Report to Parliament

Review of the *Canadian Agricultural Loans Act*

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Context of the Report

Every five years, the Minister of Agriculture and Agri-Food Canada (AAFC), in consultation with the Minister of Finance, is required to review the provisions and administration of the *Canadian Agricultural Loans Act* (CALA) program. This report to Parliament is in accordance with the requirements of section 22.1 of the Act and covers the five-year period from the 2014-2015 to 2018-2019 fiscal years.

This report includes background information on the CALA program and briefly describes its origins and its role within the context of a broader set of government programs. The report provides a description of the delivery model, the results of a Justice Canada legal review and details on key legislative and regulatory program parameters. In addition, the report includes information on the program's relevance, its impact on stakeholders, its contribution to the Department's mandate and priorities, and the costs incurred by the federal government. This is followed by a description of program activity over the last five years and a summary of findings.

This report draws on the results of a 2019 formal program evaluation conducted by AAFC's Office of Audit and Evaluation (OAE) on the CALA program.

Other significant events, such as COVID-19, that occurred after the end of the review period will be evaluated during the next five-year review of the CALA program.

Background

The CALA program is a statutory program offered as a complement to the core Business Risk Management (BRM) suite of federal-provincial-territorial programs, which are part of Canada's national agricultural policy framework. The BRM suite of programs helps farmers manage risks that threaten the viability of the farm. The CALA program is governed by the *Canadian Agricultural Loans Act* and its associated regulations.

The CALA program aims to increase the availability of affordable private-sector credit to farmers and agricultural co-operatives by sharing risk with lenders (chartered banks, credit unions, caisses populaires and Alberta Treasury Branches) by providing a government guarantee on loans. The program also institutes a maximum interest rate, flexible repayment terms and reduced down payment requirements. Farmers can use these loans to establish, improve and develop farms, while agricultural co-operatives may also access loans to process, distribute or market the products of farming.

CALA has special provisions for beginning farmers. The program allows loans to be issued to an existing farmer and agricultural co-operatives with a 20% down payment, while loans can be issued to a beginning farmer with a 10% down payment.

Under the program, lenders issue and administer loans using regular lending practices. AAFC reduces risk and encourages the provision of loans by providing a 95% guarantee of a net loss sustained by a lender on a loan registered under the Act. In addition, AAFC provides oversight and develops and maintains tools, policies and guidelines to ensure that the program is delivered within the parameters of the Act.

The CALA program has a very low default rate due to stringent program requirements and risk tolerances. With a default rate of 0.29% over the past five years, the overall cost and risk of the program are low. Due to the shared program design, lenders mitigate risk by undertaking the same due diligence as they would with standard lending practices, while the CALA program officials provide oversight on the process and provide guidance to lenders.

The CALA program charges a 0.85% loan registration fee. As such, the program is cost-neutral, since revenues from loan registration fees indirectly offset operational costs and claims on the guarantee.

The structure of the program also limits the federal government's financial exposure from individual financial institutions, as the financial risks are shared between the two. The Contingent Liability for a lender is established under Section 8 of the Act as follows:

- The Minister is not liable under this Act to pay to a lender in respect of losses sustained by it as a result of loans made by it during a fiscal year and the four preceding fiscal years a total amount in excess of:
    - 90% of that part of the aggregate principal amount of the loans made by it during that fiscal year and the four preceding fiscal years that does not exceed $1 million;
    - 50% of that part of the aggregate principal amount of the loans made by it during that fiscal year and the four preceding fiscal years that exceeds $1 million dollars but does not exceed $2 million; and
    - 10% of that part of the aggregate principal amount of the loans made by it during that fiscal year and the four preceding fiscal years that exceeds $2 million dollars.

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 effectively aligns with federal and departmental roles and responsibilities. In addition, CALA supports primary agriculture, encourages the renewal of the sector by supporting greater participation of new farmers in Canadian agriculture via special provisions, and can help to grow the middle class by encouraging new entry in the sector and expansion of existing operations.

Legal Review

As a component of the formal review, the Department of Justice undertook a comprehensive examination of the Act and its associated regulations and found no need to make any amendments from a legal perspective.

