into one Act: the *Prairie Grain Advance Payments Act, Advance Payments for Crops Act,* Cash Flow Enhancement Program, *Agricultural Products Cooperative Marketing Act* and *the Agricultural Products Board Act.*

The objective of the AMPA is to establish programs to facilitate the marketing of agricultural products through the provision of loan and price guarantees. It is comprised of three federally delivered programs: the Advance Payments Program, the Price Pooling Program and the Government Purchase Program. Changes were made to the AMPA legislation under the *Agricultural Growth Act (*Bill C-18)[6], which received royal assent in February, 2015.

3.2 Overview of the AMPA Programs

Advance Payments Program (APP)

The APP is a federal loan guarantee program designed to improve producers' access to cash flow by providing producers with a cash advance based on the value of their agricultural product. The cash flow received through the APP enables producers to address immediate financial obligations, including input and other production costs, and costs related to short-term emergencies that affect production and marketing. It also allows producers to market their commodities based on a strategy to obtain the most competitive prices, rather than a need for cash.

The APP's origins can be traced back to the *Prairie Grain Advance Payments A*ct and the *Advance Payments for Crops Act*. These programs were initially created to respond to the need to provide producers with cash flow so they could store their harvested crops for sale until prices are the highest. Over time, the APP has placed additional focus on providing overall cash flow support to producers by providing a spring advance in addition to the fall advance. This has allowed the program to expand the types of producers that can benefit

[6] http://laws-lois.justice.gc.ca/eng/AnnualStatutes/2015_2/page-1.html#h-1

from the APP from storable agricultural products such as grain to non-storable crops and livestock.
The APP is managed by the Business Risk Management Programs Directorate, Programs Branch of AAFC. Employees of the Programs Branch perform a variety of roles including program executive, finance, operations, management of administrators, default management and business development. APP cash advances are issued to producers by producer organizations, known as APP administrators, who deliver the APP through Advance Guarantee Agreements (AGAs) with the federal government. The APP is delivered by approximately 45 administrators who are responsible for day-to-day interactions with producers. Each year, AAFC enters into a tripartite agreement with APP administrators and financial institutions, wherein AAFC functions as a guarantor of the loan. This enables APP administrators to secure loans with preferential interest rates and terms, thus providing administrators with the ability to offer lower interest rates to their producers. The APP administrators in turn use the loan to issue repayable advances (loans) to producers up to a maximum of $400,000 per year (i.e. $300,000 interest bearing) and $400,000 at any given time (it is possible for a producer to have more than one loan at the same time). AAFC pays the interest on the first $100,000 of each advance made to producers. The administrators are responsible for obtaining security from producers on these loans.

The value of each APP advance is calculated based on the value of the producer's agricultural product, or the maximum amount that could be received from an AAFC Business Risk Management program (i.e. AgriStability or AgriInsurance). Producers who receive advances enter into an agreement with their APP administrator to repay the advance upon sale of the commodity, or the term of the loan, which varies depending on the production period associated with the commodity (12 to 24 months). Producers are required to repay their loans in a timely manner (within 30 days of sale) and provide proof of sale (within 60 days) to demonstrate that the advance was issued for short-term cash flow and marketing purposes. Eligible producers must own and be responsible for marketing the agricultural product and be willing to use the value of the commodity as security, or future payments from AgriStability or AgriInsurance as security for products that have not yet been harvested.

While APP administrators have primary responsibility for collecting on defaulted advances, if they have completed the collection process outlined in their Advance Guarantee Agreement without success, they can request AAFC to honour the guarantee, i.e. to pay the bank the outstanding debt. Default-related costs associated with honouring guarantees primarily include principal payments, default-related interest costs, and legal fees. AAFC attempts to collect all debt owed after honouring their guarantees with financial institutions, including outstanding interest. APP debt recovery activities are conducted by AAFC's Corporate Management Branch (CMB), and are, therefore, outside of the mandate of the APP and the scope of this evaluation.

Price Pooling Program (PPP)

The PPP facilitates the marketing of agricultural products under cooperative plans by guaranteeing a minimum average price of products sold by marketing agencies. This enables marketing agencies to secure financing and to issue initial delivery payments to their members. The government guarantee protects agencies against unanticipated declines in the market price of their products that exceed 35 per cent. Target clients are marketing agencies of agricultural products defined under the AMPA.

Similar to the APP, the PPP is managed by the Business Risk Management Programs Directorate, Programs Branch of AAFC. AAFC enters into agreements with cooperative marketing agencies to provide a price guarantee for products sold under a cooperative plan. Three cooperative marketing agencies are currently involved in the delivery of the PPP. The agreement between AAFC and the cooperative marketing agencies covers the initial delivery payment made to producers, as well as eligible costs incurred to market the product. The guarantee is set at a percentage (currently 65%) of the expected average wholesale price of the product and triggers only when there is a dramatic drop in the market which results in a price that is less than the guarantee. The price guarantee can be used by cooperative marketing agencies as security to obtain a loan from a financial institution and to make an initial payment to producers for products delivered.

The price guarantee agreement covers the production of an agricultural product for one production year. Once the entire agricultural product is sold under the pool, the actual average wholesale price received by the marketing agency is determined. If the calculated value is less than the eligible initial payment plus eligible costs (65%), the program allows for a payment for the shortfall by the federal government. No claim has been made against the program since the enactment of the AMPA in 1997. If the calculated value is greater, the surplus is retained by the pool for future use or is distributed by the marketing agency to the producers according to the grade, variety and type of the products delivered to the pool.

Government Purchase Program (GPP)

The GPP is designed to provide the Minister of AAFC with the authority to buy or sell agricultural products. Under the program, the Minister can sell or deliver agricultural products to a government or government agency of any country; buy, sell or import agricultural products; and store, transport or process agricultural products or make contracts for the storage, transportation and processing of agricultural products. This authority is reserved for extreme situations where intervention in the market could contribute to greater market stability. Since the enactment of the AMPA in 1997, the Minister has not used the authority granted under the GPP.

3.3 Program Resources

As indicated in Table 3.1, AMPA programs budgeted resources totalled $98.1 million in 2013-14 and $69.7 million in 2014-15. Human resources totalled approximately 34 full-time equivalents in 2013-14. The vast majority of the financial and human resources attributed to the AMPA programs are allocated to the APP. It is estimated that one half resource is attributed to PPP. As the GPP has been inactive, no human or financial resources have been allocated to the program.

Table 3.1: AMPA Programs Budgeted Resources

Funding	2013-14 ($)	2014-15 ($)
Salary	2,437,885	2,534,452
Non-Pay Operating	1,672,962	1,259,160
Vote 10 Statutory Funding	94,000,000	65,900,000
Total	98,110,847	69,693,612

Source: AAFC Program Performance Measurement and Risk Management Strategy, 2015

4.0 EVALUATION FINDINGS

4.1 Relevance

4.1.1 Continued Need for the Programs

The evaluation found that there continues to be a need for producers to have guaranteed access to low cost, short-term loans to support cash flow and marketing. Producers who are not able to acquire adequate alternative private financing benefit significantly from such support. Producers who are able to acquire alternative loans benefit from the difference in the interest rate between APP loans and private loans. As bank prime interest rates are low and commodity prices are high, the benefit to these producers is currently small. However, if and when interest rates rise or commodity prices decline, the benefits would increase.

Interviewees noted that the interest-free component of APP is important as it helps to entice producers to participate in the program, increasing the program's ability to leverage private financing at low rates. As APP loans do not target producers based on the need for increased cash flow, it is likely that the APP provides benefits to some producers who are not experiencing cash flow difficulties, but who may otherwise wish to obtain the benefits of APP loans. Demand for the APP is significant among Canadian producers, although participation rates have declined by approximately a third since 2008-09. There is also low demand for services offering price guarantees to facilitate delivery payments to members of cooperative marketing agencies (i.e. PPP).

Producers' Need for Cash-Flow

Farming is a capital-intensive industry requiring a large initial financial commitment each production period. The timing for this financial commitment does not always align with when farmers have available capital from the sale of their commodity. Farmers, therefore, often need to carry debt for much of the year.

Cash flow is essential for producers to meet input and other production costs, enhance their marketing flexibility and respond to short-term economic conditions and emergencies. Insufficient liquidity can limit producers' ability to purchase inputs and necessitate the use of high interest input financing. Low cash flow can also limit producers' marketing flexibility by forcing them to market their product when prices are depressed.

In circumstances where there are more significant risks or emergencies, inadequate cash flow can force producers to reduce or close operations. As an illustration, a significant backlog in railway shipments of grain in 2013 prevented producers from delivering their grain to the elevators and marketing their product.[7] With approximately $20 billion worth of

[7] Prairie Oat Growers Association, CTA Review Submission, December 5, 2014. Pg. 5. http://www.poga.ca/images/pdf/CTA_Review_Submission.pdf and Canola Digest, September 2014. http://www.canolacouncil.org/media/559412/Digest_September2014/files/assets/basic-html/page38.html

crops in storage, producers faced unanticipated cash flow problems.[8] As a result, APP participation rates increased substantially as producers sought short-term financing to cover operating costs until they were able to sell their product (see Figure 3). A study commissioned by Saskatchewan Barley Development Commission for submission to the Canada Transportation Act Review Panel in 2014 estimated that the backlog cost farmers up to $3.1 billion in lost revenue due to the fact that they were not able to sell their product when they intended.[9]

The consensus among APP administrators surveyed is that APP advances are extremely important to producers because these advances enable them to improve their cash flow, avoid high fees and interest rates associated with input loans, reduce borrowing costs by paying down an operating loan or line of credit, and delay marketing of their product until prices improve. Similar feedback was obtained from a survey of producers that received APP advances in 2013. Producers stated that they most frequently used the APP advance to (in order of frequency mentioned) improve cash flow, pay for inputs, delay marketing of their product to increase the price and improve their operations' financial viability.

The Need for Guaranteed Access to Low Cost Loans

The need for guaranteed access to low cost loans is significant among producers who would otherwise not qualify for alternative financing from commercial lenders. These producers typically do not have enough security or income to obtain alternative loans from the private sector. If these producers were not able to secure working capital financing, they would be significantly disadvantaged as described in the previous section. The guaranteed access to APP loans ensures that any producer in Canada is able to benefit from access to short-term loans.

Producers who are not able to access alternative loans also benefit from the more favourable terms associated with both the interest-free and interest bearing portion of the APP loan. For example, producers have to repay their APP advance only once they sell their commodity, whereas a private short-term loan often requires that a producer begin paying the principle immediately. APP loans also use the producers' commodity as collateral, freeing up their assets to use as collateral for other loans. Producers also benefit from the interest-free terms on the first $100,000 of the APP loan and the lower interest rate on the interest-bearing loan.

