OFFICE OF AUDIT AND EVALUATION

Evaluation of the *Canadian Agricultural Loans Act* Program

Results and Delivery Management Committee,
March 19, 2019

The Deputy Minister approved this evaluation report on *March 26, 2019.*

Evaluation of *Canadian Agricultural Loans Act* Program

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ABBREVIATIONS

AAFC	Agriculture and Agri-Food Canada
BRM	Business Risk Management
CALA	Canadian Agricultural Loans Act
FCC	Farm Credit Canada
ISED	Innovation, Science and Economic Development Canada

EXECUTIVE SUMMARY

Purpose

The Office of Audit and Evaluation of Agriculture and Agri-Food Canada's (AAFC) undertook an evaluation of the *Canadian Agricultural Loans Act* (CALA) Program to assess its relevance, design and delivery, and performance. This evaluation fulfills a requirement of the *Financial Administration Act* and the Treasury Board's *Policy on Results.* The results are intended to inform the 2019 legislative review of the CALA.

Methodology and Scope

The evaluation assessed the Program over the period from fiscal year 2013-14 to 2017-18 and specifically focused on the Program's impact on new entrants, beginning farmers, and its accessibility for under-represented groups. Multiple lines of evidence were utilized, including: program documents, files and performance data; comparative review of other available programs; comparison analysis of recipients and non-recipients; literature review; interviews with AAFC staff, provincial government representatives, and producer associations; and a survey of financial lenders and farmers about CALA loans.

Background

The CALA Program is a federal loan guarantee program legislated under the authority of the *Canadian Agricultural Loans Act*. The CALA aims to increase the availability of private sector loans to farmers and agricultural cooperatives. Farmers can use these loans to establish, improve, and develop farms, while agricultural cooperatives may also access loans to process, distribute, or market the products of farming.

Under the CALA Program, loans can be issued by a registered lender to an existing farmer for 80 percent of the value of the asset purchased or to a beginning farmer for 90 percent of the value of the asset purchased, up to $500,000 for farmers or up to $3 million for agricultural cooperatives, for eligible capital purchases for on-farm use. The intention of the Program is that borrowers may benefit from advantageous interest rates and flexible repayment terms.

The Minister of Agriculture and Agri-Food guarantees 95 percent of a net loss sustained by a registered lender on a CALA registered loan, provided that the requirements of the Act and the Regulations have been met. While financial institutions undertake their own due diligence to determine borrower and loan purpose eligibility, they have access to CALA staff for eligibility rulings and guidance when necessary.

Findings

- The CALA Program provides access to affordable credit, notably for new and niche farmers, but the current loan terms limit farmers' ability to meet their capital investment needs.

- While the Program aligns with AAFC priorities regarding primary agriculture, and helps to grow the middle class, it does not align with AAFC priorities related to agri-foods as it excludes individual farmers from obtaining capital loans for non-primary agriculture, i.e. off-farm agri-food processing.

- The CALA Program aligns with federal roles and responsibilities by providing Canadian farmers equal access to affordable credit while sharing the risks and opportunities of agricultural debt with the private sector.
- The CALA Program fills the provincial and sector gaps in credit accessibility by complementing and supplementing existing programs.
- The CALA Program's design and delivery model offers benefits such as lender expertise, speed of business, and loan guarantees. However, the Program's criteria, such as loan limits, fees, and eligibility affect overall effectiveness.
- The CALA Program exceeded its targets for beginning farmers but did not meet its targets for existing farmers or cooperatives.
- The Program contributes to the renewal of an aging and consolidating agriculture sector, and further contributes to beginning farmers.
- The Program's logic model and performance measurements do not accurately reflect its activities and purposes.
- The Program administration is cost neutral.

Recommendations

Recommendation 1: The Assistant Deputy Minister, Programs Branch, should explore and revise, as appropriate, the CALA Program parameters to ensure that the availability of private sector loans support farm productivity, competitiveness and sustainability.

Recommendation 2: The Assistant Deputy Minister, Programs Branch, should revise the CALA Program's logic model and performance measurements to better reflect the delivery model.

Management Response and Action Plan: Management has agreed to explore options to adjust Program parameters to increase the availability of CALA loans, and update the logic model to better reflect the delivery model by March 31, 2020. These actions will be conducted in conjunction with the 2019 legislative review.

1.0 INTRODUCTION

The Office of Audit and Evaluation of Agriculture and Agri-Food Canada (AAFC) undertook an evaluation of the *Canadian Agricultural Loans Act* (CALA) Program as part of the 2018-19 to 2021-22 Integrated Audit and Evaluation Plan. This evaluation fulfills a requirement of the *Financial Administration Act* and the Treasury Board's *Policy on Results*. The evaluation results are intended to inform planning for the next phase of policy and program development, as well as the CALA's 2019 legislative review.

The CALA Program is a federal government loan guarantee program designed to increase the availability of loans for the improvement and development of farms, and the processing, distribution, and marketing of farming products by cooperative associations. The earliest iteration of the Program was established in 1944 with the *Farm Improvement Loans Act*, which was replaced in 1988 by the *Farm Improvement and Marketing Cooperatives Loans Act,* and later revised in 1995 under the same name. On June 18, 2009, the CALA replaced the *Farm Improvement and Marketing Cooperatives Loans Act.*

2.0 METHODOLOGY AND SCOPE

The evaluation was conducted in accordance with the Treasury Board *Policy on Results* and *Directive on Results*. It assessed the relevance and performance of the CALA Program between 2013-14 and 2017-18, specifically focusing on the Program's impact on new entrants to farming, younger farmers, and Program accessibility for under-represented groups. With only four cooperative loans guaranteed over the five years, and the decline in cooperatives in Canada, the evaluation focused on individual farmers.

The evaluation utilized multiple lines of evidence, including: program document, file and performance data review; comparative review; comparison analysis of recipients and non-recipients; a literature review; interviews with AAFC and provincial representatives, external stakeholders, and a survey of financial lenders and farmers. The detailed methodology is in Annex A.

Gender Based Analysis plus is an analytical tool, process, or product used to assess the potential impacts of a program on diverse groups and identities (such as sex, age, sexual orientation, disability, race, ethnicity, religion, education, language, geography culture, and income). While Gender Based Analysis plus considerations were included throughout the report, limited data was available to conduct a complete diversity and inclusiveness analysis.

3.0 *CANADIAN AGRICULTURAL LOANS ACT* PROGRAM OVERVIEW

3.1 Program Overview

The CALA Program is a federal loan guarantee program legislated under the authority of the CALA. The CALA Program aims to increase the availability of private sector loans to farmers and agricultural cooperatives. Farmers can use these loans to establish, improve, and develop farms, while agricultural cooperatives may access loans to process, distribute, or market the products of farming. The Program's logic model is in Annex B.

The Program is available to all eligible financial institutions that choose to become registered lenders. Farmers are then able to apply for government guaranteed loans through the registered lender of their choice. The Government guarantees repayment of 95 percent of a net loss on registered loans issued for eligible purposes to farmers and agricultural cooperatives.

A guarantee payment is only made for eligible losses incurred on a defaulted loan, after the registered lender has collected their security and then submitted a claim for loss.

Loans are limited to a maximum of:

- $500,000 for the purchase of land and the construction or improvement of buildings
- $350,000 for all other purposes, including consolidation/refinancing
- The maximum aggregate loan limit for any one farm operation is $500,000 (an individual farmer can get multiple loans up to a maximum of $500,000)
- The maximum aggregate loan limit for agricultural cooperatives is $3 million, with the Minister's approval

Loans are issued to existing farmers for up to 80 percent of the purchase price or appraised value of the asset, while loans to beginning farmers (those farming less than six years) are up to 90 percent of the purchase price or appraised value of the asset. Farmers can obtain multiple CALA guaranteed loans as long as the total of all outstanding loans does not exceed the Program loan limits.

The borrower has the option of choosing between a floating or fixed term rate. Interest rates terms of the loans are:

- A floating rate of a maximum of the lender's prime rate plus one percent
- A fixed term rate of a maximum of the lender's residential mortgage rate, for a comparable term, plus one percent

The Program operates on a cost-recovery model with regard to the Program's administration costs through a registration fee of 0.85 percent of the amount of the loan, which is submitted by the registered lender to the "Receiver General for Canada" at the time of loan registration. Registered lenders may also add an administration fee of 0.25 percent of the loan principal or $250, for loans less than $250,000 or 0.1 percent of the loan principal, for loans of $250,000 or more.

The CALA Program is a federal only Business Risk Management (BRM) program which is offered outside of the core suite of federal-provincial-territorial BRM programs as part of Canada's national agricultural policy framework, the Canadian Agricultural Partnership. The BRM suite of programs provides farmers with effective tools to manage business risks which are largely beyond their control.