Program Description Summary

Loan Limits:

- The maximum aggregate loan limit for any one farm operation is $500,000;
- $500,000 for the purchase of land and the construction or improvement of buildings;
- $350,000 for all other eligible loan purposes (such as implements, machinery and livestock) and for consolidation/refinancing;
- The maximum aggregate loan limit for agricultural co-operatives is $3 million.

Down Payments:

- Loans issued to existing farmers and co-operatives can be up to 80% of the purchase price or appraised value of the eligible asset (20% down);
- Loans issued to beginning farmers (those farming less than six years and reporting farm income/loss for tax purposes in one of any of these six years) can be up to 90% of the purchase price or appraised value of the eligible asset (10% down).

Maximum Interest Rate:

- Maximum interest rate to be paid on a floating rate is the lender's prime rate plus 1%;
- Maximum interest rate to be paid on a fixed-term rate is the lender's residential mortgage rate for a comparable term plus 1%.

Repayment Periods:

- The maximum loan period for land is 15 years, and for agricultural co-operatives the maximum loan period for land and building construction or improvement is 20 years;
- The maximum loan period for all other purposes is 10 years.

Fees:

- A registration fee of 0.85% of the amount of the loan is submitted to the Receiver General for Canada when the loan is registered;
- The lender may also charge administration fees as prescribed in the Act/Regulations;
- Both fees may be incorporated into the loan amount (not exceeding loan limits).

CALA facilitates financing options to farmers and agricultural co-operatives in a similar manner as Innovation, Science and Economic Development's (ISED) Canada Small Business Financing Program (CSBFP). The CSBFP facilitates credit for non-agricultural businesses and also shares risk with lenders. The CALA program and the CSBFP have been sharing an online loan registration system since October 2011.

CALA History

In 1944, the *Farm Improvement Loans Act* (FILA) was established to support the continued improvement and development of farms in Canada and to enhance living conditions by encouraging and supporting the provision of short-term to medium-term credit to farmers.

In 1987, the FILA was replaced by the *Farm Improvement and Marketing Co-operatives Loans Act* (FIMCLA). The major changes included increasing the aggregate loan limit per farm operation from $100,000 to $250,000 and establishing loans to Farm Products Marketing Co-operatives up to $3 million for the processing, distribution or marketing in Canada of the products of farming. The emphasis of the program also shifted slightly and focused more on the provision of medium-term to long-term credit for farmers, as opposed to short-term credit.

In 2009, the FIMCLA was replaced by CALA. The major changes included: increasing loan limits from the $250,000 aggregate per farm operation to $500,000, with the full $500,000 available for the purchase of farm land or the construction/improvement of farm structures, and up to $350,000 for any other eligible purpose; expanded eligibility for beginning/start-up farmers and intergenerational farmers; and added provisions for co-operatives that are not completely farmer-owned. These changes resulted from national consultations undertaken in 2006 with producers and financial institutions on modernizing FIMCLA. There have been no other changes since 2009.

Program Use and Activity

From 2014-2015 to 2018-2019, the program guaranteed 6,453 loans, valued at $470 million (see Table 1).

Uptake of the CALA program has been lower than expected. Market variables that have affected uptake include the positive economic environment for agriculture, low interest rates, high commodity prices and high farm profitability. These economic conditions have made it easier for farmers to obtain loans from financial institutions without the program’s guarantee.

In addition, farm capital costs have increased significantly (see Table 7) since 2009. However, the program loan limits have stayed static during the same time period. These low limits negatively affect program uptake, as the maximum loan values are inadequate to support major capital purchases.

In comparison to other provincial and federal loan or loan guarantee programs, CALA’s $500,000 limit is significantly lower and could be negatively affecting uptake. For example, many provincial programs that provide loans or loan guarantees for the purchase of land have a higher average loan limit of $2 million; Farm Credit Canada does not have loan limits for agricultural purposes; and the CSBFP, which is CALA's sister program for non-agricultural small businesses, increased its loan limits in 2015 from $500,000 to $1 million in order to keep pace with the costs of business in non-agricultural related sectors. In addition, in 2019, AAFC more than doubled the loan limits of the Advance Payments Program (APP) from $400,000 to $1 million. It should be noted that APP loans are short term (18–24 months) to facilitate short-term cash flow, as opposed to CALA loans, which are long term (10–15 years) to purchase capital assets.