The producer survey results indicated that a total of 31 percent of producers either believed that they would not be able to acquire an alternative loan (13%), or if they could acquire a loan, the terms would be worse than their APP loan (18%). An additional 43 percent stated that they either did not know if they would be able to acquire an alternative loan (24%), or if

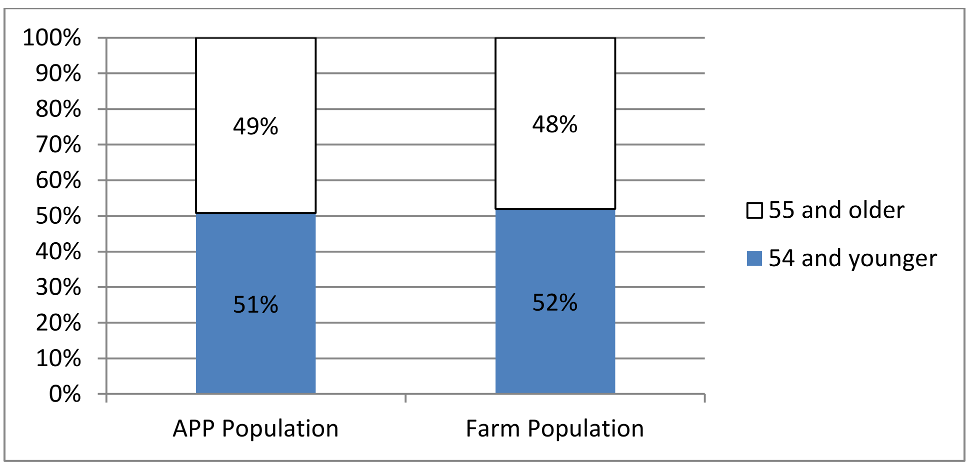
[8] CBC, Farmers Borrow Government Cash as Grain Backlog Continues. April 29, 2014. http://www.cbc.ca/news/business/farmers-borrow-government-cash-as-grain-backlog-continues-1.2625388
[9] The Saskatchewan Barley Development Commission, page 1, http://www.barleycanada.com/wp-content/uploads/2015/03/SBDC-Submission-to-CTA-Review-Panel-Final.pdf, and Gray, Richard (2014) "The Economic Impacts of Elevated Export Basis Levels on Western Canadian Grain Producers", Report to the Saskatchewan Wheat Development Commission, November 27, 2014.

they could acquire a loan, whether or not the terms would be better or worse than their APP loan (19%).

Those producers who indicated that they would not qualify for an alternative loan or line of credit reported that, without the APP, they would be forced to market their product early in order to have sufficient cash flow, reduce their input costs, or retire or cease operation of their business. The evaluation evidence indicates that these percentages would likely change if the economic conditions facing producers changed, particularly in the event of a rise in interest rates. For example, if interest rates were to increase, it is likely that more producers would have a difficult time accessing alternative private sector financing.

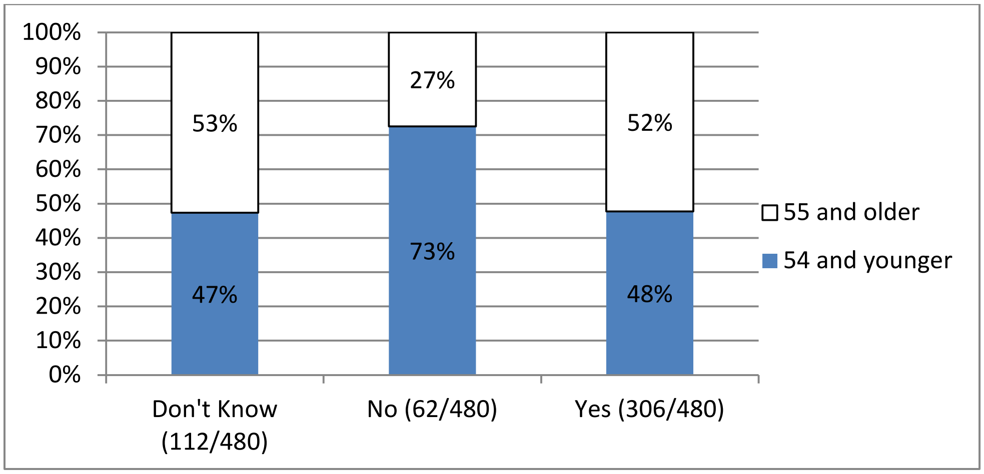
The evaluation found that APP participants overall match the farm population in terms of age (see Figure 1). However, producers who do not have access to alterative loans are younger (73% who are 54 and younger) than producers who do have access to alternative loans (48% who are 54 and younger) (see Figure 2). This suggests that guaranteed access to loans particularly benefits younger producers.

Figure 1: Age of APP Producers versus Age of Farm Population



Data on APP population is derived from the 2015 survey of producers who received APP advances in 2013; data on farm population is derived from Statistics Canada Census of Agriculture 2011.

Figure 2: Age of APP Producers by Ability to Access Private Financing



Data is derived from the 2015 survey of producers who received APP advances in 2013. Question: If the APP did not exist and you would have had to obtain a loan outside of the APP for the same amount as your last APP advance, do you believe that you would have qualified for a loan? (n=480)

The benefit of guaranteed access to short-term loans is currently small for producers who are able to access alternative financing as interest rates are low and commodity prices are high. If those producers require increased cash flow, they are able to access private sector financing of equivalent quantity and terms. Producer survey results indicated that 24 percent of producers expected that they would qualify for alternate financing with either the same (21%) or better (3%) terms as their APP loan. However, almost of all these producers believed that the interest rate on the private loan would be considerably higher than the interest rate charged on the interest-bearing portion of their APP advance. With interest rates at historic lows[10] and commodity prices high, the direct savings to producers in terms of the difference in interest payments from the APP and what they would pay privately is currently small. Producers are currently able to borrow from the private sector at below historic average interest rates. According to cost-benefit analysis conducted for this evaluation, on average each producer gained $5,152 in 2013 through savings related to the terms of their APP loan (both interest-free and interest-bearing loans)[11]. Of this amount, producers gained $3,964 through savings related to the interest-free portion of the APP loan and $1,188 through the interest-bearing loan.[12]

Although the benefit of the interest-free component of APP loans is currently small, program management noted that the interest-free loan is important as it helps to entice producers to participate in the program. The interest-free portion attracts many producers

[10] Bank of Canada's prime business interest rate is 2.70 percent as of January 1, 2016 (http://www.bankofcanada.ca/rates/daily-digest/)
[11] Please see section 4.2.1.3 for information on how this number was calculated (pg. 35-36).
[12] The cost-benefit analysis is based on the 2013-14 production year with exception of program expenditures and with an assumption that producers borrowed the money for the entire production cycle. The analysis did not take into account the various production stages that producers can borrow money, i.e., pre-production and during production. As a result, the benefit stated in the analysis in terms of interest costs may be slightly overstated.

who would otherwise not participate. High participation rates then allow the program to leverage significant amounts of private money, injecting approximately $2 billion in the sector each year. If the interest-free loan was removed, the amount of private sector financing leveraged by the program may be significantly reduced, which could then also increase the overall cost of borrowing.

The evidence from program documents and key informant interviews also suggest that APP can be used as a tool for injecting liquidity into struggling industries, thereby reducing the pressure for costly ad hoc measures. Further, it is possible that if the interest-free loan is eliminated, the number of producers would decrease such that there could also be a loss of some administrators, impacting the overall program efficiency. There may also not be an appetite from the Canadian agriculture sector to see benefits like the interest-free removed since there have been significant reductions to AAFC's Business Risk Management programming under the Growing Forward 2 policy framework.

However, it could also be argued that the support provided through the APP's interest-free portion covers normal risk considered to be part of everyday business operation. This is especially true when interest rates are very low, commodity prices are high and when farm asset levels have considerably outgrown farm debt for most sectors.[13] The Organisation for Economic Co-operation and Development (OECD) stated in its 2011 review of risk management in agriculture in Canada that, "…the Canadian set of policies does not leave a clear layer of "normal" risk out of the government responsibility and, therefore, it reduces the responsibility of farmers for their management of normal farming risk."

Finally, APP loans do not target producers based on the need for increased cash flow. APP loans are available to any farmer who produces and markets an APP approved commodity, regardless of their need for cash flow assistance. It is possible that a producer who is not experiencing cash flow difficulties will take advantage of the favourable terms associated with the APP, particularly the interest-free component. However, as noted above, higher participation rates allow the program to leverage a greater amount of private capital and inject it into the agriculture sector without having to use costly ad hoc measures.

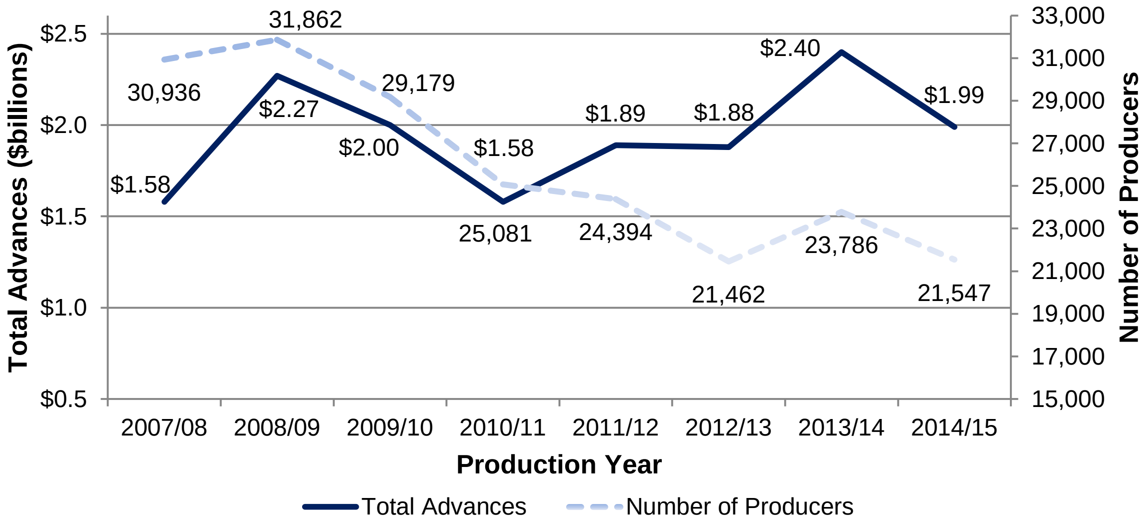
Demand for APP

There continues to be strong uptake of the APP as the amount of loan per producer has been increasing over the last seven years. An average of $2 billion in advances has been provided to approximately 26,000 producers annually across Canada during the past seven years. Data from the most recent Census of Agriculture (2011) suggests that approximately 18.9 percent of all Canadian producers participated in the APP in 2011.[14]

[13] Statistics Canada's 2015 overview of the agriculture sector.
[14] Excludes hobby farmers (producers with revenues less than $25,000).