Based on recommendations received from the sector and financial institutions through consultations in 2006, legislative changes were made to the CALA in 2009 to better align the Program with the realities and needs of the agricultural sector. The changes were:

- Increasing the Program's loan limits from $250,000 to $500,000 for real property (land and buildings), and to $350,000 for all other purposes
- Making the Program accessible to beginning farmers by reducing the maximum required down payment for beginning farmers
- Reducing the proportion of farmers required for agricultural cooperatives to be eligible
- Allowing for intergenerational transfers

3.2 Program Objectives

The objective of the CALA Program is to increase the availability of private sector loans for the purpose of establishing, improving, and developing farms, or for the processing, distribution, or marketing of farming products by cooperative associations. The Program provides farmers and agricultural cooperatives access to affordable capital to make investments in their farm properties.

The CALA Program, through its various legislative updates, has improved the availability of credit to farmers since 1944 and to marketing cooperatives since 1988. Through the Program, the Government of Canada aims to support the renewal of the agricultural sector and enable cooperatives to better seize market opportunities. The Program aims to offer affordable credit, enabling beginning and existing farmers to better manage their business risk.

3.3 Program Delivery and Governance

AAFC develops and maintains tools, policies, and guidelines to ensure that the Program is delivered within the parameters of the Legislation and Regulations. The CALA Program is delivered on behalf of AAFC by registered lenders, such as chartered banks, credit unions, *caisses populaires*, Alberta Treasury Branches, and any other organization designated by the Minister, with approval of the Minister of Finance.

Registered lenders deliver the Program to eligible farmers by issuing loans for eligible purposes to farm operations and agricultural cooperatives. Regular lending practices must be followed by the lending institutions when reviewing a loan application and deciding if the Program is the right tool for the farmers' needs. For claims to be honoured, registered lenders are expected to take the same care, (i.e. risk assessment), in issuing CALA loans as they would for conventional loans. The Program can reject claims for loss if it deems the risk assessment was not conducted in accordance with lenders' standard procedures.

Agricultural cooperatives can secure up to a maximum of $3 million in CALA loans from registered lenders with the assistance of the Program staff. Upon receiving a lender approved loan request, Program staff review and make recommendations to the Minister regarding guaranteeing the cooperative applications. Annually, the cooperative management team and Program staff, with the registered lender, review the operation, management, eligibility, market outlook and financing of the cooperative to ensure the legislative requirements of the Program and its obligations, as described during the application process, are met.

3.4 Resources

Table 1 presents the AAFC revenues and expenditures for the CALA Program for 2013-14 to 2017-18. The Program receives $2.1 million annually from statutory funding to cover staff salaries and the online registration system. Delivery costs included salaries and operations, totalling $2,751,374 over the five year period. Defaulted loans totalled $1,375,185 over the same period. The Program has access to $10.6 million from the Consolidated Revenue Fund to cover default loan costs. Recoveries by AAFC's Recovery Unit and revenue from registration fees brought in $255,945 and $4,155,999 respectively. These inflows resulted in a total surplus of $285,385 for the Program over the five year period.

Table 1: Program revenue and expenditures, 2013-14 to 2017-18

Fiscal Year	2013-14	2014-15	2015-16	2016-17	2017-18	Five year Total
Program Delivery Costs	$573,140	$551,112	$537,166	$559,159	$530,797	$2,751,374
Program Default Costs	$20,883	$149,810	$137,977	$672,345	$394,170	$1,375,185
Recoveries*	$33,712	$113,813	$39,245	$60,505	$8,670	$255,945
Revenues**	$946,374	$855,960	$785,538	$787,345	$780,782	$4,155,999
Total Program Costs	-$386,063	-$268,851	-$149,640	$383,654	$135,515	-$285,385

Source: Program Expenditures, AAFC Finance (as of July 1, 2018)
*Recoveries by AAFC from loan defaults
**Revenues from registration fees

4.0 PROGRAM RELEVANCE

4.1 Continued Need for Access to Credit

The CALA Program provides access to affordable credit, notably for new and niche farmers, but the current loan terms limit farmers' ability to meet their capital investment needs.

The Canadian agriculture sector continues to evolve and adapt in response to economic and production challenges, changing international trade landscapes, consumer preferences, and market opportunities and developments. While the agriculture industry is currently strong, certain segments of the sector, such as beginning and niche farmers, face challenges and constraints.

> **Example:** A beginning grain farmer in Saskatchewan requires multiple pieces of equipment, which could cost from $680,000 to $2.22 million, to enter and compete in the market.

The costs of land, equipment, and production inputs have increased since the CALA's loan limits were set to the maximum of $500,000 in 2009. The value of farmland by acre in Canada increased an average of 12.1 percent per year from 2009 to 2017. The estimated land value of the average Canadian farm in 2017 was over $5 million. The average per farm value of used or on-farm machinery and equipment rose by almost $80,000 from 2011 to 2016 (Table 2). Over the same period, the total gross operating expenses of the sector rose by $6.8-billion. The rise in capital required to enter the agriculture industry and be competitive, or to expand operations for productivity, is associated with a rise in the need for accessible credit. Although increasing agricultural debt shows that farmers can access credit, gaps and challenges remain. Forty percent of surveyed farmers said that gaps exist in obtaining credit in the agriculture sector, and 75 percent of interviewed provincial representatives stated it was challenging for some farmers to access credit.

Table 2: Percent change in average value of on-farm capital, gross operating expenses, and farm debt, 2011-2016

Item	2011	2016	Percent Change
Average value of total farm capital ($/farm)	$1,607,695	$2,634,035	64%
Average value of land and buildings owned ($/farm)	$1,027,146	$1,667,205	62%
Average value of all on-farm machinery and equipment ($/farm)	$201,438	$278,405	38%
Total gross operating expenses (x1,000)	$ 38,343,012	$ 45,118,717	18%
Aggregate farm debt (x1,000)	$67,602,334	$92,519,144	37%

Source: Statistics Canada Table 32-10-0049-01, 2011 and 2016 Census of Agriculture

As the costs and market challenges of the Canadian agriculture sector increase, farming is becoming more consolidated, with the average farm size increasing by five percent from 2011 to 2016, and the number of farms in Canada decreasing by six percent over the same period. The opening of the Canadian market through trade agreements, and the increased costs of starting and operating a farm in Canada, led to more concentrated farms that need to increase productivity and remain competitive in an international market.

Beginning farmers face additional challenges to start, expand, and invest in their operations. According to *New Farmers in Canada: A Baseline Report* (2016) the top two barriers to entry in the sector are affordability of land ownership, and a lack of access to credit or financing. Rapidly increasing land values impact the ability of new and existing farmers to secure adequate credit to purchase land for operations. Beginning farmers may lack sufficient assets or equity to secure credit, or adequate cash flow to provide the required down payment.

> "It's a vicious circle of starting with **no money to purchase equipment** to increase efficiency, which would **enable higher production**, gross sales and profits. Most lenders require two years of reliable and steady income as a normal prerequisite for a loan. This is virtually **impossible to obtain** in agriculture without capital investment." (Farmer)

Evaluation evidence confirms that the CALA Program meets the needs of the Canadian agriculture sector by addressing barriers that farmers face in accessing affordable credit. By providing government loan guarantees that provide affordable interest rates, the Program can encourage lenders to take on more agricultural risk. In some cases, where institutions limit agricultural lending, the government guarantee can enable lenders more options to offer credit to agriculture within their institutional guidelines. Over 70 percent of surveyed lenders agreed that the Program:

> The CALA Program "**keeps interest rates competitive** for all farm loans (for eligible purposes) whether they are government guaranteed or not." (Farmer)

- is relevant and fills a need in the sector (72.1 percent)
- is an important option for Canadian farmers (74.4 percent)
- increases their capacity to offer credit to the agriculture sector (72.1 percent)
- helps Canadian farmers address their financial needs (76.8 percent)

The Program provides favourable loan terms to beginning farmers, enabling the renewal of the agriculture sector. Loan provisions for beginning farmers were identified by surveyed farmers and lenders as one of the main benefits of the Program. The youngest operator of the average recipient farm, at 48 years of age, was 6 years younger than the sector average in Canada. From 2011 to 2016, over 58,000 farms entered the market, which included new farm owners, amalgamations of two or more farms, and existing farms filing a business (T2) tax form for the first time. Twenty-nine percent of new entrants had gross farm receipts under $10,000, compared to 18 percent of the overall farming population. In addition, 71 percent of the 58,000 new entrants reported annual gross farm receipts under $100,000, compared to 56 percent of the overall farming population. While entry is feasible, the proportion of new farms with annual gross farm receipts under $100,000 suggest challenges for these new farmers in accessing affordable credit and competing in the sector. Over the same period of 2011 to 2016, there was a net loss of 12,000 farms due to farm consolidation or farmer's inability to compete in the agriculture sector due to rising capital and labour costs. Beginning farmers cite a lack of access to capital as a barrier to enter farming. If they do enter, acquiring sufficient access to capital to become and stay competitive is challenging. In the 2015 New Farmers Survey by the National New Farmer Coalition, the most recent survey conducted, new farmers were concerned about future farm viability, with many facing net losses in the previous year.