Furthermore, consolidation of farms is another factor negatively affecting the volume of loans. The 2016 Census of Agriculture recorded 193,492 agricultural operations, down 5.9% from 2011, while total area farmed increased by 6.9% during the same time period. In comparison, since 2014, the total number of CALA loans decreased by 36%. However, the total value of loans registered remained relatively constant. Statistics Canada (Annual Farm Debt Outstanding Survey 2014–2018) reported an overall increase in sectoral farm debt outstanding of 30% over the same period, which is consistent with the CALA trend of a lower number of loans but a higher value per loan.

Since 2014, large financial institutions' agricultural lending has kept pace with the increasing capital costs of farming, and lending has remained steady at between 1% and 2% of their total loan portfolio. This could be indicative of the lenders' comfort level with the risk of issuing agricultural loans outside of the CALA program, which in part may further explain the decline in CALA usage by lenders.

Despite the decline in usage, the program has continued popularity and usage with credit unions who access the concessional rates of the CALA program, along with its federal guarantee, to offer products that allow them to compete with larger chartered banks. As well, smaller rural credit unions may not have a large enough deposit base to be able to absorb defaulted loans. The program enables these credit unions to issue CALA loans with much lower associated default risk to their membership, which helps to support the viability of the community credit unions and increase their competiveness with other lenders.

Although current program uptake has been low, historical data shows that, in general, uptake increases as a function of increasing interest rates. From 1993 to 1998, when prime interest rates ranged from a low of 4.96% to a high of 8.65%, the average number of loans per year was 16,377, for $470 million. From 2014 to 2019, when prime interest rates ranged from a low of 2.77% to a high of 3.45%, the average number of loans per year declined to 1,291, for $94 million.

The beginner farmers segment is the CALA program's only growth segment. The number of loans issued to beginning farmers has increased slightly (2%) since 2014. However, the value of loans to beginning farmers has increased by 57% over the same period. This increase is reflective of the rising costs of entry for beginning and new farmers into the agricultural sector. Over the past 10 years, the CALA program provided the loan guarantee to, on average, 257 young farmers per year.

CALA has also benefited indigenous groups by providing access to credit that may otherwise be difficult for them to obtain. For instance, CALA approved a $3-million guarantee with a lender to develop an indigenous-based community co-operative greenhouse operation in 2018-2019.

Table 1: Amount and Number of Loans Registered by Fiscal Year (April 1, 2014, to March 31, 2019)

Fiscal Year	Total Number of Loans Registered	Total Value of Loans Registered ($ millions)	Loans Issued to Beginning Farmers	Value of Loans Registered to Beginning Farmers ($ millions)	Loans Issued Over $250,000	Number of Co-op Loans	Number of Inter-generational Loans	Prime rate
2014-2015	1,569	101	258	26	56	0	1	3.00%
2015-2016	1,412	93	270	27	66	2	1	2.77%
2016-2017	1,316	94	252	29	70	1	0	2.95%
2017-2018	1,150	91	260	33	82	0	0	3.2%
2018-2019	1,006	91	263	41	95	1	0	3.45%
Total	**6,453**	**470**	**1,303**	**156**	**369**	**4**	**2**	

Source: Program data and Bank of Canada

Accounting for 79% of all loans and 71% of the total dollar value, CALA program uptake is highest in Saskatchewan (see Table 2). High usage in Saskatchewan can be explained by the fact that CALA loans are exempt from the *Saskatchewan Farm Security Act* (SFSA), which prevents lenders in Saskatchewan from seizing farm capital or assets. The SFSA can discourage lenders from issuing conventional farm loans, and the CALA program exception allows lenders to feel more comfortable providing credit, as they are able to realize on security and better manage default risk.

