Report to Parliament on the Review of the *Agricultural Marketing Programs Act*

JUNE 2023

Honourable Marie-Claude Bibeau
Minister of Agriculture and Agri-Food

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TABLE OF CONTENTS

1 INTRODUCTION

The Minister of Agriculture and Agri-Food, in consultation with the Minister of Finance, is required to review, every five years, the provisions of the *Agricultural Marketing Programs Act* (AMPA) and the operations of its programs. The previous legislative review of AMPA began in 2010 and concluded with a report to parliament which was tabled before parliament in 2012. The last of the legislative changes resulting from the 2012 report recommendations came into force on February 4, 2016. As such, this next legislative review covers the five-year period from February 2016 to February 2021. The research components of this review were initiated in the fall of 2020 and completed in 2022.

This Report to Parliament is in accordance with subsection 42(1) of the AMPA.

2 THE PROGRAMS

The programs under AMPA are designed to improve marketing opportunities for program participants by improving their short-term cash flow requirements.

AMPA governs three programs: the **Advance Payments Program (APP)**; the **Price Pooling Program (PPP)**; and the **Government Purchases Program (GPP)**. In the case of the APP and the PPP, program requirements are also outlined within the *Agricultural Marketing Programs Regulations*, Administrative Guidelines, and agreements (Advance Guarantee Agreements for APP and Price Guarantee Agreements for PPP) made with program administrators and, for the APP, also with lenders.

Advance Payments Program (APP)

The Advance Payments Program (APP) is a financial loan guarantee program that gives producers access to credit through cash advances based on the value of their agricultural products during a specified period. The objective of the program is to improve marketing opportunities for agricultural producers by guaranteeing the repayment of advances made to them as a means of improving their cash flow throughout the year. The intent is to allow them to meet their immediate financial obligations while marketing their agricultural products when it is most opportune for them (e.g., higher prices, deferred delivery contracts, etc.). Eligible commodities include field crops, livestock, and an extensive variety of horticultural products.

The program guarantees the repayment of the advances made by producer organizations (administrators) to eligible producers. At the time of this review, the program is delivered by 30 APP administrators. The guarantees help the administrators borrow money from lenders to make advances to producers. The federal government also pays the interest on the first $100,000 of an advance issued to a producer, with a maximum advance of up to $1,000,000. The advances are repaid as the agricultural product is sold, with up to 18 months to fully repay advances on the majority of products (up to 24 months for advances on cattle and bison). Before an advance is issued, the producer must provide the administrator with first rank security on the agricultural product for which the advance is issued. For pre-production and livestock advances, an assignment on an eligible Business Risk Management (BRM) program (i.e., AgriStability, AgriInsurance, or other eligible program) must also be provided.

If a producer defaults on their advance and is unable to repay the defaulted advance to the administrator, the Government repays the outstanding debt to the lender on the producer's behalf, after which the producer is indebted to the federal government in the amount of the debt (i.e., debt to the Crown).

On average, during the period of 2016 to 2021, the program provided $2.5 billion in guaranteed advances per production period to over 20,000 producers, with an annual cost of $22.5 million for the interest-free provision and $27.3 million under the guarantee provision, part of which is recovered as the Government continues collection action on defaults. Historically, initial defaults have been approximately four percent while ultimate payments under the Government guarantee improve to approximately one percent of the dollar value of advances issued during a production period. Agriculture and Agri-Food Canada's (AAFC) Accounts Receivable and Revenue Management team pursues repayment of advances paid by the Department under the guarantee and is successful at recovering approximately 53% of these debts.

Price Pooling Program (PPP)

The Price Pooling Program (PPP) provides a price guarantee (65% of the expected average wholesale price of a product) to cooperative marketing agencies, allowing them to protect themselves and their producers against large, unanticipated declines in the market price of the products covered under the guarantee. This guarantee assists the agencies in obtaining financing from financial institutions, which allows them to issue initial and interim payments to producers, and to cover marketing costs directly related to the pools. The program is designed to support cooperative marketing of eligible agricultural products by improving producers' cash-flow, through initial and interim payments to producers, for the product they deliver to the agency to market. A final payment is made once all delivered products are sold by the agency and average prices can be determined. If the final average price received for the product falls below the guaranteed price, the Government pays the difference to the marketing agency.

The program was introduced to provide benefits similar to those offered by the Canadian Wheat Board to producers of other commodities (or in other regions) who wanted to voluntarily pool their products. Producers' participation in the pools is optional. They can still choose to market their products independently if they feel it is a better option or mitigate risks by selling a portion of their products through a pool and market the other portion using their own means.

The PPP is not widely used and uptake from marketing agencies has been minimal, consisting of two marketing agencies per year for the last five years compared to five agencies 10 years ago. For the last five years, the price guarantee has been valued at around $41 million on average. In addition, the Grain Farmers of Ontario, one of the last two marketing agencies taking part in the program, did not apply for the 2021 program year. The Alberta Bean Division of Viterra Inc. is currently the only agency offering the PPP to their pool of approximately 200 producers. The PPP has not triggered a government payment under the price guarantee since 1997.

Government Purchases Program (GPP)

The Government Purchase Program (GPP) authorizes the Minister of Agriculture and Agri-Food to buy, sell, import, export, transport, or process agricultural products. The GPP is not an on-going program and consists solely of a few limited provisions within the AMPA. Before the Minister of Agriculture and Agri-Food can exercise their authority to implement the GPP, they must obtain authorization of the Governor in Council and seek funding from Treasury Board.

The AMPA does not specify the circumstances under which the GPP could be used. However, the Department's long-standing policy on the program states that it would likely only be used under unusual marketing circumstances where market stability is threatened or where there may be need for the purchase and provision of agricultural products by the Government of Canada domestically or internationally. It has not been used during the evaluation period; however, a comprehensive review of the program was conducted.

3 ELEMENTS OF THIS REVIEW

3.1 EVALUATION OF AMPA BY THE OFFICE OF AUDIT AND EVALUATION (OAE)

The *Evaluation of the Programs under the Agricultural Marketing Programs Act (2014 – 2019)* by AAFC's Office of Audit and Evaluation (OAE) was published in early 2021[1]. The report focused solely on the APP as the OAE considered the PPP to be low risk and the GPP had not been used during the evaluation period.

The OAE report found that the APP remains relevant as it improved access to affordable short-term credit and enabled producers to manage business risks associated with cash flow and marketing, especially for beginning, young, and niche farmers who are often at a disadvantage in the availability of financial tools compared to established farmers. The report also found that the third-party delivery model is low cost and provides options to producers, but inconsistencies among program administrators result in disparities that ultimately affect both producers and Government. Larger administrators generated significant revenue from the program and these benefits were not always passed on to producers. For example, the evaluation estimated that the spread on interest-bearing portions of advances resulted in $30.6 million in revenue (does not include administrative or default fee revenue) for select administrators from 2014 to 2019.

The OAE recommended that an assessment be conducted to assess whether comparable interest rates across administrators could be achieved. It also recommended that inconsistencies in the third-party delivery model be addressed to maximize producer benefits and that the risk management framework be revisited to reduce APP liabilities.

In response, a new annual procedure to conduct interest rate analysis for every administrator was implemented to ensure competitive rates are being offered. Financial oversight was strengthened by requiring administrators to be more transparent and publicly disclose APP financials and to ensure APP benefits are focused on producers. Finally, processes were put in place for identifying and addressing high-risk

[1] Evaluation of the programs under the Agricultural Marketing Programs Act (2014 to 2019) - agriculture.canada.ca

administrators, and options for denying applications to administer the program were strengthened.

This 2021 AMPA Review builds on the recommendations from the OAE report and the actions already taken in response to their findings.

3.2 Studies Undertaken for the 2021 AMPA Review

To facilitate a holistic approach to the Review, new studies were undertaken including:

- An analysis of the APP completed by third-party consultants to assess the relevance, impact, and performance of the program from 2016 to 2021.
- A Producer Marketing Strategies Study by agricultural commodity to determine the APP's role in providing market opportunities.
- A review of program operations was led by AAFC's Financial Guarantee Programs Division. Activity focused on reviewing current operations and delivery of the APP and PPP to identify potential improvements from a program delivery efficiency perspective. In addition, a review of the relevance of the GPP was conducted.

The sources of information used to complete the above activities included:

- Review of data from AAFC's delivery system: APP internal and external stakeholders store program activity information on the Advance Payments Program Electronic Delivery System (APPEDS) to better manage program administration processes. APPEDS contains information on program administrators, producer applicants, and advances.

- Review of Farm Financial Survey (FFS) data (2019): The data was used to compare the financial circumstances of APP users vs. non-users.

- Individual interviews with key stakeholders: The third-party consultant completed over 50 in-depth individual interviews with program officials, administrators, lenders to administrators, other agricultural financial institutions, and producers. AAFC also conducted interviews with departmental stakeholders on the GPP (e.g., subject matter experts on Canada's international trade obligations and foreign agricultural purchase programs).

- External stakeholder engagement: APP administrators across Canada participated in an online survey to gather information on the relevancy, performance, design, and delivery of the APP. Additionally, feedback for the purposes of the PPP was sought from 18 agricultural cooperatives and marketing agencies through personal interviews.

- APP Administrator Working Groups: Working groups were established consisting of APP administrators and program staff to solicit feedback on several key policy issues, most notably on-farm inspections, late repayments, proof of sale, and credit worthiness.

- Producer questionnaires: Over 160 producer organizations were asked to invite their members, both participants and non-participants of the APP, to complete an online questionnaire. Approximately 1,710 producers completed the survey.

- Producer case studies: Five APP case studies were conducted by the third-party consultant to illustrate the impact of advance payments on marketing agricultural products and producer cash flow for several different commodity groups within the Canadian agricultural landscape.

4 PREVIOUS REVIEW FINDINGS

The previous review of AMPA was completed in 2012, covered the 2006 to 2011 program years, and resulted in several recommendations for changes intended to improve program efficiency and reduce administrative burden. Resulting legislative and regulatory changes were implemented for the 2015 and 2016 program years. The current review found that the majority of the program changes were successful in streamlining processes, enhancing administrative efficiency, and removing barriers to participation. A summary of these changes can be found in Annex B. The changes stemming from the previous AMPA review, which require further consideration and modifications will be identified and discussed in the sections below.

The review was conducted through the lens of three main themes: Relevancy, Delivery Model and Efficiency. The relevance of the APP was examined in terms of demographics, government priorities, and how the APP fits among the landscape of current agricultural lending. The delivery model was assessed to determine whether an alternate delivery model would benefit producers. Finally, the review looked at the efficiency of the program requirements and policies, including the program's response in times of economic crisis.