> "With the price of things today it's **hard for a small farmer** to expand and grow **without access to loans**" (Farmer)

The CALA loan terms for beginning farmers facilitate entry into the sector by offering private sector loans with a lower down payment and interest rate than conventional loans. Surveyed lenders indicated that many CALA loan recipients would have qualified for a conventional loan, but would have had a higher interest rate and down payment. Credit with more affordable terms increases borrowers' cash flow through lower debt payments, improving their financial position.

The Program can provide stable and affordable access to credit during economic slowdowns. The current, and increasing, levels of debt in the sector can create financial risks in the event of interest rate increases. Despite constant average debt-to-asset ratios, a sudden increase in interest rates could jeopardize the financial security and existence of many farms, especially beginning farms, which typically have higher debt-to-asset ratios. The Program mitigates these potential effects by increasing cash flow through capped interest rates. Three-quarters of surveyed lenders agreed that a loan guarantee program would be helpful for their institution to continue providing agricultural loans if there was another market downturn.

In addition to the evaluation evidence highlighting the rising cost of capital and land for farmers, stakeholders commented on Program loan limitations. Eighty percent of interviewees stated that the Program does not, or only somewhat, meets the needs of farmers because the Program loan limits do not align with the current market conditions and prices. Surveyed lenders indicated that the Program's current loan limits are a disadvantage for farmers because the limits do not meet the current economic conditions, and do not enable lenders to issue a CALA loan for the total value of a capital investment, such as new and/or innovative farm equipment.

4.2 Alignment with AAFC and Government Priorities

While the Program aligns with AAFC priorities regarding primary agriculture, and helps to grow the middle class, it does not align with AAFC priorities related to agri-foods as it excludes individual farmers from obtaining capital loans for non-primary agriculture, i.e. off-farm agri-food processing.

The AAFC departmental priorities during this evaluation period included growing trade and expanding markets; the innovative and sustainable growth of the sector; and supporting diversity and a dynamic, evolving sector. The CALA Program supports all of the departmental strategic priorities by enabling farmers to manage financial and production risks. The objective of the CALA Program, to increase the availability of private sector loans for the purpose of establishing, improving and developing farms, aligns with Government of Canada's priority to help and grow the middle class. The capped interest rate of a CALA loan and the amortization on non-land purchases can increase the cash flow of farmers and enable them to better adapt to market changes, make farm investments, and grow farming operations. As the Program covers most capital expenditures for all types of primary agricultural production, it supports a dynamic and evolving sector, including niche farmers and emerging markets.

In the Minister of Agriculture and Agri-Food Mandate Letter, the foundation of the agriculture sector in Canada is described as farmers, ranchers, and food processers. The Letter states that AAFC is to "use its policy and financial tools to support the agriculture sector in its vital work". Over time, there is growing AAFC and industry focus on expansion and investment in value-added products derived from agricultural activities such as processing, manufacturing, or wholesale distribution. The Program loan eligibility terms currently enable only capital purchases for on-farm property processing or processing by a marketing cooperative. These loan eligibility terms limit the Program's ability to support farmers that do not belong to a marketing cooperative and who want to align their off-farm products with trends and consumer preferences in agri-food.

In 2017, the Standing Committee on Agriculture and Agri-Food recommended that "the Government provide support to the next generation of farmers when starting up and transferring farms through mitigating the financial and tax consequences".[1] By offering favourable loan terms for beginning farmers and intergenerational loans, the CALA Program provides an incentive for new entrants and helps the sector be sustainable and renewable. The reduced minimum down payment required by registered CALA

> "We need start-up farms and youth in the business. **Start up costs** are quickly getting too **far ahead of what makes a farm business feasible**." (Farmer)

[1] Debt in the agriculture sector and its effect. Report of the Standing Committee on Agriculture and Agri-Food. June 2017

lenders for beginning farmers, helps them access affordable credit and encourages entry. Surveyed farmers frequently mentioned the favourable terms for beginning farmers as a benefit of the Program, and almost 80 percent of lenders agreed that the minimum 10 percent down payment helps beginning farmers to obtain a loan.

The Program has the potential to increase farm productivity and competitiveness by enabling investments in new equipment and expansion of production scale. The extended amortization for non-land purchases reduces the payment amounts and increases cash flow for farmers, which can enable farmers to secure other loans for additional purchases during the repayment period. These additional cash flows may allow for the adoption of innovative technologies, or acquisition of land for improved productivity, though evidence suggests that existing Program loan limits only partially address this need.

4.3 Alignment with Federal Roles and Responsibilities

The CALA Program aligns with federal roles and responsibilities by providing Canadian farmers equal access to affordable credit while sharing the risks and opportunities of agricultural debt with the private sector.

According to the *Farm Income Protection Act* and the *Canadian Agricultural Loans Act*, the federal government's role and responsibility in agriculture is to encourage the long-term economic sustainability of farm families and their communities, and ensure equitable programming that takes into account regional diversity. The CALA Program aligns with these roles by providing affordable credit to beginning and existing farm operations across sectors and regions. Through government guarantees, the Program can encourage financial institutions to lend to farmers despite ongoing sector risks. Seventy-two percent of surveyed lenders agreed that the Program increases their capacity to offer credit to farmers.

As farmers borrow to expand or start operations, purchase machinery and equipment, or cover operating expenses during production cycles, their total debt increases along with the value of farm capital. Total outstanding farm debt rose from $63-billion in 2009 to $98-billion in 2017 (Table 3). Chartered banks are the largest holders of this agricultural debt, followed by federal government agencies. The use of government loan guarantees reduces the liability for private lenders, which can enable them to assume more risk and share more agricultural debt. Financial institutions can better manage and capitalize from agricultural financial risk by distributing the agricultural debt across over 300 independent institutions in Canada. Farm Credit Canada (FCC), a Crown corporation, holds the majority of the federal portion of sector debt. Sharing agricultural debt amongst public and private sectors reduces the total liability on the federal government.

Table 3: Farm debt outstanding in Canada, by lender

Institutions	2009		2017	
	000s	%	000s	%
Chartered banks	$21,809,124	34.7	$34,955,000	35.6
Federal government agencies (includes Farm Credit Canada and advance payment programs)	$18,975,504	30.2	$31,110,612	31.7
Credit unions	$10,352,054	16.5	$15,380,206	15.7
Individuals, supply and insurance companies, and other lenders	$8,588,077	13.7	$10,565,591	10.8
Provincial government agencies	$3,125,581	5.0	$6,196,227	6.3
Total farm debt outstanding	**$62,850,340**	**100**	**$98,207,636**	**100**

Source: Statistics Canada, 2017

Although the CALA Program enables other lenders to compete in the agriculture sector through loan guarantees, FCC is the only lending institution with a federal mandate for lending to agriculture, and has significant presence in the agricultural lending market. In 2017, FCC held the majority (83 percent) of the federal portion of sector debt, amassed $26.1-billion as a single entity, and held over a quarter of all agricultural debt. Outside of debt held by federal and provincial institutions, the remaining $61-billion of agricultural debt was distributed across the other independent financial institutions. As FCC is not a deposit-taking institution and focuses solely on loans and advice to the agriculture sector, farmers require another financial institution to conduct their day-to-day business and manage their portfolio. The Program enables farmers to access a government guaranteed loan from a registered lender of their choice, where they can then conduct all of their farm related business.

The CALA Program supports lenders in local economies, such as credit unions, in offering competitive terms for agricultural loans that they may not otherwise be able to provide. Credit unions and *caisses populaires* are located in 10 provinces, serve 10.2 million Canadians, and are accessible in local communities. Ninety percent of CALA loans were issued by credit unions. Fifty-eight percent of surveyed lenders agreed that the Program helps them be more competitive with other lenders. The use of the Program can increase smaller lending institutions' capacity to offer credit to farmers, and enable farmers to obtain credit at their local lending institution, at similar rates offered by larger institutions. With the CALA Program, farmers can maintain their existing business relationship with their preferred financial institutions, and meet face-to-face with local lenders that understand their specific and regional needs.

> The CALA Program "gives us **lenders the ability to help farmers** who may not necessarily **qualify for loans otherwise**. As a small credit union it also helps us compete with FCC and the big banks for business." (Lender)

Provincial programs target specific provincial and regional needs, whereas the CALA Program addresses national issues of access to credit across all agricultural sectors. The various provincial and industry programs available to farmers in Canada provide disparate access to agricultural credit, while the CALA Program provides all Canadian farmers equal access to apply for affordable credit. Seventy-two percent of surveyed lenders noted that the CALA Program increases their capacity to offer credit to the agriculture sector.