Table 2: Amount and Number of Program Loans by Province (April 1, 2014, to March 31, 2019)

	Fiscal Year									
	2014-2015		2015-2016		2016-2017		2017-2018		2018-2019	
Prov.	**#**	**Value ($ 000s)**	**#**	**Value ($ 000s)**	**#**	**Value ($ 000s)**	**#**	**Value ($ 000s)**	**#**	**Value ($ 000s)**
NL	0	0	1	123	0	0	1	105	0	0
PE	13	1,001	5	515	8	534	1	55	3	205
NS	4	527	5	845	4	262	1	53	4	279
NB	4	643	12	1,222	9	1,565	7	724	19	2,034
QC	0	0	2	390	10	1,294	13	2,345	8	2,357
ON	15	2,913	30	5,667	37	6,651	24	4,777	26	8,316
MB	185	13,691	191	11,407	180	11,810	161	9,994	139	9,991
SK	1,265	75,026	1,103	65,586	1,025	66,034	871	63,014	723	52,408
AB	65	5,286	47	4,598	32	3,386	48	6,240	67	12,545
BC	18	1,716	16	2,309	11	2,860	23	4,200	17	2,661
Total	**1,569**	**100,803**	**1,412**	**92,662**	**1,316**	**94,396**	**1,150**	**91,507**	**1,006**	**90,796**

Source: Program data.

Representing 90% of all loans issued, credit unions are the primary lenders/users of the program. In general, the high relative usage is due to the fact that credit unions can use the favourable CALA lending terms and guarantee to compete with the chartered banks (see Table 3). The low uptake from chartered banks can be attributed to increased understanding of agricultural risk and desire to take on more agricultural debt using their own lending products.

Table 3: Number and Total Amount of Guaranteed Loans by Type of Lending Institution (April 1, 2014, to March 31, 2019)

Institution	Number of Loans	Percent of Loans (%)	Average Amount ($)	Total Amount ($)
Chartered Banks	608	9.4	136,830	83,192,836
Credit Unions	5,809	90.0	65,007	377,623,906
Other*	36	0.6	259,750	9,351,004
Total	**6,453**	**100.0**	**72,860**	470,167,746

Source: Program data.
* “Other” includes Cooperative Credit Societies (coopérative de crédit) and Provincial Crown Financial Institutions

Loans for implements (e.g. tractors, combines) and equipment accounted for the majority of loans (66%), while those for land and buildings accounted for 14% of total loans (see table 4).

Table 4: Number and Total Amount of Guaranteed Loans by Primary Purpose (April 1, 2014, to March 31, 2019)

Primary Purpose	Number of Loans	Per cent of Loans (%)	Average Amount ($)	Total Amount ($)
Implements*	2,890	44.8	50,764	146,707,535
Livestock	1,132	17.5	49,907	56,494,711
Equipment	1,341	20.8	61,721	82,767,775
Land	701	10.9	209,130	146,600,084
Building	180	2.8	108,615	19,550,636
Consolidation/Refinancing	83	1.3	109,673	9,102,843
Improvement or Development	53	0.8	58,028	3,075,497
Major Repair/Overhaul	22	0.3	40,277	886,092
Intergenerational Loans	2	0.0	146,200	292,400

Other	49	0.8	95,718	4,690,173
Total	6,453	100.0	72,860	470,167,746

Source: Program data.
* Implements is defined as apparatus and machines not usually affixed to real or immovable property.

The OAE Evaluation

In May 2019, AAFC's Office of Audit and Evaluation (OAE) finalized an in-depth evaluation of the CALA program. The evaluation assessed the program over the period from fiscal year 2013-2014 to 2017-2018 and examined its relevance, design, delivery and performance, and fulfilled a requirement of the *Financial Administration Act* (FAA) and the Treasury Board's Policy on Results. Results from this evaluation were leveraged to inform this report.

Methodology

The OAE evaluation utilized multiple lines of evidence, including: program documents; files and performance data review; comparative review; comparison analysis of recipients and non-recipients; literature review; interviews with AAFC representatives, provincial representatives and external stakeholders; and a survey of financial lenders and farmers.

The sources of information the OAE used to conduct the evaluation included:

Program Document Review

The OAE consulted program files and data to understand the program's activities, outputs and outcomes to help assess performance and relevance. The document review included an analysis of loan registrations, loan amounts, and loan statuses.

Comparative Analysis

Government-funded agricultural loan programs, both by federal and provincial departments and agencies, were comparatively examined for the analysis. The analysis consisted of a literature review of provincial programs and eight interviews with provincial representatives. The analysis focused on a comparison with respect to program terms. A total of 21 programs from eight provinces were selected based on their similarities with the CALA program.