5 RELEVANCY OF THE APP

5.1.1 APP Demographics and Program Usage

The APP is a widely used program in Canada's agriculture industry. Based on Statistic Canada producer data, approximately 12% of all farms in the country participated in the APP[2]. Between 2016 and 2021 an average of 20,342 producers participated in the APP annually. The total advances issued under the program averaged $2.5 billion, ranging from a high of $3 billion in 2019 to a low of $2.2 billion in 2017. Program participation varied by province with the highest dollar value of APP advances in Saskatchewan (33.8%) and the highest number of participants in Quebec (29%). The majority of participants obtain advances on grains and oilseed commodities.

Based on the 2021 producer survey conducted for this Review, as well as the 2019 Farm Financial Survey, the profile of program use mirrors the farming population at large. When considering APP participants by gender, 61% identified as male, which is similar to the 2021 Canadian Census, in which 70% of producers were classified as male. Approximately 2% of farms participating in the APP were operated solely by females, and 37% by a mix of both[3]. Results for age of operator and years of farming were also consistent with the census (62% over 50 and 70% farming more than 20 years)[4]. Overall, APP participants had higher gross revenues, higher operating expenses, and higher net incomes than non-participants. Approximately 74% of APP participants generated total gross revenues under $1 million and the average net operating income of APP participants is $123,000[5].

The APP has a history of maintaining low defaults and write-offs. For example, when comparing total advances against total honoured values in a given year, APP honoured rates ranged from a low of 0.14% in 2020 to a high of 1.28% in 2017. The average across the five years under review was 0.79%. The livestock sector has the highest average honoured rate at 1.71% of advances, and the grains and oilseeds and pulse sectors would be next at approximately 0.92%. Average honoured rates were particularly low for many of the specialty areas such as fruit, special crops, vegetables and other niche products (at or below 0.29% of advances).

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[2] Statistics Canada, Agriculture Taxation Data Program, in 2020, there were a total of 174,780 farms in Canada with total operating revenues equal to or greater than $25,000.

[3] Statistics Canada, Farm Financial Survey, 2019 Report. More detail can be found in Annex A, Table 3.

[4] Statistics Canada, Table 32-10-0230-01, Characteristics of farm operators, Census of Agriculture historical data

[5] Farm Financial Survey 2019.

5.1.2 Interest-Free Benefit and Program Limits

As part of the AMPA review, the Interest-Free (IF) limit of $100,000 and the program limit of $1 million were studied for relevancy in terms of amount and impact to producers. It should be noted that APP advances are calculated based on approximately 50 percent of the anticipated market value of the agricultural product(s) being used to obtain the advance and as such, a producer's advance amount is determined by the quantity of commodity they put forward as security.

Interest-Free (IF) Limit

The IF limit was last increased in 2006 from $50,000 to account for the rising costs of farming at the time. Since 2006, according to Statistics Canada, the average cost of farming in Canada has increased 113% while average farm revenues have increased by 125%[6]. The IF limit is a concern to some APP participants with only 40% of producers surveyed reporting that the current interest-free limit is too low to meet their needs. The average advance taken in 2020 amounted to $132,000. Approximately 74% of participants take only interest-free advances and of these producers, the average advance was approximately $63,000[7], which is less than the maximum limit. Further, only 18% of all producers received an IF advance of exactly $100,000 which suggests that these producers may be capable of obtaining a higher advance but choose to only take advantage of the interest-free limit[8]. Therefore, a majority (74%) of APP participants either do not have enough commodity/security coverage to obtain higher advances, or elected to obtain a smaller advance.

According to the producer survey, the IF portion continues to be the most beneficial element of the APP with the IF portion providing up to $7,000 in savings to producers in interest compared to a traditional loan[9].

The benefit of the IF portion for producers, as well as the cost to government, would increase if the IF limit and/or interest rates increased. For example, during spring/summer 2022 the prime rate increased by 2.75%, and it is estimated this will increase the Government's costs by up to 124% ($29 million) per year even if the current IF limit remains at $100,000.

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[6] Statistics Canada. Table 32-10-0136-01 Farm operating revenues and expenses, annual

[7] Analysis of APPEDS data indicates that on average over the review period, 74% of producers receive only interest-free advances and do not access the interest-bearing portion of the program.

[8] APPEDS analysis shows that 18% of all program participants receive exactly $100k. While these producers are maximizing the IF benefit, the majority of users do not.

[9] Evaluation of the Programs under the Agricultural Marketing Programs Act (2014 to 2019) - agriculture.canada.ca

Any increase to the IF limit will also impact the industry associations that deliver the APP. The AMPA allows program administrators to recover costs related to delivery of the program. A significant portion of costs are recovered through interest spreads (i.e., the difference between the lender's rate and the rate charged to producers) on the interest-bearing portion of advances. An increase to the interest-free limit may require APP administrators to change their business models to account for a loss of revenue or they risk having to leave the program. For example, on June 23, 2022, the Minister of Agriculture and Agri-Food announced a temporary increase to the APP IF limit to $250,000 to assist producers with rising costs of production (e.g., fertilizer) due to the Russia-Ukraine conflict. This measure is estimated to result in a loss of revenue for APP administrators of approximately $2.6 million over two years (2022 and 2023 program years)[10]. Some APP administrators expressed concerns that the revenue losses resulting from this measure could significantly impact their financial capacity to deliver the program and could require them to adjust their administrative fees to offset losses in revenue.

This review found that the IF limit remains relevant at the current $100,000 level and, given the risk to the Government (interest rate increases) and impacts on administrators, the IF limit should remain unchanged. However, given its effectiveness in providing producers with support, measures should be explored to allow for more timely temporary increases to IF benefits in times of crisis (subject to a funding decision). This will be further discussed in Section 7.1.3.

Overall Program Limit

The overall program limit was permanently increased in 2019 to $1 million from $400,000 to account for the rising cost of farming in Canada. Since 2019, approximately 5% of participating producers have taken advantage of this increase by taking advances over $400,000, while 1% have taken the maximum $1 million advance. This analysis indicates that, because the majority of farmers do not currently generate sufficient revenues (cash receipts) to request the maximum advance[11], the $1 million limit is

[10] Expected administrator revenue loss was calculated based on interest spread losses on the additional interest-free amount ($100,001 - $250,000) over the two year period. Drawing on the experience of the 2019 interest-free increase on canola advances, this calculation forecasted participation and advance values based on historical trends, an increase in participation, and interest rate increases.

[11] In order to obtain a $1 million advance, a producer would need at least $2 million in expected commodity sales. Farm Financial Survey data indicates that less than 15% of producers generate sales revenue above $1 million (data is unavailable for revenues above $2 million), indicating that only a small percentage of producers could secure advances above $500,000. As a result, the percentage of producers that could request the maximum advance rate is significantly smaller, potentially as low as 1% if comparing program uptake.

sufficient for most farmers in Canada. Therefore, the recent increase of the program limit in 2019 remains sufficient for the majority of producers in Canada.

5.1.3 Alignment with Program Objectives

As stated in the AMPA, the purpose of the APP is to improve the marketing opportunities of participating producers through the provision of cash advances. “Marketing Opportunities” is not defined in the Act and is interpreted to encompass any situation in which a producer makes business decisions to facilitate improved sales. The objective is to improve a farmer’s ability to produce, promote, and sell their product when it makes the most sense for their farming operation.

As part of the review, a third-party consultant was engaged to conduct a study on producer marketing strategies to better understand whether the APP is assisting producers in improving their “marketing opportunities” and allowing for marketing flexibility. The study concluded that the APP is a key tool for producers when they are establishing their marketing strategies each year. The APP not only provides the cash flow to allow for flexible marketing (e.g., sell their commodities at the right time), but also complements other tools used by producers, such as deferred delivery contracts, resulting in a comprehensive marketing plan that accounts for both the risks and rewards related to price volatility.

The achievement of the APP objectives is further reinforced by the fact that APP participants are more profitable compared to non-participants. According to the 2019 Farm Financial Survey, the total gross revenue and net operating income of APP participants was 36% and 28% higher respectively compared to non-participants.

The following conclusions from the analysis indicate ways in which the APP achieves its objective of improving marketing opportunities as specified in the Act:

- Producers are only required to repay their advance as the product is sold, easing financial pressures so that they can market the commodity at the most advantageous time;
- Program parameters are flexible and allow producers to make adjustments with respect to production or marketing, even after the cash advance has been issued;
- Producers have unrestricted use of the advance provided to them and can direct the funds towards the activities which will improve marketing opportunities for their products; and

- The APP repayment periods provide producers with sufficient time to produce and market their commodities, taking advantage of marketing alternatives (e.g., deferred delivery contracts) that aid in the management of both price and risk.

5.1.4 APP as Compared to Other Financial Institutions

Research indicates that producers have an array of choices in financing, however, the APP is an alternative that many are choosing. The APP continues to hold its market share year-over-year at or close to 12% of current liabilities within the agricultural sector[12]. This indicates that the features and benefits of the APP represent a positive offering to producers when compared to other options in the market and suggest that it will maintain its place as a source of financing for Canadian producers.

While other financial institutions, such as FCC, offer financing against unsold commodities like the APP, many of these financing options include trade credit which can only be used to finance specific inputs. By comparison, the APP does not limit how advance money can be used. Further, the APP's Government guarantee and interest-free benefit make the program distinct. The guarantee allows administrators to secure a low interest rate on their line of credit, the benefits of which are passed on to producers. The average interest rate charged to producers under the APP during the review period was 2.94% (slightly below Prime) compared to 6.11% (Prime +2.95%) charged by many other financial institutions. As a result of the lower interest rate, including the interest-free portion, producers could save up to approximately $37,000 per program year by using the APP[13]. Additionally, the APP includes provisions that allow, in times of crisis, the Minister to extend the repayment deadline and/or adjust other program requirements (e.g., remove the requirement to provide proof of sale documents or late repayment penalties, etc.) to provide impacted producers with more flexibility in repaying their advances. Increases to the interest-free limit have also been used to support producers in times of need.

As noted from the producer survey, the interest-free portion is the most attractive component of the program as it provides a direct benefit that producers can easily measure. In most major agriculture sectors producers have other options for short-term financing and in the absence of the APP, they could still obtain the financing; however, they would incur the interest costs. APP participants also are not required to make

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[12] Review of Agricultural Marketing Programs Act (AMPA) - Advance Payments Program – Third-Party Evaluation (March 2022). Current liabilities are defined as the financial obligations that are normally due within a year. This includes accounts payable, short-term debts, taxes and the portion of long-term liabilities that will be due within the year. Short term debt is a type of current liability, but it refers to liabilities that arise from borrowing from another party.
[13] Based on a producer taking the full $1M and not making any repayments during the program year.

monthly interest payments as they would with traditional lenders. In minor sectors or those that have variable profitability, mainstream financial institutions may be more reluctant to advance financing against their inventory or require the producer to leverage long-term assets[14]. In these cases, in the absence of the APP, these smaller sectors[15] may experience difficulties in obtaining the operating loan cash flow they require to operate their business.