4.4. Comparison to Other Programs

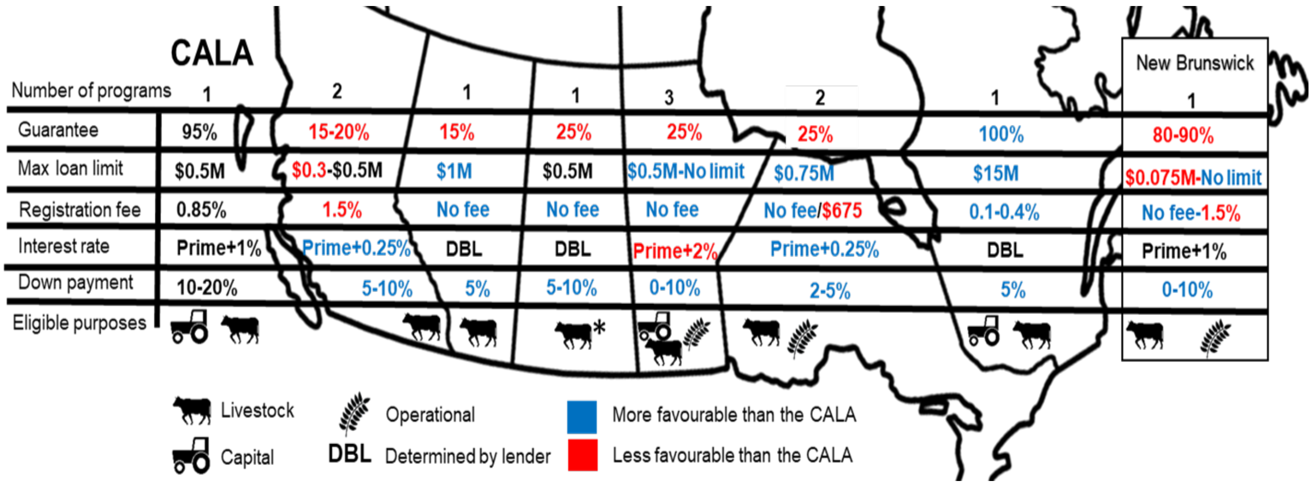
The CALA Program fills the provincial and sector gaps in credit accessibility by complementing and supplementing existing programs.

The CALA Program provides equal access to credit to farmers, corporations, and cooperatives across Canada, and increases accessibility to favourable loan terms for smaller, new, and niche farms. The Program offers a consistent option across provinces and sectors, and provides farmers a choice of lending product that best meets their needs. The existing provincial credit programs vary widely in availability and characteristics and are solely available for their residents. While Alberta, Quebec, Manitoba, New Brunswick, and Nova Scotia offer developed capital loan programs for agricultural purposes, farmers in other provinces and territories do not have access to well-established loan programs. Eligible farmers are able to participate in both provincial programs and the CALA Program.

Despite some overlap with other available programs, the CALA Program is the only consistent equal access loan guarantee program for all primary farmers across all agricultural sectors in Canada. The Program is similar to some provincial programs, but few provincial programs cover all eligible loan purposes (uses) under the CALA. Of the 21 provincial programs reviewed in this evaluation, only 4 programs provide loans or loan guarantees that cover the same eligible loan purposes for their respective regions.

Many provincial programs, including loan guarantee programs (Figure 1), offer more favourable terms than the CALA Program. All provincial programs that provide loans or loan guarantees for the purchase of land have a higher loan limit, with a median limit of $2 million, while the median loan limit for other purchases is $750,000. Quebec's Guaranteed Loan Program and Alberta's (non-guaranteed) Farm Loan Program recently tripled their loan limit, from $5 million to $15 million, to better support new entrants and farm expansion for increased competitiveness.

Figure 1: Comparison chart of terms for available provincial loan guarantee programs



*Saskatchewan program terminated January 1, 2019
Source: OAE Evaluation Services

Although outstanding agricultural debt held by provincial governments remained relatively stable, from 5.4 percent in 2013 to 6.3 percent in 2017, provincial interviewees noted that provincial credit program uptake decreased in recent years due to the availability of credit through other options. In September 2018, Saskatchewan Agriculture announced the termination of the Livestock Loan Guarantee Program due to low uptake, and leaving a potential gap in financing. The Government of Saskatchewan stated it would continue to support farmers through the administration of the federal-provincial-territorial Canadian Agricultural Partnership.

The CALA Program is the sole capital financing option available to all beginning farmers across Canada, and offers favourable loan terms and intergenerational transfers. In contrast to the CALA's definition of beginning farmers, which is less than six years of farming experience, FCC offers Young Farmer Loans with favourable terms for farmers under the age of 40. The definitions and incentives for new entrants vary among provincial programs. Unlike the CALA Program, cooperatives and corporations are eligible applicants under only some provincial programs.

Other federal organizations, such as Innovation, Science and Economic Development Canada (ISED), Business Development Bank of Canada, and FCC provide loans in the agriculture sector. The Canada Small Business Financing Program is a loan guarantee program managed by ISED. Similar to the CALA Program, it provides loan guarantees for small businesses, including agribusinesses. Business Development Bank of Canada can issue loans for primary agriculture, but their standard practice is generally to refer farmers to FCC. The evaluation found limited uptake of agri-food loans for the Canada Small Business Financing Program and Business Development Bank of Canada. FCC remains the main federal lender in agriculture, owning most of the overall federal outstanding farm debt (83 percent), with $26.1-billion in loans in 2017. Although there is some overlap between FCC and the CALA, the CALA Program provides farmers with the option of conducting business with a local registered lender.

5.0 PROGRAM DESIGN AND DELIVERY

The CALA Program's design and delivery model offers benefits such as lender expertise, speed of business delivery, and favourable loan terms. However, the Program's criteria, such as loan limits, lender fees, and loan eligibility affect its overall effectiveness.

Program Design Benefits

The CALA Program uses a lender-driven delivery model and can be delivered by any registered chartered bank, credit union or *caisse populaire.* Lenders have the expertise, knowledge, and infrastructure to adapt to the changing business needs of farmers. The delivery model has multiple benefits for farmers, AAFC, and registered lenders.

Benefits for farmers

The CALA structure enables the Program to quickly react and adapt to changes in market conditions, as lenders operate at the speed of business to support farmers' needs. Lenders can issue timely loans that address emerging needs and changing trends in agriculture, while enabling farmers to conduct business with the registered lender of their choice, regardless of region or sector. Eighty-five percent of CALA loans were registered within 15 days. As a comparison, for AAFC's AgriInnovation Program, Stream C, which provides direct funding for innovative products, technologies, or processes, 43 percent of approvals or rejections took more than 100 days.

The CALA Program provides affordable capital to farmers and enables them to make investments in their business operations. The Program features of a maximum interest rate at prime plus one percent, the maximum amortization period at 10 years for non-real property loans, and the minimum down payment to 20 percent, are more favourable than conventional loans. For beginning farmers, the Program reduces the minimum down payment to 10 percent. Surveyed farmers frequently mentioned increased access to credit and the interest rate as important Program benefits.

The CALA Program "**helps new and existing farmers** purchase equipment and land when they **don't have the full down payment as required** (normally 25%)." (Lender)

Compared to conventional loans, the Program provides somewhat favourable loan terms. A majority of surveyed lenders noted that most CALA loan applicants would have qualified for the same loan amount without the Program, but with higher interest rates or larger down payments. Receiving a CALA loan enables farmers to improve their liquidity, and helps them better manage their cash flows. The Program's maximum 10 year amortization period for non-real property loans is favourable compared to the conventional five to seven year periods. However, the average amortization period for non-real property loans guaranteed by the Program during the five year period was 5.7 years. With the growing average size of loans over time, particularly for beginning farmers, the favourable amortization period will continue to be relevant as farmers require more time to pay off larger loans.

As with conventional loans, the Program's interest rates and amortization periods remain favourable relative to provincial counterparts. For example, the Program has favourable interest rates compared to the six similar provincial programs offering capital loan guarantees, with only one program providing a lower interest rate ceiling. Similarly, the Program's amortization for non-land purchases was longer than 13 of the 21 comparable programs.

Benefits for AAFC

AAFC benefits from registered lenders' existing expertise and infrastructure. Lender involvement in qualifying loans reduces AAFC's exposure to lending risks and lowers program administration costs, with only 0.29 percent of the loan losses resulting in claims. Registered lenders determine the eligibility of the applicant and loan purpose, and assess the applicants' repayment ability and project viability before issuing guaranteed loans, resulting in fewer defaults. In case of a loan default, lenders have existing infrastructure and processes to seize and realize on the borrower's security. Registered lenders submit a claim for loss to the CALA Program if they are unable to obtain complete repayment after taking all appropriate actions.

By providing loan guarantees, AAFC reduces institutional reluctance in lending to the agriculture sector, and encourages lenders to assume more risk. This reduces the total liability for AAFC and the federal government, as the agricultural debt is transferred to the private sector. Through the CALA Program, AAFC shares the sector financial risk with 57 registered lenders.