Literature Review

Academic literature on related loan guarantees, Canadian agriculture, access to capital in agriculture, financial constraints and needs of farmers were studied. The legislation, federal and departmental policy documents, relevant Treasury Board submissions and memoranda to Cabinet were also used to complete the evaluation.

Interviews

A total of 34 interviews were completed with AAFC management and staff, external stakeholders, provincial government representatives and producer associations. Association representatives were asked to assess the necessity of the program, identify the financing needs of their clients and provide feedback on accessing CALA loans.

Surveys of Lenders and Producers

A survey of lenders registered with the CALA program was conducted to assess program awareness, relevance, effectiveness and design. A separate survey of producers was conducted to assess relevance and awareness.

Case Studies

Three case studies were conducted to provide insight into the program's usage for different regions and sectors. The studies examined regional differences in access to credit in the sector and use/awareness of the CALA program in Alberta, Ontario and the Atlantic Provinces. In addition, the studies included interviews with provincial representatives and stakeholders to better understand any alternative loan programs that may be available.

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. Financial and economic characteristics of treatment groups and controlled groups were compared for the evaluation process.

OAE Evaluation Findings

Program Relevance:

The OAE evaluation findings confirmed that the CALA program is relevant, as some Canadian farmers continue to have difficulty accessing affordable conventional credit to start, grow and invest in their farming operation (especially beginning farmers).

The CALA program provides farmers with greater access to affordable financing. As a result, these farmers are better able to establish, improve and develop farming operations that are more sustainable than those with limited access to affordable financing.

Over 70% of surveyed lenders agreed that the program is relevant and fills a need in the sector (72.1%), is an important option for Canadian farmers (74.4%), increases their capacity to offer credit to the agriculture sector (72.1%), and helps Canadian farmers address their financial needs (76.8%).

According to the report, beginning farmers in particular can face barriers to entry and expansion stemming from a lack of sufficient assets or equity to secure agricultural loans. The report noted that the CALA program helps to facilitate credit and entry into primary agriculture by reducing the default risk to private-sector lenders and encouraging them to offer loans with a lower down payment and interest rates than conventional loans.

According to the majority of beginning farmers surveyed, the program’s financing terms (e.g. low down payments, low interest rates, longer amortization periods, and flexible repayment options) allow them to increase investments and improve the overall value, productivity and sustainability of their farm operations. The OAE notes that it is particularly crucial for farmers to have access to affordable financing when starting and/or growing their business, as they can face many challenges that stem from an inability to access affordable financial resources, which can impede their financial sustainability.

The report highlighted the fact that the CALA program aligns with federal and departmental 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 program supports primary agriculture and the renewal of the sector by encouraging greater participation of new farmers in Canadian agriculture via the program’s special beginning farmer provisions. In addition, CALA supports the growth of the middle class by encouraging new entry in the sector and expansion of existing operations.

The CALA program is the only consistent, equal-access federal loan guarantee program accessible by all farmers across all agricultural sectors in Canada. Of the 21 provincial programs reviewed in the evaluation, only four programs provide loans or loan guarantees that cover the same eligible loan purposes for their respective regions. The report concludes that the program’s scope allows lenders to increase the accessibility of favourable loan terms for smaller, new and niche farms in regions where they would not otherwise be available.

The evaluation deemed the CALA program to be the only capital financing option available to beginning farmers across Canada that offers favourable loan terms and interest rates and allows for intergenerational farm transfers. The program is also unique, as it does not discriminate against beginning farmers by age, because eligibility is defined by years of farming experience (i.e. less than six years). In contrast, the majority of other programs define beginning farmers by age (e.g. FCC's Young Farmer Loan defines a young farmer as being under 40 years old).

The OAE highlighted that lenders may be reluctant to provide loans to farmers in agricultural sub-sectors where the level of production risk or the markets are not well understood. For example, farmers who produce alternative crops or exotic ruminants can face barriers to accessing credit, because the production data is limited or unavailable to substantiate the profitability of such operations. The OAE report added that the CALA program's guarantee allows the Government of Canada to facilitate lending by sharing risk with lenders in order to provide affordable financing to farmers participating in niche markets.

The evaluation also found that the CALA program provides a benefit to smaller credit unions within rural local economies across Canada, which may have difficulty providing lending products that compete with the banks without the federal loan guarantee and concessional rates provided by the CALA program. Seventy-two percent of surveyed lenders agreed that the program increases their capacity to offer credit to farmers, and 58% agreed that the program helps them be more competitive with other lenders.