Most financial institutions interviewed reported that the APP complemented their business rather than competed with their own lending products. As such, it could be concluded that there is no major duplication with other financial products available in the private sector. In fact, financial institutions indicated that they liked the APP as, by acting as an APP lender, they were able to lend to the agricultural sector with very little risk due to the government guarantee and they were also able to suggest the program as an alternative to clients who may not qualify for their own lending products.

By using mostly producer and commodity organizations as the vehicle to facilitate financing for producers, the APP is the only financial product that producers receive in this manner. The uniqueness of the program may not only be attributed to the product being offered by the program, but also to the method of delivery. This unique model in the market is recognized as having some distinct advantages. See Section 6.2 for stakeholder feedback on current delivery model.

6 DELIVERY MODEL

6.1 OVERVIEW OF THE CURRENT MODEL

Currently, the APP is delivered on AAFC's behalf by 30 third-party administrators across Canada. These administrators are typically not-for-profit sector organizations, such as the Canadian Canola Growers Association and Horticulture Nova Scotia. These organizations administer the program based on the terms and conditions set out in their Advance Guarantee Agreement (AGA), which is an agreement between AAFC, the administrator and its lender(s) that is renewed annually in advance of each new program year. Administrators are responsible for the day-to-day delivery of the APP.

[14] Review of Agricultural Marketing Programs Act (AMPA) - Advance Payments Program – Third-Party Evaluation (March 2022). Examples of long-term assets include machinery, equipment, buildings and farmland.
[15] Example sectors include: Christmas trees, maple syrup, ginseng and bison.

As part of this review, the current APP delivery model was assessed, as well as several possible alternatives, based on factors such as the benefit to producers, cost to stakeholders, and program risk management.

6.2 Stakeholder Feedback on Current Delivery Model and Benefit to Producers

As mentioned above, the current delivery model is unique in terms of delivering financing for producers. There are very few other programs that facilitate financing for producers that are delivered in this manner and, for most of these industry organizations, the APP is the only such program that they deliver. According to the producer survey, over 70% of producers favour the current delivery model due to ease of use and a belief that these organizations understand their farm operations and the issues they face, especially during times of crisis. Administrators, lenders, and other stakeholders also reported that they are satisfied with the current delivery model. According to many key informants, the current delivery model offers several advantages because the industry organizations:

- are familiar with the agricultural industry and understand the business situations producers are facing;
- have well-established relationships with producers; and
- are located in communities across the country and are therefore easily accessible by producers.

In general, financial institutions are satisfied with the current delivery model. One of the principal reasons is that should a producer be unable to repay the defaulted advance to the administrator, the Government repays the outstanding debt to the lender on the producer’s behalf. This allows lenders to advance to the agricultural sector with minimal risk, and with limited administrative burden as third-party administrators deal with the day-to-day operations to deliver advances. In some cases, lenders also work in a group of syndicated lenders to further reduce the risk of lending to APP administrators.

6.3 COSTS TO STAKEHOLDERS AND ADMINISTRATOR REVENUE GENERATION

The current delivery model results in costs to producers (participants), administrators, and the Government of Canada. For producers participating in the program, the costs are the result of various fees charged to them by their administrator, the interest charged on the interest-bearing portion of their advance, and, where applicable, program penalties charged by their administrator. These costs vary by administrator and are often the reason cited by producers for choosing one administrator over another.

Administrators incur a variety of costs to administer the APP, including costs related to processing applications, administering advances, and costs related to collection activities. A third-party study revealed that the cost efficiencies varied from one administrator to another with larger administrators being most efficient because of strategic investments made in human resources and information technologies[16].

Under the Act, administrators are allowed to recover administrative costs by charging producers program fees and penalties. Administrators also generate revenue from their share of the interest on the interest-bearing portion of advances, referred to as the interest spread (i.e., the difference between the lender's rate and the rate they charge producers).

Interest spread revenue is much more significant for administrators advancing a larger total value of APP advances compared to administrators advancing smaller amounts. These organizations require a sizeable line of credit and as a result, they can secure a lower interest rate from their lender. Even when passing most of the benefits of these lower rates on to producers, administrators can generate significant revenue as a result of higher volumes. The OAE report found that between 2014 and 2019, administrators earned an estimated $56 million between the spread on interest-bearing loans and the default penalties charged to producers[17]. Analysis found that in 2021, administrators generated APP revenues totalling $16 million[18]. Most of the APP revenues are generated by four administrators, as the 26 other administrators each generate less than $50,000 annually, or do not generate revenues at all (i.e., operate at a deficit). Administrators generating little to no revenues provide the APP as a service to their members, transferring all benefits to the producers.

[16] Review of Agricultural Marketing Programs Act (AMPA) - Advance Payments Program – Third-Party Evaluation (March 2022).
[17] Evaluation of the Programs under the Agricultural Marketing Programs Act (2014 to 2019) - agriculture.canada.ca
[18] Data obtained through APP administrator applications in APPEDS.

For the Government of Canada, the costs are largely the result of paying the interest on the interest-free portion of APP advances, as well as the cost of honouring defaulted advances under the guarantee provision of the program. These program costs vary due to fluctuating interest rates and producer participation that in turn affect the Government's financial liability under the program. The Government also incurs administrative costs for AAFC's Financial Guarantee Programs Division, which provides federal oversight for the APP, including negotiating AGA's, processing monthly interest claims, processing defaulted advances submitted by administrators to be paid under the guarantee, and other program policy-related work.

APP Expenditures*, 2016-17 to 2020-21 ($ million)

	2016-17	2017-18	2018-19	2019-20	2020-2021	Total
Interest paid ($M)	$15.64	$18.83	$25.74	$40.77	$14.51	$115.49
Honoured amount** ($M)	$25.74	$24.62	$23.30	$37.70	$22.37	$133.72
Program Administrative Costs ($M)	$3.13	$3.67	$3.64	$3.85	$4.11	$18.4
Recoveries from Honoured Amounts ***	$(13.18)	$(13.84)	$(11.43)	$(12.42)	$(11.12)	$(62.04)
Total Program Operating Cost ($M)	**$31.32**	**$32.28**	**$41.26**	**$69.91**	**$29.81**	**$205.58**

Source: APP Financial Summary and APPEDS

*Program expenditures are presented by fiscal year and not by program year

**Note: The majority of default payments do not pertain to advances issued during the same fiscal year, in a single fiscal year, default payments can be pertaining to as many as five different production years.

***AAFC's Accounts Receivable and Revenue Management team pursues repayment of the default amounts from producers and are typically able to recover more than half of these debts.

The costs to producers are relatively low as administrators offer interest rates at or below commercial interest rates. The cost to Government is also relatively low as it pays the interest-free portion at competitive rates, with more competitive interest rates being negotiated by larger administrators requiring more financing. The total administrative costs for AAFC as a percentage of total advances issued is relatively low and as such, indicates that the current delivery model is efficient.

Regarding the cost to administrators, the level of efficiency is more difficult to assess, especially for smaller administrators who do not generate sufficient revenues (or operate at a deficit) and are unable to invest in its operations to create operating efficiencies. As noted in the OAE report, there are concerns that larger administrators are generating significant revenue from the program and these benefits are not always being passed on to producers. Conversely, smaller administrators are unable to negotiate more competitive rates on behalf of producers and the Government, and this may be a risk to the long-term stability of the program. These risks are discussed in further detail in section 6.4.

6.4 Risks and Risk Mitigation Activities under the Current Delivery Model

At the end of the review period in 2021, it was noted that there were nine fewer administrators compared to 2016. These administrators left the program for a variety of reasons, however, four of the nine indicated that delivering the program was no longer worthwhile for their organization. Further consolidation is likely to occur due to the financial disparity between the large and small administrators. Although stakeholders reported being satisfied with the current form of APP delivery, which has been consolidating over time, some notable risks were identified in this review.

Current and continuing consolidation of the administration of the APP comes with potential risks, especially with one administrator accounting for 67.4% of advances under the program and the four largest administrators accounting for 86.3% of advances. The third-party consultants hired to conduct an analysis of the APP found that this level of consolidation has resulted in risks related to materiality and customer concentration.

Materiality risk, in the context of the APP, is the risk associated with the overall dollar value of the Government guarantee. Smaller administrators with smaller guarantee amounts have more difficulty negotiating competitive interest rates compared to larger administrators, resulting in producers losing interest savings and the Government paying more interest. There is also a risk that administrators who operate the program at a loss are unable to cover unexpected program costs, jeopardizing delivery of the program[19]. This could have a negative impact on producers should the APP become inaccessible in the short to medium term. Conversely, if large administrators were to leave the program abruptly it would result in short to medium term disruption of

[19] When factoring in program-related expenses, approximately 55% of administrators operate the APP at a loss. These losses are usually offset by revenue generated from their other business or absorbed by a parent company

advances to producers as other administrators may not have sufficient resources to absorb the large number of new clients seeking advances. Additionally, if the existing administrators were unable to continue to manage defaulted files, this could lead to significant costs to the Government under the guarantee provision[20].

Customer Concentration Risk or Administrator Consolidation Risk refers to the risk of having the program delivery consolidated in the hands of a few or one administrator. Risks identified include the loss of the administrator's relationships with producers or farming sectors, particularly those sectors they may not have a mandate to represent. As an administrator grows and expands, they could lose their ability to quickly adjust their delivery of the program to account for changes in program policy, including responding to sector crisis[21]. Another example of Customer Concentration Risk is related to program stability should larger administrators delay their program delivery or leave the program entirely.

AAFC has processes in place to identify, assess, and mitigate APP-related risks. These processes are set out in the current Comprehensive Risk Management Framework for the program:

- The Applicant Risk Assessment (ARA) is conducted annually as program administrators apply to deliver the new program year. This process determines their capacity to administer the program, identifies key risks and the risk mitigating measures that may be included in their Advance Guarantee Agreement (AGA).
- Compliance visits and third-party recipient audits determine if administrators are delivering the program in accordance with the Act, the Regulations, and the terms and conditions set out in their AGA. The frequency of these audits is determined through the ARA process.

Given revenues generated by administrators as noted in the previous section, in 2020, AAFC also implemented a financial management policy which is included in the Advance Guarantee Agreement signed with program administrators. The policy requires more financial transparency from administrators and requires them to direct any surplus revenue generated from program delivery back into the program and to the benefit of program participants. As noted in the OAE report, it is mostly the larger administrators who are generating surpluses from program delivery.

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[20] For example, if the current largest APP administrator (administering 67.4% of all advances) should decide not to offer the program, AAFC could be required to honour $103 million in default files.
[21] The COVID-19 pandemic and the Government support for high inputs costs resulting from the Russia-Ukraine conflict are two examples.

In addition, the policy encourages administrators to mitigate risks associated with financial pressures such as unforeseen program related costs by directing surpluses into the creation of a contingency fund. Under certain conditions, administrators may also use a portion of these funds for non-APP activities. When the contingency fund exceeds a negotiated cap, administrators are required to seek the Minister's approval on how the funds will be used.