AAFC benefits from the CALA Program's ability to monitor the financial health of the agriculture sector. Program uptake is strongly influenced by current economic conditions. If uptake and/or default rates increase, it could indicate that the sector is facing challenges with affordable access to credit. This monitoring can enable AAFC to proactively engage with the sector and determine appropriate support mechanisms.

Benefits for registered lenders

The Program decreases the risks registered lenders face when lending to agricultural operations. The Program guarantees 95 percent of a net loss on an eligible loan issued, which is one of the highest government guarantees available to lenders. Of the six provincial capital loan guarantee programs reviewed, only Quebec's Guaranteed Loan Program offered a higher loan guarantee (100 percent).

"The success of the [CALA] Program has enabled producers to **access loans at a fair market value** with **little or no cost** to the government." (Producer)

The Program provides credit option to registered lenders, which increases their ability to finance agricultural operations. The Program enables small lenders, like credit unions, to better compete with large, well-established lenders, by offering favourable loan terms to rural farmers. The majority (58 percent) of surveyed lenders agreed that the Program helps them be more competitive with other lenders. Over the evaluation period, 90 percent of the loans were issued by credit unions.

Program Design Challenges

The Program has little interaction with farmers and limited channels to influence uptake. The Program loan terms, lender fees, eligibility of loan purposes, and risk tolerance may be limiting participation and usefulness for farmers. Registered lenders play an essential role in the delivery and uptake of the Program as they are the main source for awareness and information on credit options for farmers. Aside from the guarantee, lenders have limited incentives to use the Program, and no direct incentives to encourage promotion.

Stakeholders noted that registered lenders do not always present the CALA Program as an option for farmers, or do not inform them when their loan is guaranteed through the CALA Program. Many respondents added that, in the current favourable economic conditions, lenders were more likely to offer their own lending products, matching or beating the Program's terms, than issue a government guaranteed loan. The Program design components, such as low loan limits, capped lender fee, low risk tolerance and eligibility criteria, along with a lack of common understanding of the Program, impact the effectiveness of the delivery of the Program.

Loan terms

Despite the favourable interest rates, less-favourable CALA loan terms, such as relatively low loan limits and a shorter amortization period for real property, create challenges for the Program to enable farmers to make long-term farm improvements. Evidence suggests that the loan limits, legislated in 2009, may not be keeping up with rising capital prices and changing needs, especially for beginning farmers. Internal and external stakeholders generally agree that the Program has the potential to help the sector, but could better align with the current economic conditions.

Most (70 percent) of the surveyed lenders agreed that the maximum loan amount of $500,000 for real property was not sufficient to meet the needs of farmers. The loan limit of $500,000 would not cover even half of the estimated cost of an average sized farm at current land values in any province, but one (Table 4). Higher land costs would suggest that larger loans and down payments are needed to enter and compete in the sector. Most surveyed lenders noted that the loan limits of $350,000 for capital and $500,000 for real property are not meeting farmer needs.

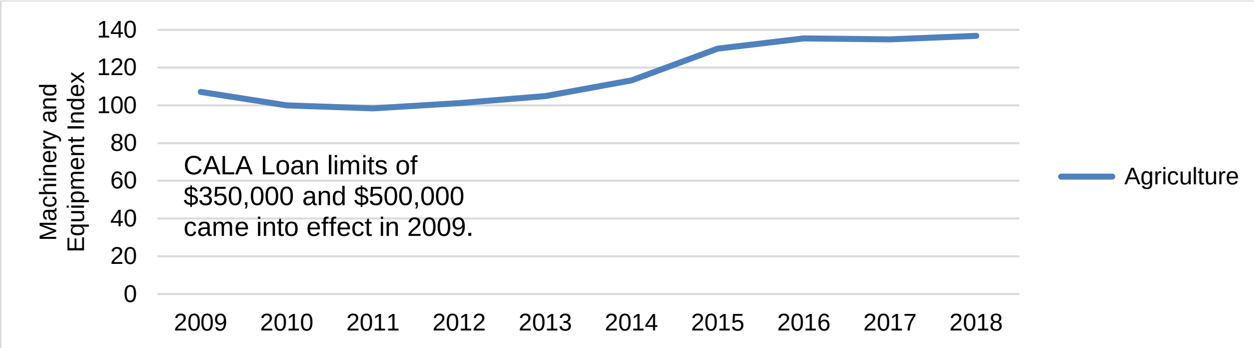
Table 4: Approximate value of average sized farm by province, 2016-2017

Province	Average farm size 2016 (acres)	Average value/acre 2017	Estimated average land purchase cost
Alberta	1,237	$3,634	$4,495,258
British Columbia	365	$40,350	$14,727,750
Manitoba	1,192	$3,142	$3,745,264
New Brunswick	370	$3,733	$1,381,210
Newfoundland and Labrador	174	N/A	N/A
Nova Scotia	263	$3,705	$974,415
Ontario	249	$10,361	$2,579,889
Prince Edward Island	425	$3,635	$1,544,875
Quebec	280	$6,057	$1,695,960
Saskatchewan	1,784	$1,722	$3,072,048
Canada	634	$8,482	$5,376,810

Source: Statistics Canada A Portrait of Canadian Farms, Farm Credit Canada Farmland Values Report

The current loan limits may enable beginning farmers to purchase small parcels of land and used equipment, but smaller farms may have more difficulty being competitive and viable. Farming is capital intensive and requires considerable investments in equipment. For example, a beginning grain farmer in Saskatchewan requires multiple pieces of equipment at a cost of $680,000 to $2.22 million to enter and compete in the market. The Machine and Equipment Price Index for capital purchased by the agriculture sector rose from 107.2 in 2009 to 136.83 in 2018, indicating capital costs for farmers rose by 28 percent and continue to rise since existing CALA loan limits were set (Figure 2). The Program's loan limits for equipment of $350,000 lags behind the Machinery and Equipment Price Index.

Figure 2: Machinery and Equipment Price Index for agriculture, 1997 - 2018



Source: Statistics Canada 2018 (The Machinery and Equipment Price Index provides information on the changing costs of capital investments by Canadian purchasers. It is used to estimate demand for machinery and equipment.)

Multiple lenders indicated that they denied a subsequent CALA loan application because the applicant had already reached the Program's maximum loan limit of $500,000. This illustrates that current loan limits only meet the immediate needs of farmers that require $350,000 or less for equipment and $500,000 or less for real property.

Lender fees

The CALA fee structure was identified as one of the main disadvantages of the Program for lenders. Under the Program, lenders who issue a loan can charge a fee of the lesser of 0.25 percent or $250 for a loan of $250,000, and a maximum of 0.1 percent for a loan of $250,000 and above. Combined, the low loan limits and the capped lender fee reduce the financial return registered lenders can collect on the issuance of a loan, and reduce the profitability for lender in using the Program. Although the low capped lender fee reduces the financial burden on borrowers, it does not align with registered lenders' normal practices, and is a disincentive for lenders.

In 2014, in an effort to increase its uptake, a comparable program, Canada Small Business Financing Program, decided to remove the cap on the lender fee to better align with lenders' conventional lending practices. Lenders can now charge borrowers an administrative fee that aligns with standard practices for a similar conventional loan.

Eligibility of loan purposes

The current CALA eligibility criteria limits the Program's potential to support AAFC's mission to provide leadership in the growth and development of a competitive, innovative, and sustainable agri-food sector. While agricultural cooperatives can use CALA loans to process, distribute, or market the products of farming, farmers can only get a loan for the purpose of processing if the improvements are made directly on the existing farm enterprise. Primary farmers processing or selling their farming products off-farm are not eligible under the Program. Many stakeholders responded that the Program's eligibility criteria are too restrictive, and limit the Program's ability to contribute to agricultural sector growth, as small and niche primary farmers may need support to expand their operations.

Farmers expanding into value-added, agri-food and emerging sectors face difficulties in accessing financing for business investment due to the risks associated with new ventures and unproven products or technologies. This gap in accessing credit contributes to lower productivity growth in agri-food processing compared to the total manufacturing sector (0.2 percent increase annually from 1961 to 2013, compared to 0.5 percent). The Canadian agri-food value-added sector needs to increase productivity to take advantage of emerging market opportunities for new and innovative products. When small or start-up primary farmers engaging in agri-food secure financing, the interest rate charged on loans can limit the working capital available for other investments and business opportunities. Demand for other AAFC programs focusing on the agri-food sector exceeded their uptake capacity.

Established primary farmers expanding operations to incorporate value-added production may be eligible under the Canada Small Business Financing Program or under FCC, but with potentially less-favourable terms. The Canada Small Business Financing Program charges a higher registration fee than the CALA Program, and enables registered lenders to collect an interest rate up to prime plus three percent on its guaranteed loans. The Canada Small Business Financing Program does not track specific data related to uptake by agribusinesses, but opined that uptake of agri-food loans was limited. It aggregates all borrower data in the manufacturing sector. Without this information, it is difficult for AAFC to track the need of small and niche business in the agri-food sector for support in accessing credit. It is difficult to compare CALA loan characteristics with FCC's, as the Crown Corporation assesses cases individually. FCC usually requires a down payment of 25 percent.