The 2002 APP evaluation reported that an average of 38,000 producers participated in the APP annually during the three year period from 1998 to 2001.[15] As highlighted in Figure 3, the number of producers receiving APP advances has declined considerably since 2008-09. The total number of producers receiving regular APP advances has decreased from 31,862 in 2008-09 to 21,547 in 2014-15, which is a decline of 32 percent overall or an average of 4.6 percent per year. As a comparison, the overall farm population decreased by 10 percent between 2006 and 2011[16], which is an average of 1.7 percent each year.

Figure 3: Value of APP Regular Advances and Number of Producers, 2007-08 to 2014-15



Note: Figure does not include the $454 million in APP emergency advances paid to livestock producers in 2008-09
Source: Business Risk Management One-Pagers, E - April 10, 2014 APP

Over the last five years, the average APP advance amount increased by 48 percent from $68,740 in 2009-10 to $101,700 in 2013-14. The main factors that have contributed to the increase in average APP advance amount are the increase in the size of farms in Canada, greater use of the program by livestock producers (which typically obtain a higher APP advance than other commodity groups) and an increase in the maximum limits for cash advances in 2007 (i.e. increase in interest-free maximum cash advance from $50,000 to $100,000 and an increase in maximum loan from $250,000 to $400,000).

The total value of APP advances peaked at $2.7 billion in 2008-09 due to the issuance of $454 million in APP emergency advances to assist producers during the market crash for cattle and hog producers. Rising input costs, declining export demand from the US, falling

[15] It should be noted that this number is likely an over-estimation of the number of producers who participated in the program. During that time period, and up until 2008-2009, program administration used paper files and thus it likely that some producers who used multiple administrators were being double counted.
[16] Statistics Canada Farm Financial Survey 2006 and 2011. Data past 2011 was not available.

prices, a high-value Canadian dollar and loss of processing capacity resulted in beef and pork prices previously unseen since the Great Depression and many producers were at risk of losing their operations. In response to this crisis, $142 million in emergency APP advances were issued to 1,503 cattle producers and $312 million to 1,812 hog producers through the APP's Severe Economic Hardship provision.[17]

These producers then received a stay of default[18] and thus, the loans did not have to be repaid until 2012 for cattle producers and 2013 for hog producers.
The 2011 APP legislative review provided several explanations for the decline in producer participation in 2009 and 2010: reduced seeded acreage in 2010 by 14.5 percent compared to 2009 due to a number of floods in Western Canada; high commodity prices, which encouraged producers to sell their products at harvest; and some cattle and hog producers may not have applied to the program in 2009 or 2010, as they received a stay of default for their 2008 advances.

According to the key informants interviewed for this evaluation, the key factors contributing to the decline in the number of participating producers are high commodity prices and low interest rates, ranging from prime business rate of 3 percent in 2009 to 2.70 percent in 2015[19]. The lower interest rates reduce the demand for APP advances because the interest-free component of the APP loans is less valuable. With low interest rates, more producers are also able to source alternate cash flow financing at competitive interest rates. With high commodity prices, coupled with good weather conditions, some producers are able to better manage cash flow pressures by selling their production at harvest.

Several key informants indicated that the number of producers participating in the APP may increase if prime lending interest rates rise in the future. Interviewees also suggested that recent legislative changes may also increase participation rates. For example, a producer is now able to apply to a single administrator for all of their commodities, whereas in the past the same producer had to apply to multiple administrators who were only allowed to provide advances on specific commodities. The legislative changes also reduce the administrative burden on producers.[20]

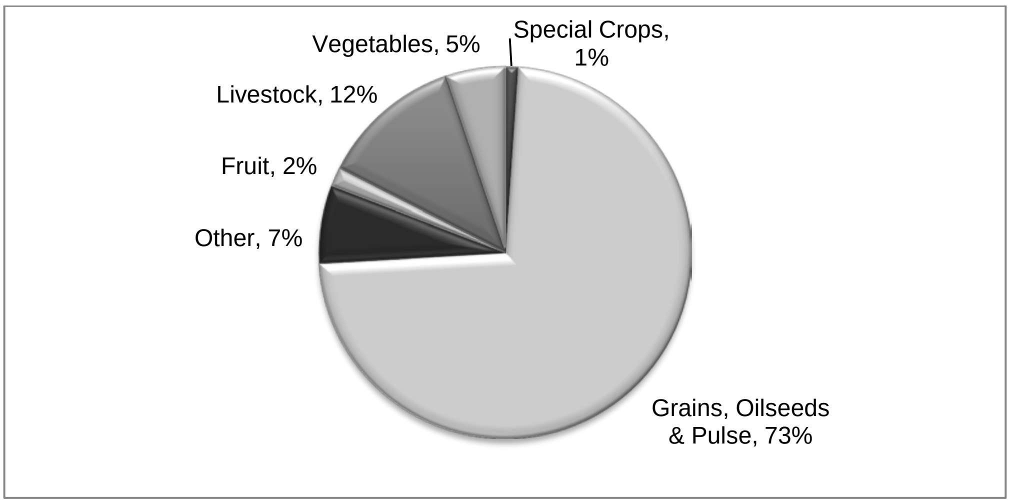
Increased promotion of the APP could also potentially increase the number of producers participating in the program. Of the producers who responded to the evaluation survey who never have used APP, 40 percent (56 producers) were previously unaware of the APP's existence prior to completing the survey. Now that they have learned of the

[17] Severe Economic Hardship: Where a class of similar producers is experiencing severe economic hardship, emergency advances can be issued, where the provision of the advance is expected to substantially mitigate the situation. The maximum amount of the emergency advance is $400,000 or 100% of the anticipated regular advance.
[18] A stay of default involves amending the administrator's terms and conditions and extending the loan repayment period. This happens when an administrator's producers are unable to meet their terms of repayment because there were no market opportunities for the producers to sell their commodities, or producers faced extremely difficult financial situations.
[19] Bank of Canada. Chartered Bank Administered Interest Rate – Prime Business.
[20] For more information on the legislative changes see section 4.4.

program, 38 percent intend to obtain an APP loan going forward and 56 percent are considering it. This sample of producers is too small to accurately assess the potential to increase program participation resulting from increased awareness. However, the survey findings and the consensus of the APP administrators surveyed suggest that greater awareness and promotion of the program may contribute to increased uptake of the APP in the future.

As highlighted in Figure 4, demand for APP advances was highest among grain, oilseed and pulse producers, reflecting the original design and intent of the program (i.e. products that could be stored if necessary to obtain higher prices).[21]

Figure 4: Proportion of APP Advances by Major Commodity, 2008-09 to 2013-14

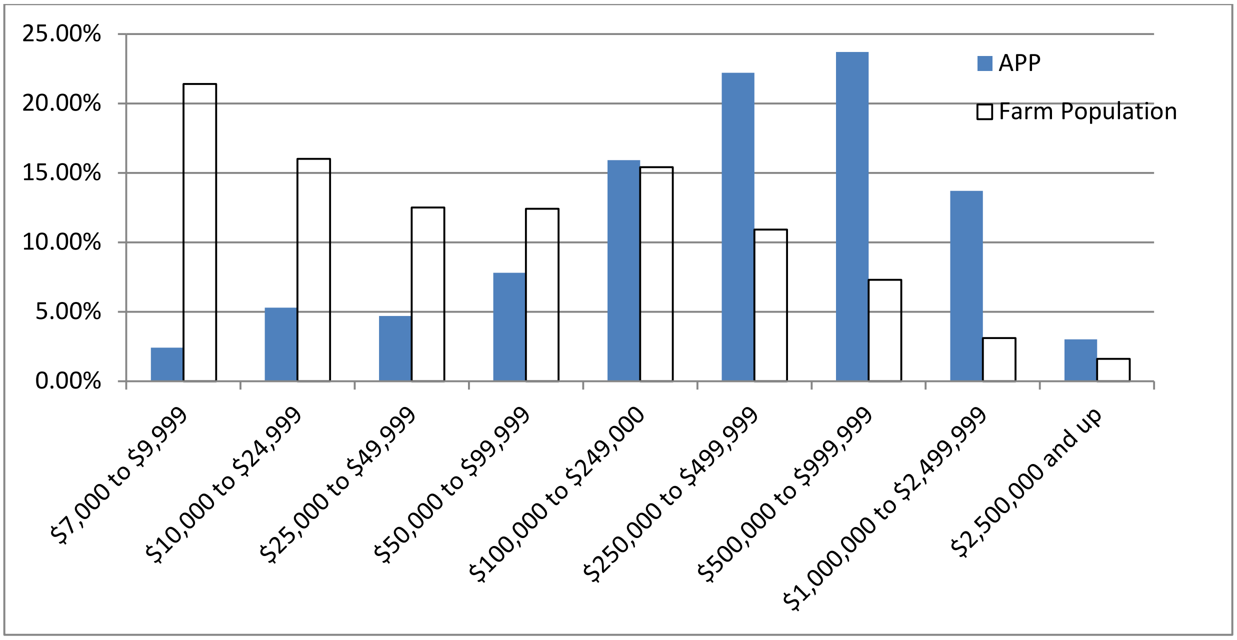


Source: Summary of 7-Year Average Default Rate Update, Dec 31, 2014.

Finally, the APP generally is used by medium to larger farms (see Figure 5). This is partially due to the fact that with APP, the more value a producer holds in his/her commodities, the higher the amount of the APP loan that they are able to acquire. For example, for a producer to take advantage of the full $100,000 interest-free loan, he/she must have $200,000 worth of commodity as collateral.

[21] APP predecessor programs were initially created to respond to the need to provide producers with cash flow so they could store their harvested crops for sale when prices are the highest but, over time, the types of agricultural products eligible for cash advances has expanded from storable agricultural products such as grain to non-storable crops and livestock.

Figure 5: Gross Farm Revenue of APP Producers versus the Farm Population* (2013)



*Gross farm revenues for the APP population are derived from the survey of 2013 producers; gross farm revenues for the total population are derived from Statistics Canada Census of Agriculture 2011 Table 004-0233 as the program data does not track farm size.