The policy currently states that when using contingency fund revenues for activities that are not related to APP delivery, administrators are required to publish on their websites, the APP Revenues, APP Expenses, the APP Contingency Fund balance, and the APP Net Operating Income. In the interest of equity and financial transparency, the requirement to publish APP financials could be considered for all APP administrators regardless of whether or not they are using their Contingency Fund for non-APP activities. In addition, elements of the financial management policy could be considered part of any future amendments to AMPA which could make it more enforceable. This could include adding definitions for "Cost-Recovery" and "APP Revenue" as well as adding terms pertaining to the allowable use of administrator revenues.

In addition to the introduction of the financial management policy, AAFC also took into consideration revenues generated vis-à-vis administrator expansion and revenues being a primary driver for expansion. This is discussed in more detail in the next section.

The third-party consultants observed that, with respect to monitoring, assessing, and mitigating administrator risk, AAFC tends to treat all administrators the same regardless of their risk profile. In reality however, administrator risk (e.g., materiality, customer concentration) will differ depending on the administrator's portion of program liability, their financial viability, default risk, etc. The reporting and monitoring requirements (e.g. frequency, information requested) should be adjusted according to the level of risk. Increased reporting and monitoring based on the level of risk is common practice in the private sector financial industry[22].

As the size of administrators' APP portfolios increase, the information requirements and frequency of monitoring could also increase in order to ensure that the materiality, customer concentration, and other related risks are monitored and, to the degree possible, mitigated.

[22] Review of Agricultural Marketing Programs Act (AMPA) - Advance Payments Program – Third-Party Evaluation (March 2022).

6.5 Administrator Expansion

The 2012 AMPA Review Report to Parliament proposed that program administrators be allowed to expand their APP operations to offer advances on any eligible commodity, including those commodities within the Canadian Wheat Board's portfolio[23]. The intent was to create a single-window approach for producers of mixed operations. It was believed that increased competition between administrators could prove beneficial to program participants in terms of lowered fees, interest rates and improved services. While changing the legislation in 2015 to open up commodity and regional expansion has created a more competitive environment between administrators, it has also contributed to further customer consolidation among the largest organizations.

Expansion requests can be driven either by a producer group or by a program administrator and in most cases occur when a gap in program accessibility has been identified (i.e., producers of a particular commodity cannot receive advances in their region). Administrators may seek to expand their service to other regions to become an alternative APP delivery agent for producers in that region and secure a larger client base while benefiting from economies of scale. However, while producers would benefit from having a competitive market and resulting lower fees and interest rates, such expansions into an established market can leave some producers at a disadvantage. For example, if the existing administrators are unable to compete with the new entrant the expansion can result in the organization closing its APP operations, resulting in producers losing their ability to choose as well as potentially causing serious disruptions in delivering the APP in the short to medium term. As noted in Section 6.4, an administrator's expansion can also significantly increase both materiality risk and customer concentration risk.

A framework could be developed for responding to administrator expansions which focuses on assessing need, examining risks, and ensuring that the program remains accessible to producers. Where an administrator seeks expansion in a region where the APP is already available, additional considerations and requirements should be factored into the decision framework. This may include the requirement for regional stakeholder support for the expansion of the new administrator, the capacity of existing administrators to compete and the administrator's current and potential portion of program liability.

[23] The Canadian Wheat Board was the first Advance Payments Progrram administrator. The board stopped deliverying the program in 2013.

6.6 Alternate Delivery Models

As mentioned earlier in this report, in addition to assessing the current delivery model, an assessment was done of alternative APP delivery models including: commercial lenders; Farm Credit Canada; and, provincial agencies, such as provincial crown corporations

6.6.1 Commercial Lenders (Banks and Credit Unions)

Commercial lenders are eligible to administer APP advances though they do not currently do so. This approach could make borrowing easier for producers in some regard as they could go directly to their bank or credit union to obtain an APP advance. Additionally, financial institutions are set up with the expertise and technology to manage a variety of financial risks, such as assessing the credit worthiness of their clients, managing loan repayments, and pursuing the repayment of defaulted loans. Furthermore, they have experience administering loans under the *Canadian Agricultural Loans Act* Program and the Canada Small Business Financing Program.

As the APP would only be a small portion of a lender’s business, it is unlikely that the banks and credit unions would be willing to work as closely with Government in administering the program as existing APP administrators, which could make program monitoring, reporting, and implementing program policy changes more difficult. Further, with an array of other higher margin lending products at their disposal, the APP may not be the lender’s first choice when presenting financing options to the producer.

In discussions with Government for the purposes of this review, commercial lenders indicated that they were satisfied with the current APP delivery model and that current program administrators are better positioned to deliver the program than financial institutions.

The current delivery model provides smaller margins to financial institutions but at minimum to zero risk. As mentioned above, the Government guarantees the loans given to APP administrators with very little to no administrative burden for commercial lenders in delivering advances to producers.

6.6.2 Farm Credit Canada (FCC)

Similar to commercial lenders, Farm Credit Canada offers lending tools for agricultural producers, including financing for inputs. FCC currently provides input financing delivered through local retailers allowing producers to purchase and finance their inputs. These 18-month loans are based on field crop production units and are intended to provide participants with sufficient time to market their crops. As such, FCC has experience providing the sector with commodity-based short-term loans similar to the APP. As a provider of agricultural financing, FCC also has the expertise and technology that would be needed to manage the APP and related risks.

One possibility considered in the review was FCC delivering the program directly to producers, similar to current APP administrators. As mentioned, FCC has experience as a farm lender; however, further consultations and analysis would be required to determine if FCC could deliver the APP nationally. Analysis would also be needed on the potential impacts on current APP administrators and/or existing lenders.

Another possibility might be having FCC as a lender to program administrators. To be an eligible lender under AMPA, an organization must meet the definition of financial institution found in the *Bank Act*, or the Minister of Finance may designate an institution as eligible under AMPA. As FCC does not currently meet the financial institution definition, AAFC could recommend that the Minister of Finance designate FCC as an eligible lender.

6.6.3 Provincial Agencies

The Review explored the potential of having the APP administered through provincial program delivery agencies, such as the Manitoba Agricultural Services Corporation (MASC) or Alberta's Agriculture Financial Services Corporation (AFSC). These organizations administer other government programs, including some of the federal-provincial-territorial Business Risk Management (BRM) programs (e.g., AgriInsurance, AgriStability).

Some of the BRM programs administered by these organizations are used to secure APP advances, and thus efficiency may be gained in this area. APP program administrators and the provincial BRM agencies exchange producer information multiple times over the course of the program year and have some familiarity with the day-to-day operations of APP. However, although provincial agencies could deliver the APP on

behalf of AAFC, investments of time and money would be required for these organizations to build the expertise, resources, and technology needed to administer the APP efficiently. Through interviews conducted during the Review, provincial organizations reported they do not currently have the capacity to take on a lending program such as the APP. Significant investments, or support from the Government, would be needed in build capacity and/or IT systems for program delivery.

As will be discussed further in this report, there are a number of program changes proposed which could reduce the administrative burden of delivering the program. Should these changes be implemented, and additional efficiencies gained, the financial investment and support required for provincial agencies to deliver the APP could be significantly reduced. Further consultations and analysis could be conducted depending on whether any program changes are introduced as a result of this review.

6.6.4 Conclusions Regarding Alternative Delivery Model

Although the majority of feedback received from stakeholders on the current delivery model was positive, a number of alternative delivery models have been identified for further exploration and analysis. While most commercial lenders may not be interested in delivering the APP, the Farm Credit Corporation has some expertise in delivering commodity-specific financial programming and could play a more active role as a lender and/or an administrator of the program. Provincial agencies could also present an alternative approach should the administrative burden of administering the program be reduced and additional efficiencies gained through future changes to the program.

While measures are put in place to mitigate the risks associated with the current delivery model, and further program efficiencies are gained, other organizations may reconsider their participation under the program.

7 PROGRAM EFFICIENCY

7.1 TIMES OF CRISIS

7.1.1 Severe Economic Hardship (SEH)

The AMPA contains a provision for two types of emergency advances under the APP. The first would apply in cases of weather or natural disaster whereby a producer can receive an emergency advance of up to $25,000. This type of advance has never been implemented. The second is in cases of Severe Economic Hardship (SEH) whereby advances of up to $400,000 can be issued when a class of similar producers is experiencing severe financial difficulties and cash-flow will mitigate the situation. The main difference between regular and emergency advances for SEH pertains to the security attached to the advance[24].

Emergency advances due to SEH were granted only once to the livestock sector in 2008 ($142 million for cattle and $312 million for hogs) to assist producers experiencing significant income challenges due to low prices, high Canadian dollar, record-high feed costs, and other input costs. Due to the slow economic recovery of these sectors, two consecutive stays of default had to be granted to extend the repayment deadline[25]. Despite the stays of default, 32% of cattle and 38% of the hog advances still went into default and the estimated total cost to the Government for issuing these emergency advances (interest and default costs) was $130.2 million. The previous AMPA review concluded that the SEH was not an effective tool in addressing the 2008 liquidity crisis in the livestock sector.

In 2017, based on a recommendation from AAFC's Office of Audit and Evaluation (OAE) a framework was developed to determine how and when the Severe Economic Hardship (SEH) clause under Section 7 of the AMPA should be implemented.

SEH provisions were not implemented during the review period (2016 to 2021). Other mechanisms within the APP were assessed in the context of supporting producers during times of severe economic hardship and are discussed further on in this report.

7.1.2 Stays of Default

The AMPA allows the Minister to grant a stay of default for a group of producers facing a default situation. This is done only after an administrator makes a request for a stay, as they monitor outstanding advances and are best placed to recognize sector or regional issues which could result in defaults. Under the AMPA, the Minister may grant the stay of default within four months of anticipated defaults, which is typically within four months of the original repayment deadline but may be sooner if there is potential for defaults to occur prior to the repayment deadline (e.g., the security is threatened). The Minister establishes the terms and conditions for the stay of default, which usually involves extending the repayment deadline and/or offering more flexible repayment terms to producers facing financial hardships. This provision in the Act has been used in

[24] Neither first rank security on the agricultural product nor the use of a BRM program are required
[25] 2 ½ years for cattle and 3 ½ years for hog advances

times of crisis affecting an industry as a means of providing support without the need for ad-hoc funding and programming.

During the review period, there were 10 stays of default and 2 extensions to stays of default, which deferred payment of $413 million in advances for 6,782 producers[26] at risk of default. Of these producers, 513 went into default for $55.7 million equating to a default rate of 13.5%[27], allowing over 92% of producers facing a default situation the ability to repay under the terms of the stays. The majority of the stays fell under the grains, oilseeds, and pulse category ($389 million). The Government incurred an additional $1.5 million in interest costs by extending the repayment deadline for 12 months. The remainder of the stays during the review period were distributed between the cattle, bison, mink, Christmas trees, maple syrup, cut flowers, potted plants, and ginseng categories.