Risk tolerance

There is lender reluctance to lend to certain agriculture sub-sectors or to beginning farmers because of the level of risk in agricultural production, and market or lender uncertainty for alternate agricultural crops or products. Beginning, niche, and emerging agricultural markets, such as special crops and exotic ruminants, face barriers to accessing credit. The inability to afford land leads many farmers to rent land, which can create uncertainty. They may face difficulty acquiring start-up capital, down payments or intergenerational transfers. In addition, inherent risks in agriculture, such as weather and global markets, limit the appetite of financial institutions to increase the relative agriculture lending portfolio. Since 2013, large financial institutions have maintained a fairly constant agriculture lending portfolio (1 to 2 percent of total lending). Although chartered institutions are the largest holders of farm debt in Canada, the steady portfolio portion indicates they maintained similar levels of exposure to the agriculture sector over time.

While the Program increases access to affordable credit, some under-represented riskier groups, still face barriers in qualifying for credit due to the Program's risk tolerance. The Program will refuse a default claim if it is deemed the registered lenders did not conduct a standard risk assessment before issuing the loan. This can limit lending to farmers who are slightly below a registered lender's standard risk threshold. Surveyed lenders noted that most borrowers would still qualify for a loan of the same amount without the Program, but with less-favourable terms.

Under-represented farmers are eligible for the Program, except farmers on First Nations reserves due to *Section 89(1)* of the *Indian Act*.[2] This Section prevents indigenous farmers on reserves from accessing loans for capital at the affordable rates offered by the CALA. In addition, certain regions may not have physical lending institutions, which could limit farmers in accessing a CALA registered lender.

6.0 PROGRAM PERFORMANCE

The evaluation found that seventy-nine percent of CALA loans and 71 percent of the Program's total dollar value were guaranteed in the province of Saskatchewan. The high CALA uptake in Saskatchewan is unique due to the *Saskatchewan Farm Security Act,* which prevents lenders from

[2] Developing Solutions for Indigenous Producers On-Reserve to access CALA in Ontario and Western Canada Project #82476 – ARI – IRA 2107

seizing capital that would affect the farmer's livelihood. The Act can discourage some lenders from issuing farm loans, and make it more difficult for farmers to access credit. Saskatchewan lenders, particularly credit unions, can manage associated financial risks and investments through the CALA guarantee. The majority (96 percent) of CALA loans in Saskatchewan were issued by provincial credit unions.

6.1 Performance

The CALA Program exceeded its targets for beginning farmers but did not meet its targets for existing farmers or cooperatives.

From 2013-14 to 2017-18, the Program guaranteed 7,188 loans valued at $491.8 million, falling short of the targets of 11,015 loans and $640 million respectively (Table 5). The Program missed the targets for the number of loans by 35 percent and the dollar value by 23 percent. However, the Program exceeded the same targets by 16 percent and 26 percent for beginning farmers. Reaching a default rate of 0.29 percent over the five years, the Program stayed well below the target ceiling of one percent. The Program met 20 percent of its target for number of loans for cooperatives.

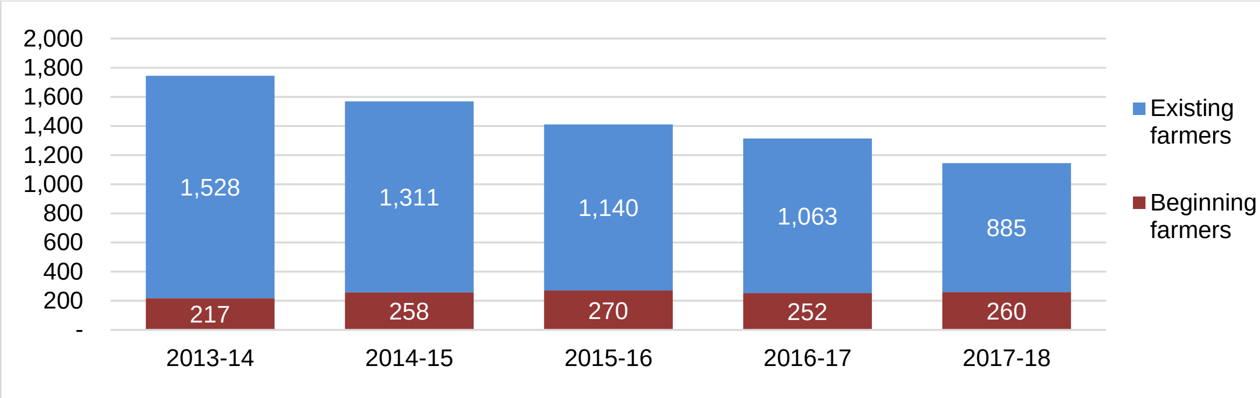
Table 5: Program performance targets (2013-14 to 2017-18)

Performance Indicators	Five Year Target	Five Year Total	Ratio achieved
Number of loans for existing farmers	9,910	5,927	60%
Number of loans for beginning farmers	1,085	1,257	116%
Number of loans for cooperatives	20	4	20%
Total number of loans for CALA	**11,015**	**7,188**	**65%**
Dollar value of loans for existing farmers	$530,000,000	$353,200,000	67%
Dollar value of loans for beginning farmers	$110,000,000	$138,600,000	126%
Total dollar value of loans	**$640,000,000**	**$491,800,000**	**77%**
Total default rate	**1%**	**0.29%**	**29%**

Source: CALA Administrative Program Data

The number of CALA loans declined at a trend of 145 loans per fiscal year, with the decline occurring among loans for existing farmers (Figure 3). Interviewees noted the current strong economic environment and resulting favourable loan terms provide easy access to credit for farmers, especially for established farmers who can use existing capital and land as equity. These conditions may partially explain why program loans continue to decline for existing farmers. Interviewees noted the Program would be most useful for beginning farmers who have trouble accessing credit, which may explain the steady trend of loans for beginning farmers. Beginning farmers' loans took a larger share of loans over time, rising from 12 percent of loans and 21 percent of the annual dollar value in 2013-14 to 23 percent of loans and 36 percent of the annual dollar value in 2017-18. Agricultural cooperatives are a declining business model in Canada, which may affect the uptake of CALA loan guarantees.

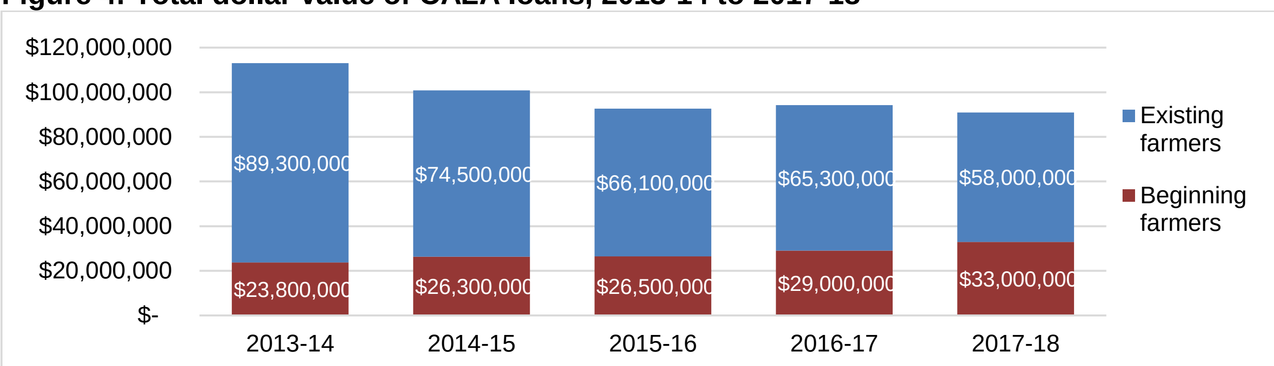
Figure 3: Number of CALA loans, 2013-14 to 2017-18



Source: CALA Administrative Program Data

The total dollar value of CALA loans fell over the five years, due to a decline in loans for existing farmers (Figure 4). The dollar value of loans for beginning farmers increased over the five years at an annual trend of $2.11 million and rose to 36 percent of the total dollar value share in 2017-18. Program loans for all purposes valued over $250,000 rose from one percent of loans in 2009-10 to seven percent in 2017-18.

Figure 4: Total dollar value of CALA loans, 2013-14 to 2017-18



Source: CALA Administrative Program Data

Awareness Activities

Despite meeting its targets for promotion activities, awareness remains a challenge with only 27.8 percent of surveyed farmers being aware of the Program. Awareness of the Program is not only important for its uptake but necessary for farmers to make informed decisions in the agricultural credit market. Program staff noted that closer engagement with producer and commodity associations could increase awareness and demand for CALA loan guarantees from potential borrowers. From internal AAFC interviews and interviews with external stakeholders, it was determined that the benefits and depth of knowledge about the CALA Program within AAFC by non-Program employees varied greatly.