According to the OAE, 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 a significant presence in the agricultural lending market. In 2017, FCC held the majority (83%) 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.

The OAE highlighted the fact that FCC is not a deposit-taking institution (e.g. offering bank accounts) and focuses solely on loans and advice to the agriculture sector, and as such, farmers require another financial institution to conduct their day-to-day business and manage their portfolio. The report highlighted the fact that the CALA program enables farmers to access alternative credit solutions and access affordable credit via a government-guaranteed loan from a registered lender of their choice, where they can then conduct all of their farm related business in one place.

Program Design and Delivery:

The OAE report notes that the program is designed, managed and delivered efficiently and acts as a low-risk, low-cost federal government program that supports the agricultural sector.

The CALA program's lender-driven delivery model has multiple benefits, as lenders have the expertise, knowledge and infrastructure to adapt to the changing business needs of farmers. The CALA program decreases the risks registered lenders face when lending to agricultural operations and encourages participation amongst lenders (e.g. rural credit unions) that may otherwise have difficulty competing with chartered banks.

The report found that the program is well designed to 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 or decreases in farm profitability. The program mitigates these potential effects by legislating a maximum interest rate charged for long-term debt. Seventy-five percent 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 the farm sector.

OAE-surveyed lenders reported that most CALA loan applicants could have qualified for the same amount without the program, but with higher interest rates and or larger down payments. The lenders also agreed that amortization terms for assets such as equipment are appreciated by farmers because of the ability to access financing beyond conventional loan-amortization terms, making loan repayments more affordable.

The program has a low risk exposure due to the collaborative design, and AAFC benefits from lender involvement in qualifying and administering loans, which reduces federal exposure to lending risks and lowers program administration costs. As a result of the collaborative design, the CALA program has a very low default loan loss rate (claims) of 0.29%.

The report also indicated that the program is cost neutral, as it is delivered on a cost-recovery model through a registration fee of 0.85% of the amount of the loan and revenues are typically higher than default losses (see Table 5 below).

Table 5: Program Revenue and Expenditures (April 1, 2013, to March 31, 2018)

Fiscal Year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	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
Revenue**	$946,374	$855,960	$785,538	$787,345	$780,782	$4,155,999
Total Program Cost	**-$386,063**	**-$268,851**	**$-149,640**	**$383,654**	**$135,515**	**-$285,385**

Source: OAE Evaluation, AAFC program data, *Recoveries by AAFC from loan defaults; **Revenues from registration fees

Program Performance:

The Evaluation noted that, from 2013-14 to 2017-18, CALA guaranteed 5,927 loans, valued at $491 million, falling short of the targets of 11,015 loans and $640 million. The program missed the targets for the number of loans by -35% and the dollar value by -23%. However, the program exceeded the same targets by +16% and +26% for beginning farmers, which is a demographic that continues to have difficulty in accessing affordable credit from private-sector lenders. The program's low default rate of 0.29% over the five years is well below the 1% performance target (see Table 6).

Table 6: Program Performance Targets (2013-14 to 2017-218)

Performance Indicators	Five Year Target	Five Year Total	Target Ratio
Number of loans for existing farmers	9,910	5,927	-40%
Number of loans for beginning farmers	1,085	1,257	+16%
Number of loans for co-operatives	20	4	-80%
Total number of loans for CALA	**11,015**	**7,188**	**-35%**
Dollar value of loans for existing farmers	$530,000,000	$353,200,000	-33%
Dollar value of loans for beginning farmers	$110,000,000	$138,600,000	+26%
Total dollar value of loans	**$640,000,000**	**$491,800,000**	**-23%**
Total default rate	1%	0.29%	-71%

Source: OAE Evaluation

As per the report, the number of CALA loans is declining within the existing farmers segment. Interviewees noted that the current strong economic environment and favourable loan terms provide easy access to credit for farmers, especially for established farmers who can use existing capital and land as equity. The OAE notes that these conditions may partially explain why program loans continue to decline for existing farmers.