Stays of default can be an effective tool in providing support to producers during times of crisis. A stay of default can be easily and efficiently implemented at a relatively low cost to the Government.

7.1.3 Temporary Increases to the Interest-Free Limit

Since the start of this review period, AAFC has temporarily increased the IF portion twice in response to sector crisis. The first time was in 2019 when Canadian canola farmers faced cash flow pressures as a result of market disruptions caused by China's border restrictions. The interest-free limit was increased to $500,000 for advances on canola for the 2019 program year. The temporary increase to APP loan limits aimed to help impacted producers by increasing access to the cash flow needed as they sought new markets for their 2019 canola, adjusted their seeding plans for the 2020 growing season, and otherwise managed the impacts of the market disruption. Participation by canola producers increased by 14% overall from 8,180 to 9,297 while 5,956 producers were able to take advantage of the increased limit (slightly over 20% of program participants. The value of canola advances increased by 60% and on average, participating producers saw interest savings of $2,638 for the program year.

As noted in section 5.1.2, the second increase occurred in 2022 due to supply chain disruptions and increased farm input costs including fuel and fertilizer largely a result of Russia's invasion of Ukraine. The interest-free limit was increased to $250,000 for all program participants for the 2022 and 2023 program years. At the time of the increase,

[26] See Annex A, Table 5 for more details
[27] The average default rate for APP was 3.9% during the review period

it was expected to provide up to 11,000 producers with an additional $69.4 million in interest savings, or an average of $7,699 per producer over two years.

Interest costs to the Government for the 2019 change are estimated to have been $13 million, while the cost of defaults has not yet been determined[28]. Based on historical default trends, it is estimated that the cost of the defaults could be approximately $17.1 million (net of recovered amounts)[29]. However, this is a conservative estimate because as participation increases, the number of defaults may as well.

Based on the experience of the 2019 program year, the increased interest-free limit for 2022 and 2023 is expected to cost the Government $66.7 million in interest costs over the two years. The incremental two-year default costs are estimated to be $18.4 million ($9.2 million per year)[30] for a total estimated cost to Government of $85.2 million for the two program years.

Although there are costs to the Government associated with temporary increases to interest-free limits, feedback from stakeholders has been positive in terms of the support provided to producers during times of crisis. However, administrators have voiced concerns about temporary IF limit increases as it can have a significant impact on their revenue generation (e.g., from interest spreads) and hamper their ability to recover costs.

However, the timeliness of the increases was reported as a concern by stakeholders as both interest-free limit increases could have been implemented earlier in the crop production season as the benefit to producers declines over the course of the program year. In both the 2019 and 2022 cases, amendments to the Regulations were required in order to implement the change.

To expedite implementation, amendments to AMPA could be explored to allow the Minister, in consultation with the Minister of Finance and conditional to a funding decision, to temporarily increase the interest-free limit without the need for a regulatory amendment. Clear parameters and implementation requirements could ensure that this temporary measure is used only when it would be most effective and would help to maximize the benefits to intended recipients promptly while keeping the cost to Government low.

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[28] Default claims are typically not sent in until 2-3 years after the end of the program year which was September 30. 2022 for the 2019 canola producers.
[29] Based on historical honour rate of 28% of defaulted advances, and 50% recoveries on honoured amounts.
[30] Taking into account AAFC's historical recovery rate of 50% on APP defaulted amounts

7.2 SECURITY ON APP ADVANCES: LIENS AND PRIORITY AGREEMENTS

Section 10(1)(g) of AMPA requires that, to be eligible for APP advances, the producer must not have given the agricultural product and BRM proceeds as security on the requested advance to any other creditor ahead of the APP administrator. As such, all producers receiving APP advances must obtain priority agreements signed by existing secured creditors relinquishing first rank priority to the APP administrator.

Priority agreements may be ineffective as they are rarely used to realize on the security used for the advance. Priority agreements are often improperly completed, reportedly administratively burdensome to producers and the security of the advance (i.e., the crop) has often already been sold by the time the security needs to be realized on. AAFC's Accounts Receivables and Revenue Management (ARRM) team confirmed that priority agreements are beneficial in less than 25% of the APP default files they manage. This equates to less than 0.25% of all APP advances[31]. Most administrators surveyed (71%) indicated that priority agreements are a good tool to ensure producers are aware of their obligation to repay the APP administrator first, however, it does not ensure that they will adhere to this obligation. Further, as producers must have their financial institution sign priority agreements, these agreements act as a notification to lenders that the producer is applying for an APP advance and lenders may then assess whether or not their clients can obtain further credit under their portfolio[32].

Provincial laws require that in order for security to be perfected (i.e., protected from other creditors to claim), it must be registered with the Personal Property Security Registry (PPSR) in the province in which the property is located. This is referred to as taking a lien against the security. In cases where the proceeds from security need to be used to repay a debt, they are typically applied on a "first-come, first served" basis based on the order the security was registered. AAFC currently allows a risk-based approach to registering security for the APP. Higher risk advances require registration of security at the time of issuance, otherwise, security is only registered when repayment of the advance is in jeopardy (often not until 18 months after the advance was issued). This reduces administrative burden and cost (i.e., registration costs) to APP administrators. However, as a result, the majority of low-risk APP advances do not appear on the provincial property registries. This means that as creditors, debt

[31] An average of 1% of all loans issued under the APP program are honoured under the guarantee. The AARM team is responsible for collecting these debts to the crown.

[32] 51% of producers surveyed indicated that their APP advance reduced the limit of their operating line of credit and/or loan they had with their financial institutions. 78% indicated that the APP complements the financial tools offered by financial instituions.

mediators, collection agencies, etc. conduct lien searches to identify other creditors, the PPSR does not always show that an APP administrator has a security interest in the commodity, often until there is a risk of the producer defaulting on the advance. By this time, other creditors may have registered a lien on the security ahead of the APP administrator.

As such, in order to more closely adhere to the intent of Section 10(1)(g) of AMPA, AAFC should look into whether securing APP advances could be done more effectively by reducing the requirement for priority agreements and replacing it with mandatory up-front lien registrations of the security with provincial agencies for all advances. While this would not guarantee that the APP administrator (and AAFC for honoured files) has first rank priority, it would ensure that AAFC is identified as a secured creditor in the provincial registry at the time advances are issued and, as such, could improve the Government's ability to recover APP advances. Such a change could reduce the administrative burden to producers of obtaining signed priority agreements but would result in some increased costs to administrators. AAFC could also explore making priority agreements a requirement only as a means of strengthening the security for advances that are considered higher risk. As the requirement for first rank priority is a provision of the Act, such a change would require a legislative amendment.

7.3 UNDERREPRESENTED GROUPS AND YOUTH

For the purpose of this review, the underrepresented groups focused on are Indigenous Peoples, youth (under 40 years of age), and female producers.

Although there is limited data available on underrepresented groups[33], it was found that the APP may be more relevant for farms operated by new, young, and female producers as these farmers may not be able to as easily access traditional loans which require assets and equity as security. Under the APP, only the agricultural commodity being produced, and, for certain advances, the proceeds from an eligible BRM program (typically AgriInsurance and AgriStability) are used to secure the advance. Although the APP does not specifically target underrepresented groups, it is well positioned to assist these producers who are more likely to operate smaller farms[34]. Indigenous producers

[33] Research relied heavily on data and testimony provided by industry specialists through the AAFC Committee at the House of Commons (HoC) and Statistics Canada reports. AAFC data gaps associated to GBA+ were evident during the evaluation period as data gathered from APP participants during the review period (2016 to 2021) did not include gender or diversity information.
[34] 2016 Stats Canada data indicates that young, female and Indigenous producers are more likely to operate smaller farms with less than $50,000 in gross farm receipts. Because APP advances are issued based on 50% of anticipated sale value of a farmer’s production, the majority of young, female and Indigenous producers can obtain advances that are entirely interest-free as they would be below the current $100,000 interest-free limit.

have reported difficulties obtaining financing for agricultural operations. Several factors contribute to these barriers including difficulties providing the necessary collateral and a lack of credit history.

While there is limited data available on Indigenous producers, few of these producers apply for an APP advance. For example, the 2021 producer survey had 0.8% of respondents self-identify as Indigenous. The analysis suggests that the limited number of Indigenous participants could be attributed to barriers to participation. For instance, section 89(1) of the Indian Act may leave current APP administrators reluctant to issue advances to on reserve Indigenous producers, given the challenge to realize security held on reserve. Awareness of the program and a lack of credit history could also present a barrier to participation. To address these challenges, alternative delivery approaches for Indigenous groups and new protocols for credit assessments of Status Indians could be considered.

To allow for future analysis on underrespresented groups and barriers to their participation in the APP, voluntary self-identification is scheduled to become part of APP producer applications starting in 2023.

7.4 Administrator's Percentage Model

Under the APP, advances are calculated based on a percentage (up to 50%) of the expected market value of each commodity being advanced on. These are referred to as the Advance Rates for the commodities. The Administrator's Percentage is calculated annually based on the administrator's historical (5-year) defaults and default collection history and is applied to all of the administrator's Advance Rates for that year. It ranges from 3% to 10% and is applied to reduce the administrator's Advance Rates. The formula for the Administrator Percentage is stipulated in the AMPA Regulations. The objective of the Administrator's Percentage is to encourage APP administrators to properly manage advances and defaults. A lower Administrator Percentage is more advantageous as it allows administrators to maximize the advance rates for the products they advance on. For example, if we were to compare two administrator providing advances on a beef cow: if the expected market value of a beef cow is $280 per head, the maximum allowed APP Advance Rate is $140 per head (50% of the expected value). If one Administrator's Percentage is 5% and another's is 10%, then the rate used to calculate the producer's advance on a beef cow would be reduced to $126 per head (45% of the expected value) for the Administrator's Percentage of 5% and $112 per head (40% of the expected value) for the Administrator's Percentage of 10%.

Legislative changes which came into force in 2015 applied the Administrator's Percentage as a penalty for administrators, who, if assigned a high percentage, theoretically would be at a disadvantage because their Advance Rates would be reduced and be 'less competitive' compared to other administrators. The objective of the Administrator's Percentage was to ensure that APP administrators are accountable and diligent when issuing an advance by acting as an incentive to keep the number of defaults low and to encourage them to collect defaulted amounts as quickly as possible.

According to the survey of APP participants, 79% indicated that the advertised Advance Rates were not a factor in deciding which administrator to apply to. APP administrators also indicated that the Administrator's Percentage has minimal impact on their organization. Part of the reason for this may be that, over the course of the review period (2016-2021), 87% of administrators obtained the minimum Administrator's Percentage (3%), with only seven instances (just over 3%) where an administrator had an Administrator's Percentage of 6% or higher. Further, the nature of the formula used to calculate the Administrator's Percentage is also ineffective because it is based on the 5-year average of an administrators default numbers compared to total advances issued, which benefits the administrators with high advance volumes and penalizes those issuing fewer advances[35].