Continued Need for the PPP

The evaluation found that there is low demand for services offering price guarantees to facilitate delivery payments to members of cooperative marketing agencies. The total number of cooperative marketing agencies that have utilized PPP price guarantees has declined from five to three over the last five years. While the remaining three agencies had a total of 1,453 members in 2013-14, the PPP administrators interviewed indicated that only about 1,200 producers participated in price pools guaranteed by the PPP.

Two cooperative marketing agencies who ceased participating in the PPP have since become APP administrators and now provide APP advances to their members in place of delivery payments. These agencies reported that the APP is better suited to their needs for the following reasons:

- APP advances reduce the risk to the agency and the amount of debt they are forced to carry.
- The APP enables all members to access short-term advances regardless of whether they participate in a given price pool. Many cooperative marketing agencies stated that they are experiencing a declining demand for price pooling among their members and are now acting on behalf of their members as a federation or producer association.

A few AAFC representatives suggested that the PPP is particularly important in assisting emerging marketing cooperatives become established and provide initial payments to their members. They explained that if commodity prices and market conditions were to change and collective marketing strategies were to regain popularity among producers, demand for the PPP could potentially increase.

Continued Need for the GPP

The evaluation found that there is a continued need for the GPP to provide the Minister with the legal authority to intervene in the purchase or sale of agricultural products. Although the program has not been activated since the AMPA was introduced in 1997, all AAFC representatives familiar with the program explained that the GPP is an important tool available to the Minister in the case of a catastrophe (e.g., extremely unusual market conditions where, by intervening in the market, the Minister would be able to influence some degree of market stability). AAFC representatives also stated that, although there has never been a need to trigger the program recently, the GPP should continue to be available because of the susceptibility of the agriculture sector to external risks and the importance of the sector to Canadians. This is supported by the findings of the literature review, which indicate that the legal authority to intervene in emergency situations is common among governments of developed economies.

4.1.2 Alignment with Federal Priorities and Departmental Strategic Outcomes

Alignment with Federal Priorities

The AMPA programs align with federal priorities. The APP and PPP are enacted in federal legislation through the AMPA, one of several pieces of legislation directed specifically at enhancing farm competitiveness in Canada. The objectives of the APP and PPP strongly align with federal priorities for economic growth and competitiveness by supporting increased marketing flexibility and improved cash flow. This helps Canadian producers to obtain higher returns and be more financially competitive. AAFC representatives rated the APP and PPP as being aligned with the priorities of the federal government (an average rating of 4 out of 5)[22]. Interviewees emphasized that the APP and PPP are aligned with the government's priority to ensure the competitiveness and adaptability of the agricultural sector.

Program documents demonstrate that the APP supports specific priorities identified in Budget 2013. As a part of AAFC's Business Risk Management suite of programs, APP supports Budget 2013's reference to the Growing Forward 2 agriculture policy framework, which delivers an effective suite of Business Risk Management programs to provide assistance to farmers in cases of severe market volatility and disasters.

[22] 2015 Survey of Producers who received APP advances in 2013.

Alignment with AAFC Strategic Outcomes

The AMPA programs align with departmental strategic outcomes. AAFC's mandate is to bring about a sustainable, competitive, and innovative agricultural sector in which risks are appropriately managed. The objectives of the AMPA programs align with AAFC's Strategic Outcome 2: "*A competitive and market-oriented agriculture, agri-food and agri-based products sector that proactively manages risk".* As part of AAFC's suite of Business Risk Management programs, the APP and PPP support the objective to provide producers with effective tools to manage business risks that are largely beyond their control, such as drought, flooding, low prices, and increased input costs, and remain competitive within the agricultural sector, thereby helping them to stabilize their farm income. The APP and PPP support Strategic Outcome 2 by providing producers with adequate cash flow so that producers have the flexibility to take advantage of markets when prices are high.

AAFC representatives reported that the APP and PPP are well aligned with the priorities and strategic objectives of the department (an average rating of 4.3 out of 5[23]). The programs were said to help ensure Canadian producers remain competitive in the domestic and global economy by providing them with the tools they need to make good marketing decisions and manage cash flow effectively, to promote growth and development in the sector, and to be aligned with the department's Business Risk Management priorities.

4.1.3 Alignment with Federal Roles and Responsibilities

Governed by federal law under the AMPA, the APP and PPP play an important federal role in equalizing opportunities for producers across Canada to have guaranteed access to low cost, short-term loans.

Program documents show that the APP is available to a wide variety of Canadian producer organizations and producers regardless of province. The comparative analyses indicate that the APP provides consistency in the types of loan guarantee programs available across Canada, as there is wide variation in the programs available to producers at the provincial level. As demand for the APP cash advances fluctuates across provinces and in response to changes in commodity prices, market conditions and external emergencies, a national program allows for greater consistency and stability across Canada.

Similarly, the PPP provides marketing agencies and producers in all provinces and territories an equal opportunity to participate in price pooling and cooperative strategies to reduce price risk. As demand for the PPP is low with only three agencies currently participating in the program, it is unlikely the provinces would be able to justify a provincially managed program with as few as one or two participating agencies.

[23] ibid. A rating of five is very well aligned, whereas 1 is not at all aligned.

4.1.4 Duplication and Complementarity with Other Government Programs and Private Sector Financing

AMPA programs do not duplicate or overlap with other federal or provincial programs. The APP and PPP short-term advances complement other federal or provincial programs that offer longer-term financing intended for capital investment and non-guaranteed working capital financing that require realizable assets for security. The APP and PPP also complement the financing provided by the private sector by reducing risk for commercial lenders and supplementing the short-term private financing available to producers.

Findings from the comparative analysis indicate that the APP differs from loans offered through the *Canadian Agricultural Loans Act (*CALA*)* Program and Farm Credit Canada (FCC) because CALA and FCC loans are primarily long-term loans and are intended for investment in real property and assets rather than short-term working capital loans to improve cash flow and marketing. While some FCC financing options (e.g. lines of credit, input financing) are used for short-term cash flow purposes, FCC does not provide a loan guarantee and usually requires security in the form of realizable assets such as farm equipment, land or property. APP advances, on the other hand, use Business Risk Management programs and the commodity on which the advance is taken as security, thus allowing producers to use their real assets as security for other investments.

Program documents and interviews with AAFC representatives indicate that the APP and PPP complement the objectives of Growing Forward 2 Business Risk Management programs by helping producers manage risk through access to short-term loans. Although the APP and AgriRecovery can both be used for emergencies such as flooding, almost all AAFC representatives stated there is no duplication or overlap between the programs. AgriRecovery is intended to respond to disaster events and the recovery of extraordinary cost resulting from the disaster.

According to AAFC representatives, the use of APP loans is appropriate in emergency situations where cash flow is an appropriate tool to respond to the crisis and administrators adhere to the appropriate measures of risk in order to avoid high default rates. However, the APP is not an ideal tool to assist sectors undergoing long-term structural adjustment, such as was the case for the 2008-09 emergency.

Most AAFC representatives stated that the design of the APP is complementary to Growing Forward 2 Business Risk Management programs in its use of AgriStability and AgriInsurance payments as security. Producers can use the future payments from these programs as a guarantee to repay the APP principal. If their crop fails or there is a disaster and they are not able to repay their advance, the payment they receive from the other Business Risk Management programs would be used to repay the APP advance.[24]

[24] The program does allow for some flexibility. For example, if the producer needs his/her Business Risk Management payment in order to prepare his/her next crop, which then could be used to repay the APP loan, the APP program may permit a Stay of Default.

Evidence from the comparative analysis and interviews with AAFC representatives demonstrate that the APP and PPP complement provincial programs by filling gaps to ensure the availability of short-term loans to producers of a wide variety of commodity groups across Canada. The literature indicates that agricultural loans backed by provincial government guarantees exist in most provinces; however, eligibility by commodity group and type of loan expenditures varies widely. For example, programs such as the Alberta Farm Loan Program, the Manitoba Operating Credit Guarantees for Agriculture and the Ontario Commodity Loan Program guarantee loans to producers of all commodity groups for a range of eligible expenses. However, programs such as the British Columbia Feeder Associations Loan Guarantee Program, the Saskatchewan Livestock Loan Guarantee and New Brunswick's Livestock Incentive Loan Program provide guaranteed loans only for the purchase of livestock. The APP focuses specifically on short-term loans for cash flow and marketing purposes, whereas many provincial programs provide funding for the purchase of fixed assets. There are no programs similar to the PPP offered by provincial governments.

The comparative analysis and key informant interviews demonstrate that the APP and PPP use private sector financing to provide alternative financing options for producers. As mentioned previously, APP administrators obtain financing for APP loans through private financial institutions, on a competitive basis. The APP advances differ from the financing provided by commercial lenders as many commercial loans are for capital investments rather than operating expenses and typically offer longer repayment periods and different repayment terms. The short-term working capital loans and lines of credit offered by the private sector command a considerably higher interest rate than APP advances and require security in the form of both assets and the commodity itself. The fact that many producers obtain loans and lines of credit from commercial lenders in addition to APP advances suggests that the advances do not replace the need for other financing products available from commercial lenders. The PPP provides a price guarantee that enables cooperative marketing agencies to obtain loans from financial institutions, and thus the PPP also complements the financing provided by the private sector.

4.2 Performance – Effectiveness

The following section assesses the performance of the APP and PPP in terms of the extent to which the programs effectively meet their intended outcomes and demonstrate efficiency and economy.

4.2.1 Achievement of Expected Outputs and Outcomes

Overall, the APP and PPP have largely achieved their intended outputs and outcomes.

4.2.1.1 Outputs

The evaluation found that the APP and PPP have successfully achieved their intended outputs. As highlighted in Table 4.1, the APP has exceeded its intended targets by ensuring that more than 440 agricultural products are eligible for cash advances under the program in the last five years. The fact that the program target was exceeded by such a significant degree suggests that the target may no longer be relevant and thus should be reviewed.

The PPP has met its target of signing three Price Guarantee Agreements with cooperative marketing agencies. As indicated in the following table, the number of cooperative marketing agencies participating in the PPP has declined from five to three over the last five years. Other output indicators and targets outlined in the Program Performance Measurement and Risk Management Strategy do not support an assessment of the intended outputs, but rather are service standards.[25]

Table 4.1: Achievement of APP and PPP Outputs

Program Output	Indicator	Target	2010/11	2011/12	2012/13	2013/14	2014/15
APP							
Cash advances are available to eligible producers	Number of products that are eligible for advances	440	475	552	643	689	750
PPP							
Government guarantee protects agencies against unanticipated declines in the market price	Number of marketing agencies that have signed price guarantee agreements	3	5	5	3	3	3

Source: AAFC APP Administrative Data, Agreement Lender Information.