6.2 Impact

The Program contributes to the renewal of an aging and consolidating agriculture sector, and further contributes to beginning farmers.

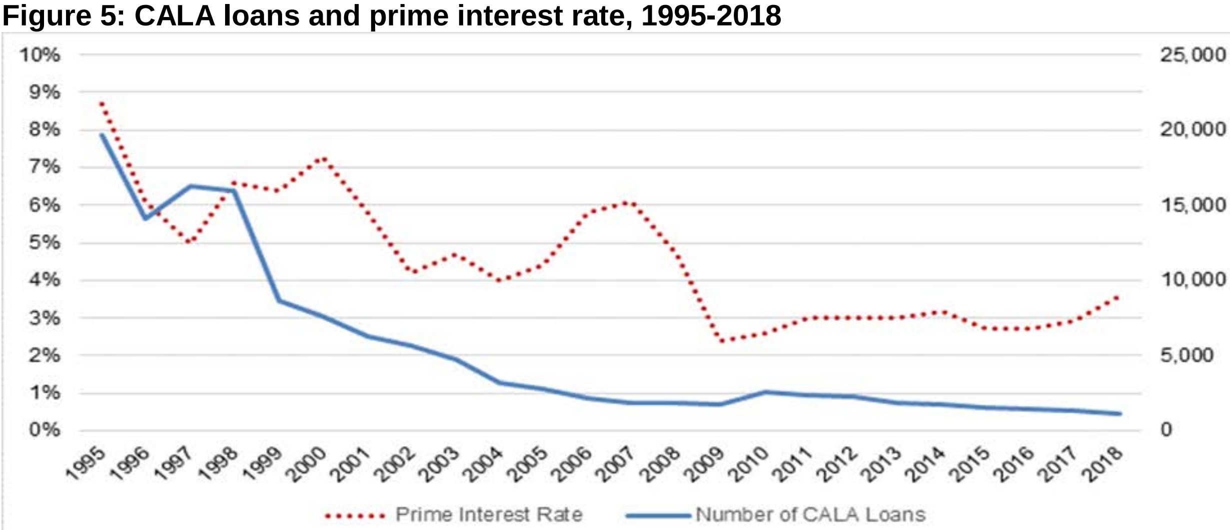
To assess the long-term economic impacts of the Program, the evaluation worked with Statistics Canada to compare the economic characteristics of Program recipients from the last 10 years with non-recipient farmers who had comparable characteristics. Data availability matched 50 percent of recipients to the necessary administrative data for the impact analysis (Annex A).

The data indicates that the average CALA farmer had higher valued farm capital, larger farms, and higher gross farm receipts compared to the control group, though it is not clear whether the higher economic characteristics for the average recipient found were due to Program impact. The high proportion of CALA users from Saskatchewan may have affected the results, as lenders and farmers use the CALA due to provincial legislation addressing farm insolvency, not just as a need for affordable capital loans for investment unlike other provinces. In addition, lenders may select farmers with higher farm capital and/or better economic characteristics to register CALA loans through the due diligence process.

The evaluation evidence indicates the Program contributes to the sustainability of an aging and consolidating agriculture sector. With an annual trend of $2.11-million, the total dollar value of CALA loans for beginning farmers rose from 21 percent in 2013-14 to 36 percent in 2017-18, suggesting a growing Program impact on beginning farmers. The average Program applicant from the last 10 years was 47.7 years old in 2016, younger than the 53.9 years of the youngest operator for the agriculture sector.

The prime interest rate decreased from 8.6 percent in 1995 to 3.95 percent in 2018. During the same time, the number of loans guaranteed by the Program decreased from 19,702 to 1,145 (Figure 4). Although the number of loans may go up with hikes in interest rates, strong commodity prices and growing lender confidence in the agriculture sector may moderate the need for CALA loans.

Figure 5: CALA loans and prime interest rate, 1995-2018



Source: Bank of Canada and Program Data

Depending on interest rates and commodity prices, the absence of the Program could result in:

- inconsistent regional access to credit for farmers
- reduced access to affordable credit (farmers pay conventional rate)
- reduced competition in the lending market, impacting small lenders in the rural economy
- reduced sharing of agricultural debt, as private lenders shrink their portfolios
- decreased ability for beginning farmers to access credit, leading to a limited renewal of an aging and consolidating sector
- reduced adoption of innovation and increased cost of capitalizing on opportunities

- reduced ability to monitor the health of the sector, without government involvement

6.3 Performance Measurement

The Program's logic model and performance measurements do not accurately reflect its activities and purposes.

A program logic model facilitates communication of program information to AAFC staff, management and external stakeholders, thereby guiding program and senior management decision-making, and providing narratives to inform allocation of effort. In the CALA Program, registered lenders are both recipients of the guarantees and the main driver of program uptake but are not featured in the Program's logic model (Annex B). The activities and outputs, and associated indicators, do not acknowledge the lender's role, which only appears in the immediate outcome.

The document review and interviews identified multiple program purposes, ranging from renewing the agriculture sector, providing affordable loans or leveling the playing field for lenders. There was a lack of common understanding among AAFC staff outside the Program and industry association representatives about the Program's purpose and logic. This lack of clarity may affect the way that AAFC staff promote the CALA to lenders and farmers, which may impact awareness and uptake of the Program.

6.4 Economy and Efficiency

The Program administration is cost neutral.

During the evaluation period, the Program returned a net $285,385 or $39.70 for every loan guaranteed (Table 6). This surplus is a result of the Program's cost recovery through its flat 0.85 percent loan registration fees charged to CALA recipients, which brought in revenue of $4,155,999 in the last five years.

Table 6: Program financial expenditures, recoveries, and revenues, 2013-14 to 2017-18

Fiscal Year	2013-14	2014-15	2015-16	2016-17	2017-18	Five Year Total
Full-time Personnel	4.08	3.73	3.39	3.5	3.27	-
Program Delivery and Default Costs	$594,023	$700,922	$675,143	$1,231,504	$924,967	**$4,126,559**
Default Recoveries	$33,712	$113,813	$39,245	$60,505	$8,670	**$255,945**
Revenues from Fees	$946,374	$855,960	$785,538	$787,345	$780,782	**$4,155,999**
Net Return	$386,063	$268,851	$149,640	-$383,654	-$135,515	**$285,385**

Source: CALA Administrative Program Data

Since 2010-11, the Program has shared a joint online lender registration system with the Canadian Small Business Finance Program. The system streamlines the loan registration process, reducing the administrative burden on lenders from program reporting requirements. Its use is not mandatory. The percentage of loans registered through the online system increased from 31 percent in 2013-14 to 86 percent in 2017-18. The remaining 14 percent of loans are submitted by mail and registered by Program staff. Some surveyed lenders identified the administrative process as an irritant, yet most (65 percent) agreed that it is easy to enroll a client in the Program.

The Program had an average of 3.6 full-time equivalents throughout the five years for program administration, including awareness efforts. The resources are utilized for administration, with limited resource time spent on awareness efforts. The concentrated expertise could create challenges to program administration in the event of staff turnover, especially when taking into account the time required to complete the specialized training to administer the Program.

7.0 CONCLUSION AND RECOMMENDATIONS

7.1 Program Relevance

Though the sector is performing well, Canadian farmers still face challenges in accessing affordable credit to start, expand, and invest in their operations due to changing economic conditions. Beginning and niche farmers face additional barriers and constraints, as they may lack sufficient assets or equity to secure loans for agricultural capital purchases. The CALA Program helps address these barriers by providing favourable loan terms that enable farmers to invest in their business. While the Program is relevant, low limits impact its ability to meet the current and emerging needs of new and existing farmers, and farmers' ability to capitalize on changing consumer needs and niche market opportunities.

Federal involvement in access to credit aligns with the federal roles and responsibilities of encouraging the long-term social and economic sustainability of farmers and their communities. The Program further encourages the sustainability of the sector by sharing agricultural debt with the private sector. Through its guarantee, the Program aligns with Government and AAFC priorities by providing favourable loan terms that enable farmers in primary agriculture to better manage financial risks and increase productivity.

The Program addresses national issues of access to credit across all sectors, and supplements or complements provincial programs. The various provincial and industry programs available across Canada provide disparate access to agricultural credit. The CALA Program addresses institutional reluctance in lending to the agriculture sector, and supports regional lenders in offering competitive terms. Although there is some overlap with other available programs, the CALA Program is the only consistent equal access loan guarantee program for all Canadian farmers across all sectors. CALA is considered an important component in addressing the gaps in available private sector risk management tools, and potentially fulfil future gaps in AAFC programming to support beginning farmers.