The Administrator's Percentage is not the only means by which AAFC ensures administrator accountability and diligence. For example, AAFC may request that an APP administrator reimburse the Government for amounts honoured under the AMPA guarantee if the administrator does not perform their due diligence prior to advance issuance or in managing the producer's account. AAFC also reviews each administrator's program management practices and default history on an annual basis and if management performance is poor and defaults are high as a result, extra (and sometimes costly) risk mitigation measures are imposed on the administrator. In an extreme case of negligence, AAFC can terminate the agreement under which the administrator delivers the program.

The Administrator's Percentage may not be achieving its intended purpose as it does not impact the behaviour of administrators. Greater emphasis could be placed on other existing measures, which impose more meaningful consequences for administrators that demonstrate a lack of due diligence. The removal of the Administrator's Percentage would require legislative amendments to the Act (19(1)(c)) and Regulations (section 3).

[35] If an administrator that advances smaller loans to fewer producers experiences one default at a high dollar value, their Administrator Percentage will increase significantly while the same cannot be said for a larger administrator that advances larger loans to more producers.

7.5 Proof of Sale

As an APP advance is issued against the sale of an eligible agricultural product, section 10(2)(a) of the AMPA stipulates producers must make repayments as they sell the commodity for which they received the APP advance. Producers are required to provide proof of sale documents (e.g., sales receipts, contracts, etc.) for each repayment. This requirement is intended to ensure that producers are repaying within the timeframe allowed after making a sale (30 days) and not holding onto their advances longer than necessary. The submission of proof of sale documents validates that the advance repayment was facilitated through the sale of the agricultural product pledged as security; and ensures that repayments are being made on a timely basis once the product was sold.

Analysis conducted for the Review found that program repayment trends have been consistent over the review period whereby repayments start at harvest and continue relatively consistently until the end of the APP production period. 87% of repayments are submitted with valid proof of sale indicating that producers are repaying their advances as they sell their commodities[36].

In surveying stakeholders, producers and administrators have indicated that the requirement to submit proof of sale documents for every repayment is administratively burdensome. This is despite the legislative changes made to AMPA in 2015 to help ease some of the administrative burden reported at the time. Further, the requirement, and the penalty that is applied for failing to provide proof of sale documents, may act as a deterrent for program participation as other commodity-based lending programs do not require proof of sale documentation[37].

As part of the Review, a working group was established with APP administrators and AAFC to evaluate the existing proof of sale requirements and consider alternatives. It was determined that the January 31st deadline for providing repayments without the need to provide proof of sale documents was a positive change to AMPA and some administrators saw an increase in the volume of pre-February repayments. However, while the deadline benefits producers who repay their advance balance quickly, it was also concluded that without the receipts to confirm sales information, AAFC is unable to validate if all producers are adhering to Section 10(2)(a). Further, as the January 31st

[36] Based on repayment transactions recorded in APPEDS between 2019 and 2020. Data prior to 2019 does not depict an accurate trend as proof of sale validation on interest-bearing repayments was not recorded.
[37] Ontario's Commodity Loan Program (CLP) and Farm Credit Canada's Input Financing provide loans based on commodity production. Payments are required at the end of the production cycle and proof of sale is not required.

deadline was not extended to livestock producers, some working group participants found the policy to be inequitable.

Working group members suggested the development of an audit-based approach for providing proof of sale. Under this model, producers would be required to provide proof of sale documentation only at the request of APP administrators – with AAFC setting out the minimum requirements based on established risk factors. This approach would reduce the administrative burden on producers and as penalties would still be applied if proof of sale was not provided, it would remain an incentive for producers to make repayments as they sell their product. AAFC is in the process of assessing this audit based approach.

Along with this new risk-based audit approach to proof of sale, AAFC could also remove the January 31st deadline by simply removing the provision from Advance Guarantee Agreements and with minimal impact as producers who repay their advances before January 31st would be considered low risk and would be less likely to be selected under a risk-based audit methodology. Further, removing the January 31st deadline would also ensure that producers of all commodities are being treated equally regarding proof of sale requirements.

7.6 Assessing Credit Worthiness and Credit Scores

APP administrators process producer applications for advances and are responsible for assessing the credit worthiness of each applicant, including checking credit reports and credit scores. Further, an applicant must have a credit score that is “good” or greater to obtain an advance over $400,000. As part of this Review, a working group consisting of APP administrators and federal representatives was established to discuss concerns about the requirements for assessing the credit worthiness of producers applying for the program, in particular better linking credit worthiness to applicant risk.

The working group raised concerns that the current program requirements related to assessing credit worthiness are too stringent and may inhibit the program’s ability to provide affordable, short-term loans to producers who may not qualify for traditional credit. The APP includes several elements which mitigate some of the repayment risk associated with these producers including limiting the advance amount to 50% of anticipated value of the commodity to account for market conditions impacting a producer’s capacity to repay. The working group concluded that greater emphasis could be placed on the producer’s APP repayment history, as well as other repayment behaviour,[38] rather than their credit score which may not be reflective of farming risk[39]. This is in part due to the fact that many input suppliers and agricultural lending institutions, including FCC and APP, do not report to credit bureaus.

A more risk-based approach[40] that focuses more on repayment history in addition to credit score results could be a more efficient and effective approach to assessing producer credit worthiness.

In addition, reporting APP default information to credit bureaus could help credit scores become more reflective of farming risk and help the financial sector as a whole make more informed agricultural lending decisions by providing valuable information about debts owed to the Crown that would not otherwise be seen on a credit score. This could also incentivize borrowers to repay the APP advance quickly since the presence of a large debt on their credit report could prevent them from borrowing from conventional lenders.

8 REVIEW OF THE PRICE POOLING PROGRAM

The purpose of the Price Pooling Program (PPP) is to assist and encourage the marketing of agricultural products under cooperative plans by guaranteeing minimum average prices of products sold by marketing agencies. The Minister of Agriculture and Agri-Food enters into an agreement with a marketing agency (associations of producers, processors, or selling agents) that allows the organization to make an initial payment to the producers for products delivered. The initial payment covers eligible storing, processing, carrying and selling costs of the marketing agency, to a fixed maximum. To reduce the risk exposure to the Government, the price guarantee is set at a percentage (65%) of the expected average wholesale price of the product. From 2016 to 2021 there were two program participants and as of 2022, only one marketing agency remains.

As part of the AMPA legislative review, AAFC engaged with stakeholders, both present and past participants, as well as eligible agricultural cooperatives and marketing agencies. Consultations with stakeholders, particularly those operating within larger

[38] This repayment behaviour would include not only the applicant's APP repayment history, but also their repayment history with other creditors (late repayments, collections, judgements, etc.).
[39] Other agricultural lenders have noted that when they assess a producer's credit worthiness, the credit score is nice to have, but it is only one small factor in their considerations.
[40] Could have more strict requirements for those applicants with a higher risk profile, and fewer checks for producers with a lower risk profile, such as returning applicants with good APP repayment history.

more established commodity sectors, highlighted the fact that many producers no longer use pools because producers are becoming more sophisticated with their marketing plans and are using tools such as forward contracts to maximize profits. Price pools are considered a conservative strategy to secure an average price and an ideal option for producers who do not have sufficient time, skill, or desire to take care of their own marketing. The Review also revealed that there is a stigma with price pools for some producers due to its connection to the former Canadian Wheat Board[41].

Despite the low uptake, it was concluded that the PPP is a useful program for those who used it and provides better value to smaller, less established markets where collective marketing is utilized to improve market access and mitigate risks related to price fluctuations. Agriculture commodity prices have also been high compared to over a decade ago[42], and thus, if the trend were to reverse (low commodity prices), the PPP could be a more viable option for the sector.

The focus of the PPP could shift from more traditional markets to smaller, more specialized markets where price pooling remains an effective tool for producers to access emerging markets. By increasing promotion to these specific sectors and providing additional guidance to smaller organizations, the program could attract new marketing agencies and could be more appealing and accessible to those who, as it stands, do not have the capacity to participate in/deliver the program. The PPP has only triggered a payment once in its history in 1997 but it occurred when the price guarantee percentage was set at 75%; it was later readjusted to 65%.

Lastly, as it was a concern raised in the last two AMPA legislative reviews, options could be explored for a more flexible PPP pricing model to better adapt to changing market prices from the time of application to the time of harvest to provide more meaningful protection against price declines.

9 Review of the Government Purchase Program

The Government Purchase Program (GPP) is not a program unto itself but consists of provisions within the AMPA that provide the Minister with the power to purchase, sell, and deliver agricultural products both domestically and internationally. It also allows for the storage, transport and processing of these agricultural products, as well as for

[41] Stakeholder engagement found that the segment of the farm population that did not approve of the Canadian Wheat Board model holds the same negative opinion of all price pooling models.
[42] Statistics Canada – Farm Product Price Index 2011 to 2021.

administering food contracts and other operations to influence markets and assist in creating market stability.

Before the Minister of Agriculture and Agri-Food can exercise the authority to implement the GPP, they must obtain authorization of the Governor in Council and seek funding from Treasury Board. Unless authorized by the Governor in Council, the Minister may not sell an agricultural product at a price lower than the purchase price plus handling, storage, and transportation costs.

The GPP was originally developed in the 1950s as a tool for stabilizing agricultural markets by allowing the government to purchase agricultural commodities from failing markets and to sell them back into these markets once they had stabilized.

The GPP has not been used since it was incorporated into the AMPA in 1997 and there may be several reasons for this:

- Use of the GPP could leave Canada subject to countervails from trading partners and trade agreements (such as the WTO's Agreement on Agriculture) as it may be considered trade-distorting;
- Canada, together with its provincial and territorial partners, has over the past several decades developed a set of Business Risk Management programs, such as AgriInvest and AgriStability, which address price and market issues in a way that is largely whole-farm and decoupled from production;
- Canada has access to more flexible options for responding to extreme situations which can impact markets and farm incomes, such as the Department of Agriculture Act, section 12 of the Farm Income Protection Act, and the FPT AgriRecovery Framework; and
- Canada does not currently have the public infrastructure in place to easily and affordably support government purchasing, storing, transporting, and selling of agricultural products.

Given recent emergency situations, such as the COVID-19 pandemic, the Review also looked at potential Emergency Management (EM) and Food Security uses for the GPP and found that depending on the type of support required, and provided certain conditions are met, the GPP provisions could be used for these purposes.