4.2.1.2 Immediate Outcomes

The APP has achieved its intended immediate outcome of enabling APP administrators to secure financing at preferential interest rates, but has not met its performance target of issuing cash advances to 28,000 eligible producers in the last five years (Table 4.2).

[25] Service standards will be discussed in the efficiency and economy section of the report.

Table 4.2: APP and PPP Immediate Outcomes and Results Achieved

Immediate Outcome	Indicator	Target	2010/11	2011/12	2012/13	2013/14	2014/15
APP							
Administrators can secure financing at preferential interest rate	Below prime borrowing rate	Prime < -.25	Prime < -.25	Prime < -.25	Prime < -.25	Prime < -.25	Prime < -.25
Cash advances issued to eligible producers	Number of producers receiving APP advances per production period	28,000	25,081	24,394	21,462	23,786	21,547
PPP							
Marketing agencies can secure financing to make initial delivery payments to producers	Initial delivery payments made to members	n/a	$20.3 million	$28.4 million	$26.1 million	$36.9 million	n/a

Source: AAFC APP Administrative Data, Agreement Lender Information

There is a requirement in each Advance Guarantee Agreement that prevents lenders from charging administrators interest rates greater than prime minus 0.25. Further, program data shows that in 2013, 72 percent of the APP administrators were able to use the APP guarantee to secure financing at the bank prime rate minus 0.25 while the remaining 28 percent of administrators were able to secure financing at prime minus 1. Consequently, the APP met its performance target of prime minus 0.25.

Approximately two-thirds of APP administrators (63%) stated they would not be able to secure loans from commercial lenders without the Advance Guarantee Agreement, while a minority (16%) who thought they could secure financing suggested that they would have to pay a higher interest rate and that the terms of the loan would not be as favorable. The lenders interviewed stated that the guarantee is an important component of the Advance Guarantee Agreement. They indicated that they would be unwilling to participate without it because many APP administrators lack significant realizable assets to offer as security for the loan.

While the APP has issued cash advances to a large number of eligible producers, the program has not met its performance target of issuing advances to 28,000 producers in the last five years. The total number of producers receiving regular APP advances has declined from 31,862 in 2008-09 to 21,547 in 2014-15 (Figure 3). As indicated previously, some key factors contributing to the decline in the number of producers participating in the

APP are high commodity prices and low interest rates.[26] Several key informants and APP administrators indicated that greater awareness and promotion of the program, improvements resulting from the recent legislative changes, and higher interest rates are factors which may contribute to increased uptake of the APP in the future.

The PPP has achieved its immediate outcome of enabling marketing agencies to secure financing to make initial delivery payments to producers. This guaranteed financing was used to make initial delivery payments of $36.9 million to producers by the three cooperative marketing agencies participating in the PPP in 2013-14. The PPP administrators explained that, in the absence of the PPP price guarantee, they would be unable to secure financing from commercial lenders to issue delivery payments.

4.2.1.3 Intermediate Outcomes

APP Intermediate Outcomes

The evaluation found that the APP achieved its intended outcomes of providing producers with low cost capital to reduce short-term financial pressures and enhance marketing flexibility, though not all performance targets were met.

Reducing Short-term Financial Pressures

As indicated in Table 4.3, the APP has achieved, or has come very close to achieving, its performance target of providing $2 billion in APP advances in four of the last five years. The total value of APP cash advances peaked in 2008-09 with the provision of $2.7 billion in regular and emergency cash advances. Since then, the value of APP cash advances declined to $1.6 billion in 2010-11 and then increased to $2.4 billion in 2013-14 and $2 billion in 2014-15.

Table 4.3: APP Intermediate Outcomes and Results Achieved

Intermediate Outcome	Indicator	Target	2010/11	2011/12	2012/13	2013/14	2014/15
Producers can access low cost capital	Dollar value of APP advances issued per production period	$2 billion	$1.6 billion	$1.9 billion	$1.9 billion	$2.4 billion	$2 billion
Enhanced marketing flexibility during the agreement period	Repayment of loans through proceeds of sales[27]	90%	92%	91%	87%	91%	79%

Source: AAFC APP Administrative Data, Agreement Lender Information

[26] Bank of Canada. Chartered Bank Administered Interest Rate – Prime business rate ranged from 3 percent in 2009 to 2.70 percent in 2015.
[27] This data excludes payments that are received from BRM program as a result of a loss suffered by producers that was beyond their control (e.g. production insurance payments and AgriStability). If these payments were included to indicate who is not providing proof of sale, the numbers in the table would exceed the target.

The APP has enabled producers to access low cost capital because the interest costs that producers must pay on the APP advance are lower than that incurred for alternative financing options. Program documents show that in 2013-14, APP administrators commonly charged producers interest at the bank prime rate for the interest-bearing portion of their advance while higher interest rates were charged for loans in default and advance repayments without proof of sale (Table 4.4).

Table 4.4: Interest Rates Charged by APP Administrators to Producers, 2013-14

Number of APP Administrators (N=43)						
Interest Rate	**Administrators Who Charged Interest Bearing Loan Rates**		**Administrators Who Charged Default Rates**[28]		**Administrators Who Charged Repayment Without Proof of Sale Rates**	
	#	**%**	**#**	**%**	**#**	**%**
Prime - 1	2	4.8	0	0	0	**0**
Prime	39	92.9	4	9.3	5	11.6
Prime + 1	0	0	5	11.6	5	11.6
Prime + 2	0	0	14	32.6	13	30.2
Prime + 3	0	0	20	46.5	20	46.5
BA + 0	1	2.3	0	0	0	**0**
Total	**42**	**100%**	**43**	**100%**	**43**	**100%**

Source**:** Producer Rates by Administrator, 2013-14
Note: BA is shortform for Bankers' Acceptance
Note: Only references administrators who gave interest bearing loans.

According to the 2013 producer survey results, presented in Section 4.1.1 and Figure 2, a total of 13 percent of producers surveyed believed that they would not be able to acquire an alternative loan, while another 24 percent were uncertain. The impact of this survey finding when extrapolated to the total producer population that received APP advances in 2013 is that, in the absence of the APP in 2013, it is estimated that 3,092 producers would not have qualified for alternate financing, leading to a shortfall in financing of approximately $315 million[29]. Further, another 4,282 (24%) of producers may or may not have qualified for alternative financing, leading to an additional shortfall of approximately $435 million, if none of these producers could have obtained alternate financing.

Of those 178 producers who stated that they would qualify for alternate financing in the absence of the APP, 75 percent stated that they would rely on an operating loan or line of credit or a short-term loan offered by a bank, credit union or caisse populaire. Twenty percent stated that they would rely on financing available from input suppliers. The majority (59%) stated that the interest rate of the alternative financing would be greater than the APP advance. More than three-quarters of producers (79%) suggested the rates would be one percent to five percent greater and 18 percent reported that it could be as much as six

[28] It should be noted that, as of 2014-15, the retroactive default penalty has been capped at prime +1.
[29] Obtained by multiplying average APP advance of $101,700 by the total number of producers that would not have qualified for a loan (3,092 producers from 23,786) in 2013-14 production year.

percent to 10 percent higher than their last APP advance. While many producers (33%) were unsure what rates they would be offered in the absence of the APP, only a very small minority (8%) believed the rate would be the same or lower than what is currently offered by their administrator.[30]

Overall, surveyed producers believed that they would likely be charged an interest rate of a weighted average of 3.5% higher than the interest rate charged on their interest-bearing APP advance which was typically at the prime rate (i.e. 3% in 2013-14). By extrapolating these results to all APP participants, it is estimated that, for the 2013-14 production period, producers saved approximately $121.5 million in interest costs on the interest-free and interest-bearing portions of the APP advances compared to the interest costs that would have been incurred with alternate financing. The interest cost savings works out to an average of approximately $5,152 per producer. In addition to the cost savings achieved from the preferential interest rate on the APP advance, the APP advance helped some producers obtain a better rate on their operating loan (4%) or line of credit (2%) and reduced the limit on their operating loan (8%) or line of credit (14%).

Both AAFC staff and APP administrators reported that APP advances have significantly helped producers address short-term financial pressures (average ratings of 4 and 4.1 out of 5, respectively)[31]. AAFC representatives and APP administrators indicated that the design and value of the advances are well-suited to medium sized producers who require financial assistance to bridge the gap from planting to marketing. Several respondents explained that, historically, APP advances have proven particularly helpful in short-term emergencies such as the grain transportation crisis in 2013 as previously stated.

According to the producers surveyed, almost all producers who received advances in 2013 reported that the APP advance significantly (73%) or somewhat (21%) helped them address short-term financial pressures. These producers stated that the APP advance helped them by: (in order of frequency mentioned)

- providing cash flow assistance during production when capital was needed most;
- saving interest costs;
- enabling them to pay for input costs early in the season and take advantage of rebates and promotions;
- allowing them to delay marketing until commodity prices increase; and
- supporting operating costs (e.g. fuel, repairs and land rental payments).

Enhancing Marketing Flexibility

As indicated in Table 4.3, the APP has achieved its performance target of having 90 percent of loans repaid through proceeds of sales for three of the five years. According to program management, APP was slightly below the target for two years due to the transition of western grain and oil producers that used Canadian Wheat Board to the Canadian

[30] Based on multiple responses by producers in the 2015 Survey.
[31] 2015 Survey of Producers who received APP advances in 2013.

Canola Growers Association and the 2012-13 grain transportation crisis in western Canada.[32] The performance indicator of "repayment of loans through proceeds of sales" is not an appropriate indicator to measure the intermediate outcome of "Enhanced marketing flexibility during the agreement period" since the producers can repay their loans without proof of sale.

The enhanced cash flow provided by APP advances allowed producers to market their storable commodities when prices were highest which may or may not involve a delay of sale. The evaluation found that the increased marketing flexibility achieved as a result of the APP had a significant impact on producers of storable commodities who benefited from the ability to delay marketing their commodities. The APP advance had a minimal impact in terms of increased marketing flexibility on products that are perishable because they have to be sold at harvest, or on products that are produced on contract as they have to be sold at a particular time.

The producer survey indicated that approximately 34 percent of producers delayed marketing of their product as a result of receiving an APP advance in 2013. As highlighted in Table 4.5, among producers of storable commodities (e.g. grains and oilseeds, cattle, forages and hay, pulse crops and potatoes), approximately one-half of the producers delayed marketing. As expected, producers of perishable/non-storable commodities (e.g. vegetables, greenhouse crops and some fruits) and commodities which are sold in futures, contract supply arrangements or through a cooperative marketing agency (e.g. maple syrup and tobacco) did not delay marketing.