7.2 Program Design and Delivery

The CALA design and delivery model offers benefits through capitalizing on registered lenders' expertise, knowledge, and infrastructure. This design and delivery model allows farmers to access timely loans with affordable terms with the registered lender of their choice, regardless of region or sector. The Program offers beneficial loans terms to farmers, such as favourable interest rates and amortization periods for non-land purchases.

While the Program design and delivery reduces the administrative cost of the Program, it has little interaction with farmers and limited channels to influence uptake. Registered lenders play an essential role in Program uptake, but have limited incentives to use or promote the Program. Program loan terms, lender fees, eligibility of loan purposes, and risk tolerance may be limiting participation and usefulness for farmers. Despite favourable interest rates, less-favourable CALA loan terms, such as loan limits and the amortization period for real property, create challenges for the Program to enable farmers to make long-term farm improvements.

The Program's design partially enables AAFC to meet its mandate of providing leadership in the growth and development of the Canadian agriculture and agri-food sector. Given the low number of defaults and decreasing uptake, the Program has the financial and administrative capacity to finance loans for small or niche agri-food farmers. Expanding the parameters – i.e. the mandate and eligibility -- of the Program could increase access to credit for primary farmers who want to expand operations to include value-added, agri-food products, and encourage private lenders to invest by sharing the risk with the federal government. The Program's design may be affecting uptake from under-represented groups, which could be increased through larger loan limits, restructured fees, or a higher risk tolerance.

7.3 Program Performance

Over the evaluation period, the CALA Program exceeded its targets for beginning farmers, but did not meet its targets for existing farmers. Program uptake declined by 145 loans per fiscal year, solely among loans for existing farmers. The strong economic environment and resulting favourable loan terms, especially for existing farmers, could contribute to the declining uptake.

As for the long-term economic impacts, the Program contributes to the sustainability of an aging and consolidating sector through the increasing focus on beginning farmers. Without the CALA Program, the sector could face additional challenges in accessing affordable credit, especially during economic downturns.

The Program's logic model and associated performance measurement could more accurately reflect its activities and purposes to better capture the role of registered lenders in program delivery. The current lack of clarity could affect the way that AAFC staff promote the CALA to lenders and farmers, impacting awareness and uptake of the Program.

The Program's administration is cost-neutral, the loan default rate is below one percent, and credit risk is shared with the private sector. With financial institutions delivering CALA loans, Program costs and financial liability remain low due to private sector lending practices. Even with an increase of loan limits and availability of loans, AAFC's liability would remain low as lenders are required to follow standard lending practices, and AAFC is only liable when lenders can not realize on loans after seizing purchased capital assets. AAFC's guarantee on capital loans enable lenders to continue lending and sharing the risks and opportunities associated with agricultural debt.

7.4 Recommendations

Recommendation 1: The Assistant Deputy Minister, Programs Branch, should explore and revise, as appropriate, the CALA Program parameters to ensure that the availability of private sector loans support farm productivity, competitiveness and sustainability.

Recommendation 2: The Assistant Deputy Minister, Programs Branch, should revise the CALA Program's logic model and performance measurements to better reflect the delivery model.

Management Response and Action Plan: Management has agreed to explore options to adjust Program parameters to increase the availability of CALA loans, and update the logic model to better reflect the delivery model by March 31, 2020. These actions will be conducted in conjunction with the 2019 legislative review.

ANNEX A: EVALUATION METHODOLOGY

A. Evaluation Methodology

The evaluation was conducted in accordance with the Treasury Board *Policy on Results* and *Directive on Results*. It assessed the relevance and performance of the CALA Program, specifically focusing on results or progress on results achieved by the Program in terms of effectiveness, efficiency, and economy.

The evaluation covered the period from 2013-14 to 2017-18. The evaluation focused on the Program's relevance and impact on new entrants to farming and younger farmers and will explore program accessibility for other under-represented groups.

Sources of evidence:

- **Program Document, File and Performance Data Review:** A review of program files and data provided an understanding of the activities, outputs, and outcomes to help assess performance and relevance of the Program. The document review included an analysis of loan registrations, loan amounts, and loan statuses.

- **Comparative Analysis:** A comparative analysis was conducted of government funded agricultural loan programs, both by federal and provincial departments and agencies. The comparative analysis consisted of a document/literature review of provincial programs and of eight interviews with provincial representatives. The comparative analysis primarily focused on comparisons with respect to program terms. 21 programs from eight provinces were selected based on their similarities with the CALA program.

- **Literature Review:** A review of academic and grey literature was conducted on topics related to loan guarantees, Canadian agriculture, access to capital in agriculture, financial constraints and needs of farmers, etc. The evaluation also reviewed legislation, federal and departmental policy documents, relevant Treasury Board submissions and memorandum to cabinet to assess relevance. Similar lending programs provided by private and not-for-profit organizations and similar programs in other jurisdictions will be compared for various scope and usage, to determine the overlap and linkage among loan programs, such as CALA.

- **Interviews:** 34 interviews were conducted with AAFC senior management and staff, external stakeholders, provincial government representatives and producer associations. A sample of commodity and producer associations were interviewed using semi-structured and open-ended questions. Association representatives were asked to assess the continued need of the Program, identify the financing needs of their members, and provide feedback on barriers to accessing CALA loans their members may face.

- **Case Studies:** Three case studies were conducted to supplement and support other lines of inquiry to examine regional differences in agricultural access to credit and use/awareness of the CALA program in three regions in Canada: Alberta, Ontario, and the Atlantic Provinces. These regions were chosen following analysis of CALA loan data by region and industry sector, and interviews with provincial representatives and stakeholders to understand alternative loan programs available and other regional characteristics. The case study analysis drew on CALA loan data, regional analysis of producer and lender survey results, and results of interviews with AAFC's regional officers, provincial government representatives, and producer association representatives. These case studies provided insight and breadth to the CALA usage for different regions and sectors, including regional barriers to accessing the CALA Program.

- **Comparison Analysis:** Statistics Canada was contracted to match CALA Program data with Statistics Canada administrative data to create statistical tables for the Evaluation. For administrative data, Statistics Canada used the Linkable File Environment (tax and payroll data) and the 2016 Census of Agriculture. These tables compared economic and financial characteristics of a treatment group (farmers who took a CALA loan in the last ten years) and a control group (farmers who did not take a CALA loan but share similar characteristics with those in the treatment group). Statistics Canada matched the 8,722 different borrower names found in CALA Program data to 7,654 unique enterprises in the Linkable File Environment at a rate of 88 percent. Of these 7,654 enterprises, 3,824 enterprises were matched to the 2016 Census of Agriculture at a rate of 50 percent.

- **Surveys of Lenders and Producers:** Two surveys were conducted. A survey of lenders registered with CALA was conducted to assess program awareness, relevance, and effectiveness and design questions. The survey attempted to contact non-CALA lenders registered with the Canadian Small Business Program to provide a comparison and control to lenders registered with CALA. The survey of lenders received 43 responses, with 41 respondents being previously aware of the CALA Program. A survey of producers was conducted, after consultation with producer and commodity organizations, to assess relevance and awareness. The survey of producers received 266 responses, with 74 respondents reporting being aware of the CALA Program prior to receiving the survey.

B. Methodological Limitations

Methodological limitations were considered in interpreting the data:

Limitation	Mitigation Strategy	Impact on Evaluation
Low completion rate of producer survey.	Conduct interviews with producer associations and provincial agencies, examine particular sectors for credit needs, and conduct a matched pair analysis with Statistics Canada to supplement survey information.	Unable to access the impact of CALA loans on producers.
Lender survey was only able to reach those aware of the CALA Program, and had low completion rate.	Survey sent to all administrators of the Canada Small Business Financing Program to forward to their lenders.	Results limited to those who already know and use the Program.
Statistics Canada could only match 50 percent of the unique enterprises to 2016 census data.	Supplement impact research with performance and survey data.	The long term economic impacts of the Program could not be assessed.

ANNEX B: CALA PROGRAM LOGIC MODEL

CALA Program Logic Model

Objective(s)	BRM programs provide producers with effective tools to manage business risks which are largely beyond their control. The objective of the CALA is to increase the availability of affordable loans to farmers and agricultural co-operatives in order to invest in their operations.
Activities	Receive, review and register loans for the government guarantee; Receive, review and approve revision of loan terms; Receive review and process defaults; Receive review and process claims for loss; Raise program awareness; Develop/maintain program guidelines; and Review loan applications by co-operatives.
Outputs	Loan registrations; Program guidance, advice and eligibility rulings; Honour guarantee to the financial institutions; and Program training and info sessions.
Immediate Outcomes	Lender can make loans to farmers and agricultural co-operatives at preferential interest rates and more favourable repayment terms.
Intermediate Outcomes	Agricultural farmers and co-operatives have access to affordable capital to make investments in their operations.
End Outcomes	Producers and agricultural co-operatives are able to manage business risks associated with investments in their operations.
Link to PAA	Business Risk Management 1.1.7
AAFC Strategic Outcome	Strategic Outcome 1: 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