While Canada typically provides funding to address domestic and foreign humanitarian food security needs rather than purchasing and providing food products, if there was a need, the GPP would allow for the purchase of Agricultural Products as defined under the Act. The definition is relatively broad and would allow for the purchase of food products provided they are “at least partially derived from an animal or plant”. The GPP could not be used for the purchase and distribution of items such as bottled water. Further, given the GPP’s original market stabilization objectives under AMPA, use of the GPP even for EM purposes, may need to establish benefits specifically to Canadian farmers and agricultural markets.

The Review has concluded that while implementing the GPP, even in an EM situation, may present trade and infrastructure challenges, the provisions should remain in the Act. There is no cost in maintaining the GPP under AMPA and under certain circumstances, the program could be considered in the future particularly given the Government’s role in humanitarian aid and global food security.

10 Alignment with Government Priorities and Business Risk Management Programming

The APP and PPP align with the AAFC priority to “Help producers anticipate, mitigate, and respond to sector risk in a manner that supports sustainable growth”[43]. The APP allows producers to proactively manage price volatility by providing financial flexibility to make marketing decisions that are advantageous to their operations. This also aligns with the mission to support the sector in taking advantage of domestic and international markets. Similarly, the PPP allows marketing agencies to protect themselves and their producers against large, unanticipated declines in the market price. The alignment of the GPP with BRM programming was not considered in this review as the GPP provisions have never been used.

The APP and the PPP programs are also consistent with federal responsibilities outlined in the Farm Income Protection Act (FIPA) which states that the federal government or federal programs should encourage adjustments with respect to production or marketing so as to improve the effectiveness of the responses of producers to market opportunities.[44] The Act further encourages the long-term economic sustainability of farm families and their communities which APP provides through affordable credit. The APP also indirectly contributes to the sustainability of farmer-based communities and regional diversity through the use of third-party administrators who are closely connected to producers and their communities.[45]

[43] Agriculture and Agri-food Canada - Departmental Priorities – April 1, 2019
[44] Farm Income Protection Act Section 4(2)(a)
[45] Farm Income Protection Act – Section 4(2)(b)

Lastly, the APP and PPP complement current programs in the Business Risk Management (BRM) suite by providing a proactive risk management tool that differs from tools that provide protection against income and production losses. The AMPA programs differ from BRM programs such as AgriInsurance or AgriStability because the AMPA programs proactively target risks associated with the need for cash flow during the production period, market volatility, and exploiting marketing opportunities, versus stabilizing declines in margins or production from weather or other unforeseen risks after the fact. While AAFC is working with its provincial and territorial partners on the next five-year federal-provincial-territorial agricultural policy framework, changes to the new BRM suite were not finalized before the conclusion of this Review. However, it is anticipated that the programs will continue to focus on mitigating events that threaten the financial viability of producer operations and thus would continue to complement the APP and PPP. The alignment of any changes to the BRM program suite will be evaluated in the next legislative review.

11 CONCLUSIONS

The Minister of Agriculture and Agri-Food, in consultation with the Minister of Finance, is required to review, every five years, the provisions of the *Agricultural Marketing Programs Act* (AMPA) and the operations of its programs. The programs under AMPA are designed to improve marketing opportunities for program participants by improving their short-term cash flow requirements.

Through the Review, AAFC assessed the AMPA and three programs under the Act: the Advance Payments Program (APP); the Price Pooling Program (PPP); and the Government Purchases Program (GPP).

While many producers can and do find financing elsewhere, it was found that the APP is a widely used program in Canada's agriculture industry, with 20,342 producers on average per year participating in the program and total advances issued averaging $2.5 billion annually over the review period.

Through the Review, it was concluded that the APP aligns with program objectives as stated in the AMPA as it improves marketing opportunities for producers through the provision of cash advances, and the analysis indicates that producers were able to delay the marketing of their commodities to a more opportune time. The APP and PPP align with Government priorities and complements current Business Risk Management (BRM) programs by providing proactive risk management tools.

The current delivery model, where the APP is delivered on behalf of AAFC by 30 third-party administrators, is unique in terms of delivering financing to producers, with a majority of producers, administrators, and lenders favouring this model. However, under the current model administrators continue to generate revenues from program delivery and the gradual consolidation of administrators represents a risk to both producers and Government which may need to be mitigated.This could be addressed through measures such as increased financial transparency,more targeted information requirements and more frequent monitoring proportionate to the administrator’s size and risk profile. These risks may also require that additional consideration and mitigation measures be factored into AAFC’s APP Administrator Expansion Framework.

Several alternative delivery models were examined as part of the Review, including delivery through commercial lenders, provincial agencies, and Farm Credit Canada (FCC). For certain alternative delivery models, it was concluded that no immediate efficiencies would be gained, while other models, including FCC, may be worth exploring further. Further analysis should focus on the capacity of the organization to deliver the APP and the potential impacts on producers, lenders, and other program administrators. Additionally, if some of the design changes suggested in this report are implemented, the program may be more attractive to other delivery agents, provided that administrative burden is reduced.

In the analysis of the program’s efficiency and relevancy, it was concluded that the APP’s overall program limit, which was increased to $1 million in 2019, remains sufficient for the majority of producers in Canada. The interest-free limit of $100,000 continues to be appropriate relative to program uptake and risk exposure to the Government of Canada. Temporary increases to these limits have been used as a means of supporting producers during time of crisis and there may be ways to make these changes in a more timely manner.

Several areas for potential improvement were identified to reduce the administrative burden to producers, benefit the sector, and minimize the risk to Government.

- To allow for future analysis on underrespresented groups and barriers to their participation in the APP, additional data collection efforts could be undertaken
- Priority agreements were found to be rarely used to realize on security and up-front lien registrations of the security may be a more appropriate approach.
- The Administrator’s Percentage model, as stipulated in the AMPA Regulations, could be replaced with other mechanisms to ensure administrator accountability and due diligence.
- An audit-based approach could be a less burdensome, risk-based means to ensure producers repay their advances when the commodities are sold, rather than the requirement for each producer to provide proof of sale for every repayment.
- A complementary risk-based approach for assessing the credit worthiness of a producer based on their repayment history in addition to credit scores may be

more reflective of farmer risk. In addition, it may be worth reporting APP Crown debt to credit bureaus to ensure that all farm lenders and creditors can make informed decisions.

In the review of the Price Pooling Program (PPP), although uptake is very low, it was determined that the PPP is a good program for smaller, less established markets where collective marketing can mitigate market risks. The PPP may be more relevant if its focus was shifted to more specialized markets. More flexible pricing models could also be considered to allow PPP pools to better adapt to market volatility in these markets.

In addition, the Government Purchase Program (GPP) should remain under AMPA, as a program could be considered in the future, given the Government's role in humanitarian aid and global food security.

AAFC will further assess what changes should be pursued as a result of the review and seek the necessary authorities which may include legislative and / or regulatory changes.

AAFC would be responsible for monitoring the impacts of any changes implemented as a result of this Review and to take action if one or more of the program changes unexpectedly result in increased program risk, including increases APP defaults and honour files or reductions in recovered default amounts.

Annexes

12 ANNEX A

Program Use and Activity

Advance Payments Program

The Advance Payments Program (APP) had on average 20,342 producers between the 2016 to 2021 program years. This ranged from a high of 21,816 producers in 2019 to 17,097 for the 2021 program year to-date (table 1). Total advances issued varied throughout the same period ranging from a high of $3 billion in 2019 to a low of $2.2 billion in 2017. The average dollar value of advances for the APP from 2016 to 2021 was $2.5 billion (table 1).

APP is a widely used program in the agriculture industry. According to data collected from the Agricultural Taxation Data Program (ATDP) in 2020, there were a total of 174,780 farms in Canada with total operating revenues equal or greater than $25,000. Based on this information, approximately 12% of all farms in the country participated in the APP in 2020.

When analyzing 2021 program participation by region and farm type (table 2), it is apparent that grains, oilseeds, and pulse producers represent the highest dollar value of APP advances. This commodity group accounts for 73.13% of the total dollar value of APP advances. The livestock category is the second largest at 10.45%. Fruit and vegetable advances total 5.84% and special crops 1.63%. All other farm types account for the remaining 8.94%.

Program participation also varies by province (table 2). When considering the dollar value of APP advances in 2021, producers in Saskatchewan represented 33.80% ($796M) of APP advances. The second-highest province was Alberta at 20.47% ($482M) followed by Manitoba at 15.22% ($359M). The full provincial breakdown can be found in the last block of table 3.

When considering APP participants by operator gender (table 3), 61% of farms in 2019 were run solely by males, 2% solely by females, and 37% by a mix of both. When considering the gender of the oldest operator, 88% of program producers in 2019 were operated by males. The gender of the youngest operator is more diverse with a 53% male and 47% female breakdown. The APP is also attracting participation by younger farmers (table 4), with the average age of the youngest operator at 45.2, compared to 48.8 for non-APP farms in Canada.

Table 1 – APP Advances & Counts by Producer Province (2016-2021)

	Advances	Producers	Advances	Producers	Advances	Producers
Program Year	**2016**		**2017**		**2018**	
British Columbia	$35,552,891	466	$33,558,975	450	$36,836,425	478
Alberta	$433,219,913	3,354	$395,592,527	3,183	$440,441,746	3,452
Saskatchewan	$867,962,500	6,276	$821,513,586	6,055	$852,189,795	6,066
Manitoba	$323,832,723	2,661	$322,732,880	2,604	$335,200,085	2,655
Ontario	$207,814,260	1,811	$208,752,048	1,826	$226,364,502	1,905
Quebec	$339,990,931	6,140	$383,788,170	6,159	$356,755,624	6,199
New Brunswick	$14,236,736	146	$13,523,405	139	$13,008,278	142
Nova Scotia	$13,691,032	125	$14,768,062	123	$13,021,826	108
Prince Edward Island	$41,007,501	291	$40,875,848	290	$40,289,881	280
Newfoundland & Labrador	$2,155,102	12	$1,898,343	10	$1,960,281	11
Total	**$2,279,463,589**	**21,282**	**$2,237,003,842**	**20,839**	**$2,316,068,441**	**21,296**
Program Year	**2019**		**2020**		**2021**	
British Columbia	$40,665,696	474	$49,445,211	450	$45,326,817	410
Alberta	$625,306,644	3,855	$497,933,291	3,319	$477,411,637	2,813
Saskatchewan	$1,220,338,467	6,249	$943,040,905	5,176	$784,115,016	4,068
Manitoba	$453,875,959	2,778	$386,270,160	2,382	$354,911,108	2,042
Ontario	$253,791,174	1,984	$287,332,529	2,062	$280,429,147	1,922
Quebec	$368,084,804	5,989	$385,346,762	5,874	$329,774,030	5,434
New Brunswick	$13,957,795	141	$12,651,098	134	$10,855,418	116
Nova Scotia	$12,004,740	87	$10,278,231	79	$10,908,849	77
Prince Edward Island	$38,534,424	251	$37,622,340	235	$34,435,848	210
Newfoundland & Labrador	$2,027,905	8	$2,402,780	8	$434,000	5
Total	**$3,028,587,608**	**21,816**	**$2,612,323,306**	**19,719**	**$2,328,601,871**	**17,097**