Table 4.5: 2013 APP Recipients' Delay of Marketing by Commodity Group

Primary Commodity	Number of Respondents	Delayed Marketing		Did Not Delay Marketing		Don't Know	
		#	%	#	%	#	%
Grains & Oilseeds	270	124	46%	130	48%	16	6%
Maple Syrup	82	1	1%	79	96%	2	2%
Vegetables	40	0	0	27	67%	13	33%
Cattle	25	11	42%	13	52%	1	6%
Pulse crops	23	14	60%	9	40%	0	0
Forages & Hay	18	9	50%	9	50%	0	0
Fruit	8	2	29%	5	64%	1	7%
Potatoes	5	3	60%	2	40%	0	0
Hogs	4	0	0	4	100%	0	0
Honey	3	1	17%	2	83%	0	0
Other	10	3	30%	7	70%	0	0
Total	**488**	**168**	**34%**	**287**	**59%**	**33**	**7%**

[32] 2014 was the first year that western grain and oil seed producers were fully required to provide proof of sale after the switch from the Canadian Wheat Board to the Canadian Canola Growers Association. Many producers chose to not provide proof of sale in 2014 because the penalty was already covered by the CCGA's holdback and producers did not see the impact. The stay of default on grains and oilseeds also caused the program to miss the target in 2012-2013 due to the 2013 grain transportation crisis.

Approximately three quarters of producers delayed marketing their product for one to six months (74%) while about one quarter delayed marketing for seven or more months (26%). The majority (79%) of producers reported that the price of their products increased as a result of the delay, 13 percent indicated the price remained the same and a few producers (3%) stated that the price decreased following the delay. The average price increase reported was 14.8 per cent. Approximately 19 percent of producers reported increased revenues of less than $10,000, 29 percent reported increased revenues of $10,000 to $19,999, 31 percent reported gains of $20,000 to $49,999, 12 percent reported gains of $50,000 to $74,999, and 9 percent indicated their revenues increased by $75,000 or more.

The weighted average increase in revenues of the producers surveyed was $31,070 per producer among those that delayed marketing as a result of the APP advance. By extrapolating this finding to the total population of APP recipients, the total increase in producer revenues achieved as a result of delayed marketing in 2013-14 is estimated to be $249.2 million. To determine the incremental impact of the APP (i.e. what happened as a result of the program), the increased revenues from delayed marketing for only those producers who thought they would not qualify for alternate financing at the same terms (31%) or did not know if they would qualify (43%) have been included in the analysis. On this basis, the incremental producer revenues for these producers as a result of delayed marketing facilitated by the APP are calculated to be $184.4 million (i.e. 74% of $249.2 million) in 2013-14.

PPP Intermediate Outcomes

The evaluation found that the PPP has achieved its intended outcome of providing a cash flow floor that addresses the short-term financial pressures of producers. However, as the program has not provided a target for the indicator of sales to marketing agencies, it is not possible for the evaluation to assess whether the program is achieving the outcome of enhancing the marketing flexibility during the agreement period.

As indicated in Table 4.6, sales through marketing agencies have increased from $36 million in 2010-11 to $63.9 million in 2013-14. Further, the PPP has met its performance target of no claims against the price guarantee as there have not been any claims made against the PPP since the enactment of the AMPA in 1997.

The evaluation found that the increased cash flow provided by the PPP delivery payments has helped address short-term financial pressures for members participating in the agencies' price pools. Both AAFC representatives and PPP administrators stated that the delivery payments afforded by the PPP addressed short-term financial pressures for producers (average ratings of 3.9 and 3.7 out of 5, respectively).

Table 4.6: PPP Intermediate Outcomes and Results Achieved

Intermediate Outcome	Indicator	Target	2010/11	2011/12	2012/13	2013/14	2014/15
Enhanced marketing flexibility during agreement period	Sales through marketing agencies	n/a	$36.1 million	$53.4 million	$47.4 million	$63.9 million	n/a
Cash flow floor addresses short term financial pressure	Guarantee of 65% of wholesale price	No claims	No claims	No claims	No claims	No claims	No claims

4.2.1.4 End Outcomes

The APP has achieved its intended end outcome of enabling producers to better manage business risks associated with cash flow demands while the PPP has achieved this intended outcome to a more limited extent due to low program uptake.

Surveyed producers who received APP advances in 2013 reported that the APP significantly helped them manage business risks associated with cash flow demands (an average rating of 3.9 out of 5)[33]. These producers indicated that they used the APP advance to improve cash flow, pay for inputs, delay marketing of their product in order to increase the price or improve their operations' financial viability. AAFC representatives and APP administrators also reported that the program had a significant impact in helping producers better manage business risks associated with cash flow demands (average ratings of 4 and 3.9, respectively)[34]. APP administrators stated that the cash flow assistance allowed producers to choose risk mitigation strategies best suited to their operations and needs.

As indicated in Table 4.7, the APP has not met its performance target of a default rate lower than 3 percent because program data indicates that the average default rate was 3.50 percent over the four year period from 2010-11 to 2013-14. Since 2010-11 the default rate has been above 3 percent and increasing each year to a maximum of 4.28 percent in 2013-14.

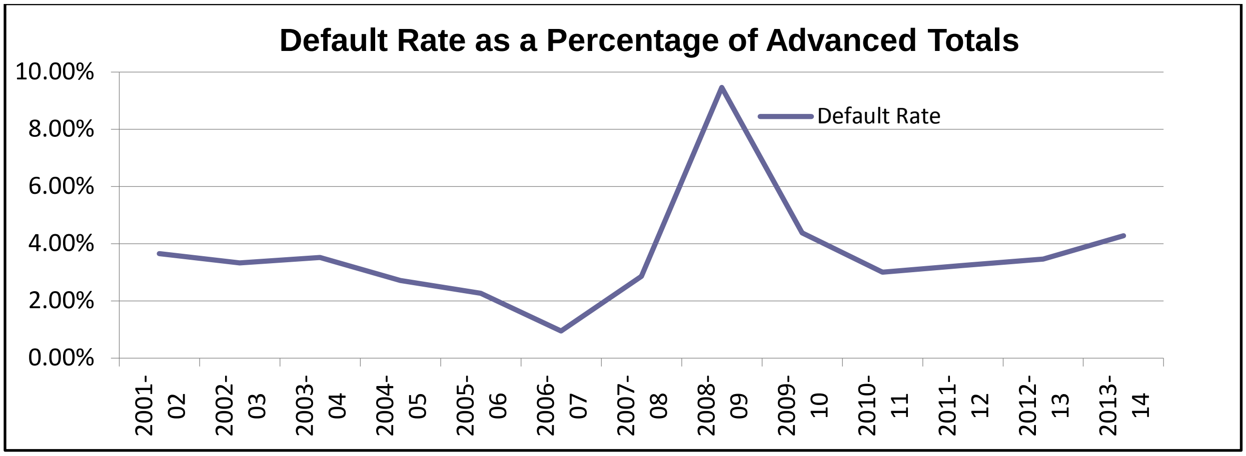
Table 4.7: APP and PPP End Outcomes and Results Achieved

End Outcome	Indicator	Target	2010/11	2011/12	2012/13	2013/14
Producers are able to manage business risks associated with cash flow demands	APP Low default rate on loans	<3%	3.01%	3.23%	3.46%	4.28%
	PPP Marketing agencies did not make a claim against the guarantee	No claims	No claims	No claims	No claims	No claims

[33] 2015 Survey of Producers who received APP advances in 2013.
[34] Ibid.

Figure 6 below demonstrates that current default rates are slightly higher than previous rates over the last 14 years, other than the spike in 2008-09 which was a result of the cattle and hog crisis discussed earlier.

Figure 6: APP Default Rate (2001-02 to 2014-15)



Note: the percentage was calculated by dividing the value of default by the total number of advances.

Some factors contributing to the higher than targeted default rate are the several short-term economic emergencies (e.g. historic flooding across western Canada in 2011 and the grain transportation crisis in 2013) that producers have had to deal with in recent years.[35]

The evaluation found that the PPP has been somewhat successful in achieving its intended outcome of enabling producers to better manage business risks associated with cash flow demands. The low demand and uptake for the PPP program has reduced the impact of the program. PPP administrators stated that the program had some impact on producers' ability to better manage business risks associated with cash flow demands (an average rating of 3 out of 5) [36]. These administrators commented that the delivery payments enable producers to better budget for expenditures because they can determine the expected price of their commodity based on the initial delivery payment they receive.

4.3 Performance – Efficiency and Economy

The evaluation found that the administration of the APP and PPP has been efficient. However, a substantial increase in APP loan defaults due to the 2008-09 livestock emergency advances has resulted in short-term increases in program expenditures in 2012-13 and 2013-14. When compared to other loan programs, the loan administration costs and honour rates of the APP have been relatively low. The economic benefits of the APP significantly outweigh the program costs. Further, producers are generally satisfied

[35] Further investigation may be necessary to determine the cause of the general increase in default rates in recent years.
[36] 2015 Survey of Producers who received APP advances in 2013.

with the delivery of the APP and the APP has met its service standards in most instances. In terms of the PPP, the costs to deliver the program are very low and there has not been a claim made by marketing agencies against the PPP price guarantee since the AMPA was enacted in 1997.

4.3.1 Factors Affecting Efficiency and Economy

As highlighted in Table 4.8, the program data shows that APP and PPP expenditures have increased from $47.7 million in 2007-08 to $83.3 million in 2013-14. While costs for the APP and PPP are not tracked separately, the majority of the expenditures indicated in Table 4.8 are related to the APP. It is estimated that the salary costs of approximately 0.5 full-time equivalents are associated with the PPP.