The report also found that loans to beginning farmers represent an increasing share of loans over time, rising from 12% of all loans and 21% of the total annual dollar value in 2013-14 to 30% of all loans and 36% of the total annual dollar value in 2017-18. Interviewees noted that the program may be most useful for beginning farmers who have trouble accessing credit, which, according to the OAE, may explain the steady trend of loans for beginning farmers.

The report noted that the program did not meet its 20% target for the number of loans for co-operatives. The OAE noted that agricultural co-operatives are a declining business model in Canada, which is negatively effecting uptake of CALA co-operative loan guarantees.

Despite the program meeting its targets for promotion activities, the report found that awareness remains a challenge, with only 27.8% of surveyed farmers being aware of the program. The OAE stressed that farmer awareness of the program is not only important for its uptake, but necessary for farmers to make informed financial decisions regarding their options in the agricultural credit markets.

Issues and Challenges:

The evaluation confirmed that the current CALA program loan limit of $500,000 may be perceived as limiting the program from achieving its program objectives. The evaluation indicated that 80% of interviewees stated that the program does not meet, or only somewhat meets, the needs of farmers because the program loan limits do not align with the current market conditions and increasing prices. In most cases, the low limits do not allow farmers to obtain full financing for a typical farm purchase. Therefore, CALA loans can only be used for a portion of an average purchase, which increases the administrative burden on the borrowers and lenders and the costs to farmers (see Table 7).

The report also confirmed that CALA loan limits are low in comparison to other provincial and federal loan or loan-guarantee programs, which provide loans with limits of $1-2 million.

Table 7: Percent change in average value 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 farm machinery and equipment ($/farm)	201,438	278,405	38
Total gross operating expenses ($000)	38,343,012	45,118,717	18
Aggregate farm debt ($000)	67,602,334	92,519,144	37

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

In addition, the CALA program's high risk tolerances could impede uptake, as the program will refuse a default claim if it is deemed that the registered lenders did not conduct a standard risk assessment before issuing the loan. This standardized risk assessment 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.

Lastly, the report also noted that lack of awareness from users and lenders is a barrier to uptake.

OAE Recommendations

As a result of the evaluation, the OAE recommended that:

1. AAFC explore and revise, as appropriate, the CALA program parameters and ensure that the availability of private-sector loans support farm productivity, competitiveness and sustainability; and
2. AAFC revise the CALA program's logic model and performance measurements to better reflect the delivery model.

Conclusions

Overall, CALA uptake is on the decline, and the program fell short of its uptake performance targets by 35% from 2014-15 to 2018-19. The decrease in uptake can be attributed to a number of factors including:

- Low loan limits in comparison to other provincial/federal loan-guarantee programs that have not kept pace with the rising cost of farmer capital costs;
- Increased consolidation of farms, resulting in less farm operations to procure loans;
- Increased lender comfort level with the risk of issuing agricultural loans outside of the CALA program; and
- Existing market variables, such as positive economic environment for agriculture, low interest rates, high commodity prices and high farm profitability.

However, as confirmed by the OAE evaluation, the program remains relevant, as some Canadian farmers continue to face challenges in accessing affordable credit to start, expand, and invest in their operations. According to the report, the CALA program improves access to affordable credit, which in turn helps improve the long-term financial viability of the operations by providing capital to establish, improve and develop farms.

As per the OAE findings, the CALA program aligns with departmental roles and responsibilities by providing Canadian farmers equal access to affordable credit while sharing the risks of agricultural debt with the private sector.

The program is also cost neutral and acts as a low-risk, low-cost government program that supports the agricultural sector. In addition, the program has a large impact in the province of Saskatchewan, as CALA program loans are exempt from the SFSA, which prevents lenders from seizing farm capital and impedes lending to Saskatchewan producers.

Despite the declining overall uptake in the program, particularly in the existing farmer segment, CALA uptake in the beginning farmer segment exceeded expectation targets in terms of number of loans and overall value of loans. As confirmed in the OAE findings, CALA's preferable terms offered to beginning farmers are beneficial and effective.

CALA has also benefited indigenous groups by providing access to credit that may otherwise be difficult for them to obtain, as demonstrated by the indigenous-based community co-operative greenhouse project approved under CALA.

Given the documented benefits of CALA to certain segments of the agriculture sector, there is an opportunity to build a case to increase the loan limits and to promote the use of CALA to beginning farmers and indigenous groups.