Table 2 – APP Participation by Producer Province & Farm Type (2021)

2021 Grains, Oilseeds & Pulse	$ Advanced	% of Total Advances
British Columbia	$10,966,287.48	24.01%
Alberta	$405,380,435.55	84.07%
Saskatchewan	$750,655,714.93	94.26%
Manitoba	$319,154,864.15	89.01%
Ontario	$140,238,311.28	49.38%
Quebec	$90,864,568.88	27.39%
New Brunswick	$235,123.00	2.17%
Nova Scotia	$530,507.44	4.86%
Newfoundland & Labrador	$0.00	0.00%
Prince Edward Island	$5,021,487.44	14.26%
Total	**$1,723,047,300.15**	**73.13%**

2021 Fruits & Vegetables	$ Advanced	% of Total Advances
British Columbia	$13,466,842.05	29.48%
Alberta	$4,358,801.27	0.90%
Saskatchewan	$1,000,000.00	0.13%
Manitoba	$800,000.00	0.22%
Ontario	$62,553,432.02	22.02%
Quebec	$18,852,909.42	5.68%
New Brunswick	$8,302,169.87	76.48%
Nova Scotia	$4,567,959.56	41.86%
Newfoundland & Labrador	$15,000.00	3.46%
Prince Edward Island	$23,726,085.90	67.36%
Total	**$137,643,200.09**	**5.84%**

2021 Special Crops	$ Advanced	% of Total Advances
British Columbia	$9,401,107.21	20.58%
Alberta	$289,107.35	0.06%
Saskatchewan	$0.00	0.00%
Manitoba	$100,000.00	0.03%
Ontario	$23,175,546.21	8.16%
Quebec	$2,658,848.00	0.80%
New Brunswick	$400,000.00	3.68%
Nova Scotia	$2,088,988.29	19.14%
Newfoundland & Labrador	$150,000.00	34.56%
Prince Edward Island	$95,000.00	0.27%
Total	**$38,358,597.06**	**1.63%**

2021 Livestock	$ Advanced	% of Total Advances
British Columbia	$10,353,189.75	22.67%
Alberta	$64,583,954.14	13.39%
Saskatchewan	$38,660,316.97	4.85%
Manitoba	$31,996,444.62	8.92%
Ontario	$56,409,673.79	19.86%
Quebec	$35,443,931.44	10.68%
New Brunswick	$494,081.75	4.55%
Nova Scotia	$1,983,520.50	18.17%
Newfoundland & Labrador	$0.00	0.00%
Prince Edward Island	$6,378,401.79	18.11%
Total	**$246,303,514.75**	**10.45%**

2021 Other Farm Types	$ Advanced	% of Total Advances
British Columbia	$1,491,665.30	3.27%
Alberta	$7,594,275.74	1.57%
Saskatchewan	$6,018,723.57	0.76%
Manitoba	$6,503,679.02	1.81%
Ontario	$1,636,213.93	0.58%
Quebec	$183,961,108.10	55.45%
New Brunswick	$1,424,042.91	13.12%
Nova Scotia	$1,742,709.57	15.97%
Newfoundland & Labrador	$269,000.00	61.98%
Prince Edward Island	$0.00	0.00%
Total	**$210,641,418.14**	**8.94%**

2021 Provincial Totals	Total Advances	% of Total Advances
British Columbia	$45,679,091.79	1.94%
Alberta	$482,206,574.05	20.47%
Saskatchewan	$796,334,755.47	33.80%
Manitoba	$358,554,987.79	15.22%
Ontario	$284,013,177.23	12.05%
Quebec	$331,781,365.84	14.08%
New Brunswick	$10,855,417.53	0.46%
Nova Scotia	$10,913,685.36	0.46%
Newfoundland & Labrador	$434,000.00	0.02%
Prince Edward Island	$35,220,975.13	1.49%
Total	**$2,355,994,030.19**	**100.00%**

Table 3 – APP Participation by Operator Gender (2019)

Gender of Oldest Operator			Gender of Youngest Operator		
Male	**Female**	**Gender Diverse**	**Male**	**Female**	**Gender Diverse**
87.56%	11.88%	0.56%	53.03%	46.64%	0.33%

Operated Solely by Male Operators	61%
Operated Solely by Female Operators	2%
Operated by Male and Female Operators	37%

Table 4 – APP Participation by Operator Age (2019)

	APP	Non-APP
Average Age of Oldest Operator	57.1	58.5
Average Age of Youngest Operator	45.2	48.8

Table 5 – APP Stays of Default (2016-2021)

Program Year	Product(s)	# of Stay Producers	Advances Covered by Stay
2015-16	Fox Pelts	2	$122,702.84
2015-16	Mink Pelts	31	$6,550,085.12
2016-17	Mink Pelts	5	$81,482.35
2018-19	Grains & Oilseeds	5,008	$388,958,898.86
2018-19	Cattle & Bison	1,678	$11,482,422.38
2018-19	Christmas Trees	2	$40,534.38
2018-19	Maple Syrup	23	$162,924.56
2019-20	Potted Plants & Cut Flowers	9	$620,954.40
2019-20	Ginseng	13	$2,521,946.96
2019-20	Mink Pelts	11	$2,443,674.87
Program Totals		**6,782**	**$412,985,626.72**

Price Pooling Program

There were two organizations using the program during the review period, representing an average total of 530 producers, and guarantees of $41.4 million. One participating marketing agency left the program beginning in the 2021 crop year.

Guarantees by Province 2016-2021

Province	Guarantee Amount by Crop Year					
	2016	2017	2018	2019	2020	2021
	$M	$M	$M	$M	$M	$M
AB	24.1	28.8	34	33.8	41.2	51.7
ON	6.8	10	9.2	3.8	4.7	-
TOTAL	**30.9**	**38.8**	**43.3**	**37.7**	**45.8**	**51.7**

13 Annex B

Summary of Previous Program Changes

The following recommendations were made as a result of the 2012 Review of the AMPA:

Administrator Expansion

Where previously AMPA made it difficult for APP administrators to advance on more than the commodity group their organization represented, under the amended AMPA, administrators can issue advances on any type of eligible commodity in specified regions, as designated by the Minister in their Advance Guarantee Agreement (AGA).

This change was effective in streamlining the application process for producers who can now apply to the same administrator for both their crop and livestock advances. The 2021 producer survey indicated that over 90% of producers only applied to one administrator for their advance in the last production year in which they received an advance. In fact, between 2011 and 2019, the number of producers who received advances from multiple administrators has declined from 3,320 to 112.

Risks associated with this program change have been outlined in Section 5.5 of this Report.

Administrator Percentage

Prior to 2015, the Administrator's Liability Percentage (a calculated percent between 1% and 15% based on the administrator's historical defaults) was applied to each defaulted producer's outstanding balance and it was the administrator's responsibility to pay this amount to the bank on the producer's behalf. The intent was to encourage administrators to reduce defaults and manage them properly by making them responsible for a portion of all default amounts. However, administrators simply passed this liability on to their producers by withholding amounts equal to the Administrator's Liability Percentage from producer advances.

To address this issue, the Regulations were amended in 2015 to change the Administrator's Liability Percentage and how it is applied. The Administrator's Percentage, as it became, ranges from 3% to 10% and it is no longer applied to outstanding default amounts, but rather to the administrator's approved Advance Rates for all eligible commodities. As described in section 7.4 of this report, the maximum

Advance Rate must be reduced by the Administrator’s Percentage. With many administrators advancing in the same region and on the same commodities, the theory was that it is advantageous for administrators to keep their Administrator’s Percentage low so that they may offer producers higher Advance Rates than their competitors.

The effectiveness of this model is outlined in Section 7.4 of this Report.

Multi-Year Agreements

The 2012 AMPA Review recommended investigating multi-year agreements with program administrators and multi-year repayment agreements with producers to reduce administrative burden. Options for 5 year agreements were explored, however, it has been determined that the anticipated efficiencies gained through multi-year agreements are not significant and do not outweigh the risks. Since 2012, many efficiencies in the application process for both administrators and producers have been implemented. Further, security registrations for agricultural commodities are often limited to one production period and cannot cover multiple years. As such, AAFC will continue to investigate ways of streamlining the existing annual application processes.

Proof of Sale Requirements

To ease administrative burden, legislative changes were made to AMPA in 2015 which facilitated a few exemptions to the requirement to provide Proof of Sale:

- For storable products, repayments made prior to January 31st of the program year no longer require proof of sale.
- All non-storable products can be repaid through a negotiated repayment schedule in lieu of proof of sale.
- The allowance for repayments without proof of sale was increased to the greater of 10% of the advance or $10,000 (the limit was previously $1,000). Administrators may now charge penalties for repayments without proof of sale above these limits, rather than placing a producer in default.

In 2020, a working group was established with APP administrators and AAFC to review the proof of sale conditions and determine the relevance and future of these requirements. The conclusions reached have been outlined in Section 6.5 of this report.

Simplify Relatedness and Attribution

The APP contains provisions to ensure that related producers do not exceed either the $100,000 interest-free benefit or the total advance limit. Prior to the 2010 AMPA review, related producer provisions and attribution rules created different access to the program. Depending on the order in which related producers applied for an advance, or on the type of business structures involved, producers could receive advances above the program limits.

Clarifying the definition of related producers and the attribution rules helped to address potential inequities and risks. The changes also reduce burden on applicants and administrators, better align the Act with how the sector has evolved, and with other statutory related borrower provisions, such as the Canada Small Business Financing Act.

Improve Interaction between APP and Farm Debt Mediation Service

Previous iterations of both the AMPA and the Farm Debt Mediation Act (FDMA), which governs the Farm Debt Mediation Service (FDMS) made it difficult to share data across programs and ensure that participation in FDMS did not needlessly jeopardize participation in APP.

Changes were made to both Acts in order to facilitate the sharing of data and ensure the best outcomes for producers participating in both programs. Producers are no longer placed in default under the APP simply for applying for protection under the FDMS. APP administrators and AAFC officials are able to participate in the process to ensure that advances are repaid according to the terms and conditions of the repayment agreement.

Improvement of Default Terms to facilitate collection

The changes were made in order to facilitate quicker, more efficient resolution for producers in default. The Minister can now request that a default file be submitted to AAFC for payment under the guarantee if the producer has not made any repayment towards their defaulted advance for a period specified in the Advance Guarantee Agreement.

Additionally, changes were made to allow administrators the ability to charge a fee for the purpose of managing a default file, where previously fees were limited to administration fees for managing the advance. Allowing administrators to charge default management fees provides an incentive to producers to pay early and does not affect AAFC's ability to collect defaults. It also provides administrators the opportunity to recuperate some costs incurred as a result of managing default files.