Table 4.8: APP and PPP Program Expenditures ($ Millions) by Fiscal Year[37]

Type of Program Expenditure	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14[38]	2014/15
Interest Paid on Interest-free Advances	34.00	36.00	14.40	18.30	21.52	16.79	19.06	20.16
Regular APP Default-related Payments	14.70	4.12	9.46	9.82	11.72	17.74	34.65	14.96
2008-09 Cattle and Hog default-related payments	n/a	1.08	9.94	12.08	13.18	34.74	41.86	5.10
Program Administrative Costs	3.50	3.00	3.00	2.80	3.25	5.03	4.94	4.10[39]
Gross Program Expenditures	**52.20**	**44.20**	**36.80**	**43.00**	**49.67**	**74.30**	**100.51**	**44.32**
Default Recoveries	**(4.50)**	**(5.40)**	**(5.30)**	**(7.31)**	**(7.61)**	**(11.44)**	**(17.21)**	**(14.81)**
Net Program Cost	**47.70**	**38.80**	**31.50**	**35.69**	**42.06**	**62.86**	**83.30**	**29.51**

Source: APP and PPP Summary 2006-07 to 2014-15

The significant increase in APP program expenditures in 2012-13 and 2013-14 is due primarily to rising default costs, particularly default-related payments from the 2008-09 emergency livestock advances funded under APP's Severe Economic Hardship provision. There exists a considerable lag in the collection of defaulted loans resulting from 2008-09 emergency advances because producers received a stay of default, and therefore, the

[37] Since it sometimes takes a considerable amount of time to investigate and collect defaulted APP loans, most default-related payments and recoveries shown in the Table 4.8 for a given fiscal year are not related to the APP loans approved that year but for APP loans approved in previous fiscal years.
[38] The APP changed the way it accounts for default claims that are received, but that are not yet processed/honoured. It now uses an accrual accounting methodology by establishing a payable at year-end (PAYE) for the outstanding APP default claims. The large number of default claims received related to the 2008-2009 livestock regular stay of default caused a backlog of approximately $13 million in regular APP payments. The PAYE system increased the amount of all APP default claim payments made for 2013-2014 and reduced the total amount of APP default claim payments for 2014-2015.
[39] The program administrative costs in 2012-13 and 2013-14 are related to the investment in improving APPEDS. Beginning in 2014-15, program expenditures will include regular maintenance and upkeep of APPEDS.

loans did not have to be repaid until 2012 for cattle and 2013 for hogs. As indicated in Table 4.8, a total of $118 million in default-related payments to cattle and hog producers have been made over the seven year period from 2008-09 to 2014-15. As of 2014-15, program expenditures have returned to levels prior to the monetary impacts of the emergency livestock advances.

The intent of the emergency funding was to address acute cash flow pressures and provide temporary “bridge” financing to prevent producers from having to make precipitous business decisions and leave the sector unnecessarily. The emergency advance provision under the APP provided a means to flow assistance to the sector not available through other programs but deemed necessary at the time. At the time, existing Business Risk Management programs were assessed and deemed not able to adequately address the situation:

- AgriStability margins for livestock producers had eroded after serval years of decline;
- AgriInvest was a new program, with account balances not yet built up for many producers;
- AgriInsurance is not available to the livestock sector, and does not address market (e.g. price) risks; and,
- AgriRecovery responds in cases of natural disasters, not market (e.g. price) issues.

Further, evidence at the time suggested that the APP would provide a cheaper delivery option than ad hoc programming.

A 2011 AAFC review of the emergency advance provisions under the AMPA, in addition to interviews conducted for this evaluation, indicated that these advances are not an ideal tool to assist sectors undergoing long-term structural adjustment, such as was the case for the 2008-09 emergency. The review stated that although the 2008-09 livestock emergency advances may have helped mitigate immediate cash flow pressures, the advances were difficult to pay back at the end of the advance period, and ultimately added to some producers’ long-term debt.

In addition to cost increases related to the 2008-09 emergency advances, a 2011 evaluation of the AMPA stated that AAFC has had administrative challenges in honouring and recovering APP defaults. This has then led to increased program costs and impacted the program’s efficiency. The 2011 evaluation stated that from 2009-10 to 2010-11, the APP experienced a backlog in defaults, which included delays in receiving default reports from administrators as well as delays in honouring guarantees and transferring defaulted files to AAFC’s Recoveries Division. To address the backlog in defaults, AAFC established a Default Improvement Project in January 2011, which resulted in a number of changes such as clearer default reporting requirements for administrators and service standards for defaults. The result of this project is that there is currently no backlog for default claims. As indicated, the processing of backlogged defaults payments was one of the factors contributing to an increase in regular default-related payments from 2012-13 to 2014-15.[40]

4.3.2 Honoured Rates and Administrative Costs

The most recent data available indicates that the average APP honour rate for the five year period from 2003-04 to 2007-08 was 0.5 percent (i.e. honoured amount as a percentage of value of APP loans before capturing recoveries made by AAFC).[41] It is not possible to provide more recent data on honor rates as it can take a significant amount of time for loans to reach the stage of needing to be honored[42]. This honour rate is higher than the loan honour (loss) rates of FCC (0.2%) but lower than the Canada Small Business Financing Program (1.6%) and the Western Economic Diversification's Community Futures Program (9%). It should be noted, however, that $538 million was advanced to cattle and hog producers for the 2008 production period of which $123 million (22.9%) has been honoured to date. As of February 2016, $14 million (2.6%) remains outstanding to cattle and hog producers for the 2008 production period, for a total honoured forecast of $137 million (25.5%).

As shown in Table 4.9, when compared to other loan programs, the APP's delivery model has the lowest administration cost per loan of $190. As a comparison, the administration cost per CALA loan was $240, $344 for Canada Small Business Financing Program and $14,546 for the Federal Economic Development Agency for Southern Ontario's Community Futures Program.

Table 4.9: APP Administration Costs Compared to Other Loan Programs

Program	Costs per $1,000 Loaned	Costs per Loan
APP (2014-15)	$2.06	$190
CALA (2009-10)[43]	$4.31	$240
Canada Small Business Financing Program (2008) [44]	$3.10	$344
Community Futures Programs (2014)[45]	$329.04	$14,546

[40] Agriculture and Agri-Food Canada. Evaluation of the Administrative Aspect of the *Agricultural Marketing Programs Act* Legislated Programs (2011).
[41] AAFC attempts to collect all debt owed after honouring its guarantees with financial institutions, including outstanding interest. AAFC's Corporate Management Branch is still collecting on honoured loans.
[42] Finalized honoured rate percentages by APP program year are not yet completed for 2008-09 onwards because defaulted advances remain outstanding with administrators as part of the individual producers' settlement agreements to repay the defaulted amounts. Producers will continue to repay their defaulted advances as part of an agreed upon settlement agreement which can last up to three years. The stay of default for cattle and hog for the 2008-09 also extended this timeframe due to two separate stays issued, which delayed establishing settlement agreements for the affected producers.
[43] Agriculture and Agri-Food Canada, Evaluation of the *Canadian Agricultural Loans Act* Program. (2014). http://www.agr.gc.ca/eng/about-us/offices-and-locations/office-of-audit-and-evaluation/audit-and-evaluation-reports/agriculture-and-agri-food-canada-evaluation-reports/evaluation-of-the-canadian-agricultural-loans-act-program/?id=1401475853238#a1.1
[44] Industry Canada, Evaluation of the Canada Small Business Financing Program. 2009. http://www.ic.gc.ca/eic/site/ae-ve.nsf/eng/03102.html
[45] http://www.feddevontario.gc.ca/eic/site/723.nsf/eng/h_02064.html

4.3.3 Cost-Benefit Analysis

The evaluation found that the economic benefits of the APP significantly outweigh the program costs. As indicated previously, the incremental producer revenues as a result of delayed marketing are estimated to be $184.4 million. Using the average interest rate difference producers paid on the APP advances compared to the interest they would likely have paid if they obtained alternate financing for both the interest-free and the interest-bearing APP advances, it is estimated that producers saved approximately $121.5 million in interest costs during the 2013-14 production year.

As indicated in Table 4.10, the APP program costs included in the cost-benefit analysis are APP annual program expenditures and the application fees paid by producers to APP administrators (based on results of APP administrator interviews). By subtracting total program costs of $52.2 million from total program benefits of $305.9 million, the program had a positive net benefit of approximately $253.7 million for the 2013-14 production year and a benefit cost ratio of 5.9:1.

Table 4.10: APP Program Cost-Benefit Analysis

Cost/Benefit	Amount ($ millions)
Benefits	
Producer interest cost savings due to interest-free APP advances	$93.5
Producer interest cost savings due to interest-bearing APP advances	$28.0
Incremental producer revenues from delayed sale of products	$184.4
Total Benefits	**$305.9**
Costs	
Average APP program costs for last 8 years (2007-08 – 2014-15)*	$46.4
Cost of recovering APP defaulted loans	$1.0
Application fees paid by producers to APP administrators	$4.8
Total Costs	**$52.2**
Net Benefits	**$253.7**
Cost-Benefit Ratio	**1:5.9**

*The amounts associated with the benefits are derived from producer opinions from the 2015 survey of producers who received APP advances in 2013.
Note: Benefits and costs included in above table are based on 2013-14 production year with exception of program expenditures. Because it takes a considerable amount of time to investigate and collect defaulted APP loans, average annual program cost of $46.4 million for the last eight years have been employed for the cost-benefit analysis.

4.3.4 Satisfaction and Service Standards

The APP has met its service standards in most instances as indicated in the following table (Table 4.11).

Table 4.11: Achievement of APP Service Standards in 2013-14

Service Standard	Target	2010/11	2011/12	2012/13	2013/14	2014/15
Number of APP administrators that have signed Advance Guarantee Agreements within 8 weeks of submitting a completed application	80%	94%	94%	89%	91%	96%
Number of PPP marketing agencies that have signed agreements within 8 weeks of submitting a completed application	90%	100%	100%	67%	67%	67%
Respond to general phone inquiries within 1 business days (APP)	80%	n/a	n/a	n/a	81%	91%
Respond to general email inquiries within 2 business days (PPP)	80%	n/a	n/a	n/a	100%	100%

Note: a system for tracking timeliness related to inquiries was established in 2013-14, and thus data is not available prior to this year.

According to the survey conducted for this evaluation, most producers (91%) who received APP advances in 2013 were satisfied or very satisfied with the delivery of the APP. As a comparison, when surveyed in 2010 producers rated AgriInsurance at 85 percent and AgriStability 68 percent. The most frequent reasons provided by surveyed producers for their satisfaction with the program are that the APP application process is easy, that AAFC employees are very knowledgeable and helpful, and that the loans are processed in an efficient and timely manner.

The PPP met its target related to signing a Price Guarantee Agreement with 90 percent of marketing agencies within eight weeks of submitting a completed application in two of the five years.

4.3.5 Efficiency and Economy of the PPP

The delivery costs of the PPP are very small. AAFC estimates that 0.5 full-time equivalents are associated with the PPP (approximately $100,000) on an annual basis. PPP administrators have not made a claim against the price guarantee since the AMPA was enacted in 1997. PPP administrators stated that the program is efficient to deliver and creates no administrative burden for their agencies.

4.4 Design and Delivery

In terms of design and delivery, although some interviewees noted a need to increase the APP loan limits, program data and producer surveys demonstrate that it is not necessary to revise the existing loan limits at this time. In regard to enhancement of program design, almost two-thirds (63%) of the APP administrators interviewed suggested that there is a need to revise the APP maximum loan limits of $100,000 for an interest-free advance and $300,000 for an interest-bearing loan. However, program data demonstrates that it is not necessary to revise the existing loan limits because only 34 percent of APP advances took advantage of the maximum limit of $100,000 for an interest-free loan during the three year period from 2011 to 2013 and only two percent of the APP advances took advantage of the full $400,000 loan.

Approximately half (47%) of the producers surveyed that received APP advances in 2013 stated that the limits should remain the same or similar, 22 percent reported that they should be revised somewhat, and 21 percent suggested they should be increased significantly. Although the existing loan limits likely restrict uptake of the APP among large producers, large producers are better able to secure financing at competitive interest rates from the private sector and do not face as many barriers associated with access to capital and insufficient cash flow faced by smaller operation producers. The purpose of the program is not to replace the need for a lender, but to ease the pressure of production costs while bringing the agricultural producer to market. Current limits are sufficient to meet this goal.

Based on the lessons learned from the 2008-09 emergency loans, the evaluation also found that it would be useful for the program to develop a framework for assessing whether or not an economic emergency situation could be substantially mitigated by APP through the Severe Economic Hardship provision. Nonetheless, the APPEDS system was reported to be meeting the needs of most administrators and recent legislative changes have addressed numerous design and delivery issues, which are likely to improve program efficiency.

The APP program has recently gone through an extensive review of its design and delivery processes. This has resulted in changes made to the AMPA legislation under the *Agricultural Growth Act (*Bill C-18), which received royal assent in February, 2015.
The program is also currently in the process of updating AMPA related regulations based on the findings of the review, which are planned to be completed by February, 2016.

As mentioned previously, a 2011 AAFC review of the emergency advance provisions under the AMPA, in addition to interviews conducted for this evaluation, indicated that these advances are not an ideal tool to assist sectors undergoing long-term structural adjustment. It would, therefore, be beneficial for the program to review the Severe Economic Hardship provision of the AMPA based on what has been learned from the 2008-09 crisis to ensure that this provision will produce its desired results.

The APPEDS system was reported to be meeting the needs of most administrators. A few administrators suggested that APPEDS would be more useful if it allowed for a breakdown by province, producer or commodity. Some also suggested that it would be more useful if APPEDS could generate a report for all their producers without requiring support from an AAFC staff member. According to program staff, the APPEDS system is continually being improved to meet the needs of administrators and the program in general.

Nonetheless, according to interviews with APP administrators and program staff, the recent legislative and program changes to the AMPA will further improve the efficiency of the APP. The key modifications to the APP include allowing:

- Producers to access cash advances for all of their commodities through one program administrator. The ability to obtain an APP advance from a single administrator will result in reduced administrative burden and lower administrative fees for producers of multiple commodities. Rather than having to apply to multiple administrators, producers have the choice of applying for an advance to one administrator on all of their commodities.

- New Multi-Year Agreements, reducing paperwork for producers and administrators. Changes to the evaluation process for administrators will require APP administrators who have participated in the APP for multiple years to undergo a full evaluation every five years, and a mini evaluation annually, rather than undergoing a full evaluation each year.

- More options for producers to repay their advance, including allowing producers who choose to hold their product beyond the end of the production period to repay without penalty. Changes to the repayment terms will reduce barriers and unintended fees for producers. For example, under the new legislation, producers of perishable commodities will not be required to provide proof of sale and exceptions will be made to allow repayment without proof of sale if the producer can prove they are still in possession of the commodity.

- Producers to be able to use more types of security to obtain an advance such as private or other types of insurance. Changes in the eligibility requirements allow for more options for producers to secure their APP advances rather than being limited to only AgriInsurance and AgriStability.

- New commodities to qualify for advances under the program, including specific classes of breeding cattle, hog, sheep, and goats intended for market.

Finally, the program has fulfilled the requirements of its Management Response and Action Plan for the previous evaluation of the AMPA – “Administrative Aspect of the *Agricultural Marketing Programs Act* (AMPA) Legislative Programs” (November 2011).

5.0 EVALUATION CONCLUSIONS

Relevance

The evaluation found that there continues to be a need for producers to have guaranteed access to low cost, short-term loans to support cash flow and marketing.

Producers who are not able to acquire adequate alternative private financing benefit significantly from access to APP support. Producers who are able to acquire adequate alternative loans benefit from the difference in interest rate between the APP and private loans. As interest rates are currently low and commodity prices are high, the benefit to these producers is currently small. However, if and when interest rates rise or commodity prices decline, the benefits would increase.

Interviewees noted that the interest-free loan is important as it helps to entice producers to participate in the program, increasing the program's ability to leverage private financing at low rates. As APP loans do not target producers based on the need for increased cash flow, it is likely that the APP provides benefits to some producers who are not experiencing cash flow difficulties.

The evaluation found that the AMPA programs align with federal priorities and departmental strategic outcomes. The APP and PPP short-term advances complement other federal, provincial and private sector services that offer longer-term financing intended for capital investment and non-guaranteed working capital financing that require realizable assets for security.

Performance – Effectiveness

In terms of the achievement of intended results, the* AMPA *programs have largely achieved their intended outputs and outcomes.

Although program demand has been declining, the loan amount per producer has been increasing. As a result, the APP has achieved, or was very close to achieving, its performance target of providing at least $2 billion in APP advances in four of the last five years. Some key factors contributing to the decline in the number of producers participating in the APP are high commodity prices low interest rates, ranging from prime business rate of 3 percent in 2009 to 2.70 percent in 2015[46].

The evaluation found that the APP is achieving its outcomes of providing producers with low cost capital to reduce short-term financial pressures. In the absence of the APP, it is estimated that 3,092 producers would not have qualified for alternate financing, leading to a shortfall in financing of approximately $315 million. Producers, administrators and other

[46] Bank of Canada. Chartered Bank Administered Interest Rate – Prime Business.

interviewees all agreed that APP helps producers to address short-term financial pressures. The evaluation also found that the increased marketing flexibility achieved as a result of the APP had a significant impact on producers of storable commodities who benefited significantly from the ability to delay marketing their commodities. It is estimated that the total increase in producer revenues achieved as a result of delayed marketing in 2013-14 is $184.4 million.

The evaluation found that the PPP has achieved its intended outcome of providing a cash flow floor that addresses the short-term financial pressures of producers. However, the low demand for the PPP program has reduced the overall impact of the program.

Performance – Efficiency and Economy

The evaluation found that the administration of the APP and PPP has been efficient. However, a substantial increase in APP loan defaults due to the 2008-09 livestock emergency advances has resulted in a short-term increase in program expenditures in 2012-13 and 2013-14.

When compared to other loan programs, the loan administration costs and honour rates of the APP have been relatively low. The economic benefits of the APP significantly outweigh the program costs. Further, producers are generally satisfied with the delivery of the APP through producer administrators and the APP and PPP have met their service standards in most instances. In terms of the PPP, the costs to deliver the program are very low and there has not been a claim made by marketing agencies against the PPP price guarantee since the AMPA was enacted in 1997.

Design and Delivery

Based on the lessons learned from the 2008-09 emergency loans, the evaluation found that it would be useful for the program to develop a framework for assessing whether or not an economic emergency situation could be substantially mitigated by APP through the Severe Economic Hardship provision.

Nonetheless, recent legislative changes have addressed numerous design and delivery issues, which are likely to improve program efficiency.

6.0 ISSUES AND RECOMMENDATIONS

The evaluation includes the following issues, recommendations and management response and action plans:

1) Recommendation 1

AAFC's Programs Branch should:

Develop a framework for assessing whether or not an economic emergency situation would likely be substantially mitigated by APP through the Severe Economic Hardship provision.

Management Response and Action Plan

Agreed: AAFC's Programs Branch will work with the Department's Strategic Policy Branch to develop a framework for the use of the Severe Economic Hardship (SEH) provisions of the AMPA. The framework will provide guidance for the use of the SEH provisions, evaluating whether the mechanism would help to mitigate the situation and whether its use would be consistent with desired program outcomes and the terms and conditions set out in the AMPA.

Target date for Completion

January 2017

Responsible Position

Assistant Deputy Minister, Programs Branch
Director General, Business Risk Management Programs Directorate, Programs Branch

2) Recommendation 2

AAFC's Programs Branch should:

Review the APP and PPP logic model and performance measurement strategy to ensure that outputs, outcomes and indicators accurately define and measure program performance. In particular, the Branch should assess how the Business Risk Management program survey can be best leveraged to provide data for indicators related to intermediate and end outcomes.

Management Response and Action Plan

Agreed: AAFC's Programs Branch will revisit the logic model and performance measure strategy for the AMPA and develop an improved set of performance measures which will better align with the intermediate and end outcomes for the APP and PPP. This process will include an examination of how the BRM program survey could be leveraged to better measure the performance of the APP and PPP.

Target date for Completion

January 2017

Responsible Position

Assistant Deputy Minister, Programs Branch
Director General, Business Risk Management Programs Directorate, Programs Branch

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Annex 2: AMPA Programs Logic Model

Objective (s)	Business Risk Management programs provide producers with effective tools to manage business risks which are largely beyond their control. The objective of the AMPA is to establish programs for the marketing of agricultural products. The Advance Payments Program gives producers easier access to credit through cash advances, as well assistance to producers through the provision of financial guarantees facilitates the marketing of producers' products when market conditions and prices may be more favourable, during a specific period of time (i.e. production period). The PPP facilitates the marketing of agricultural products under cooperative plans by guaranteeing a minimum average price of products sold by cooperative marketing agencies.	
Program	**PPP**	**APP**
Activities	• Receive, review, and approve marketing agency applications • Receive, review, and process monthly sales reports • Receive, review, and process price guarantee claims	• Receive, review, and approve administrator applications • Seek advance rates from MISB on eligible products • Program promotion • Receive, review, and process interest claims • Receive, review, and process default claims • Develop program guidelines • Program compliance visits
Outputs	• Annual price guarantee agreement with a marketing agency • Honour price guarantee to marketing agencies	• Advance Guarantee Agreements between AAFC, Administrators and Lenders • Pay interest-free benefit • Honour guarantee to lenders • Implement program guidelines
Immediate Outcomes	Marketing agencies can secure financing to make initial delivery payments to their members	Administrators can secure financing at preferential interest rates to issue cash advances to eligible producers
Intermediate Outcomes	Producers can access low cost capital that enhances marketing flexibility during the agreement period and addresses short term financial pressures	
End Outcome	Producers are able to manage business risks associated with cash flow demands	
Link to PAA	Business Risk Management 1.1.6	
AAFC Strategic Outcome	AAFC Strategic Policy Outcome (SO1): A competitive and market oriented agriculture, agri-food and agri-based products sector that proactively manages risk	

Source: *Program Performance Measurement and Risk Management Strategy*